FIN170 INTERNATIONAL FINANCE

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SUBJECT: TERM PAPER ARTICLE SUMMARY #1
DATE: XX/XX/20XX

THE SIGNALING EFFECT OF CORPORATE SOCIAL RESPONSIBILITY IN EMERGING ECONOMIES

This summary is based on an article by authors Weichiech Su, Mike Peng, Weiqiang Tan, and Yan-Leung Cheung published in *Journal of Business Ethics*, March 2016, Volume 134, Issue 3, pp 479–491. The article takes a look at how the adoption of corporate social responsibility practices affects firms in emerging economies. The focus will be on the correlation between CSR practices and financial performance. The main thesis, methodology, and findings will be addressed and discussed below.

I. Thesis

The study titled *The Signaling Effect of Corporate Social Responsibility in Emerging Economies* describes the relationship between corporate social responsibility and financial practices in emerging economies. Corporate social responsibility in this case is defined as "voluntary actions taken by firms that go beyond the narrow economic, technical, and legal requirements of a firm".[1] The overall thesis is that CSR practices signal unseen qualities that makes the firm more appealing to both investors and consumers. It also touches on how effects of CSR are stronger in less developed capital markets.

II. Methodology & Data

In this study, the authors focus on a less theoretical approach and instead used a resource-based view of the relationship between CSR and financial performance. The study was also focused on ten Asian emerging economies; China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. The data collected was from CLSA corporate governance reports from 2001, 2002, 2004, and analyzed for signaling effects of CSR practices. Tobin's *q* is calculated by the sum of the market value of equity plus short-term debt plus long-term debt divided by total assets and was used as a proxy

Table 1 Sample distribution

Country/region	2001			2002			2004			Full sample		
	N	Mean	SD	*N*	Mean	SD	*N*	Mean	SD	*N*	Mean	SD
Panel A: Summary statistics of corporate social responsibility scores by country												
China	11	57.58	11.46	32	57.29	20.26	48	78.46	26.62	91	68.49	25.26
Hong Kong	18	75.01	20.80	28	70.82	20.60	38	85.08	14.38	84	78.17	19.00
India	35	84.76	19.54	45	85.92	13.73	38	95.17	10.18	118	88.56	15.36
Indonesia	13	30.76	14.97	14	39.27	16.80	20	73.34	25.01	47	51.41	27.76
Korea	9	66.66	20.41	13	82.05	15.89	39	96.58	8.70	61	89.07	16.64
Malaysia	22	59.09	14.29	29	70.70	13.09	26	65.40	11.46	77	65.59	13.60
Philippines	9	81.48	17.56	9	85.19	19.44	7	83.30	0.00	25	83.32	15.21
Singapore	23	55.07	14.60	27	59.26	19.80	19	62.28	27.12	69	58.69	20.53
Taiwan	24	79.17	17.19	32	77.60	11.66	33	90.39	12.52	89	82.77	14.74
Thailand	11	63.65	12.52	14	64.96	15.34	17	72.56	8.18	42	67.69	12.48
Total	175	67.71	22.47	243	70.41	20.68	285	82.57	20.37	703	74.67	22.00

[1] Su, W., Peng, M.W., Tan, W. et al. The Signaling Effect of Corporate Social Responsibility in Emerging Economies, Journal of Business Ethics. (2016) 134: 479.

for financial measurement in this study. CSR is the dependent variable in the study, measured by the CSR score in the CLSA reports out of a total of 100. The control variables used in this study were GDP per capital and net foreign direct investment.

The authors of this study used multilevel regressions to examine the effect of CSR practices on financial performance. This technique was chosen for two main reasons, one being that the firms were strongly correlated with their home country and two being that ordinary least squares may underestimate standard errors and end up overestimating the estimated coefficients. They then calculated the intraclass correlation in order to verify the amount of similarity of firms within the different economies.

III. Findings

The results of this study were as followed:

- The results of the multilevel regression show support for the hypothesis that CSR practices are positively related to a firm's financial performance in emerging economies.
- A positive relationship between CSR and financial performance being more salient in less developed capital markets was realized.
- Results showed a positive relationship between lower information diffusion markets and the signal effect of CSR practices in emerging economies.

Table 2 Descriptive statistics and correlations

Variables	Mean	SD	1.	2.	3.	4.	5.	6.	7.	8.	9.
1. Tobin's q	1.72	1.68									
2. CSR	75.22	21.91	0.16								
3. Market development	110.51	103.64	−0.04	−0.03							
4. Information diffusion	4.81	0.82	−0.07	0.13	0.45						
5. GDP per capita	8.23	1.48	−0.13	−0.03	0.71	0.86					
6. FDI	0.05	0.07	−0.05	−0.15	0.69	0.37	0.53				
7. Firm size	17.31	2.68	−0.23	0.10	−0.30	−0.07	−0.10	−0.31			
8. Slack	0.16	0.15	0.26	−0.06	0.06	0.07	0.13	0.02	−0.18		
9. Family business	0.31	0.46	0.12	0.06	0.16	0.08	0.09	0.05	−0.05	0.00	
10. Cross-listing	0.14	0.35	−0.04	−0.03	0.43	0.15	0.26	0.40	−0.09	−0.04	0.05

