

Corporate Social Responsibility and Institutional Investors: Evidence from Emerging Markets

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Abstract

This study investigates whether foreign institutional investors consider corporate social responsibility (CSR) while making investment decisions. Drawing on a sample from 21 countries, the study took 8756 firm-year observations from 650 non-financial firms over the 2002-2018 period. The study used generalized least square (GLS) regression along with other statistical techniques to analyse the data. The findings show a negative association of poor environmental and social performance with foreign institutional ownership (FIO). The findings also reveal that foreign institutional investors invest even less in poor CSR performing firms when these firms are located in countries with low disclosure requirements. The findings reveal that FIO has positive association with market turnover, economic development, free float, and firm size while negative association with financial leverage. The findings of the study have important implications for investors, regulators, and corporate managers in emerging and developing economies (EMDEs). The research is limited on CSR and institutional investors in emerging and developing economies. Therefore, this study contributes to existing CSR literature, aiming its importance for both foreign institutional investors and emerging and developing economies.

Keywords: CSR, institutional; investors, ownership, environmental and social, foreign institutional ownership, financial leverage.

1. Introduction

In recent years, corporate social responsibility (CSR) has gained significant consideration from practitioners and academician around the globe. Firms have allocated a substantial portion of their annual reports to disclose their CSR activities and addressed several CSR

issues that can be beneficial for employees and society as whole. Many universities have incorporated CSR into their curricula for its evolving demand and attention. Existing literature has mainly focused in exploring the effects of CSR on the corporate outcomes (Deng et al., 2013; El Ghouli et al., 2011; Jiraporn et al., 2014; Oikonomou et al., 2012), corporate bonds (Stellner et al., 2015), and firm risk (Albuquerque et al., 2019; Jo & Na, 2012). However, firm's motivations are still unknown regarding CSR practices. Therefore, question arises why firms engage themselves in CSR activities? Drawing on stakeholder theory, the firms engage its stakeholders in decision making process. Literature provides the evidence that institutional investors, such as banks and pension funds, are the biggest stakeholders of the firms that not only provides capital but also enhances the firm's technological innovation (Luong et al., 2017), financial performance (Correa-Garcia et al., 2020; Douma et al., 2006), and earning quality and transparency (Beuselinck et al., 2017; Kim et al., 2020). Therefore, institutional investors have become progressively imperative for firms both in developed and developing countries. Scholars argued that firms can get capital market benefits in the presence of foreign investors (Lu & Abeysekera, 2021), however these foreign investors can also influence corporate decisions (Jeon et al., 2011). Existing literature has two empirical research streams, mainly focusing on accounting standards and information disclosure. Aggarwal et al. (2005) found that US funds invest more in emerging countries with robust accounting standards and regulatory compliance. Those firms also attract more institutional investments that issue American Depository Receipt (ADRs) (Aggarwal et al., 2005). Similarly, DeFond et al. (2011) contended that US fund managers increased their investments in EU firms after mandatory adoption of IFRS. This indicates that investors' protection and high accounting standards are pivotal to attract foreign institutional investments. Scholars argued that CSR initiatives help in building the positive impression over stakeholders (Dhaliwal et al., 2011) and consequently, reduce the firms cost of capital and increase the firm value (Margolis & Walsh, 2003).

Literature provides the evidence that foreign investors give more weightage to strong CSR activities, compared to domestic investors who are only motivated by financial returns (Li et al., 2021). Scholars contended that CSR practices are already well adopted in developed economies, therefore foreign investors have more awareness as compared to domestic investors. Additionally, these foreign investors can demonstrate their CSR awareness while investing in weakly governed emerging economies and may exert more pressure on management teams to incorporate CSR activities. In similar vein, Barmeyer and Mayrhofer (2008) argued that foreign investors may have less information as compared to domestic investors due to geographical and cultural differences. Therefore, CSR engagement can help in reducing this information asymmetry through signalling mechanisms (Oh et al., 2011). Jamali et al. (2008) contended that firms need to focus not only economic sphere, but they also need to focus on environmental and social issues. Consequently, investors are focusing on financial performance as well as environment and social (E & S) performance that are two key elements of CSR. Harjoto et al. (2017) found that investors prefer to invest in firms with CSR activities to fulfil their social and economic objectives. In contrast, scholars contended that more E & S investments could lead to agency problems in the firm.

However, external stakeholders exert more pressure on E & S improvements (Liang & Renneboog, 2017; Masulis & Reza, 2015). Some scholars contended that E & S investments can provide insurance against event risk (Albuquerque et al., 2017; Lins et al., 2017) and product market differentiation (Servaes & Tamayo, 2013).

