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The Effect of CSR Disclosure on Institutional Ownership

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Abstract

This study attempts to address the question of whether Corporate Social Responsibility Disclosure (CSRD) has any impact to institutional investors of the public limited companies (PLC) in Malaysia. Despite CSRD being at a nascent stage in Malaysia, such reporting is found to be positively related to institutional ownership and these results provide evidence that is consistent with the conjecture that institutional investors pay attention to the way Malaysian companies manage their social issues. Using longitudinal data analysis, the findings of this study solidly support the outcome of the majority of results in developed markets. This result suggests that local firms are able to attract and maintain their institutional investors while they engage in social activities.

Keywords: corporate social responsibility (CSR), corporate social responsibility disclosure (CSRD), institutional ownership (IO), fixed effects model (FEM), Bursa Malaysia.

1. Introduction

There is a growing awareness that public firms have a responsibility to be good corporate citizens and consider the interests of more than just their financial stockholders (Verschoor, 2003). Brammer and Pavelin (2004) state that companies now make decisions concerning the kind and level of responsibilities they should provide to their stakeholder groups. These include employee relations, local communities, customers, products and quality of the services, and performance of the natural environment. As such managers must address the contrary expectations and conflicting objectives of different stakeholder groups (Kassinis and Vafeas, 2002; Harrison and Freeman, 1999). Corporate social responsibility (CSR) refers to how the policy, programme and action of

a firm improves the quality of life in society as well as its effort to promote a positive relationship with key stakeholder groups (Hillman and Keim, 2001).

In recent years, the growth in the companies' shares held by institutional investors has been substantial. Johnson and Greening (1999) propose that most institutional investors act as long-term investors and possibly, they are more concerned with a firm's social performance because it has an impact on the firms' financial performance over time. Previous studies found that positive impacts of CSR on the number of shares held by institutional investors exists (Mahoney and Roberts, 2007; Johnson and Greening, 1999; Waddock and Graves, 1995; Graves and Waddock, 1994). The pressure on companies to practice CSR has gained momentum in current times as a way of sustaining competitive advantage in business (Cheah, Chang, and Chieng, 2007). An important question is whether a socially responsible company can really get any advantage when a company pay out extra financial resources in CSR activities and discloses it. For example, is there any proof that companies which involve in CSR activities will enhance or improve their performance than companies that could not or less concern about it? This issue is needed to support managers who are required to decide about involving in CSR. A growing number of studies to investigate the impact of Corporate Social Responsibility Disclosure (CSRD) on companies' shares held by institutional investors have been done intensively in the developed markets (see for example Mahoney and Roberts, 2007; Neubaum, and Zahra, 2006; Cox, Paul, Brammer, and Millington, 2004; Simerly, 1995; Graves and Waddock, 1994).

Malaysian firms are faced with tight competitions that exist in the growing globalization and liberalization of the economy. A huge challenge of business today is that of fulfilling some pressures from the societal expectations to being good corporate citizens (Nik Ahmad and Abdul Rahim, 2003). It should trigger grown levels of CSR disclosing and the establishment of various CSR initiatives by corporations. However, there are limited studies about the impact of CSR towards how the level of responsiveness of the market when companies reports its CSR activities. The question of whether CSRD has any relationship on institutional ownership (IO) is yet to be examined and the literature concerning this aspect is limited. Hence, this study explores empirically the relationships between CSRD and the institutional ownership. The two major objectives of this study are; first, to explore whether there is evidence of any impact between CSRD and IO for Malaysian PLCs; and second, to explore whether any impact exists between dimensions of CSRD and IO for Malaysian PLCs.

2. Prior Research on CSR and CSRD

CSRD is defined as the CSR activities communicated to stakeholders via a firm's annual reports (see Mohd Ghazali, 2007; Nik Ahmad, Sulaiman, and Siswantoro, 2003; Che Zuriana, Kasumalinda, and Rapiah, 2002; Robert, 1992; Kin, 1990). Hence, in this paper CSRD represents all of CSR activities which companies disclose in their annual reports. During the last two decades, the concept of CSR has been progressively rationalized and become associated with broader organizational goals such as reputation and stakeholder management (Lee, 2008). The vast majority of studies and literature on CSR argue that CSR positively affects the bottom line performance of a firm (for a review of empirical studies, see Margolis and Walsh, 2003; Orlitzky, Schmidt, and Rynes, 2003; Pava and

