Corporate Social Responsibility and SME Value Creation

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Abstract

Despite small and medium-sized enterprises (SMEs) ability to contribute to achieving sustainable economic growth, to reduce unemployment, the value creation ability of SMEs through CSR remains unexplored. We examine the impact of CSR on SME value in the manufacturing and service industries context, the industries ignored by existing research. We also explore the interactive relationship between CSR and access to finance and their impact on the CSR-Value relationship. Our key finding is that SMEs value is positively associated with CSR expenditure and access to finance. The results indicate that current year CSR expenditure creates value for SMEs through improving their access to finance and ultimately improving their sales in the next year but does not moderate the CSR-Value relationship. Our results are robust and reliable because we employed both 2SLS and generalised method of moments (GMM) approaches to address possible endogeneity. Moreover, we use actual CSR spending data from developing countries instead of CSR scores as a proxy for CSR expenditures usually used by prior studies concentrating only on large firms. Our results could be used by policymakers and regulators in other emerging countries to justify the introduction of schemes to improve CSR and access to finance for SMEs.

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1. Introduction

In emerging countries, poverty, unemployment, and gender inequality are critical concerns of social stability. CSR spending enables businesses to create employment opportunities that improve sustainable economic development and contribute to an equitable society. UN global Compact-Accenture CEO study (2010) stated that 93 per cent of the global participant CEO acknowledged that CSR is “important” or ‘very important for the organisational future accomplishment (UN Global Compact-Accenture, 2010). Despite wide acceptance, the vital question “does CSR leads to value creation? If so, in what way?” remains inconclusive (Cheng et al., 2013). The inconclusive findings of extant literature collectively indicate that the mechanism through which CSR contributes to value is complex (Hull & Rothenberg, 2008; Wang & Qian, 2011).

The proposition is that through CSR, big firms legitimise their actions, improve their image and thereby may create values. Using 2,439 stock-listed big firms Cheng et al. (2013) concluded that CSR does create value for the big firm. They showed that CSR can help to lower the “idiosyncratic”[1] financial constraints that impact a firm’s ability to obtain financing. Theoretically, through stakeholder management and better-quality disclosure, CSR improves image of the firms and legitimises their operations which may lead to improved operating performance and create value. Better CSR performance leads to enhanced stakeholder engagement. Firms with superior CSR activities are expected to be more transparent, thereby signalling a better understanding of the long-term opportunities and threats that impact firm’s value (Cheng et al., 2013). We would like to argue that similarly, SMEs are also able to create value via CSR but through a different mechanism.

However, prior research on CSR and value creation are mainly focused on big firms ignoring SMEs even though the SME sector is traditionally the vehicle for economic growth. For example, in India, an economically significant emerging country, SMEs are a key driver of its projected growth (IMF). 95% of the total industrial units in India are SMEs, employing about 40% of the workforce, contributing around 30% of GDP, and constituting 45% of total manufacturing output and 40% of total exports, the sector receives only 16% of bank loans. Despite such economic importance of SMEs, no research had been undertaken on the CSR-value creation of SMEs in India.

CSR activities are linked with capital constrain in a predictive manner (Cheng et al., 2013). CSR also creates value especially for SEMs via access to finance[2]. Improved social image and operating performance through CSR enable SMEs’ better access to finance that, in turn, further improves working capital and operating performance as access to finances is one of the most critical problems faced by SMEs, in developing countries. Levine (2005) argued that in channelling capital to the highest marginal return destination, SMEs, are more affected by a lack of access to finance. Authors, for example, Becchetti and Trovato (2002) report that Indian SMEs’ growth is inhibited by their serious lack of access to finance. Similar phenomena are later confirmed by Desai, Foley, and Forbes (2008). However, SMEs’ smaller size, lower level of available resources, lower CSR activities/spending constrains their ability to reverse discrimination in access to finance. However, CSR can lead to relatively easier access to finance as a socially responsible investment[3] is gaining importance in recent years (Robson & Wakefield, 2007).

Despite, prior research on CSR has not addressed the possible effects of CSR and access to finance on SME value creation. Better CSR performance leads to enhanced stakeholder engagement and firms with superior CSR activities are more transparent thus signalling a better understanding of the long-term opportunities and threats (Cheng et al., 2014). This positive signal enhances the possibility of better access to finance which ultimately leads to improved value. This has prompted the Indian government to undertake measures to support the financial inclusion of SMEs and to mandate CSR legislation in 2014 via section 135 of Indian Companies Act.

The context of the study is India because the impact of access to finance or financial inclusion is more relevant in an emerging country (World Bank, 2014; Park and Mercado, 2015), and India is the only country in the world that has mandated CSR spending. Again, Indian government has embraced the United Nation's Millennium Development Goals (MDGs) of financial inclusion (UNCTAD, 2014). This unique setting motivates our study. SMEs provide more than fifty per cent of employment and contribute significantly to the overall economic growth in both developed and developing countries; despite comparatively little is known about CSR in SMEs (Jamali et al., 2009; Spence, 2007) and the value creation ability of SMEs via CSR remain largely unexplored. Moreover, none of the prior studies has explored the mediating and moderating impact of access to finance on the CSR-firm value relationship of SMEs. This gap further motivates our study to contribute to the literature. Therefore, we examine the impact of CSR on SME value. Our objective is to examine the (i) association of CSR spending with SMEs' value in terms of sales lead, (ii) association of CSR spending on SMEs' access to finance and (iii) mediating as well as moderating role of access to finance on CSR-SME value relationship. We address the main question – does CSR spending create value for SMEs? Using SMEs enlisted on two main stock exchanges of India (the National Stock exchange and the Bombay Stock Exchange), we scrutinize the CSR-SME value relationship.

Our key finding is that CSR expenditure and access to finance of SMEs are positively associated with their value when measured by sales leads. These findings suggest that the current year's CSR expenditure increase the level of SMEs' access to finance and ultimately improves their sales in the next year. However, exploration of CSR and access to finance interaction indicated that access to finance does not moderate the CSR-value creation relationship. Our results are robust and reliable because to overcome the serious challenge of endogeneity, we employ the generalised method of moments (GMM) method in addition to two-stage least squares (2SLS). GMM approach is appealing because no instrumental variables specification is required and the associated estimator takes the standard form of the generalised method of moments and is widely used in the literature (Kao, Yeh, Wang and Fung, 2018). However, Wintoki et al., (2012) advocate that the GMM method addresses biases related to dynamic endogeneity, and unobserved heterogeneity by integrating instruments in the process. Moreover, Sufian and Habibulla (2010) argue that the GMM method also controls estimation bias arising from persistence. Our findings are consistent in terms of the direction and strength of CSR spending-value relationship.

