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Institutional Investor Shareholding and Corporate Social Responsibility

Xinning Dong[1,a,*]

[1]*Monash University, Melbourne, Victoria, Australia*
a. dongxinningg@163.com
**corresponding author*

Abstract: Under the new normal of economic development, China's emphasis on corporate social responsibility continues to increase. Institutional investors are often seen as an important force that can improve corporate governance. Examining the influence of shareholding on the sustainable growth of firms aids in comprehending how to enhance corporate governance structures to foster sustainable development. This article focuses on Chinese A-share listed firms from 2010 to 2021 as the subjects of study. The two-way fixed effects method is employed to examine the impact of institutional investors' ownership on corporate social responsibility scores in China. The results show that institutional investors hold shares can enhance corporate social responsibility. By improving corporate governance, institutional investors help companies manage and respond more effectively to risks and opportunities associated with social responsibility. In this paper, the heterogeneity analysis is further carried out, and it is found that the shareholding of institutional investors shows a more distinct facilitative impact on state-owned enterprises' social responsibility performance. This study has a guiding role in optimizing corporate governance structure and enhancing the level of CSR fulfillment.

Keywords: Corporate Social Responsibility, Institutional Investor Shareholding, Property Right Nature, Corporate Governance

1. Introduction

In a changing business environment, corporate social responsibility (CSR) has moved from the margins to the strategic core. Under the influence of globalization and increased social awareness, enterprises no longer only pursue profits, but concentrate more on environmental and social responsibility [1]. The increasingly strict supervision of corporate behavior by the public prompts enterprises to strengthen social responsibility information's disclosure [2]. However, the overall observation of Chinese listed companies' social responsibility transparency is that there are still many shortcomings. Many companies fail to disclose social responsibility information, or even if they do disclose it, there are common problems such as the same information, insufficient accuracy, insufficient completeness, lack of substantive content and uneven disclosure level, etc. Nowadays, there are divergent views on corporate value's specific effects on CSR practices [3]. To increase the performance of corporate social responsibility, the article analyzes institutional investor shareholding's function on promoting corporate social responsibility management. This article examines China's A-share market-listed firms from 2010 to 2021, analyzing the specific effects of institutional investors' holdings on corporate social responsibility through the use of two-way fixed effect panel data. The primary achievements of this research are outlined below: First, this article conducts a comprehensive examination of how ownership structure influences corporate social responsibility, as viewed through the lens of institutional investors, providing a new empirical basis for related research fields. Secondly, combined with the unique property rights system of our country, this paper studies state-owned enterprises and non-state-owned enterprises' different performances in social responsibility. Third, this study helps to clarify the positive role of institutional shareholders, provides strategies for growing enterprises to enhance social responsibility, and provides theoretical support for government regulatory policy formulation.

2. Literature Review

China's institutional investors are categorized as short-term and long-term investors, each exhibiting distinct investment preferences, with long-term investors placing greater emphasis on corporate social responsibility. With the growing consciousness of social responsibility, institutional investors pay more and more attention to socially responsible investment, and pay attention to environmental and social factors while considering stock returns [4]. In contrast to individual investors, institutional investors possess expert financial analytical skills. They effectively influence management decisions as well as hold shares for a long time [5]. In corporate governance, institutional investors have a supervisory function and actively engage in voting. According to stakeholder theory, institutional investors are the key supervisory power [6].

Moreover, under China's unique economic system, state-owned enterprises and non-state-owned enterprises have substantial variation in goals and governance models. Due to the inclusion of economic and social goals, state-owned enterprises are experiencing heightened expectations to uphold their social duties. Feng Yuting et al.'s research found that state-owned enterprises are experiencing increased demands to take on their societal obligations, and the public and the government have higher expectations for state-owned enterprises' social responsibility reports [7]. In addition, institutional investors promote socially responsible investment by participating in governance and encounter less resistance in SOEs, which aligns with SOEs' non-economic objectives [8].

In conclusion, due to their reliance on government intervention and the pressure to fulfill social responsibilities, coupled with institutional investors' alignment with the non-economic objectives of state-owned enterprises, institutional investors may exert a more significant influence on the social responsibilities of these enterprises.

Accordingly, the following hypotheses are proposed in this paper:

Hypothesis 1: Institutional investor shareholding can promote corporate social responsibility.

Hypothesis 2: Effects on institutional investors shareholding about corporate social responsibility vary according to enterprises' property rights. Moreover, the influence on state-owned enterprises is more significant.

3. Research design

3.1. Data sources and sample selection

The research adopts Chinese A-share listed companies between 2010 and 2021 as sample, on the basis of HeXun provides the social responsibility of the data, side by side in addition to the financial sector, ST companies and data of corporate social responsibility of enterprises, get the data set with 28414 records. Control variable data are sourced from CSMAR, and institutional shareholding data originates from the Wind database [9]. To reduce the influence of outliers, a 1% indentation is performed on continuous variables.