Most of the existing literature has focused on foreign institutions' behaviour and investors' attitude towards CSR in the U.S. market (Aggarwal et al., 2003; Leuz et al., 2009) while little is known about investors' behaviour in the emerging economies. CSR reporting and transparency are pivotal in understanding the environmental and social performance and provides benefits to distinctive stakeholders, such as government, regulators, employees, customers, and society in general (Dubbink et al., 2008). Solomon and Solomon (2006) debated that enhanced management of CSR problems results in better financial performance and ethical and socially responsible investment. Amran et al. (2014) also reported that an effective sustainability disclosure process is influenced by the manager's engagement with CSR issues. Existing literature reveals that institutional ownership has a great effect on research and development spending (Baysinger et al., 1991; Khan et al., 2020; O'Barr et al., 1992), insider trading (Chung et al., 2018), dividend policies (Grinstein & Michaely, 2005), capital structure (Chaganti & Damanpour, 1991; Chung et al., 2018), executive compensation (Janakiraman et al., 2010), organisational commitment (Roudaki & Arslan, 2017), and mergers and acquisition (Ferreira et al., 2010). Agency theory suggests that institutional investors can monitor the managers and avoid the agency conflicts (Eisenhardt, 1989; Jensen & Meckling, 1979). Consequently, a high institutional ownership may motivate firms to actively engage in CSR activities (Rustam et al., 2019). Good management theory also proposes that institutional investors should have a positive effect on firm CSR practices (Van Beurden & Gössling, 2008; Waddock & Graves, 1997) through different voicing mechanisms (Brickley et al., 1988). Scholars contended that socio-economic environment is unique in emerging economies due to their distinct ownership structure (Arslan & Abidin, 2019; Peters et al., 2011) and absence of norms. However, most of existing CSR work has done among developed countries and there is need to conduct similar studies in the emerging economies. Additionally, family businesses are dominant among emerging countries and offers a different scenario from that of developed countries. Therefore, this provides us opportunity to explore the determinants of CSR activities in emerging economies that are characterised by weak institutional environment.

It is evident that existing literature provides mixed findings about the behaviour of institutional investors towards firm's CSR practices and need arises to examine the behaviour of foreign institutional investors towards the firm's CSR activities. In particular, this study investigates whether foreign institutional investors invest less in firms with poor CSR performance or not. We focused on emerging markets and developing economies (EMDEs) because foreign capital remains the largest and most constant source of outside financing for these economies. Therefore, many countries have made major policy shifts to attract international investors. Additionally, it is also pivotal for policymakers to identify what determines foreign capital allocation and how CSR activities may influence

investment decisions. We exploit the significant variation in firm-level CSR performance in EMDEs that potentially affects foreign capital allocation. It is very risky for foreigners who are doing businesses in EMDEs (particularly in regions with conflict risk), however high firm-level social performance could offset the home country's institutional deficiencies.

This study has drawn its sample from 21 emerging and developing countries over the 2002-2018 period and finds the negative association of poor environmental and social performance with foreign institutional ownership. In addition, foreign institutional investors even invest less in poor CSR performing firms when these firms operate in countries with low disclosure requirements and weak investors' protection. Our findings imply that CSR initiatives can help firms, in emerging countries, to attract more foreign institutional investments. Robustness test also revealed similar findings.

This study adds value to the existing CSR literature particularly related to emerging and developing economies and offers distinct understanding and behaviour of institutional investors. This study helps in determining the role of disclosure requirements and investors protection in getting access to reduce cost of capital and attract more institutional investments. The findings can provide guidelines to managers and policy makers to develop CSR policies to attract institutional investments. This study also highlights the importance of institutional, agency and stakeholder theories in promoting the CSR practices among firms.

This paper proceeds as follows. Section 2 expounds the literature review while methodology is presented in Section 3. Results and discussion are presented in Section 4. At the end, Section 5 concludes the findings of the paper and provides recommendations, limitations and future research directions.

2. Literature Review

In existing literature, CSR is delineated as abating the harmful effect of firm's operations while amplifying the long-term benefits to society and stakeholders (Liang & Renneboog, 2017). CSR has gained much attention among different stakeholders in recent years. Therefore, firms are trying to boost their CSR activities to become more socially responsible firms and attract more investment. This is aligned with perspectives of stakeholder theory. Similarly, Ferrell et al. (2016) argued that firms rely on numerous stakeholders like customers, employees, owners and policy makers to get reputation and recognition. The CSR activities provide firms an opportunity to give ethical signal in capital markets and differentiate themselves from their counterparts (Siegel & Vitaliano, 2007) to gain benefits. Scholars also found that socially responsible firms reduce the information asymmetry, provide more transparency, and make more responsible decisions (Kim et al., 2012). In addition, CSR activities help in building the loyalty and commitment of numerous stakeholders to the firms, hence adds long term value to the firms (Maqbool & Zamir, 2019). Literature also indicates that institutional investors, as key stakeholder, has remarkable effect on decision making of the firms (Maqbool et al., 2020). In similar vein, scholars contended that institutional investors can play an important role in boosting CSR activities because they make large segment of capital markets and big firms are

dominated by institutional ownerships (Rhou & Singal, 2020; Sundarasan et al., 2016). CSR activities can reduce stock volatilities and can attract more institutional investors because institutional investors are risk averse (Petersen & Vredenburg, 2009). It implies the need to allocate more resources to boost CSR activities for the firms. However, firms' investment decision can vary in emerging economies that have unique institutional arrangements. Scholars contended that allocation of resources mainly depend on ownership structure and identity which can significantly influence the strategic decisions of the firms (Gómez-Mejía et al., 2007; Khanna & Palepu, 2000; Wąsowska, 2013). Scholars acknowledged a positive association between CSP and institutional investors (mutual funds, pension funds, and investment banks) (Johnson & Greening, 1999). Similarly, Teoh and Shiu (1990) contended that institutional investors prefer firms which are actively engaged in CSR activities while making investment decisions. Correspondingly, Cox et al. (2004) also found the positive relationship between institutional investors (pension funds, charitable fund, and life assurance funds) and CSP. Scholars also found a substantial increase in institutional investments both in developed and developing countries (Blume & Keim, 2012; Gompers et al., 2003). Prior studies advocate that institutional investors have a great influence on firm's policies and corporate decisions (Bena et al., 2017; Chen et al., 2020; Dam & Scholtens, 2012; Dyck et al., 2019; Grinstein & Michaely, 2005). Sethi (2005) contended that public funds use tax money from general to make investments, therefore they consider firm's overall environmental policies while making investment decisions. García-Sánchez et al. (2020) argued that foreign institutional investors such as pension fund enhance the disclosure of information while government does not have any effect on information disclosure. On the other hand, Dalton et al. (2003) contended that high institutional ownership may create conflicts due to divergence in institutions' interests that will shrink the effectiveness of monitoring. In a similar vein, Hoskisson et al. (2002) argued that different institutional owners might have their own interests that can create the conflicts among them and ultimately distract them to encourage firms to engage in CSR activities. Scholars contended that insider block holders are less motivated to invest in CSR activities while FIO can enhance CSR activities through monitoring mechanisms (Shu & Chiang, 2020). Harjoto et al. (2017) found that institutional ownership varies with CSR activities and CSR practices decrease the stock return volatility. Yu and Zheng (2020) contended that qualified foreign institutional investors prefer to invest more in firms with strong CSR reporting. Therefore, our first hypothesis is as follows:

