THE RELATIONS AMONG THE INSTITUTIONAL INVESTORS, CORPORATE SOCIAL PERFORMANCE, AND FIRM PERFORMANCE: A CASE STUDY OF RESOURCES INDUSTRY IN SET

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Abstract

Currently, the global large institutional investors are questioning about corporate social performance besides the profit; this is the focus on the stakeholders both inside and outside the organization. It is a strategy that increases reliability and boosts long-term growth for the organization, especially for the resources business that considerably affects society and environment. Consequently, it is highly necessary to pay attention on the corporate social performance. This study aimed at examining the relations among the institutional investors, corporate social performance, and firm performance of companies in the group of resources industry, and at studying the factors that affect such variables. It was found from the study that the firm with good performance would led to increased corporate social performance, thus attracting institutional investors. Also, the firm with the increased proportion of shareholding of institutional investors and corporate social performance would lead to better performance as well. It was found that the size of business leads to the increased proportion of shareholding of institutional investors, corporate social performance, and performance; while the proportion of executives and the committee would lead to the decrease of institutional investors and corporate social performance, but leading to the better performance. The element of independent directors and non-executive directors leads to the decrease of corporate social performance.

Keywords: Institutional Investors, Corporate Social Performance, Firm performance

Introduction

1. Background and importance

To conduct business under current conditions, one has to face changes and pressures in many aspects. This makes it necessary for executives to make more strategic decisions for the survival and success of business under uncertain circumstances, and to be able to efficiently respond to the stakeholders both inside and outside the organization. Corporate social responsibility (Khanthavit, 2012) is one of factors of strategic management

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that affects the strategic decision to the stakeholders both inside and outside the organization. This can be measured by the social responsiveness which is very important nowadays. (O’Shannassy & Hunter, 2009, pp. 33–47) that can make business achieve business goal for profit maximization and lead to social welfare maximization together (Nathaphan, 2012). If any business can manage goal in both aspects, it can be considered that it has sustainable success; that is, the business success is not measured by only the profit or income, but also by the response to society’s expectation in order that the organization could survive and grow sustainably in the future.

The objective of this study was to analyze the relations among the institutional investors, corporate social performance, and firm performance of companies in the group of resources industry since these kinds of businesses really affect society and environment; so it is necessary for them to build trust and good image by paying attention on social activities. The results obtained from the study would be highly beneficial in developing criteria or requirements concerned with corporate social performance of businesses to go in the same direction. Also, the results could be applied in developing potential in managing the organization in order to attract investors to invest in various forms.

2. The objectives of the study

1) To study into the relations among proportion of shareholding of institutional investors, corporate social performance, and firm performance of firms in the group of resources industry.

2) To study into the factors that affect proportion of shareholding of institutional investors, corporate social performance, and firm performance of firms in the group of resources industry.

3. Definition

According to the related literature, the variables and definition were determined as follows:

1) Institutional investors (INST) mean the investors who are mutual fund management securities company, bank, capital company, insurance company, life insurance company, corporate, personal fund, government pension fund, and provident fund, as defined by the Securities and Exchange Commission (SEC), considered from the proportion of shareholdings of such institutional investors.

2) Corporate Social Performance (CSP) means the performance in various aspects of activities that positively affects society and environment. Since there has no clear standard or indicator, consequently in this study the Check List was constructed to measure corporate social performance towards the stakeholders by applying the method and concept of Wood (1991, pp. 691-718) Mahoney and Robert (2007, pp. 233-253) Waddock and Graves (1995, pp. 20-24) Johnson and Greening (1999, pp. 564-576) and the S.E.C.’s instructions that explain the corporate social performance in social dimension and quality of the product.

3) Firm Performance means the performance of the firm in 1 accounting year, that reflects the efficiently in performing work both inside and outside the company. In this study, the accounting performance was used to measure profitability from Return on Asset (ROA), and it was calculated from the income before taxes divided by total assets.

4) Corporate Governance means the system that provides the structure and procedures of relations among committees, management, and shareholders in order to create competitiveness leading to the growth and increasing value for the shareholders in the long term, by taking other stakeholders into consideration. This research would consider the roles and responsibilities of the board of directors and structure of shareholding under the concept of Srijunpetch (2008, pp.26-39) that consist of element of Independent Director and Non – Executive Director (INDED); the value is measures by the proportion of the number of independent directors and non-executive directors to the total number of directors; and the proportion of shareholding of executives and executive directors (Managerial Ownership: MANOWN) is measured by the number of ordinary shares held by the executives and executive directors/ the total number of ordinary shares that are issued.

