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Is the Bandwagon Bias Effect Theory Driving Institutional Investors Impact on Corporate Social Responsibility (CSR) Practices?

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This paper employs the bandwagon bias effect theory to explain the influence of institutional investors on CSR Practices. This study focuses on Nigeria and uses the bandwagon bias theory to explore how institutional investors are being influenced by peer and society pressure to go along with the crowd to conform to CSR industrial standards. Using the balanced panel data of 174 PLCs from 2003 to 2009, the study investigates the institutional investors influence on CSR. The findings indicate a significant manifestation of relationship between them, which implies that the bandwagon effect on firm's CSR engagement exists.

Keywords: institutional investor, indigenous institutional investor, foreign institutional investor, government institutional investor, corporate social responsibility, public liability companies, Nigeria

INTRODUCTION

Corporate Social Responsibility (CSR) has become an extremely important economic, social and political factor in both developed and developing countries (Carroll, 1991; 1999; Fernandez et al., 2016; Maroun 2020). The adoption of CSR by Multinational companies (MNCs) as well as indigenous companies (Zadek, 2001; Gul et al., 2020) has been attributed to increasing public concerns. These public concerns have attracted the attention of institutional investors in transnational companies to help reduce such concerns in terms of the operations of companies and their practices which include human rights abuses, ethical issues, governance problems, climate change and environmental issues, employees welfares, consumer protection, oil spillage, gas flaring as well as dumping of toxic wastes in public places and rivers (Oyefusi, 2007b; Ehikioya, 2009 and Idemudia, 2009; Motta and Uchida 2017, Motta and Uchida 2017). As these bad practices lead to corporate scandals, loss of lives, environmental degradation, reputational damage, huge fines, increased costs and corporate failures (Brammer and Millington, 2005; Brammer and Pavelin, 2006; Zadek, 2006; Crane et al., 2008; Gul et al., 2020) there has become the need for institutional

investors to act by using their influence on policies to ensure the long-term survival of companies (Carroll, 1999; Neubaum and Zahra, 2006; Chai, 2010; Wahba, 2010).

Generally, institutional investors are under pressure from peers to address these social problems arising from company operations. This can be attributed to strong ownership concentration, technical knowledge and huge capital resources at their disposal which drive their interest in business operations. Therefore, institutional investors pressurize companies to invest in philanthropic and CSR activities. Philanthropic activities are the commonest CSR practices in developing countries (Helg, 2007). When institutional investors invest in developing economies, they continue the same CSR path practiced by other companies. They assume that philanthropic activity is common and a group thing to do, hence they put pressure on companies to continue the same CSR path such as charities and donations to communities. This peer pressure on institutional investors leads to the bandwagon bias effect. They can accomplish this because some institutional investors are not only present as board members, but also involved in the decision-making process of companies, particularly in formulating policies. As a result, they pressurize companies to formulate policies that address these social concerns (Shleifer and Vishny, 1986; 1997; Salehi 2017).

Recent developments reveal that stakeholders have been pressuring companies to conform to industrial social standards (Mullerat, 2009; Aras and Crowther, 2010 and Misani, 2010; Motta and Uchida 2017; Harjoto et al, 2017). Consequently, this paper examines how the bandwagon effect theory drives institutional investors to pressure companies to invest in philanthropic activities.

This peer pressure is called the conformity syndrome and bandwagon bias effect (Misani, 2010). The bandwagon bias theory occurs when companies that are influenced by peer pressure, copy CSR activities from other companies. As more companies join the practice, regardless of their own organizational belief and culture, the more the bandwagon group grows. In general, peer pressure is a form of social pressure by a group upon an individual who must take action in order to be accepted or seen as conforming. The peer pressure is regarded as an influence on a group or individual by another to change their values, or behaviors in order to suit other people's convenience. This could lead to a snowballing effect as more companies join the bandwagon concept, which can seriously lead to either a beneficial or harmful effect (Snowball effect 2020; Mullerat, 2009).

The reasons for the occurrence of bandwagon effect among companies vary. Some critics say they do this for regulatory purposes, image making while others concur as a way of avoiding extra cost and maximizing profit (Amaeshi, 2008; Mullerat, 2009; Aras and Crowther, 2010; Hoi et al., 2018). Also, the bandwagon effect occurs when one party or group believes and accepts a majority opinion or viewpoint even without enough evidence. They want to be on the winning side or majority viewpoint. The bandwagon effect applies to individuals drawing inferences from decisions of others thereby relying on situations involving majority opinion.

