

Institutional Investment and Corporate Social Performance: Linkage towards Sustainable Development

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ABSTRACT

This study examines the relationship between institutional investment (II) and corporate social performance (CSP) of public listed companies (PLCs) in Bangladesh using cross-sectional data. The sample includes 152 firms as listed in Dhaka Stock Exchange (DSE). Structured questionnaires, annual reports, CSR reports, websites, regulatory notifications, and newspaper articles were used for data collection.

The results of the study indicate that CSP has a positive but insignificant relationship with institutional investment in Bangladesh. This would also improve the investment climate by encouraging the institutional investors to make their investment decisions based on long-term sustainability. To the best of our knowledge, the paper investigates, for the first time, the linkage between institutional investment and CSP in the context of a developing country like Bangladesh. In the process, this paper attempts to develop the first known comprehensive CSP Index in the context of Bangladesh. Copyright © 2012 John Wiley & Sons, Ltd and ERP Environment

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Introduction

INSTITUTIONAL INVESTMENT IS CONSIDERED A MAJOR STIMULATING FACTOR IN THE DEVELOPMENT OF THE INVESTMENT climate in Bangladesh by stabilizing the capital market (Mujeri and Rahman, 2008; Rashid, 2009). Because of the large amount of investment involved, compared to individual investors, it is difficult for institutional shareholders to reshuffle their portfolios without significant loss of value (Graves and Waddock, 1994). They usually try to formulate their investment strategies based on long-term fundamental criteria, rather than speculative judgement (Coffey and Fryxell, 1991; Graves and Waddock, 1994). Hence, these institutional investors include long-term sustainability of the firms in their investment decision-making process, by examining their track record of product quality, environmental responsiveness, and commitment to the society, in addition to profitability. Lack of social and environmental responsibility of the firms would invite public criticism, negative customer reaction, and more stringent regulations, which ultimately would reduce the value of the firm (Thompson and Cowton, 2004).

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Increased corporate social responsibility (CSR) positively and significantly influences institutional investors to invest more in socially responsible companies (Cox and Wicks, 2011). Although institutional investment historically has been low in Bangladesh, recently there has been a noticeable rise in institutional investors as a percentage of ownership in listed companies, i.e. traded shares are increasingly being bought by institutional investors, especially over the past 5–10 years. Institutional shareholding accounted for 8.28% of all stocks listed in DSE in 2000. This figure increased to 18.41% in 2010 (Bangladesh Bank, 2005; DSE, 2010). Thus, listed companies in Bangladesh need to value the concern of the institutional investors in order to make their stocks attractive to this rapidly growing stakeholder segment of the market (Graves and Waddock, 1994).

One area where institutional investors would be concerned is corporate social performance (CSP) (Coffey and Fryxell, 1991). However, CSP or socially responsible business practices is quite new to Bangladesh (Raihan and Habib, 2007; Sobhan, 2008). Given this infancy, one may enquire why institutional investment is showing a rising trend, and does this have any relationship with CSP of the firms they are investing in? The biggest challenge for policymakers is to identify the causation in overly simplistic models and unexamined assumptions often leading to inappropriate policy choices. If relationships can be established between institutional investment and CSP, then promoting social responsibility might be an effective way to improve investment climate in Bangladesh. If they are unrelated, then policymakers can concentrate on other stimulating factors that are leading towards higher institutional investment in Bangladesh. The findings of this research are expected to provide concrete guidelines to policymakers to improve the investment climate in Bangladesh by having specific emphasis on institutional investment. On this background, the aim of this study is to examine the relationship between institutional investment and CSP of firms in Bangladesh and to suggest policy guidelines that would help improve the investment climate in Bangladesh by having special emphasis on institutional investment.

Review of Literature

The attempt to link CSP with different aspects of institutional investment is not a new endeavour (Irvine, 1987; Schrader, 1987; Lehman, 1988; Coffey and Fryxell, 1991; Graves and Waddock, 1994; Johnson and Greening, 1999; Cox *et al.*, 2004; Wahba, 2008).

