

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY AND FIRM VALUE PROTECTION AMONG MULTI NATIONAL COMPANIES

Ms. Kanika Bajaj

Research Scholar Department of Commerce D.A.V P.G College, Csjmu University, Kanpur

Dr. Rishabh Saxena

Assistant Professor Department of Commerce D.A.V P.G College, Csjmu University, Kanpur

Abstract

The concept of Corporate Social Responsibility (CSR) has been the subject of a great deal of debate in the context of corporate finance in general and its impact on financial performance in particular. Despite the fact that the concept is critically important on a worldwide scale, a great number of businesses have not yet put it into practice because they are uncertain about the impact it will have on their bottom line. Rather than focusing on expanding their client base and maintaining control over their costs, a number of businesses have reduced the concept to the level of just charitable giving and spending. There has been a lot of discussion in recent years on whether or not corporate social responsibility (CSR) efforts boost the value of a firm. There is a possibility, according to the agency hypothesis, that businesses that have robust corporate social responsibility (CSR) activities may have inferior financial performance and decreased commercial value as a result of management's weak project selection. According to the stakeholder hypothesis, businesses that have a proven track record of corporate social responsibility (CSR) efforts tend to do better financially and have a higher overall value. This is due to the fact that these companies place a high value on the advantage they provide to their stakeholders and act appropriately.

Keywords: Corporate Social Responsibility, Agency theory, Firm value

Introduction

A certain amount of interest in CSR, also known as corporate social responsibility, has been shown by researchers working in the academic community. Specifically, with the emergence of poisonous attitudes such as racism, sexism, and greed, managers throughout the world have noticed a reoccurring theme in debates that take place at company meetings about the harmful influence that their operations have on the environment and society. This is due to the fact that companies are making an attempt to prevent the terrible impression that their acts transmit with their behaviours. More than half of the Fortune 1000 companies have already published their corporate social responsibility (CSR) or environmental, social, and governance (ESG) reports by the year 2004, which include a variety of themes. These papers provided an overview of the activities and initiatives taken by firms to enhance the social responsibility implications they have. In addition to that, these companies have guaranteed that they will provide these reports on an annual basis (Chakroun, 2019).

According to a statement that was released by KPMG in 2011, more than ninety-five percent of the top 250 firms voluntarily disclose their corporate social responsibility (CSR) records. The incorporation of non-financial information into these corporate social responsibility reports is also beneficial to stakeholders. Some examples of information that is not directly

related to monetary value include, but are not limited to, corporate payments to charitable organisations, investments in the improvement of environmental standards that are not considered crucial, and the proportion of women who hold leadership positions. As a result of the development of CSR disclosures, consumers now have a greater awareness of the actions that take place within the realm of corporate social responsibility (CSR). Consumers are exerting an increasing amount of pressure on businesses to make investments and carry out activities that are more environmentally friendly. According to the findings of a study conducted in 2015, eighty percent of customers shown a willingness to consider switching to a new brand or product if they saw that the firm was actively participating in social concerns. It has been reported by Malik (2019) that an astounding 82% of individuals who participated in the poll would suggest a product to their friends and family if they were aware that the firm was interested in social or environmental problems. Over the course of the last several years, the idea of CSR, which stands for "Corporate Social Responsibility," has been more prevalent amongst corporations. The authors of the Ruggiero (2018) study state that financially stable businesses are those that have completely incorporated their values and principles into the culture of their organisation. Several businesses have started keeping track of corporate social responsibility measures, which include the number of women who hold senior positions, the number of years the company has been in operation, the amount of money that has been contributed to charitable organisations, the number of women who serve on the board of directors, and the regularity with which financial reports are issued. This study intends to demonstrate how corporations may safeguard their business image and value by means of corporate social responsibility (CSR) disclosures, despite the fact that previous research has shown that CSR initiatives improve financial performance. This is of utmost significance in situations when corporate social responsibility (CSR) events are seen to be unfavourable (Phillips, 2019).

