



**RESEARCH PAPER**

**The Interplay between Corporate Social Responsibility on the Firm Value and the Risk-Taking through Government Support**

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**ABSTRACT**

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This study aims to investigate the impact of corporate social responsibility on the value of firm and risk-taking. It also takes into account the moderating role of government support. The stakeholder perspective theory and the resource-based theory were applied to explain the relation of the variables. All the non-financial companies listed on Pakistan stock exchange are the population of study and data were collected from the annual report of companies through a convenience sampling technique. The study used the panel data based on the results of Hausmann test's result. The study used Stata software for data analysis. Corporate social responsibility has an impact on firm value and risk taking through the moderating effect of government support. The study finally renders theoretical and practical implications. Current research work adds the exiting literature highlighted they importance of corporate social responsibility in the value of firm and risk-taking in the Pakistani context.

**Introduction**

The Corporate social responsibilities (CSR) are a crucial part of conducting business ethically. The history of corporate social responsibility is as old as the existence of business (Baron, Harjoto & Jo, 2011). It is required for the companies to behave in social acceptance ways, and it has intensified in the present area. The comprehensive set of policies, as well as programs, have formulated and exercised by the companies who are socially responsible (Oikonomou, Brooks & Pavelin, 2012). CSR has an influence on the goodwill of the company, and due to this, the financial value and other aspects of the business get influence (Harjoto & Laksmana, 2018). CSR is considered crucial for gaining footing in the market and, the same has discussed in this work. The companies who are exercising CSR activities are noticing the increase in the financial performance of the companies (Erhemjams & Venkateswaran, 2013). Further, CSR activities help the companies to decrease the risk in the business and eventually, it leads towards the growth in the operations of the companies (Goss & Roberts, 2011). The government support can be in the form of fewer taxes or exemption in the taxes for some time for the companies operating in a

specific territory. The financial value of the companies get influence from the many things, and one of them is the support from the government (Wu, 2017). The risk depicts the deviation from expected return and, CSR is termed as the promise to do the operations for improving the economic development and also to improve the living standards of the societies (Holme and Watts, 2007).

The clear relationship between CSR and the firm value of the organizations is necessary for promoting CSR in communities, commercial companies and countries (Boaventura, Silva & Bandeira-de-Mello, 2012). There are some of the studies which have conducted on the association of CSR, and the value of the companies, the positive as well as the negative association have explored between these two variables in past literature (Barnett & Salomon, 2012). Furthermore, some of the studies have denoted the mixed results, and this is the motivation for our study to denote this association in the context of the Pakistan in a clear way. CSR has made crucial for all the financial and non-financial companies of Pakistan (Yasir et al., 2013). The current work has chosen the non-financial sector due to working of this sector at the peak in Pakistan because of massive infrastructure development and other manufacturing developments have carried out in this sector and the non-financial sector is trying to fulfill the domestic and foreign need. We want to know whether CSR has followed in non-financial sector of Pakistan or not and what is its impact on the value and risk-taking abilities.

The use of CSR in the companies has intensified since the last 20 years due to its role for firm value and risk-taking as well. The companies are valuing CSR at top priority due to the role played by CSR for reducing the risk in the operations of the business (Boaventura et al., 2012). The opponents of these activities claimed that the primary aim of the business is to earn the profit for its shareholders and in the case of CSR activities, the profitability can reduce. On the other hand, some proponents say that it is the responsibility of the corporations to satisfy the needs of the investing stakeholders and non-investing stakeholders as well (Bowd, Bowd & Harris, 2006). Therefore, the management of the stakeholders of the business is a critical task for the managers to balance the interests of the business's stakeholders.

The relationship of CSR and the risk taking has also studied in past literature, and it is intending to know whether the use of company's resources to address the social issues decrease the risk taking activities of the firms (Harjoto et al., 2018). It has explored that CSR involvement carries the cost and managers are using the resources for CSR activities which can be used for increasing the value of the firms by investing in the risky projects. Therefore the managers are taking the risk of running the business and also for increasing the wealth of the real owners of the companies (Ayadi, Kusy, Pyo & Trabelsi, 2014). The examination of the link between CSR and the risk taking is considered good because it gives a deep understanding between how the managers use the resources of the companies. It has documented that CSR can reduce the risk taking in the case when the corporate risk taking is high, and it can increase the risk taking when the risk taking level is low, and in this way, it guides the managerial decision concerning the risk taking in the organizations (Bargeron, Lehn & Zutter, 2010).