Institutional Investment

Institutional investment has emerged as a major force in developed countries' stock markets (Coffey and Fryxell, 1991). Institutional investment implies stock holding by organized institutions such as public and union pension funds, mutual funds, investment bankers, insurance companies, and private firms (Graves and Waddock, 1994; Johnson and Greening, 1999). Past literature has discussed that trading preferences of institutional investors are mostly shaped by the nature of the products that are sold and a wide range of distinctions can be made between short-term and long-term investors which influence the time period within which the pattern of investment returns are considered (Ryan and Schneider, 2002; Cox *et al.*, 2004). This implies that the importance of social factors in institutional investment decisions may be expected to depend on the financial returns to CSP, the relationship between CSP and risk, and the time period within which these benefits accumulate (Cox *et al.*, 2004).

Corporate Social Performance

CSP requires that a firm's social responsibilities be assessed, the social issues it must address identified, and a response philosophy chosen (Carroll, 1979). CSP is described as a multidimensional construct comprising initiatives undertaken by a company into four broad domains: the natural environment, the treatment of employees, workplace diversity, and customer, product and other issues (Meijer and Schuyt, 2005). The reasons behind the variations seen in the behaviours of different multidimensional constructs of CSP in multiple research are due to the wide variations in CSP related inputs, internal processes and outputs that are used by different companies. This, also on its own merit,

varies across a wide range of industries with significantly different characteristics, histories and performance in different CSP domains (Waddock and Graves, 1997).

Wood (1991) reformulated Wartick and Cochran's (1985) model of CSP and proposed a coherent, integrative framework or template for business research on CSP (Table 1).

Wood's (1991) model is not so dissimilar to the three-dimensional model proposed by Carroll (1979). His conceptual framework proposed that articulating the key aspects of different definitional strands into *social issues involved*, *social responsibility categories*, and *philosophy of responsiveness* dimensional would be 'useful' for managers and academics. In order to review the CSP of a company, per the model, a researcher would need to examine how much a company's principles of social responsibility motivates its actions; how much the company utilises its social responsiveness processes; the extent and nature of the company's policy and program designs used to manage its societal relationships; and the 'observable outcomes' or social impacts of the company's actions, programmes, and policies.

There are several studies elaborating the concept of CSP in Bangladesh. However, the very concept of CSP or that of socially responsible business practices is relatively new in Bangladesh (Raihan and Habib, 2007). Businesses are unwilling or unable to adopt sufficiently robust socially responsible business practices (Naeem and Welford, 2009), even though the need for such practices are far more pronounced in developing countries than in developed countries due to the gaps in social provision and governance (Dobers and Halme, 2009). Therefore, there is an urgent requirement to step up the role of both government and civil society in the matter (Dobers and Halme, 2009; Naeem and Welford, 2009). Recently, CSP has become a buzzword due to pressures from regulators such as Bangladesh Bank (Central Bank) and the Securities and Exchange Commission to promote socially responsible businesses. Studies reviewed by the authors in the context of Bangladesh focused mainly on two issues related to CSP. The first set of studies focused only on examining corporate social disclosure or reporting practices (Imam, 2000; Belal, 2001; Sobhani *et al.*, 2009), which used either an 'average number of lines' method or an 'accounting for CSP' method. The second set of studies mainly focused on corporate environmental reporting (Belal, 2000; Rahman and Muttakin, 2005; Shil and Iqbal, 2005; Bose, 2006;) rather than a much more comprehensive CSP.

Institutional Investment and CSP

The notion that social criteria influence institutional investment decisions has become an established segment in the literature (Coffey and Fryxell, 1991; Graves and Waddock, 1994; Johnson and Greening, 1999; Cox *et al.*, 2004). One reason why this may be deemed acceptable to stakeholders of institutional investment is that it may reflect an aversion to risks associated with socially 'irresponsible' firms. Another reason is probably the marketability associated with specific social issues in investment portfolios. In addition, institutional investments in a listed company lock the investors into the company to such an extent that if the investors wish to take out their investment, say due to loss of goodwill by the company, they will not be able to do so without

Corporate social responsibility principle

Institutional principle: legitimacy

Organizational principle: public responsibility

Individual principle: managerial discretion

Corporate social responsiveness process

Environmental assessment

Stakeholder management

Issues management

Corporate behaviour outcomes

Social impacts

Social programs

Social policies

Table 1. The Corporate Social Performance Model

doing significant damage to their share value. Thus, these investors become longer-term shareholders by necessity, and many become actively involved in the governance of companies that they own (Graves and Waddock, 1994).