5) Size means the quantity of business conduct measured by logarithm of total assets.

6) Debt to Equity Ratio (DEBT) means the quantity of debt of business compared with equity; if this ratio is higher, the possibility of the company to fail to pay interest and principal is also higher accordingly; this reveals the ability to pay for debt.

Literature review

Concepts and theories concerned

Freeman (1984) explains about the stakeholder theory in that in the management of stakeholder of the organization, there shall be the mechanism of the management of relations of stakeholders that would help build trust for all sides of stakeholders in that their interest would be treated fairly and cared well. For the stakeholders and the corporate social performance or CSP, it generally consists of customer, employee, financial manager, shareholder, joint investor. The relations of corporate social performance and the stakeholder is the consideration on the understanding, need, expectation, and participation with each stakeholder so that the company could analyze various points and matters from activities and decision making procedure before developing the CSP Plan.

Turban and Greening (1997, pp. 658–672) state that the signaling concept is the use of information to send signal or to pass information on to the competitor; such information sent may be the action or the result of the action. This method is the most efficient one. The signaling theory would make the institutional investors know about the CSP in social dimension and quality dimension of the product. The signaling that is related to corporate social performance of the firm would build fame and good image to the organization; thus increasing competitiveness and profit.

Related research

Cox, Brammer and Millington (2004, pp. 27–43) study the form of shareholding of institutes in U.K. and the corporate social performance with the samples of 500 companies in order to assess the difference between the long-term investors and short-term investors and the indicators of corporate social performance. It is found that the long-term investors have positive relations with corporate social performance. According to the examination of the investment result, it indicates that most long-term institutional investors refuses to invest in the business with corporate social performance but does not really realize the activities of the corporate social performance.

Neubaum and Zahra (2006, pp. 108-131) study into the institutional investors and corporate social performance of companies registered in Canada for 650 companies by using information in four-year study, it is found that there is no relations of corporate social performance and the number of shares of institutional investors; however the activities of corporate social performance that are concerned with quality of product do affect the number of institutional investors.

Cornett, Marcus, and Tehranian (2003) study into the relations between the participation of institutional investors and firm performance of large-sized company, it is found that there is significant relationship. Since the institutional investors have more experience in the investment and have better financial information, so the examination and the corporate governance is good, and there is the management of the company to reduce or alleviate the conflict of interest and protect the stakeholders' benefits, this makes it necessary for the company to develop the performance.

Sahut and Gharbi (2010) study the relations between various kinds of institutional investors and firm performance in France, the firm performance is measured by Tobin's Q, the institutional investors are measured by the proportion of shareholding of institutional investors, the controlled variables are measured by the size and debt. It is found from the study that there is positive relationship and it is also found that the relationship is bilateral.

Mahoney and Robert (2007, pp. 233-253) study into the relations of corporate social performance and financial performance and institutional investors in Canada, data were collected in 1995-2000 for 525 companies, the method of study was Panel Data Analysis. It is found from the study that there is significant relationship between environment, international activities, and financial performance, and international activities, quality of product and the number of shareholding of institutional investors. It is concluded that in the long term, the number of shareholdings of institutional investors is positively related to the CSP.

Johnson and Greening (1999, pp. 564-576) study the effects of corporate governance and institutional investors and the corporate social performance by test, measuring CSP by using database from KLD to be totaled in 2 dimensions that are social dimension and dimension of product quality, by studying 300 large-sized companies in 1993, by building structural equation modeling (SEM). It is found from the study that institutional investors who are in the pension fund are positively related to corporate social performance in the social dimension and the dimension of product quality; however, institutional investors who are in mutual fund and bank for investment are not related directly with corporate social performance. The external committee are positively related with corporate social performance in both dimensions. CEO is positively related to corporate social performance in the dimension of product quality but is not related to the social dimension.

Waddock and Graves (1995, pp. 20-24) study into the company with performance on society and performance of the company listed in S&P, by assessing and scoring from the social performance that can be measured by the qualification in social performance of the company in 3 aspects including community, environment, and employee, by using financial information in 1989 and social performance information in 1990-1991. It is found that the social performance positively affects the financial performance.

Orlitaky, Schmidt and Rynes (2003, pp. 403-441) study the relations between corporate social performance and firm performance during 1970-2003 for 52 companies by measuring the social activities in 4 cases from annual report, ranking on the responsibility towards the community and environment of business organization by Fortune Magazine, the examination of social activities, and the principles of cultures of the organization. That is, corporate social performance can predict the work performance of the organization, and the work performance also can predict the corporate social performance.