CSR acts to reduce the risk taking in the corporations, and eventually, it increases the status of the business in the real business environment. A study by the

Ayadi (2014) has denoted that higher CSR activities denote the higher level of risk taking as compared to the situation when CSR performance is low.

The firm value of the companies has also influenced through government support from the companies (Anh, Mai, Nhat, & Chuc, 2011). The government support for the companies has wide discretion concerning the investment of business fund (Nguyen & Van Dijk, 2012). Therefore the government support can influence the value of the companies and also the level of risk in the company (Vu, Tran, Nguyen, & Lim, 2018; Cowling, 2010; Rotger, Gortz, & Storey, 2012). According to the resource-based theory, the image of the business in the market can improve by having more resources and through making profitable investment and avoids the excessive risk taking. The study of the impact of government support on the link of CSR activities with value and risk taking of firms is the uniqueness of this study. There is less number of studies which are exploring the influence of the government support on CSR investment (Guay, 2003). To the best of my knowledge, this is the first study which is denoting the association between CSR activities, firm value and performance, and risk taking with the moderating role of the government support.

## **Literature Review**

### **CSR Activities and Firm Value**

Furthermore, the association of CSR activities and the value of the companies have explored in the context of Pakistan, and descriptive statistics, correlation and the regression analysis have done so that the right inferences can become possible for the phenomenon under discussion (Iqbal et al., 2012). The mixed results have denoted in this study concerning the association of the firm value and CSR activities of the companies. Furthermore, in another study, the association of the firm value and performance of CSR has studied in the context of Pakistan (Mujahid & Abdullah, 2014). The dependence of the value of the firm on CSR performance has explored in detail form. The study included the ten companies with a good reputation on CSR activities and with another ten companies with the least reputation with CSR activities and the difference in the performance of these two companies has studied. The proxies used for measuring the value of the firms have included ROE, ROA and EPS (earning per share) for both categories of the companies included in the study. The results of the study have denoted that there is a positive association between CSR activities and the value of the companies in the long run and more positive effect have explored for those companies who are doing CSR activities at the priority level as related to another group of companies where CSR activities are at least level.

Furthermore, in another study the link of CSR activities and the value of the companies have studies, and total six companies were included in the study as a sample of the study (Siddiq & Javed, 2014). The perceived CSR and also perceived stakeholders relationship are taken as the independent variables and ROA, and ROE is taken as the dependent variable of the study. The descriptive statistics, correlational analysis and the regression analysis, have done for exploring the results of the proposed relationship of the study. The negative, as well as insignificant association, has denoted in this study for the variables included in the final model of the study.

The impact of CSR on gross sales and the profit of the companies listed on the American stock exchange has explored (Palmer, 2012). The results of the study have denoted that CSR has a positive impact on the value of the companies in terms of increase in the gross margin, but a decrease in the sales activities has denoted. The results of another study in the context of USA has denoted that CSR has a positive impact on the value of the firms (Jacson & Hua, 2009). The top ten companies with a good record on CSR activities have included in this study of work. Similarly, the same result has denoted in other works conducted on association of CSR and overall all wealth of the firms (Cheung and Mak, 2010; Choi et al., 2010). The hypothesis has proposed based on the literature explored in the above section.

H<sub>1</sub>: CSR has a positive impact on firm value.