Therefore, the question that arises is, why is it that institutional investors are not implementing the same strategic CSR practices that are dominant in developed economies in developing countries, as against mere support for philanthropy, charity or cash donations?

By not advocating for the same CSR programs in developing countries, they can be accused of double standards by resorting to play lip service by following and doing what majority of the companies are already doing. By following other companies CSR practices irrespective of their own culture, values and visions, institutional investors are characterized as having a bias effect. These companies jump into the bandwagon group just because others are doing it, unlike what obtains in developed countries (English, 2010). The institutional investors from developed countries advocate for strategic CSR which is conspicuously absent in developed countries (Helg, 2007).

Essentially, the justification for the study is based on increased awareness of organizational CSR activities in Africa, with particular emphasis on Nigeria. There has been increased expectation that companies should be socially responsible in their business operations (Webb, 2004). In this regard, Nigeria was chosen as a focal point of study because of the country's huge natural resources and rapid economic growth (Ehikioya, 2009; Ezeoha and Okafor, 2010; Soliman et al., 2012). The Nigerian government has taken major steps in an attempt not only to reform the economy, but also to improve the investment climate and attract local, regional and foreign direct investments (Ahunwan, 2002). The study is structured as

follows: the theoretical framework and literature review, methodology, discussion of results and conclusion. The next section considers the literature review that further provides insight into the heterogeneous nature of institutional investors and how they affect CSR activities in companies.

LITERATURE REVIEW AND DEVELOPMENT OF THE THEORETICAL FRAMEWORK

This study employs the bandwagon theory effect to understand the influence of institutional investors in CSR practices. The bandwagon bias effect is based on the notion that people derive information socially from others and have the tendency to follow or copy what others are doing in CSR regardless of their organizational belief, culture or performance (Carson, 2012; Rao and Tilt 2016). This bandwagon effect causes changes in organizational variance thereby shaping CSR practices of companies. The relationship between institutions and how corporations implement policies should satisfy the interest of a wider group of stakeholders (Freeman, 1984; Freeman and McVea, 2001). By this, companies develop the institutional norms, values and cultures that satisfy all stakeholders (Turban and Greening, 1997; Johnson and Greening, 1999; Freeman and McVea, 2001; Salehi 2017; Yuan et al., 2020).

Nevertheless, some authors disagree that CSR-bandwagon effect still occurs (English; 2010) whilst what exists is strategic CSR (Hess et al., 2002). This may be true for advanced countries. According to English (2010), CSR no longer has a bandwagon effect, but strategic effect. The author argued that the bandwagon stage or phase has passed. A strategic CSR program is now a business standard and a necessity to effectively compete in the marketplace. This maybe the case in developed countries while in developing countries, the bandwagon effect still exists. According to Abrahamson and Rosenkopf (1993) institutional bandwagon effect exists because non-adopters of CSR programs fear appearing different from many who accept it. They are afraid of below-average performance if various competitors profit from adopting the same CSR programs. Abrahamson and Rosenkopf (1993) studied inter-organizational imitation and mimetic isomorphism and came up with a suggestion that legitimacy-based reference groups guide firms in their mimetic behavior, that firms undertake imitation even against their own ex ante information, and that legitimacy-based imitation contributes negatively to firms' profitability. On the same note, Bikhchandani, Hirshleifer, and Welch (1992) argued that informational cascade occurs when it is optimal for an individual, having observed the actions of those ahead of him, to follow the behavior of the preceding individual with regard to his own information.

Many factors have been identified as possible triggers of the bandwagon effect for organizational CSR practices. These include the financial market, self-image, sustainability rankings, corporate culture, avoidance of fees and fines, regulation, political context, or civil society (Eva, 2011; Hoi et al., 2018). These factors can cause a company to blow their trumpet about their CSR activities. They do this to keep and maintain their position in the financial and capital market. Also, Non-Government Organizations (NGOs) such as Human Rights groups, Trade Unions, consumer activists and advocacy groups can pressure companies to jump into the bandwagon effect and implement certain CSR activities so as to gain legitimacy (Eva, 2011; Rao and Klein, 2013; Yuan et al., 2020). Therefore, Institutional investors pressurize companies to conform to industrial standards of CSR strategies rather than allowing them to individually perform or be creative and unique.

The negative aspect of the bandwagon effect is the weakness on people's behaviour when it is based on limited information or information which is subject to change. This form of group thinking affects individuals who follow the trend based on limited information. Hence, the bandwagon effect which is a cognitive social bias that implies that conduct and beliefs spread like fire, with the probability of adoption increasing in proportion with how many people have already done or believed so (Bandwagon, 2013). Therefore, the bandwagon effect means going along with the crowd or jumping on the bandwagon due to peer or society pressure or because individuals derive information from others. Cognition is the mental process of knowing, awareness, perception, reasoning and judgment. It means that this type of bias is associated with wrong ways in which people deal with knowledge or the lack thereof.