The efforts that a company makes in the realm of corporate social responsibility (CSR) increase the credibility of the business, which in turn brings in more consumers, investors, and talent. Furthermore, there are advantages to maintaining the integrity of the organisation, such as the ability to avoid making judgements that might result in unethical activity and cause damage to the reputation of the corporate entity. Another school of thought contends that corporate social responsibility (CSR) protects companies against allegations of unethical activity while simultaneously boosting employees' sense of pride in their workplace and providing them with additional motivation to put in extra effort (Ansong, 2017). Corporate social responsibility (also known as CSR) is often considered to refer to the manner in which businesses treat their workers, despite the fact that there is no official definition of the term. The most recent and widely accepted definition of corporate social responsibility (CSR) states that it is "the obligation of an organisation to consider the effects of its decisions and actions on society and the environment, characterised by transparent and ethical behaviour that aligns with sustainable development and societal welfare, while addressing stakeholder expectations." This definition is in accordance with the laws that are currently in effect and satisfies the standards of behaviour that are established internationally. According to Yang (2019), corporate social responsibility is firmly embedded in the activities of the organisation.

Both academics and professionals have shown a great deal of interest in the concept of corporate social responsibility, which has resulted in an ongoing discussion on the topic from

a variety of perspectives. One of the notions that falls under this group is known as agency theory. According to agency theory, businesses that participate in corporate social responsibility (CSR) programmes may be wasting company cash from a variety of perspectives. In accordance with Tarek (2019), the money of the firm need to either be distributed to the shareholders in the form of a dividend or invested in initiatives that would presumably increase the value of the company. One such concept to consider is the mindset of stakeholders. The management of the business is obligated to give priority to the requirements of the company's stakeholders, which include its employees, its suppliers, its customers, and those who make use of the resources and services offered by the organisation. As a result of participating in corporate social responsibility activities, an organisation may be able to reap advantages while simultaneously meeting the requirements of its stakeholders. There is a possibility that stakeholders would sever their relationships with one another if the demands of the stakeholders are not satisfied by management. For instance, the financial status of the firm might be impacted if consumers decide not to purchase the company's products or services, or if investors decide not to purchase the company's shares. According to the slack resource theory, in order for a corporation to effectively support operations related to social performance, it is necessary for the firm to be in a strong financial position initially. In the absence of an improvement in the company's financial performance, the organisation will be unable to increase its participation in programmes aimed at improving social performance. In addition, according to the efficient management theory, businesses should make their efforts to improve their social performance a top priority if they want to cultivate a positive reputation among their workforce. When stakeholders have a favourable impression of the business, their interest in the company increases, which in turn contributes to the financial success of the company. According to Shekar (2019), despite the fact that the two definitions may concentrate on different aspects, they both concur that the well-being of stakeholders is essential to the long-term performance of companies and communities. In Egypt, the concept of company social responsibility (CSR) refers to "the obligation of businesses to foster sustainable economic development by collaborating with employees, their families, the local community, and society at large to enhance their life in ways that benefit both business and development." CSR has the potential to influence corporate value, stakeholder relationships, and the reputation of the company. When referring to an evaluation of the prospective monetary worth of a company, the phrase "corporate valuation" is used. Taking a look at the firm value of a business is one way to determine how much the market places on that particular company. Making judgements about investments is simplified by using this method. CSR, which stands for corporate social responsibility, has been the subject of a significant amount of research globally.

Literature review

Corporate social responsibility (CSR) has an effect on the performance of a business that is directly proportional to the size of the company and is independent of investment objectives. Some small firms may see the impacts of corporate social responsibility (CSR) practically quickly. This is due to the fact that there is less time between making a choice and witnessing the benefits in terms of investment. For the purpose of determining whether or if corporate social responsibility (CSR) investment choices are connected, Williams (2020) performed a research in which fifty small and medium-sized manufacturing businesses in the United States were studied. This research constructed a theoretical framework that places a focus on the

social and environmental implications of corporate social responsibility by using concepts such as social capital and stakeholder linkages. Small and medium-sized firms (SMEs) that are focused on delivering services were shown to be more favourably influenced by corporate social responsibility (CSR) in terms of their financial health than SMEs that are focused on manufacturing, according to research. When it comes to integrated social and environmental corporate social responsibility activities, there is a strong inverse association between financial performance and integrated social and environmental initiatives. When selecting corporate social responsibility (CSR) initiatives that would be beneficial to both the company and society, small and medium-sized businesses (SMEs) in the United States should place a high priority on improving their financial performance and expanding their company value (Naseem, 2019). This is comparable to another research that observed 568 publicly traded Chinese companies between the years 2008 and 2017 in order to determine the extent to which certain CSR characteristics influenced CFP across a variety of industries. Based on the findings of the study, it was discovered that sectors that have a high capital intensity are the ones that are most adversely impacted by regulations regarding corporate social responsibility in terms of their financial performance. In addition, businesses in the service industry and manufacturing that relies heavily on resources are negatively impacted by human resource costs, which have a negative impact on their bottom lines. In light of this, companies that are reliant on resources, as well as those in the mining, construction, and utilities sectors, may stand to gain from corporate social responsibility programmes. There is a widespread belief that businesses might potentially increase their profits by investing in their own company and the financial stakeholders of the company (Williams, 2020).

