Copernican Journal of Finance & Accounting

2024, volume 13, issue 2

e-ISSN 2300-3065
p-ISSN 2300-1240

Potharla, S. (2024). Does Blockholders' Concentration Influence Spending on Corporate Social Responsibility? - Evidence from the Indian Firms. Copernican Journal of Finance & Accounting, 13(2), 89–108. http://dx.doi.org/10.12775/CJFA.2024.009

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DOES BLOCKHOLDERS' CONCENTRATION INFLUENCE SPENDING ON CORPORATE SOCIAL RESPONSIBILITY? – EVIDENCE FROM THE INDIAN FIRMS

Keywords: blockholder concentration, CSR spending, stakeholder salience, group firms.

J E L Classification: G23, M14, O16.

Abstract: This study investigates the relationship between blockholder concentration and corporate social responsibility (CSR) spending in Indian firms, using stakeholder identification and salience theory. This study aims to fill a gap in the literature by examining how the concentration of blockholders, particularly external Blockholders and promoters, influences CSR activities. The analysis covers 1,918 firms from 2014 to 2023, using data from the Centre for Monitoring Indian Economy (CMIE) database. Empirical methods, including four regression models, are employed to examine the significance of blockholder attributes on CSR spending. The results demonstrate the significant positive impact of blockholder concentration on CSR activities. Specifically, the influence of external blockholders on CSR spending is greater than that of promoters. Furthermore, the study finds that single promoters with large investments are more inclined towards CSR spending, while interest in CSR diminishes when multiple promoters hold significant shares. This study uniquely contributes to the literature by providing an insightful analysis of blockholder concentration's impact on CSR, highlighting

Date of submission: January 23, 2024; date of acceptance: June 3, 2024.

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the differential effects between external blockholders and promoters, and underscoring the importance of strategic blockholder alliances in enhancing CSR efforts. These findings offer valuable insights for corporate managers and policymakers in emerging economies such as India.

Introduction

Corporate Social Responsibility (CSR) has emerged as a critical area of focus for businesses worldwide, driven by increasing stakeholder expectations and regulatory pressure. The role of blockholders, particularly external blockholders such as institutional investors and high-net-worth individuals, in influencing CSR spending is a pertinent research question with significant implications for corporate governance and sustainability practices. Understanding how these blockholders impact CSR activities can provide insights into firms' strategic decisions and commitment to social and environmental responsibilities. This research is crucial in the context of emerging economies, such as India, where CSR mandates are relatively new, and the influence of powerful investors can significantly shape corporate behavior.

The literature on blockholder influence and CSR spending presents a complex and sometimes contradictory picture. While some studies, such as Cheng, Wang and Wang (2022), suggest that common institutional ownership can negatively affect CSR by supporting anti-competitive practices, others, like Zhou, Liu, Zhang, Qi and Qin (2024), indicate that institutional investors positively influence CSR initiatives. Tarighi, Shirzad and Azad (2021) and Ozdemir, Erkmen and Han (2023) highlight the nuanced roles of CSR disclosure and institutional ownership in financial recovery and performance under economic policy uncertainty. These conflicting findings underscore the research gap in understanding the conditions under which blockholders enhance or undermine CSR efforts. This study addresses this gap by investigating the specific attributes of external blockholders, such as investment size, coalition strength, and contestability, and their impact on CSR spending. The research question and hypothesis emerge from this critical examination of the literature, proposing that external blockholders significantly influence CSR activities because of their substantial capital contributions and strategic importance to firms.

Building on these insights, this study examined the impact of blockholder concentration on CSR spending in 1,918 Indian firms from 2014 to 2023. Utilizing data from the Centre for Monitoring Indian Economy (CMIE) database,

the empirical analysis employs four models to assess the significance of blockholder attributes. These models incorporate the largest and top blockholders, return on assets, free cash flows, debt/equity ratio, firm age, and industry-average CSR spending. This approach uses winsorized variables to explore how blockholder characteristics influence CSR spending, accounting for potential outliers.