The bandwagon effects are a pattern of deviation in judgment, whereby inferences about other people and situations may be drawn in an illogical fashion. Examples are the confirmation bias which contributes

to over confidence in personal beliefs which can maintain or strengthen beliefs in the face of contrary evidence. Poor decisions due to these biases have been found in military, political, organizational and social contexts, particularly now in CSR among developing countries. People create their own reality of events and their perception of these events may dictate their behavior in companies which sometimes lead to distortion of facts, inaccurate judgment, illogical interpretation or conclusion. Another bandwagon effect's cognitive social bias is the notion that people derive information from others and have a tendency to follow along with what others are doing (Bandwagon, 2013). Some negative results of the bandwagon effect include mass stock market crashes and economic depressions (Wasik, 2013).

Institutional Investors and Bandwagon Effect

CSR practices are good platforms for bandwagons, since they are often characterized by high ambiguity and considered to be multi-dimensional in nature with no single definition of it (Carroll, 1999). Therefore, the main interest of institutional investors on companies' CSR activities centre around reducing cost and addressing environmental issues especially in relation to how social issues must be addressed by firms and the consequences that await culprits by failing to address those issues or concerns. However, there are some companies that do not want to conform but want to be innovative and creative in their CSR activities (Helg, 2007; Amaeshi, 2008; Amaeshi, 2010; Amaeshi and Amao, 2009; Fernandez et al., 2016). They want to be seen as successful as they perform their CSR programs (Amaeshi and Amao, 2009; Gul et al., 2020; Maroun 2020). They expect institutional investors to put pressure on other companies to allow their CSR programs to be reflective of not only the African culture, but also on the values, beliefs and vision of the companies rather than imposing the Anglo-Saxon CSR model as a result of the bandwagon bias effect. The bandwagon process is believed to be appreciated by institutional investors who involve industry members who are creative, innovative and imitators as there seems to be no place for external actors that exert pressure on firms to accelerate adoption. On the contrary, in the case of CSR, clearly, stakeholders exert pressure and are able to sanction firms that do not adhere to the international best practices' mantra. Notable examples include the most adopted standards such as the SA8000 or the Global Reporting Initiative (GRI), developed by independent organizations.

The kind of processes that bandwagon activates depends exclusively on firms competing against each other. In contrast, industry codes of conduct, certified management standards and other best practices in CSR often involve deliberate cooperation among firms in the same industry, or between firms in the industry and stakeholders. A firm that does not adopt a recommended practice risks stakeholders' sanctions, which can cause them to lag behind in terms of competing with others in the marketplace. Therefore, stakeholder interventions and cooperation among peers should be taken into consideration in analyzing why firms are reluctant to go their own way in dealing with social issues.

Institutional Ownership and Corporate Social Responsibility

There are various forms of institutional investors who determine the corporate ownership of companies. These are the majority or minority shareholders. They are made up of management, indigenous, foreign, government, public, private and family ownerships. It has been found that institutional investors have different preferences for CSR (Waddock and Graves, 1997; Johnson and Greening, 1999; Neubaum and Zahra, 2006). Based on these different preferences, several authors have distinguished institutional investors into different groups (Cumming and Johan, 2004; Lydenberg, 2007; Rashid and Lodh, 2008). Shleifer and Vishny (1986) divided institutional investors into large and diffused (small) investors. Shleifer and Vishny (1997) found that diffused shareholders are disadvantaged due to information asymmetry and have less motivation to monitor the board whilst institutional investors do not only put pressure on managers to perform, but also demand accountability and transparency from them (Johnson and Greening, 1999). However, this study focuses on indigenous, foreign and government institutional investors because they are common and obtainable in Nigeria.

Previous studies on the role of institutional investors on CSR are mixed and inconclusive (Waddock and Graves, 1997; Johnson and Greening, 1999; Mckendall et al, 1999; Cox et al, 2004; Neubaum and Zahra, 2006; Chai, 2010; Wahba, 2010; Fernandez et al., 2016). Studies found institutional investors such

as long term and short-term investors have different preferences for CSR (Waddock and Graves, 1997; Johnson and Greening, 1999; Neubaum and Zahra, 2006). While long term institutional investors support CSR, short-term institutional investors do not support CSR (Johnson and Greening, 1999). In addition, Johnson and Greening (1999); Graves and Waddock (1994) found that institutional investors have a positive impact on CSR while others found negative and inconclusive results (Earnhart and Lizal, 1999; 2002). These mixed and inconclusive findings further suggest that more studies are needed to examine the relationship between different institutional investors and CSR starting with indigenous institutional investors.