- **H₁:** Foreign institutional investors avoid investing in poor CSR-performing EMDEs firms.

Several studies have been conducted to investigate the relationship between CSR and institutional investor, however these studies focused either on developed countries or have smaller time period. Scholars found that firms can attract more institutional investment by focusing on CSR initiatives and such initiatives also influence the behaviour of the institutional investors (Mahoney & Roberts, 2007). This signalling effect can offer more insights to institutional investors about firm's policies and preferences. Therefore, institutional investors consider both financial and nonfinancial information while making

investment decisions. Scholars contended that CSR initiatives reduce the unsystematic risk and reduces the stock volatilities which also helps in attracting more institutional investments (Maqbool & Zamir, 2019). This indicates the positive association of CSR and institutional investments (DiMaggio & Powell, 1983b).

Institutional theory highlights the importance of macro-level factors on CSR initiatives. Scholars contended that institutional pressures enhance the CSR activities among firms (Carbone & Moatti, 2011; Hojmosse et al., 2014). DiMaggio and Powell (1983a) argued that three mechanisms lead to isomorphism (i.e., coercive, mimetic, and normative). Coercive isomorphism is social process to institutionalise CSR due to political pressures and legitimacy issues. It implies that firms have to respond to these pressures and take CSR initiatives. In mimetic isomorphism, firm tries to imitate other firms to enjoy similar benefits. Firms adopt mimetic isomorphism because of uncertainty. The normative isomorphism is the pressure from professionals in their network. It indicates that firms focus more on CSR initiatives if it is required by the legal system of the country. It also reveals that institutional environment play a critical role in boosting the CSR activities in firms, consequently it can attract more institutional investment and vice versa. Drawing on institutional theory, this study implies that nonfinancial information disclosure plays an important role in a country with weak institutional environment. Therefore, our second hypothesis is as follows:

- **H₂:** Foreigner institutional investors will be more reluctant to invest in poor CSR-performing EMDEs firms, especially when these firms operate in countries with weak investor protection and low disclosure requirements.

3. Methodology

This section presents the research methodology of the study. The first section discusses data sources of CSR and institutional ownership. The second section presents the dependent variable (i.e., institutional ownership) while the third section presents the independent variable (i.e., CSR). At the end, the control variables (i.e., firm level and country level) are presented.

3.1 Data Sources

This section expounds the data and sample of this study. This study used institutional ownership and firm level CSR performance data from 21 emerging economies for the period of 2002-2018. We used probability sampling and collected the available data from the databases. After collecting the institutional ownership and CSR performance data, we combined it with country and firm level control variables. The firm level characteristics were collected from World Scope while country level variables data were collected from DataStream and World Bank. We also excluded all financial firms. Thus, our final sample consists of 650 non-financial firms and 8756 firm-year observations.

3.2 Dependent Variables

This study examines the impact of CSR on foreign institutional ownership. We gathered the holdings data from Fact Set ownership database. This dataset covers the equity holdings by funds collected from different sources such as funds report, regulatory authorities, and

fund associations. This database covers the institutions with sophisticated investors such as pension funds, mutual funds, and insurance companies as explained by (Ferreira & Matos, 2008). Similarly, this database has been used by several existing studies on institutional ownership (Aggarwal et al., 2011; Bena et al., 2017; Ferreira & Matos, 2008; Kim et al., 2019). We used total institutional ownership ratio in percentage of market capitalization at the end of each calendar year (IO_Total), the domestic institutional ownership ratio in % of market capitalization (IO_Dom) and the FIO ratio in percentage of market capitalization (IO_For).

Table 1: Institutional Ownership by Country

Country	IO_Total (mean)	IO_For (mean)	IO_Dom (mean)
Poland	30.90%	10.34%	20.56%
Hungary	29.00%	28.35%	0.65%
Israel	24.65%	23.31%	1.34%
Brazil	21.01%	18.02%	2.99%
Mexico	16.36%	14.35%	2.01%
South Africa	14.94%	9.89%	5.05%
Thailand	14.04%	13.09%	0.95%
South Korea	13.94%	13.42%	0.52%
China	13.75%	12.45%	1.30%
Turkey	13.41%	13.16%	0.25%
India	13.01%	8.02%	4.99%
Taiwan	12.54%	11.56%	0.98%
Russia	12.51%	12.42%	0.09%
Greece	12.17%	11.32%	0.85%
Philippines	11.52%	11.29%	0.23%
Indonesia	10.72%	10.26%	0.46%
Czech Republic	10.69%	10.08%	0.61%
Malaysia	9.82%	9.10%	0.72%
Chile	8.22%	7.03%	1.19%
Egypt	7.17%	7.09%	0.08%
Morocco	1.34%	1.32%	0.02%
Total	14.37%	12.18%	2.18%

