Corporate Social Responsibility and Shareholder Wealth- "Evidence From Indian Manufacturing Sector".

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ABSTRACT:Corporate social responsibility (CSR) disclosures became mandatory in India, from April 2014. The Companies Act (2013) specifies the modus to determine the quantum and nature of CSR expenditure and requires that affected companies disclose these details in their audited annual reports. Extant literature generally documents a positive association between CSR and shareholder value. Our study researches this association in an Indian context using a sample of top 100 (by market capitalization) manufacturing companies. Manufacturing industry contributes to environmental pollution and social costs; hence CSR could contribute towards mitigating the societal impact of corporate activities, maintaining trust and increasing shareholder value. External value measures are used by modern investors to assess company's current and prospective ability to maximize shareholder value. Therefore, we consider Dividend paid and Tobin's Q as the determinants of shareholder value. We find that CSR is positively associated with dividend payout and Tobin's Q. The results seem to reinforce prior research findings that shareholder value can be increased by CSR.

Keywords – Corporate Social Responsibility, CSR Expenditure, Dividend Paid, Shareholder Value, Tobin's Q.

I. INTRODUCTION

Corporate Social Responsibility (CSR) is a systematic plan of action that makes an organization to be socially responsible. Corporate social responsibility, aka corporate citizenship, creates awareness in companies about the impact they have on society on multiple levels (eg; social, financial, ecological etc.). In India, the CSR approach is holistic and integrated with the core business strategy for addressing the social and environmental impacts of businesses while also taking into account the potential impact on shareholders**. [18,16].** CSR disclosures became mandatory in India from April 2014. The Companies Act (2013) specifies the modus to determine the quantum and nature of CSR expenditure and requires that affected companies disclose these details in their audited annual reports. CSR helps create mutual trust and understanding among different stakeholders, shareholders and customer base. In addition, it also helps in maintaining the goodwill of the company, drives long term sustainability and improves shareholder value. **[17]**The Indian manufacturing sector currently contributes to 16- 17% of GDP and gives employment to around 14% of the country's workforce but also contributes to environmental pollution and social costs.

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Hence CSR becomes an ethical and moral obligation of the company. As per Confederation of Indian Industries (CII), the expenditure by Indian companies on CSR has increased by 9% in FY 2017 despite a slowdown in the economy, and the manufacturing sector is the 2nd largest contributor towards CSR activities**.[14,15]**This study aims to evaluate the effect of the CSR expenditure by manufacturing companies on the wealth of shareholder. Following prior literature, we choose Dividend paid and Tobin's Q as measures of shareholder wealth.

II. LITERATURE REVIEW:

Leonardo, Rocco, Iftekhar and Nada (2011) studied the stock market impact of firms that had exited the CSR index (Domini 400 Social index) during the period 1990 to 2004. They found that firms exiting the CSR index reported significantly abnormal returns which continued to persist for a long period of time due to financial distress and market seasonality. Another interesting finding was that the penalty of the firm's exit manifested as a negative effect on the ethical value of the firm (goodwill) rather than on the shareholder value of the firm. **[1]** Pamela and Robin (1998) studied the effect of voluntary corporate social actions on the shareholder value. In conducting their event study, they segregated corporate social actions into 6 different categories and studied each of their effects on the stock returns for the period 1982-1995. One of their findings was that firms that engaged in producing environmentally friendly products had a huge positive impact on the stock prices only on day 0 (which is the announcement of event date on the Wall Street Journal). The findings implied that different types of corporate social actions have different effects on the market value of a firm. Therefore, management should choose wisely and perform those social activities which, while benefiting society, would also positively enhance the market value of the firm. **[6]**Hariom and Shivaram (2017), in their paper, studied the shareholder value implications for those firms following the new CSR regulation (which required Indian firms to spend at least 2% of their net profit on CSR activities).