According to the literature review, the stakeholder theory and signaling theory would be applied in studying into the relations of institutional investors, corporate social performance, and performance to see that what direction they are heading to; this may be related in two directions. Also, the analysis would be done into the relations of corporate governance and roles and responsibilities of the board of directors and structures of shareholding.

Framework of the study: According to the related literature review, the framework of the research is determined as follows:

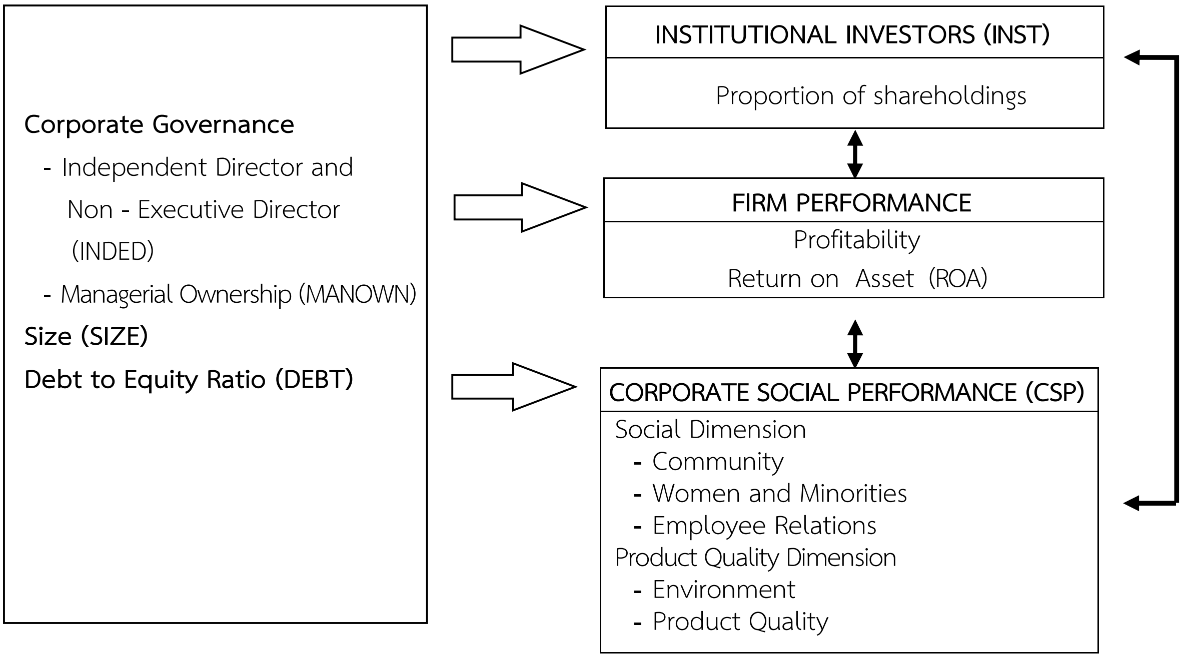

Figure 1 Framework of the study

Research methodology

Data collection

Data were collected from the companies in the group of resources industry that are listed in the Stock Exchange of Thailand during 2008 – 2012, from the Annual Report Form 56-1 published on Stock Exchange of Thailand's website and SETSMART such as financial information in financial statement, preparing for CSR report or sustainability report.

Analyzing data and statistics used in analyzing data

Since the dependent variable's score is between 0 – 1, therefore, the model used in this research is the Generalized Linear Model Assume Logit. Model used in this study is determined as follows:

$$In\left(\frac{INST_{it}}{1-INST_{it}}\right) = \beta_0 + \beta_1 CSP_{it} + \beta_2 ROA_{it} + \beta_3 INDED_{it} + \beta_4 MANOWN_{it} + \beta_5 SIZE_{it} + \beta_6 DEBT_{it} + \varepsilon_{it} \quad (1)$$

$$In\left(\frac{CSP_{it}}{1-CSP_{it}}\right) = \beta_0 + \beta_1 INST_{it} + \beta_2 ROA_{it} + \beta_3 INDED_{it} + \beta_4 MANOWN_{it} + \beta_5 SIZE_{it} + \beta_6 DEBT_{it} + \varepsilon_{it} \quad (2)$$

$$In\left(\frac{ROA_{it}}{1-ROA_{it}}\right) = \beta_0 + \beta_1 CSP_{it} + \beta_2 INST_{it} + \beta_3 INDED_{it} + \beta_4 MANOWN_{it} + \beta_5 SIZE_{it} + \beta_6 DEBT_{it} + \varepsilon_{it} \quad (3)$$

