*Article*

# Labor Protection, Enterprise Innovation, and Sustainable Development

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**Abstract:** As an important way and means to protect the legitimate rights and interests of workers, the implementation of the "Labor Contract Law" is crucial for building and developing harmonious and stable labor relations and the sustainable development of enterprises. Based on the samples of Shanghai and Shenzhen A-share listed enterprises from 2005 to 2013, this paper adopted the difference-in-difference method to empirically test the impact of labor protection on the sustainable development of enterprises and its mechanism. The research finds that the enhancement of labor protection contributes to the sustainable development of highly labor-intensive enterprises, in which enterprise innovation plays a mediating role in the relationship between the two; the heterogeneity test found that labor protection promotes sustainable development more significantly in state-owned enterprises, enterprises in highly market-oriented regions, and large-scale enterprises. This article expands the research on the economic consequences of labor protection and provides empirical inspiration for the improvement of the "Labor Contract Law" system.

**Keywords:** labor protection; sustainable development of enterprise; enterprise innovation

## 1. Introduction

Since the concept of "sustainable development" was proposed, it has become a key topic of concern. As an important micro-subject in the social economy, the sustainable development of enterprises is closely related to China's macro economy, which can promote the economic prosperity of China and the region. Sustainable development of enterprises refers to the process in which enterprises pursue self-survival and sustainable development, not only achieving business goals and improving market positions, but also maintaining profitability and growth ability. In 2022, "green development" was mentioned many times in the work report of the 20th National Congress of the Communist Party of China, which proposed that China should implement a comprehensive conservation strategy, develop green and low-carbon industries, accelerate the green transformation of the development mode, and realize the sustainable development of enterprises. It can be seen that how to effectively respond to the current economic environment, maintain the long-term competitive advantages of enterprises, and achieve the sustainable development of enterprises has become an important theoretical frontier issue that current enterprise management should pay attention to. Many scholars have conducted extensive research on the influencing factors of the sustainable development of enterprises, and from the existing literature, scholars mainly conduct research on enterprise's social responsibility, internal control, enterprise innovation and digital technology, and entrepreneurship. From the perspective of enterprise social responsibility, charitable donations can be used as a measure of an enterprise's social responsibility [1]. Through research, it has been found that enterprise social responsibility can help achieve the unity of economic and social interests and enhance its social status and competitiveness [2]. From the perspective of internal

control, it can regulate the internal behavior of enterprises, improve their management and risk prevention capabilities, improve their investment and financing environment, and enhance their business performance [3], playing a role in promoting the sustainable development level of enterprises. The positive interaction between enterprise social responsibility and internal control quality can achieve an interactive impact on the sustainable development level of enterprises, resulting in a "1 + 1 > 2" synergistic effect [4], and the institutional environmental factors such as the marketization process, the level of rule of law, and the government's governance efficiency can play a positive moderating role in the positive relationship between the quality of internal control and enterprise sustainable development [5]. From the perspective of enterprise innovation, innovative strategies help enterprises establish and enhance dynamic capabilities in a stable and rapidly changing environment, thereby maintaining their long-term competitive advantage [6]. Enterprises can enhance the cohesion of innovation teams by increasing human capital investment [7]; improving production efficiency; reducing production costs; increasing enterprise profits through technological innovation; improving resource acquisition, allocation, and utilization efficiency through management innovation [8] to enhance the long-term competitive advantage of enterprises; improving the sustainable development performance of enterprises; and promoting the sustainable development of enterprises. From the perspective of digital technology and entrepreneurship, the rapid development of digital technology helps enterprises transform their business models, reduce costs, shorten the life cycle of technology-based goods and services, provide higher values for the products and services customers need, and promote sustainable growth of enterprises [9]. Digital technology tools also enhance enterprise entrepreneurship by creating innovation and new ideas, creating and promoting entrepreneurial spirit, and providing new opportunities and facilities for enterprises, thereby effectively improving and enhancing the sustainable development of enterprises [10]. In particular, young people empowered with entrepreneurial opportunities can actively shape and influence the sustainable development goals of enterprises by mastering and managing complex global challenges [11].

As one of the important resources for enterprises to form and maintain their competitive advantages, labor plays a vital role in the development of enterprises. Therefore, in order to protect the legitimate rights and interests of workers and build and develop harmonious and stable labor relations, China successively promulgated the "Minimum Wage Regulations" in 2004, and implemented a series of documents and regulations related to labor protection such as the "Labor Contract Law of the People's Republic of China" (hereinafter referred to as the "Labor Contract Law") in 2008, continuously strengthening the intensity of labor protection. With the continuous advancement of China's labor protection system, many scholars began to evaluate the microeconomic consequences of China's labor protection. However, based on the existing literature, there is no consensus in the academic community on the evaluation of the effectiveness of labor protection implementation. Scholars mainly conduct research on the positive and negative effects of labor protection in terms of enterprise cost, enterprise investment, enterprise value, and enterprise innovation. On the one hand, the strengthening of labor protection will increase the wages of in-service employees [12] and increase the adjustment cost of employment in enterprises [13], thereby damaging their operational flexibility [14], exacerbating the stickiness of labor costs in enterprises [15], reducing the elasticity of labor demand in enterprises, and limiting their employment flexibility [16]. Additionally, with the strengthening of labor protection, enterprises with higher labor intensity are more prone to underinvestment [17]. On the other hand, the strengthening of labor protection will increase the productivity of enterprises by increasing investment in training funds and the degree of factor substitution [18], stimulating enterprises to increase research and development investment, improving business performance [19,20], accelerating enterprise transformation and promoting enterprise innovation [21], enhancing enterprise value [22,23], significantly increasing the probability of Chinese enterprises conducting outward direct investment [24], enhancing the investment level of Chinese enterprises [25], reducing the export probabil-

ity and export volume of private enterprises [26], and improving the quality of Chinese enterprises' export products [27].