Krausz, 1996). As a consequence, the environmental aspect of CSR has even gained the broad support of institutional investors. In the Malaysian context, the degree of CSR among business communities has been increasing in recent years and some Malaysian firms are recognized as being pro-active in this field (e.g. Golden Hope Plantation Berhad, Telekom Malaysia Berhad, and IJM Corporation Berhad). The attitudes of Malaysian managers and executives towards CSR suggest that most of them agreed that their companies were involved in CSR activities (Nik Ahmad and Abdul Rahim, 2003; Rashid and Ibrahim, 2002). Hence, a proactive approach to CSR may help a firm to get access to pools of capital it might not otherwise be able to tap into. Likewise, the move may also help firms in capturing export business supplying firms at the top end of the global supply chain where CSR is taken seriously (Investor Digest, 2003). However, this does not appear to translate into higher levels of CSRD (Nik Ahmad and Abdul Rahim, 2003; Williams and Ho, 1999). Some effort has been made to recognize companies that care, and are actively involved in CSR activities in their daily businesses operations, including the Prime Minister's CSR Awards launched in 2007. The CSR 2007 Status Report revealed poor CSR involvement by PLCs in Malaysia. In general, the survey reveals that there is still lack of knowledge and awareness on CSR. Based on these facts that there is a need to find different ways to support the companies in enhancing not just the awareness level but companies should be assisted to actively involve in CSR activities and disclose them.

Consequently, further study is needed to determine the factors for the relatively low levels of disclosure. One of the major reasons posited for the low level of disclosure include the lack of a recognized reporting framework, the cost of reporting, and dread of how investors would react (Thompson and Zakaria, 2004). At the same time few firms may seriously become involved in CSRD to reduce pressure from stakeholders. Finally, the lack of legislation on CSRD and the firms' perception that the investors or community will not benefit much from such reports may also contribute to non disclosure (Teoh and Thong, 1984).

2.1. Relationship between CSR and Institutional Ownership

The portfolio theory proposes that investors would better consider both rate of return and level of risk in making investment decisions (Graves and Waddock, 1994). The preferences of trading in institutional investors are most determined by characteristics of the products that they sell (Ryan and Schneider, 2002; Graves and Waddock, 1994). The institutional investors are subject to the set of regulation, institutional and social pressures that the impact leading individual types of institutional investors and possibly influenced the preferences of institutions for corporations with characteristics of different social performance. They are motivated to carry out a thorough investment decision analysis for two motives. *First*, in response to a corporation's poor financial performance, institutional investors high total ownership makes it hard for them to vend of their shares, as doing so may harmfully influence the share price, potentially making the transaction unattractive (David, Kochhar, and Levitas, 1998; Pound, 1988). *Second*, it is difficult for the institutional investors to find new beneficial alternative investment because they have tended to be well diverse and already own significant pledge in most companies in economics (David *et al*., 1998). The failure to find new investments and the potential loss of stock value make 'exit' problematic. As results of the long-term focus,

the senior manager realised that there is no danger that shifted the share exactly on temporary basis change in share prices, and possibly not frightened of doing long-term investment in CSR (Mahoney and Roberts, 2007).

2.2. Prior Works on the Relationship between CSR and Institutional Ownership

Teoh and Shiu (1990) observe the institutional owners' attitudes towards CSR and sources of information about the activities. They learn that the investors usually do not change decisions about their investment on the basis of company's statement around CSR that is contained in the conventional financial information such as the annual reports. But, the institutional investors accept CSR information in the account if they are being tuned on the specific issues, and being obtained from the disinterested parties. Graves and Waddock (1994) explore the relations between corporate social and IO. Their study used a single value of social performance index for the measurement of eight characteristics of the social performance developed by Kinder, Lydenberg, Domini & Co., Inc (KDL) and they formed two models. The results show that the performance and number of institutions that hold stocks of a corporation are positive and significantly related but the relationship between social performance and the percentage of shares ownership are insignificant. They conclude that involving in CSR activities invokes no punishment from institutional investors.

Mahoney and Roberts (2007) examine empirically the impacts of corporate social on financial performance and institutional ownership. They used four years panel data for a sample of Canadian companies. They found that there is no significant impact of firms' composite social measure on the number of institutions investing in the firms' stock, whereas the impact of firms' social ratings regarding their international activities and product quality towards the number of IO is significant. Neubaum and Zahra (2006) also studied about the link between the IO and social performance of the Fortune 500 companies in the U.S. They showed that a relation between the IO and social performance is significant and positive if long-term ownership exists (e.g. pension fund held a highest percentage of shares of the companies).