This study confirms that controlling and external blockholders positively influence CSR spending, with the largest external blockholder having a more pronounced effect, supporting Stakeholder Identification and Salience Theory and Resource Dependency Theory. The empirical results show a significant positive relationship between CSR spending and the largest external blockholder ($TOPNONPROM_{it-1}$) and controlling blockholders ($TOPPROM_{it-1}$). The top three external blockholders ($TOP5NONPROM_{it-1}$) significantly affect CSR spending, whereas the influence of the top five ($TOP3NONPROM_{it-1}$) is comparatively weaker. These findings align with Tarighi et al. (2021) and Zhou et al. (2024) on the positive impact of institutional blockholders on CSR, although they contrast with Cheng et al. (2022). This study extends the literature by providing insights into the blockholder concentration and its effects on CSR. Additionally, the significant coefficient for INDCSRit-1 underscores the role of industry standards in promoting CSR activities, supporting the findings of Ozdemir et al. (2023) on the mitigating effects of CSR, institutional ownership, and cash holdings on economic policy uncertainty.

This study finds that external blockholders have a stronger impact on CSR spending than promoters, particularly in group-affiliated firms. This aligns with Zhou et al. (2024) and Tarighi et al. (2021), who note the positive effects of institutional ownership on CSR and financial recovery. The role of potential coalitions is highlighted by the significant effect of external blockholders' contestability. Promoters are more inclined towards CSR when there is a significant gap between their largest and second-largest holdings, as supported by Panicker (2017) and Manogna and Mishra (2021). Additionally, industry standards and firm-specific factors such as ROA and age significantly influence CSR activities.

Robustness Testing highlights the substantial influence of external blockholders on CSR spending, emphasizing the importance of sustainability considerations for fund managers. In emerging economies, such as India, this underscores the need for companies to meet sustainability objectives to attract and retain investors. Forming coalitions among top-holders is essential for actively

monitoring CSR efforts, particularly in group-affiliated firms. Promoting CSR initiatives can attract institutional investment, enhance market transparency, and support corporate growth. Policymakers should foster transparent CSR reporting and collaboration among blockholders, whereas regulatory bodies should incentivize long-term CSR investments.

Theoretical Background and Literature Review

The theory of stakeholder salience provides a framework for assessing managerial priorities by categorizing stakeholders based on their power, legitimacy, and urgency. This study investigates how these attributes relate to external blockholders, such as institutional investors and high-net-worth individuals, and how they influence CSR spending. Power denotes a firm's reliance on key stakeholders (Freeman & David, 1983), with power-dominant stakeholders significantly impacting organizational actions (Savage, Nix, Whitehead & Blair, 1991). External blockholders exhibit this power through substantial capital contributions and strong voting rights, significantly influencing corporate decisions. Legitimacy emanates from contractual ownership rights, extending beyond mere capital investment to signify a stakeholder's implicit claim of a firm's assets (Carroll & Hannan, 1989). External blockholders establish legitimacy through substantial capital investments and create legal bonds with firms. The urgency of stakeholder claims is closely linked to the promptness and importance of their interests. Resource dependency theory posits that firms depend on external sources of resources (Salancik, Pfeffer & Kelly, 1978). External blockholders occupy a salient and influential position in firm management by providing significant capital and ensuring market liquidity. This study employs empirical analysis to examine the influence of external blockholder concentration on CSR spending across a diverse range of firms.

Cheng et al. (2022) examined the impact of common institutional ownership on CSR among U.S. public firms from 1991 to 2015, finding that common institutional ownership negatively affects CSR, supporting the anti-competitive view. This contrasts with the literature, suggesting institutional ownership typically enhances CSR. Tarighi et al. (2021) explored the impact of CSR disclosure on financial distress risk in Tehran Stock Exchange (TSE) firms from 2013 to 2018. They find that high CSR disclosure does not enhance creditworthiness, but institutional ownership aids financial recovery, particularly

under economic sanctions and cultural influences in Iran. Zhou et al. (2024) investigated the impact of institutional ownership on CSR in Chinese listed firms from 2007 to 2020. They found that pressure-resistant institutions positively influence CSR, whereas pressure-sensitive institutions do not. This study employs the MIMPF regulation as a quasi-natural experiment to address endogeneity.