During the Great Financial Crisis, the stock prices of American corporations that had received good ratings for their corporate social responsibility (CSR) were higher than the stock prices of companies that had received lower ratings. Because of this, the trustworthiness of the findings of their research is called into question, both on their own and in connection to one another. A calendar-time portfolio study that takes into consideration sector or value-weighted portfolios yielded the opposite findings when applied to a comparable sample of US stocks. That there is no evidence to suggest that businesses with high corporate social responsibility (CSR) did better than those with low CSR during the Great Financial Crisis is shown by this. The financial and economic crisis that occurred in 2008 caused a significant decline in people's trust in the government and other well-established organisations. Trust has been debated for a long time as an essential component of economic affairs, along with social capital in a more broad sense (Berkman, 2020). However, the significance of trust to market efficiency and monetary stability was brought to light during the financial crisis.

When the management of a corporation and the owners of the company have opposing interests, this might lead to a possible agency issue. The findings of study indicate that managers are egocentric and put their personal advantage ahead of that of shareholders, which may have a detrimental effect on the interests of shareholders. As a consequence of this, organisations are required to pay for things since investments are becoming less effective. In accordance with the principles of agency theory (Gangi, 2019), managers should prioritise the maximisation of shareholder value above the expenditure of excessive funds on corporate social responsibility (CSR) activities for the sake of the company's image. A significant amount of money might be lost by the firm if the management opts for the incorrect investments.

Another element that investors take into consideration is the possibility of concurrent resource expropriations, which might result in an increase in the interest rates that creditors charge for borrowing money. If managers use corporate social responsibility (CSR) initiatives as a way to benefit themselves at the cost of other departments, then the value of the firm may decrease as a result of poor project selection. This becomes much more obvious when there is a lack of strong control from shareholders for shareholders.

Methodology

For the purpose of carrying out the study, a qualitative research approach is used. This technique of study was developed as a result of the obligation to understand all there is to know about the link between corporate social responsibility (CSR) policies and the influence they have on the preservation of business value. This is especially true in the case of multinational firms of the MNC kind. As opposed to depending on statistical generalisations or numerical conclusions, the research used a qualitative methodology, which allowed it to dive deeply into complicated challenges, strategic objectives, and organisational actions linked to CSR efforts and their perceived value implications. This was accomplished by examining the impact of these activities on stakeholders. As part of the research, the study relied entirely on secondary sources of information in order to maintain its qualitative methodology. In order to assemble the data, a broad variety of sources were used. These sources included academic papers, publications on business sustainability, case studies, evaluations of key sectors, and financial disclosures that were made accessible to the public. The information was compiled with the assistance of academic publications and the papers that were published in those journals that were subjected to peer review. These secondary sources may provide assistance for a research of the link between corporate social responsibility (CSR) and the preservation of business value across a broad variety of companies located all over the globe, in a variety of industries, and in a variety of geographical locations. There has been a lot of focus placed on research that compares the impact of corporate social responsibility (CSR) on the reputations of organisations, risk profiles, stakeholder trust, and bottom lines over the course of a lengthy period of time. A significant amount of attention has also been paid to longitudinal reporting. Secondary data sources were selected on the basis of their trustworthiness, timeliness, and relevance in order to guarantee that the research was accurate and relevant to the environment in which it was conducted. According to the findings of a thematic analysis of qualitative data, which found recurrent themes and ideas, multinational corporations (MNCs) consciously conduct corporate social responsibility (CSR) initiatives in order to either retain or grow the value of their organisation. The research was able to get a comprehensive understanding of how corporate social responsibility (CSR) functions as a mechanism for protecting values in a variety of cultural, legal, and financial settings by using this method to become aware of a number of different circumstances.