Where

INST	=	Institutional investors
CSP	=	Corporate Social Performance
ROA	=	Return of assets
INDED	=	Independent directors and non-executive directors
MANOWN	=	Managerial Ownership
SIZE	=	Firm Size
DEBT	=	Debt to Equity Ratio
t	=	Year 2008 – 2012
i	=	Samples of companies
β_0	=	Constant
ε_{it}	=	Random Error

Research result

Results of the estimate by Generalized Least Squares (GLS) are shown in Table 1

Table 1: Results of the estimate by method of Generalized Least Squares (GLS)

	(Model 1) INST	(Model 2) CSP	(Model 3) ROA
CSP	0.0788		6.4260 **
INST		-0.0432	11.3400 ***
ROA	0.0042 ***	0.0016 **	
INDED	-0.0003	-0.0010 **	0.0128
MANOWN	-0.0050 ***	-0.0026 ***	0.1480 ***
SIZE	0.0475 ***	0.0433 ***	0.7380 ***
DEBT	-0.0019	0.0023	-0.4140
Constant	-0.4900 ***	-0.4640 ***	-9.3250 *
N	159	159	159
chi2	424.90	288.90	64.98

$^{*}p< 0.05$, $^{**}p< 0.01$, $^{***}p< 0.001$

According to Table 1, the result of the study can be analyzed by classifying under the objectives of the study as follows:

1. Relations of institutional investors, corporate social performance, and performance

According to data analysis, it is found that performance measured by ROA is positively related to INST with statistical significance; that is, business with performance measured by ROA in the high proportion would attract more INST. It can be said that business with increased proportion of shareholding of institutional investors would increase firm performance as well. It is certain that firm performance can attract investors to invest more, including small investors or institutional investors. Besides, business with increased proportion of shareholding of INST is considered the business in which the institutional investors consider to join in the investment, especially the businesses concerned with resources, most of these businesses are large sized and considerably affect society and environment. Having institutional investors who are highly stable, joining the business is considered as trust and stability and good image in the eyes of consumers thus leading to better business performance.

Besides, it is found that ROA is positively related to the CSP with statistical significance; that is, the business with good performance would lead to the increase of CSP. It can be explained in the other way that business with increased CSP would lead to better firm performance; this may be due to the return from performance is higher, so the management can make decision easily in allocating some money to help in performing various social activities and to develop the product quality to be safe and to be environmental friendly; especially for business concerned with resources that may considerably affect the environment, this would lead to good image of the organization as well. When the organization has good image in CSP, in the long term it would be seen by the consumers as the firm that does not care for maximum profit only but does pay attention to the social benefit to some extent. When the consumers accept goods and service of these firms, then the firm performance would be better.

On the relations between CSP and INST as such, it is found that CSP does not lead to the change of proportion of INST with statistical significance. This may be due to that the institutional investors considers that the resources business should have CSP on its own accord in order to alleviate social pressure concerned with environmental impact that the business creates. Therefore, corporate social performance is not the factor that would increase or decrease the number of institutional investors.

2. Factors that affect institutional investors, corporate social performance and performance

1) Factors that affect institutional investors: when considering on the factors that affect the institutional investors in the group of resources industry, it is found from the study that:

Size of the company is the variable that positively affects the ratio of shareholding of the institutional investors (INST), that is, according to the analysis result, it shows that the institutional investors trust in investing in the large-sized company; this may be due to that the large-sized business often has good image in terms of business stability and growth for a longer period of time so such business has been expanding.

Proportion of shareholding of executives and executive committee (MANOWN) leads to the decrease of the proportion of INST. It is found from the analysis that the fact that the business has high proportion of shareholding of executives and executive committee would lead to the low proportion of shareholding of the institutional investors since these institutional investors would invest in what benefit them most rather than benefiting outside shareholders, this affects the trust and transparency in the eyes of the institutional investors.

2) Factors that affect corporate social performance: when considering factors that affect CSP in resources industry, it is found from the study that:

Sizes of the company lead to the increase of CSP. This may be due to the fact that the large-size company is quite stable and has continuous good profit, so the income can be divided and allocated to perform corporate social performance.

Proportion of shareholding of executives and executive committee (MANOWN) and element of independent directors and non-executive directors (INDED) is the factor that leads to the decrease of CSP; this may be due to that having high proportion of shareholding of executives and executive committee (MANOWN) may focus on the goal in management to respond to the activities of main activity of the organization for its own benefit and for the organization's stakeholders rather than on corporate social performance.