China began to implement the "Labor Contract Law" in 2008, which clearly stipulates the formation, performance, modification, rescission, termination, and other aspects of the "Labor Contract Law" between employers and workers, greatly enhancing the protection of the legitimate rights and interests of workers. It is at the core of China's labor protection system and a concentrated embodiment of labor market regulations. In addition, the promulgation of this law also affects the human capital investment and production and operation behavior of enterprises, thereby having a significant impact on their innovation and further affecting the sustainable development of different labor-intensive enterprises. The current academic community has conducted in-depth research on labor protection, enterprise innovation capabilities, and sustainable development capabilities, resulting in a large number of research results. However, throughout the existing literature, the relationship between these three has not been explored to a large extent, so the research in this paper has strong significance.

In view of this, this article takes 9911 listed companies in China's Shanghai and Shenzhen A-shares from 2005 to 2013 as samples and uses the implementation of the "Labor Contract Law" in 2008 as a quasi-natural experiment to study the impact of labor protection on the sustainable development of enterprises using the difference-in-difference model. Compared with the existing literature research, the theoretical contributions of this article are mainly reflected as follows: firstly, based on the quasi-natural experiment of the implementation of the "Labor Contract Law", this study explores the impact and mechanism of labor protection on the sustainable development of enterprises, expands the evaluation scope of the implementation effect of the "Labor Contract Law", enriches the relevant literature on labor protection, and expands the research on the influencing factors of the sustainable development of enterprises. Secondly, this paper focuses on the role of enterprise innovation as a mediating variable in the channel between labor protection and the sustainable development of enterprises, providing a new perspective for people to understand the relationship between the two. Thirdly, considering the special national conditions of China, this paper analyzes the heterogeneity of enterprise property rights, market marketization degree, and enterprise scale to increase the depth of research.

The subsequent parts of this paper are structured as follows: the second part is the theoretical basis and research hypothesis; the third part is the research design; the fourth part is the empirical results and analysis; and the fifth part is the research conclusion and discussion.

## 2. Theoretical Basis and Research Hypothesis

### 2.1. Labor Protection and Enterprise Sustainable Development

The sustainable development of enterprises is influenced by several factors, and labor, as an important component of enterprises, plays a crucial role in the survival and development of the enterprise. China is a populous country with a large number of highly labor-intensive enterprises, where labor costs account for a large proportion of the total cost of enterprises. The implementation of the "Labor Contract Law" in 2008 has led to the strengthening of labor protection, and the most direct impact on enterprises is the adjustment of labor and changes in labor costs. The enhancement of labor protection has increased the labor cost of enterprises, increased the stickiness of employee compensation and dismissal costs of enterprises, and increased the financial risk of enterprises. Enterprises are unable to make corresponding free adjustment according to changes in external demand, reducing their operational flexibility [14]. Enterprises need to readjust their human capital investment to reduce the cost pressure faced by enterprises and make optimization adjustments to the enterprises. Through the internal adjustment and management of enterprises and the development of appropriate coping strategies, it can improve the business management and risk-coping ability of enterprises [3], can improve the quantity and quality of innovation and enhance the innovation capacity of enterprises while adjusting their

own behavior [28], improve the level of business performance, enhance the efficiency of investment and increase the economic benefits [29], improve the financing environment and investment environment of enterprises, enhance the value of enterprises [22], and promote the sustainable development of enterprises. Due to the greater dependence of labor-intensive enterprises on labor, the increase in labor costs and employee dismissal restrictions brought by labor protection will have a greater impact on highly labor-intensive enterprises [30]. Therefore, with the strengthening of labor protection, labor-intensive enterprises are more able to cope with the negative impact of the "Labor Contract Law" on enterprises through human capital investment effects and factor substitution effects, and can promote the sustainable development of enterprises. Based on the above analysis, we propose the following hypotheses:

**H1.** *Under the same other conditions, as the intensity of labor protection increases, the sustainable development ability of highly labor-intensive enterprises will be significantly enhanced, indicating a positive correlation between labor protection and the sustainable development of enterprises.*

### 2.2. Labor Protection, Enterprise Innovation, and Sustainable Development: Analysis of Impact Mechanisms

Labor protection is closely related to the investment and financing activities as well as the business activities of enterprises. The implementation of the "Labor Contract Law" has had an impact on the investment of human capital and production and operation behavior of enterprises, thereby having a significant impact on enterprise innovation through factor substitution effects and human capital investment effects. Innovation can promote enterprises to continuously improve efficiency and enhance their core competitiveness in fierce markets, which is an important condition for promoting sustainable development.

From the perspective of the factor substitution effect, labor protection can improve labor productivity through the factor substitution effect, thereby promoting enterprise innovation and sustainable development. On the one hand, the "Labor Contract Law" requires enterprises to ensure the legitimate rights and interests of workers in terms of labor remuneration, working hours, rest and vacation, insurance benefits, employee training, etc. [31]. On the other hand, the implementation of the "Labor Contract Law" will make it more difficult for enterprises to dismiss employees, increase their bargaining chips in labor relations, and reduce the operational flexibility of enterprises [32]. As workers are the main factor input for enterprise production, the strengthening of their protection will inevitably lead to an increase in labor costs for enterprises [33]. The increase in labor costs will reduce the enthusiasm of enterprises to invest in labor factors, and they are willing to choose to introduce relatively cheap production equipment and advanced technology to replace expensive labor, such as the replacement of low-skilled labor by industrial robots [34]. In addition, enterprises may also independently develop new technologies to reduce the demand for labor, improve labor production efficiency [35], and stimulate innovation [28].

From the perspective of the investment effect of human capital, labor protection can improve employee loyalty and motivate innovative behavior through the investment effect of human capital. On the one hand, the "Labor Contract Law" will encourage enterprises to reduce their willingness to dismiss employees, increase their willingness to train in-service employees as well as hire staff with higher competence, enhance employee loyalty to the enterprise, encourage employees to engage in innovative activities with longer payback cycles, and thus promote enterprise innovation [21]. On the other hand, there are certain risks associated with enterprise innovation. As an important labor protection policy, the "Labor Contract Law" enhances the sense of security and stability of enterprise employees [36], which is beneficial for improving labor productivity, increasing enterprise profits, and providing more funds for long-term innovation investment, thus facilitating enterprise innovation [37].

