THE ROLE OF INSTITUTIONAL INVESTOR IN THE RELATIONSHIP BETWEEN FINANCIAL PERFORMANCES (FP) AND SOCIAL PERFORMANCE (SP)

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Over the past two decades, policy makers, investors, academicians, government, and public at large have paid increased attention to social performance. Companies with stronger social performance are more likely to attract consumers, employees and investors. Social performance also increases sales and market shares (Auger et al. 2003) and decrease business risk. Apparently, social performance has a positive effect on a company. Thus, it is important for company to consider social performance in their decision-making. Therefore, it can be concluded that company should focus on achieving good social performance as part of overall performance of organization Past studies have documented inconsistent evidence of the relationship between corporate social performance (CSP) with financial performance (CFP). This inconsistency is due to lack of theoretical foundations and methodological problems in the previous research. This study aims to re-examine the relationship between financial performance and social performance and the role of Institutional investor on the relationship. The slack resource theory would be utilized to test the research framework. The theory argues that companies who are financially strong would have slack resources that would provide the opportunity for companies to invest in social activities such as community relations, employee relation, and environment. If slack resources are available, better FP would be a predictor for better SP. To overcome the methodological problem mentioned in previous studies, this study employs an improved method to measure CSP, which is based on Global Reporting Initiatives (GRI) for social and environmental rating. Furthermore, to improve the theoretical framework, this study introduces moderator variable, Institutional that will enhance the relationship between CFP and CSP. Sample of this study comprises of top 262 public listed companies in Bursa Malaysia. For the financial year ended 2012. The results of the regression analysis provide a support for slack resource theory, that is, financially strong companies have a positive and significant relationship with CSP. Furthermore this study supports the role of IO to moderate the relationship. Institutional investor, owing large equity, has a greater voting power compared to small equity holder and plays an important role in advising and influencing top management in business decision making. Thus, it is believed that institutional investors will use their significant influencing power to convince management to spend slack resources on social performance.

Key word: corporate social performance, financial performance, GRI, corporate governance

INTRODUCTION

Over the past two decades, policy makers, investors, academicians, government, and public at large have paid increased attention to corporate social performance (Lu, Chau, Hang, & Pan 2014; Melo 2012a; Ducassy 2012; Stephen et al. 2006).Companies with stronger social performance are more likely to attract consumers (Brown & Dacin 1997), employees (Albinger & Freeman 2000; Greening & Turban 2000), and investors (Godfrey & Freeman 2000; Luce, Barber & Hillman 2001). Social performance also increases sales and market shares (Auger et al. 2003) and decrease business risk (Orlitzky & Benjamin

2003).Moreover, during the economic crisis, good social performance alleviates the negative effects of the crisis on the company (Ducassy 2013). Thus, it is important for company to consider the social performance issue in their decision-making process, planning and strategies. Therefore, it can be concluded that company should focus on achieving good social performance as part of overall performance of organization.

Social performance is defined as the outcome of implementing corporate social responsibilities (SR)[1] activities and behaviours. It comprises principles of social responsibility, processes of social responsiveness, policies, programs, and observable outcomes as they relate to company's relationship with stakeholders (Caroll 1999; Gond & Crane 2010; Wood 1991).

Normally, corporate social responsibility activities that lead to better social performance involve cost. The level of company's financial responsibility activities will typically influence firm's decision about social responsibility activities. Companies with strong financial performance can contribute to better social performance because companies with high financial performance had a better opportunity, in term of financial resources to participate in social responsibilities activities (Mcguiree et al. 1988).Thus, less profitable firms may have low willingness to undertake socially responsible activities (Adams & Hardwick 1998). Strong financial performance potentially results in availability of slack (financial) resources that provide the opportunity for companies to invest in activities that enhance in social performance. From slack resources theory point of view, availability of slack resources derived from company's profit is an important factor that influences social performance (Waddock & Graves 1997; Preston O'Bannon 1997).

However, the finding from previous empirical study revealed mixed result. Study done by (Melo 2012; Fauzi & Idris 2009) revealed positive relationship between financial performance and social performance whereas study done by Aras et al. (2010), Fauzi et al. (2007), and McWilliam & Siegel (2001) found insignificant relationship between financial and social performance. Thus, it indicates that, availability of slack resources would not necessary result in higher level of social performance. Without allocation of available slack in social performance activities, the level of social performance will not improve even though companies might have available slack from good financial performance.

