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Is CSR used as an information supply to improve investment efficiency?

Research Proposal

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Abstract

This study examines the impact of corporate social responsibility (CSR) disclosure on firm-level investment efficiency. Investment efficiency is estimated based on existing models and we make further investigations on two scenarios which are under-investment and over-investment. We question whether the quality of financial report should be included in the model as a moderate variable. Using data from a panel sample of 120 firms between 2010 and 2015, we find that (1) CSR and investment efficiency have a significantly positive correlation in general, and a higher level of investment efficiency for CSR firms than for non-reporting firms. (2) However, positive relationship is more pronounced in the over-investment scenario than in the under-investment scenario. (3) In addition, we observe relatively stronger impact of CSR actions on firms' investment efficiency in case of poor financial reporting quality (FRQ).

Key words: CSR; Investment Efficiency; Financial Reporting Quality

1. Introduction

1.1 Problem statement

The traditional development model is unsustainable, the enterprise is no longer exists only for the production of products, services and products still need to have the spirit and better care for employees, increasing investment of environmental protection, contribute to society and so on, only in this way can the enterprise achieve sustainable development. And it's all about social responsibility which is one of the most important ways to realize China's economic transformation and industrial upgrading. It is an important way to realize the internationalization for Chinese enterprises. CSR report presents the blowout growth in our country from 2009, but the quality of the content and form design remains to be improved. Information users are not able to effectively identify company characteristics, reduce the efficiency of information transmission. The reason is that the disclosure of CSR reports is due to the demands of the regulators and the pressure from public opinion, not completely voluntary disclosure which means lack of intrinsic driving force.

Distortion of allocation and lower investment efficiency also affects the company's sustainable development. While some enterprises have excess capacity, they cannot meet the increasing high-level demands. Some companies have innovative ideas that cannot be industrialized. Considering this kind of phenomenon, the former reason is chose inappropriate investment projects. The latter reason is lack of money. All above lead to investment efficiency problem of the financial information Shanghai and Shenzhen Stock Exchange made a clear emphasis "Listed companies that needs to restructure to refinance will and fulfill social responsibility, Encouraging capital providers to avoid the firms lack of CSR". If companies ignore its social responsibility and disclosure of information, they are likely to affect the investment and financing of the enterprise.

Therefore, CSR report as an important factor to understand the non-financial information of enterprises which improve the efficiency of investment. This study discusses the correlation between CSR disclosure and investment efficiency, which is helpful to increase the company's initiative to disclose social responsibility report.

1.2 Statement of the research objectives

Accordingly, this study mainly summarizes the possible relationship between CSR and investment efficiency with financial report. The following tasks will be addressed: (1) by providing strong and consistent evidence on the relation between CSR and investment, we could focus on how CSR provide effective incremental information; (2) evidence from this study can help standard-setters and regulators better understand firms' business practices and reporting behaviors in light of CSR.(3) It enriches the economic consequences of CSR disclosure and effectively complements the research on the impact of the disclosure of CSR on investment efficiency.

1.3 Definitions of terms

Social responsibility refers to an organization's responsibility to society. An organization should operate and manage in a socially advantageous way. Social responsibility usually refers to the organization's social obligations that are higher than the organization's own goals.

Investment efficiency refers to the achievements of effective corporate investment and consumption or occupy the ratio of investment amount, which is enterprise income and investment activities, the proportion of output and input. When there is plenty of resource, give up the project with a positive net present value (inadequate investment), and the company resources for projects with negative net present value (over-investment)