Enterprise innovation is the soul and inexhaustible power of enterprise survival and development progress, a necessary condition for enterprises to find vitality and a way out,

a source for enterprises to maintain competitive advantages, and an important condition for promoting sustainable development. Enterprises should take independent research and development and independent innovation as their main development strategies and strive to improve the level of enterprise innovation to ensure that enterprises improve their core competitiveness in fierce market competition and achieve sustainable development. On the one hand, as enterprises invest more in innovation, it is more conducive to forming a tiered R&D team, increasing the scale of R&D, increasing the number of R&D achievements, enhancing R&D strength, and forming competitive products [38]. On the other hand, enterprise innovation can improve innovation performance through the combination of external collaborative innovation networks and internal collaborative innovation systems [39], enhance long-term competitive advantages, and promote sustainable development of enterprises [40]. Based on the above analysis, we propose the following hypothesis:

**H2.** *Under the same other conditions, labor protection achieves the sustainable development of enterprises by promoting innovation.*

### 2.3. Labor Protection and Enterprise Sustainable Development: An Analysis of Enterprise Heterogeneity

#### 2.3.1. Heterogeneity Analysis of Enterprise Ownership

Due to the policy burden of stabilizing society and solving employment, state-owned enterprises in China have a larger scale of employment and higher standardization of labor protection systems. Due to the unique property rights background of enterprises, there are significant differences between state-owned and non-state-owned enterprises in terms of labor employment and employment standardization [21]. Due to their natural "political advantage", state-owned enterprises have always had strong labor security in their employee system [41], are not sensitive to institutional changes [31], and are relatively less vulnerable to negative policy shocks. In contrast, non-state enterprises have many deficiencies in labor rights protection and employee compensation and benefits protection, and are significantly disadvantaged in terms of policy support as well as financing channels. Their ability to resist risks is weak and they are more susceptible to policy shocks [42]. This may lead to different market performance of Chinese enterprises after the implementation of the "Labor Contract Law" due to differences in property rights; that is, non-state-owned enterprises are more susceptible to the impact of the "Labor Contract Law" compared with state-owned enterprises. Based on the above analysis, we propose the following hypothesis:

**H3.** *The implementation of the "Labor Contract Law" promotes the sustainable development of state-owned enterprises, while it has no significant impact on the sustainable development of non-state-owned enterprises.*

#### 2.3.2. Heterogeneity Analysis of Enterprise Scale

The scale of different enterprises varies. Compared with small-scale enterprises, large-scale enterprises have relatively stronger strength, more complete financial and management systems, and wider financing channels, which give them a stronger competitive advantage [19]. They are able to make timely adjustments when facing external policy shocks and have strong risk-response capabilities. In contrast, small-scale enterprises are relatively slow to respond to changes in the external environment due to their lack of experience in market operations, and face greater market pressure and higher operational risks [42]. Therefore, the impact of the implementation of the "Labor Contract Law" on the sustainable development of enterprises may be influenced by the size of enterprises, i.e., large-scale enterprises are more likely to make timely adjustments to policy changes than small-scale enterprises, thus playing a positive role in their sustainable development. Based on the above analysis, we propose the following hypothesis:

**H4.** *The implementation of the "Labor Contract Law" promotes the sustainable development of large-scale enterprises, while it has no significant impact on the sustainable development of small-scale enterprises.*

2.3.3. Heterogeneity Analysis of Enterprise Marketization Degree

Although the normative effectiveness of the "Labor Contract Law" is not differentiated nationwide due to regional and environmental differences, the efficiency of the legal enforcement and marketization process varies from region to region in China. The marketization process reflects the degree of market development, legal construction, etc. The marketization index of a region is closely related to the system of that region [43]. Regions with a higher degree of marketization have better institutional norms and relatively strict enforcement, higher enforcement and efficiency of the "Labor Contract Law", and more comprehensive protection of workers' rights and interests [31], making labor–enterprise relations more stable [27]. Enterprises are willing to change their production methods and achieve continuous innovation through the effects of human capital investment and factor substitution, thus promoting the sustainable development of enterprises. Based on the above analysis, we propose the following hypotheses:

**H5.** *The implementation of the "Labor Contract Law" promotes the sustainable development of enterprises in high marketization areas, while it has no significant impact on the sustainable development of enterprises in low marketization areas.*

**3. Research Design**

*3.1. Sample Selection and Data Sources*

Referring to existing research [21,22], this paper selects A-share listed companies in Shanghai and Shenzhen from 2005 to 2013 as the initial research sample. The relevant financial data and patent application data are sourced from the CSMAR database, the employment data are sourced from the CCER economic and financial database, and the data for the marketization process index are sourced from the "China Marketization Index" compiled by Gang Fan et al. [43]. The research sample of this paper is Chinese listed enterprises, and the samples are screened according to the research purpose as follows: (1) Delete A-share listed enterprises in the financial and insurance industries. Because the business model of the finance and insurance industry is different from that of other industries, and its report structure and main accounting items are also different from those of general industries, they are generally not compared and analyzed together; (2) Delete some sample enterprises with missing or abnormal data to meet the requirements of empirical models and variables; (3) Delete ST, * ST, and suspended and delisted sample enterprises. Because the annual financial situation and production and operation of such companies are already very abnormal, including these samples in regression testing will affect the universality and reliability of the conclusions; (4) Delete sample enterprises with an asset liability ratio greater than one. If the asset liability ratio is greater than one, it means that the company has been insolvent and is in an abnormal operating state. If it is put into the sample, it may interfere with the research conclusion. After data screening, 9911 sample observations were ultimately obtained. Due to the addition of new variables and the replacement of measurement indicators for variables, some effective samples in the regression models have slightly increased or decreased. Data processing was completed using Stata17.0 and Excel.

*3.2. Variable Definition*

3.2.1. Explained Variable: Sustainable Development of Enterprises (Srg_n)

The sustainable development of enterprises is closely related to their financial and human resource management capabilities while maintaining business profitability. Therefore, this paper constructs sustainable development indicators for enterprises based on sustain-

able development rate in the CSMAR database to measure their sustainable development ability. The specific calculation formula is: sustainable development rate = net return on assets × earnings retention rate/(1 − net return on assets × earnings retention rate).

