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Corporate Social Responsibility, Ownership Structure, and Financial Performance: An Analysis of Taiwan's Food and Catering Industry

Shu-Yu Lin[1], Che-Chiang Hsu[2] and Chester Wai-Jen Liu[3]

Abstract

This study explores the interplay between corporate social responsibility (CSR), ownership structure, and financial performance within a diverse sample of firms, both listed and OTC, in Taiwan's food and catering industry. The empirical results clearly indicate no direct link between financial performance and the active implementation of CSR initiatives. Yet, the research supports the monitoring hypothesis, convincingly suggesting that block-holder ownership can effectively supervise managerial actions, thereby reducing agency conflicts and potentially improving financial outcomes. Furthermore, the study underscores the convergence-of-interest hypothesis, emphasizing that when managerial insiders' interests closely align with those of shareholders through equity ownership, it can notably enhance a firm's financial performance.

JEL classification numbers: G32.
Keywords: Corporate Social Responsibility (CSR), Ownership Structure, Financial Performance.

[1] Assistant Professor, Department of International Business, Chang Jung Christian University, Taiwan.
[2] Associate Professor, Ph.D./Master Program in Business and Operations Management, College of Management, Chang Jung Christian University, Taiwan.
[3] Assistant Professor, Department of International Business, Chang Jung Christian University, Taiwan.

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1. Introduction

Over the past decade, Taiwan has experienced significant food safety crises. Notably, the 2011 plasticizer scandal involved the use of harmful substitutes for palm oil in food and beverages. The 2013 "gutter oil" scandal exposed companies selling recycled waste oil as cooking oil. These incidents have had a profound impact on public trust in Taiwan's food and catering industry. Companies in the food and catering industry bear a critical responsibility in ensuring consumer health and safety. Moreover, their operations have significant environmental implications, particularly regarding resource usage, waste generation, and energy consumption. They also play a vital role in supporting local communities and contributing to local economic development, influencing both practical and symbolic aspects of daily life and the broader economy. Given the pervasive influence, the adoption of Corporate Social Responsibility (CSR) practices becomes indispensable for companies in the food and catering industry.

In Taiwan's food and catering industry, active promotion of CSR is strongly emphasized, utilizing methods like CSR reporting, educational and training initiatives, and various award and recognition programs. The prevailing view suggests that CSR can enhance a company's competitiveness, bolster its reputation, and strengthen its financial position, thus exerting a positive impact on the company's financial performance (Preston and O'Bannon, 1997; Margolis, Elfenbein, and Walsh, 2009). Contrary to this argument, an alternative perspective proposes a negative correlation between CSR and a firm's performance. According to this viewpoint, CSR activities consume a company's limited resources without yielding substantial returns (Friedman, 1970). In other words, CSR initiatives or activities involve costs that may negatively affect profits. The costs associated with CSR activities, such as environmental protection operations, improved working conditions, and pollution control measures, could potentially diminish a company's profitability. This study aims to investigate whether food and catering companies that actively promote CSR and have been recognized with awards exhibit superior financial performance.

From another perspective, these food safety crises also highlight the inadequacy of companies' governance capabilities and the presence of loopholes in their risk control mechanisms. Corporate governance is the system that aims to reduce agency costs between managers and shareholders of a company. Agency costs refer to the expenses incurred due to conflicts arising between shareholders and managers, commonly known as the 'principal-agent problem'. A substantial body of financial literature (Shleifer and Vishny, 1997; Gompers, Ishii and Metrick, 2003; Balatbat, Taylor and Walter, 2004) demonstrates that the establishment of a sound governance system can lead to improved performance for companies. This is because an effective governance system aligns the interests of managers and owners (Fama and Jensen, 1983), resulting in enhanced operational performance and company growth (Shleifer and Vishny, 1997).