Using a sample size of 9921 Indian firms they found that firms whichunwillingly spend (which means spent only after the enforcement of law) on CSR activities saw a drop of 4.1% in their market value as well as causing social burden at the expense of shareholders. On the other hand, those firms which voluntarily chose the optimal level of CSR spending saw a maximization in their shareholder value. **[9]** Saurabh and Sachin (2016), studied how the marketing capability of a firm contributed to the role of CSR on shareholder wealth. Using a sample size of 1725 firms (the study was limited to US-based firms) for the year 2000-2009, the authors found that the effect of CSR activities on stock returns became significantly positive when complemented by the marketing capability of a firm**. [11]**

Josefina and Jesus (2017), conducted a study from a stakeholder/shareholder perspective on the relation between CSR and shareholder value. Using a Random correlated effects approach , they compared companies performing social activities included in the Spanish sustainability index and FTSE4GOOD Ibex and the listed companies of the other indexes of the Ibex family and found that the companies performing CSR activities had a posit8ve and significant influence on shareholder value but showed a negative influence on the employees and no effect on the stakeholders of the firm. The authors stated as that the study was limited to large and medium-sized enterprises they only used accounting indicators which made it a quantitative study. They further state that the results might have been different if small and micro companies were included**. [4]**

Sajid, Nazir, Iqbal and Bilal (2012), examined the influence of dividend policy on shareholder wealth by taking a sample of
75 companies from 2005-2010. By performing a multiple regression analysis, they found that the difference between the book value of equity and the average market is highly significant among companies paying dividend rather than non- paying companies. They further stated that the companies paying dividend regularly led to the shareholder wealth maximization**. [5]**

Xin Deng, Jun-koo and Buen Sin (2012) examined the effect CSR on shareholder value using mergers. The study was limited to those US firms valued more than US$1 million, with the acquiring company holding less than 50% of shares before the merger. They used a sample of 650 companies over the period 1992-2007. Regression analysis of the data showed that merger with high CSR activities companies proved to be more beneficial for the acquirer and that social performance plays an important role in the shareholder wealth maximization. **[3]**

Phillip (2012), in his study, examined how the market reacts to CSR activities and in turn how strongly investors respond to the market reactions. Using a sample of 100 KLD newsletters and different types of CSR activities over the period 2001- 2007 he performed an event study which showed that positive CSR events with strong legal and economic information content generate positive stock market returns as well as positive investors reactions**. [8]**

Ester and Ilanit (2015), investigate whether adopting different CSR policies will have different value implications for different types of Shareholders in a firm. Using a sample of 226 CSR and non-CSR firms during the period of 2007-2012, they performed an event study. The findings show that the private and transient investors react positively to the CSR activities of the firm and tend to invest more whereas M&A (Mergers and Acquisition) investors and long-term institutional investors remained unaffected in their investment decisions as they did not believe much in the profit potential of a firm's CSR activities**.[2]**

MinChung and YongHee (2014), studied the effect of CSR strengths (activities strengthening firm's CSR reputation which include charity, Health and sanitation, education for the poor etc.) and CSR concerns (activities potentially diminishing the reputation which includes negative stock returns, Illegal taxes, Money laundering etc.) activities on the shareholder value of a firm. They performed a regression analysis using a sample of 170 firms with the study limited to only publicly listed firms of the restaurant industry from the year 1991 -2001. They found that positive CSR actions enhanced the shareholder value whereas CSR concerning activities (negative actions) reduced the shareholder value and instead lead to increasing systematic risk of the firm**. [7]**

Phuong, Ambrus and Mansi (2016), study the implications of corporate social actions on wealth of shareholder in the context of social actions being monitoring by long-term investors. They performed multiple regression analysis on a sample of 3592 firms from the period 1991-2009. Findings indicated that supervision on corporate social spending by long-term investors ensures that top management choose the appropriate spending levels of CSR which leads to maximization of shareholder value. Further, they state that continuous CSR spending by the firm leads to a 5% high valuation of stock prices every year in emerging markets. **[12]**

Supriti and Damodar (2010) studied the influence of CSR on the financial and non- financial performance (NFP) of Indian firms. The NFP was studied via a questionnaire (sample size of 150 questionnaires) which was made in reference to the stakeholder groups (Employees, investors, community, Suppliers, Customers, and environment) of the sample firms. Data on FP (financial performance) was obtained via secondary sources. Findings indicated that business practices which are conducted taking into consideration the primary stakeholders are beneficial to a firm and positively impact the profits and shareholder wealth**. [10]**Mungai (2014) researched the effect of CSR on the manufacturing firms in Kenya. The study target was a group of 68 companies from the manufacturing sector. Data analysis via a multiple regression model indicated that there was a small yet significant positive effect of social actions on the financial performance of a company.