As a result, this study attempts to address two basic research objectives:

- (a) To investigate the role of institutional investors on CSR; and
- (b) To determine how institutional investors are being influenced by peer and society pressure to go along with the crowd to conform to CSR industrial standards.

Hypothesis Formation: Indigenous Institutional Investors and Corporate Social Responsibility

It was after Nigeria gained independence from the British colonial authority in 1960 that the agitation for economic self-independence increased. There was clamour for a shift from foreign ownership to indigenous ownership of companies. To achieve this, the Nigerian government came up with two laws that changed the ownership structure of companies in the country. These laws were the Foreign Exchange Act of 1962 and the Nigerian Enterprise Promotion Decree of 1972 (Indigenization Decree). The Indigenization Decree of 1972 influenced the acquisition of foreign investors' shares by indigenous investors causing a major shift in the ownership structure of companies in Nigeria. The control of the means of production in socio-economic development of Nigeria also created the advent of indigenous ownership of companies leading to the growth of indigenous institutional investors.

Past studies on the role of indigenous institutional investors and CSR have been contradictory (Earnhart and Lizal, 1999; 2002; Choe et al, 2005; Said et al, 2009). Earnhart and Lizal (1999) examined the effect of types of institutional investors on CSR using an unbalanced panel of 884 companies in 1998 and found a positive relationship between indigenous institutional investors and CSR. The authors argued that indigenous institutional investors perceive CSR as helping companies to lower fines and mitigate negative risk. This is because indigenous institutional investors are more knowledgeable about the concerns of the community. Accordingly, Earnhart and Lizal (1999) findings illustrates that different institutional investors show different preferences for CSR activities.

In another study, Earnhart and Lizal (2002) presented the effect of different institutional investors on CSR. The authors studied the effects of privatisation policy from 1996 to 1998 using an unbalanced panel data and found that indigenous investors are positively related to CSR. In supporting the above findings, Choe et al (2005) found that in terms of trading experiences in Korea, indigenous institutional investors are better traders than foreign investors. They concluded that indigenous institutional investors have an edge over foreign investors as prices move up against foreign institutional investors in trading domestic stocks and shares. Also, indigenous institutional investors pay less when trading on small, medium and large stocks because of their understanding of the local market environment and trading experiences compared to foreign investors. Given these differences, the authors expect different institutional investors to have different preferences regarding social investments and performances of a firm.

Based on empirical findings on the institutional theory, the following hypothesis has been proposed:

Hypothesis 1: There is a relationship between indigenous institutional investors and CSR.

Foreign Institutional Investors and Corporate Social Responsibility

Foreign investors have experienced a tremendous rise in Nigerian corporate sector after changes in government policy in 1995. The abolition in 1995 of the Exchange Control Act of 1962 and the Nigerian Enterprise Promotion Decree with partial abolition in 1989 and full abolition that took place in 1995, finally attracted foreign institutional investors to invest in Nigeria. The change in policy happened after it was noticed that the indigenization decree of 1972 was not creating confidence in the business

environment, especially when indigenous investors lacked the needed resources to boost economic growth and development. This was because the oil sector needed huge and technical resources which the indigenous investors could not provide on their own without foreign investors. This competitive advantage made the government to have a re-think on its policies to attract foreign investors (Yakasai, 2001).

Generally, foreign institutional investors normally emanate from developed economies (Rasic, 2010). Prasanna (2008) argued that the foreign institutional investors provide the avenues for nations to have access to foreign capital which increases the level of economic activities and development (Song et al, 2009). However, driven by the need for lower cost of production, cheaper labour, competition, profit maximization and increased globalization, foreign investors began to relocate or open branches in developing countries (Bondy et al, 2004; Clark and Hebb, 2005; Bondy, 2008; Carroll and Buchholz, 2009; Ghahroudi et al, 2010; Gul et al., 2020).

Empirical findings on foreign institutional investors and CSR were also mixed and inconclusive (see, Dasgupta et al, 2000; Eckeland and Harrision, 2003; Prasanna, 2008; Song et al, 2009; Chai, 2010). Several researchers found small effect on the relationship between foreign institutional investors and CSR (Dasgupta et al, 2000). For example, Dasgupta et al (2000) concluded that foreign institutional investors have little effect on CSR. This finding indicates that foreign institutional investors lack experience and knowledge about the local environment; hence, find it difficult to engage in CSR. On a similar note, Cole et al (2008) examined the relationship between foreign institutional investors and CSR in Ghana and found that foreign institutional investors do not influence CSR practices in Ghana.