Ownership structure plays a crucial role in shaping the corporate governance system

and addressing agency problems within a company. Existing finance literature (Shleifer and Vishny, 1986; Morck, Shleifer, and Vishny, 1988; Elyasiani and Jia, 2010; Ahmed and Hadi, 2017) explores various aspects of ownership structure, such as management or non-management shareholders, insider or outsider shareholders, concentration or decentralization of shareholders, and institutional or individual shareholders. External block-holders can influence corporate strategy and operations through their significant voting power and control over the company's management team. The block-holder ownership represents the shareholders' ability and motivation to monitor managers' activities, thereby mitigating direct agency conflicts between shareholders and management (Friend and Lang, 1988; Shleifer and Vishny, 1986). The insider ownership, which encompasses board members, the CEO, and top managers, serves as a proxy for the alignment of interests between managerial insiders and shareholders through equity ownership. It reflects the management team's inner incentive to operate the firm effectively. Our research intends to delve into these structures to understand their influence on corporate financial performance and the overall efficacy of governance mechanisms within food and catering industry.

To summarize, the food and catering industry plays a pivotal role in the economy, making it vitally important to examine whether a proactive approach to CSR and robust corporate governance practices can contribute positively to a firm's financial performance within this industry. This study investigates the impact of CSR and ownership structure on the financial performance of Taiwan's food and catering companies. We operationalize CSR using the criterion of winning the "Corporate Social Responsibility" award and assess the impact of ownership characteristics, specifically the block-holder ownership and the insider ownership. Our analysis involves running four separate regression models, with each model using a distinct measure of firm performance (ROE, ROA, EPS and Tobin’s Q) as the dependent variable, with CSR, ownership elements, and other control variables serving as explanatory variables.

The remainder of the article is organized as follows. Section 2 provides a literature review. Section 3 discusses the data, preliminary diagnostics, and the model. Section 4 presents the empirical results. Concluding remarks are provided in the final section.

2. Literature Review

2.1 Corporate Social Responsibility (CSR) and Financial Performance

CSR is a concept that refers to a company's commitment to operating ethically and responsibly while considering its impact on society and the environment. The majority of academic research has suggested that CSR yields net benefits for businesses (Preston and O’Bannon, 1997; Orlitzky, Schmidt, and Rynes, 2003; Goss and Roberts, 2011). However, views differ. Some researchers discovered a negative correlation between CSR and corporate financial performance (Cavaco and Crifo, 2014; Brammer, Brooks, and Pavelin, 2006), while others found the

relationship to be neutral (Mishra and Suar, 2010).

Preston and O'Bannon (1997) found a positive correlation between corporate social performance and financial performance in their analysis of 67 large U.S. corporations from 1982 to 1992. They suggested that CSR efforts could lower corporate expenses and add stakeholder value. In a meta-analysis of 52 studies, Orlitzky, Schmidt, and Rynes (2003) found a positive correlation between CSR and financial performance, indicating that socially responsible actions could indeed translate into better financial results. Furthermore, Goss and Roberts (2011) concluded that CSR investments could enhance financial performance through improved reputation and increased stakeholder goodwill.

On the other hand, Cavaco and Crifo (2014), using a dataset of approximately 1,094 observations from 15 countries (around 300 firms per year) from 2002-2007, found a negative correlation between CSR and return on assets (ROA). They suggested that the additional costs incurred from CSR initiatives might divert funds from more profitable investments. Brammer, Brooks, and Pavelin (2006) analyzed UK firms and discovered a negative relationship between CSR and financial performance, suggesting that investments in CSR might detract from financial outcomes. In a different context, Mishra and Suar (2010) conducted a study on Indian firms and found no significant relationship between CSR and financial performance, highlighting that the correlation could vary across different cultures and economic contexts.

2.2 Ownership Structures and Financial Performance

The principal-agent problem in corporate governance arises from the disparity between dispersed shareholders (the principals) and influential managers (the agents). Managers might not always act in the best interests of shareholders and could misuse private information for personal gain. This misalignment can adversely affect the company's performance. Corporate governance seeks to address this issue by ensuring the decisions of managers align with shareholders' interests.