IO_Total represents the total institutional ownership ratio (in percentage of market capitalization). IO_For represent foreign while IO_Dom represent the domestic institutional ownership ration (in percentage of market capitalization)

Table 1 reveals the institutional ownership by countries. It can be seen that institutions hold on average 14.37% of EMDEs firms' market capitalization which is lower than most of developed countries (Aggarwal et al., 2011). Table 1 reveals that Poland has the highest

institutional ownership (30.90%) while Morocco has the lowest institutional ownership (1.34%). On the other side, Hungary has the highest foreign ownership (28.35%) while Poland has the highest domestic institutional ownership (20.56%). Malaysia, Chile, Egypt, and Morocco have less than 10% of FIO. The higher amount of FIO among these EMDEs countries reflects the government's efforts to attract more international investment by providing a favourable business environment. China launched the Qualified Foreign Institutional Investor Program in 2002 and increased the quota in 2012 from US\$30 billion to US\$80 billion. Through this program, foreign investor need to get approval to buy “A shares” (Zhao & Liu, 2019).

3.3 Independent Variables

This study examines the role of institutional investors in corporate social responsibility (CSR); hence the key explanatory variable is corporate social responsibility. The study specifically examines the firms' CSR activities that give benefit to the stakeholders and behaviour of institutional investors towards such firms. Environmental (Env) and social (Soc) dimensions are two main pillars of CSR and we have used these dimensions to examine the impact of corporate externalities on stakeholders (Chen et al., 2020; Dyck et al., 2019; Hartzmark & Sussman, 2019; Liang & Renneboog, 2017).

Environmental, social, and governance (ESG) investment approaches have evolved considerably since their inception in the 1990s (Townsend, 2017). Many ESG indices were introduced but mostly focused on the firm-level CSR performance of the U.S. and other major developed markets. However, this coverage has expanded steadily over time due to the evolving prominence of CSR information for the financial community. This also attained evolving attention from researchers, academia, and policy makers around the globe. Early CSR studies focused on U.S. firms and relied on the data developed by Kinder, Lydenberg, Domini & Co., Inc. (KLD) (Graves & Waddock, 1994; Waddock & Graves, 1997; Wood & Jones, 1995). However, several international studies have been conducted since the expansion of data coverage over time (Arslan, 2020; Dyck et al., 2019; Liang & Renneboog, 2017; Roudaki & Arslan, 2017; Wang, Dou, & Jia, 2016). We collect CSR data by using ASSET4 database from Thomson Reuters which has global coverage. ASSET4 collects data from their original publicly available sources (i.e., CSR reports, annual reports, news, stock exchanges, and companies' websites) and reflects more than 750 individual points. This individual raw data is induced in eighteen categories, then grouped into four pillars of CSR (i.e., Economic, environment, social, and governance) and accumulate to single overall CSR score. These ratings are available from the year 2002, covering more than 5000 large public firms. Among other major equity indices worldwide, this coverage includes firms from MSCI Emerging Markets, DJSTOXX, MSCI Europe, and MSCI World. These CSR ratings are objective since these rating agencies are not financially dependent on rated firms. In addition, Thomson Reuters does not apply a tick box approach to rate firms and firms are not assessed according to their compliance with local regulation and international guidelines. However, CSR ratings reflect the firm's voluntary engagement in CSR strategies to manage opportunities and risks that firms assess in contrast to their counterparts both nationally and internationally. Consequently, these ratings are not dependent on the country specific context (Ferreira & Matos, 2008). CSR

ratings range from 0 to 100% and a relative measure which is equally weighted and normalized and a high score indicates the high performance. CSR_Total represents the overall CSR performance of the firms in all four areas (i.e., economic, environmental, social, and governance). The score ranges from zero (0) to hundred (100) and higher score represents higher CSR performance. CSR_Env represents the environment performance and having a score of 0 to 100. The higher score reflects higher environmental performance. It measures the firms' effect on non-living and living natural systems including water, land, and air. It also reveals how a company generates long term shareholder value by employing the best management practices. CSR_Soc represents social performance and having a score of 0 to 100. The higher score is associated with higher social performance. It is a measure of firm's ability to develop loyalty with its customers and trust within the society, and workforce by following best management practices.

The poor CSR performing firms are the main part of our analysis and therefore, based on studies of La Porta, Lopez-de-Silanes, and Shleifer (2006) and Leuz et al. (2009), we classified the countries according to a level of disclosure requirements ranging from 0 to 1. The countries that score below the median of 0.75 are classified as "low disclosure requirements" while countries that score above the median of 0.75 are classified as "high disclosure requirements". Poor_Total is a dummy variable of overall CSR score (beyond median = 1, otherwise = zero). Poor_Env is a dummy variable of environmental score (beyond median = 1, otherwise = zero). Poor_Soc is a dummy variable of social score (beyond median = 1, otherwise = zero). We also used robustness tests by taking the ESG scores from the new Thomson Reuters ESG score which is a substitution and enhancement of ASSET4 ratings. Thomson Reuters ESG Controversy Score (ESGC) provides a comprehensive and rounded evaluation of a firm's ESG performance based on the reported information in the ESG pillars with an ESG controversies overlay captured from global media. ESGC_high is a dummy variable for controversies score ((beyond median = 1, otherwise = zero). These new controversies scores provide an alternative CSR performance proxy and help in detecting irresponsible firms. The explanatory variables data were collected from Thomson Reuters ASSET4 and Thomson Reuters ESG scores CSR_total, CSR_Env, CSR_Soc, Poor_Total, Poor_Env, and Poor_Soc variables data were collected from Thomson Reuters ASSET4 while ESGC data was collected from Thomson Reuters ESG scores.