Ozdemir et al. (2023) analyzed how CSR, institutional ownership, and cash holdings mitigate the negative effects of economic policy uncertainty on financial performance in the hospitality and tourism industry, highlighting the moderating role of these firm attributes. Ali Shah, Akbar and Zhu (2023) examined the impact of mandatory CSR disclosures on firm value in China from 2003 to 2020, finding that such disclosures negatively affect firm value. This study explores the value relevance of mandatory CSR disclosure in an emerging market with institutional ownership and leverage as moderating factors. Desai and Raval (2022) studied the impact of CO_2 emissions on firm market value in India and found a significantly negative impact. Their study offers insights into the context of developing countries by emphasizing the importance of environmental performance for firm valuation. Miceikienė, Rimkuvienė and Gesevičienė (2020) assessed environmental pollution determinants in various sectors of Lithuania, finding that environmental taxes failed to meet objectives, while investments positively impacted specific sectors like water supply and waste management. This study provides valuable insight into the effectiveness of environmental policies.

Grounded in stakeholder salience and resource dependency theories, this study hypothesizes that external blockholders such as institutional investors positively influence CSR spending because of their significant capital, influence, and market roles. Empirical studies corroborate this finding, showing that blockholder investment size, coalition strength, and contestability are key factors that boost a firm's CSR activities.

H1: External Blockholders' attributes (investment size, coalition, and contestability) significantly impact investee firms' CSR spending.

Methodology of the study

Sample and Data Sources

The current study draws its sample from a list of companies in India subject to the CSR provisions outlined in the Company Law of 2013. Data on CSR spending is available between 2014 and 2023 for 1918 firms, represented by 9,388 firm years during the study period. All the required variables were collected from the Center for Monitoring Indian Economy (CMIE) database. All variables used in the empirical model were winsorized to eliminate the influence of outliers on the study results.

Empirical Model

The empirical model under investigation aimed to determine the relationship between blockholder concentration and CSR spending. Four empirical models were developed to test the significance of the associations between these variables to achieve this objective. The analysis uses the log values of CSR spending to establish the impact of blockholder concentration.

$$CSR_{it} = \alpha_0 + \beta_1 TOPNONPROM_{it-1} + \beta_2 TOPPROM_{it-1} + \gamma_1 ROA_{it-1} + \gamma_2 LOGFCFE_{it-1} + \gamma_3 DEBT_{it-1} + \gamma_4 AGE_{it-1} + \gamma_5 INDCSR_{it-1} + \varepsilon_{it} \quad (1)$$

$$CSR_{it} = \alpha_0 + \beta_1 TOP5NONPROM_{it-1} + \beta_2 TOP5PROM_{it-1} + \gamma_1 ROA_{it-1} + \gamma_2 LOGFCFE_{it-1} + \gamma_3 DEBT_{it-1} + \gamma_4 AGE_{it-1} + \gamma_5 INDCSR_{it-1} + \varepsilon_{it} \quad (2)$$

$$CSR_{it} = \alpha_0 + \beta_1 TOP3NONPROM_{it-1} + \beta_2 TOP3PROM_{it-1} + \gamma_1 ROA_{it-1} + \gamma_2 LOGFCFE_{it-1} + \gamma_3 DEBT_{it-1} + \gamma_4 AGE_{it-1} + \gamma_5 INDCSR_{it-1} + \varepsilon_{it} \quad (3)$$

$$CSR_{it} = \alpha_0 + \beta_1 CONTESTNONPROM_{it-1} + \beta_2 DOMPROM_{it-1} + \gamma_1 ROA_{it-1} + \gamma_2 LOGFCFE_{it-1} + \gamma_3 DEBT_{it-1} + \gamma_4 AGE_{it-1} + \gamma_5 INDCSR_{it-1} + \varepsilon_{it} \quad (4)$$

Equation (1) refers to the log value of CSR spending; $TOPNONPROM_{it-1}$ is the largest percentage of shareholding by the external blockholders; $TOPPROM_{it-1}$ is the largest percentage of shareholding by the controlling blockholders who represent the promoter of the company; ROA_{it-1} is the return on assets; $LOGFCFE_{it-1}$ refers to a log value of free cash flows to equity; $DEBT_{it-1}$ is the debt/equity ratio; AGE_{it-1} is the age of the firm; $INDCSR_{it-1}$ is the average CSR spending by the other firms in the industry.