Conversely, Chai (2010) examined the relationship between foreign institutional investors and CSR using panel data of 1,017 listed Korean firms and found a positive relationship between foreign institutional investors and CSR. The researcher argued that big companies with high advertising budgets and export orientation tend to favour CSR and concluded that CSR is strategic and discretionary, voluntary and embedded in the corporate philosophies of companies. Similarly, Eckeland and Harrision (2003) study showed a positive relationship between foreign institutional investors and CSR and argued that the foreign institutional investors are more involved in environmental management than indigenous investors. Nonetheless, Rasic (2010) found no relationship between foreign institutional investors and CSR. Rasic (2010) identified weak institution, lack of effective government regulation, high cost of new technologies as factors militating against companies from engaging in CSR, which suggests that foreign investors do not pressurize companies to engage in good environmental practices.

Similarly, Ananchotikul (2008) argued that foreign institutional investors favour countries with weak corporate governance system because it enables them to exploit and take advantage of the minority and disperse shareholders. The author also found that foreign institutional investors behave like insiders and do not improve CSR and governance practices if their original country of origin has weak corporate governance and regulatory systems. This means that foreign institutional investors favour CSR and corporate governance practices if they believe that firstly, it will improve their performance and investment. Secondly, if it enables them to comply with existing regulatory laws, and finally, to have strong corporate governance experience from the country. Ananchotikul (2008) argued that the extent and level of relationship between foreign institutional investors and CSR governance depends on the amount of shareholding. For instance, if the level of shareholding is small, foreign institutional investors invest more in CSR. However, the author stated that, if the shareholding is large, foreign institutional investors become entrenched and show little or no interest in CSR and corporate governance practices.

Following the above discussions coupled with empirical findings on institutional theory, the following hypothesis has been proposed:

Hypothesis 2: There is a relationship between foreign institutional investors and CSR.

Government Institutional Investors and Corporate Social Responsibility

The rise of government institutional investors emerged because of inability of indigenous institutional investors to acquire all the shareholdings held by foreign institutional investors in Nigeria. The Indigenization Decree of 1972 in Nigeria influenced the acquisition of foreign investors' shares by

indigenous investors. Most indigenous investors could not acquire all the shares and ownership structure because of lack of funds (Ahunwan, 2002; Okike, 2007). As a result, the government intervened by acquiring the outstanding shares which indigenous institutional investors could not purchase as at that time. This led to growth in government ownership of companies which attracted the presence of government institutional investors in Nigeria.

Consequently, the government acquired the shares of foreign investors resulting in both state-owned companies by state governments and federal owned companies owned by the federal government. In this way, the government gained control of most public utilities. For example, the Odua Investment Group operated as a government institutional investor, incorporated as a Holding Company in July 1976, to take over the business interests of the former Western State of Nigeria now comprising Oyo, Ogun, Ondo, Osun and Ekiti States (Yakasai, 2001; Ahunwan, 2002). However, the incursion of the government in the corporate sector and management of companies in Nigeria, particularly the reshaping of the ownership structure has raised some concerns in determining the influence on institutional ownership on CSR.

Several studies on government institutional investors and CSR produced varied and inconclusive results (Earnhart and Lizal, 2002; Nazli and Ghazali, 2007; Said *et al*, 2009; Zhang *et al*, 2009; Li and Zhang, 2010). For example, Nazli and Ghazali (2007) explored the relationship between government institutional investors and CSR practices in Malaysia and found a positive and statistically significant relationship between government institutional investors and CSR. The authors concluded that government institutional investors are important aspects of what influences CSR practices. Earnhart and Lizal (2002) showed that government institutional investors improve CSR. Similarly, Said *et al* (2009) found government institutional investors to be positively and significantly associated with CSR. Said *et al* (2009) argued that government investors can influence companies to allocate their resources towards CSR practices. The authors also explained that among the types of institutional investors, that government institutional investors are the most important corporate governance mechanism. Government institutional investors ensure PLCs comply with the legal requirements and accounting standards. Therefore, the positive association between government investors and CSR is aimed at reducing the agency cost as well as alleviating the agency problem between managers and shareholders, public and the stakeholders. The government institutional investors can reduce negative outcomes on companies by mandating companies to provide more disclosures and transparency thereby enhancing company legitimacy. However, Said *et al* (2009) findings of a positive relationship between government institutional investors and CSR contradicts the negative relationship perspective which has been suggested to exist between the government institutional investors and CSR (see, Zhang *et al*, 2009).