Table 2 reveals the mean CSR performance by country. It reveals that overall CSR score of firms operating in EMDEs firms is 46.37%. The study finds that Hungary has the highest CSR performance score (70.56%) while Egypt has the lowest CSR performance (16.01%). South Africa has the second highest CSR performance score (70.08%) while India has the third highest CSR performance score (62.46%). This may be due to the fact that CSR reporting is mandatory in South Africa and India (Eccles, 2015; Pandey & Pattnaik, 2017). Chile (34.04%), Taiwan (33.29%), Poland (33.02%), China (22.07%), and Egypt (16.01%) have the lowest overall CSR performance score.

The mean value of CSR environmental performance score is 50.58%. This score is slightly lower than the study of Dyck et al. (2019). Liang and Renneboog (2017) argued that Scandinavian firms are good performers of CSR performance and such firms are missing in this study. Hungary has the highest CSR environment performance score (76.02%) South Africa has the second highest score of CSR environmental performance (66.32%) while India has the third highest score (65.67%). The mean of CSR social performance is 57.01%. Morocco has the highest CSR social performance score with 79.05% while China has the lowest score (26.53%).

Table 2: CSR (Country Level)

	CSR_Total (mean)	CSR_Env (mean)	CSR_Soc (mean)
Hungary	70.56%	76.02%	78.04%
South Africa	70.08%	66.32%	78.02%
India	62.46%	65.67%	72.09%
Thailand	60.24%	54.50%	63.03%
Brazil	56.20%	57.02%	69.01%
Czech Republic	54.50%	51.04%	71.23%
Turkey	53.78%	60.03%	57.40%
Malaysia	52.23%	43.54%	58.01%
Indonesia	50.35%	49.42%	65.09%
South Korea	49.32%	65.29%	59.06%
Russia	47.01%	50.03%	53.00%
Philippines	46.34%	40.02%	48.34%
Greece	43.01%	53.43%	58.91%
Mexico	42.09%	52.45%	56.03%
Israel	41.23%	42.56%	44.03%
Morocco	36.02%	43.49%	79.05%
Chile	34.04%	45.03%	47.58%
Taiwan	33.29%	51.25%	42.52%
Poland	33.02%	41.03%	42.10%
China	22.07%	28.45%	26.53%
Egypt	16.01%	25.61%	28.21%
Total	46.37%	50.58%	57.01%
CSR_Total represents the equal-weighted and normalized score of the firm's performances in all of the four CSR pillars (i.e., economic, environmental, social, and governance). CSR_Env represents the firms' environmental performance by country. CSR_Soc represents the firms' social performance by country.			

We also employed the t-test (parametric stats) to compare FIO across different CSR performance levels because IO_For variable is normally distributed. Table 3 reveals the

difference in FIO is highly statistically significant across different levels of CSR performance (both overall and by component). Table 3 reveals that foreign institutional holdings are consistently lower in poor CSR-performing firms (weak) than in high CSR-performing firms. Foreign ownership is even lower in worst CSR-performing firms compared to those that have the highest CSR performance (best).

Table 3: Foreign Institutional Ownership by CSR Performance Level

	CSR_Total	CSR_Env	CSR_Soc
Weak (below median)	13.04%	12.35%	12.23%
Strong (beyond median)	14.97%	15.01%	15.05%
Worst (bottom quartile)	12.02%	13.12%	12.01%
Best (top quartile)	17.08%	14.89%	17.04%
Strong versus Weak (p-value t-test)	0.0000	0.0000	0.0000
Best versus Worst (p-value t-test)	0.0000	0.0001	0.0000
CSR_Total is the overall CSR performance score; CSR_Env is the environmental performance score; and CSR_Soc is the social performance score			

3.4 Control Variables

3.4.1 Firm Level Characteristics

Existing literature has highlighted the importance of using firm-level characteristics in expounding the behaviour of foreign institutional investors (Ferreira & Matos, 2008; McCahery et al., 2016). This study used several firm level characteristics as control variables such as leverage (debt divided by assets), firm size (net sales in U.S. dollars), and free float (the percentage of total shares in the issue accessible to ordinary shareholders who hold less than 5% of shares). These variables are used by several previous studies (Dam & Scholtens, 2012; Dyck et al., 2019). Researchers argued that control variables such as firm size (Siz_Sal) (Gompers et al., 2003; Pfeifer & Sullivan, 2008), leverage (lev) (Saleh et al., 2010) and free float (float) (Cox et al., 2004; Dam & Scholtens, 2012) may affect FIO. Firm-level controls were obtained from World Scope for this study.

3.4.2 Country Level Characteristics

Existing studies documented the importance of institutional macro context for foreign investors (Dyck et al., 2019; Hail & Leuz, 2006; Leuz et al., 2009). Therefore, we employed country level control variables such as economic development (measure as the natural logarithm of gross domestic product divided by population) (lnGDPperCap) and market turnover (value of all year-end traded shares at the stock market in thousands of U.S. dollars) (Mkt_Turn) to proxy for liquidity to examine their effect on FIO. The institutional control variables were obtained from World Bank and DataStream.

4. Findings and Discussion

This section presents the findings and discussion of this study. The first section provides the results of descriptive statistics and correlation analysis while the second section presents the findings of poor CSR and FIO of sample firms. At the end, this section provides results of CSR and FIO with respect to low and high disclosure requirements.