The decision for allocation of slack resources to social performance is typically based on the discretion of people who have decision-making power in the organization (O'Bannon 1997). Institutional investors are among the people that have the highest decision-making power in company. Thus, they are expected to play role in allocating some portion of slack resources to other activities which related to social performance event or activities.

Institutional investor monitors management of organization indirectly. Institutional investors are investment intermediaries who act on behalf of their beneficiaries to invest money and make decision in that investment (Lang & McNichols 1997). Previous studies (Omran 2009; Mailin 2006; Gillan & Stark 1998) indicated that institutional investor is an effective corporate monitor. Institutional investors carry a monitoring roles on behalf their beneficiary to ensure the company that they invested is running ethically and efficiently. Among the important roles and responsibilities of institutional investor is to exercise closer oversight and control management and corporate decision making in order to reduce agency cost

[1]SR is defined as a business commitment to contribute to sustainable economic development, working with employees, their families, local community and society to improve their quality of life (World Business Council for Sustainable Development).

and protect wealth of its beneficiaries (Rahman2006). Additionally, institutional investor is responsible for monitoring the performance of companies (Mailin 2001). Monitoring firm performance, as recommended by Institutional Shareholders Committee in the UK, includes attending meetings, reviewing annual reports, circulars, and resolutions to examine whether board directors and their committees have carried out their duties effectively.

Institutional investors, as large shareholders, usually have the power to influence corporate by exercising substantial voting power (Shleifer & Vishny 1997). They have more voting power because they hold large amount of equity (Won et al. 2012). Consequently, with their monitoring role and influential power in decision-making, institutional investors can influence the allocation of slack financial resources to corporate social events. This might improve financial performance and social performance relationship because it has been theoretically proven that slack resources contribute to the increase in social performance level. Since social performance brings a lot of benefit to a company, this will motivate institutional investors to use their influential power to influence more allocation of slack resources in social events. Thus, board director and institutional ownership can strengthen the relationship between financial performance and social performance level.

Institutional investors have the ability to influence financial performance and social performance relationship because of their ability to influence company decision making. Institutional investors with large amount of equities can have a significant influence on organizational decisions by exercising substantial voting power (Hart & Moore 1990; Shleifer &Vishny 1997; Won & Chung 2012). One of the important decisions that institutional investor can influence is the allocation of company slack financial resources because of their positive views toward social performance. Institutional investors also may advice and set the direction on how to spend available financial resources, for example, they can propose suitable social policy to benefit stakeholder as a whole.

Institutional investors are likely to consider high social performance companies to be less risky firms (Spicer 1978; Mahoney & Robert 2007). Furthermore, they may see the benefit of firm involvement in social related issues or activities such as maintaining good product, having good and motivated employee, and having environmental friendly policies (Turban & Greening 1997). Apparently, with a positive view of social performance, institutional investor will use their influential power to allocate slack resources in social activities.

The previous studies supported the use of a moderator variable to overcome inconsistent finding in social performance and financial performance (Fauzi & Idris 2010; Hull & Rothenberg 2008; Orlitzky 2003). This is because the relationship between social performance and financial performance is not straightforward but involves a complex relationship (Roberto et al. 2007; Hull & Rothenberg 2008). Previous studies proved that innovation, industry differentiation, business environment, strategy, structure, and control system moderate social performance and financial performance relationship (Hull & Rothenberg 2008; Fauzi & Idris 2010). These moderating variables focus on company strategic factor based on contingency approach.

This study aims to investigate the relationship between SP and FP by introducing institutional investor as moderator that will affect the relationship. This study predicts a positive relationship between FP and SP and the moderator variable (institutional ownership) will enhance that relationship. The study proposes that the availability of financial slack resources is an important factor that contributes to the SR spending and this will lead the better performance of SP. Slack resources represent potentially utilizable resources that can be redeployed to achieve companies' goal (Daniel et al. 2004). Effective allocation of financial slack that influence by institutional investor monitoring role would determine the spending on SR activities. The results show that financial performance is positively and significantly related to corporate social performance. The institutional investor variable strengthens the relationship. This

provides a support for slack resource theory that suggests financially strong companies with IO influence the decision on how financial resources or slack resources will be managed. The results of study provide an initial understanding of the importance of IO to improve the level of SP.

