Corporate social responsibility, business group affiliation and shareholder wealth: evidence from an emerging market

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Abstract

Purpose – *This paper aims to examine the relationship between corporate social responsibility (CSR) and shareholder wealth arising from announcement returns of security issuance from a frontier market. It also explores the role of business group affiliation (BGA) on this relationship.*

Design/methodology/approach – *The study uses short-term scenarios to examine the link between CSR and shareholder wealth using the event study methodology which helps us mitigate the reverse causality problems related to studies of the relationship between CSR and firm value. Abnormal returns surrounding the security issue announcements were generated using the market model.*

Findings – *This paper finds that security issuers with high CSR scores are associated with higher shareholder value. However, this paper finds that CSR activities of security issuers with BGA are value-destroying which is consistent with the agency perspective of CSR.*

Research limitations/implications – *This study is limited to only one nascent market, namely the Colombo Stock Exchange.*

Originality/value – *This study documents that CSR and BGA are important determinants, among others, of stock price reactions to security offerings in emerging markets.*

Keywords *Agency theory, Emerging market, Corporate social responsibility, Shareholder wealth, Event study, Business group affiliation, Debt-equity issuance*

Paper type *Research paper*

1. Introduction

Corporate social responsibility (CSR) has become an increasingly important aspect of doing business around the world in recent years and a large number of firms have taken a serious effort to include CSR into various aspects of their businesses (Harjoto and Jo, 2011) [1]. Companies are allocating substantial portions of their resources to CSR activities and regularly publish detailed CSR reports or devote a significant portion of their annual reports to the description of their CSR activities. Institutional investors around the world are also showing a preference for investing in firms that pursue specific socially responsible activities, for example, a significant part of professionally managed US assets are tied to CSR through socially responsible investing (Guenster *et al.*, 2011; Di Giuli and Kostovetsky, 2014). Recent research shows that corporations from emerging economies are also giving greater importance to environmental, social and governance considerations (Li *et al.*, 2010).

Despite the growing importance of CSR activities, the question of whether and how CSR create value to shareholders is subject to much debate. On the one hand, some argue that CSR may increase financial performance via its branding/reputation effects in relation to customers, employees, investors (e.g. reducing conflict among stakeholders, improving employee efficiency) and mitigating the risk of litigation (Baron, 2001; Bénabou and Tirole, 2010). That is,

JEL classification – D21, G14, G24, G30, L21, M14

Received 18 August 2020
Revised 21 February 2021
Accepted 21 February 2021

DOI 10.1108/SRJ-08-2020-0337