### **CSR Activities and Risk-Taking**

The association of CSR and the risk-taking has explored in past literature, and it has denoted that companies who are doing CSR activities are reducing the risk both internal as well as external faced by the firms in the organizations. The companies who are doing CSR activities are noticing the decrease in the risk-taking in the firms. The decrease in the risk-taking, as well as improvement in the image of the companies, have been noticing in past literature. The results of the study have denoted that there is a negative association between the risk-taking at firms and CSR activities (Frederiksen, 2018). The link of CSR and the risk-taking has also considered in past literature, and it intends to know whether the use of company's resources to address the social issues decrease the risk-taking activities of the firms (Harjoto et al., 2018). The results of another work have denoted, that CSR involvement carries the cost and managers are using the resources for CSR activities which can be used for increasing the value of the firms by investing in the risky projects. However, the managers are taking the risk of running the business and also for increasing the wealth of the real owners of the companies (Ayadi et al., 2014). Furthermore, the link between CSR and the risk-taking is documented because it gives a deep understanding between how the managers use the resources of the companies. Therefore the results denote that CSR can reduce the risk-taking in the case when the corporate risk-taking is high, and it can increase the risk-taking when the risk-taking level is low, and in this way, it guides the managerial decision concerning the risk-taking in the organizations (Bargeron, Lehn & Zutter, 2010). Therefore based on the discussion explored in the above section, the negative association has denoted between CSR activities and the risk-taking in the firms.

H<sub>2</sub>: CSR has a negative impact on the risk taking.

### **Government Support, CSR Activities and Risk Taking**

The association of CSR and the government support has studied in past literature, and it has explored that the government involvement is ensuring the use of CSR strategies in the best interest of the organisations (Shin, Jung, Khoe & Chae, 2015). Therefore in this way, the positive association of the government support with CSR strategies implementation has explored. On the other hand, some of the studies are denoting the negative impact of the government support on the value of the companies with some studies have mixed findings (Morris & Stevens (2010).

The risk-taking is necessary to some acceptable level but too much risk-taking is not considered good for the health of the companies because due to it the long term survivability of the companies affected. The corporate governance of the companies acts on behalf of the owners and they try to satisfy the real owners of the companies so that the operations of the companies flow in the best interest of the business owners (Marques, Correa and Sapriza, 2013). In gist, we can say that government support has the positive as well as a negative impact on the value of firm and risk-taking of the companies. Therefore based on the literature explored in the above section, the proposed hypothesis are as follows.

H<sub>3</sub>: The government support moderates the relationship between CSR and firm value.

H<sub>4</sub>: The government support moderates the relationship between CSR and risk taking.

### **Theoretical model of study**

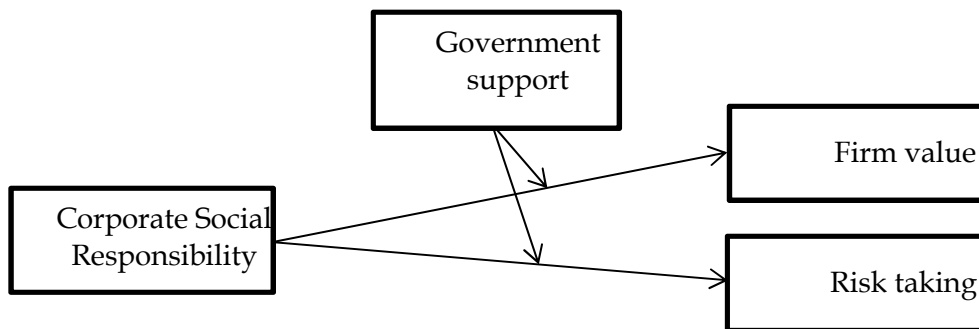


Fig: 1: Model of study

### **Material and Methods**

This section provide detail about the proposed methodology of the study in brief form. Therefore from this, the complete methodology has provided for the phenomenon under discussion.

### **Dataset and Sample**

This section provides information about the dataset of the study. The data used in the study is secondary data, collected from the website of the companies and Pakistan Stock Exchange. The secondary data is easy to extract and make available as related to the primary data because although the primary data is made available in more time, it can provide fresh information about the investigated phenomenon. The data of the study is also panel because of both the cross-section as well as the time change for the data included in the final study.

### **Standard Deviation of Return on Asset**

The first measure is defined as a standard deviation of return on assets. This variable measures management decisions on corporate operational risk taking.

Following Harjoto and Laksmana (2018); and Acharya et al. (2011), STDROA is measured as the standard deviation of industry adjusted return on assets (ROA), where ROA is earnings after interest and taxes divided by assets (Chakraborty, A., Gao, L. S., & Sheikh, S. (2019).