4.1 Descriptive Statistics

Table 4 presents the results of descriptive statistics of all the variables of the study. It can be seen that FIO has a mean value of 14.37%, standard deviation of 0.121 with a minimum of zero while a maximum of 98.20%. Similarly, total CSR score has mean value of 46.37% with standard deviation of 0.314. It also has 2.30% minimum value while 96.20% maximum value. Environmental CSR has mean value of 50.58% and standard deviation of 0.342. It has minimum value of 8.3% while maximum value of 97.50%. Social component of CSR has mean value of 57.01% and standard deviation of 0.316. It has minimum value of 3.9% and maximum value of 98.20%.

Table 4: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max
IO_For	8756	14.37%	0.121	0%	98.20%
CSR_Total	4672	46.37%	0.314	2.30%	96.20%
CSR_Env	4672	50.58%	0.342	8.3%	97.50%
CSR_Soc	4672	57.01%	0.316	3.9%	98.20%
Siz_Sal	8734	15.02	1.413	4.6%	19.40%
Lev	8690	23.53	0.189	0%	735.21%
Float	8470	65.34	0.253	0%	100%
lnGDPperCap	6536	9.3	0.78	6.70%	11.30%
lnMkt_Turn	5345	19.78	1.23	13.90%	21.40%

IO_FOR represents the holdings (end-of-year) by institutions located in a different country from where the stock is listed. CSR_Total is an equal-weighted and normalized score that reflects a company's performance in all of the four CSR components (i.e., economic, environmental, social, and governance). CSR_Env) and CSR_Soc are environmental and social performance scores, respectively. Siz_Sal is the natural logarithm of net sales. Lev is debt-to-assets ratio. Float is the percentage of shares that are not held by large block holders (shareholders that hold more than 5% of the outstanding shares). lnGDPperCap is the natural logarithm of gross domestic product (GDP) divided by total population. lnMkt_Turn is the natural logarithm of total value of all traded shares (end-of-year) on a stock market.

4.2 Correlation Analysis

The results of correlation analysis are presented in Table 5. It reveals that foreign institutional ownership (IO_For) has positive relationship with total score of CSR (CSR_Total). It also has positive relationship with Environmental score (CSR_Env) and

Social CSR (CSR_Soc). These findings are well supported from the studies of Dyck et al. (2019) and Maqbool et al. (2020). Total CSR also has positive relationship with social and environmental CSR. Table 5 reveals that institutional ownership has positive relationship with firm size, floating share (float), GDP, and value of all traded share (lnMkt_Turn) while negative relationship with leverage (Lev).

Table 5 Pearson Correlation Analysis

	IO_For	CSR_Total	CSR_Env	CSR_Soc	Siz_Sal	Lev	Float	lnGDPperCa	lnMkt_Turn	n
IO_For	1									
CSR_Total	0.002317	1								
CSR_Env	0.015890	0.007466	1							
CSR_Soc	0.003496	0.013948	0.033657	1						
Siz_Sal	0.003002	0.018059	0.022166	0.004545	1					
Lev	-0.014443	-0.020689	-0.011166	0.002548	0.002947	1				
Float	0.000254	0.005796	0.004181	-0.013283	-0.008654	-0.006583	1			
lnGDPperCap	0.006797	0.001946	-0.001241	0.011474	-0.008898	-0.013543	-0.015231	1		
lnMkt_Turn	0.018981	0.000625	0.005311	0.014883	0.003145	0.005886	0.003458	0.026283	1	

4.3 Results of Poor Corporate Social Responsibility and Foreign Institutional Ownership

In order to assess whether foreign institutional investors avoid poor CSR firms, we estimated a generalized least squares (GLS) regression using our firm-year panel. GLS is employed to avoid heteroskedasticity issues and serial correlation issue (Gujarati et al., 2012). It may also improve the efficacy of statistical estimate (Hoq et al., 2010). The FIO was taken as a dependent variable. Our key explanatory variables were dummy variables that equal to one if the firm has a below-median CSR performance (overall then by component). We employed a firm level and country level control variables. We also took industry, year and country fixed effects.

Table 6 reveals the results of the panel regression of corporate social responsibility on FIO by employing Generalized Least Squares (GLS) for non-financial firms from 21 EMDEs over the 2002-2018 period. IO_For was taken as a dependent variable which is the % of FIO as a fraction of market capitalization. The main independent variables were: (Poor_Total) which is dummy variable of overall CSR score (beyond median = 1, otherwise = zero), (Poor_Env) which is dummy variable that equals one if the firm has an environmental score below the median and zero otherwise, and (Poor_Soc) which is dummy variable that equals one if the firm has below the median social score and zero otherwise. Siz_Sal, Lev, and Float represented the firm level while lnGDPperCap and lnMkt_turn represented country level control variables. Indicator variables for the country, year, and industry groups were included but not reported.

Table 6 reports the results of GLS regressions of foreign institutional ownership with explanatory variables. A total of three model were executed. Consistent with our hypothesis, it can be seen that poor performing firms' dummies (Poor_Total, Poor_Env, and Poor_Soc) have a negative relationship with FIO. These results provide support to the studies of Dyck et al. (2019) and Xiang et al. (2020).