Our study extends the literature on several fronts. First, our primary contribution is the evidence from an emerging economy of the importance of CSR for SMEs' value creation. Prior studies mainly examine the CSR-firm value relationship of big firms. We explore the CSR-firm value relationship of SMEs, the main vehicle of global economic growth and employment. Our study focuses on SMEs from emerging countries, the field completely ignored by the prior studies focusing only on large firms and companies from the USA. Understanding the role of CSR in the value creation of SMEs through various channels, such as through performance enhancement, financial inclusion, and increased revenue is important given that prior research in this area has not addressed the possible effects of CSR on SME value creation. Second, we further contribute to the literature by examining the mediating and moderating role of access to finance on CSR–SMEs value relationship as access to finance is a very significant issue faced by SMEs, especially in emerging countries. Third, we examine the impact of CSR on SME value through increased future sales and improved access to debt finance in the manufacturing and service industries context, whereas existing research on access to finance explores only the banking industry. Fourth, we use actual CSR expenditure, whereas most of the prior studies consider CSR scores as a proxy for CSR expenditure (Bhattacharyya & Rahman, 2019).

We also argue in line with the argument of Bhattacharyya and Rahman (2019) that CSR scores do not actually represent CSR spending as the scores are computed using a range of CSR disclosures and activities. Fifth, although we use the ordinary least squares (OLS) regression method to estimate our baseline models, we address endogeneity bias using the two-stage least squares (2SLS) and GMM approaches. The 2SLS and GMM approach address endogeneity bias in a more intuitively appealing manner. Finally, our study provides three novel pieces of evidence (i) the impact of actual CSR spending on SME value, (ii) the association of SME CSR with their access to finance and (iii) mediating and moderating effects of access to finance on SMEs' CSR-Value creation relationship. Our results generally remain robust after controlling for endogeneity bias and the use of both standard and robust test statistics. The policymakers and regulators in other emerging countries may use our results to justify the introduction of mandatory CSR guidelines for SMEs as a vehicle to improve their image, access to finance and reduce the critical issues of poverty and unemployment. Our results can also be used by policymakers and regulators in other emerging countries to justify the introduction of financial inclusion schemes to improve SMEs' value.

The rest of the paper is structured as follows. Section 2 discusses CSR related to SMEs. Section 3 provides an overview of the literature and develops hypotheses. An explanation of the research method (model, variables) is in section 4. Section 5 presents the sample, data and descriptive statistics. Section 6 presents and discusses the results. The final section concludes the paper.

2 CSR and SMEs

CSR has emerged as an unavoidable priority for business leaders and the proponents have provided various justifications for CSR: moral obligation, sustainability, licence to operate, and reputation (Porter and Kramer, 2006). Strategic CSR allows a firm to achieve a sustainable competitive advantage, regardless of motive (McWilliams and Siegel, 2011). With growing awareness of CSR perspectives and initiatives throughout the world, companies are increasingly expected to involve in CSR while maximising the creation of shared value for their stakeholders (Stoian and Gilman, 2017). Community CSR expectations are also extended to SMEs due to their importance and contribution to economic and social well-being (Colovic, Henneron, Huettinger, & Kazlauskaite, 2019).

Most of the prior research explore CSR in big firm ignoring SMEs, considering that CSR is a privilege of the big firm only (Perrini, Russo, & Tencati, 2007). However, SMEs' CSR is significantly different from big firms' CSR because of the inherent differences between these two groups of firms (Colovic et al., 2019). Tilley (2000) also indicates that SMEs' CSR differs from the big firm's CSR as SMEs are not "little big firms". SMEs are different in legal form, sector, national context, and organisational structure (Spence, 1999; Spence & Rutherford, 2003). In relation to the CSR difference between big firms and SMEs Grayson (2004) states that ''Yes and no" seems to be the collective conclusion. No: because the same basic principles apply whether you are 'Bob the builder or Microsoft, minimizing your negative environmental and social impacts, and maximizing your positive impacts. Yes: there are differences since SMEs rarely use the language of CSR to describe what they are doing. The drivers usually start with the personal beliefs and values of the people running the SME, who are usually the owners'' (p 1). Therefore, other factors such as the quality of the relationship of SME managers with other stakeholders should be considered along with CSR in SMEs as they have different needs compared to big firms (Jenkins, 2004). SMEs be likely to be limited by cash resources and depend on interpersonal relationships (Spence, 1999); also managed by owner-manager, mainly locally operated and reliant on internal finance for growth (Lepoutre, 2006).

The complex issue of CSR encompasses many disparities between big companies and SMEs as they are fundamentally different (Welsh &White, 1981). Russo and Perrini (2010) advocate that more empirical study and knowledge of SME management are required to obtain a better theoretical understanding of CSR relationship with SMEs. They also state that "Analysis of both stakeholder theory and social capital suggests that the former explains and considers CSR as the antecedent of the relations by large firms with their stakeholders. The latter, for SMEs, suggests that CSR is the outcome of the relational accumulating process through which SMEs build their social capital (p. 207)". It is well documented that CSR is applicable to SMEs and CSR is not exclusive to bigger companies. Despite this, the literature is inconclusive about the tools and opportunities of CSR in SMEs. Extent literature only focuses on explicit ethical issues such as selected relationships with suppliers and with employees in CSR-SME relationships, and SME managers consider these issues as a key driver of SME growth. Sen and Cowley (2013) advocate not to generalise findings of CSR results based on big firms to the SME settings because theoretical models used in big firms may not explain completely CSR in SMEs. Therefore, it is critical to explore CSR only in the SME context. context. Colovic et al., (2019) urge for more CSR research in SMEs arguing that (i) collectively SMEs have a huge social impact as most economies rely on them for employment and sustainable economic growth and (ii) a better understanding of SME CSR may guide the process of value creation. Finally, prior scant research on CSR has been undertaken in developed Western countries ignoring developing countries (Jamali, Lund-Thomsen, & Jeppesen, 2017).