Based on the analysis, there is proof that theoretical and empirical relations between CSR and institutional investors exist. Spicer (1978) argues that, institutional investors would consider firms with low social responsibility as becoming riskier investment. This risk emerges from the possibility of damaging sanctions resulting from legislative action or regulation action, decision of court, or consumer of relation. Heiner (1989) adds that institutional investors are more able than the individual investors to absorb and arrange information about the activities of CSR. Choosing socially responsible companies is similar to an investor possibly achieving the same returns with fewer risks while the investors would take to consider both risk and return of investment. In this case high social responsibility could possibly reduces risk and provides the incentive for firm managers to invest their money in the positive CSR activities (Cox *et al*, 2004). It can be concluded that most of the studies in developed market found positive significant relationships between CSR and institutional investors. This study is effort to fill a gap the relationship study between CSR and IO for Malaysian public companies as representing an emerging market setting. It is worth noting that in this paper, CSR of companies are established through their reporting activities hence examining CSRD is

considered justifiable and the paper considers the reporting of such activities as tools to indicate companies' undertaking of CSR.

3. Research Methods

3.1. Data Collection

The initial sample in this study consists of 200 largest companies, which are taken out of 499 companies listed on the main board of Bursa Malaysia during the period of 2000 to 2005. The selection is based on their highest market capitalisation ranking. This selection criterion is consistent with previous studies on CSR reporting (e.g. Thompson and Zakaria, 2004; Guthrie and Parker, 1990; Hackston and Milne, 1996). According to Tsang (1998) a higher proportion of large and medium-sized companies disclose social information compared to small companies and companies wishing to increase business have larger responsibilities and principles (Gardiner, Rubbens, and Bonfiglioni, 2003).

This time span of the data collection which is 1999-2005 has been selected for two reasons: First, this period was the recovery period from the financial crisis that hit Asian countries and particularly the Malaysian capital market. Second, CSRD is in its infancy period in the emerging capital markets (Thompson and Zakaria, 2004; Tsang, 1998). The data is collected from the companies' annual reports, gathered through the Bursa Malaysia website, Hydra database, and the Central Bank of Malaysia. Companies' annual reports constitute the main data for this study and were chosen because the annual report is the primary source of corporate reporting, and, in Malaysia, annual reports of listed companies are the most accessible source of information, either in hard copies or electronic formats (Christopher, Hutomo, Monroe, 1997; Wiseman, 1982).

3.2. Measurements of Variables

There are two measurements of dependent variables in representing institutional ownership, namely the number of shares held by institutional investors (NUMBIO) and the percentage of firms' outstanding shares held by institutional investors (PERCIO) (Mahoney and Roberts, 2007 and Graves and Waddock, 1994). Each dependent variable is performed by employing three regression models. The IO data was taken from the year-end Shareholding Statistics published by Companies for 1999 to 2005. In this study, measuring of composite CSRD score adopts a similar disclosure-scoring methodology based on content analysis that incorporates disclosures of four keys for CSRD themes: (1) employee relation; (2) environment; (3) community involvement; and (4) product (Branco and Rodrigues, 2008; Abdul Hamid, 2004 and Nik Ahmad et al.,2003). All are categorized to create a composite CSRD score and each theme has sub-item disclosures that are adjusted based on whether the items are disclosed. Furthermore, Al-Tuwaijri, Christensen and Hughes (2004) propose that the process may be achieved using quantitative disclosure measures with denoted weights for different disclosure items based on the perceived importance of each item to various user categories which also marks the greatest weight (3) to quantitative disclosures related to the four CSRD indicators as described above. The next highest weight (2) is marked to non-quantitative but specific information related to these indicators. Lastly, common qualitative disclosures receive the lowest weight (1). Firms that do not disclose any information for the given indicators receive a zero score. This study adopts the above discussed procedures in measuring CSRD score. In order to get some unique contribution of CSRD

towards institutional ownership, this study also uses some controlled variables comprising Total Asset (SIZE) of company and Total Sales (SALES) as proxy for the size level of the companies (Toustsoura, 2004). BETA and LEV are as proxy of the risk levels of investors (Stulz, 1990; Jensen 1988 and McGuire et al., 1988), while ATR and EPS represent the profitability variables (Wagner, 2005). Firms' performance variables are controlled by using three separate regression models, namely ROA, Ri and Tobin's *q*.

