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Corporate Social Responsibility and Asset Sales

Hoontaek Seo

Abstract

Using a sample of voluntary asset sales by U.S. firms, we examine whether corporate social responsibility (CSR) creates value for divesting firms. We find that CSR performance has a positive impact on stock price reactions to asset sale announcements. Our results indicate that CSR activities can improve firm value and are consistent with the conflict resolution view of CSR.

Keywords: CSR, asset sales, shareholder value, divesting firms, stock price reaction

1. Introduction

Many U.S. firms have increased their investment in Corporate Social Responsibility (hereafter CSR) activities. They also become increasingly willing to publish annual CSR reports. Even if awareness and interest in CSR has been on the rise, there has been considerable debate about the role of CSR. A large body of existing studies examines the relation between CSR and corporate financial performance (e.g., Servaes and Tamayo, 2013; Deng, Kang and Low, 2013). However, the impact of CSR on corporate financial performance is still not completely understood.

In this paper, we examine whether CSR creates shareholder value for divesting firms. There could be conflicting ways in which CSR activities affect this stock price reaction to asset sale announcements Managerial entrenchment view of CSR suggests that CSR activities can be viewed as a means for managers to increase their private benefits. This suggests that CSR activities are associated with an inefficient use of sale proceeds. Therefore, under this view, we predict that investors react negatively to asset sale announcements. On the other hand, conflict resolution view of CSR argues that CSR activities can be viewed as a means for managers to maximize shareholder wealth by enhancing the commitment of stakeholders. This suggests that CSR activities are associated with an efficient use of sale proceeds. Thus, this predicts that investors react positively to asset sale announcements.

Using a sample of voluntary asset sales by U.S. firms between 1992 and 2013, we examine the impact of CSR performance on announcement period abnormal returns to asset sales to distinguish between the managerial entrenchment view and the conflict resolution view. We find that CSR performance has a positive impact on stock price reactions to asset sale announcements. Our result is consistent with the conflict resolution view of CSR.

Our paper contributes to the literature by providing evidence that CSR performance can create shareholder value for divesting firms. To the best of our knowledge, our study is the first to document the role for CSR performance as a determinant of stock price reactions to asset sale announcements.

The rest of the paper is organized as follows. In section 2, we develop hypotheses. Section 3 describes the data and provides summary statistics for variables of interest. Section 4 reports the empirical results on the impact of CSR performance on market reaction to asset sale announcements and Section 5 concludes.

2. Hypothesis development

This section develops testable prediction for the impact of CSR performance on announcement period abnormal returns to asset sales. There have been two competing views on the role of corporate social responsibility (CSR) in the literature.

Managerial entrenchment view of CSR suggests that managers get private benefits at the expense of shareholders by engaging in CSR activities (Arouri and Pijourlet, 2015; Deng, Kang and Low, 2013). According to this view, CSR activities can be viewed as a means for managers to increase their private benefits. This suggests that CSR activities are associated with an inefficient use of sale proceeds. Therefore, this view predicts a negative impact of CSR performance on announcement period abnormal returns to asset sales.

On the other hand, conflict resolution view of CSR argues that managers engage in CSR activities to resolve conflicts among various stakeholders (Arouri and Pijourlet, 2015; Deng, Kang and Low, 2013). According to this view, CSR activities can be viewed as a means for managers to maximize shareholder wealth by enhancing the commitment of stakeholders. This suggests that CSR activities are associated with an efficient use of sale proceeds. Thus, under this view, we predict a positive impact of CSR performance on announcement period abnormal returns to asset sales.

3. Data and Descriptive Statistics

3.1. Data

Our ample consists of voluntary asset sales by U.S. firms between 1992 and 2013. The initial sample of asset sales comes from Thompson SDC mergers and acquisition database. Our final sample includes all completed asset sales that meet the following selection criteria: (1) the divesting firm is publicly traded firm and has financial data and stock return available from Compustat and CRSP, respectively (2) the transaction entails a cash distribution of $10 million or more to the divesting firm (3) the divesting firm is not in the financial industries (SIC codes 6000-6999) (4) if a divesting firm announces multiple asset sales in a given fiscal year, the earliest announced transaction is included (5) the divesting firm is in the KLD database. These restrictions result in a final sample of 2011 asset sales.