This paper is organized as follows. The next section presents a discussion of the literature and hypothesis development followed methodology and findings. Finally conclusions and implications of the study are presented in the last section.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Corporate Financial Performance and Social Performance

Past studies on the relationship between FP and SP performance are numerous and mainly focus on developed countries (see for examples, Aupprele et al., 1985; Waddock& Graves, 1997; Hull & Rothenberg, 2008; Mahoney & Robert, 2007; Callan & Thomas, 2009). These studies focused on two main research issues; sign of direction and cause of direction. The sign of direction between SP and FP is found to be positive, negative, and neutral. The cause of direction question whether good SP would lead to better FP or good FP would lead to higher SP.

Conceptual explanations for negative, neutral and positive association between SP and FP are offered by Waddock and Grave (1997) and Preston and O'Bannon (1997). Their argument comes from neo-classical economics perspective, which stated that companies' involvement in social activities would incur additional costs that reduce profits and shareholder wealth. From the managerial opportunism hypothesis perspective, managers of a financially strong company would reduce expenditures on social activities so they can increase their personal compensation that tied to short term probability (Preston & O'Bannon, 1997). Therefore, SP would negatively associate with FP (Waddock & Grave, 1997; Preston & O'Bannon, 1997).

On the other hand, the positive association between SP and FP is argued based on stakeholder theory perspective which proposes the existence of conflict between the companies' explicit and implicit cost to stakeholder. This theory predicts that company that attempts to lower its implicit cost by being socially irresponsible would incur higher explicit cost resulting from being competitively disadvantage. Therefore, the relationship between SP and FP is negative. Argument for a neutral association advocates that there are so many intervening variables between SP and FP that there is no reason to expect a relationship to exist, except possibly by chance. Moreover, the measurement problems that have plagued SP research may mask any meaningful linkages (Ullman, 1985).

The second research issue relates to the direction of the relationship. Griffin and Mahon (1997) questioned whether good SP will lead better FP or good FP would lead to higher SP. Waddock and Graves (1997) and Dean (1998) proposed two theories to explain the direction of the relationship. Under the slack resources theory, FP comes first. Meaning, only financially strong company would have the necessary slack resources to engage in social activities. Therefore, FP would lead to better SP. On the other hand, good management theory proposes that SP would influence FP since socially responsible companies would get good support from stakeholders and would lead company to have stronger financial position through market mechanism (Waddock & Graves, 1997). Most of the studies that focused on the good management theory were carried out in developed countries.

This study employs slack resources theory to investigate the relationship between FP and SP in Malaysia. SR is still considered as a new agenda in Malaysian business environment. SP is seen as a cost incurred program so the availability of financial slack is important factor to motivate level of SP in Malaysia. Therefore, the direction and the nature of the relationship between the variables are stated in the following hypothesis.

HI. Financial performance is positively related to SP

The role institutional ownership in the relationship between financial and social performance.

Normally institutional investors hold block of share ownership in investee company. They have less ability to dispose their share quickly without affecting share price (Pound 1988). So, they will hold shares in companies in a long term period. This scenario, have lead the interest of institutional ownership not only on the financial performance of their invested firm but also in their strategies and activities including social responsibility activities (Fortune 1993; Smith 1996; Johnson & Greening 1999; Mahoney & Robert 2007). Thus, institutional investor may see the long term benefit of firm involvement in social performance such as maintaining good product, having good and motivated employee and having environmental friendly policies (Turban & Greening 1997).

In Malaysian scenario, institutional ownership is high. Among the largest institutional ownership in Malaysia are unit trust funds (63%), corporate bodies (12%) and employee provident funds (9%) (Security Commission 2010). Public institutional ownership in Malaysia such Kumpulan Wang SimpananPekerja (KWSP), Lembaga Urusan Tabung Haji (LUTH) and Lembaga Tabung AngkatanTentera (LTAT) have representative on board and often play active monitoring role (Abdul Wahab 2006). They are also having connection with government. It expected that institutional ownership will be influenced by government interest such as to promote corporate social responsibility of investee company.

Institutional investor is considered as one of determinants for social performance (Fauzi et al. 2007; Cox, Brammer & Millington 2004; Coffey & Fryxell 1991). Institutional investors are interested to invest in company with high social performance because they considered low social performance company to be riskier (Spicer 1978; Mahoney & Robert 2007). Institutional investors are considering both risk and return and high level of SP activities may reduce firm risk. This risk may arise from legal action taken by stakeholders such as employee and regulatory body. As a result, this action may result of less financial or investment returns that will be received by investors. This might cause the failure to achieve institutional ownership objective to get high return from their investment. For example, institutional investors such as pension fund and insurance company have an obligation to serve annual return to their member (Johson & Greening 1999).