### 3.2.2. Explanatory Variables

(1) Group dummy variable: Labor intensity (Labor_emp)

Regarding the measurement of labor intensity, this paper uses the ratio of the logarithmic value of employee numbers to the logarithmic value of sales revenue. Firstly, the average labor intensity of each industry is calculated based on the labor intensity of all sample enterprises, and on this basis, the median of all industries is calculated. If the labor intensity of a certain industry is greater than the median of all industries, then the industry is a highly labor-intensive industry, with a value of 1; otherwise, it is a low labor-intensive industry, with a value of 0.

(2) Policy implementation dummy variable: Implementation of the "Labor Contract Law" (Law)

Introduce the dummy variable of the Labor Contract Law to measure labor protection based on the implementation of the "Labor Contract Law" in 2008. If the year of the enterprise sample is 2008 or later, take 1, indicating strong labor protection; if the year of the enterprise sample is before 2008, take 0, indicating weak labor protection.

### 3.2.3. Mediating Variable: Enterprise Innovation (RD_Asset)

The current literature mainly measures enterprise innovation from the perspectives of innovation input and innovation output. Drawing on the research results of Liu Li and Xie Yu, this paper mainly measures enterprise innovation activities from the perspective of innovation input, using the ratio of enterprise R&D investment to total assets to measure the level of enterprise innovation.

### 3.2.4. Control Variables

In order to obtain objective statistical results, this paper draws on the research results of Jin Shuchang and Deng Ming to select a series of control variables that change over time and are related to the sustainable development of enterprises. (1) The asset liability ratio (Lev), which is a basic indicator reflecting an enterprise's debt paying ability, is the main proxy variable of the enterprise's capital structure, and affects the stability of the enterprise's operations [21]; (2) The number of years an enterprise has been listed (Age), which can reflect the fundamental quality of the enterprise from the side, i.e., enterprises with higher quality are able to go through regulatory review and achieve listing earlier and have stronger development capabilities [44]; (3) The growth rate of operating income (Growth), which is the ability of an enterprise to grow in its normal business activities and measures the growth potential of its main business; (4) Whether the auditor comes from the Big 4 (Big4), a variable that, to some extent, reflects the human capital investment of the enterprise and affects its sustainable development; (5) Tobin Q value (TobinQ), which can reflect the market value of stocks, is a reflection of the stock market on the current status and potential of the enterprise's development; (6) Property Right Nature (SOE), which refers to the distinction between state-owned and non-state-owned enterprises based on the nature of equity. When the property right nature is state-owned, it is 1; otherwise, it is 0. The definitions of each variable are shown in Table 1.

Table 1. Variable Definition.

| Variable Name | Variable Symbol | Variable Definition |
|---|---|---|
| Sustainable development of the enterprise | Srg_n | Measured by sustainable development rate; Net return on assets × earnings retention rate/(1 − net return on assets × earnings retention rate) |
| Labor intensity | Labor_emp | Measured as the ratio of the logarithm of the number of employees to the logarithm of sales revenue; the average labor intensity of the industry in which the sample enterprise is located is higher than the median of all industries, which is 1. Otherwise, it is 0 |
| Dummy variables for the implementation of the "Labor Contract Law" | Law | Measured by the implementation of the "Labor Contract Law" in 2008; 0 before 2008, 1 in 2008 and later |
| Enterprise innovation | RD_Asset | Measuring an enterprise's innovation level by the ratio of R&D expenditure to total assets |
| Asset liability ratio | Lev | Ratio of total liabilities to total assets at the end of the period |
| Enterprise listing years | Age | Current year–year of listing |
| Operating revenue growth rate | Growth | (Operating revenue of current year-operating revenue of last year)/operating revenue of last year |
| Whether the auditor is from the Big Four | Big4 | Dummy variable, if the audit enterprise of the current year is the "Big Four", then the value is 1, otherwise it is 0 |
| Tobin Q value | TobinQ | The sum of the market value of the enterprise's equity and debt divided by total assets |
| Property nature | SOE | Dummy variable, if it is a state-owned enterprise, it is assigned a value of 1; on the contrary, assign it a value of 0 |

### 3.3. Model Settings

To examine the impact and mechanism of labor protection on the sustainable development of enterprises, this paper draws on the research methods of Liu Li and Xie Yu to construct model (1) to test Hypothesis H1, i.e., the impact of labor protection on the sustainable development of enterprises. Based on this, the research methods of Li Yuan and Xue Yulian are used to introduce enterprise innovation as a mediating variable, and models (2) and (3) are constructed to test Hypothesis H2.

$$Srg\_n_{i,t} = \beta_0 + \beta_1 Law \times Labor\_emp_{i,t} + \sum \beta_n Controls_{i,t} + \sum Year + \sum Ind + \varepsilon_{i,t} \quad (1)$$

$$RD\_Asset = \beta_0 + \beta_1 Law \times Labor\_emp_{i,t} + \sum \beta_n Controls_{i,t} + \sum Year + \sum Ind + \varepsilon_{i,t} \quad (2)$$

$$Srg\_n_{i,t} = \beta_0 + \beta_1 Law \times Labor\_emp_{i,t} + \beta_2 RD\_Asset + \sum \beta_n Controls + \sum Year + \sum Ind + \varepsilon_{i,t} \quad (3)$$

This paper takes the implementation of the "Labor Contract Law" of 2008 as a way to identify the causal effect of labor protection on the sustainable development of enterprises. A difference-in-difference model was constructed to overcome the interference of confounding factors caused by time trend changes on this causal relationship. Drawing on the research results of Li Bo and Jiang Dianchun, labor intensity was used as a group variable in this study, and enterprises were divided into treatment and control groups based on their labor intensity. Law was a dummy variable implemented in the "Labor Contract Law", which was set to 0 before 2008, and was otherwise set to 1.

The coefficient of most interest in this paper is the β coefficient, where $\beta_0$ is the intercept of the model and $\beta_n$ is the regression coefficient of the control variables. I and t represent the enterprise and year, respectively, while Controls$_{i,t}$ denotes the ensemble of a series of control variables added. In addition, year (Year) and industry (Ind) control variables are also added, and $\varepsilon_{i,t}$ is a random disturbance term. Formula (1) tests the

impact of labor protection on the sustainable development of enterprises, Formula (2) tests the impact of labor protection on enterprise innovation, and Formula (3) tests whether enterprise innovation plays a mediating role in the impact of labor protection on enterprise sustainable development.

