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THE NEXUS BETWEEN CSR AND FINANCIAL ACCESSABILITY: A COMPARATIVE ANALYSIS OF PAKISTAN & INDIA

*Zeshan Anwar¹, Hammad Hassan Mirza², Muhammad Jam e Kausar Ali Asghar³,
Muhammad Usman⁴*

¹ Associate Professor University of Central Punjab, Pakistan

² Assistant Professor University of Sargodha, Pakistan

⁴ Lecturer National University of Modern Languages, Pakistan

Corresponding Author: ³ Associate Professor Virtual University of Pakistan

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ABSTRACT

CSR emerged as a safeguard against financial scandals which contributes in financial accessibility and recently, the CSR practices have fascinated the shareholders and stakeholders across the world in this regard. This study aimed to determine relationship of CSR activities with financial accessibility for public listed firms in Pakistan and India by using the panel data of Pakistani and Indian non-financial firms over the period of 2016 to 2020. The findings depict that the CSR activities significantly and positively affects financial accessibility of organizations in both economies. This study reveals that the businesses with more CSR activities encounter comparatively fewer capital constraints and has improved financial accessibility. This research emphasizes the significant role of capital markets in evaluating the value creation capacity for the firms with better CSR policies. The stakeholders and legitimacy theories support this study as they motivate the businesses for improved CSR activities.

INTRODUCTION

The CSR related activities have attracted substantial consideration by the top management and academicians during the recent decades and a significant portion of their time and sources is being devoted to inclusion of social and environmental issues in organization's operations, and the collaboration with organizational stakeholders (EC, 2001). Now the CSR activities are the part of

organization's strategic planning in several countries, whereas, the businesses in developed economies have started to disclose the development of employees, involvement in community service and more importantly, the disclosure of CSR and environmental information in annual reports. There is considerable increase in the number of businesses which disclose their activities (Gray et al., 1995; Guthrie and Parker, 1989). El Ghoul et al. (2011) stated that currently, a large portion of investors consider the social and environmental performance of the firms while taking the investment decisions. Different researchers like Deegan and Gordon (1996); Mathews (1997); O'Dwyer (2001); Deegan et al. (2002); Murphy and Abeysekera (2008) and Clarkson et al. (2011) study the CSR in different markets, aspects and countries. Few studies have empirically investigated the association of financial performance with CSR activities like Griffin and Mahon (1997); McWilliams and Siegel (2000); Chen and Wang (2011) though their findings often depicted contradictory and mixed results.

The past empirical literature failed in clarifying whether CSR activities contribute in value creation, and if the answer is yes, then how? (Margolis, Elfenbein & Walsh, 2007). The knowhow and practices of CSR activities stay lower in India and Pakistan as the businesses in these countries voluntarily state CSR related activities and only few researchers have analyzed the CSR activities in both economies. Furthermore, there is a need to conduct a research to check the level of CSR activities and its influence on company's financial positions in both Pakistani and Indian markets. This research is intended to fulfill this gap and the primary objectives of this study is to examine whether CSR activities result in better financial accessibility for businesses in Pakistan and whether CSR activities result in better financial accessibility for businesses in India.

The rest of the study is arranged as follows: literature review is included in section 2; section 3 states the research methodology and research framework. The research findings have been discussed in section 4, while, the conclusion and future directions are described in section 5.

LITERATURE REVIEW

The empirical literature highlights different theories for explaining the CSR activities like agency, stakeholder; stewardship; legitimacy; institutional and political economy theories but there are two major theories which are used in explaining the CSR activities which consist of Stakeholder theory (Campbell, 2004 and Islam, 2009; Islam & Deegan, 2008; Elijido-Ten, 2007; Cowan & Gadenne, 2005; Smith et al., 2005; Elijido-Ten, 2004; Clarkson, 1995; and Roberts, 1992) and Legitimacy theory (Deegan et al., 2002; and Gray et al., 1995). These studies described the CSR activities with viewpoint of developed economies like USA, UK, Australia etc. The concept of CSR activities in Pakistani and Indian markets is changed as compared to the developed nations because the CSR activities in these economies are optional. This research examines the stakeholder and legitimacy theories to determine their suitability for CSR activities Pakistani and Indian context and to understand the implication of these philosophies in identification of CSR matters.