Numerous studies have been conducted to examine the links between CSP with different aspects of institutional investments (Coffey and Fryxell, 1991; Graves and Waddock, 1994; Johnson and Greening, 1999; Cox *et al.*, 2004; Wahba, 2008) and their focus was mostly on developed economies. According to Coffey and Fryxell (1991), one of the earlier published studies specifically addressing the relationship between institutional ownership and CSP, found, to their surprise, a positive relationship between the amount of institutional ownership of corporate stocks and the social responsiveness of companies. On the other hand, Graves and Waddock (1994) stated that institutions would invest more in companies that have stronger CSP. All the regression models they calculated used institutional ownership as the dependent variable and a CSP index as the principal independent variable. They used company size, financial performance, debt-to-asset ratio, and industry as the control variables. Their analysis indicated that there is a significant and positive relationship between CSP and the number of institutions holding the shares of a company. Whereas, Johnson and Greening (1999) who examined the effects of institutional investor types and governance devices, found that pension fund equity was positively related to both people (women and minorities, community, and employee relations) and product quality (product and environment) dimensions of CSP, but mutual and investment bank funds exhibited no direct relationship with CSP. Furthermore, a study by Cox *et al.* (2004) that investigated the pattern of institutional shareholding in the UK and its relationship with socially responsible behaviour by companies, found that long-term institutional investment is positively related to CSP. This finding provides further support for earlier studies by Johnson and Greening (1999) and Graves and Waddock (1994). Disaggregation of CSP into its constituent components suggests that the pattern of institutional investment is also related to the form which CSP takes. Investigation of the impact of investment screening on the selection of stocks suggests that, long-term institutional investors select primarily through exclusion, rejecting those firms with lower CSP. Another study conducted by Wahba (2008) found that corporate environmental responsibility, which is also considered as a part of company's social responsibility, has positive and significant relationship with institutional investment. But, this practice may not screen out all the socially irresponsible activities of firms with high CSP, as Delmas and Blass (2010) found companies with 'the most advanced environmental management practices' turned out to be the ones that 'are also those with higher levels of toxic releases and lower environmental compliance'.

However, the relationship between institutional investment and CSP is not always significantly positive, especially in the case of emerging economies. By taking a sample of 100 listed public companies on Main Board of Bursa Malaysia, Muniandy and Barnes (2010) did not find any significant relationship between institutional investment and corporate social performance. Most Malaysian companies that report on social responsibility are institutionalized by the government through their dependency on the government for contracts (Amran and Haniffa, 2011).

As evident in the current literature review, there are considerable numbers of studies examining the relationship between institutional investment and CSP in the context of developed countries. Conversely, there are very few studies examining this relationship in emerging or developing economies like Bangladesh. Although many argue that CSP plays an important role in institutional investment, empirical studies investigating the role of CSP in institutional investment are absent (Mujeri and Rahman, 2008; Rashid, 2009). So, the emphasis of this research is to bridge such gaps in the existing literature on the relationship between CSP and institutional investment in developing economies like Bangladesh.

Hypothesis Development

Based on the review of relevant literatures and theoretical understanding, CSP can be viewed as a risk-reducing mechanism. Adding with the efficient market theory assumption that risk averse investors will choose the company having less risk given the same expected return, the following testable hypothesis can be proposed:

Hypothesis: Better corporate social performance leads to increased institutional investment

Institutional Investment, CSP, Sustainable Development

The model to test the above, as specified in general functional form, is as follows:

$$\text{Institutional Investment}(II_t) = f(\text{CSP}_{t-1}, \text{Control Variables}_{t-1}(\text{profitability, size, debt structure, and industry}))$$

Data and Methodology

Sampling

The total population of the study was divided into 18 sectors. Since some of the sectors were too small or too large, we have used disproportionate stratified random sampling as recommended by Sekaran (2006). Accordingly, the companies were regrouped into three sectors, viz., service, manufacturing, and others. Description of the industrial classification and sample sizes are provided in Table 2. This sampling technique helped to reduce bias, and better represents all segments of the population. This study considered all the public listed companies (PLCs) listed on the Dhaka Stock Exchange.