3 CSR and Value

Reviewing the contemporary literature on value-enhancing capabilities of CSR, Malik (2014) reported that better quality CSR affects firm value in the short and long term; CSR may also be engaged as a strategic tool to maximise shareholder value by defending other stakeholders' benefits. Many studies have examined CSR- firm value over the years to assess the notion that companies do well by doing good (Kitzmueller and Shimshack, 2012). Choi et al. (2010) conclude that although prior CSR- firm value relationship studies are undertaken in different geographical contexts; the findings remain inconclusive. For example, conducting a comprehensive meta-analysis of 167 prior studies Margolins, Elfebbein and Walsh (2007) found a generally positive association of CSR with firm value. Reviewing 128 studies Peloza (2009) also reported that 59% of studies found a positive association, 14% a negative association and 27% found mixed or no association. These inconclusive findings collectively indicate that the mechanism through which CSR contributes to value is complex and cannot be generalised across all contexts without considering the size of the firms involved (Hull & Rothenberg, 2008; Wang & Qian, 2011).

3.1 CSR and SME value

Stakeholder theory is completely consistent with value maximization or value-seeking behaviour, which implies that managers must pay attention to all constituencies that can affect the value of the firm (Jensen, 2002). "Stakeholder value maximisation" view provides various theoretical explanation for supporting the notion that tactical CSR activities and spending leads to improved firm performance. Kitzmueller and Shimshack (2012) state that "high commitment to CSR activities can be interpreted as a firm's self-interested focus on stakeholder interests which increases stakeholder willingness to support the firm's actions that ultimately result in improved firm performance". CSR activities and spending reduce transaction costs associated to deal with stakeholders, thus inclining to improve profitability. Moreover, a firm's ability to access finance and to its product market is increased by its CSR activities and spending, which intern increases the demand for its product and ultimately the firm's profitability (Narver, 1971). SMEs' success is usually understood as a network of explicit and implicit agreements among stakeholders. SMEs create and maintain their relationship with stakeholders and discharge their obligations related to implicit contracts through CSR activities, which help them to procure important and scares resources (Jensen and Meckling, 1976). CSR activities help to resolve conflicts of interest among shareholders (Jo & Harjoto, 2011) by improving stakeholder groups' relationships (Waddock and Graves, 1997) and firm performance may be positively impacted by these occurrences. All these theoretical arguments provide strong support to the premise that CSR activities and spending may be viewed as a strategic investment that leads to improved firm value (Nollet et al., 2016).

Firms' stakeholder management capacity, defined as "'the ability to establish trust-based collaborative relationships with a wide variety of stakeholders, especially those with non-economic goals' (Sharma & Vredenburg 1998, p. 735)", is capable of enhancing firms' ability to diminish negative social and environmental effects to attain competitive advantage (Torugsa, O'Donohue & Hecker, 2012). Extent literature on stakeholder management provides empirical confirmation of the capabilities of stakeholder management through CSR of mainly big companies (Sharma & Henriques, 2005). However, some authors such as Aragon-Correa et al. (2008) and Worthington et al. (2006) argued that such an ability is to be also possible in SMEs. There is not sufficient literature that indicates stakeholder management is also critical to the value creation of SMEs (Torugsa, O'Donohue & Hecker, 2012). Literature indicates that SMEs can develop an efficient stakeholder management ability with their extra flexible management structure and superior sensitivity towards changing needs of business and stakeholders, mainly specific external relationship which is crucial for CSR resources and information (Jenkins, 2006; Rondinelli & London, 2003). Gadenne et al. (2008) advocate that CSR activities and spending in SMEs are constrained by resources; therefore, the view that CSR has minimum impact on SME value is still valid. However, the casual link of CSR and performance and value in SMEs are supported by some empirical evidence (Sturdivant & Ginter, 1977; Agagon-Correa et al., 2008; Hammann et al., 2009; Torugsa et al., 2012, Martinez-Conesa, Soto-Acosta & Palacios-Manzano, 2017).

A significantly positive relation between CSR and SME value presents by Agagon-Correa et al. (2008). Similarly, Hammann et al., (2009) report a link between SMEs' business bearing with social responsibility practices and value creation. Analysing data from 171 SMEs from the machinery and equipment division of Australian manufacturing industry Torugsa et al. (2012) concluded that capabilities (such as shared vision, stakeholder management and strategic proactivity) are directly related to the CSR activities of SMEs. And in turn that CSR activities are related to improved performance. Another empirical study on 552 Spanish SMEs by Martinez-Conesa, Soto-Acosta & Palacios-Manzano (2017) found a moderate link between CSR and SMEs' business value. However, the empirical study by Perrini, Russo & Tencati

(2007) found no positive association between CSR and SME performance based on 3,680 Italian SMEs. They concluded that SMEs are unlikely to develop and adopt CSR policies compared to big companies. Therefore, CSR activities and SME value-creation relationships are still inconclusive. Theoretically, through stakeholder management and CSR activities and spending, SMEs can improve the image of the firms and legitimise their operations which possibly leads to improved operating performance. Based on the above discussion we hypothesise that-

HYPOTHESIS 1: SMEs' CSR spending is positively associated with their firm value.

3.2 CSR and Access to finance

CSR spending may create value for SEMs via access to finance. Improved image and operating performance through CSR enable firms' better access to finance that in turn further improves working capital and operating performance. Stakeholder theory postulates that CSR can address the expectation of various stakeholders and thereby enhance revenue and profit attracting more supportive stakeholders (Waddock & Graves, 1997). Better CSR performance signals a firm's commitment and engagement with stakeholders through cooperation (Waddock, 2002). This positive signal ultimately reduces costs "because ethical solutions to commitment problems are more efficient than mechanisms designed to curb opportunism, it follows that firms that contract with their stakeholders on the basis of mutual trust and cooperation […] will experience reduced agency costs, transaction costs, and costs associated with team production (Jones, 1995, p. 420)".

Levine (2005) argued that in channelling capital to the highest marginal return destination, SMEs, new and riskier firms are more affected by financial constraints. Various authors use financial constraints as the explanation for the lower dividends, high leverage, and slow growth of smaller firms as firms of various sizes face idiosyncratic levels of constraint (Cooley & Quadrini, 2001; Cabral & Mata, 2003). For example, Becchetti and Trovato (2002) report that Indian SMEs' growth is inhibited by their internal financial constraints. This phenomenon is later confirmed by Desai, Foley, and Forbes (2008) in their study.