Firstly, the legitimacy theory provided by Guthrie & Parker (1989) explained that the management do the business in social order due to social contracts which illustrates their inclination in fulfilling their contracts. The researchers argued that legitimacy theory believe on the society's supremacy and emphasize on the relation between society and business. This theory directs the management to run the business according to the law to obtain the legitimate status within the society.

The empirical literature has commonly used this theory for explaining the relation of firm's financial performance with CSR activities. Several researchers have considered it to describe the purpose of businesses for engaging in the CSR activities and also to explain the means by which companies obtain and maintain their legitimacy. This theory can motivate the companies to reveal their social and environmental activities as it is discussed that the management will reveal their additional CSR activities if community or society will enforce them. This theory is very crucial for defining the public and environmental disclosures (Deegan, 2002; O'Donovan, 2000; and Deegan & Gordon, 1996).

Secondly, the stakeholder theory describes or enlightens the cause and interest of organizations to report their environmental and social activities. Freeman (2010) described that a stakeholder is a group or individual who may be affected or can affect the achievements of a company. The Stakeholders include a wider variation of groups engaged with firm. This theory is used to describe the motivation of companies for disclosure of CSR activities. This theory is based on the assumption that it can explain firm's magnitude and level of CSR disclosure. Several studies utilized this theory for explaining why organizations release social and environmental reports like Roberts (1992) exercised this theory for describing the disclosure of CSR activities to different groups of stakeholders. This research revealed that degree of disclosure for CSR activities is linked with stakeholders' influence, decision making attitude and financial performance of companies. Epstein & Freedman (1994) disclosed that more stakeholders now demand for environment and social reporting as compared to others fields of CSR activities. Ruf et al. (2001) found the connection of firm's social activities with financial performance by using this theory and described the impact of increase and decrease in social performance on business performance.

Corporate Social Responsibility Disclosure in Pakistan

Several studies have been conducted related to CSR activities in developed countries, whereas, only few investigations are performed for developing economies. Majority of international businesses have partnerships with non-governmental organizations with the intention of sustainable strategic agendas called as "Green Alliances" (Gunningham, 2001). Nonetheless, the businesses operating in Pakistan unfortunately have restricted information related to ethical and responsive behavior and there is also a weaker cooperation among different ecological groups to establish any alliance. The CSR activities and disclosure is at their early stage of development within Pakistan for the domestic businesses as well as MNCs.

The CSR is at its evolutionary stage and several businesses are stressing and more receptive of this idea in Pakistan. Yawar (2009) disclosed that more than 60 % of organizations contributed in charity, communal progress and donations for welfare and religious purposes. The businesses in Pakistan does not prioritize the CSR activities and also have various structures for the CSR activities. The firms have different opinions about CSR like 40% of the local businesses consider the tax payments as CSR activities; 30 % of the businesses relate communal welfare with CSR; while, for 15 % of the organizations believe that CSR is the well-being of their employees; 10 % think that CSR is related with working within those areas which are of firm's interest and only 5 % recognize that the activities related to social development are CSR (Anwar et. al., 2019). This study shows that businesses in Pakistan have different CSR definitions and comprehension. Still, the CSR consciousness is very low in Pakistan and consequently, it affects repute of Pakistani products in global markets.

Corporate Social Responsibility Disclosure in India

The matter of CSR has converted into a slogan for Indian businesses. Recently, specifically after enforcement of the New Companies Act of 2013 which demands from businesses to spend a minimum of two percent on CSR related activities from their average net profits. The CSR in India initiated during 1980s with obligatory disclosure on Energy Conservation in report of directors. Since then, the Indian market has strongly advanced in CSR field. SEBI made it compulsory for 100 listed companies to follow recommendations of NVG concerning social, economic and environmental issued by MCA during 2012 and to constantly disclose their CSR activities in BRR as part of their annual reports (SEBI, 2012). Since 2016, the BRR condition has been expanded to the 500 listed companies. The SEBI also described that failing to provide BRR should be inferred as a non-compliance of Clause 55 regarding listing agreements asking for severe repercussions like fines, severe penalties, suspension and even delisting of firms in case the noncompliance continues. Currently, the SEBI proposed and insisted the 500 listed firms to adopt reporting voluntarily from fiscal year 2017-18.

The empirical literature indicates that empirical research for CSR activities focused on the developed nations, whereas, fewer studies concentrated on developing economies. Particularly, only few researchers concentrated on Pakistani and Indian markets and investigated the impact of CSR on financial performance. According to the best of authors knowledge, there is no research which conducted the comparative analyses regarding the impact of CSR on financial accessibility for the Pakistani and Indian markets. This research conducts a comparative analysis for the impact of CSR activities on financial accessibility of the firms for the businesses in Pakistan and India.

