

FINANCIAL IMPLICATIONS OF CORPORATE SOCIAL RESPONSIBILITY: EVIDENCE FROM INDIA

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FINANCIAL IMPLICATIONS OF CORPORATE SOCIAL RESPONSIBILITY: EVIDENCE FROM INDIA

by

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Dedicated to my

mother, sister, my sister-in-law, my niece, Surbhi Gupta and Juhi Gupta.

Certificate

The thesis titled, “**Financial implications of corporate social responsibility: Evidence from India**”, being submitted by **Ms Monika Dahiya** to the Indian Institute of Technology Delhi for the award of the degree of **Doctor of Philosophy**, is a record of bonafide research work carried out by her. She has worked under our guidance and supervision and has fulfilled all the requirements for the submission of this thesis, which has attained the standard required for a Ph.D. degree at this institute. The results presented in this thesis have not been submitted elsewhere for the award of any degree or diploma.

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Abstract

Corporate social responsibility (CSR) has emerged as a major area of study in academic research. There has been a significant increase in studies on CSR investigating its different facets, including drivers, implementation, and outcomes. The goal of the researchers is to better comprehend the impact of CSR on organizations and society. Particularly, there is a growing body of literature that explores the impact of CSR on financial performance. The world is also witnessing a rising number of regulations which mandate CSR disclosures. Driven by the dynamic CSR environment, which is encouraging movement from self-regulation to co-regulation, it has become imperative to investigate the manner in which these regulations influence the financial implications of CSR.

The present study intends to investigate the financial implications of CSR in India. First, the study examines the impact of CSR on the efficiency of corporate investments and their speed of adjustment. Second, it identifies how lenders and equity investors perceive CSR by examining its impact on the cost of debt and equity. Third, the study examines how the firm's dividend payouts and their speed of adjustment get affected by CSR. Finally, the study explores how the regulation mandating CSR in India influences these financial implications of CSR.

The empirical analysis is conducted for a sample of firms listed on the National Stock Exchange (NSE 500) for the period 2008 to 2019. The secondary data is retrieved from Thomson Reuters Datastream® and Bloomberg®. The system generalized method of moments (GMM) is deployed for estimating the dynamic panel data models.

The findings suggest that there is an inverse U-shaped relationship between CSR and investment efficiency. This relationship is strengthened when CSR is made mandatory. Only environmental and social factors are reported to have a significant impact on investment efficiency. Also, the relationship is more pronounced in the case of large firms, firms that have

high financial constraints and firms exhibiting higher financial reporting quality (FRQ). Further, we observe that firms follow a target investment level which is positively influenced by growth opportunities and leverage of the firms, while it is negatively influenced by cash position and returns. Furthermore, the speed of adjustment of high-CSR firms is faster than that of the low-CSR firms.

The estimation of the impact of CSR on the cost of debt and equity reveals that CSR has a U-shaped relationship with the former while it has an inverse U-shaped relationship with the latter, implying that lenders and investors perceive CSR differently. The cost of debt is significantly affected only by environmental and social components. However, all three components of ESG are found to significantly affect the cost of equity. The regulatory intervention weakens the relationship of CSR with the cost of debt, while it is observed to strengthen the relationship between CSR and the cost of equity. The U-shaped relationship between CSR and the cost of debt is more noticeable for large firms and firms that have high FRQ. The inverse U-shaped relationship between CSR and cost of equity is pronounced for small firms, firms that have high financial constraints and firms with high FRQ.

Lastly, we observe a positive association between CSR and dividend payouts. However, the implementation of CSR regulations has been observed to weaken the association. All the components of ESG are found to significantly affect dividends. The positive relationship between CSR and dividends is found to be more noticeable for small firms, firms with high financial constraints and firms that have high FRQ. Further, we note that the dividend speed of adjustment is higher for high-CSR firms as compared to low-CSR firms.

Based on the above findings, some significant recommendations are made for managers, investors, and regulators. Managers should embrace CSR but not overemphasize it at the expense of other corporate operations. They should learn to strike a balance between CSR and

other priorities of the business. As CSR has been mandated in India and it has become more challenging for businesses to differentiate on the basis of CSR, managers must now find creative ways to use CSR to achieve a competitive advantage. Also, managers should not compromise on the quality of financial reporting as CSR works in tandem with it and cannot be a substitute.

Investors should consider CSR while making their investment decisions, as it has the potential to affect the financial performance of a firm. However, they should keep in mind that firms reap benefits from their CSR efforts when the quality of their financial reporting is also high. Thus, they should give priority to firms with high FRQ. Investors should also acknowledge that all the components, namely environmental, social and governance, are crucial, and they should reward a firm's commitment to each of these factors.