Discussion

A decent relationship exists between the least squares regression method and the fixed effects regression strategy, although there is no strong correlation between the two, as shown by the findings of the research. ROA and common stock returns are examples of determinants, whereas the weighted social responsibility score of the KLD Socrates database is an example of a control. This score is determined by dividing long-term debt by total assets. A calculation that involves computing the logarithm of sales may be used to assess the financial leverage and

total assets of a corporation. The link was first put through a fixed effects regression model in the first phase of the approach, and then it was put through a least squares regression model in the second step of the procedure. According to Chen (2017), the sample for the approach consisted of two thousand eight hundred different organisations. After conducting a separate investigation on the relationship between workers, customers, investors, the community, the environment, and suppliers, the authors discovered that there is a significant link between corporate social responsibility (CSR) and the value of the company for all stakeholders. On the other hand, some of the factors that are taken into consideration include sales, aggregate CSR, CSR for workers, CSR for customers, CSR for shareholders, CSR for the neighbourhood, CSR for the planet, CSR for vendors, returns on assets adjusted for the industry, and nonprofit organisations. The control factors include the size of the company, the form of ownership, and the stock market listings. For the purpose of the sample, one hundred Indian manufacturing companies were chosen. These companies had to have a minimum capital of 250 million Indian Rupees, five years of operational experience in manufacturing, and a staff of at least one hundred individuals. The methodology used was regression analysis. There was not a single other company in the sample that was listed on either the Bombay Stock Exchange or the National Stock Exchange; in fact, just 101 of the total number of firms were listed on either of both exchanges. The research conducted by Kao (2018) shown that there is a strong correlation between corporate social responsibility and the value of a firm. In this particular piece of study, the dependent variables that are being considered are income, equity reversals, and return on assets. Environmental, consumer, community, and employee disclosures are the four kinds of information that are considered to be independent variables. The following are some of the control variables that we have: the total assets of the firm, the number of years that have passed since the company was founded, and the binary value that represents the kind of industry. The strategy was based on regression analysis, and it was applied using forty companies that were selected at random from a pool of one hundred thirty-five Libyan businesses that covered a wide range of sectors. It seems that there is a favourable correlation between economic value and corporate social responsibility responsibilities. The ratio of debt to assets, total revenue, total assets, the number of employees, equity, and profit are some of the factors that are taken into consideration. There is also the return on sales, the return on equity, and the return on assets that they utilise. This methodology made use of a multivariate statistical method known as principle component analysis, which was employed for both exploratory research and the construction of models. The sample consisted of the 28 firms that are included in the Corporate Governance Index that is maintained by the Budapest Stock Exchange. It has been shown by the findings of this research (Soojeen, 2019) that a high social responsibility index does not always indicate a high corporate value. In order to construct the corporate social performance index, the Organisation for Economic Cooperation and Development (OECD) developed a third set of requirements for corporate governance. When calculating this statistic, the following elements are taken into consideration: the ratio of debt to equity, the return on equity, the proportion of non-executive members on the board, the percentage of shares owned by the largest owners, and the natural logarithm of total assets at the end of the fiscal year.

Conclusion

When taken as a whole, the findings indicate that multinational firms are increasingly seeing corporate social responsibility (CSR) as a strategic need if they want to maintain or increase

their firm value in the current unpredictable and highly monitored global market. An examination of secondary sources reveals that corporate social responsibility (CSR) efforts establish connections with stakeholders, boost the image of the firm, and create long-term resilience. The importance of these issues cannot be overstated when it comes to safeguarding the value of a firm from dangers to its credibility, legal standing, and market position. Through the incorporation of corporate social responsibility (CSR) into their fundamental business strategies, multinational corporations have the opportunity to demonstrate to their stakeholders that they are more responsive and trustworthy. By doing so, they are able to prevent their worth from decreasing while the public is watching or when a crisis occurs. The findings of the research indicate that involvement in corporate social responsibility (CSR) has a significant relationship with intangible assets such as the value of the brand, the loyalty of customers, the happiness of employees, and the commitment of investors. When taken as a whole, these intangible assets serve as stabilisers, increasing the value of the company while simultaneously fostering the development of an organisation that is environmentally responsible. Additionally, secondary evidence shows that investors are more likely to support businesses who are open and honest about the CSR measures they have undertaken over the course of time. The assertion that corporate social responsibility (CSR) is essential for the formation and upkeep of values is bolstered by this evidence.