RESEARCH METHODS

This research is a quantitative study and it uses the panel data for investigating the relationship of financial accessibility with CSR activities (Basheer, Ahmad, & Hassan., 2019; Hidthiir et al., 2019; Basheer et al., 2018; Basheer, Hidthiir, & Waemustafa, 2018; Basheer, Khan, , Hassan, & Shah, 2018;

Basheer et al., 2021). This study has employed the 2SLS regression model to analyze the panel data after detection of the heteroskedasticity and serial-correlation issues in dataset. The final sample of this study comprises of 80 listed firms on PSE in Pakistan and 80 listed firms on BSE in India based on requirements of this study. The required data have been obtained from CSR and annual reports and companies' websites from 2016 to 2020.

Hypotheses Development

The hypotheses have been formed on the basis of four CSR dimensions and financial accessibility along with an index of CSR activities and financial accessibility. Following are the hypotheses this study:

H1: The CSR is positively connected with financial accessibility.

H2: The Environmental activities are positively connected with financial accessibility.

H3: The Human Resource activities are positively connected with financial accessibility.

H4: The Product Related activities are positively connected with financial accessibility.

H5: The Community Related activities are positively connected with financial accessibility.

Measurement Of Variables

This study has considered the capital constraints as the dependent variable for determining connection of financial accessibility with CSR activities. The financial accessibility has been measured through degree of capital constraints which the companies faced (Ioannou, Serafeim and Cheng, 2014). The KZ index is utilized for measurement of capital constraints faced by organizations in empirical literature (Bakke and Whited, 2010; Almeida et al., 2004 and Lamont et al., 2001) which is constructed with help of Kaplan & Zingales method (1997).

The independent variable of this study is CSR activities for the companies which has been measured through the CSR Disclosure (CSR D) for estimating influence of CSR activities on financial accessibility of firms. The prior studies have suggested different methods for the measurement of CSR D which includes; the fortune reputational and social responsibility index, forced-choice survey instruments, content analysis of corporate documents, case study methodologies and Behavioral and perceptual. Current research has opt content analysis for examining the CSR disclosure as it is the highly feasible method for CSR D measurement (Guthrie & Abeysekera, 2006; Hackston & Milne, 1996;).

The CSR D information has been analyzed in annual reports of the companies in relevant sections like management report, chairman's report or shareholders letters along with separate CSR sections (if available). The companies' websites are also analyzed for getting the information relevant to CSR activities and disclosure. Furthermore, complete text in annual reports has

been analyzed through electronic search for identifying the information associated with CSR activities or with any of its categories like community, environment, human resources and product. This study has constructed a CSR index through equal weighted, a scoring method which assigns a point to each category of social responsibility disclosure. Afterwards, each firm’s disclosure points are accumulated with assumption that all items are of equal value and importance. The index for CSR activities and disclosure is formed based on empirical studies (Adams et al., 1998; Hackston and Milne, 1996; Archel, 2003; Gray et al., 1995; Williams and Pei, 1999; Patten, 1991; Purushothaman et al., 2000). The CSR in this research refers to disclosure for the 4 categories which were; environment related, community involvement, human resources, products and Consumers. Each category has different maximum score as compared to other categories like environmental disclosure has maximum score of 8; whereas, the product and consumers, community involvement and human resources disclosures has maximum score of 4.

This research has also employed few control variables which consist of leverage (LEV) variable to proxy for risk level of investors (Stulz, 1990; McGuire et al., 1988 and Jensen 1988) computed by dividing the total debt with total asset; firm size (SIZE) variable to proxy for company size computed by taking natural log of the assets (Toustsoura, 2004; Haniffa & Cooke, 2005). The following model examines relationship of financial accessibility with CSR:

$$KZ_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \epsilon_{it} \dots\dots\dots (1)$$

The table 1 discusses calculation of all variables as follows:

Table 1: Measurement of Variables

Variable	Measurement Method
Dependent Variable	
KZ _{it}	The KZ Index to measurement of capital constraints faced by firms
Independent Variables	
β ₁ CSR _D	f (Community, Environment, HR and Product)
Env _{it} (Environmental Disclosure)	The disclosure associated with eight sub-items of environment which is measured through individual firm’s scores.
Com _{it} (Community involvement)	The disclosure associated with four sub-items of community involvement which is measured through individual firm’s scores.
Prod _{it} (Product Related)	The disclosure associated with four sub-items of product which is measured through individual firm’s scores.
HR _{it} (Human Resource)	The disclosure associated with four sub-items of human resource which is measured through individual firm’s scores.
Control Variables	
β ₂ LEV _{it} (Leverage)	Total debt to assets.