3.3. Hypothesis

Many individual and social investors as well as several institutional funds from the foreign countries have integrated socially responsible principles into their policies of investment. Therefore, according to Boutin-Dufresne and Savaria (2004), it will be visible that most of other investors that were given the choice between two investment opportunities with identical risk-adjusted prospects, will more likely to invest in the companies that contribute to increasing the average CSR level. The empirical study shows that positive and significant relations exist between the social performance and shares held by institutional investors (Graves and Waddock, 1994). Cox *et al*., (2004) found that social performance is positively related to long-term institutional investment. Mahoney and Roberts (2007) in their recent study also report that a significant relationship between companies' composite social performance and the number of institutions investing in companies' shares exist. Considering that companies' CSR activities are manifested in their CSRD and that such reporting is crucial to attract investors, this lead to the following hypothesis:

> *H1: There is positive relationship between CSRD and IO for the Public Listed he Companies (PLCs) in Malaysia.*
>
> *H2: There is positive relationship between CSRD dimensions and IO for Public Listed Companies (PLCs) in Malaysia.*

3.4. The Model

The main focus of this study is to determine the impact of CSRD and dimensions of CSRD towards IO by examining the relationships. The regression equations use panel data that consist of observations on cross sectional and time-series. Panel data usually gives the researcher large number of data points, increasing the degree of freedom and reducing the collinearity among the independent variables. It may also improve the efficiency of statistical estimates (Hsiao, 2003). Panel data is also used to analyse dynamic change and helps detect and measure effects that simply cannot be observed in pure time series or cross-sectional data (Gujarati, 2003).

Generalized Least Squares (GLS) is a more appropriate method compared to Ordinary Least Squares (OLS) for panel data analysis. Unlike OLS, GLS considers the variability in the predictor and explanatory variables into account explicitly and is therefore capable of producing estimators that are best linear unbiased estimator (BLUE) (Gujarati, 2003). According to Johnston and DiNardo (1997), ignoring the panel structure of the data in the OLS model can be problematic for two reasons. First, even though the pooled OLS model yields consistent estimates of the regression coefficients, standard errors will be understated and significance levels are consequently overstated. Second, compared to the GLS model, the use of OLS as an estimation method does not result in efficient estimates of the regression coefficients. To address these problems, two well-established

models, the fixed effects model and random effects model are conducted in this study. The difference between the fixed effects and the random effects models is based on whether the unobserved individual effects are correlated with the regressors, which is the case for the fixed effects, or not in the models, as in the case of the random effects model. (Greene, 2008 and Wagner, 2006).

In the fixed effects model, the intercept in the regression model is allowed to differ among individuals in recognition of the fact that each individual or cross section unit may have some special characteristics of its own. In conclusion, the fixed effects model is represented by the following equation:

$$\gamma_{it} = x_{it}\beta + \nu_i + \mu_{it} \qquad (1)$$

Where y is the dependent variable as measures of IO and they are represented by the number of institutional investors holding outstanding stock of companies (NUMBIO) and percentage of companies' shares held by institutional investors (PERCIO); x represents the independent variables (in this study it refers to the variables of CSRD in terms of dimensions of CSRD, namely, Employee Relation (EMPL), Community Involvement (COM), Product (PROD), Environment (ENV), and all of the controlled variables including Firms' systematic risk (BETA), Leverage (LEV), Log Total Asset (LSIZE), Log Total Sales (LSALES), Asset Turnover (ATR), and Earning per share (EPS). In addition three of control variables are used as measurement of firm performance, namely Return on Asset (ROA), Return of Stock (Ri), and Tobin's *q* ratio (Q) which are used in separate regression equations; β is the coefficient of the independent variables; μ represents the error term; *v* is the unobserved firm effect; *i* indicates a firm number; and *t* represents time.

The error term (μ_{it}) for the random effects model in equation (1) can be defined as:

$$\mu_{it} = e_i + \nu_{it} \qquad (2)$$

In (2), e_i is the cross-section error component and ν_{it}, combines the cross-section and time series error component.

To decide which of the two models between fixed or random effects model is more precise, the Hausman test is employed. This test evaluates the significance level between estimators, in the case of fixed effect or random effect models.

4. Results and Discussions

4.1. Descriptive Statistics and Correlation of Variables

Descriptive statistics are used to test the bivariate relations by comparing the mean (average) for each variable. The results of descriptive statistics and Pearson's correlation matrix are reported in Table 1. Column two and three in Table 1 report the findings of the descriptive statistics of mean and standard deviation. Table 1 shows that the average number of institutional investors held in firms is around 13 with a minimum of 2 and maximum of 29. Average percentage of shares of companies held by institutional investors is 51.73 percent, with a minimum of 1.71 percent and maximum of 97.77 percent. Mean score of CSRD for companies is around 1.25 and average of companies'