Table 6: Foreign Institutional Ownership and Corporate Social Responsibility

	(Model 1)	(Model 2)	(Model 3)
Poor_Total	-0.0121***		
	(0.00175)		
Poor_Env		-0.000134	
		(0.00182)	
Poor_Soc			-0.0109***
			(0.00179)
Siz_Sal	0.00793***	0.00992***	0.00834***
	(0.000798)	(0.000877)	(0.000855)
Lev	-0.0536***	-0.0556***	-0.0586***
	(0.00508)	(0.00512)	(0.00503)
Float	0.152***	0.149***	0.178***
	(0.00523)	(0.00510)	(0.00487)
lnGPDperCap	0.0499***	0.0495***	0.0471***
	(0.0129)	(0.0118)	(0.0123)
lnMkt_Turn	0.0132***	0.0141***	0.0128***
	(0.00349)	(0.00356)	(0.00339)
Constant	-0.762***	-0.751***	-0.728***
	(0.103)	(0.108)	(0.113)
Observations	2850	2850	2850
Number of firms	534	534	534
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1			
Poor_Total represents the overall CSR score dummy; Poor_Env represents environmental performance score dummy; Poor_Soc represents the social performance score dummy; Siz_Sal represents the firm size; Lev represents the leverage; Float represents the free float; GPDperCap represents the economic development; Mkt_Turn represents the market turnover			

Model 1 reveals that FIO has a significant negative relationship with poor total CSR performance. Model 2 reveals that FIO has a negative association with poor environmental

performance, but this relationship is not significant. Model 3 reveals that FIO has a significant negative association with poor social performance. These findings support our first hypothesis that foreign institutional investors avoid investments in firms with poor CSR performance and this is a cut-off criterion for foreign capital allocation. Li et al. (2021) also found that qualified institutional investors can drive CSR activities and sustainability report of those firms tend to be longer as compared to their counterparts. We also performed regressions using CSR scores rather than dummies and found positive relationship between CSR and foreign institutional ownership, but those findings are not reported here. Several other studies also support our findings. Scholars contended that foreign institutional investors invest more in those firms which have higher sales, more investible shares (Leuz et al., 2009), and low leverage (Graves & Waddock, 1994). At the end, Table 6 reveal that FIO has a positive association with economic development and stock market liquidity.

4.4 Results of CSR, Institutional Ownership and Disclosure Requirements

To test our second hypothesis, we re-estimated our results by dividing the sample according to country level transparency and disclosure requirements. Leuz et al. (2009) argued that investors are more sensitive to governance issues rather CSR issue while making international investment decisions. Following the contention of Leuz et al. (2009), we classified the countries according to level of disclosure requirements, developed by La Porta et al. (2006). In this study, the disclosure requirements were ranged from 0 to 1. The sample countries were divided into low disclosure requirement and high disclosure requirement. Countries that have score below the median of 0.75 were classified as low disclosure requirements while above the median of 0.75 were classified as high disclosure requirements.

Table 7 reveals the results of GLS regressions of CSR on FIO, using disclosure requirements. Model 1, 2, and 3 have revealed the results of firms in countries with low disclosure requirements while Model 4, 5 and 6 have revealed the results of firms in countries with high disclosure requirements. Model 1 reveals that poor CSR performance dummy has a significant negative association with FIOs. Interestingly, Model 4 also reveals similar findings however, it shows insignificant negative relationship between CSR and foreign institutional ownership. This indicates that institutional investors are not solely motivated by disclosure requirements. These findings support the argument of Mahoney and Roberts (2007) who contended that institutional investors consider both financial and nonfinancial information while making investment decisions. It indicates the CSR practices can reduce the stock volatilities that can increase the financial performance and may help in attracting the foreign institutional investors. The findings of Model 2 and 5 provided the evidence that environmental performance does not shape the behaviour of foreign institutional investors. These findings contradict the argument of Yu and Zheng (2020) who contended that qualified foreign institutional investors prefer to invest more in firms with strong CSR reporting. Similar to findings of Table 6, Model 3 and 6 have revealed that poor social performance has a significant negative association with FIO in both low and high disclosure requirements countries. However, the level of significance is lower in high disclosure requirements compared to low disclosure requirements. It implies

that institutional factors play pivotal role in boosting the CSR initiatives and may help in attracting institutional investors. This also implies that institutional investors might have their own interests and supports the findings of Hoskisson et al. (2002).

Table 7: Foreign Institutional Ownership, CSR, and Disclosure Requirements

	Low Disclosure Requirements			High Disclosure Requirements		
	(Model 1)	(Model 2)	(Model 3)	(Model 4)	(Model 5)	(Model 6)
Poor_Total	-0.0167*** (0.00456)			-0.00341 (0.00239)		
Poor_Env		-0.00324 (0.00451)			-0.00218 (0.00269)	
Poor_Soc			-0.0115** (0.00463)			-0.00863*** (0.00345)
Siz_Sal	0.0132*** (0.00231)	0.0142*** (0.00246)	0.0154*** (0.00224)	0.0142*** (0.00171)	0.0143*** (0.00156)	0.0234*** (0.00178)
Lev	-0.0694*** (0.0124)	-0.0702*** (0.0135)	-0.0704*** (0.0129)	-0.125*** (0.00987)	-0.128*** (0.00966)	-0.146*** (0.00976)
Float	0.170*** (0.00945)	0.171*** (0.00908)	0.184*** (0.00976)	0.246*** (0.00902)	0.234*** (0.00901)	0.245*** (0.00911)
InGDPperCap	0.0304 (0.0265)	0.0298 (0.0253)	0.0221 (0.0345)	0.0401 (0.0411)	0.0302 (0.0424)	0.0324 (0.0445)
InMkt_Turn	0.00678 (0.00846)	0.00732 (0.00798)	0.00687 (0.00783)	0.0162*** (0.00587)	0.0168*** (0.00603)	0.0197*** (0.00603)
Constant	-0.523** (0.217)	-0.512** (0.230)	-0.532** (0.213)	-0.621* (0.353)	-0.606 (0.398)	-0.601 (0.398)
Observations	973	973	973	876	876	876
Number of firms	213	213	213	256	256	256
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1						
Poor_Total represents the overall CSR score dummy; Poor_Env represents environmental performance score dummy; Poor_Soc represents the social performance score dummy; Siz_Sal represents the firm size; Lev represents the leverage; Float represents the free float; GDPperCap represents the economic development; Mkt_Turn represents the market turnover						