## 4. Empirical Results and Analysis

### 4.1. Correlation Test Results and Analysis

In this paper, the main variables were tested for correlation and the results are shown in Table 2, which shows that the correlation coefficient values between the variable Law × Labor_emp and the variable Srg_n are significant and positive, indicating that there is a positive correlation between the strengthening of labor protection and the sustainable development of the enterprise. This result is consistent with the expectations of previous research Hypothesis H1. In addition, the absolute value of the correlation coefficient between the explanatory variables does not exceed 0.5, indicating that there is no multicollinearity among the variables.

**Table 2.** The Correlation Test Results.

| | Srg_n | Law × La-bor_emp | Lev | Age | Growth | TobinQ | Big4 | SOE |
|---|---|---|---|---|---|---|---|---|
| Srg_n | 1 | | | | | | | |
| Law × Labor_emp | 0.046 *** | 1 | | | | | | |
| Lev | 0.045 *** | 0.129 *** | 1 | | | | | |
| Age | 0.055 *** | 0.148 *** | 0.277 *** | 1 | | | | |
| Growth | 0.004 | −0.008 | 0.007 | 0.014 | 1 | | | |
| TobinQ | 0.196 *** | −0.076 *** | −0.277 *** | 0.025 ** | −0.004 | 1 | | |
| Big4 | 0.031 *** | 0.130 *** | 0.066 *** | 0.097 *** | −0.003 | −0.089 *** | 1 | |
| SOE | −0.002 | 0.054 *** | 0.208 *** | 0.298 *** | 0.009 | −0.106 *** | 0.106 *** | 1 |

Note: ***, ** denote significance levels of 1%, 5%, respectively.

### 4.2. Main Regression Results and Analysis

Based on the research sample in this paper, a benchmark regression of Equation (1) was first conducted, and the regression results are shown in Table 3. The benchmark results in columns (1)–(3) of Table 3 are regression results that test whether strengthening labor protection after the implementation of the "Labor Contract Law" can promote the sustainable development of enterprises. First, the estimated coefficients in Law × Labor_emp are significantly positive at the 1% level, indicating that the higher the labor intensity, the greater the promotion effect of the implementation of the "Labor Contract Law" on the sustainable development of enterprises. This confirms that the strengthening of labor protection promotes the sustainable development of enterprises, thus verifying Hypothesis H1. Second, in column (2), this paper further controls some specific characteristic variables at the enterprise level. Finally, in column (3) of Table 3, this paper further controls for year fixed effects and industry fixed effects to eliminate the impact of the industry factor in which the enterprise is located on the sustainable development of enterprises and to address the omitted variable problem, while adding year fixed effects can exclude the impact of other macro shocks beyond the promulgation of the "Labor Contract Law". The results show that the sign and significance of the coefficient of Law × Labor_emp did not change significantly. This indicates that the strengthening of labor protection after the promulgation of the "Labor Contract Law" significantly contributes to the sustainable development of enterprises, and the finding is robust.

**Table 3.** Benchmark Results.

|  | **(1)** | **(2)** | **(3)** |
|---|---|---|---|
| VARIABLES | Srg_n | Srg_n | Srg_n |
| Law × Labor_emp | 0.011 *** | 0.010 *** | 0.014 *** |
|  | (4.49) | (4.18) | (5.10) |
| Lev |  | 0.059 *** | 0.043 *** |
|  |  | (8.91) | (6.10) |
| Age |  | 0.000 | 0.000 * |
|  |  | (1.45) | (1.82) |
| Growth |  | 0.000 | 0.000 |
|  |  | (0.41) | (0.54) |
| TobinQ |  | 0.025 *** | 0.024 *** |
|  |  | (21.76) | (18.32) |
| Big4 |  | 0.018 *** | 0.012 *** |
|  |  | (3.80) | (2.66) |
| SOE |  | −0.002 | −0.006 ** |
|  |  | (−0.85) | (−2.41) |
| Constant | 0.071 *** | −0.005 | −0.032 *** |
|  | (48.00) | (−1.06) | (−2.96) |
| Year FE | NO | NO | YES |
| Industry FE | NO | NO | YES |
| Observations | 9649 | 9570 | 9570 |
| R-squared | 0.002 | 0.053 | 0.076 |

Note: ***, **, * denote significance levels of 1%, 5%, and 10%, respectively, and the value of t is in parentheses.

*4.3. Robustness Test*

4.3.1. Substitution Variable Measure

(1) Substitute for the measurement indicators for the sustainable development of enterprises

Due to the recognition of many scholars for the sustainable development model of enterprises constructed by Van Horn, it has also been widely applied in relevant research [5]. This paper uses the research results of Liu Bin et al. [45] and Yang Xudong et al. [3]. for reference, and uses the Van Horn sustainable growth model as an alternative variable for enterprise sustainable development to conduct a robustness test. The specific calculation formula is: enterprise sustainable development = net sales interest rate × earnings retention rate × (1 + equity ratio)/[1/total Asset turnover − net sales interest rate × earnings retention rate × (1 + equity ratio)]. The regression results are shown in column (1) of Table 4, where the coefficient of the core explanatory variable Law × Labor_emp remains significantly positive, indicating that the previous conclusion is still reliable and robust.

(2) Substitute for the measurement indicators of labor intensity

This paper draws on the research results of Ni Xiaoran and Zhu Yujie and uses the ratio of the logarithm of "cash paid to and for employees" in the cash flow statement to the logarithm of sales revenue (Lab_Int) as a substitute variable for the labor intensity of enterprises. If the average labor intensity of the industry in which the sample enterprise is located is higher than the median of all industries, then the industry is a highly labor-intensive industry with a value of 1; otherwise, it is a low labor-intensive industry with a value of 0. The results of the test are shown in column (2) of Table 4, where the coefficient of the core explanatory variables in Equation (2) is significantly positive, indicating that enhanced

labor protection promotes the sustainable development of labor-intensive enterprises and does not change the previous conclusion.