systematic risk represented by betas is about 1.10 with standard deviation is 0.57 percent. The average ringgit amounts of assets for the firms in this data set are around RM1.79 billion and total sales are around RM1.25 billion. Average return on asset (ROA) is around RM0.04 and earning per share is around RM25.00. When using number of shares held by institutional investors (NUMBIO) as dependent variables, there are five variables namely PERCIO, CSRD, LEV, LTA and LSALES that have positive and significant correlation with NUMBIO. In the case of percentage of shareholding by IO (PERCIO) as dependent variable, there are three variables which which consists of initially CSRD, LSIZE and TSALES. The test indicates that the correlation with PERCIO is positive and significant, but for ATR and Tobin's *q* variables, the correlation with PERCIO is negative and significant. Referring to the correlation between CSRD and the two alternative measures of IO variables, it is found that CSRD variable is positively correlated and significant on the number and percentage of companies' shares held by institutional investors. This indicates that institutional investors are a concern to companies which are involved in CSR activities and that there is no punishment from them when companies disclose their CSR activities in firms' annual reports. The results of bivariate correlation matrix of the variables show that all variables have low correlation coefficients with each other, that is; none of the variables shows serious multicollearity. Judge, Smith, Carter, Lutkepohl, and Lee, (1982) consider that correlation coefficients are only indicative of serious collinearity if their coefficients of correlation exceed 0.80.

4.2. Results of the Relationship between CSRD and IO

The relationship between CSRD and IO is based on the statistical procedures namely GLS with fixed and random effect models. The estimation is set to follow the White heteroscedasticity consistent estimator that solves the problem of heteroscedasticity. Results of Hausman testing revealed that unobserved individual effects are correlated with the regressors. This indicates that the fixed and between estimates differ from one another. Therefore, this study uses the fixed effect model.

Table 1: Descriptive Statistics and Pearson's Correlation Matrix

	MEAN	SD	NUMBIO	PERCIO	CSRD	BETA	LEV	SIZE	SALES	ATR	EPS	ROA	RI	Q
NUMBIO	13.201	5.386	1.000	0.437**	0.126**	-0.042	0.106**	0.112**	0.188**	0.034	-0.052	-0.029	0.012	-0.052
PERCIO	51.728	23.911		1.000	0.117**	-0.031	-0.025	0.124**	0.118**	-0.122**	0.026	0.036	0.034	-0.074**
CSRD	1.252	1.461			1.000	-0.080**	0.059*	0.235**	0.244**	0.035	0.131**	0.069*	-0.015	0.034
BETA	1.109	0.569				1.000	0.191**	-0.045	-0.037	-0.121**	-0.156**	-0.084**	0.037	-0.032
LEV	0.408	0.269					1.000	0.179**	0.256**	0.053	-0.190**	-0.229**	0.000	0.334**
SIZE	1,794	4,758						1.000	0.676**	-0.037	0.165**	0.032	0.075**	0.136**
SALES	1,250	2,365							1.000	0.235**	0.105**	0.008	0.030	0.038
ATR	0.578	0.673								1.000	0.095**	0.185**	0.031	0.263**
EPS	25.005	60.145									1.000	0.316**	0.068*	0.050
ROA	0.044	0.163										1.000	0.095**	-0.053
RI	0.030	0.433											1.000	0.104**
Q	1.169	1.431												1.000

*Notes: **Correlation is significant at the 0.01 level (2-tailed), * Correlation is significant at the 0.05 level (2-tailed).*

Table 2 shows the results of hypotheses testing using GLS with fixed effects model (FEM) to examine the relationship between CSRD and IO represented by two dependent variables namely NUMBIO and PERCIO. Institutional ownership represented by NUMBIO reveals that CSRD is positive but insignificant related to the number of shares held by IO for all three models. Set controlled variables are significantly related to the number of IO, except LEV for Model 1, Ri and LEV for Model 2 and ATR for Model 3. Through the three models, most outcomes of independent variables of *t* test are significant at least at ($p<0.10$). Adjusted R^2 shows the percentage of institutions owning shares is stylishly explained by the CSRD and set controlled variables in which the overall estimation is good at 92.40 and above. BETA and LEV signs have negative significant impact on IO, hence indicating that investors tend to avoid holding the companies' stocks which are high risk and more debt. Thus, bigger companies are highly leveraged and assume more risk than smaller companies. Therefore, bigger companies are capable in generating larger sales as compared to smaller companies. This condition will increase the percentage of shares held by institutional investors.