Additionally, as a part of their monitoring role of institutional investors are expected to give a view and advice in management issue including social responsibilities issue (Mailin 2004). Moreover, institutional ownership is subjected to regulatory, institutional and social forces that affect the important to attach with social performance (Ryan & Schneider 2002). For example in UK, institutional ownership was required to identify the role of social, environmental and ethical considerations in their investment plans (Cox et al. 2004). Therefore institutional ownership is subject to external pressure to consider and review of social performance level in their investment in investee company. The above argument suggests that institutional ownership see social performance as one of important issue that attracts their concern and interest. This may contribute to improve level of social performance.

On the other hand, previous literature argued that institutional ownership is also interested in company with high social performance and the same time looking at the company having strong financial performance (Cornett et al 2003; Seifert et al. 2004; Abdul Wahab 2006). Therefore, institutional investor views social performance as important policy should be adopted by company. The existence of institutional investor is expected to strengthen the relation between financial performance and social performance by exercising their influencing power. With their influencing power in decision making (Shleifer & Vishny 1997, Won & Chung 2012) they are expected to influence the allocation of available slack resources in corporate social events. Previous literature proved that availability of slack resources is

important factor that contribute to a better social performance (Kraft & Hage 1990; Waddock & Graves 1997; Melo 2012b).

Hence, it's believed that the existence of institutional ownership will influence the decision to spent more of available slack resources in social performance which contribute to the a better social performance of company. Hence, this study proposes the following hypothesis:

H2. Financial performance impact social performance more positively in company with high percentage of institutional ownership than company with low percentage of institutional ownership.

METHODOLOGY

Sample of this study comprises of top 262 companies that listed on main market of Bursa Malaysia. Stratified random sampling was used to select sample. Data on financial and social performance was collected from the company annual reports for the year 2010 to year 2012. This approach is consistent with previous studies by Hackston and Milnes (1996) and Aras et al. (2010).

Measurement of Variables

The dependent variable in this study, social performance (SP), is measured based on Global Reporting Initiatives (GRI[2]) performance indicator. The indicator is considered to be a valid and suitable measure of CSP because it contains comprehensive measure of social and environmental performance (Sutantoputra, 2009). GRI performance indicator overcomes the one-dimensional problem criticized by previous studies (Waddock & Graves, 1997). This study adopts SR disclosure rating by Sutantoputra (2009) and Clarkson (1995), which has 87 total score of disclosure items. This rating system is developed based on GRI 2002 guidelines which categorized the score based on two categories: hard disclosures and soft disclosures. The SR score in this study was obtained by content analysed annual reports of selected sample companies.

There are two independent variables; financial performance and corporate. The financial performance is measured based on the last year's return on equity (ROE). It is because any fund available from previous year or slack resources, is believed can be allocated to SR spending for the current years. The method is consistent with majority of previous studies (Waddock & Graves, 1997; McWilliam & Siegel, 2001; Makni et al., 2008; Aras et al., 2010). The institutional ownership is measured based on percentage of each company's outstanding shares owned by institutions (Bushee, 2001; Bushee & Noe, 2000; Graves & Waddock, 1994; Saleh, Zulkifli & Muhamad 2010; Neubam & Zahra 2006; Fauzi, Mahoney & Rahman 2007; Johson & Greening). In this study, institutional ownership is represented by a percentage of shares held by institutional investors. Most of previous research has generally used total institutional ownerships. This study sums up institutional ownership for only those institutions that own 5 per cent or more shares. This is because they are more likely to have the incentives to monitor (Laidroo 2009) and have influential power in company decision making. Institutional ownership also will be tested as a moderator variable.

The control variables are size and leverage. These variables have been used in previous studies as factors that can influence both companies' performance and SP (Waddock & Graves, 1997; William & Siegel, 2001; Aras et al., 2010). Larger companies tend to receive more attention from the public and are under greater pressure to exhibit social responsibility (Cowen et al., 1987). Moreover larger companies are

[2]The Global Reporting Initiative (GRI) is a network-based organization that produces a comprehensive sustainability reporting framework that is widely used around the world. GRI's Reporting Framework is developed through a consensus-seeking, multi-stakeholder process. Participants are drawn from global business, civil society, labour, academic and professional institutions. The Framework sets out the principles and Performance Indicators that organizations can use to measure and report their economic, environmental, and social performance.

expected to have more slack resources to engage in social and environmental activities compared to small companies (Johnson & Greening, 1999). Leverage is relevant as control variable because companies tend to engage in SR activities in order to reduce the perceived risk associated with debt instruments (Orlitzky & Benjamin, 2001).