3) Factors that affect performance: when considering factors that affect CSP in resources industry, it is found from the study that:

Size of the company and the proportion of shareholding of executives and executive committee (MANOWN) is the factor that leads to the increase of ROA. It is found from the analysis that if the proportion of shareholding of executives and executive committee (MANOWN) is high, the performance would be high. This may be due to that the high proportion of shareholding of executives would lead to high stakes, especially on the return, so this increases the level of roles in management of the organization, and there would be better corporate governance in order for continuous, good firm performance.

Conclusion and discussion

The performance that is measured by ROA is positively related to the institutional investors (INST), that is, business with good business profit would attract the institutional investors to invest, while business with increased proportion of shareholding of the institutional investors would lead to better profit. It is found from this study that both variables go in the same direction, that is, they affect positively to each other. This is consistent with the study by Sahut and Gharbi (2010, pp. 33–50) who study the relations between various kinds of institutional investors and firm performance in France. It is found from the study that there is positive relationship and it is also found that the relationship is bilateral. Besides, it is also consistent with the study of Cornett, Marcus and Tehranian (2003) who study into the relations between the participation of institutional investors and firm performance of large-sized company, it is found that there is significant relationship. Since the institutional investors have more experience in the investment and have better financial information, so the examination and the corporate governance is good, and there is the management of the company to reduce or alleviate the conflict of interest and protect the stakeholders' benefits, this makes it necessary for the company to develop the performance to be in good direction and ultimately affecting firm performance.

According to the study, it is found that ROA is positively related to CSP in the group of resources industry; that is, business with good profit would have increased CSP and business with CSP would lead to better profit. This may be due to that business with good profit would be highly flexible and can manage some part of its income to be allocated for social performance; and such CSP would be considered as the most efficient action for signaling strategy (Turban & Greening, 1997, pp. 658–672) stated in the signaling theory; that is, corporate social performance signals to the consumers in that the firm would be seen as the good firm, having good image, having trust in the eyes of the consumers, thus positively affecting business profit. Such result of the study is consistent with the study of Waddock and Graves (1995, pp. 20-24) who found that the organization with good social responsibility and good CSP would lead to better financial performance. It is found from such study that the relationship is positive between financial performance measured by ROA and ROE, and the factors that reveal the social responsibility in terms of community, environment and employee. This is the same as the study of Orlitaky et al. (2003, pp. 403-441) who found that CSP can predict firm performance, while work performance can also predict CSP. Such positive relationship leads to more efficiency of the management of the organization.

CSP is not related to the proportion of the institutional investors (INST); this is consistent with the study of Johnson and Greening (1999, pp. 564-576) who found that the institutional investors who are in mutual fund and bank for investment are not directly related to CSP; however, it is contrary to the study result of Neubaum and Zahra (2006, pp. 108-131) who found that CSP of the organization leads to the increase of the proportion of investment of the institutional investors. The stakeholder theory of Freeman (1984) explains that in the management of stakeholder of the organization, there shall be the mechanism of the management of relations of stakeholders that would help build trust for all sides of stakeholders in that their interest would be treated fairly and cared well. For the stakeholders and the corporate social performance or CSP, it generally consists of customer, employee, financial manager, shareholder, joint investor, the good management of relationship would lead to good image, trust, and growth in the long term. However, it is found from the study that both variables are not related at all. As mentioned, the resources business considerably affects society and environment; so, that the institutional investors considers that the resources business should have CSP on its own accord in order to alleviate social pressure concerned with environmental impact that the business creates. Therefore, it does not attract attention from the institutional investors in the same way as other kinds of businesses.

Conclusion and suggestion

It can be concluded from the study that business with good profit would lead to the increase of corporate social performance and thus being able to attract more institutional investors. Business with the increase of proportion of shareholding of institutional investors and corporate social performance would also lead to good profit. Besides, it is found that the size of the firm leads to the increase of the proportion of shareholding of the institutional investors, businesses with corporate social performance and higher profit, while the proportion of shareholding of executives and committee would lead to the decrease of the institutional investors and corporate social performance, but better profit. Also, the element of independent directors and non-executive directors is the factor that leads to the decrease of corporate social performance.

The suggestion from the study results: According to the study, it points out that the firms with quite high proportion of shareholding of the institutional investors (INST) would lead to better profit. This is the interesting information for general investors who want to invest in various businesses; they may consider the business from the proportion of shareholding of the institutional investors first. Besides, it is also found from the study result that corporate social performance would lead to better performance of the business. Therefore, the entrepreneur of resources business should pay more attention to corporate social performance and should focus on the signaling or the revealing to the target group or society to see that the business creates benefits for the society in return. So, this boosts trust and good image thus leading to better performance in the long term further.

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