Using percentage of shares owned by institutional investors (PERCIO) as dependent variables produce contrary results as it is found that CSRD coefficients are positive and significantly related to IO for all three models. The results of the current study support hypothesis 1 in that there is a positive relationship between CSRD and IO for PLCs in Malaysia. Most of set controlled variables are also significantly related to percentage shares held by institutional investors. Adjusted R^2 value is high which indicates that all independent variables have contributed to explain percentage shares held by institutional investors. These results indicate that enhancing and disclosing companies' CSR activities in annual reports have been received good responses by the institutional investors. Substantively, CSRD coefficients would be interpreted as indicating that it is influenced with a ranging between 14.68%, 18.66% and 20.74% increase in percentage of shares held by institutional investors. There are contrary results with prior studies by Mahoney and Roberts (2007) and Graves and Waddock (1994) which found a positive significant relationship between CSR and IO represented by the number of shares owned by institutional investors and positive but insignificant relationship between CSR and percentage of shares held by institutional investors. Whereas, this study finds that there is a positive and significant relationship between CSRD and percentage of companies' outstanding shares held by institutional investors and a positive but insignificant relationship between CSRD and percentage of companies' stock held by institutional investors. The contrary findings from prior studies might be because the number of institutional investors in this study is limited. It is taken from 30 largest registered shareholders in companies reports, with average is around 13 with a minimum of 2 and a maximum of 29 institutional investors, whereas the study by Mahoney and Roberts (2007) employed around 79 institutions owning shares in firms, with a minimum of 1 and a maximum of 549 institutional investors.

Table 2: Effect of CSRD on IO using Unbalanced Panel Data

Variable	NUMBIO			PERCIO		
	Model 1	**Model 2**	**Model 3**	**Model 1**	**Model 2**	**Model 3**
C	8.1668***	7.6996***	8.6416***	53.1690***	52.3143***	52.0446***
	(0.6050)	(1.5034)	(1.3290)	(1.2121)	(0.6886)	(0.5286)
CSRD	0.0628	0.0689	0.0788	0.1866***	0.1468***	0.2074***
	(0.0591)	(0.0560)	(0.0638)	(0.0521)	(0.0478)	(0.0591)
ROA	-0.9821***			0.6394***		
	(0.1965)			(0.1401)		
Ri		-0.3242*			-0.3243***	
		(0.1653)			(0.0965)	
Tobin's *q*			-0.0949***			-0.1799***
			(0.0305)			(0.0538)
BETA	-0.5161***	-0.5313***	-0.5520***	-0.9872***	-1.0228***	-0.9677***
	(0.1435)	(0.1437)	(0.1615)	(0.1046)	(0.0641)	(0.0900)
LEV	-1.1885***	-0.8524***	-0.0114	0.5280***	0.3447	0.5585***
	(0.3147)	(0.1839)	(0.2753)	(0.1474)	(0.0641)	(0.1761)
LSIZE	0.4041***	0.6233***	0.4771***	0.3367***	0.0738	0.2354***
	(0.1116)	(0.2543)	(0.0928)	(0.1065)	(0.0625)	(0.0865)
LSALES	0.6752**	0.5101**	0.4503*	-0.5366**	-0.0509	-0.1758*
	(0.2819)	(0.2543)	(0.2571)	(0.2116)	(0.1214)	(0.0961)
ATR	-0.0845	-0.1281*	-0.1180	0.3397***	0.0582	0.0933
	(0.0736)	(0.0757)	(0.0735)	(0.1198)	(0.0789)	(0.0580)
EPS	-3.49E-05*	-4.52E-05**	-4.53E-05**	-0.0001***	-0.0001***	-0.0001***
	(1.98E-05)	(1.96E-05)	(1.94E-05)	(4.11E-05)	(4.54E-05)	(4.15E-05)
Adjusted R^2	0.9245	0.9240	0.9275	0.9861	0.9861	0.9863
F-Statistic	83.3158***	82.7566***	8.9834***	1728.45***	1755.58***	1810.00***
DW-Stat	1.2317	1.2261	1.2201	1.3677	1.3666	1.3743
Hausman Test	32.5428***	23.8471***	8.9834***	1.5673	30.1491***	20.5236***
Type of Panel Data	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed

Notes: (i) Figures in parentheses are standard errors robust to heteroscedasticity,
(ii) DW statistic is Durbin-Watson d test for autocorrelation,
(iii) * $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$,
(iv) Number of observation is 1309

These results are consistent with the view point that institutional investors are interested in how the managers handle social issue of their company. The same findings from prior researchers by Mahoney and Roberts (2007); Graves and Waddock (1994) indicate that the company which has high social performance rating is not less interested to the institutional investors. Moreover, these results are also consistent with the previous findings (e.g., Mahoney and Roberts, 2007; Coffey and Fryxell, 1991; Teoh and Shiu, 1990) which report that institutional investors will make CSR as a source of important information when institutional investors are to consider in making the decision to continue whether to maintain or release their shares in a given company.