Equation (2) $TOP5NONPROM_{it-1}$ refers to the sum of the percentage of shares held by the top five external blockholders; $TOP5PROM_{it-1}$ refers to the sum of the percentage of shares held by the top five promoters; equation (3), $TOP3NONPROM_{it-1}$ refers to the sum of the percentage of shares held by top three external blockholders; $TOP3PROM_{it-1}$ refers to the sum of the percentage of shares held by top three controlling blockholders. Equation (4), $CONTESTNONPROM_{it-1}$ as the proxy for the lack of contestability. We describe the difference between the largest and second-largest external blockholders as their sum (i.e., block1 (-) block2/block1(+)block2). The higher the $CONTESTNONPROM_{it-1}$ value, the lower the capacity of non-majority block holders to contest or monitor the controlling block holder. The dominance of promoters refers to the difference between the largest and second-largest controlling blockholding to its sum (i.e., block1(-)block2/block1(+)block2). The higher the $DOMPROM_{it-1}$ value, the greater the dominance of the individual promoter. All the remaining variables in Equations (2), (3), and (4) are the same as those in Equations (1).

Results of the analysis

Descriptive Statistics and Correlation Analysis

Table 1. Descriptive statistics

Variable	N	Mean	Median	Maximum	Minimum	Std Dev	Skewness	Kurtosis
$LogCSR_{it}$	9388	15.921	15.718	23.540	11.513	1.972	0.461	0.138
TOPNONPROM	9388	5.967	4.820	48.210	0.012	4.628	2.357	8.721
TOP5NONPROM	9388	13.871	12.400	75.460	0.023	8.668	1.331	3.273
TOP3NONPROM	9388	11.259	9.890	64.140	0.018	7.241	1.621	4.531
CONTESTNONPROM	9388	0.280	0.216	1.000	0.011	0.245	1.024	0.447
TOPPROM	9388	33.617	28.925	99.030	0.010	19.837	0.642	-0.490
TOP5PROM	9388	54.866	55.070	175.860	0.010	18.820	0.557	3.002
TOP3PROM	9388	49.611	49.770	150.000	0.010	19.342	0.445	1.463
DOMPROM	9388	0.445	0.370	1.000	0.000	0.359	0.319	-1.369
ROA	9388	6.411	5.200	592.920	-97.510	10.031	21.799	9.254
DEBT	9388	0.899	0.300	629.110	0.000	9.748	53.301	9.125
AGE	9388	37.899	33.000	159.000	2.000	21.473	1.459	2.709
INDCSR	9388	17.520	17.408	21.893	12.206	1.096	0.371	0.858

S o u r c e : author's calculations.

Table 2(A). Correlation analysis

	CSR_{it}	TOP $NONPROM_{it}$	TOP5 $NONPROM_{it}$	TOP3 $NONPROM_{it}$	CONTEST $NONPROM_{it}$	TOP $PROM_{it}$	TOP5 $PROM_{it}$
CSR_{it}	1						
$TOPNONPROM_{it}$	0.090*	1					
$TOP5NONPROM_{it}$	0.082*	0.838*	1				
$TOP3NONPROM_{it}$	0.079*	0.909*	0.978*	1			
CONTEST $NONPROM_{it}$	0.036*	0.365*	-0.063*	0.031*	1		
$TOPPROM_{it}$	0.163*	-0.146*	-0.278*	-0.240*	0.151*	1	
$TOP5PROM_{it}$	-0.030*	-0.266*	-0.417*	-0.371*	0.142*	0.723*	1

Note: * indicates the level of significance at 5 percent.

S o u r c e : author's calculations.

Table 2(B). Correlation analysis

	TOP3 $PROM_{it}$	DOM $PROM_{it}$	ROA_{it}	$DEBT_{it}$	AGE_{it}	$INDCSR_{it}$
$TOP3PROM_{it}$	1					
$DOMPROM_{it}$	0.285*	1				
ROA_{it}	0.036*	-0.028*	1			
$DEBT_{it}$	0.017	0.026*	-0.060*	1		
AGE_{it}	0.034*	0.099*	-0.046*	0.002	1	
$INDCSR_{it}$	0.023*	0.139*	0.041*	-0.004	0.022*	1

Note: * indicates the level of significance at 5 percent.

S o u r c e : author's calculations.

Table 1 presents descriptive statistics of the variables used in the empirical model. The mean $logCSR_{it}$ value was 15.921, with a standard deviation of 1.972. The skewness and kurtosis values for the $LogCSR_{it}$ were 0.461 and 0.138, respectively. The mean value of the largest external blockholding (TOPNONPROM) is 5.967, with a standard deviation of 4.628. The top five external block holdings (TOP5NONPROM) have a mean value of 13.871 and a standard devi-

ation of 8.668. The top three external block holdings (TOP3NONPROM) have a mean value of 11.259 and a standard deviation of 7.241.