Ownership structure is one of the important mechanisms that shape the corporate governance system to reduce agency problems. In the literature (Shleifer and Vishny, 1986; Morck, Shleifer, and Vishny, 1988; Elyasiani and Jia, 2010; Ahmed and Hadi, 2017), there are two common measurements of ownership concentration in a company: (i) the percentage of shares owned by the largest shareholders (referred to as block-holder ownership) and (ii) the percentage of shares owned by the management team, which includes board members, the CEO, and top managers (known as insider ownership). These two measurements reflect different facets of the agency problem. The former represents the shareholders' ability and motivation to monitor and supervise managers (external pressure), while the latter serves as a proxy for the intrinsic motivation of the management team to operate the firm effectively (internal motivation).

2.2.1 Block-holder ownership

Since external block-holders could influence corporate strategy and operations through their significant voting power and control over the company's management team, external block-holder ownership represented the shareholder's ability and motivation to monitor the manager's activities, thereby mitigating direct agency conflicts between shareholders and management (Friend and Lang, 1988; Shleifer and Vishny,1986). *The monitoring hypothesis* argued that significant shareholders could carry out closer monitoring mechanisms, leading to better performance from managers in serving the owners' interests. On the contrary, Shleifer and Vishny (1997) proposed *the expropriation hypothesis*, which stated that the agency problem also existed among shareholders; controlling shareholders could appropriate or seize benefits that would otherwise have belonged to minority shareholders. The hypothesis posited that as ownership became more concentrated, the risk of such expropriation grew, potentially leading to diminished overall firm performance.

Several empirical studies have attempted to evaluate the relationship between block-holder ownership and firm performance. However, findings from these investigations remained mixed and somewhat inconclusive. For instance, Lins (2003) identified a positive relationship between block-holder ownership and firm performance. His research suggested that block-holder ownership could serve as an effective monitor, reducing agency issues and enhancing firm value. Conversely, both Haniffa and Hudaib (2006) and Ali and Lesage (2013) detected a negative correlation between block-holder ownership and firm performance. They contended that block-holders might be driven to misuse company assets, subjecting the firm to risks that could undermine its performance.

2.2.2 Insider Ownership

Jensen and Meckling (1976) argued that when the manager's shareholding ratio was high, if the company lost money, it would also harm the manager's own interests. As a result, there would be a stronger incentive to enhance the company's operating performance and reduce agency costs. DeAngelo and DeAngelo (1985) posited that by holding significant stakes in a firm, insiders could address the asymmetric information problem associated with investment opportunities. They believed that the stock held by insiders acted as an effective incentive to boost firm performance and align managerial interests with shareholder value. *The convergence-of-interest hypothesis* postulated that, as the interests of managerial insiders and shareholders aligned through equity ownership, a positive relationship would emerge between insider managerial shareholdings and firm performance. In contrast, *the entrenchment hypothesis* contended that the relationship between insider managerial shareholdings and firm performance would likely be negative. This is because larger insider managerial shareholdings could fortify and shield insiders from the market's push for corporate control. Fama and Jensen (1983) maintained that significant insider managerial ownership could incur additional costs; when insiders owned a significant portion of a firm's shares, they wielded considerable

voting power. This power could allow them to cement their positions without jeopardizing their employment or salaries. Therefore, excessive insider ownership might adversely affect corporate performance since such ownership could entrench managers.

3. Methodology

3.1 Sample and Data

The dataset consists of quarterly data spanning from the first quarter of 2010 to the fourth quarter of 2022, covering a total of 52 quarters. It features information from 72 companies listed on the Taiwan Stock Market and those traded over-the-counter (OTC). These companies are primarily from the food industry and tourism-catering industry. All financial indices, ratios, and control variables used in this analysis have been sourced from the Taiwan Economic Journal (TEJ) database.

3.2 Variables

The dependent variable in the model is financial performance, with ROA, ROE, EPS, and Tobin's Q used as proxies for financial performance. To examine the relationship between CSR and financial performance, a dummy variable is constructed using well-known CSR awards in Taiwan, such as the Global Views Corporate Social Responsibility Award and Excellence in Corporate Social Responsibility. Reputable experts from various fields evaluate companies annually based on four key dimensions: corporate governance, corporate commitment, social engagement, and environmental sustainability. Each dimension is individually scored, and companies excelling across all dimensions are selected as the annual award recipients. The CSR variable takes the value of 1 if the firm has won a CSR award in a given year and 0 otherwise.