3.2. Empirical model design

To verify the hypothesis proposed in this article, empirical models are set up as followed:

$$CSR_{i,t}=\beta_0+\beta_1\ PNA_{i,t}+\gamma Controls_{i,t}+Ind_i+Year_t+\varepsilon_{i,t}$$

Where $CSR_{i,t}$ represents CSR total score of company i in year t. $PNA_{i,t}$ represents institutional shareholding ratio of company i. $Controls_{i,t}$ cover the control variables that affect corporate social responsibility. Ind_i and $Year_t$ respectively represent industry fixed effects as well as annual fixed effects. $\varepsilon_{i,t}$ are random error terms.

3.3. Variable definition

This article takes CSR as the explained variable, representing the CSR performance of listed companies. Referring to the research method of Quan Jingjing, this paper uses the corporate social responsibility score published by Hexun to evaluate Chinese A-share listed companies' annual social responsibility performance [10]. PNA denotes the proportion of shareholding by institutional investors, calculated by averaging the shareholding proportions of all institutional investors in publicly traded companies for the fiscal year.

In terms of the selection of control variables, this article conducts on the study of Li Zhefei et al. and includes multiple variables, including total return on assets, company size, listing years, independent directors, management shareholding, cash flow ratio, leverage ratio, etc., and considers the impact of the year of observation and industry [11]. The definitions of relevant variables are shown in Table 1.

Table 1: Variables

	Variable Name	Variable Symbol	Variable Meaning
Explained Variable	Enterprise CSR score	CSR	Total corporate social responsibility score
Explanatory Variable	Proportion of shareholding by institutional investors	PNA	Total institutional holdings / outstanding share capital
Control Variables	Return on asset	ROA	Net profit / total asset
	Property right nature	SOE	1 for state-owned enterprises, and 0 for others
	Company size	Size	The natural log of total assets per year
	Proportion of independent directors	Indep	Number of independent directors / Total number of directors
	Management shareholding ratio	Mshare	Number of management holdings/total share capital
	Board shareholding ratio	Board	Number of board holdings / total share capital
	Cashflow ratio	Cashflow	Net cash flow from operating activities / ending current liabilities
	List age	ListAge	(Year of the year - year of listing) +1
	Asset-liability ratio	Lev	Total liabilities at year-end / total assets at year-end
	Big Four audit	Big4	If the company is audited by the Big Four, it is 1, otherwise it is 0
Dummy Variables	Industry	Ind	Industry dummy variable
	Year	Year	Year dummy variable

4. Analysis of empirical results

Table 2: Summary Statistics

VarName	Obs	Mean	SD	Min	Median	Max	Mean(SO)	SD(SO)	Mean(NS)	SD(NS)
CSR	28414	23.984	15.297	-17.190	21.980	90.870	26.059	17.916	22.694	13.316
PNA	28414	0.438	0.248	0.000	0.454	1.011	0.552	0.198	0.368	0.251
ROA	28414	0.044	0.064	-0.375	0.042	0.254	0.035	0.055	0.050	0.070
SOE	28414	0.376	0.484	0.000	0.000	1.000				
Size	28414	22.122	1.277	19.585	21.933	26.430	22.635	1.377	21.810	1.106
Indep	28414	37.486	5.343	27.270	33.330	60.000	3.506	11.082	20.606	21.767
Mshare	28414	14.169	20.262	0.000	0.682	70.596	2.472	0.756	1.734	0.936
Board	28414	2.129	0.197	1.609	2.197	2.708	0.490	0.204	0.371	0.198
Cashflow	28414	0.046	0.070	-0.224	0.046	0.256	37.113	5.422	37.726	5.287
ListAge	28414	2.012	0.943	0.000	2.197	3.367	0.043	0.069	0.048	0.070
Lev	28414	0.416	0.208	0.027	0.407	0.925	2.189	0.195	2.093	0.190
Big4	28414	0.056	0.230	0.000	0.000	1.000	0.087	0.282	0.037	0.188

Table 2 shows variables' descriptive statistics. (1) part presents the whole sample's statistical situation, and (2) part is the sub-sample statistics after distinguishing the enterprise's property rights. Observing part (1) of Table 2, the sample enterprises' social responsibility average score is 23.984, indicating that Chinese enterprises' social responsibility overall level still needs to be optimized. Simultaneously, the average shareholding ratio of institutional investors is 43.8%, indicating that the shareholding ratio of institutional investors in Chinese firms is typically moderate. Further analysis of Table 2's part (2) indicates that state-owned enterprises' social responsibility average score is 26.059 and that of non-state-owned enterprises is 22.694, indicating that state-owned enterprises' social responsibility level is greater than that of non-state-owned enterprises. Institutional investors' shareholding ratio in state-owned enterprises is 55.2%, and that of non-state-owned enterprises is 36.8%. State-owned enterprises' institutional investors shareholding ratio is higher, and state-owned enterprises bear more social responsibilities.