According to *de Vanus* (1996), a sample size of more than 60% of total population is adequate for a quantitative study. Out of total population size of 244, 152 companies (62%) were randomly selected for survey questionnaire distribution. However, after the sending of the questionnaires by mail, accompanied with return envelopes, the response rate was very poor. The CSP Index found on the returned questionnaires was then cross-matched with the corresponding knowledge-based filling. It was found that the former was heavily biased towards higher CSP ranking. Accordingly, it was decided that knowledge-based filling was appropriate CSP index of the sampled companies.

In developing countries, social responsibility disclosures of local companies are commonly found in annual reports, whereas the foreign companies (or MNCs) tend to do so via independent reports (Amran and Haniffa, 2011). Therefore, in order to be thorough, the researchers analyzed readily available public information on each company from multiple sources, such as: annual reports, CSR reports, websites, regulatory notifications, newspaper articles, etc. This practice is also used for KLD and EIRIS surveys (EIRIS, 2009; KLD Research and Analytics, 2009; RMG, 2010).

Measurements

Institutional Investment

Institutional investment is taken as the dependent variable and authors aim at examining the relationship between institutional investment and CSP. Institutional investment has been measured by taking the percentage of each firm's outstanding shares owned by institutions. The data was collected from the monthly review published by Dhaka Stock Exchange for December (DSE, 2009).

Measuring CSP

The two most common measures of CSP used by researchers are two perceptual-based measures – Kinder, Lydenberg, Domini (KLD) index and the Fortune Reputation Survey (FRS) – with more recent studies gravitating toward the use of KLD (Callan and Thomas, 2009). Both KLD index (Graves and Waddock, 1994; Turban and Greening, 1997; Johnson

Industrial Sector	Total	Sample Size	Percentage
Manufacturing	107	74	69%
Service	100	64	64%
Others	37	14	37%
TOTAL	244	152	62%

Table 2. Sector-wise classification of public companies listed in Dhaka Stock Exchange and study sample

and Greening, 1999; Cox *et al.*, 2004; Callan and Thomas, 2009) and FRS (Spencer and Taylor, 1987; Wokutch and Spencer, 1987; McGuire *et al.*, 1988) have been used by several CSP-Corporate Financial Performance (CFP) studies. However, both the KLD index and FRS are not beyond criticism. The major criticism of the KLD index is that it assigns equal weight to all attributes. This may be problematic as some areas of CSP might be more important than others (Graves and Waddock, 1994). The FRS, on the other hand, concentrates more on reputation and financial performance than CSP. Hence, the use of this index had been put into doubt since the 1990s (Fryxell and Wang, 1994; Graves and Waddock, 1994; Sz wajkowski and Figlewicz, 1999). Even the more popular CSP indices used by investors use limited sets of indicators that tend to use trade-off during indexing, such as, reviewing the 'management practices' over 'current (social or environmental) impact', or reviewing just the home-country facilities over all the international facilities (Delmas and Blass, 2010), and often adopt this trade-off approach as a rule rather than an exception (Hahn *et al.*, 2010).

The authors were unable to find any integrative and comprehensive operational construct of CSP applicable to Bangladesh. Most studies reviewed by the authors in the context of Bangladesh focused on reporting practices – either on corporate social disclosure (Imam, 2000; Belal, 2001) or on corporate environmental reporting (Belal, 2000; Rahman and Muttakin, 2005; Shil and Iqbal, 2005; Bose, 2006; Sobhani *et al.*, 2009) – rather than CSP. Also, the applicability of the operational constructs for CSP indices developed in the international context may be limited to their respective countries. Therefore, the authors made a modest attempt to construct a CSP index that is thought to be more suitable for Bangladesh. This index consists of six dimensions, viz., disclosure, ethical values, workplace, corporate governance, environment, and community (Table 3).

Unlike other popular rating indices, the operational construct of CSP in this research does not include dimensions such as *involvement with oppressive regimes, military sales, or nuclear power*, since the authors believe that they do not apply to the context of Bangladesh.