To investigate the impact of ownership structures on the financial performance, the block-holder ownership (BHD), and the insider ownership (BOH) are used as explanatory variables. Firm size and leverage are included as control variables, which could also influence a firm's financial performance. The calculation methodology for all variables is provided in Table 1 below.

Table 1: Variables Definition and Measurements

Variables	Measurements
Dependent Variable (Financial Performance)	
ROA	Return on asset calculated by dividing the firm's earnings after tax and before interests by average of total assets.
ROE	Return on equity calculated by dividing the firm's earnings after tax and interest by average of total equities.
EPS	Earnings per share calculated by dividing the firm's net income by average of shares issued.
Tobin's Q	Tobin's Q calculated by dividing the market value of firm by replacement cost of firm's assets.
Independent Variable	
CSR	Dummy variable takes the value of "1" if the firm has won a CSR award, and "0" otherwise.
BHD	Block-holder ownership defined as the percentage of shares held by large shareholders (those that held 10% and above).
BOH	Insider ownership defined as the percentage of shares held by board members, the CEO, and top managers.
Control Variables	
SIZE	Firm Size defined as the natural logarithm of total assets
DR	Debt ratio defined as the firm's total debt divided by its total assets.

3.3 Model

To produce empirical results, this paper constructs four models. In these models, ROA, ROE, EPS, and Tobin's Q are employed as dependent variables respectively. Meanwhile, CSR, INS, BHD, BOH, SIZE, and DB are used as explanatory variables across all four models.

Model 1

$$ROA_{i,t} = a_0 + a_1 CSR_{i,t} + a_2 BHD_{i,t} + a_3 BOH_{i,t} + a_4 SIZE_{i,t} + a_5 DB_{i,t} + \varepsilon_{i,t} \quad (1)$$

Model 2

$$ROE_{i,t} = b_0 + b_1 CSR_{i,t} + b_2 BHD_{i,t} + b_3 BOH_{i,t} + b_4 SIZE_{i,t} + b_5 DB_{i,t} + \varepsilon_{i,t} \quad (2)$$

Model 3

$$EPS_{i,t} = c_0 + c_1 CSR_{i,t} + c_2 BHD_{i,t} + c_4 BOH_{i,t} + c_4 SIZE_{i,t} + c_5 DB_{i,t} + \varepsilon_{i,t} \quad (3)$$

Model 4

$$Tobin's\ Q_{i,t} = d_0 + d_1 CSR_{i,t} + d_2 BHD_{i,t} + d_3 BOH_{i,t} + d_4 SIZE_{i,t} + d_5 DB_{i,t} + \varepsilon_{i,t} \quad (4)$$

Where $ROA_{i,t}$ is the return on assets for firm i in quarter t, $ROE_{i,t}$ is the return on equities for firm i in quarter t, $EPS_{i,t}$ is the earning per share for firm i in quarter t, $CSR_{i,t}$ is a dummy variable which takes the value of 1 if firm i if the firm has won a CSR award in a given year and 0 otherwise, $BHD_{i,t}$ is the percentage of shares held by block-holders for firm i in quarter t, $BOH_{i,t}$ is the percentage of shares held by board members, the CEO, and top managers for firm i in quarter t. $SIZE_{i,t}$ and $DB_{i,t}$are the control variables firm i in quarter t.

4. Empirical Results

This section presents the empirical results of the study. It presents and analyses the descriptive statistics and OLS regression results.

4.1 Descriptive Statistics

Table 2 lists preliminary descriptive statistics for the financial performance, CSR, ownership structure, and the control variables. The statistics reported include the mean, median, standard deviation, min and max. Given that we apply pooled regression, the data from all time periods and cross-sections are pooled together, resulting in a total of 3,026 data points. The table reveals several notable points. First, the mean of ROE is not significantly greater than that of ROA, which means that financial leverage cannot expand the company's profitability in the food and catering industry. Second, the standard deviation of ROE is higher than that of ROA. It's evident that ROE is much more variability than ROA due to financial leverage. Third, CSR is represented as a dummy variable, taking values of either 1 or 0. The average value of CSR is 0.025, indicating that, on average, approximately 2.5% of companies in the food and catering industry are recognized for their corporate social responsibility efforts each year.