CSR can lead to relatively easier access to finance as socially responsible investment[5] is gaining importance in recent years (Robson & Wakefield, 2007). It is assumed that socially responsible investors are more likely to invest in firms with better CSR performance because CSR and socially responsible investing mirror images of each other (Sparkes, 2002). However, Goss and Roberts (2011) report no relationship between better CSR performances and access to debt finance. Better CSR performance leads to enhanced stakeholder engagement and firms with superior CSR activities and spending are expected to be more transparent. In this way, firms are signalling a better understanding of the long-term opportunities and threats (Cheng et al., 2014) that enhance the possibility of better access to finance. Based on the above discussion we hypothesise that

HYPOTHESIS 2: SMEs' CSR spending is positively associated with their Access to finance.

3.3 CSR, Access to finance and SME value

Access to finance is a more critical hindrance to SMEs than large firms; the weakness of the financial systems of many emerging countries makes this hurdle worse (Beck 2007). Prior literature indicates that SMEs lack access to debt finance (Balling et al. 2009; Irwinn and Scott, 2010). Giuliodori, Guinazu, Correa, et al., (2018) documented strong support for the effects of access to finance on the value of SMEs. Access to finance is essential for growth and competitiveness, especially for SMEs. Shukla (2015) advocates that access to finance is certainly significant constrain of Indian SME growth. As pointed out by the resource-based theory, firms need resources to be able to create a competitive advantage, which in turn may lead to superior operating performance and value for the firm. Finance as a resource (Barney, 1991) is expected to enable small businesses to fund their working capital and fixed assets investments, employ skilled workers, and develop markets and new products, all of which improve competitiveness and create values (Beck & Demirguc-Kunt, 2006; Harvie, 2010).

The SMEs' lack of access to finance impacts their performance unfavourably (Atieno, 2009; Banerjee & Duflo, 2014; Beck & Demirguc-Kunt, 2006; Liket et al., 2017). Prior literature shows that lack of access to finance negatively affect SMEs' value. For example, lack of financing is a major impediment to SME value creation in Kenia (Bowen et al., 2009) and in China (Ayyagari et al., 2010). Banerjee and Duflo (2014) confirmed that Indian SMEs increased their values via increased access to finance. Finally, undertaking a meta-analysis, Kersten, Harms, Liket et al. (2017) also find a positive effect of access to finance on SMEs' value. Based on the above discussion we hypothesise that

HYPOTHESIS 3: Access to finance mediate SMEs' CSR – firm value relationship.

3.4 Moderating effect of CSR on Access to finance–SME value.

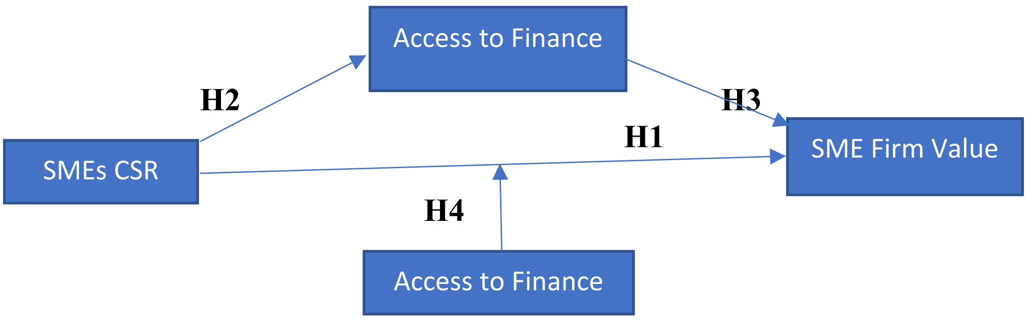
One critical factor among various factors hindering the development of SMEs is the lack of competitive advantage. SMEs' scarcity of access to finance and external equity may be due to their lack of competitive advantage (Slotty, 2009; Irwin & Scott, 2010). Therefore, they are forced to really on their own or internal resources to finance operations. Park, Lim, and Koo (2008) estimated that eighty and ninety per cent of SMEs in OECD and non-OECD countries respectively lacked access to finance. Again, a study by the European Central Bank (ECB, 2012) found access to finance to be the most pressing problem affecting European SMEs after access to customers.

Kira and He (2012) reported that access to finance was a constraint to operation among all East African firms. Limited access to finance impact business negatively, and lead to the cycle of diminished growth (Demirgüç-Kunt, Beck, & Honohan, 2008). However, prior studies have not considered some underlying factors that affect the access to finance–SME value link. As CSR is a foundation of competitive advantage, that influence shareholder' perceptions about the firms (Hull and Rothenberg 2001), thus moderates the access to finance–SME value relationship. Literature provides congregating evidence that firms do well by doing good (e.g., Kang, Germann and Grewal, 2016). We would like to argue that SMEs can also improve their competitive advantages by undertaking CSR activities strategically.

Commercial banks and equity investors are reluctant to provide finance to SMEs due to screening, monitoring and enforcement problems. SMEs are high-risk; a result of low capitalisation and limited assets and vulnerable to market fluctuations (Park et al., 2008; Berger & Black, 2011; Kundid & Ercegovac, 2011). These are increased by the screening problems associated with information asymmetry between finance providers and SME borrowers. Inadequate financial statements or business plans make it difficult for creditors to effectively assess the creditworthiness of SME proposals for funding (Baas & Schrooten, 2006; Hyytinen & Pajarinen, 2008). Macro-level factors that limit the supply of finance to the SME sector, especially in developing economies include underdeveloped financial markets and legal institutions (Le & Nguyen, 2009; Harvie, 2010). To increase lending to the SMEs, banks, as agents in the lending relationship (Cole, 2013) have over time, instituted several mechanisms to mitigate information asymmetry on the part of the principals (small businesses) (Chakraborty & Mallick, 2012).

Through CSR disclosures, SMEs are also able to diminish information asymmetry and improve transparencies, which ultimately improves access to finance. Stakeholders prefer congruent information. "Information diagnosticity is higher when information from two or more sources is congruent" (Josiassen et al., 2008). Therefore, if lenders have information about their clients from clients' CSR reporting, they find this information more believable when this information is congruent with clients' prior knowledge. CSR activities can improve the goodwill of firms (Houston & Jonson, 2000) and their reputation (Luo & Bhattacharyya, 2006). Investors are likely to congruence their attitudes with the firm's policies due to its CSR activities (Chang et al., 2016). In other words, "the positive reputation created by CSR activities, helps to maximize the effectiveness of financial access on SME value due to more favourable attitudes toward the SME. This effectiveness will directly influence sales, and in turn, the value of the firm" (Roberts and Dowling 2002, p1079). Therefore,

HYPOTHESIS 4: Access to finance positively moderates CSR - SMEs value relationship.