**Table 4.** Substitution Variable Measures.

|  | **(1)** | **(2)** |
|---|---|---|
| VARIABLES | SGR | Srg_n |
| Law × Labor_emp | 0.012 *** |  |
|  | (2.99) |  |
| Law × Lab_Int |  | 0.006 *** |
|  |  | (2.73) |
| Lev | 0.053 *** | 0.181 *** |
|  | (5.38) | (33.99) |
| Age | 0.001 ** | 0.001 *** |
|  | (2.02) | (5.49) |
| Growth | −0.000 | 0.000 |
|  | (−0.08) | (0.14) |
| TobinQ | 0.028 *** | −0.006 *** |
|  | (15.22) | (−5.64) |
| Big4 | 0.004 | −0.016 *** |
|  | (0.67) | (−4.53) |
| SOE | −0.004 | −0.003 |
|  | (−1.19) | (−1.54) |
| Constant | −0.038 ** | −0.101 *** |
|  | (−2.53) | (−12.75) |
| Year FE | YES | YES |
| Industry FE | YES | YES |
| Observations | 9570 | 9569 |
| R-squared | 0.042 | 0.509 |

Note: ***, ** denote significance levels of 1%, 5%, respectively, and the value of t is in parentheses.

### 4.3.2. Re-Estimation of the Difference-In-Difference Model for Propensity Score Matching (PSM-DID)

The "Labor Contract Law", as an exogenous shock, can, to some extent, avoid endogeneity problems caused by bidirectional causality. However, due to the differences between highly labor-intensive enterprises and low labor-intensive enterprises in many aspects such as their own characteristics, and although these possible differences have been controlled for in the regression model, there are still inevitable endogeneity issues caused by missing variables. In this section, this paper draws inspiration from the PSM-DID model used by Li Bo and Yang Xianming to investigate and overcome the interference caused by missing variables as much as possible.

Firstly, we constructed a treatment group based on the labor-intensity indicators in benchmark regression analysis, ranking the labor intensity of all sample enterprises in descending order. The top 20% of the samples were the treatment group, and the remaining 80% were the preliminary control group. Secondly, using the 1:1 nearest neighbor matching method and the logit model, a matching sample was selected from the preliminary control group for the sample enterprises in the treatment group to form a new control group. Once again, we eliminated the initial control group sample companies that had not been matched and used the newly constructed samples to re-estimate model (1). Finally, this paper took

the same steps as above, categorizing the samples with the top 25%, 33%, and 40% labor intensity rankings as processing groups, matching them using the same method to generate a control group, and constructing new samples for testing. The regression results are shown in Table 5, and it can be seen that the regression coefficients of Law × Labor_emp in each column are in the range of 0.012 to 0.018, and all of them are significantly positive, which is comparable to the benchmark estimation results, and even higher than the benchmark estimation results in some cases. This indicates that the potential omitted variable bias underestimates the promotion effect of the implementation of the "Labor Contract Law" on the sustainable development of enterprises, further indicating that the promotion effect of the implementation of the "Labor Contract Law" on the sustainable development of enterprises is stable, which confirms the main hypothesis of this paper.

**Table 5.** Using Propensity Score Matching Method To Construct Samples.

| VARIABLES | (1) The first 20% were Processing group | (2) The first 25% were Processing group | (3) The first 33% were Processing group | (4) The first 40% were Processing group |
|---|---|---|---|---|
| Law × Labor_emp | 0.014 ** | 0.018 *** | 0.012 ** | 0.015 *** |
| | (2.38) | (3.52) | (2.49) | (3.27) |
| Controls | YES | YES | YES | YES |
| Year FE | YES | YES | YES | YES |
| Industry FE | YES | YES | YES | YES |
| Observations | 3085 | 3679 | 4317 | 4752 |
| R-squared | 0.078 | 0.091 | 0.090 | 0.090 |

Note: ***, ** denote significance levels of 1%, 5%, respectively, and the value of t is in parentheses.

### 4.3.3. Parallel Trend Test

When using the difference-in-difference model to test the implementation effect of the "Labor Contract Law", it is necessary to ensure that there is a consistent trend of the impact of labor intensity on the sustainable development of enterprises before the implementation of the policy, so that the differences after the implementation of the policy are considered to be caused by the implementation of the "Labor Contract Law". Therefore, this paper refers to Xiong Ruixiang and Wan Qian, selects data for each of the three years before and after the implementation of the "Labor Contract Law", and conducts parallel trend tests on the interaction term between the selected year's dummy variable and labor-intensity, so as to provide assurance for the reliability of the benchmark regression results. The regression results are shown in Table 6. In the first three years of the implementation of the "Labor Contract Law", the regression coefficients of the main explanatory variables were positive but not significant. This indicates that before the policy implementation, the treatment group enterprises and the control group enterprises had the same trend of change in advance, meeting the assumption of "same trend in advance" and making the results in the benchmark regression reliable. In addition, in the first three years after the implementation of the "Labor Contract Law", the regression coefficients of the main explanatory variables were significant and positive, indicating that strengthening labor protection after policy implementation will promote the sustainable development of different labor-intensive enterprises, further supporting previous research Hypothesis H1.

**Table 6.** Parallel Trend Test Results.

| VARIABLES | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| 2005 × Labor_emp | 0.007 | | | | | |
| | (0.90) | | | | | |
| 2006 × Labor_emp | | 0.005 | | | | |
| | | (0.66) | | | | |
| 2007 × Labor_emp | | | 0.003 | | | |
| | | | (0.46) | | | |
| 2010 × Labor_emp | | | | 0.035 *** | | |
| | | | | (4.77) | | |
| 2011 × Labor_emp | | | | | 0.022 *** | |
| | | | | | (3.45) | |
| 2013 × Labor_emp | | | | | | 0.011 * |
| | | | | | | (1.89) |
| Controls | YES | YES | YES | YES | YES | YES |
| Year FE | YES | YES | YES | YES | YES | YES |
| Industry FE | YES | YES | YES | YES | YES | YES |
| Observations | 9570 | 9570 | 9570 | 9570 | 9570 | 9570 |
| R-squared | 0.073 | 0.088 | 0.508 | 0.075 | 0.074 | 0.073 |

Note: ***, * denote significance levels of 1% and 10%, respectively, and the value of t is in parentheses.