Table 3: Panel Regression

	(1) CSR	(2) CSR SO	(3) CSR NSO
PNA	2.1257***	2.8717***	1.8666***
	(4.29)	(2.78)	(4.34)
ROA	66.3455***	82.0472***	59.5568***
	(44.27)	(25.44)	(38.53)
SOE	0.9420***		
	(4.95)		
Size	3.5564***	3.9601***	3.1193***
	(38.53)	(24.30)	(28.66)
Indep	0.0297*	0.0054	0.0303
	(1.69)	(0.18)	(1.46)
Mshare	0.0333***	-9.4539***	-5.9111***
	(5.07)	(-9.69)	(-10.08)
Board	1.2302**	0.4944**	0.2008
	(2.43)	(1.96)	(1.52)

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Table 3: (continued)

Cashflow	8.8915***	-0.0007	0.0380***
	(7.06)	(-0.04)	(5.80)
ListAge	0.2065*	1.7668**	0.9970*
	(1.69)	(2.00)	(1.68)
Lev	-7.1936***	1.6551	11.0909***
	(-13.79)	(0.70)	(7.96)
Big4	3.1488***	4.0092***	1.2231**
	(8.60)	(7.07)	(2.53)
_cons	-62.6817***	-70.3416***	-53.2813***
	(-28.36)	(-19.15)	(-19.30)
Industry	Yes	Yes	Yes
Year	Yes	Yes	Yes
N	28414	10760	17900
R2	0.271	0.305	0.253

Note: t statistics in parentheses; * p < 0.1, ** p < 0.05, *** p < 0.01

Table 3’s column (1) shows the regression analysis results of the effect of institutional investor shareholding on CSR investment of Chinese listed companies. Taking CSR of listed companies as the explained variable, the coefficient of institutional investors' shareholding ratio to sample listed companies is 2.1257, the goodness of fit is 27.1%, and the overall positive correlation is strong. The analysis shows that institutional investor shareholding is helpful to promote listed companies to fulfill their social responsibilities. This finding indicates that, for institutional investors, the benefits of promoting CSR investment exceed the costs, and their behavior has a certain degree of compatibility with corporate goals. As a result, institutional investors have both the incentive and the ability to promote CSR investing. Columns (2) and (3) of Table 3 indicate that when considering the Corporate Social Responsibility (CSR) of state-owned and non-state-owned enterprises as the dependent variables, the coefficients of institutional investors' shareholding ratios for state-owned and non-state-owned enterprises are 2.8717 and 1.8666, respectively, with goodness of fit values of 30.5% and 25.3%, respectively, demonstrating a general positive correlation. The promotional effect is particularly pronounced in state-owned firms. Furthermore, the equity ownership of institutional investors is more directly associated with the corporate social responsibility of state-owned firms. Institutional investors exert a more significant influence on the social responsibility of state-owned firms than on non-state-owned enterprises. This may be because under the unique institutional background of our country, state-owned enterprises are susceptible to more government intervention as well as greater force in undertaking social responsibilities, which makes state-owned enterprises more mature in terms of social responsibility awareness and implementation system. Therefore, under the same shareholding ratio, institutional investors have a more obvious role in enhancing state-owned enterprises’ social responsibility performance. In summary, the regression results effectively support hypothesis 1 and hypothesis 2 proposed in this article.

In accordance with the above results, the following suggestions are made in this article: Promoting corporate social responsibility aligns with contemporary developmental demands, and institutional investors are pivotal in encouraging firms to fulfill their social obligations. Regulators must implement suitable institutional measures to draw long-term capital to the market, enhance the shareholding structure, and optimize the involvement of institutional investors, particularly in advancing corporate governance. Secondly, institutional investors’ education needs to be strengthened, and corporate social responsibility should be encouraged to be considered while determining investment strategies, as well as promoting enterprises social responsibility’s emphasis.

Third, to foster corporate social responsibility's legislative standardization, the current relevant laws are not perfect. In addition to relying on investor supervision, corporate social responsibility's implementation also needs legal enforcement support, so it is urgent to incorporate corporate social responsibility into the legal track to foster enterprises' sustainable development.

5. Conclusion

Through Chinese capital market's empirical data, this article substantiates institutional investors' positive role in promoting listed companies to assume social responsibility. Moreover, property right nature contributes significantly in this relationship. Contrasted to non-state-owned enterprises, state-owned enterprises' institutional investors shareholding exerts a more pronounced influence on advancing corporate social responsibility. In the context of the rapid growth of institutional investors and the rising tide of social responsibility disclosures by listed companies, the findings of this study lend credence to the notion of institutional investor involvement in corporate governance, offering substantial theoretical insights and practical significance. At present, China attaches great importance to corporate social responsibility practice. The deepening of reforms and the strategic adjustments of institutional investors may comprehensively affect their relationship. There should be a dynamic and in-depth exploration of this relationship to ensure the objectivity of research outcomes in the future.

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