Summary of Hypothesise relationship

4. Research Design

4.1 Models

We employ ordinary least squares (OLS) to analyse CSR expenditure – SMEs value relationship. The OLS technique is appropriate for analysing panel data as used in the literature (Bhattacharyya et al., 2019). There is a possibility of endogeneity that may arise due to the omission of explanatory variables in the regression models. A two-stage least squares (2SLS) regression is one possible solution to endogeneity concerns (Richardson et al., 2016; Safiullah and Shamsuddin, 2018). Therefore, 2SLS regression as a robustness check has been taken into consideration to test the same set of two hypotheses. However, 2SLS regression is criticized by some prior authors arguing that instrumental variables used in 2SLS are subject to judgment error as different authors may choose different instrumental variables. To overcome this, we also employ another superior method, GMM to address the possible endogeneity concerns. Wintoki et al., (2012) state that the GMM method addresses biases related to dynamic endogeneity, unobserved heterogenicity and simultaneity by incorporating instruments in the estimation process.

We undertake several diagnostic tests. Following the literature, we employ the Kolmogorov-Smirnov (K-S Lilliefors), the Shapiro-Wilk normality test and skewness/kurtosis tests (Razali & Wah, 2011; Shapiro & Wilk, 1965). Normality is assumed with a significance level greater than 0.05 in the Kolmogorov-Smirnov test. We also check for the multicollinearity issue which is a potential problem with any kind of regression. One way to address the multicollinearity issue is to measure the variance inflation factor (VIF) of each independent variable. A VIF value below 5 indicates correlation is not a problem (Wooldridge, 2015). We also include year-fixed effects in our regression models to remove the impacts of accumulating data sets from a trend.

To determine the effect of the levels of CSR expenditure on SMEs' value in terms of 1) improved sales lead, and 2) access to finance, the following regression models are estimated by considering actual CSR expenditure as an explanatory variable:

$$Sales\ Lead = a + b\ ACSREXP + c\sum_{i=1}^{n}(Controls) + e \quad (1)$$

$$AF = a + b\ ACSREXP + c\sum_{i=1}^{n}(Controls) + e \quad (3)$$

$$Sales\ Lead = a + b\ ACSREXP + c\ AF + \sum_{i=1}^{n}(Controls) + e \quad (2)$$

$$Sales\ Lead = a + b\ ACSREXP + c\ AF + d\ \ ACSREXPxAF + e\sum_{i=1}^{n}(Controls) + e \quad (4)$$

Where, sales lead represents SMEs' value outcome; AF is access to finance, measured by the bank loan and overdraft and ACSREXP is the actual CSR expenditure.

4.2 Variables

Our dependent variable is a firm value measured by the sales lead. The most used business metrics on company dashboards include sales leads i.e., tracking the number of yearly new leads to get to the core of sales performance (Mauboussin, 2012). Explanatory variables are access to finance measured by the bank loan and bank overdraft facilities and CSR expenses measured by the actual amount sent on CSR activities. Individual firms' (lack of) access to finance as an indicator of firms' performance is commonly accepted (Fowowe, 2017; Claessens and Tzioumis, 2006).

The omitted variables are another serious problem of a regression analysis. One way to mitigate this issue is to consider several control variables in the analysis. Accordingly, we control for firm-related variables such as size, leverage, liquidity, risk, growth, foreign ownership, and export following the extant literature. Firms with foreign ownership may have additional resources/capabilities or CSR budgets because they are more exposed to CSR issues. Further, Orlitzky and Benjamin (2001) argue that stable firms that have low business risks are probably engaged and spend on CSR initiatives. Prior research by Lys et al. (2015), Chauvet and Jacolin (2017), and Mukherjee et al. (2018) has considered only firm-related variables in the analysis while ignoring others. This study also includes the total amount paid to the chief executive officer (CEO) as a control variable.

5. Data and Descriptive Statistics

5.1 Sample

We use secondary sources of data. The data are collected from the Prowess database. Centre for Monitoring Indian Economy's (CMIE) Prowess is a database of the financial performance of Indian companies. Prior studies such as Vig (2013), Manchiraju and Rajgopal (2017) and Bhattacharyya et al. (2019), among others, have considered this firm-level database for the empirical analysis.

We have collected data from a sample of 569 SME firms. Our final sample consists of 1707 firm years of observations over the period from 2015 to 2017. Our data set is panel data (i.e. multi-dimensional data involves measurements over time). We utilised data from 2015 because the Indian Companies Act, of 2013 has made it mandatory for companies to spend 2 per cent of their average net profit in the past 3 years on CSR activities. Compliance with Section 135 was made mandatory in 2014. Hence, the data about CSR spending is mostly available from 2015. We include publicly listed 743 SMEs in the initial sample. However, we exclude those firms which fail to pass the test of minimum 3 years of data available on our variable of interest, lead sales, CSR spending and access to finance. More specifically, the final sample is 569 SME firms (i.e., 1707 observations), in the years 2015, 2016 and 2017.

5.2 Descriptive statistics and correlation matrix

The results of basic descriptive statistics are presented in Table 1. Bank borrowing (actual) has higher volatility than sales lead, which is specified by the greater standard deviation of BANK BORR. The annualized average for sales lead and bank borrowings are INR 5.06 million and INR 176.26 million respectively. The average amount spent on CSR activities per SME is INR 0.51 million. Regarding the control variable, descriptive statistics indicate that SMEs are significantly more dependent on equity financing than debt financing, on average only 1.29 per cent of total capital is financed by debt. The average size and growth of SMEs are nearly INR 5.62 million and INR 1.96 million, respectively. The average amount paid to the chief executive officer (CEO) is INR 14.48 million.

Table 1: Means, Standard deviations and Pearson correlations.

	Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10
1	SALES LEAD	5.06	2.25										
2	BANK BORR ($)	176.26	897.53	.272**									
3	ACSREXP	0.51	3.05	.284**	.336**								
4	SIZE	5.62	1.75	.707**	.375**	.351**							
5	LEVERAGE	1.29	4.92	-.180**	-.017	-.029	-.199**						
6	LIQUIDITY	0.15	0.50	.058*	-.011	-.021	-.017	.022					
7	RISK	0.58	0.61	.302**	.149**	.113**	.378**	.019	.445**				
8	LNCPAY	14.48	1.42	.170**	.157**	.183**	.236**	.107**	.006	.126**			
9	FOR_OWN	0.02	0.15	.134**	.117**	.196**	.152**	.208**	-.025	.064**	.171**		
10	EXPORT	0.35	0.47	.328**	.041	.083**	.287**	-.030	.036	.199**	.138**	.130**	
11	GROWTH	1.96	26.55	.025	.008	-.018	-.016	-.027	-.009	-.044	-.027	-.003	-.042

SALES LEAD, sales in the next year; BANK BORR ($), access of finance from the bank; ACSREXP, actual CSR expenditure; SIZE, firm size; LEVERAGE, level of debt in Capital Structure; LIQUIDITY, the degree to which an asset or security can be converted into cash; RISK, financial risk; LNCPAY, amount paid to chief executive officer (CEO); FOR_OWN, SME has foreign ownership; EXPORT, SMEs involve in exporting; GROWTH, SME's growth. Note: n =569, Two-tailed tests. *p<0.05; **p<0.01; ***p<0.001

Table 1 also provides bivariate correlations for the variables used to test various hypotheses in this study. We found that CSR's relation to sales lead ($r = .27$) and bank borrowings ($r = .34$) are positive and statistically significant. However, the relation between CSR expenditure and growth is found statistically insignificant. The firm's size is highly correlated with sales lead ($r = 0.70$) however, moderately correlated with bank borrowings ($r = .37$) and CSR ($r = .35$). Also, a moderate level of correlation is found among control variables used in the study.

6. Empirical Results

6.1 CSR expenditure and SMEs value

In Table 2 we report the main results of our regression analysis examining the relationship of actual CSR spending and a firm's value creation through sales performance. We present two different models. A model with sales lead as dependent variable (in column 1), and another with access to finance (in column 2) while including all control variables. Results produce some significant findings and demonstrate good explanatory power.

H1 explore the association of CSR expenditure with SME performance (in terms of sales lead). We find support for the H1 because the level of CSR expenditure has a statistically significant ($\beta = 0.03$, $p < 0.01$) positive association with the sales lead. The results specify that actual CSR expenditure is perceived positively by customers and clients. This result is in congruence with the findings of Cui, Liang & Lu (2015) and Nyame-Asiamah & Ghulam (2019) who also reported a positive association of CSR spending with sales growth. The promotional program as a tool that supports a broader stakeholder approach to CSR initiatives primarily drives product sales (Pirsch, Gupta, & Grau, 2007). Therefore, commitment to CSR is viewed positively by the market, leading to improved sales growth for SMEs. Overall, our result implies that the current year's actual CSR expenditure helps SMEs improve the next year's sales performance (as measured by Sales Lead), thus creating value for the firms, which is favourable for shareholders. However, this result contradicts the findings of Perrini et al., (2007) that reported no association of SME value with their CSR.

Regarding the control variable, results indicated that SIZE, LIQUIDITY, EXPORT and GROWTH have a significantly positive relationship with Sales Lead. Accordingly, the firm's size, positive growth and attitudes towards export lead to higher sales performance for the SMEs. A high liquidity ratio might lead to an increase in sales of SMEs as well. Some of these results are consistent with the earlier findings in the SME literature (Torugsa et al., 2012; Perrini et al., 2007). Malik (2014) showed that engagement in CSR does not exclusive to size (MNCs), the author stated that if SMEs are committed to CSR, they are possibly better at implementing CSR-related practices in day-to-day procedures. Further, the amount paid to the chief executive officer (CEO) is also found to have a negative and insignificant association with the Sales Lead. This implies that CEO remuneration plays no role in improving SMEs' sales performance.

6.2 CSR expenditure and Access to finance

Similarly, H2 explores the association of CSR expenditure with SME access to finance. We find support for the H2 as well because the level of CSR spending has a statistically significant ($\beta = 65.43$, $p < 0.001$) strong positive association with access to finance (see column 2, Table 2). The result specifies that actual CSR spending is viewed positively by suppliers of capital such as banks, a result that is consistent with Cheng, Ioannou and Serafeim (2014) and Ioannou and Serafeim (2015), who found superior performance on CSR strategies leads to better access to finance. SMEs with improved CSR practices are better positioned to achieve enhanced reputation, which enhances SMEs' capacity to improve access to financial resources. Cheng et al. (2014, p. 1) argue that "better access to finance can be attributed to reduced agency costs due to enhanced stakeholder engagement". Overall, this result infers that actual CSR spending does help SMEs to enhance their access to debt finance, thereby improving the value of SMEs. Our findings support the theoretical expectation and empirical evidence (Becchetti & Trovato, 2002; Desai, et al., 2008) that CSR spending is viewed favourably by the supplier of debt capital. However, our results contradict the study of Goss and Roberts (2011) that report no relationship between better CSR performances and access to debt finance.

Table 2: CSR expenditure and SMEs performance

	Firm Performance	
Variable(s)	(1) Sales Lead	(2) Access to Finance
C	0.30 (0.77)	-1130.39*** (-5.45)
ACSREXP	0.03** (2.51)	65.43*** (9.39)
SIZE	0.82*** (30.63)	156.68*** (11.20)
LEV	-0.02*** (-2.88)	7.32+ (1.72)
LIQUIDITY	0.30*** (3.58)	-12.39 (-0.27)
RISK	-0.00 (-0.07)	29.44 (0.74)
LNCPAY	-0.01 (-0.39)	28.56* (1.97)
FOR_OWN	0.34 (1.33)	112.91 (0.84)
EXPORT	0.63*** (7.62)	-145.19*** (-3.35)
GROWTH	0.00** (2.41)	0.52 (0.70)
Adjusted R^2	0.52	0.19
Year fixed effect	Included	Included

Dependent variable: Firm performance measured by Sales Lead and Access to Finance. Entries are the regression coefficients and t-statistics (standard) within parentheses derived from estimating Equations (1) and (2) using the OLS method. The sample includes 569 SMEs-years over the period 2015 – 2017. ACSREXP, actual amount spent on CSR activities during the year; SIZE, firm size; LEV, level of debt in capital structure; LNCPAY, amount paid to chief executive officer (CEO). +p<0.10; *p<0.05; **p<0.01; ***p<0.001

Regarding the control variables, SIZE and LEV have positive significant associations with Access to Finance, while EXPORT has a negative significant association with Access to Finance. That means, through achieving higher leverage, SMEs can grow exponentially faster due to access to more finance and resources than their assets would generally allow. One possible reason for the negative significant association between EXPORT and Access to Finance could be the higher risk involved in exporting activities for the SMEs' overall performance. Moreover, the amount paid to the chief executive officer (CEO) is also found to have a positive significant association with Access to Finance. It reflects that the salary and cash compensation paid to the CEO has certain advantages in accessing/borrowing the finance/capital from outside or through a personal networking source.