2. Review of the relevant literature

2.1 CSR disclosure

Numerous studies have shown that reducing information asymmetry can improve the efficiency of the company's investment(Benlemlih, 2005). With the growing demand for corporate information, information users of the company's traditional financial information has been unable to meet the requirements of their decisions, non-financial information arises at the historic moment, the attention of all walks of life gradually (Dhaliwaletal., 2011). AICPA, FASB and CICA have published a series of research reports aimed at encouraging listed companies to voluntarily disclose more non-financial information. The China securities regulatory commission has also enacted laws and regulations to demand and encourage listed companies to disclose more non-financial information. Studies as Glosten and Milgrom (1985) show that voluntary disclosure by listed companies can diminish information asymmetry and improve corporate transparency. Hughes (1986) believes that the voluntary disclosure of the company can deliver useful information to outside information users, thus helping investors make more correct decisions. Schrand and Verrecchia (2004) also showed significant negative correlation between voluntary disclosure and information asymmetry. Muslu (2011) believes that the voluntary disclosure of enterprises can reduce the forecast error of analysts and reduce the level of information asymmetry. In the resent study of Wang and Berens (2015), CSR has been recognized in previously defined by Carroll (1979, 1991) four types of CSR performance (i.e. economic, legal, ethical and philanthropic). They found out that each type of performance affect financial performance differently, additionally they distinct the impact on corporate reputation among public and financial stakeholders groups.

2.2 CSR and investment efficiency

A few scholars systematically study the relationship between CSR and investment efficiency. Managers should treat decisions regarding CSR precisely as they treat all investment decisions (McWilliams, Siegel, 2001). A contingent perspective argues that although all CSR activities are not profit maximizing, some may be, and so the careful use of CSR can fulfill management's fiduciary responsibilities (Barnett, 2007). Cao Yayong etc. (2012) argue that social responsibility promote the healthy development of corporate governance, multivariate joint governance structure composed of stakeholders can inspire each contract subject to achieve effective supervision conduct of the business. Xie(2013) does the empirical research on CSR and the relationship between the investment efficiency, found the better CSR, the smaller external financing gap, and the lower the investment inefficiency. Benlemlih(2005) finds strong and robust evidence that high CSR involvement decreases investment inefficiency, and suggest that CSR components that are directly related to firms' primary stakeholders (e.g., employees' relations, product characteristics, environment, and diversity) are more relevant in reducing investment inefficiency as compared to those related to secondary stakeholders. Bhandari(2017) indicates that the effect of CSR is moderated by the assumed level of agency conflict, stakeholder engagement, as well as financial slack. Samet and Jarboui(2017) show that firms with high CSR performance invest more efficiently. Focusing on under-investing firms, they highlight that CSR performance enhances their investment levels through mitigating information asymmetry. In contrast, for over-investing firms, CSR performance reduces investment excess through mitigating free cash flow problems.

2.3 Summary

This part collates the relevant literature on the economic consequences of CSR. First of all, previous studies have focused on the information disclosure of CSR on corporate performance, corporate value and the influence of the cost of capital, but the relationship between CSR disclosure and investment efficiency is less. Second, the information disclosure of the impact on the efficiency of investment research mainly focused on the influence of the financial information on the investment efficiency, although have a little social responsibility information disclosure affect the study of investment efficiency, since the lack of theory transmission mechanism analysis, prior studies did not take the financial reporting quality into account which leads to heterogeneity of CSR disclosure on investment efficiency. Finally, in the research on the corporate non-efficiency investment governance mechanism, the scholars mainly study on cash dividend, debt management and corporate governance. In fact, CSR disclose a kind of aims to alleviate the information asymmetry degree of mechanism, in the listed company, shareholders, creditors and other stakeholders have set up a bridge of communication through CSR. Based on this, the paper enriches the theory of CSR and investment efficiency, and increases the way to govern non-efficiency investment.

Accordingly, this paper intends to show the positive consequence of CSR in two aspects: under-investing and over-investing. What’s more, we discuss the relationship with moderation of financial report.