4.3. The relationship between Dimensions of CSRD and IO

The results of estimation performed by dimensions of CSRD reveals that the overall four themes of CSRD variables have differences of signs and significant impact on IO (see Table 3 for the detailed analysis). Only Employee Relations dimension (EMPL) is supported by hypothesis 2 hence indicating that EMPL is strongly positive and significantly (p<0.001) related to IO. This is represented by the number (NUMBIO) and percentage (PERCIO) of shares of companies held by institutional investors. Three of dimensions of CSRD comprise community involvement dimension (COM), product dimension (PROD) and environment dimension (ENV) variables have mixed findings. It is found that COM is negative but significantly related to the number of companies' shares held by IO, but positive and significantly related to the percentage of companies stocks outstanding held by institutional investors. PROD is only negative but significantly related with the number of shares of companies held by institutional investors. Whereas ENV is positive and significantly related with the percentage of shares of companies' stocks outstanding held by institution investment and positive but insignificantly related with the number of shares of companies held by institutional investment. This result is contrary with prior study by Mahoney and Roberts (2007) who found positive significant relationship between product and number of institutional investors investing in companies' stock outstanding.

There are two categories of institutional ownership, namely long-term investors such as pension funds and life insurance companies and sort-term investors such as mutual funds and investment funds. For the long-term investors, investment in CSR will pay off in the long run, eliminate risk related with investment in socially responsible companies. These investors are higher preference for employee and environmental dimensions than for community involvement dimension. Whereas, expectation of short-term investors that investment in CSR will be harmful to short –term financial performance and investors in these categories are higher preference for employee and environment dimensions than for community involvement dimension (Cox *et al*., 2004).

The vary outcome of the relationship between CSRD dimensions and IO has been predicted. For instance, the inability to find a positive relationship between community involvement activities and the number of shares held by institutional investors indicate that are some reasons behind these findings: (1) Some community activities such as philanthropy failed to add value of company reputation towards the stakeholder groups, (2) the amount of money that was donated to the good deed did not reflect the extent that the company was socially responsible, and (3) charitable giving may have an unexpected and adverse impact on the firm's reputation (Whitehouse, 2006).

A negative relationship exists between community involvement and product dimension to IO have been argued that a high investment in both dimensions results in additional costs from short-term institutional investors point of views. The extra expenditure may come from activities such as doing extensive charitable donations, promoting community development plans, and establishing research and development of the product. This expenditure might find a company at an economic disadvantage than other companies which are less socially responsible activities (Balabanis, Philip, and Lyall, 1998).

Table 3. The Relationship of Dimension of CSRD on IO using Unbalanced Panel Data Analysis

Variable		**NUMBIO**			**PERCIO**	
	Model 1	**Model 2**	**Model 3**	**Model 1**	**Model 2**	**Model 3**
C	8.0734***	7.8111***	8.3285***	52.5035***	52.4815***	51.9781***
	(1.3758)	(1.3031)	(1.0905)	(0.6250)	(1.6837)	(0.4223)
EMPL	0.6798***	0.6684***	0.7152***	0.5685***	0.3903***	0.5797***
	(0.1776)	(0.1656)	(0.1894)	(0.1348)	(0.1446)	(0.1474)
COM	-0.2850**	-0.2745**	-0.2936**	0.3106**	0.2627*	0.2962**
	(0.1219)	(0.1125)	(0.1269)	(0.1363)	(0.1506)	(0.1344)
PROD	-0.1934**	-0.2103**	-0.1961**	-0.0968	-0.0480	-0.0923
	(0.0908)	(0.0928)	(0.0900)	0.1137	(0.1050)	(0.1237)
ENV	0.0556	0.0800	0.0625	0.0830**	0.1819***	0.0682
	(0.0597)	(0.0837)	(0.0632)	(0.0391)	(0.0516)	(0.0456)
ROA	-0.7836***			0.1414**		
	(0.1757)			(0.0580)		
Ri		-0.2507			-0.4662***	
		(0.1649)			(0.1350)	
Tobin's *q*			-0.0901***			-0.1010
			(0.0306)			(0.0637)
BETA	-0.4632***	-0.4838***	-0.4996***	-0.9631***	-0.9560***	-0.9393***
	(0.1238)	(0.1220)	(0.1319)	(0.1237)	(0.0887)	(0.1258)
LEV	-1.0174***	-0.7296***	0.0379	0.8008***	0.2746**	0.7725***
	(0.2868)	(0.1855)	(0.2744)	(0.2285)	(0.1209)	(0.2065)
LSIZE	0.3487***	0.4889***	0.4370***	-0.0054	0.7989***	0.0856
	(0.1092)	(0.1882)	(0.1089)	(0.0571)	(0.1302)	(0.0678)
LSALES	0.6955***	0.4889**	0.5020**	-0.0869	-0.8884***	-0.0641
	(0.2355)	(0.1882)	(0.2189)	(0.0732)	(0.2780)	(0.0765)
ATR	-0.1011	-0.1375	-0.1169	0.0549	0.4249***	0.0250
	(0.0810)	(0.0885)	(0.0846)	(0.0481)	(0.1480)	(0.0465)
EPS	-3.30E-05*	-4.12E-05**	-4.12E-05	-0.0001***	-0.0002***	-0.0001***
	(1.91E-05)	(1.89E-05)	(1.87E-05)	(3.98E-05)	(0.0000)	(4.05E-05)
Adjusted R^2	0.9250	0.9243	0.9272	0.9863	0.9859	0.9863