Research Model

In order to examine the direct and interaction effect of both independent and moderator variables toward dependent variable, the following model is suggested. The basic model of CFP and CSP relationship is adapt from Waddock and Graves (1997).

$$CSP = \beta_0 + \beta_1 CFP + \beta_2 IO + \beta_3 + \beta_4 FP*IO + \beta_5 SIZE + \beta_6 LEV + \epsilon$$

Where:

CSP – Corporate social rating measured by environmental and social disclosure rating
FP – Financial Performance measured by return on equity (ROE)
IO – Institutional ownership
Size – Total asset
Leverage – total debt / total asset

ANALYSIS AND FINDINGS

Table 1 summarises the descriptive information of the variables in the study. The average of SP score is 8.99%. This low SP score may be due to the employment of international standard measure, the GRI Index, in which not many Malaysian companies comply with the requirement (refer to Table 2). The average of the Institutional investor is 60.42. The average ROE is 6.36%. The average scores for control variables are 19.94 for assets and 42.85 for leverage.

Table 1. Descriptive Statistics of Variables

	Mean	Median	Std. Deviation	Minimum	Maximum
CSP (%)	8.99	7.38	8.97	0.60	82.75
IO	52.29	8.57	11.23	5.00	91.00
ROE	6.36	10.32	21.24	-29.81	65.83
ASSETS (Ln10)	19.94	19.7	26.54	15.07	26.93
LEVERAGE	42.85	39.81	42.97	0.04	10

Notes:

SP	= Corporate Social Performance
IO	= % of equity held by IO
ROE	= Last year's Return on Asset
Assets	= Total Asset
LnAssets	= Log of total asset
LEVERAGE	= Total debt/ Total assets

Table 2 represents the range of social performance score of selected companies for financial year ended 2010 to financial year 2012.This SP score is for the social and environmental rating. The table shows that 80% of sample companies have SP score of 1% to 20% or less. Only 3% of overall company score more than 41 score rate. Majority of the company score in the range of 1 to 10. This indicates that majority of public listed companies have low level of social performance.

Based on Table 2, percentage of company that obtained score more than 40 increasing from year 2010 to year 2012 even though in a small percentage. The number of company that scores below 10 is also decrease from year 2010 to year 2012. It indicates an improvement of SP score in the companies

Table 2 Social performance score rate

	2010	2011	2012	TOTAL
CSP Range	**No. Co %**	**No. Co %**	**No. Co %**	**No. Co %**
1 - 10	152 (59%)	137 (53%)	138 (53%)	427 (55%)
11 - 20	62 (24%)	68 (26%)	66 (25%)	196 (25%)
21 - 30	27 (11%)	30 (12%)	26 (10%)	84 (11%)
31 - 40	13 (5%)	17 (6%)	16 (7%)	46 (6%)
41 - 83	5 (2%)	8 (3%)	14 (5%)	27 (3%)
Total	262 (100%)	262 (100%)	262 (100%)	786 (100%)

Before any multivariate analysis can be carried out, data were examined for extreme values and multicollinearity problems. Following Tabachnik and Fidell's2001 suggestion, we replaced the extreme values data with the nearest larger (smaller) scores in the distribution. Accordingly, we replaced three outliers which are ROE variable, LEVERAGE variable and SP variables

Pearson correlation analysis was carried out to detect multicollinearity problem among independent variables. Multicollinearity problem exists when correlation among variables exceed 0.9 (Tabachnik & Fidell, 2001). Table 3 shows the Pearson correlation results. The results show that ROE is highly correlated (0.947) with moderator (ROE * IO) variable. To overcome this problem, the two highly correlated variables were separated and tested in two separate regressions analysis. In the first regression analysis (Model 1), the moderator variable (ROE*IO) was omitted, while in the second regression equation Model (2), the ROE variable was omitted. This method enables us to test for the acceptance and rejection of both hypotheses.

Table 3. Results of Pearson Correlation

	SP	ROE	IO	LnAsset	Leverage	ROE*IO
SP	1					
IO	0.113*	1				
ROE	0.232**	-0.018*	1			
LnAsset	0.433	0.202*	0.131*	1		
Leverage	0.085**	-0.199**	-0.105*	0.207***	1	
ROE*IO	0.222**	0.947**	0.243**	0.186**	0.186**.	1

Notes:

** Correlation is significant at 0.01 level (2-tailed).

* Correlation is significant at 0.05 level (2-tailed).