3. Hypothesis

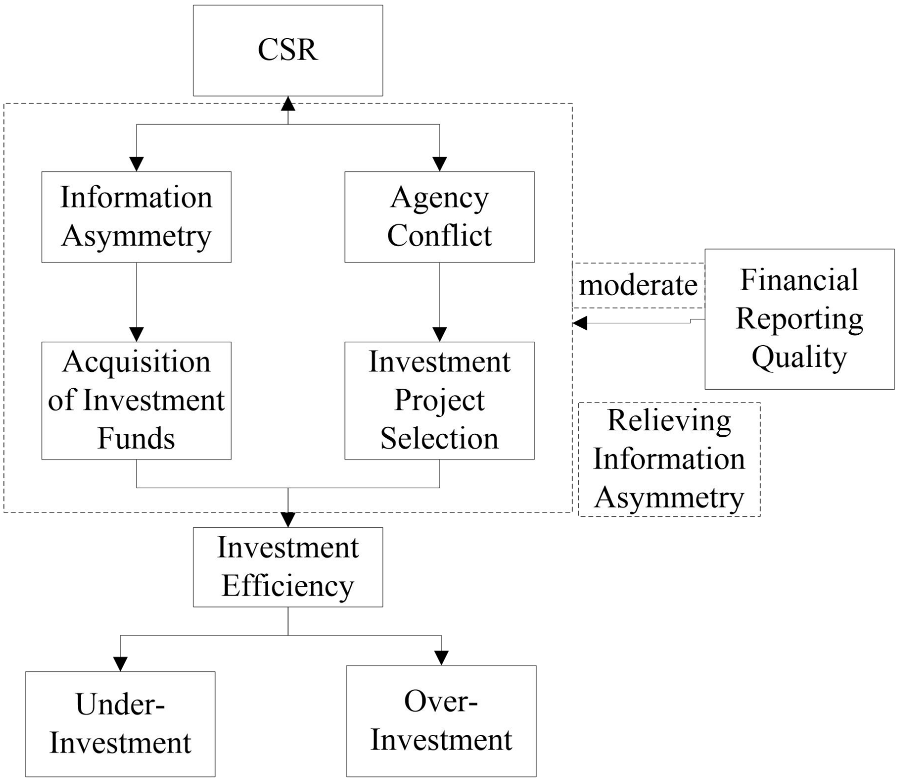

Figure 1 Conceptual Model

3.1 CSR and investment efficiency

Managers can use information asymmetry in investment projects for personal interests and tended to excessive investment (Samet, 2017). CSR will not only help to weaken the information asymmetry, but also reduce external capital cost and improve investment efficiency (Benlemlih,2005). It can also establish a good corporate image and make it easier to get money in the capital market. On the other hand, the disclosure of CSR report can supervise managers' investment behavior mainly through the social responsible information which can influence the distribution of internal resources of enterprises.

For example, the industry involved in pollution disclosure of CSR are required to disclose relevant environmental inputs, so it will force managers to consider future investments in environmental protection. This allows, in enterprise with excessive investment, Due to the constraint of enterprise resources, pressure of the stakeholders force managers to consider more funds allocated to current and future social responsibility activities, correspondingly inputting less money on excessive investment in the project.

But, in the lack of investment enterprises, the requirements of corporate social responsibility activities will let the new capital supply squeezed, and thus reduce the CSR marginal utility. In this case, the role of CSR on the investment efficiency is relatively weak. Therefore, this paper makes the following assumptions:

H1: CSR can improve enterprise investment efficiency, especially in enterprises with excessive investment.

3.2 Relationship moderated by FRQ

CSR weaken the information asymmetry and agency conflict, however, the financial information system is the main channel for external stakeholders to obtain information, the quality of the financial statements can effectively weaken the information asymmetry in stock market, and strengthen corporate governance. If information asymmetry between internal and external enterprises has been effectively filled by information provided by the financial report, CSR may have little effect. For another word, when the financial information of the enterprise has satisfied the needs of stakeholders, the marginal utility of CSR is weak. The paper argues that CSR can have a significant impact on investment efficiency if the company's financial report cannot meet the demand of report users completely and effectively. Therefore, this paper makes the following assumptions:

H2: In the case of poor quality of financial report, the higher the CSR score, the more obvious effect on investment efficiency.

4. Method

4.1 Data

This paper selects a sample of listed Chinese firms during the period from 2010 to 2015. The source of CSR score is from a responsibility rating company (RKS) website, other data sources are from CSMAR, CCER and WIND database. Stata15.0 and Excel 2010 are used for processing data.