### *4.4. Heterogeneity Test*

#### 4.4.1. Heterogeneity of Enterprise Ownership

This paper divides the sample enterprises into state-owned and non-state-owned enterprises according to the nature of the actual controllers of the enterprises. The grouped regression results are shown in columns (1) and (2) of Table 7, which shows that the regression coefficients of the core explanatory variables Law × Labor_emp are significant and positive in both columns. This result indicates that the implementation of the "Labor Contract Law" has a promoting effect on the sustainable development of both state-owned and non-state-owned enterprises, but has a stronger promoting effect on the sustainable development of non-state-owned enterprises. This finding verifies theoretical Hypothesis H3 in the previous section.

**Table 7.** Heterogeneity Analysis.

| | Enterprise Ownership | | The Degree of Marketization | | Enterprise Size | |
|---|---|---|---|---|---|---|
| VARIABLES | (1) | (2) | (3) | (4) | (5) | (6) |
| | State-owned enterprises | Non-state-owned enterprise | High | Low | Large | Small |
| Law × Labor_emp | 0.014 *** | 0.017 *** | 0.012 *** | 0.003 | 0.011 *** | 0.001 |
| | (3.56) | (4.40) | (2.68) | (0.72) | (3.49) | (0.28) |
| Controls | YES | YES | YES | YES | YES | YES |
| Year FE | YES | YES | YES | YES | YES | YES |
| Industry FE | YES | YES | YES | YES | YES | YES |
| Observations | 5636 | 3934 | 5092 | 4478 | 4786 | 4784 |
| R-squared | 0.074 | 0.125 | 0.069 | 0.145 | 0.168 | 0.053 |

Note: *** denote significance levels of 1%, respectively, and the value of t is in parentheses.

### 4.4.2. Heterogeneity of Enterprise Scale

According to the natural logarithm of the total assets of enterprises at the end of the period as the basis for judging the size of enterprises, this paper classifies the sample enterprises whose size is larger than the median of the full sample as large-scale enterprises, and classifies the sample enterprises whose size is smaller than the median of the full sample as small-scale enterprises. The results of group regression are shown in columns (5) and (6) of Table 7. Among the samples with larger-sized enterprises, the regression coefficients of the core explanatory variables Law × Labor_emp are significant and positive, while the regression coefficient of the core explanatory variable Law × Labor_emp is positive but insignificant in the sample of smaller enterprises. This result indicates that the implementation of the "Labor Contract Law" has significantly promoted the sustainable development of large-scale enterprises, while having no significant impact on small-scale enterprises. This regression result verifies theoretical Hypothesis H4 in the previous section.

### 4.4.3. Heterogeneity of Enterprise Marketization Degree

This paper measures the degree of marketization in a region based on the "Overall Marketization Index" of the year 2007 before the implementation of the "Labor Contract Law", measured by Fan Gang et al. [43]. Referring to Ni Xiaoran and Zhu Yujie [21], the sample enterprises with an index greater than or equal to the median in 2007 are classified as high marketization areas, and the sample enterprises with an index less than the median are classified as low marketization areas, The group regression results are shown in columns (3) and (4) of Table 7, where the regression coefficient of the core explanatory variable Law × Labor_emp is significant and positive in the sample with high marketization degree, while in the sample with low marketization degree, the regression coefficient of the core explanatory variable Law × Labor_emp, although positive, is not significant. This result indicates that the implementation of the "Labor Contract Law" has significantly promoted the sustainable development of enterprises in high marketization areas, while it has no significant impact on enterprises in low marketization areas. This result further confirms previous research Hypothesis H5.

### 4.5. Impact Mechanism Test

According to the previous theoretical analysis, labor protection is beneficial for improving the innovation ability of enterprises, thereby promoting their sustainable development. This paper constructs a test model (2) and a model (3) for the mediating effect of enterprise innovation to test Hypothesis H2. If the mediating effect of enterprise innovation can exist, the regression coefficient value $\beta_1$ in Equation (2) and the coefficient value $\beta_2$ in Equation (3) should pass the significance test. If the value of coefficient $\beta_1$ in Equation (3) is not significant, it means that there is a full mediation effect; if the value of coefficient $\beta_1$ in Equation (3) is significant and closer to zero than $\beta_1$ in Equation (1), it means that there is a partial mediation effect. Additionally, if at least one of the regression coefficient values $\beta_1$ in Equation (2) and the coefficient value $\beta_2$ in Equation (3) are not significant, then a Sobel test is required.

Table 8 gives the results of the impact mechanism test in this paper. The regression result (1) is the result of the previous benchmark regression test, which indicates that the enhancement of labor protection can effectively promote the sustainable development of enterprises. In regression result (2), the value of the variable Law × Labor_emp coefficient is significantly positive, indicating that there is a significant positive relationship between enhanced labor protection and enterprise innovation, and that enterprises with higher labor intensity are more innovative. In regression result (3), the value of the variable RD_Asset coefficient is significantly positive, which verifies the mediating role of enterprise innovation in labor protection and the sustainable development of enterprises, indicating that enterprise innovation is the mechanism by which labor protection affects the sustainable development of enterprises, and verifying previous research Hypothesis H2.

**Table 8.** Impact Mechanism Test Results.

| | (1) | (2) | (3) |
|---|---|---|---|
| VARIABLES | Srg_n | RD_Asset | Srg_n |
| Law × Labor_emp | 0.014 *** | 0.002 *** | 0.013 *** |
| | (5.10) | (2.66) | (4.63) |
| RD_Asset | | | 0.173 *** |
| | | | (2.74) |
| Year FE | YES | YES | YES |
| Industry FE | YES | YES | YES |
| Observations | 9570 | 3921 | 3921 |
| R-squared | 0.076 | 0.211 | 0.131 |
| Sobel test | | 0.0004 ** (z = 2.077) | |
| Goodman test 1 | | 0.0004 ** (z = 2.021) | |
| Goodman test 2 | | 0.0004 ** (z = 2.139) | |
| Intermediary effect coefficient | | 0.0004 ** (z = 2.077) | |
| Direct effect coefficient | | 0.0134 *** (z = 4.632) | |
| Total effect coefficient | | 0.0138 *** (z = 4.773) | |
| Intermediary effect ratio | | 0.0292 | |

Note: ***, ** denote significance levels of 1%, 5%, respectively, and the value of t is in parentheses.