In calculating the CSP Index, a 5-point Stapel scale was used which is a unipolar non-verbal rating scale having a range from +5 to –5, without a neutral point zero (Crespi, 1961). It also produces interval data, the same as Likert, Semantic Differentials (SD) and Numerical Scales (Cooper and Schindler, 2008). Compared to these rating scales, the Stapel scale has several advantages, such as, it measures the direction and intensity simultaneously, is relatively easy to administer, and has higher reliability (Crespi, 1961; Hawkins *et al.*, 1974). One of the most popular measures of CSP, the KLD Index also uses scale measurement which rewards strength and penalizes weakness (Griffin and Mahon, 1997; Waddock and Graves, 1997). By using this scale, the quantitative differentiation of companies having negative, low and high CSP can be made.

In this study, negative scores were assigned if the minimum legal requirements of social responsibility were not met. In deciding the threshold level, existing regulatory requirements were considered (SEC, 2006; Bangladesh Bank, 2008). Positive scores were assigned for a level of performance that exceeds the minimum standard. Whereas, high positive scores were accorded for taking highest level of discretionary initiatives to perform social obligation (Tables 4 and 5). In filling the CSP survey instruments, knowledge-based method is used by considering annual reports for 2008, websites, regulatory notifications and reports.

Considering the limitations of existing CSP index measurements where all attributes are basically given equal importance, this study used weighted average across the six attribute ratings for each company in the study as

Disclosures: assess the company's financial reporting, communication of socially responsible actions, and disclosure on CSR.

Ethical values: assess the company's ethical principles, communication of company's ethical values, product, labour and legal compliance.

Workplace: assesses the company's equal opportunity in employment, caring activities for the family/children, employee participation in unions/social activities, involvement of employees in management, profit sharing and performance bonuses & stock options, handling dismissals, development of human resources, concerns for health, safety & working conditions, and preparation for retirement of employees.

Corporate governance practices: assess the company's meeting with stakeholders, board meeting, board size and composition, board structure, and audit committee.

Environment: assesses the company's environmental conservations, recognition of environmental aspect in making investments, environmental management practices, environmental impact caused by its productive activities/services and environmental education.

Community: assesses the company's relation with the local community, relations with community organizations, charitable donations, philanthropy/social investments monitoring, action strategies in the social area, and recognition & support for volunteer work by employees.

Table 3. Items for the Six Dimensions of the CSP Index

CSP Indicators		Options provided in the survey	Scores	Reason
Disclosure on CSR	A	Does not disclose CSR activities in annual report or company website	−5	Does not meet the minimum legal requirements
	B	Does not disclose CSR activities in website but discloses in annual report	−3	Partially fulfills the minimum legal requirements
	C	Discloses CSR activities in both annual report and website	+1	Fulfills the minimum legal requirements
	D	In addition, dedicate more than one page in annual reports for CSR disclosure	+3	Goes beyond the legal requirements
	E	In addition, provides financial data on CSR expenditures in annual reports	+5	Goes beyond the legal requirements and takes voluntary initiative to be more transparent

Table 4. Example of scoring procedure used in CSP Index construction

followed by Ruf *et al.* (1998). This procedure resulted in a single-value CSP index for each company ranging from −5 (for companies rated lowest) to +5 (for those rated highest on each category of attributes).

Control Variables

Institutional investment may differ due to variations in firm profitability, size, leverage, and industry (Graves and Waddock, 1994). As a result, these variables have to be controlled to single out the unique contribution of CSP on institutional investment. Profitability was measured by return on assets (ROA) and return on equity (ROE). These were calculated by dividing net income by total assets and total common equity, respectively. Firm size was measured by total assets and total sales. Debt level was measured as the ratio of total long-term debt to total assets. Industry was used as a dummy variable. To calculate the ratios, data provided in the annual reports of the companies for 2008 were used.

Findings

Descriptive Statistics and Correlation Analysis

Table 6 shows the descriptors of the dependent and independent variables, and correlation coefficients between the variables. From the table, we can see that on average, 13.73% of the equity is owned by the institutional investors. But there is a considerable range of variations: from as low as zero to as high as 70.32%. Average assets of the sample companies were found to be approximately BDT (Bangladesh Taka) 12.29 billion and average sales was about BDT 3.46 billion. Average return on assets (ROA) was about 4.07%, return on equity (ROE) about 12.83%, and ratio of debts to total assets was about 28%.