Regulators should make efforts to educate the stakeholders on the potential benefits of CSR. They should attempt to convince the shareholders of the possible value of CSR investments.

सार

कॉर्पोरेट सामाजिक उत्तरदायित्व (सीएसआर) शैक्षणिक अनुसंधान में अध्ययन के एक प्रमुख क्षेत्र के रूप में उभरा है। चालकों, कार्यान्वयन और परिणामों सहित इसके विभिन्न पहलुओं की जांच करने वाले सीएसआर पर अध्ययनों में उल्लेखनीय वृद्धि हुई है। शोधकर्ताओं का लक्ष्य संगठनों और समाज पर सीएसआर के प्रभाव को बेहतर ढंग से समझना है। विशेष रूप से, साहित्य का एक बढ़ता हुआ समूह है जो वित्तीय प्रदर्शन पर सीएसआर के प्रभाव की पड़ताल करता है। दुनिया सीएसआर के खुलासे को अनिवार्य करने वाले नियमों की बढ़ती संख्या को भी देख रही है। गतिशील सीएसआर वातावरण से प्रेरित, जो स्व-विनियमन से सह-विनियमन के लिए आंदोलन को प्रोत्साहित कर रहा है, यह जांच करना अनिवार्य हो गया है कि ये विनियम सीएसआर के वित्तीय प्रभावों को कैसे प्रभावित करते हैं।

वर्तमान अध्ययन का उद्देश्य भारत में सीएसआर के वित्तीय प्रभावों की जांच करना है। सबसे पहले, अध्ययन कॉर्पोरेट निवेश की दक्षता और उनके समायोजन की गति पर सीएसआर के प्रभाव की जांच करता है। दूसरा, ऋण और इक्विटी की लागत पर इसके प्रभाव की जांच करके यह पहचान करता है कि ऋणदाता और इक्विटी निवेशक सीएसआर को कैसे देखते हैं। तीसरा, अध्ययन जांच करता है कि सीएसआर से फर्म के लाभांश भुगतान और उनके समायोजन की गति कैसे प्रभावित होती है। अंत में, अध्ययन इस बात की पड़ताल करता है कि भारत में सीएसआर को अनिवार्य करने वाले नियम सीएसआर के इन वित्तीय प्रभावों को कैसे प्रभावित करते हैं।

2008 से 2019 की अवधि के लिए नेशनल स्टॉक एक्सचेंज (एनएसई 500) में सूचीबद्ध फर्मों के नमूने के लिए अनुभवजन्य विश्लेषण किया गया है। द्वितीयक डेटा थॉमसन रॉयटर्स डेटास्ट्रीम® और ब्लूमबर्ग® से प्राप्त किया गया है। डायनेमिक पैनल डेटा मॉडल का अनुमान लगाने के लिए सिस्टम जनरलाइज्ड मेथड ऑफ मोमेंट्स (जीएमएम) को तैनात किया गया है।

निष्कर्ष बताते हैं कि सीएसआर और निवेश दक्षता के बीच उलटा यू-आकार का संबंध है। सीएसआर को अनिवार्य किए जाने से यह रिश्ता और मजबूत होता है। केवल पर्यावरणीय और सामाजिक कारकों का निवेश दक्षता पर महत्वपूर्ण प्रभाव पड़ने की सूचना है। साथ ही, बड़ी फर्मों, उच्च वित्तीय बाधाओं वाली फर्मों और उच्च वित्तीय रिपोर्टिंग गुणवत्ता (FRQ) वाली फर्मों के मामले में संबंध अधिक स्पष्ट होता है। इसके अलावा, हम देखते हैं कि कंपनियां एक लक्ष्य निवेश स्तर का पालन करती हैं जो विकास के अवसरों और फर्मों के उत्तोलन से सकारात्मक रूप से प्रभावित होता है जबकि यह नकदी की स्थिति और रिटर्न से नकारात्मक रूप से प्रभावित होता है। इसके अलावा, उच्च-सीएसआर फर्मों के समायोजन की गति निम्न-सीएसआर फर्मों की तुलना में तेज होती है।