This accounting-based measure has used in present work, and is defined as ROA is industry-adjusted by subtracting the industry median ROA from a firm's ROA in each year

### Volatility

The second measure of risk taking is VOL (volatility) of stock returns considered as the market risk measure. Following previous studies (e.g., John et al., 2008; Acharya et al., 2011; Bova and Pereira, 2012; Faccio et al., 2011; Harjoto and Laksmana, 2018, Acharya et al., (2011), Chakraborty, A., Gao, L. S., & Sheikh, S. (2019) VOL is measured by using standard deviation of daily stock returns for the fiscal year

## Results and Discussion

### Summary statistics

**Table 1**  
**Summary Statistics of Variables of the study**

	Obs	Mean	Std.	Min	Max
Tobin's Q	2050	1.6903	16.8079	0.2282	637.5094
ROA	2050	0.0449	0.4856	-1.9606	21.4488
Z-Risk	2050	7809506	43200000	-25100000	994000000
Earning variability	2050	4.7173	10.0543	0.0000	105.1270
CSRT	2050	954000000	8710000000	984	170000000000
CSRTC	2050	740964	1946475	0	29400000
CSRER	2050	81234	3677966	-1101	167000000
CSREN	2050	0.0753	0.8144	0.0000	27.7778
CSRD	2050	0.1175	0.4278	-6.1703	8.7023
CRSCR	2050	2.2335	2.3941	0.4155	59.4060
GS	2050	0.0000	0.0000	0.0000	0.0000
LOA	2050	3.4613	0.4843	0.0000	5.0499
LTA	2050	14.9966	1.4177	9.1551	20.1949
LEV	2050	0.1741	0.1691	0.0000	1.5182

Table 1 shows the summary statistics of all the variables of this study. There is a total of 15 variables that are considered for this study which includes four dependent, seven independent variables, one moderate, and three control variables. summary statistics include the total number of observations, mean, standard deviation, minimum, and maximum of each variable. The result shows that there are 2050 observations for each variable of the study. Additionally, the mean of Tobin's Q is 1.6903 with a standard deviation of 16.8079 and the mean of ROA is 0.0449 with a

standard deviation of 0.4856 which shows that the mean of Tobin's Q is high than ROA. In addition, Tobin's Q has a high risk than ROA. In the same way, other variables could be explained. Further, the minimum shows the minimum value, and the maximum shows a high value for each variable.

**Table 2  
Correlation**

	Tobin's Q	ROA	Z-risk	Earning variability	CSRT	CSRTC	CSRER	CSREN	CSRSD	CRSCR	GS	LOA	LTA	LEV
Tobin's Q	1													
ROA	0.004	1												
Z-risk	0.000	0.036	1											
Earning variability	-0.020	-0.051	-0.084	1										
CSRT	0.003	-0.003	-0.015	-0.013	1									
CSRTC	0.010	0.045	0.783	-0.124	-0.023	1								
CSRER	0.000	-0.091	-0.004	0.081	-0.001	-0.008	1							
CSREN	0.000	0.006	-0.005	0.048	-0.005	-0.003	-0.002	1						
CSRSD	-0.009	0.109	0.295	-0.130	-0.016	0.299	-0.225	-0.007	1					
CRSCR	0.002	0.041	0.100	-0.124	-0.015	0.077	-0.014	-0.007	0.118	1				
GS	.	.	.	.	.	.	.	.	.	.	1			
LOA	-0.072	-0.018	0.101	-0.164	0.024	0.123	-0.024	0.040	0.052	0.085	.	1		
LTA	-0.114	0.009	0.375	-0.265	-0.034	0.507	-0.065	-0.036	0.262	0.081	.	0.148	1	
LEV	0.020	-0.093	-0.066	0.299	-0.018	-0.064	0.100	0.058	-0.123	-0.266	.	-0.117	-0.074	1

Table 2 shows the correlation between the variables of this study. The results indicate that Tobin's has a positive correlation with ROA, z-risk, CSRT, CSRTC, CSRER, CSREN, CRSCR, and LEV, while has a negative correlation with the remaining variables; however, the strength of the correlation is low. Additionally, ROA has also a low positive and negative correlation with variables. Z-risk has a low correlation with variables except for CSRTC and firm size, with the firm size the strength of the correlation is moderate, while with CSRTC, z-risk has a strong correlation. However, financial support did not shows any correlation with other variables that might be due to lack of support from the government and in most cases, the government has not shown any financial support to firms. The financial is zero for most of the first and due to which the correlation does not provide any significant value. Further, the remaining variables indicate low or moderate correlation and there is no issue of multicollinearity.