Moreover, Li and Zhang (2010) found government institutional investors to be positively related to CSR. This positive relationship findings were supported by Dasgupta *et al* (1997). The authors argued that government institutional investors tend to engage in CSR to favour government policies.

On the contrary, Zhang *et al* (2009) examined the role of institutional investors on CSR using 686 firms in China and found government institutional investors to be negatively related to CSR. The authors noted that government institutional investors do not favour CSR. The findings indicate that government owned companies are poor in managing company assets and make loss because they interfere with company operations. Nonetheless, Rasic (2010) found an insignificant relationship between government institutional investors and CSR and suggested that government institutional investors are inefficient in allocating firm resources.

In view of the discussions above, coupled with empirical findings on institutional investors theory, the following hypothesis has been proposed:

Hypothesis 3: There is a relationship between government institutional investors and CSR.

The review of both theoretical and empirical literature suggests that the role of different institutional investors in determining CSR has received considerable interest from researchers and scholars. In particular, the impact of different institutional investors in determining CSR practices in developed countries has been common. For example, Aguilera *et al* (2006) argued that institutional investors in

developed countries pay more attention to social and environmental concerns. Meanwhile, studies such as Aguilera *et al* (2006) are lacking in developing countries (Cole *et al*, 2008). However, this current study attempts to fill the gap by undertaking a vigorous investigation in the direction of Institutional Investors and CSR by using PLCs in Africa's fast-developing economy namely Nigeria.

METHODOLOGY

This research adopts a quantitative methodology which provides generalization and breadth as well as detailed perspectives of institutional investors and their influence on CSR (Ritchie and Lewis, 2006; Adegbite *et. al.*, 2012). The methodological approach was aimed at reducing sample errors (Denzin and Lincoln, 2005) and at the same time, allowed researchers to investigate specific effects of different institutional investors on CSR of PLCs in Nigeria. The quantitative methodology helped to achieve high data coverage which necessitated the use of findings from a representative sample to make predictions about the population (Saunders *et. al.*, 2007).

Data Collection

The data on CSR was collected as CSR investment from annual report of companies for the year 2003 to 2009. The research used random effect estimator to test the specific effects of different institutional investors on CSR of PLCs in Nigeria. This involved using balanced panel data of 174 PLCs from 2003 to 2009 to obtain rich data from the Nigerian Stock Exchange (NSE) Fact Book.

To ensure validity, reliability and replicability of the study, the problem of multicollinearity (when two or more independent variables are correlated) was checked using the Variance Inflation Factor (VIF) while the problem of heteroskedasticity (residual error term variance not constant) was checked using Breusch-Pagan test. The problems were corrected using the robust standard error. The Hausman test was used to discriminate between the fixed effect and random effect estimators (Gujarati, 2007).

The Regression Analysis and as It Relates to Causality

This section used random effect estimator - a general linear modelling used to examine the relationship between dependent variables and independent variables, with the intent of examining the predictive ability of sets of independent variables (cause and effect) on dependent variables to further confirm the proposed relationships. Applying the regression analysis is borne out of the fact that relationships and predictions in real-life scenario, as in this case, are best established and made by a combination of factors. By applying this analysis, the relative contribution of each independent variable in explaining variance in the criterion variable has been determined. Specifically, the focus is on institutional investors, the predictor variables that cause and determine the variance in the outcome, the CSR investments.

Another contribution to these cause and effect relationship is the control variable. The control variables were financial performance, risk, firm size, company age, industry effect, and debt. That is, the extent to which institutional investors and the control variables might contribute to the prediction of the perceived role of institutional investors for achieving and predicting CSR activities. Therefore, this can be interpreted as if it is the institutional investors that are leading the outcome in CSR investments, holding all the control variables constant. The results of these relationships are presented below. This analysis also aims to specify variable(s) that is (are) most accurate in predicting the outcome of CSR using random effect estimator. Since human behaviour is complex and could be influenced by many factors, it is expected that certain sets of independent variables might not completely give total or accurate predictions especially because the construct under investigation has been established to be a multidimensional construct. The random effect estimator reduced the multicollinearity problem and was best fit for the model to determine the cause and effect relationship. Importantly, these estimators also resolved the problem of omitted variable bias.