We obtain CSR rating scores from KLD database, which has been widely used in the CSR literature. The KLD database provides ratings for strengths and concerns in seven qualitative areas: community, diversity, corporate governance, employee relations, environment, human rights, and product characteristics. Within a given area, there are a set of indicators for each strength and concern activity. A firm gets one if it meets the criteria for an indicator, otherwise it gets zero. The score of each area is calculated as the strength score minus the concern score. A firm's CSR score is the sum of seven area scores, with a higher value indicating a high CSR performance.

3.2. Descriptive Statistics

Table 1 provides summary statistics for the key variables used in our analysis. The mean (median) transaction size, defined as the market value of the transaction divided by the book value of total assets at the end of the fiscal year prior to the announcement of the asset sale is 6.3% (2.2%). This large transaction size indicates that asset sales are important events for our sample firms. The average firm in our sample has a CSR score of 0.09. The sample firm has mean total assets of $21.31 billion. Firms with a high CSR score on average have higher Tobin's q, which suggests that firms with strong performance are more active in their CSR activities (Deng, Kang and Low (2013)). Firms with a high CSR score maintain lower leverage relative to firms with a low CSR score.

Table 1: Summary Statistics

This table shows the summary statistics for the key variables used in our analysis. The sample consists of 2011 voluntary asset sales between 1992 and 2013 by public nonfinancial firms where the transaction entails a minimum payment of $10 million in cash to the divesting firm. We divide the sample into high and low corporate social responsibility (CSR) firms according to the median CSR in each year. Variable definitions are in the Appendix. The symbols ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	Full Sample (N=2011)		Subsample of High CSR: A (N=1206)		Subsample of Low CSR: B (N=805)		Test of Difference (A-B)	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
CSR	0.090	0.000	1.765	1.000	-2.419	-2.000	4.183***	3.000***
Total Asset ($ mil)	21314	5753	24247	5713	16920	5768	7327***	-54.761
Leverage	0.296	0.286	0.282	0.278	0.317	0.308	-0.035***	-0.030
Tobin's Q	1.705	1.410	1.814	1.499	1.543	1.323	0.271***	0.176***
Interest Coverage	50.439	6.247	67.867	7.449	24.600	4.860	43.266	2.589***
Transaction Size	0.063	0.022	0.067	0.023	0.057	0.021	0.010*	0.002

Table 2: A Pearson Correlation Matrix

The table shows the Person correlation matrix between the key variables used in our analysis. Variable definitions are in the Appendix. The symbols ***, **, and * indicate statistical significances at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
(1) CSR	1.00					
(2) Log Assets	0.16***	1.00				
(3) Leverage	-0.08***	0.06***	1.00			
(4) Tobin's Q	0.19***	-0.03	-0.20***	1.00		
(5) Interest Coverage	0.02	-0.04	-0.10***	0.07***	1.00	
(6) Transaction Size	-0.04	-0.41***	0.03	0.16***	0.00	1.00

Table 2 reports Pearson correlation coefficients among the key variables used in our analysis. Tobin's q is positively and significantly related to CSR and leverage is negatively and significantly related to CSR.

4. The impact of CSR on the stock price reaction to asset sale announcements

In this section, we examine the impact of CSR performance on announcement period abnormal returns to asset sales to distinguish between the managerial entrenchment view and the conflict resolution view. We obtain the announcement dates from Thompson SDC mergers and acquisition database. We measure normal stock returns by estimating a market model over 200 trading days ending 51 days before the sale announcement date (day 0). A minimum of 25 trading days is required to compute model parameters. Then, we subtract estimated stock returns from actual stock returns to obtain abnormal stock returns around the announcement date. Cumulative abnormal returns are the sum of daily abnormal returns from day -1 to +1 relative to the sale announcement date (day 0).

4.1. Univariate analysis

Table 3 reports cumulative abnormal returns (CARs) over the window (-1, +1) for the full asset sales sample and subsamples of high and low CSR firms. We divide the sample into high and low CSR firms according to the median CSR in each year.

Table 3: Cumulative Abnormal Returns (CARs) to Asset Sale Announcements

The table reports cumulative abnormal returns (CARs) around asset sale announcement dates. Abnormal returns are computed using a standard market model with parameters estimated over days -250 and -51 relative to the announcement date (day 0). The symbols ***, **, and * indicate statistical significances at the 1%, 5%, and 10% levels, respectively.