Since the mediating effect model $\beta_1$ in Equations (2) and (3) and $\beta_2$ in Equation (3) are significant, the mediating effect exists and the magnitude of this effect is 0.0004 (obtained by multiplying the coefficient of Law × Labor_emp in column (2) with the coefficient of RD_Asset in column (3), which is about 2.92% of the total effect of labor protection on the sustainable development of enterprises (obtained by dividing the above mediating effect by the coefficient of Law × Labor_emp in column (1) of Table 8. This result indicates the existence of a mechanism for enhancing labor protection to promote the sustainable development of enterprises through enterprise innovation, and this mechanism can explain 2.92% of the total impact of labor protection on the sustainable development of enterprises.

## 5. Discussion

### 5.1. Research Implications

Firstly, it further enriches the relevant research results on the impact of China's macroeconomic environment on the sustainable development of enterprises. The existing research results mainly focus on the impact of corporate social responsibility, internal control, corporate innovation, digital technology, and entrepreneurship on the sustainable development of enterprises, but there is still a lack of research in the factor market environment. There is relatively little discussion on whether changes in the market economy environment will affect the sustainable development of enterprises. This study can provide further supplements to the relevant literature in the field of sustainable development of enterprises.

Secondly, the mechanism by which the "Labor Contract Law" affects the economic behavior and decision-making of enterprises has been supplemented. The current literature analysis mainly explores the impact of the "Labor Contract Law" on the economic contract signing, income level, and treatment level of enterprise employees, as well as the analysis of its impact on labor employment costs, management strategies, investment efficiency, and business flexibility. However, there is still insufficient research on the impact of enterprise labor security systems on the sustainable development of enterprises. The research in this article can broaden the scope of evaluating the effectiveness of the implementation of the "Labor Contract Law" and enrich the relevant literature on labor protection.

Thirdly, we investigate the mechanism of how the sustainable development of enterprises is influenced by labor protection. We show that innovation channels can explain the relationship between labor protection and the sustainable development of enterprises, providing a new perspective for people to understand the relationship between the two. In addition, we also consider the heterogeneity of enterprises and test whether the impact of labor protection differs across different features of enterprises.

### 5.2. Practical Implications

Linking labor protection with the sustainable development of enterprises, there is currently a wide range of research on the issue of sustainable development of Chinese enterprises. This paper starts from a relatively novel legal perspective to study the internal relationship between public policies and the sustainable development of enterprises, which is conducive to promoting the standardization of labor employment in enterprises and improving the labor employment environment. At the same time, it provides evidence support for the evaluation of the implementation effect of the labor protection system and provides empirical inspiration for the improvement of the "Labor Contract Law", which has practical significance.

### 5.3. Limitations and Future Research

The research conclusion may not have a universal pattern. This paper uses listed companies as research samples, which makes the empirical conclusions obtained in this article unable to be simply extended to non-listed enterprises. Moreover, internal management systems of enterprises of different natures and sizes do not have analogies, and policy motivations and financial decisions taken differ significantly. Therefore, the research conclusions do not yet possess universality, but are only speculative conclusions based on empirical evidence. In future research, different types of enterprises should be comprehensively considered, and the scope of research objects should be expanded to make the research conclusions universal and applicable.

Policy evaluation is not sufficient. The selection of public policies in this paper is single, only involving the "Labor Contract Law", which cannot fully reflect the impact of public policies on the sustainable development of enterprises. It lacks comprehensiveness, and the policy recommendations are only for reference. To comprehensively reflect the impact of public policies on the sustainable development of enterprises, it is necessary to include as many public policies as possible in subsequent research, providing a more comprehensive and mature policy evaluation.

## 6. Research Conclusions and Policy Recommendations

### 6.1. Research Conclusions

The Chinese economy is at a critical stage of transitioning from high-speed growth to high-quality development, and promoting enterprise innovation and sustainable development has become a major practical issue that must be taken seriously and addressed. Based on the perspective of labor protection, this paper takes the "Labor Contract Law" implemented in 2008 as a quasi-natural experiment, and takes A-share listed enterprises in Shanghai and Shenzhen from 2005 to 2013 as the research object to empirically test the impact of labor protection on the sustainable development of enterprises and explore its internal influencing mechanism. The empirical test results indicate that the enhancement of labor protection helps to promote the sustainable development of enterprises, and has a greater promoting effect on highly labor-intensive enterprises, in which enterprise innovation plays a mediating role in the relationship between the two; the test of heterogeneity finds that the promotion effect of labor protection on the sustainable development of enterprises is more obvious among state-owned enterprises, enterprises in high marketization areas, and large-scale enterprises.

*6.2. Policy Recommendations*

Based on the above research conclusions, this paper proposes the following suggestions for enterprises and governments, respectively:

Enterprises should face up to the impact of the implementation of the "Labor Contract Law" and adopt proactive response strategies. Although the enhancement of labor protection will bring some cost pressure to enterprises, the implementation of this policy will also bring opportunities for factor restructuring and labor market liquidity restructuring, creating new economic growth potential for enterprises. Therefore, it is recommended that enterprises achieve the following two points: (1) Enterprises should continue to promote the protection of the legitimate rights and interests of workers, strengthen implementation and supervision, enhance employee loyalty and enthusiasm for production creation, improve innovation capabilities and market competitiveness, and promote the sustainable development of enterprises. (2) Enterprises should improve their internal management level, enhance their technological innovation ability, increase labor productivity, enhance their core competitiveness, and thus alleviate the negative impact of enhanced labor protection.

The government should continuously adjust and optimize policies based on their actual effects. Due to the inevitable impact of policy implementation on the production or business activities of enterprises, the government, as the policy maker, should achieve the following three points: (1) consider the differentiation of policy formulation, improve the accuracy of policy implementation, and vary the specific measures for labor protection should in different industries. (2) Develop complementary policies for different marketization areas and enterprises of different sizes to achieve balanced socio-economic growth, such as providing loan incentives to small-scale enterprises to alleviate financing constraints. (3) The government should continuously optimize the legal and business environment, maintain market competition order, stimulate market vitality and the innovation potential of enterprises, and provide guarantees for high-quality economic development of enterprises.

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