PRESENTATION OF EMPIRICAL RESULTS

The random effect estimator was used to estimate the effects of the balanced panel of 174 PLCs from 2003 to 2009. Model 1 tested hypothesis 1. This section discusses the results of the statistical analysis in relation to the effects of indigenous institutional investors, foreign institutional investors, and government institutional investors on CSR.

The Role of Indigenous Investors

The effects of indigenous investors on CSR are presented in Table 1. Model 1 tests hypothesis 1. The random effect estimator produces negative and insignificant result between the indigenous institutional investors and CSR ($b = -0.039$; $P=0.81$). This is similar to Rasic (2010) which found no relationship between indigenous institutional investors and CSR. Rasic (2010) identified weak institutions, high cost of new technologies as the militating factors against CSR.

TABLE 1
THE EFFECTS OF INDIGENOUS INSTITUTIONAL INVESTORS ON CSR

Variables	Random Effect Model
Indigenous Investors	-0.039(0.115)
Number of employees	0.558(0.786)***
Age of Company	0.707(0.253)***
EPS	0.005(0.012) *
Risk	-0.021(0.011) *
Debt	0.006(0.010)
ROA	-0.008(0.001)
Industry effect	0.545(0.222)**
Number of groups(n)	174
Number of Observation(N)	1218
Within R2	0.22
Between R2	0.08
Overall R2	0.09
R Square adjusted	0.17
Intercept	10.02(1.08)***
Heteroscedasticity chi² (p-value)	0.78(0.377)
Multicollinearity (Mean VIF=1.25)	1.48
Woodridge test for autocorrelation results	10.20(0.002)
Hausman Test	34.93
VIF is the Variance Inflation Factor used to test for Multicollinearity. Robust standard error is used for pooled cross sectional, random effect and fixed effect models.	
Note: Standard errors are in parentheses. All variables marked ***, **and * are significant at 1%, 5% and 10% level, respectively. The Hausman test refers to the test of the null hypothesis of the random effect against the fixed effect estimators, b represents the coefficient and p is the p-value.	

The Role of Foreign Institutional Investors

Table 2 shows the result/analysis on the effects of foreign institutional investors on CSR investments. Also, Model 2 tests hypothesis 2. The random effect estimator produced negative and insignificant results, $b = -0.057$ and $P=0.76$.

Again, the random effect estimator showed that foreign investors have a negative and non-significant effect on CSR. These findings mean 1% increase in foreign institutional investors results in 0.24% decrease in CSR investments, and holds all the control variables (z) constant. However, the findings reject hypothesis 2, that predicted a positive relationship between foreign institutional investors and CSR.

The negative and insignificant result indicates that foreign institutional investors do not influence CSR among PLCs in Nigeria. This is similar to the findings of Dasgupta et al (2000). Dasgupta et al (2000) found no effect between foreign ownership and CSR which indicates that foreign institutional investors lack experience and knowledge about the local environment; hence foreign investors find it difficult to engage in CSR. Similarly, Rasic (2010) found no relationship between foreign institutional investors and CSR, having a value of $\text{Chi}^2 = 6.27$; $P=0.652$.

Moreover, the R square for the random effect estimator is 0.22. This implies that the independent variables in the model accounted for 22% variations in CSR investments which signifies a good fit for the model (Benson et al, 2009). It means that the explanatory variables in the model explain the CSR investments by 22%. This is consistent with the findings of Andayani et al (2008) that got a slightly higher R-square value of 0.376, while Benson et al (2009) found R^2 to be 0.08.

TABLE 2
THE EFFECT OF FOREIGN INSTITUTIONAL INVESTORS ON CSR

Variables	Random Effect Model
Foreign Investors	-0.057(0.170)
Number of employees	0.557(0.050)***
Age of Company	0.707(0.254)***
EPS	0.005(0.010)
Risk	-0.021(0.011) *
Debt	0.006(0.010)
ROA	-0.001(0.001)
Industry effect	0.543(0.222)* * *
Number of groups(n)	174
Number of Observation(N)	1218
Within R2	0.22
Between R2	0.08
Overall R2	0.09
R Square adjusted	0.17
Intercept	9.64(1.114)***
Heteroscedasticity $\text{chi}^2=6.11$ (p-value)	0.81(0.38)
Multicollinearity (Mean VIF=1.25)	1.49
Woodridge test for autocorrelation results	10.20(0.002)
Hausman Test	35.67
VIF is the Variance Inflation Factor used to test for Multicollinearity. Robust standard error is used for pooled cross sectional, random effect and fixed effect models.	

Note: Standard errors are in parentheses. All variables marked ***, **and * are significant at 1%, 5% and 10% level, respectively. The Hausman test refers to the test of the null hypothesis of the random effect against the fixed effect estimators, b represents the coefficient and p is the p-value.