The result of the pooled regression analysis for two models is presented in Table 4. The results of both models are significant with adjusted R square value of 26.60% and 26.63% respectively. The low explanation power is comparable to study by Waddock and Graves (1997) who have reported of 11% value of adjusted R^2.

Table 4 Results of Regression Analysis

Dependent Variable: CSP	**Model 1 Coefficient (t value)**	**Model 2 Coefficient (t value)**
Constant	(-0.151)***	(-7.891)**
Independent Variable : ROE Moderator variables IO	**0.142 (4.371)***** **0.059 (1.889)***	- 0.041 (1.278)
Interaction variable: ROE*IO	-	**0.132 (3.795)*****
Control variable : Asset (Ln) Leverage	 0.336 (9.568)*** 0.020 (0.611)	 0.034 (9.858)*** 0.0.15 (0.654)
F Value	36.22	35.76
R Square	0.274	0.271
Adjusted R Square	0.266	0.263

Notes:
CSP = Corporate Social Performance
CGI = Corporate Governance Index
ROE = Return on Asset,
Assets = Total Asset
LnAssets = Log of Total Asset
LEVERAGE = Total debt/Total assets
*significant at 10%
**significant at 5%
***significant at 1%

The results in Model 1 show that last year's financial performance (ROE) influence the current year's social performance positively. The results give support for slack resource theory for the H1. The result indicates that financially strong companies would have the necessary slack resources to engage in social activities. This is consistent with finding from the previous studies (Waddock & Grave, 1997; Fauzi et. Al., 2009; Orlitzky, 2003).

Model 2 show the results of the regression analysis when moderator variable (IO*ROE) was introduced into the model. The results show that moderator variable can significantly and positively influence the level of social performance of the company. Finding from this analysis provide a support to accept hypothesis 2. The finding indicates that financially strong companies with existence of institutional ownership would lead companies to spend their excess resources in social related activities. Total asset as a control variable is significant in explaining independent variable. The results are inconsistent with results from prior studies (Waddock & Graves, 1997; McWilliam & Siegel, 2001; Aras et al., 2009) who suggest bigger companies are expected to have more slack resources to engage in social and environmental activities. Leverage as is not significant in explaining independent variables ant this is not consistent with previous finding where highly leverage companies tend to engage in CSR activities in

order to reduce the perceived risk associated with debt instruments (Orlitzky & Benjamin, 2001). In this study is found that the company leverage did not influence social performance level because the social performance in Malaysia is still at lower levels so it cannot reduce the risk associated with amount of debt

CONCLUSION AND RESEARCH IMPLICATION

This study aims to re-examine the relationship between corporate financial performance and social performance and the role of institutional investor on the relationship. The results show that financial performance is positively and significantly related to corporate social performance. The institutional variable strengthens the relationship. This provides a support for slack resource theory that suggests financially strong companies with the existence of institutional investor would influence the decision on how financial resources or slack resources will be utilized or managed. In this study, the availability of slack resources leads companies to be more active in social related activities. The results of study provide an initial understanding of the importance role of institutional investor to improve the level of SP. This information can be used by the Minority Shareholder Watch Group (MSWG) to promote and enhance the monitoring role of institutional investors.

However this study inherits several limitations. First, the rating process is based on researcher individual judgment, therefore its might open to different interpretation if the rates were to be calculated by different individuals. Secondly, this study only uses the annual report to gather information regarding companies' social activities. This is because the annual reports are valid and they serve as reliable sources of document to obtain information regarding the company. Since social responsibility is a form of voluntary disclosure this may be open to undisclosed certain social activities of the company. Nowadays, sustainability reporting is another comprehensive report that contains information regarding social and environmental activities but in Malaysia, the number of companies publishing this report is still scarce.

Future research can also be conducted by categorizing the institutional investors into public and private institutional investors since characteristics and role of public and private investors are different. To improve the generalization of the research finding, the future research should also consider expanding the sample in other markets listed in Bursa Malaysia, for example the ACE market. The ACE market replaces the MESDAQ market which functions as an alternative market that is open to various sizes of businesses and various economic sectors. Further research should consider alternative measure of CSP such balance score card (Panayiotou et al., 2009) and survey techniques (Igalen&Gond,2005).

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