Table 2: Descriptive statistics of research variables

	No. of obs	Mean	Median	Std. dev.	Min	Max
Financial Performance						
ROA (%)	3,026	0.838	0.950	2.778	-27.65	34.77
ROE (%)	3,026	0.848	1.460	6.148	-39.21	45.19
EPS	3,026	0.469	0.260	1.215	-4.93	17.71
Tobin's Q	3,026	1.361	1.080	0.874	0.17	7.42
Corporate Social Responsibility						
CSR	3,026	0.025	0	0.156	0	1
Ownership Structure						
BHD (%)	3,026	28.329	25.520	16.021	0	94.99
BOH (%)	3,026	26.258	21.385	16.804	0	78.17
Control Variable						
SIZE	3,026	15.230	15.243	1.294	11.06	20.13
DB (%)	3,026	42.296	42.990	19.778	1.44	99.07

4.2 OLS Regression Results

Table 3 summarizes the pooled regression results across four models and also presents the Variance Inflation Factor (VIF) values to check for multicollinearity.

Regarding the relationship between CSR and financial performance, in Models 1 to 4, where ROA, ROE, EPS, and Tobin's Q serve as dependent variables, the corresponding estimated regression coefficients are -0.591, -0.278, 0.037, and -0.117. None of these models exhibit statistical significance in their results. Overall, the collective empirical outcomes from these four models underscore the idea that companies acknowledged for their CSR practices do not exhibit superior financial performance when compared to non-recognized companies.

Furthermore, the study examines the relationship between ownership structure and financial performance, placing emphasis on the block-holder ownership (BHD). In model 1, a coefficient of 0.019, significant at the 1% level, indicates a positive correlation between a higher the block-holder ownership ratio and return on assets (ROA). Model 2 presents a coefficient of 0.034, again significant at the 1% level, indicating a positive tie between the block-holder ownership ratio and return on equity (ROE). Model 3, with a coefficient of 0.005, confirms a positive association between the block-holder ownership and earnings per share (EPS), significant at the 1% level. Lastly, Model 4 shows a coefficient of 0.009, significant at the 1% level, pointing to a positive relation between the block-holder ownership and Tobin's Q. Collectively, results from these models validate the idea that elevated block-holder ownership ratios positively impact financial performance, implying that a rise in the block-holder ownership is synonymous with enhanced financial outcomes.

Continuing to explore the correlation between insider ownership (BOH) and financial performance, the regression estimates from models 1 to 4 reveal coefficients of 0.038, 0.055, 0.015, and 0.009, respectively. Each of these is statistically significant at the 1% level. Across all models, there's a consistent

indication of a positive link between the insider ownership and financial performance. This implies an alignment between increased insider ownership and superior financial results.
Regarding the control variables, the coefficients for firm size (SIZE) in Models 1, 2, and 3 are positive and statistically significant, suggesting that larger firms tend to have better financial performance. On the other hand, the relationship between debt ratio and financial performance is consistently negative across all four models, with coefficients that are significant at the 1% level. This indicates that as the debt ratio rises, financial performance is likely to decline.
Multicollinearity refers to a condition where independent variables in a regression model exhibit high correlation. The Variance Inflation Factor (VIF) test is employed to detect multicollinearity problems. According to the collinearity diagnostic criteria set by Hair, Anderson, Tatham and Black (1995), a VIF value less than 10 is considered acceptable, indicating no significant multicollinearity problems among the independent variables. In this study, the VIF values for all four regression equations fall below 10, indicating that multicollinearity is not a significant concern. Consequently, it can be inferred that the independent variables in the study are not closely interrelated, ensuring that the estimation results are robust and efficient.