β_3 SIZE _{it} (Company Size)	Natural log of assets
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The theoretical model used in this study has been presented in figure 1 as follows:

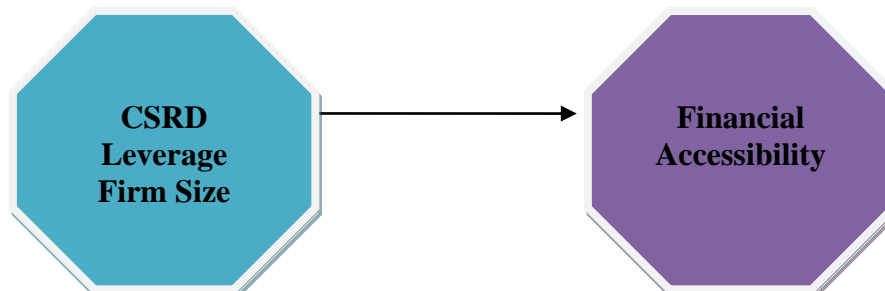


FIGURE 1: The Possible Association of CSR D, Control Variables and Financial Accessibility

EMPIRICAL RESULTS

The panel I of table 1 provides results for CSR D association with financial accessibility for Pakistani and Indian companies. The results for Pakistani businesses demonstrate that the CSR D variable significantly and negatively influence the capital constraints i.e., increase in CSR disclosure causes a decrease in financial constraints which results in improved financial accessibility for the Pakistani firms. The findings also suggest that leverage and firm size are significantly and positively associated with capital constraints i.e., larger companies and businesses with higher leverage face additional financial constraints which results in lower financial accessibility.

The panel II of table 2 provides the findings related to robustness of this regression model for the impact of CSR D variable on financial accessibility by examining the connection between individual categories of CSR disclosure namely ENV, HR, COMM and PROD together with LEV and SIZE control variables with financial accessibility. The outcomes indicate that the community and environment variables have significant and negative relationship with capital constraints for Pakistani firms which have more community and environmental CSR activities and disclosure face lower capital constraints which results in improved financial accessibility. The product variable significantly and positively associated with capital constraints variable which shows that those businesses which have more product related CSR activities and disclosure face more capital constraints which results in decreased financial accessibility. Furthermore, the control variables of leverage and firm size also have significant and positive influence on capital constraints. The overall results for the Pakistani market indicate that businesses with higher CSR activities and disclosure have less capital constraints and have better financial access. These findings are consistent with past empirical research (Hadlock & Pierce, 2010). Moreover, businesses with more community and environmental CSR activities and disclosure have fewer capital limitations in obtaining finance and they also access finance easily in comparison to other businesses in Pakistan.

Table 2: PCSE Model Results

VARIABLES	PAKISTAN		INDIA	
	FINANCIAL ACCESSABILITY (KZ INDEX)		FINANCIAL ACCESSABILITY (KZ INDEX)	
	Coef.	SE	Coef.	SE.
PANEL I				
CSR	0.325**	0.105	-.302***	0.217
SIZE	0.449*	0.102	.258**	0.214
LEV	0.864*	0.211	.932*	0.304
_CONS	-1.315	1.032	-1.628	1.174
PANEL II				
HR	-0.153	0.076	-0.45***	0.174
ENV	-0.265*	0.048	-0.245	0.141
PROD	0.317***	0.115	-0.33***	0.339
COMM	-0.473*	0.079	0.540*	0.113
SIZE	0.469*	0.112	0.484**	0.215
LEV	0.864*	0.205	0.943**	0.106
_CONS	-1.613	1.042	-1.407	1.153

***Significant at 1%, ** Significant at 5%, *** Significant at 10%**

The panel I of table 1 provides results for CSR association with financial accessibility for Pakistani and Indian companies. The results for Indian businesses illustrate that CSR significantly and negatively influence the capital constraints i.e., increase in CSR activities and disclosure causes a decrease in financial constraints which results in improved financial accessibility for Indian firms. The findings also suggest that leverage and firm size significantly and positively associated with capital constraints i.e., larger companies and businesses with higher leverage face additional financial constraints which results in lower financial accessibility in Indian economy.