F-Statistic	82.6421***	81.8540***	85.3386***	1786.47***	1626.20***	1794.56***
DW-Stat	1.2356	1.2336	1.2300	1.3822	1.3558	1.3837
Hausman Test	46.0896***	87.77***	2.6016	0.2027	6.1993**	0.7980
Type of Panel Data	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed

Notes: (i) Figures in parentheses are standard errors robust to heteroscedasticity,
(ii) DW statistic is Durbin-Watson d test for autocorrelation,
(iii) * $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$,
(iv) Number of observation is 1309.

In particular the environmental dimension which has care related activities that are assumed to have higher cost, are found to be positive responses by institutional investors. In order to fulfill implementation of environmental management plans, some companies have been investing in their capital expenditure, such as building alternative plans or enhancing their production processing for in order to minimize adverse impacts on the environment (for example see Shell Refening Co Bhd). Hence, companies can improve their advantages of social performance through proactive promotion and recruiting of managers who are concerned in environmental scanning (Simerly, 1995).

These results reveal that institutional investors pay attention to how companies manage to certain dimension of CSRD in Malaysian context that they are only focus on employee relations. These indicate that institutional investors were not totally opposed to company involvement in social activities (Teoh and Shiu, 1990). In recent years, the growth in shares held by institutional investors has been substantial. In the Malaysian market, there are three big categories of institutional investors, namely pension funds, mutual funds and life insurance which managing around US$58.39 billion funds (Maru, 2007). 51.03% shares of the Top 10 highest market capitalization of PLCs in Bursa Malaysia are held by institutional investors. It is timely for PLCs in Malaysia to be more involved in CSR activities and discloses it. The high involvement level in CSR not only improves CFP of companies, it also brings in positive responses from institutional investors (Mahoney and Roberts, 2007). Most institutional investors act as long-term investors and they are possibly more concerned with an excellent companies' CSR (Johnson and Greening (1999).

5. Conclusion and Limitation

Even though studies of CSRD have been done frequently in the Malaysian context, mostly they reveal the social or environmental reporting and report the motivation and attitudes of managers engaging in CSR activities. It appears that the awareness levels of involvement in CSR activities for local managers is significantly high, however, it is not followed by CSRD. Some reasons for companies showing less interest to disclose their CSR activities include cost of reporting and fear of investors' response. The lack of prior studies to show whether there is any relationship between firms which expose their CSR activities towards institutional investors reaction are probably among other factors that cause CSRD to still remain in its infancy stage, whereas these issues are investigated intensively in the developed markets.

The results reveals that CSRD is positive significant related to institutional ownership that providing further support for prior studies by Mahoney and Roberts (2007), Cox *et al*., (2004), Johnson and Greening (1999); Simerly (1995), and Graves and Waddock (1994). This results indicates that when the market is fairly efficient in the weak and semi strong forms (Buguk and Brorsen, 2003; and Higgs, 2003; Annuar *et al*, 1994). Investors utilized CSRD as sources of information in their investment decision making. These means that investigation on the impact of investment screens on the selection of stocks suggests that the long-term institutional investors' choice through exclusion and avoiding those firms which have the worst social performance.

The study is without several limitations. The limitation is the use of content analysis research method of CSDR as it is subject to human error (Abdul Hamid, 2004; Thompson and Zakaria, 2004; Mathews, 1997; and Hackston and Milne, 1996). This study pays attention to only information which is disclosed in firms' annual reports although it is known that firms also utilize other mass communication mechanisms. Hence, future research may consider disclosures in other media such as firms' stand-alone reporting, in-house magazines, newspapers, and web-sites. The sample size in this study, taken from the 200 highest market capitalisations of companies listed in Bursa Malaysia, is also as limitation for the generalization of the findings. The inclusion of medium-sized firms and industry characteristics in the future might improve the results.

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