4.2 Operational definitions of all variables

4.2.1 Measurement of investment efficiency

This paper uses the Richardson (2006) model to measure investment efficiency. If the actual investment scale of the company is larger than the optimal investment scale estimated by the model, the residual difference will be greater than zero, indicating that the enterprise is overinvested. On the contrary, the actual investment scale of the company is smaller than the optimal investment scale estimated by the model, and the residual difference is less than zero. The Richardson model is as follows:

$$I_{i,t} = \beta_0 + \beta_1 Q_{i,t-1} + \beta_2 LEV_{i,t-1} + \beta_3 Cash_{i,t-1} + \beta_4 Age_{i,t-1} + \beta_5 Size_{i,t-1} + \beta_6 \mathrm{Ret}_{i,t-1} + \beta_7 I_{i,t-1} + \sum Year + \sum Ind + \varepsilon$$

Table 1

Variable name	Variable symbol
New spending	$I_{i,t}$
Investment opportunities	$Q_{i,t-1}$
Asset-liability ratio	$LEV_{i,t-1}$
Cash flow	$Cash_{i,t-1}$
year of the listed	$Age_{i,t-1}$
Company size	$Size_{i,t-1}$
Stock returns	$\mathrm{Ret}_{i,t-1}$
Last year investment expenditure	$I_{i,t-1}$

4.2.2 Measurement of different types of investment

Investment over-investment and insufficient investment are showed with the following two models:

$$Over\_Invest_{i,t} = \beta_0 + \beta_1 Score_{i,t-1} + \beta_2 FRQ_{i,t-1} + \beta_3 Score_{i,t-1} * FRQ_{i,t-1} + \beta_4 Exp_{i,t-1} + \beta_5 Out_{i,t-1}$$
$$+ \beta_6 Share_{i,t-1} + \beta_7 Two_{i,t-1} + \beta_8 Cash_{i,t-1} + \sum Year + \sum Ind + \varepsilon$$

$$Under\_Invest_{i,t} = \beta_0 + \beta_1 Score_{i,t-1} + \beta_2 FRQ_{i,t-1} + \beta_3 Score_{i,t-1} * FRQ_{i,t-1} + \beta_4 Exp_{i,t-1} + \beta_5 Out_{i,t-1}$$
$$+ \beta_6 Share_{i,t-1} + \beta_7 Two_{i,t-1} + \beta_8 Cash_{i,t-1} + \sum Year + \sum Ind + \varepsilon$$

Table 2

Variable Types	Variable Name	Explain
Dependent Variable	Over-invest	Excessive investment
	Under-invest	Lack of investment
Independent Variables	Score	CSR
Moderating Variables	FRQ	Result of Jones Model
Control variables	Exp	Rate of management fee
	Out	Num of directors
	Share	Shareholding ratio of the largest shareholder
	Two	The joining together of two job
	Cash	Free cash flow

5. Possible result

Our research targets are:(1)to prove that CSR can provide effective incremental information for capital market, eliminate the information asymmetry, and effectively enhance the investment efficiency of the company, which is more obvious in the area of excessive investment company. (2)However, the improvement of inadequate investment is not obvious. (3)Further, this paper finds that when financial information has satisfied the market demand, the impact of CSR on investment efficiency is weak; CSR plays a more significant role in the company with poor quality of financial information.

6. Discussion

Currently, there are some deficiencies in the quantitative research on the quality of CSR disclosure in China. The economic consequences of CSR disclosure in informal information channels remain unknown and unexplored. After solving the quality problems, the research will be more accurate and scientific for the disclosure consequences of different quality CSR.

Besides, there should be a focused disclosure based on industry characteristics between different industries. Therefore, it is necessary to consider the disclosure standards of polluting industries and non-polluting industries, and guide the information users to identify relevant disclosure more scientifically and rationally.

Further, due to the special institutional background of our country, it is possible to consider the nature of enterprises to be included in the investigation scope and further study.

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