6.3 Meditating and the moderating effect of Access to finance

The existing literature on SME research and the related theoretical underpinning suggest we explore such possibilities. Accordingly, the current study has examined separately the moderating and mediation effect of access to finance on CSR – firm value relationship. We explore the simultaneous impact of both CSR and AF on SME value. We present the relevant results in column 1 of Table 3. We observe that consistent with our findings reported in Table

2, CSR has a statistically significant positive impact on SME value while AF responds positively but non-significantly indicating that AF does not mediate the CSR- SME value relationship.

Table 3 Mediating and moderating impact of CSR

	Firm Performance	
Variable(s)	Mediation Sales Lead	Moderation Sales Lead
C	0.34 (0.84)	0.36*** (0.90)
ACSREXP	0.03** (2.31)	0.04*** (2.34)
FA	2.18 (0.59)	5.81 (0.97)
ACSREXP*FA	------	3.51 (-0.82)
SIZE	0.82*** (29.39)	0.81*** (28.56)
LEV	-0.02*** (-2.90)	-0.02*** (-2.91)
LIQUIDITY	0.30*** (3.50)	0.30*** (3.59)
RISK	-0.00 (-0.08)	-0.00 (-0.10)
LNCPAY	-0.01 (-0.34)	-0.01* (-0.42)
FOR_OWN	0.34 (1.31)	0.33 (1.28)
EXPORT	0.64*** (7.64)	0.64*** (7.64)
GROWTH	0.00** (2.40)	0.00** (2.40)
Adjusted R^2	0.52	0.52
Year fixed effect	Included	Included

Finally, we explore if AF moderates the relationship between CSR and SME value. The theoretical expectation that AF may have a moderating effect lies in the notion that firms' access to finance can greatly be enhanced by improving the firm's reputation, image and competitive advantage. These can be ensured by superior CSR performance. To explore moderation, we create an interaction variable by multiplying FA and ACSREXP and regressing the SME value on the interaction variable along with other explanatory and control variables. We present the results in column 2 of Table 3. However, the results showed a non-significant coefficient of our interactive variable, confirming the absence of moderation of access to finance on CSR – SME value relationship.

Theoretically, access to finance could have moderated CSR – SME value relationship, however, our results do not support this notion empirically. No prior empirical study has reported any evidence of mediation or moderation impact of AF on this CSR-SME value relationship. One possible reason for this insignificant relationship could be the presence of other externalities in the study context of India. CSR expenditure leads to access to finance in SMEs. However, access to finance as a single factor is not enough to impact SMEs' value. SMEs always strive for their value in an ever-competitive environment present in developing economies. Even in the domestic market, they face the brunt of competition from large organizations. Another reason could be turning resources (like finance) into a firm's value needs building lasting competitive advantage through continuous innovation. SMEs concerned with CSR and involved in sustainable product and service development must continuously benchmark their performance with their real and potential competitors.

6.4 Endogeneity and Robustness checks

Since we employ the sales lead and access to finance as proxies for accounting-based measures of value creation, it is necessary to address possible endogeneity concerns. The endogeneity concern arises here as performance may itself lead to the various levels of CSR expenditure. As reported in sub-sections 5.1 and 5.2, our results indicate positive and significant associations between CSR expenditure and accounting performance measures.

It is unlikely that poor (good) SME performance (in terms of Sales Lead) is a factor that decisively affects high (low) CSR expenditure because it is a manifestation of clients' expressions of interest in the firm's goods or services. Sales leads are typically obtained through the referral of an existing customer or through a direct response to CSR activities and spending, advertising or publicity (Green and Peloza, 2011). Therefore, current CSR expenses may influence future sales, but future sales will not influence current CSR spending. However, better CSR performance creates an image that may help in increased access to finance. On the other hand, improved access to finance helps channelise surplus funds into productive use that may lead to high CSR spending. Moreover, authors argue that accounting-based performance may be a factor that decisively affects the nature of expenditure on social and CSR activities (Masulis and Reza, 2014; Bose et al., 2017). Therefore, it is important to address possible reverse causality or endogeneity concerns and ensure the sensitivity of our results by applying alternative model estimations. The study considers two-stage least squares (2SLS) and generalised method of moments (GMM) approaches as alternative estimations.

Table 4: CSR expenditure and SMEs performance

	2SLS	GMM
Panel A: Sales Lead as a Dependent variable		
C	0.30 (0.77)	0.30 (0.77)
ACSREXP	0.03^{**} (2.51)	0.03^{**} (2.51)
SIZE	0.82^{***} (30.63)	0.82^{***} (30.63)
LEV	-0.02^{***} (-2.88)	-0.02^{***} (-2.88)
LIQUIDITY	0.30^{***} (3.58)	0.30^{***} (3.58)
RISK	-0.00 (-0.07)	-0.00 (-0.07)
LNCPAY	-0.01 (-0.39)	-0.01 (-0.39)
FOR_OWN	0.34 (1.33)	0.34 (1.33)
EXPORT	0.63^{***} (7.62)	0.63^{***} (7.62)
GROWTH	0.00^{**} (2.41)	0.00^{**} (2.41)
Adjusted R^2	0.52	0.52
Year fixed effect	Included	Included
Panel B: Access to Finance as a Dependent variable		
C	-1130.39^{***} (-5.45)	-1130.39^{***} (-5.45)
ACSREXP	65.43^{***} (9.39)	65.43^{***} (9.39)
SIZE	156.68^{***} (11.20)	156.68^{***} (11.20)
LEV	7.32^{+} (1.72)	7.32^{+} (1.72)
LIQUIDITY	-12.39 (-0.27)	-12.39 (-0.27)
RISK	29.44 (0.74)	29.44 (0.74)
LNCPAY	28.56^{*} (1.97)	28.56^{*} (1.97)
FOR_OWN	112.91 (0.84)	112.91 (0.84)
EXPORT	-145.19^{***} (-3.35)	-145.19^{***} (-3.35)
GROWTH	0.52 (0.70)	0.52 (0.70)
Adjusted R^2	0.19	0.19
Year fixed effect	Included	Included