**Table 3  
Random Effect Model (Tobin's Q)**

	Coef.	Std.error	t-stat	P-value	R-square	F-stat	P(F)
<b>Random Effect</b>							
CSRT	0.000	0.000	0.080	0.939			
CSRTC	0.000	0.000	4.780	0.000			
CSRER	0.000	0.000	-0.420	0.000			
CSREN	-0.008	0.453	-0.020	0.000			
CSRSD	0.481	0.946	0.510	0.612			
CSRP	0.221	0.174	1.270	0.000			
GS	0.000	(omitted)					
LOA	-1.735	1.158	-1.500	0.134			
LTA	-4.615	0.430	-10.720	0.000			
LEV	-0.191	2.657	-0.070	0.943			

$\alpha$	75.424	7.041	10.710	0.000
				0.0207

CSR, CSREN and firm size are significant, while all other variables are insignificant. In a study of Kiran et al., 2015 authors also found the Significant relationship of these variables. Government support is omitted in this equation also, and the reason might be the same as discussed above. Further, the r-square value shows that 2.07% variation in firm value which is measured by Tobin's Q is explained by variations in exploratory and controlled variables of this study

## Conclusion

CSR is an essential part of the company's ethical activity. The company's history of social responsibility is as ancient as the company. The companies must be socially acceptable and have stepped up in the current area. The comprehensive policy set and programs have been formulated and implemented by socially responsible companies. To promote CSR in communities, business enterprises, and countries, clear links between CSR and the strong value of the organizations are essential. Some studies on the association of CSR have been carried out and in past literature, the value of companies, the positive and the negative combination of these two variables have been explored. In addition, certain studies have shown mixed results, which is why our study identified this association in Pakistan. For all Pakistan's financial and non-financial companies, CSR has been crucial. Due to the work of the non-financial sector at its peak in Pakistan, massive development of infrastructure and other product developments in this sector have taken place and the non-financial sector seeks to satisfy domestic and foreign needs. We want to know whether or not CSR has been implemented in Pakistan's non-financial sector and the impact it has on value for money and the capacity to take a risk. Its main objective is to explore the role of government support in the Pakistan non-financial sector and the influence of corporate social responsibility on value and risk-taking. The present paper has study the impact of CSR on corporate value and risk management by moderating the role of government support for non-financial firms listed on the stock exchange of Pakistan. Companies must demonstrate social responsibility in a globally competitive environment. It has been noticed that participation in socially beneficial programs is one of the approaches that organizations use to achieve a competitive advantage. The multinationals in the respective countries have left no choice but to use CSR so that the players perceive it as a good factor also for society. The companies are directed to carry out CSR activities because various government regulations have been formulated concerning environmental safety and labor laws and if the companies breach them, they pay the high cost. CSR is gaining competitive advantages, as the growth of CSR activity helps businesses to develop their relationships with different players. Eventually, this process reduces transaction costs and promotes market opportunities and price premiums. In past literature, it became clear that there was a positive link between the activities of CSR and their firm value. This study uses secondary data to examine these relationships because it is collected from the companies' websites. The secondary data are easy to extract and make available for primary data as it provides new information regarding the studied phenomenon, although the primary data is available in more time. The study data are also panel due to both the cross-section and the change in time for the data contained.



The study used the nonprobability sample method because only companies that have full data on all the included variables and are easily accessible are included in the final sample. In particular, the comfort sampling technique for data collection was used in this study. Thus data gathered from the company's annual reports in the final sample. These results show that CSRER, CSREN, and corporate size, leverage, and earnings variability are closely related to CSRER and leverage and that CSRER and corporate age have a strong negative connection to earnings variability in line with a fixed-effect model. The results of this study further explain that government support interactions with the forecasters and control variables all fail, showing that they differ for a while and that government support has no moderate role to play in CSR relationship with the value of the company. This research further contributes to the fact that CSRER has a very small but statistically significant coefficient, which suggests that CSRER has a significant, but positive and slight impact on the company's assets. At a significance level of 0.05, all other variables are insignificant.

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