The Role of Government Institutional Investors

Table 3 shows the result/analysis on the effects of government institutional investors on CSR. Model 3 also, tests hypothesis 3. The random effect estimator produced negative and insignificant results (b = -0.145; p = 0.62). See Table 3 for details of result.

The findings mean that 1% increase in government institutional investors results in 0.15% decrease in CSR investments, and holds all the control variables (z) constant. These findings indicate that as the government increases its shareholding, the CSR investments decline. However, the findings reject hypothesis 3, which predicted a positive relationship between government institutional investors and CSR.

TABLE 3
THE EFFECT OF GOVERNMENT INVESTORS ON CSR

Variables	Random Effect Model
Government Investor	-0.296(0.185)
Number of employees	0.562(0.079)***
Age of Company	0.709(0.253)***
EPS	0.005(0.012)
Risk	-0.021(0.011) *
Debt	0.006(0.010)
ROA	-0.001(0.001)
Industry effect	0.471(0.220)**
Number of groups(n)	174
Number of Observation(N)	1218
Within R2	0.22
Between R2	0.09
Overall R2	0.09
R Square adjusted	
Intercept	8.78(1.035)***
Heteroscedasticity chi²=6.11 (p-value)	0.73(0.393)
Multicollinearity (Mean VIF=1.25)	1.50
Woodridge test for autocorrelation results	10.03(0.002)
Hausman Test	33.51
VIF is the Variance Inflation Factor used to test for Multicollinearity. Robust standard error is used for pooled cross sectional, random effect and fixed effect models.	
Note: Standard errors are in parentheses. All variables marked ***, **and * are significant at 1%, 5% and 10% level, respectively. The Hausman test refers to the test of the null hypothesis of the random effect against the fixed effect models, b represents the coefficient and p is the p-value.	

Given the above discussions on the effect of indigenous, foreign and government institutional investors on CSR, it was discovered that different institutional investors; indigenous, foreign and government

institutional investors reveal insignificant relationship with CSR. This means that institutional investors have no preferences for CSR in Nigeria which suggests that institutional investors do not influence CSR.

THEORY AND PRACTICE

This study focused on the role institutional investors' play in determining the CSR practices in publicly listed companies (PLCs). Given that it is an area of study that is under-investigated, the study adopted an institutional theoretical perspective in developing the theoretical framework. The institutional theory suggests that an organization is an adaptive mechanism that is shaped according to participants' characteristics, influences, constraints and commitments.

The external environment refers to the repeated processes that have similar meanings over a period of time such as Code of Ethics, Standard Practice and CSR. The role of institutional investors in influencing these CSR processes produced minimal or insignificant result from the findings. This indicates that organisational arrangements towards CSR are not designed or influenced by institutional investors, but maybe economic, social, cultural and political factors and processes (Selznick, 1957; 2004).

According to Campbell (2006) while arguing that governance rules, norms and standards influence companies to engage in CSR; the authors also argued that rules and punitive sanctions, for example, imposing sanctions against irresponsible companies through fines and fees restrain corporate behaviour or influence companies to invest in CSR. Campbell (2006) concluded that companies engage in CSR if they encounter pressure for compliance to government regulations, rules and laws.

The implications of the study are for managers to realize the importance and dynamics of a changing world through globalization. It also implies that institutional investors help to shape changes through influence on CSR. However, despite lack of influence from institutional investors, the interest of managers should be aligned to investors' interests to ensure long term survival of the company and also create a win-win situation between the company and community.

CONCLUSION

This study focused on Nigeria and the role of different institutional investors - foreign, indigenous and government in determining the CSR practices of listed companies and found no significant relationship between institutional ownership and CSR.

The study not only contributes to the understanding of how the role of institutional investors' affects CSR, it also fills a methodological gap in Corporate Governance and CSR studies in Nigeria. As a developing economy, the findings are essentially useful for policy makers in Nigeria and would guide companies to improve on their CSR practices in host communities.

Future studies should focus on determining the extent in which causality and generalized method of moments or 2-stage least square can be employed. Qualitative methods can be used to explore and have a deeper understanding of how institutional investors affect CSR.¹

ENDNOTE

1. The economic field focuses on individual as rational utility maximisers if institutions provide benefits greater than cost to the individual. The political perspectives refer to the way political institutions influence decisions, structures, processes, forms and outcomes while sociological perspective focuses on the new institutional theory, hence the most suitable for gaining insight into how corporations interact with the environment (Scott, 2004; Bondy, 2008).

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