Table 3: Results of Regression of CSR, Ownership Structure and Company Performance

	Model 1 ROA	**Model 2 ROE**	**Model 3 EPS**	**Model 4 Tobin's Q**	**VIF**
CSR	-0.591 (0.307)	-0.278 (0.679)	0.037 (0.141)	-0.117 (0.100)	1.081
BHD	0.019** (0.003)	0.034** (0.007)	0.005** (0.001)	0.009** (0.001)	1.233
BOH	0.038** (0.003)	0.055** (0.007)	0.015** (0.001)	0.009** (0.001)	1.284
SIZE	0.806** (0.037)	1.755** (0.082)	0.228** (0.017)	-0.056** (0.012)	1.104
DB	-0.030** (0.002)	-0.080** (0.005)	-0.009** (0.001)	-0.009** (0.001)	1.043
Constant	-11.708** (0.620)	-24.892** (1.372)	-3.138** (0.285)	2.093** (0.203)	
Adjusted R^2	0.187	0.187	0.098	0.109	
Observations	3,026	3,026	3,026	3,026	

Reported values are test statistics with associated standard error in parentheses. **, and * indicate statistical significance at the 1% and 5% levels, respectively.

5. Summary and Concluding Remarks

This study investigates the relationship between CSR, ownership structure, and financial performance using a sample of 72 companies listed and traded over-the-counter from the food and catering industry in Taiwan. The data covers a period spanning from the first quarter of 2010 to the fourth quarter of 2022, totaling 52 quarters. Aggregating data across all time periods and cross-sections, a total of 3,026 data points is compiled. The empirical findings are outlined as follows:

The empirical findings from this study indicate no significant correlation between financial performance and the adoption of CSR in the food and catering industry. This is consistent with previous research, such as the study by Mishra and Suar (2010). There's a prevailing belief that industries can gain a deeper understanding of their broader roles within the environment, society, community, and familial structures through CSR adoption. This self-regulating business model enhances brand image and corporate reputation. Additionally, it fosters a sense of purpose among employees, bolstering morale and strengthening the bond between corporations and their communities. The ideal outcome would see these industries not only benefiting from society but also giving back in tangible ways, which could lead to improved financial performance.

Despite prevailing trends, our study, focusing on the food and catering industry in Taiwan, uncovers contrasting results. When reviewing the lists of past awardees, it's clear that the winners are primarily large enterprises, with a notable concentration in the finance and technology sectors. Given that the food and catering industry is predominantly made up of small to medium-sized enterprises, the limited recognition of companies from this sector is expected. This observation is further supported by statistics showing that only about 2.5% of companies in the food and catering industry receive acknowledgment for their CSR efforts annually. To rectify this imbalance, we propose to segment CSR awards by industry. Specifically, introducing CSR awards tailored for the food and catering industry would ensure that companies from all sectors, dedicated to 'corporate social responsibility', attain the recognition they deserve.

Ownership structure plays a pivotal role in shaping corporate governance systems and addressing agency problems. The block-holder ownership exemplifies the capacity and inclination of external significant shareholders to oversee and monitor managerial decisions. Our empirical findings across all four models consistently suggest that a higher block-holder ownership is positively correlated with superior financial performance, in line with the monitoring hypothesis (Friend and Lang, 1988; Shleifer and Vishny,1986). The block-holder ownership, due to its significant voting power, can impact corporate strategy and operations by exerting control over the management team. Moreover, this ownership structure indicates shareholders' capability and motivation to supervise managerial activities, effectively reducing the agency conflicts between shareholders and management, thereby enhancing the company's financial performance.

On the other hand, insider ownership represents the internal motivation of the

management team in effectively operating the firm. Our empirical findings support the proposition that a higher insider ownership shareholding ratio is positively associated with better financial performance in all four models, in line with the convergence-of-interest hypothesis. As suggested by Jensen and Meckling (1976), DeAngelo and DeAngelo (1985), as interests of managerial insiders and shareholders converge through equity ownership, a positive relationship arises between insider managerial shareholdings and the firm financial performance.

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