CARs (%) from Days -1 to +1 Relative to Announcement

	Mean	Median	N
Full Sample	1.056***	0.290***	2011
Subsample of High CSR (A)	1.257***	0.365***	1206
Subsample of Low CSR (B)	0.755***	0.116***	805
(A) - (B)	0.502*	0.249*	

For the full sample, the mean (median) CAR over the window (-1, +1) is 1.056% (0.290%). The result suggests that investors react positively to asset sale announcements, which is consistent with existing empirical evidence in the literature (Hite, Owers and Rogers, 1987; Bates, 2005). The subsample results show that CARs are more positive for high CSR firms than for low CSR firms. Specifically, the mean (median) CAR over the window (-1, +1) for high CSR firms is 1.257% (0.365%), while the mean (median) CAR over the window (-1, +1) for low CSR firms is 0.755% (0.116%). The difference in mean (median) CARs between high and low CSR firms is significant at the 10% (10%) level. The results support conflict resolution view of CSR.

4.2. Regression analysis

To examine the impact of CSR performance on announcement period abnormal returns to asset sales, we employ an ordinary least squares (OLS) regression using CAR (-1, +1) as the dependent variable and CSR score as the key explanatory variable. Based on the previous studies (e.g., Bates, 2005; Fee, Pierce, Seo and Yan, 2014), we include a standard set of control variables. The appendix contains definitions for the variables used in the regressions.

Table 4: The impact of CSR on Cumulative Abnormal Returns (CARs)

The table reports the results of the regression analysis of cumulative abnormal returns (CARs) on CSR. The dependent variable is the cumulative abnormal return from one day before to one day after the announcement date. The t-statistics in parentheses are based on standard errors adjusted for heteroscedasticity. The labels ***, **, and * indicate statistical significances at the 1%, 5%, and 10% levels, respectively.

Variable	(1)	(2)
CSR	0.0008**	0.0007**
	(2.03)	(2.01)
Log Assets	-0.0009	-0.0008
	(-0.87)	(-0.71)
Leverage	0.0059	0.0166*
	(0.59)	(1.69)
Tobin's Q	-0.0062***	-0.0045***
	(-3.96)	(-2.84)
Interest Coverage	0.0000	0.0000
	(1.05)	(0.32)
Transaction Size	0.0613**	0.0675**
	(2.10)	(2.28)
Insider Ownership		0.0000
		(-0.05)
Institutional Ownership		0.0002
		(1.49)
Sample size	1923	1647
Adjusted R^2	0.025	0.029

Table 4 presents the regression results. The t-statistics in parentheses are based on standard errors adjusted for heteroscedasticity. The estimated coefficient on CSR score is of primary interest. The coefficients on CSR score in columns (1) and (2) are positive and statistically significant at 5% level. The results indicate that CSR performance has a positive impact on stock price reactions to asset sale announcements. The results support the conflict resolution view of CSR.

5. Conclusions

This study investigates whether corporate social responsibility (CSR) creates value for divesting firms to distinguish between the managerial entrenchment view and the conflict resolution view. We find that CSR performance has a positive impact on stock price reactions to asset sale. Our results support the conflict resolution view of CSR and indicate that CSR activities can create value for divesting firms. This study contributes to the literature by providing evidence that CSR performance can add value to a firm.

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Author

Hoontaek Seo
Associate Professor of Finance, Niagara University, USA, hseo@niagara.edu

Appendix: Definition of Variables

Variables	**Definition**
CSR	Net score of CSR rating (total strengths minus total concerns), based on seven categories of KLD data, i.e., community, corporate governance, diversity, employee relations, environment, human rights, and product characteristics
Log Assets	Natural logarithm of book value of total assets ln AT
Leverage	Book value of debts (sum of long-term debt and current liabilities) divided by book value of total assets (DLTT+DLC)/AT
Tobin's Q	Market value of assets (total book value of assets minus book value of equity plus market value of equity) over book value of total assets (AT-CEQ+CSHO*PRCC_F)/AT
Interest Coverage	Operating income before depreciation over interest expenses OIBDP/(XINT or TIE)
Transaction Size	Market value of the transaction reported in SDC over book value of total assets
Insider Ownership	The aggregate percentage ownership of common stocks held by top five executives (officers and directors)
Institutional Ownership	The aggregate percentage ownership of shares held by institutional investors which own at least 5% of outstanding shares.