From the correlation analysis, a very low degree of positive correlation has been found between institutional investment and CSP, indicating that being socially responsible might not lead to more institutional investment for the companies in the sample. In addition, all the control variables are showing negative correlations with institutional investment and significantly positive correlations with CSP. This might indicate that institutional investment is not influenced by CSP or the control variables. However, CSP is positively influenced by the control variables. This relationship will be further clarified in the regression analysis.

Regression Analysis

The hypothesis formulated was tested using regression analysis. Table 7 presents the results of the regression analysis. Three models were constructed to test the impact of switching control variables on the dependent variable. In all the models, institutional investment has been used as the dependent variable and CSP as the principal

CSP Indicators		Minimum Score	Maximum Score
I	DISCLOSURE		
	Financial Reporting	−5	+5
	Communicating socially responsible actions	−5	+5
	Disclosure on corporate social responsibility	−5	+5
	<i>Total Score in Category I</i>	−15	+15
II	WORKPLACE		
	Equal opportunity in employment	−5	+5
	Caring activities for the family/children	−5	+5
	Employees' participation in unions/social activities	−5	+5
	Involvement of employees in management	−5	+5
	Profit sharing and performance bonuses and stock option	−5	+5
	Handling of dismissals	−5	+5
	Development of human resources	−5	+5
	Concern for health, safety and work conditions	−5	+5
	Preparation for retirement of employees	−5	+5
	<i>Total Score in Category II</i>	−45	+45
III	ETHICAL VALUES		
	Ethical Principles	−5	+5
	Communication of the company's ethical values	−5	+5
	Product	−5	+5
	Labour	−5	+5
	Legal Compliance	−5	+5
	<i>Total Score in Category III</i>	−25	+25
IV	CORPORATE GOVERNANCE PRACTICES		
	Meeting with Stakeholders	−5	+5
	Board meeting	−5	+5
	Board Size and Composition	−5	+5
	Board Structure	−5	+5
	Audit Committee	−5	+5
	<i>Total Score in Category IV</i>	−25	+25
V	ENVIRONMENT		
	Environmental Conservation	−5	+5
	Recognition of Environmental aspect in making investments	−5	+5
	Company's environmental management practices	−5	+5
	Environmental impacts caused by its productive activities/services	−5	+5
	Environmental Education	−5	+5
	<i>Total Score in Category V</i>	−25	+25
VI	COMMUNITY		
	Relation with the local community	−5	+5
	Relations with Community Organizations	−5	+5
	Charitable Donations	−5	+5
	Philanthropy/ Social Investments monitoring	−5	+5
	Action Strategies in the Social Area	−5	+5
	Recognition and Support for Volunteer Work by Employees	−5	+5
	<i>Total Score in Category VI</i>	−30	+30
	TOTAL SCORE IN ALL SIX CATEGORIES	−165	+165

Table 5. Contents of the CSP questionnaire used in the survey

independent variable. In all equations, size, financial performance, debt to assets ratio, and industry were used as control variables.

In Model 1, ROE is taken as the proxy for financial performance and total assets as the proxy for size of the companies. As shown in Table 7, this model shows there is a very weak significant positive relationship ($p < .10$) between

Institutional Investment (II) = Company's outstanding shares owned by institutions (%); Corporate Social Performance (CSP) = Corporate Social Performance Index calculated by survey instrument developed; Total Assets (TAS) = Total asset of the company in millions of Taka; Total Sales (TSA) = Total sales of the company in millions of Taka; Return on assets (ROA) = Net income divided by total assets; Return on equity (ROE) = Net income divided by common equity; Debt to asset ratio (DAR) = Total long-term debt divided by total assets; Industrial Classification (IND) = Dummy variables										
Variables	N	Mean	Min.	Max.	S.D.	Correlogram				
						II	CSP	Assets	Sales	ROA
DTA										
II	Percentage of shares owned by institutions	148	13.73	0.00	70.32	13.41	1			
CSP	Corporate Social Performance	148	-52.30	-143.00	118.00	47.51	.050	1		
Assets	Total Assets [†]	148	12292	9.98	230879.14	28328	-.10	.43**	1	
Sales	Total Sales [†]	148	3456	0.00	65300.00	9634	-.12	.46**	.37**	1
ROA	Return on assets	148	4.07	-56.16	43.00	10.71	-.05	.26**	.33**	.1
ROE	Return on equity	148	12.83	-36.58	102.36	16.91	-.11	.30**	.21*	.58**
DTA	Debt to asset ratio	148	0.28	0.00	3.19	0.36	-.08	.17*	.07	-.07
								.30**		.00
										1