The study further recommended that small and medium manufacturing companies too should involve in CSR as that would help in increasing the customer base. This, in turn, would pave the way for further growth of the company. **[13]**

The foregoing review indicates that research on the association between CSR and shareholder wealth, in an emerging markets context is sparse. We address this lacuna by placing our study in India, one of the most prominent emerging markets in the world. Indian annual GDP growth has consistently been above 6%, thus outperforming most of the markets around the world. Given the large manufacturing base of the Indian economy we focus on manufacturing firms and frame our hypothesis as follows:

H1- In Indian manufacturing firms, CSR expenditure is positively associated with shareholder wealth.

III. METHEDOLOGY

Our original sample size included top 100 manufacturing companies (by market capitalization) for the 4 years from 2014-2017, but the sample included 3 merged firms which did not have the required data for the analysis. Therefore, we have a final sample of 97 companies. The sample has been collected from secondary sources such as the Prowess database of CMIE and the National CSR portal.

This study aims to evaluate the effect of CSR expenditure on shareholder wealth. We measure shareholder wealth by using Dividend paid and Tobin's Q.

Tobin's Q has been used as tool to measure firm's performance in the fields of management, economic and Marketing and to test the effect of the firm's strategic choices on the value of the shareholder. It also measures if the firm's assets are overvalued or undervalued and does an investment in such a firm yield returns for the shareholders. (Example from the papers of Morck 1988, Wad dock and Graves 1997 and Mittal 2005.)

- **Tobin's Q** = Market Value of Assets / Book value of Assets (Example from papers Kaplan 1997 and Gompers 2003)

Dividend is the sharing of the portion of profit of the company with its shareholders. Most of the firms issue dividends at regular interval for maximizing their shareholder wealth which in turn results in the positive relation with the shareholder and the firm.

- **Dividend Paid** = Average of Quarterly Dividend paid.

We run the following regressions in SPSS to test our hypothesis:

DIVIDEND PAID = α+ β1CSRexp + β2SIZE OF FIRM + β3ROA + β4Market value + β5AGE+ ε

TOBIN'S Q = α+ β1CSRexp + β2SIZE OF FIRM + β3ROA+
β4Market value + β5AGE +ε

While Dividend Paid and Tobin's Q are the dependent variables, CSR Expenditure is the independent variable.

The control variables are defined as:

Market value is the closing price of the particular stocks.

ROA (Return on Assets) measures the firms short term profitability. It analyses how efficiently the firm uses its assets to generate earrings.

Size of the firm is measured as a natural log of the total assets of the firm and AGE as a log of the firm's age in 2014 i.e. (The difference between the year of incorporation till 2014).

IV. RESULTS & ANALYSIS

Table 1

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46375153240.104	5	9275030648.021	44.983	.000b
	Residual	78764423558.003	382	206189590.466		
	Total	125139576798.107	387			
a. Dependent Variable: Dividend						
b. Predictors: (Constant), AGE, SIZE, MV, ROA, CSR						

Table 2

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34381.037	5	6876.207	65.286	.000b
	Residual	40023.342	380	105.325		
	Total	74404.379	385			
a. Dependent Variable: TOBINQ						
b. Predictors: (Constant), AGE, SIZE, MV, ROA, CSR						

The above tables (Table 1 and 2) show that our independent variables are able to account for a significant amount of variance on the dependent variable as both the models are less than 0.05,

TABLE 3 (TOBIN'S Q)

for

Model		Standardized Coefficients	t. value	Sig. value
		Beta		
1	(Constant)		17.891	.000
	CSR	.345	7.538	.000
	ROA	-.383	-9.501	.000
	MV	.051	1.334	.183
	SIZE	-.784	-16.94	.000
	AGE	-.088	-2.289	.023

TABLE 4 (DIVIDEND)

Model		Standardized Coefficients	t. value	Sig. value
		Beta		
1	(Constant)		-3.920	.000
	CSR	.385	7.802	.000
	ROA	.290	6.654	.000
	MV	-.059	-1.440	.151
	SIZE	.223	4.469	.000
	AGE	-.001	-.032	.975

The above tables (Table 3 and 4) show the effect of each individual variable on the dependent variable. We are

F (5,382) =44.983, and F (5,382) = 65.286 (p= 0.0001)

units of increase in Tobin's Q. For table 4, the variables CSR, ROA, AGE and SIZE are having p-value less than 0.05 and

have a significant effect on the dependent variable expect

market value which shows p=.183 and does not have any effect on the dependent variable. We can also see that 1unit increase in CSR results in 7.84 units of increase in Dividend Further we can see that Beta of control variables except for market value (2.92) have a negative effect on Tobin's Q. The above results led to the acceptance of the hypothesis.