The panel II of table 2 provides the results related to robustness of this regression model for the influence of CSR variable on financial accessibility by examining the connection between individual categories of CSR activities and disclosure namely ENV, HR, COMM and PROD together with LEV and SIZE control variables with financial accessibility. The outcomes indicate that the human resource and product variables have significant and negative impact on capital constraints for the Indian firms which shows that those business which have more human resources and product related CSR activities and disclosure face lower capital constraints which results in improved financial accessibility. The community variable is significantly and positively associated with capital constraints variable which shows that those businesses which have more community related CSR activities and disclosure face more

capital constraints which results in decreased financial accessibility. Furthermore, the control variables of leverage and firm size also have significant and positive influence on capital constraints. The overall results for the Indian market indicate that businesses with higher CSR activities and disclosure have fewer capital constraints and have better financial accessibility. The findings are consistent with past empirical research (Ioannou & Serafeim, 2012). The results further suggest that businesses with more human resources and product related CSR activities and disclosure face fewer capital constraints in obtaining finance and they also access finance easily in comparison to other businesses in India.

The results regarding association of CSR with financial accessibility for Pakistani and Indian firms are almost similar except the fact that for Pakistani market, the important individual CSR factors include environment, community and product related disclosures, whereas, for Indian market, the important individual CSR factors are human resources, product and community related disclosures.

For examining the endogeneity issue in regression models for Pakistani and Indian markets, this study has employed the 2SLS model in which community variable has been considered as the instrumental variable. The Durbin and Wu-Hausman endogeneity tests have p-values of more than 0.05 which are insignificant for both countries, therefore, the null hypothesis which states that endogeneity issue does not exist in Pakistani and Indian economies has been accepted. So, it is concluded that endogeneity issue does not affect these regression models, consequently, the PCSE regression model is more suitable. Accordingly, the PCSE results are considered for examining the association of financial accessibility with CSR activities and disclosure in Pakistani and Indian economies.

CONCLUSION

This research explores whether improved CSR activities and disclosure results in superior financial accessibility for Pakistani and Indian markets. This research concludes that those companies which have more CSR activities and disclosure face lesser capital constraints which leads them to improved financial accessibility both in Pakistan and India. Dhaliwal et al., (2011) stated that those business which have superior CSR performance, they will be more open to report their CSR activities and consequently they will have more transparency. The companies need more transparency to minimize the perceived investment risk as it will reduce the information asymmetry between the company and its investors.

This research shows that businesses with higher CSR activities and disclosure will have relatively less steeper finance supply curve. The findings of this study proved that companies having superior CSR activities and disclosure are in a better position to get financing from financial markets as they have fewer capital constraints. Subsequently, reduction in capital constraints have positive effect on company's ability to accept valuable investments that could not be accepted otherwise and it will also have positive impact on stock performance (Lamont et al., 2001). This study has contributed in literature which indicates

crucial role of capital markets in evaluation of companies' potential for long-run value creation with the help of superior CSR activities and disclosure (Goss and Roberts, 2011; El Ghoul et al., 2011; Lee and Faff, 2009). This research proved that better CSR activities and disclosure have significant impact on allocation of capital in both countries and the participants of capital market allocate scarce capital sources to those firms which have superior CSR activities and disclosure. Therefore, if a company has more CSR activities and disclosure, then it will face lesser capital constraints and have better accessibility to finance.

This research also has few limitations: firstly, the future researchers can discover whether better financial accessibility influence type of strategic investments by the companies like the businesses having improved CSR activities and disclosure consider the social and environmental and social considerations in their goals. Secondly, the future studies should clarify how voluntary engagement of companies in CSR are assessed, recognized and capital markets punish or reward such firms. Thirdly, current study considered Pakistani and Indian non-financial companies, whereas, the researchers can use larger sample from more markets along with more time periods as it will help in understanding the CSR nature and influence on financial accessibility in other economies.

Finally, the findings of this research also provide crucial implications for top management and executives in current business environment as now the public appreciates the ethical, transparent and honest business activities and increasing number of CEOs consider the CSR activities and disclosure as strategically critical factor for growth of their businesses.

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