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Corporate social responsibility and debt financing of listed firms: a quantile regression approach

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Abstract

Purpose – The purpose of the study is to examine the effect of corporate social responsibility (CSR) on debt financing (natural logarithm of debt and leverage ratios) of listed firms.

Design/methodology/approach – Using content analysis for data extraction, the study examines listed firms on the Bombay Stock Exchange (BSE) from 2010 to 2019 financial year. It uses a quantile regression and panel fixed effect regression as the model's application.

Findings – The study shows that CSR expenditure has a positive and strong correlation with debt financing (i.e. natural logarithm of long-term and short-term debts). The first findings show that CSR expenditure has a negative and statistically significant association with total leverage ratio, using conditional mean and median percentile. However, there is a positive and statistically significant association between CSR expenditure and long-term leverage ratio at the 25th and 50th percentile. The second findings show that CSR expenditure has a positive and statistically significant association with long-term debt but an insignificant association with short-term debt and total debt under a conditional mean average. The application of quantile regression addresses the values that fall outside the confidence interval and therefore document a positive and statistically significant association between CSR expenditure and debt financing (short-term debt, long-term debt and total debt) at the 25th, 50th and 75th percentile.

Originality/value – The introduction of quantile regression gives a novelty in CSR and debt financing study, which to the best of the authors' knowledge, has not received any attention. Similarly, firms have better information on how to position their CSR expenditure to attract providers of debt financing.

Keywords CSR, Debt financing, Signalling theory, CSR expenditure, Leverage ratios and the natural logarithm of debt

Paper type Research paper

1. Introduction

Corporate social responsibility (CSR) has evolved through different definitions from the 19th century to date and has a benefit for both the firm and the community (Carroll, 1979; Spector, 2008). Firms globally seek to leverage its competitive advantage as CSR practitioner in its business engagement (i.e. debt financing) and also act as a socially responsible institution that has actions that reflect world sustainable development goals (Sustainable Development Goals, 2019). The concept of CSR is not new to the context of India, an emerging economy, justifying the use of the Indian stock market as the testing ground for the study. Nonetheless, decade literature on CSR and debt financing

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