$n = 703$ firm-years; correlations larger than |0.13| are significant at $p < 0.01$

Table 3 Results of multilevel regressions on Tobin's q

	Model 1	Model 2	Model 3	Model 4
GDP per capita	−0.931 (0.774)	−0.965 (0.629)	−1.326 (0.863)	−0.374 (1.107)
FDI	0.293 (1.169)	0.198 (0.993)	−0.412 (1.101)	−0.164 (1.120)
Firm size	−0.154*** (0.028)	−0.152*** (0.025)	−0.128*** (0.032)	−0.144*** (0.033)
Slack	1.473*** (0.343)	1.504*** (0.287)	1.514*** (0.339)	1.541*** (0.343)
Family business	0.154 (0.136)	0.156^{+} (0.089)	0.151 (0.132)	0.166 (0.134)
Cross-listing	0.084 (0.125)	0.082 (0.124)	0.078 (0.122)	0.071 (0.121)
CSR		0.006** (0.002)	0.011* (0.005)	0.033* (0.015)
Market development[a]			4.958* (2.275)	
CSR × market development[a]			−0.051* (0.024)	
Information diffusion				0.299 (0.299)
CSR × information diffusion				−0.006* (0.002)
Constant	−0.931 (0.774)	−0.965 (0.629)	−1.326 (0.863)	−0.374 (1.107)
Industry-fixed effect	Yes	Yes	Yes	Yes
Year-fixed effect	Yes	Yes	Yes	Yes
Log likelihood	−1,008.23	−1,004.16	−1,000.89	−1,000.69
N	703	703	703	703

Standard errors are in parentheses

$^{+}$ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

[a] Market development is measured by market capitalization divided by 1,000

Source: Su, W., Peng, M.W., Tan, W. et al. The Signaling Effect of Corporate Social Responsibility in Emerging Economies, Journal of Business Ethics. (2016) 134: 479.

Through the collection of data and process of the multilevel regression, the authors were able to see the effects of control variables on a firm's Tobin's *q*. They noted that family businesses and firms with more resources have better performance. They then say that the CSR practices were positively related to Tobin's *q* and that supported their hypothesis that certain practices could positively affect a company's bottom line.

The authors then plotted the coefficients of interaction of CSR and capital market development to see the relationship. As seen in Figure 1, firms in lower developed markets have a stronger reaction to CSR practices than firms in higher developed markets. This means that while two firms could be following the same CSR practices, the firm in a lower developed economy could be benefitting more from their practices.

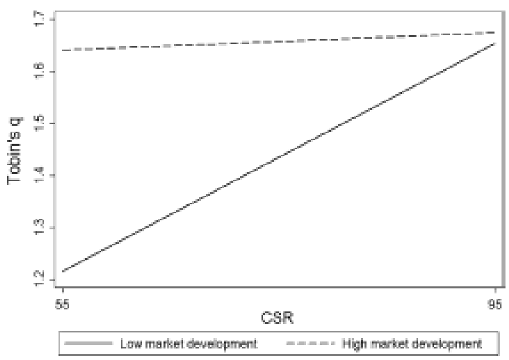

Fig. 1 Interaction between CSR practices and market development

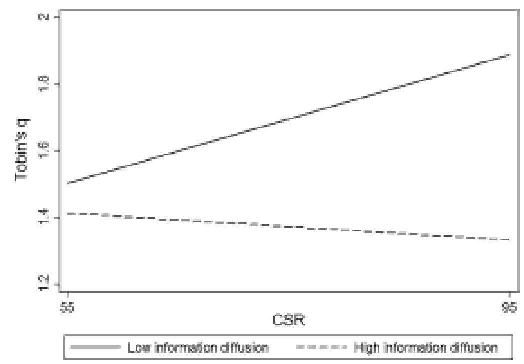

Fig. 2 Interaction between CSR practices and information diffusion

Source: Su, W., Peng, M.W., Tan, W. et al. The Signaling Effect of Corporate Social Responsibility in Emerging Economies, Journal of Business Ethics. (2016) 134: 479.

Finally, the authors looked at information distribution by measuring the circulation figures of daily newspapers scaled by the country's population as seen in Figure 2. They found that firms in lower information diffusion markets benefitted more financially from CSR practices than those in higher information diffusion markets. This is because the CSR practices are more likely to be picked up by reporters in lower information diffused markets and showcased in a advantageous way.

IV. Conclusion

The study done by authors Su, Peng, Tan, and Cheung takes a quantitative look into the effects of CSR practices in emerging economies. They found very positive results of signals that CSR practices send to investors. They also found that CSR is a signal of high firm capabilities that can be increased depending on the status of the surrounding economy and/or information density market. This study is a very strong endorsement of corporate social responsibility practices and makes a great case for firms in emerging economies to adopt these practices.