Table 6. Descriptive Statistics and Pearson Correlations

[†]Expressed in millions of BDT (Bangladesh Taka)

*p < .05

**p < .01

***p < .001

Variables	Model 1(β)	Model 2(β)	Model 3(β)
Dependent			
Percentage of shares owned by institutions (II)			
Independent			
Corporate Social Performance(CSP)	.05 [†]	.05 [†]	.04
Control			
ROE	-.11 [†]	-.10	
ROA			-.12
Assets	-.00		-.00
Sales		.00 [†]	
Debt to asset ratio	-2.58	-3.12	-2.57
R ²	.04	.05	.03
F	1.587	2.016	1.205

Table 7. Results of Regression Analysis for Percentage of Shares Owned by Institutions as Dependent Variable

Control variables for the industry are omitted for space constraints

*N = 148 for all the models

[†]p < .10

*p < .05

**p < .01

***p < .001

institutional investment and corporate social performance when other factors are held constant. The coefficient of determination (R²) is very low (.04). Company financial performance, represented by ROE, showed a weak negative relationship with institutional investment (p < .10). However, size, represented by assets and debt-to-asset ratio, are all statistically insignificant.

In Model 2, ROE is again taken as the proxy for financial performance, but size of the companies is represented by sales. This model also shows a very weak significant positive relationship (p < .10) between CSP and institutional investment. However, the coefficient of determination (R²) increases a little bit to .05, but is still very low. Company financial performance, represented by ROE, shows a negative but insignificant relationship with institutional investment (p > .10). Sales, used as proxy of company size, showed positive and significant relationship with institutional investment (p < .10). However, debt-to-asset ratio again showed negative but insignificant relationship with institutional investment (p > .10).

Finally, the third model takes ROA as the proxy for financial performance and total assets as the proxy for size of the companies. This model again shows a positive relationship between CSP and institutional investment, but is not significant (p > .10). The coefficient of determination (R²) decreases to .03. Company financial performance represented by ROA shows negative but insignificant relationship with institutional investment (p > .10). Company size represented by assets and debt-to-asset ratio also showed negative but insignificant relationship with institutional investment (p > .10).

The research hypothesis that better CSP leads to increased institutional investment cannot be strongly supported by the results found in all of three models discussed above. A maximum 5% of the variance in institutional investment can be explained by all of the three models.

Discussion of the Findings

The results of the study showed that, there is a very weak positive relationship between percentage of shares owned by institutions and CSP. Unlike the results found in studies conducted with datasets taken from developed countries (Coffey and Fryxell, 1991; Graves and Waddock, 1994; Cox and Wicks, 2011), in Bangladesh, no significantly positive relationship was found between institutional investment and CSP. However, the findings of the study are consistent

with Muniandy and Barnes (2010), where they also did not find any significant relationship between CSP and institutional investment in Malaysian public listed companies. Collison *et al.* (2008) suggested that investors who invest in a portfolio of companies that satisfy FTSE4Good's CSR criteria do no worse than their counterparts who do not follow a socially responsible strategy. The development of socially responsible business practices are different in emerging economies compared to those in developed economies (Weyzig, 2006). Using samples of Egyptian firms, it was found that even though corporate environmental responsibility (which is a component of social responsibility) works as a positive and significant coefficient on institutional ownership (Wahba, 2008), institutional owners will exert positive and significant effects on a company's tendency to adopt environmental management standards only when financial resources are available and (other) investment opportunities are limited (Wahba, 2010).

In case of the control variables (e.g. profitability, size, debt structure, and industry), the most alarming result was found. Our correlation analysis showed a weak negative relationship between institutional investment and control variables. In addition, the regression analysis showed that institutional investors do not even consider the financial performance and the size of the firm during investment decisions. As evidence, it was found that some institutional investors hold about 50% stock in firms that are consistently generating negative returns (DSE, 2010). Institutional investors in Bangladesh, like many emerging markets, make investment decisions based on short-term views (Muniandy and Barnes, 2010).