Dependent variable: Firm performance measured by Sales Lead and Access to Finance. Entries are the regression coefficients and t-statistics (standard) within parentheses. The models are alternatively estimated using 2SLS and GMM approaches. The sample includes 569 SMEs-years over the period 2015– 2017. ACSREXP, actual amount spent on CSR activities during the year; SIZE, firm size; LEV, level of debt in capital structure; LNCPAY, amount paid to chief executive officer (CEO). +p<0.10; *p<0.05; **p<0.01; ***p<0.001

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[1] CSR effects idiosyncratic financial constraints in two ways: "(1) increased transparency around the social and environmental impacts the company faces; and (2) improved stakeholder engagement."

[2] Access to finance is defined as sources of external borrowed finance available to firms from commercial banks and financial institutes for mainly to finance their working capital.

[3] "Socially responsible investment is the philosophy and practice of making strategic investment decisions by integrating financial and non-financial considerations, including personal values, societal demands, environmental concerns and corporate governance issues" (Cheah, Jamali, Johnson, & Sung, 2011, p. 305).

[4] For instance, in the case of instrumental variable (IV) approach of estimating the 2SLS regression, when a potential endogenous variable is regressed on IV, the regression residuals capture all unobserved sources of variability. Therefore, IV isolates the average direct effect of a treatment variable on the outcome independent variable (Smelser & Baltes, 2001). The GMM approach considers the standard form of the generalized method of moments instead of use of instrumental variables that are subject to judgment error. Moreover, the GMM approach addresses heteroscedasticity or cluster errors issues.

[5] "Socially responsible investment is the philosophy and practice of making strategic investment decisions by integrating financial and non-financial considerations, including personal values, societal demands, environmental concerns and corporate governance issues" (Cheah, Jamali, Johnson, & Sung, 2011, p. 305

To apply 2SLS estimation, we use the instrumental variables (IV) approach. Firm age is undertaken as an instrument variable and used to create a new variable by replacing the endogenous variable (for example, CSR expenditure) in stage 1, and then model-estimated values are used in the second stage as predictors of the dependent variable. Thus, following the two-step procedure helps in correcting possible endogeneity bias (Gul et al., 2011). This consideration is in accordance with the prior literature such as Jo and Harjoto (2011, 2012). Hypothetically, mature firms have larger spare resources than later entrants for involvement in CSR initiatives. However, SME improved performance is very unlikely to be assessed by firm age.

In continuation, we consider the generalized method of moments (GMM) as an alternative estimator to check the robustness of our findings. The GMM estimation provides valid and powerful instruments that address dynamic endogeneity bias associated with the panel data (Wintoki et al., 2012; Sufian and Habibullah, 2010). GMM approach is appealing because no instrumental variables specification is required and the associated estimator takes the standard form of the generalised method of moments and is widely used in the literature (Kao, Yeh, Wang and Fung, 2018). By incorporating instruments in the estimation process GMM method addresses biases related to dynamic endogeneity, unobserved heterogeneity and simultaneity (Wintoki et al., 2012). Moreover, Sufian and Habibulla (2010) argue that estimation bias arising from persistence is also controlled by the GMM method. We present the results corresponding to 2SLS and GMM estimations in Table 4.

The results from both 2SLS and GMM approaches are consistent with earlier findings reported under sub-sections 5.1 and 5.2, indicating similar strength, direction, and statistical significance for the CSR expenditure – firm value relationship. Both sales lead and access to finance are found to be significant and positive to the level of CSR expenditure. Overall, these findings indicate that our main results are robust to a host of sensitivity checks.

7. Conclusion

Our study set out to determine the impact of CSR on SME value creation in the context of India. The aim is to examine the impact of CSR on SME value through increased future sales and improved access to finance. The results show that the levels of CSR expenditure have a significant positive association with both the sales lead and the access to finance. The findings of the study suggest that CSR expenditure is perceived positive by major clients, and hence contributing to improved future sales value. In a similar vein, CSR spending is also viewed favourably by the supplier of debt capital. Our findings make three-fold contributions to the current literature. First, the study provides evidence of the importance of CSR for SMEs' value creation from an emerging economy perspective. Unlike prior studies that focused only on big firms and mainly on the U.S firms, our findings are based on a sample of SMEs from emerging countries. Second, We examine the relationship in a manufacturing and service industries setting, whereas prior studies have been limited to banking industry settings. Third, we use actual CSR expenditure, most of the studies use CSR scores as a proxy for CSR expenditures (Lys et al., 2015). We argue that CSR scores do not actually represent CSR spending as the scores are computed using a range of CSR disclosures and activities.

The results of the research could be used by policymakers and regulators in other emerging countries to justify the introduction of schemes to improve CSR for SMEs. The findings suggest that involvement in CSR activities has a positive influence on SMEs' financial performance and value creation through other channels, such as increased access to finance. Therefore, owners/managers of SMEs, policymakers and regulators may consider designing a framework for implementing CSR initiatives in SMEs. SMEs may consider CSR as a very valuable tool or mechanism through which they can address a critical problem they face, access to finance, at least partially. CSR activities along with improved access to finance will possibly improve performance and create value for the stakeholders. Moreover, policymakers may consider providing incentives to SMEs that have a good track record of CSR activities.

The study sample is restricted to the 3 years of panel data. A longer time with a larger sample of SMEs across India can be used in future studies. Additionally, alternative measures of SMEs value creation such as employees' growth can be used in future (Stoian and Gilman, 2017). Moreover, in future studies on SMEs, it could be interesting to analyse whether contingency factors such as industry dynamism and/or industry competitiveness may moderate the relationship between CSR and SMEs performance (Martinez-Conesa, Soto-Acosta, & Palacios-Manzano, 2017). Finally, considering generalizability as one of the important aims of any research, cross-country comparisons can be pursued in future studies.

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