ऋण और इक्विटी की लागत पर सीएसआर के प्रभाव के अनुमान से पता चलता है कि सीएसआर का पूर्व के साथ यू-आकार का संबंध है, जबकि बाद के साथ इसका उलटा यू-आकार का संबंध है, जिसका अर्थ है कि ऋणदाता और निवेशक सीएसआर को अलग तरह से देखते हैं। ऋण की लागत महत्वपूर्ण रूप से केवल पर्यावरण और सामाजिक घटकों से प्रभावित होती है। हालांकि, ईएसजी के सभी तीन घटक इक्विटी की लागत को महत्वपूर्ण रूप से प्रभावित करते पाए गए हैं। विनियामक हस्तक्षेप ऋण की लागत के साथ सीएसआर के संबंध को कमजोर करता है जबकि यह सीएसआर और इक्विटी की लागत के बीच संबंध को मजबूत करने के लिए देखा गया है। सीएसआर और ऋण की लागत के बीच यू-आकार का संबंध उन बड़ी फर्मों और फर्मों के लिए अधिक ध्यान देने योग्य है जिनके पास उच्च एफआरक्यू है। सीएसआर और इक्विटी की लागत के बीच उलटा U- आकार का संबंध छोटी फर्मों, उच्च वित्तीय बाधाओं वाली फर्मों और उच्च FRQ वाली फर्मों के लिए स्पष्ट है।

भुगतान के बीच एक सकारात्मक जुड़ाव देखते हैं और यह संबंध सीएसआर को अनिवार्य करने वाले नियमों से कमजोर होता है। ईएसजी के सभी घटक लाभांश को महत्वपूर्ण रूप से प्रभावित करते पाए गए हैं। सीएसआर और लाभांश के बीच सकारात्मक संबंध छोटी फर्मों, उच्च वित्तीय बाधाओं वाली फर्मों और

उच्च FRQ वाली फर्मों के लिए अधिक ध्यान देने योग्य पाया गया है। इसके अलावा, हम देखते हैं कि निम्न-सीएसआर फर्मों की तुलना में उच्च-सीएसआर फर्मों के लिए समायोजन की लाभांश गति अधिक है।

उपरोक्त निष्कर्षों के आधार पर, प्रबंधकों, निवेशकों और नियामकों के लिए कुछ महत्वपूर्ण सिफारिशें की गई हैं। प्रबंधकों को सीएसआर को अपनाना चाहिए लेकिन अन्य कॉर्पोरेट परिचालनों की कीमत पर इस पर अधिक जोर नहीं देना चाहिए। उन्हें सीएसआर और व्यवसाय की अन्य प्राथमिकताओं के बीच संतुलन बनाना सीखना चाहिए। चूंकि भारत में सीएसआर को अनिवार्य कर दिया गया है और व्यवसायों के लिए सीएसआर के आधार पर अंतर करना अधिक चुनौतीपूर्ण हो गया है, प्रबंधकों को अब प्रतिस्पर्धात्मक लाभ प्राप्त करने के लिए सीएसआर का उपयोग करने के रचनात्मक तरीके खोजने होंगे। साथ ही, प्रबंधकों को वित्तीय रिपोर्टिंग की गुणवत्ता से समझौता नहीं करना चाहिए क्योंकि सीएसआर इसके साथ मिलकर काम करता है और एक विकल्प नहीं हो सकता।

निवेशकों को अपने निवेश संबंधी निर्णय लेते समय सीएसआर पर विचार करना चाहिए क्योंकि इसमें किसी फर्म के वित्तीय प्रदर्शन को प्रभावित करने की क्षमता होती है। हालांकि, उन्हें यह ध्यान रखना चाहिए कि कंपनियां अपने सीएसआर प्रयासों से तब लाभ उठाती हैं जब उनकी वित्तीय रिपोर्टिंग की गुणवत्ता भी उच्च होती है। इस प्रकार, उन्हें उच्च FRQ वाली फर्मों को प्राथमिकता देनी चाहिए। निवेशकों को यह भी स्वीकार करना चाहिए कि पर्यावरण, सामाजिक और शासन जैसे सभी घटक महत्वपूर्ण हैं और उन्हें इन कारकों में से प्रत्येक के प्रति फर्म की प्रतिबद्धता को पुरस्कृत करना चाहिए।

नियामकों को सीएसआर के संभावित लाभों पर हितधारकों को शिक्षित करने का प्रयास करना चाहिए। उन्हें सीएसआर निवेश के संभावित मूल्य के बारे में शेयरधारकों को समझाने का प्रयास करना चाहिए।

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ABBREVIATIONS

BSE	Bombay Stock Exchange
CAPM	Capital Asset Pricing Model
CBL	Cost of bank loans
CSM	Corporate social management
CSR	Corporate social responsibility
ESG	Environment, social, governance
FC	Financial constraints
FRQ	Financial reporting quality
GIC	Global Industry Classification
GMM	Generalized method of moments
MCA	Ministry of Corporate Affairs
NPV	Net present value
NSE	National Stock Exchange
OLS	Ordinary Least Squares
PMNRF	Prime Minister's National Relief Fund
PSU	Public sector units
ROA	Return on assets
SEO	Seasoned equity offerings
SOA	Speed of adjustment