V. DISCUSSION

Over the past couple of years, there has been an increase in the number of companies taking up CSR activities. This trend gives rise to interesting questions such as the possibility of CSR activities affecting the financial performance of a firm. Much debate and considerable research have gone into understanding if indeed a relation exists between CSR activities and financial performance. And if indeed it does clearly exist, is it a positive or negative correlation as also what other factors might potentially affect this CSR-financial performance equation.

W.r.t the above, one of the areas in which there is scope for further research is the role of CSR in adding value o the shareholder wealth. Our paper examines the relation between CSR and the shareholder's wealth. This study on

going to value each of these tests at p of 0.05. For table 3, the variables CSR, ROA, and SIZE are having p-value less than 0.05 and have a significant effect on the dependent variable expect for market value which shows p=.151 and Age which shows p=.975 and do not have any effect on the dependent variable. We can also see that 1unit increase in CSR results in 0.005manufacturing firms gives a significant result showing Dividend and Tobin's Q to have a positive relation with CSR expenditure. In table 3, the variables CSR, ROA, AGE and SIZE are having a p-value less than 0.05 and have a significant effect on the dependent variable expect for market value which shows p=.183 and does not have any effect on the dependent variable (Tobin's Q). Table 3 shows that 1 unit increase in the control variable Market value resulted in 0.05 units increase in Tobin's Q and 1 unit increase in ROA resulted in 0.39 units increase in Tobin's Q of the firm. (High Market value is the increase the stock prices of the firm which in turn increases the wealth of the shareholders). We can also see that 1unit increase in CSR results in 0.345 units of increase in Tobin's Q.

In table 4, the variables CSR, ROA, and SIZE are having a p- value less than 0.05 and have a significant effect on the dependent variable expect for market value which shows p=.151 and Age which shows p=.975 and do not have any effect on the dependent variable. Table 4 also shows that a unit increase in the control variables Size and ROA results in increase in Dividend of the firm. Further, we can also see that 1unit increase in CSR results in 0.385 units of increase in Dividend. From the Tables 3 and 4, we find that the variable AGE does not have any effect on the wealth of the shareholders as the duration of the firm and earing profit are different from each other. Further, the study provides practical results showing that the firms spending on CSR have an increase in the wealth of their shareholders.ROA is increase in asset creation which in turn might lead to increase in the profits of the firm which leads to payment of dividends and reflects in the Tobin's Q of the firm which eventually leads to increase of shareholder wealth. Similarly, afirms CSR actions plays an important role in the decision- making process of the potential investors. Using quality products helps in pricing products at premium prices which in turn gives fair share of returns which can be reflected stock prices. [19] And implementing social welfare activities increases the goodwill of the firm. Therefore, strategic allocation of CSR expenditure on social activities helps in maximization of shareholder wealth of the firm.The understanding of the relevance of CSR on shareholder wealth may be extended in future studies as the present study is limited to top 100 Indian manufacturing companies and the study was only for 4 years. There are many other manufacturing companies which have gained through CSR spending but have not been sampled in this study. There are many other managerial implications such as unspent CSR, compulsory spending of CSR etc. which can be discussed along with our study. As shareholder wealth is defined only by market parameters like Dividend and Tobin's Q, other accounting parameters can also be used for further studies. Due to limitations of data, the study was confined to a particular sector of the emerging market but the final results may vary if the study is extended using other parameters and to all the sectors of the emerging Indian market.

VI. CONCLUSION

There has been considerable research on a variety of CSR activities to understand the role of CSR in adding value to the social and financial performance of a firm. Such performance affects the maximization of shareholder value/wealth. Prior research has used different measures of performance such as ROA, ROE, EPS, Tobin's Q. Our study is specific to the Indian manufacturing sector. As of 2014, Government of India made CSR mandatory for companies that meet specific criteria. However, since the large-scale adoption of CSR in India has been a rather recent phenomenon, there are certain data limitations. Therefore, CSR Expenditure is the only measure that has been considered for this study. Results from our study support the hypothesis that CSR expenditure has a positive effect on the shareholder wealth of the firm. Secondly, a positive relationship with Tobin's Q represents the high market value of the firm which in turn would attract increased investments.

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