The relationships between institutional investment, CSP, and control variables found in this study in the context of Bangladesh need further explanation. Historically DSE, the main stock exchange in Bangladesh, has been quite unstable. The DSE index increased from about 800 points in June 1996 to about 3600 in November 1996, followed by an unavoidable collapse in early 1997. More than a decade later, the index rose from about 2600 points in October 2009 to about 4000 points in December 2009. About a year later it again climbed to as high as 8900 points in November 2010 and ultimately collapsed to about 4900 points in November, 2011. This erratic rise and collapse is happening again and again partly due to the short-term profit motive, lack of ability on the part of the investors to interpret relevant information on the stock market, inconsistent regulatory filings by the Securities and Exchange Commission (SEC), and also the lack of investment opportunities in banking and other financial sectors (SEC, 2006).

When the market is in a bullish trend, institutional investors rush to invest in the stock market, often crossing the investment ceiling of 10% of total liability stipulated under the Bank Company Act 1991. In 2010, the banking sector alone allegedly reaped a profit of approximately BDT 20 billion from the stock market (NT, 2011). On the other hand, when stock market is in a bearish trend, regulatory bodies such as SEC and Bangladesh Bank pressurize banks and other institutional investors to invest in the stock market to prop up the market (The Daily Star, 2011). Thus, investment decisions of institutional investors in emerging economies like Bangladesh are guided more by easy profit-making opportunities (during a bullish market) and government pressure (during a bearish market), rather than on socially responsible criteria.

The above practices of institutional investment are risky for the overall investment climate of the country as the institutional investors mostly deal with savers' funds, and are therefore highly leveraged. When the market is in up-tick, this may be fine but, if the market falls, their poor investment decisions may force them into bankruptcy. Thus, the authors believe that appropriate policy measures should be taken to ensure the justification of stock investment decisions made by institutional investors. Furthermore, the regulatory authorities should not pressurize the institutional investors to stabilize the capital market and regularly monitor the *investment risk exposure* of the institutional investors.

This research has a number of significant and practical implications for practitioners, policymakers, and scholars as well, particularly in the domain of institutional investment and CSP. From a theoretical point of view, this study has enriched the literature on institutional investment and CSP, particularly in the context of developing countries. Exploring the phenomenon of institutional investment and CSP in DSE-listed organizations has certainly broadened the understanding of CSP and institutional investment. The results of the study will act as an example of the consequence of government interference in directing investment of institutional investors in the stock market. Also, inclusion of control variables are an important contribution of this study as the present literatures lack in empirical evidence from the underdeveloped countries on this topic.

The findings of this study also have implications for the contemporary environmental reporting policy debates. One possible explanation to the weak relationship between institutional investment and CSP might be due to the

lack of adequate corporate social and environmental disclosure by the listed companies. Though disclosure practices of the companies in Bangladesh have increased over the last decade, the level is very low compared to the international standard (Sobhani *et al.*, 2009). Low levels of disclosure of corporate social and environmental performance might be impeding institutional investors to consider social aspects of investment. In line with the institutional isomorphism theory, corporations in developing countries are motivated to adapt to changes like disclosure to meet foreign expectations and regulatory compliance pressure (Amran and Haniffa, 2011; Ditlev-Simonsen and Midttun, 2011). Policymakers might consider making corporate social and environmental disclosure (CSED) mandatory to create fair ground for the institutional investors to make socially responsible investments.

As in most studies, this study also has a number of limitations. The first limitation may be due to the simplistic methodology employed in this research. The sample choice of the study is based only on the companies listed in Dhaka stock exchange. Thus, the results cannot be generalized for all Bangladeshi business organizations, especially those that are not listed, are family-owned, or are relatively small and medium sized. The second limitation comes from the multi-industry sample due to the small representation from each industry. Future researchers can take the initiative to conduct a study on one industry rather than across industries. Since the study was conducted in Bangladesh only, the findings of the study might not be generalized for other emerging or developing economies. Follow-up studies with larger samples and panel data are also needed to assess the validity of the results of this study.

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Institutional Investment, CSP, Sustainable Development

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