The purpose of this article is to suggest that multinational corporations need to see corporate social responsibility (CSR) not as an afterthought but rather as an inherent and strategic component of their risk management and corporate governance procedures. Companies may still preserve economic value by implementing corporate social responsibility (CSR) into their culture and putting it into reality, according to the findings of the qualitative research. This is the case even if global problems are constantly developing. The study only looked at secondary data, despite the fact that the synthesised findings provide a solid basis for more empirical research in the future. The causal linkages between corporate social responsibility (CSR) and economic value across a variety of sectors and geographies should be further quantified via future study. This study will provide vital new insights that will be of interest to business executives, policymakers, and other individuals who are concerned about the long-term health of companies. In addition to that, it contributes to the ongoing discussion on the ethical behaviours of corporations.

References

- Ansong, A. (2017). Corporate social responsibility and firm performance of Ghanaian SMEs: The role of stakeholder engagement. *Cogent Business & Management*, 4(1), 1333704
- Berkman, Henk, Michelle Li, and Hellen Lu. (2020). Trust and the Value of CSR during the Global Financial Crisis. *SSRN Electronic Journal*
- Chakroun, Salma, Bassem Salhi, Anis Ben Amar, and Anis Jarboui. (2019). The impact of ISO 26000 social responsibility standard adoption on firm financial performance: Evidence from France. *Management Research Review* 43: 545–71
- Chen, R. C. Y., & Lee, C. H. (2017). The influence of CSR on firm value: An application of panel smooth transition regression on Taiwan. *Applied Economics*, 49(34), 3422–3434.
- Gangi, Francesco, Mario Mustilli, and Nicola Varrone. (2019). The impact of corporate social responsibility (CSR) knowledge on corporate financial performance: Evidence from the European banking industry. *Journal of Knowledge Management* 23: 110–34.

- Kao, E. H., Yeh, C. C., Wang, L.-H., & Fung, H.-G. (2018). The relationship between CSR and performance: Evidence in China. *Pacific-Basin Finance Journal*, 51, 155–170. <https://doi.org/10.1016/j.pacfin.2018.04.006>
- Malik, Mahfuja, Md Al Mamun, and Abu Amin. (2019). Peer pressure, CSR spending, and long-term financial performance. *Asia-Pacific Journal of Accounting and Economics* 26: 241–60
- Naseem, T., Shahzad, F., Asim, G. A., Rehman, I. U., & Nawaz, F. (2019). Corporate social responsibility engagement and firm performance in Asia Pacific: The role of enterprise risk management. *Corporate Social Responsibility and Environmental Management*, 27(2), 501–513. <https://doi.org/10.1002/csr.1815>
- Phillips, Schavana, Vinh Thai, and Zaheed Halim. (2019). Airline Value Chain Capabilities and CSR Performance: The Connection Between CSR Leadership and CSR Culture with CSR Performance, Customer Satisfaction and Financial Performance. *Asian Journal of Shipping and Logistics* 35: 30–40
- Ruggiero, Pasquale, and Sebastiano Cupertino. (2018). CSR strategic approach, financial resources and corporate social performance: The mediating effect of innovation. *Sustainability* 5: 122
- Shekar, M. C., & Kumaran, R. (2019). Impact of CSR on firms' financial performance – A study by select Indian IT companies. *IPE Journal of Management*, 9(1), 85–94
- Soojeen, S. J., Ko, H., Chung, Y., & Woo, C. (2019). CSR, social ties and firm performance. *Corporate Governance: The International Journal of Business in Society*, 19(6), 1310–1323. <https://doi.org/10.1108/CG-02-2019-0068>
- Tarek, Yasmeen. (2019). The Impact of Financial Leverage and CSR on the Corporate Value: Egyptian Case. *International Journal of Economics and Finance* 11: 74.
- Williams, Revlon Orlando. (2020). Corporate Social Responsibility and Financial Performance of US Manufacturing and Service Small- and Medium-Sized Enterprises. *Walden Dissertations and Doctoral Studies Collection*.
- Yang, M., Bento, P., & Akbar, A. (2019). Does CSR influence firm performance indicators? Evidence from Chinese pharmaceutical enterprises. *Sustainability*, 11(20), 5656. <https://doi.org/10.3390/su11205656>