4.5 Robustness and Additional Tests

We also performed robustness tests to check the validity of our main findings. We analyzed the alternative classifications of foreign institutional investors. We drew our sample of poor CSR performing firms (Firms that have below median CSR performance are considered as Poor CSR performing firms) from ASSET4 database and therefore, our results could be driven by the rating methodology. To avoid this, we took an alternative CSR sample to detect "bad performers". Recently, Thomson Reuters has added new ESG Controversies Scores (ESGC). Controversies variable (ESGC) reflects a firm's exposure to the environment, social, and governance controversies and negative events reflected in the global media. Similar to our main findings, we assumed ESGC to be negatively associated to FIO. Table 8 reports these results.

Table 8: Foreign Institutional Ownership and CSR Controversies

ESGC	-0.0534*** (0.00541)
Siz_Sal	0.00801*** (0.000903)
Lev	-0.0584*** (0.00521)
Float	0.181*** (0.00501)
lnGPDperCap	0.0559*** (0.0182)
lnMkt_Turn	0.0125*** (0.00339)
Constant	-0.692*** (0.109)
Observations	2848
Number of firms	534
Country FE	Yes
Year FE	Yes
Industry FE	Yes
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1	
ESGC represents the controversies; Siz_Sal represents the firm size; Lev represents the leverage; Float represents the free float; GPDperCap represents the economic development; Mkt_Turn represents the market turnover	

Results confirmed our assumption, and we found a significant negative association between CSR controversies and FIO. These results support our hypothesis that foreign institutional owners avoid investing in CSR controversies. We also run the same regression and use a controversial score dummy (that equals one if a firm has an above-median

CONTROV_score) and found similar results. However, we did not report those results here. The investments in "sin" stocks could lead to reputational concerns because many large institutional investors need to report their holding (e.g., 13F filings). In many cases, the large money managers ditched their stock holdings in sin stocks due to the pressure from environmental activists (Hong & Kacperczyk, 2009; Sandberg, 2008) and other ethical issues (Hong & Kacperczyk, 2009; Hudson, 2005). We also found similar results for our control variables. These findings also support the argument of institutional theory that institutional pressures are important in shaping the behaviours of the firms.

5. Conclusion, Recommendations and Implications of the Study

This study investigated the relationship between CSR and foreign institutional ownership. This study used 8756 firm year observations from 21 EMDEs and found a significant negative association between CSR and foreign institutional ownership. The results indicate that foreign institutional investors are motivated by CSR activities and intend to invest more in firms with strong CSR reporting. This study also found that foreign institutional investors are motivated by financial and nonfinancial information. And institutional investors invest even less when firms are located in countries with low disclosure requirements. However, this relationship is insignificant. As evident from existing literature, the principal-principal problem exists in emerging countries. The institutional investors may help in reducing such problem and can monitor the role of owners and management. Overall, the study supports the arguments of stakeholder theory and integrates the roles of stakeholders in firm's decision-making process.

The findings of firm level control variables reveal that foreign institutional investors invest in a large firm with freer float shares. In contrast, foreign institutional investors avoid investing in firms with high leverage. The findings of county level control variables reveal that foreign institutional investors invest in firms that operate in countries with high economic development and market turnover. The study also supports the argument of institutional theory that institutional pressures play a pivotal role in shaping the behaviour of the firms. Coercive, mimetic and normative pressures are important to attract more institutional investments. Our findings are robust to alternative CSR measure and foreign institutional investors' classification.

The study contributes to existing literature particularly in EMEDs where little is known. The study extends and complements the literature and highlights the importance of agency, stakeholder and institutional theories in emerging economies and developing economies. It provides theoretical support by confirming the importance of institutional pressures and supports the argument of DiMaggio and Powell (1983b) who contended the isomorphism as mechanisms to institutionalize CSR. The study also highlights the role of stakeholders in decision making process of firms and supports the stakeholder theory.

The study also has some managerial implications and offers a precise understanding to the managers about behaviour of institutional investors and role of institutional environment in getting access to capital market and reduce cost of capital. Thus, the study helps in analysing the importance of financial and nonfinancial information for foreign institutional

investors while making investment decisions. It is recommended that managers need to disclose more information and involve stakeholders in decision making process. Managers also need to respond to institutional pressures and raise their engagement in CSR issues especially when these firms are located in weak institutional environment.

It is also noticed that firm's engagement in CSR initiatives can gain stakeholders support even it is not mandated by security regulators. Therefore, it motivates the management, policy makers, and investors to develop and promote CSR practices.

5.1 Limitations and Future Research Directions

The study also presents some limitations and offers directions for future research. The study only considered social and environmental components of CSR. Future studies may consider all four components of CSR. The study only considered quantitative dimensions of CSR and employed quantitative method to analyse the data. Future studies may consider both quantitative and qualitative dimensions and use mixed method approach to analyse it. Qualitative dimensions may help in highlighting the CSR awareness among stakeholders in emerging countries and potential barriers in true implementation of CSR policies.

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