The mean value of contestability of external block holdings (CONTESTNONPROM) is 0.280, with a standard deviation of 0.245. The largest control block holding (TOPPROM) had a mean value of 33.617 and a standard deviation of 19.837. The top five controlling block holdings (TOP5PROM) have a mean value of 54.866 and a standard deviation of 18.820. The top three controlling block holdings (TOP3PROM) have a mean value of 49.611 and a standard deviation of 19.342. The domestic promoter holdings (DOMPROM) have a mean value of 0.445, with a standard deviation of 0.359. The mean return on assets (ROA) is 6.411 with a standard deviation of 10.031, and debt (DEBT) has a mean value of 0.899 with a standard deviation of 9.748. The age of firms (AGE) has a mean value of 37.899 and a standard deviation of 21.473. The industry CSR average (INDCSR) has a mean value of 17.520 and a standard deviation of 1.096.

Tables 2(A) and 2(B) present the correlation coefficients of the variables used in the empirical model. The findings reveal significant correlations between CSR spending and blockholder concentration. In Table 2(A), CSR_{it} shows substantial positive correlations with $TOPNONPROM_{it}$ (0.090), $TOP5NONPROM_{it}$ (0.082), $TOP3NONPROM_{it}$ (0.079), $CONTESTNONPROM_{it}$ (0.036), and $TOPPROM_{it}$ (0.163), indicating that both external and controlled blockholder concentrations positively influence CSR spending. $TOP5PROM_{it}$ had a significant negative correlation (-0.030) with CSR_{it}.

In Table 2(B), $TOP3PROM_{it}$, $DOMPROM_{it}$, ROA_{it}, AGE_{it}, and $INDCSR_{it}$ have significant positive correlations with CSR_{it}, suggesting that higher profitability, firm age, and industry-average CSR also promote CSR spending. $DEBT_{it}$ shows no significant correlation with CSR_{it}, indicating that leverage does not directly impact CSR spending. This analysis confirms that blockholder concentration, profitability, firm age, and industry average CSR significantly influence firm CSR spending.

Baseline Regression

Table 3. Relationship between blockholder concentration and CSR spending

Variable	(1)	(2)	(3)	(4)
Blockholder Concentration				
$TOPNONPROM_{it-1}$	0.085*			
$TOPPROM_{it-1}$	0.124*			
$TOP5NONPROM_{it-1}$		0.098*		
$TOP5PROM_{it-1}$		0.002		
$TOP3NONPROM_{it-1}$			0.099*	
$TOP3PROM_{it-1}$			0.045*	
$CONTESTNONPROM_{it-1}$				-0.011
$DOMPROM_{it-1}$				0.156*
ROA_{it-1}	0.151*	0.154*	0.152*	0.153*
$LOGFCFE_{it-1}$	0.008	0.010	0.010	0.007
$DEBT_{it-1}$	-0.003	0.002	0.001	-0.004
AGE_{it-1}	0.145*	0.161*	0.158*	0.143*
$INDCSR_{it-1}$	0.261*	0.276*	0.275*	0.257*
Constant	6.360*	6.114	5.978*	6.762*
R-squared	0.146	0.137	0.137	0.1512
Adjusted R-squared	0.146	0.137	0.137	0.1506
F-statistic	229.84*	213.01*	212.44*	238.68*
Study Period	2014-2023	2014-2023	2014-2023	2014-2023
No of observations	9388	9388	9388	9388
Companies	1918	1918	1918	1918

Note: * indicates that the coefficients are statistically significant at the 5 percent level.

S o u r c e : author's calculations.

This study investigates the impact of blockholders on CSR spending using stakeholder identification and salience theories. The findings confirm that controlling and external blockholders positively influence CSR spending, with the largest external blockholder having the most pronounced effect. This aligns with Savage et al. (1991), who highlight the influence of external blockholders owing to their power, legitimacy, and urgency. The prominence of external blockholders in influencing CSR is supported by the Resource Dependency Theory (Salancik et al., 1978), which emphasizes a firm's dependence on these blockholders for liquidity and funding.

Table 3 shows that the coefficient of $TOPNONPROM_{it-1}$ is 0.085*, indicating a significant positive relationship between the largest external blockholder and CSR spending. Similarly, $TOPPROM_{it-1}$ has a coefficient of 0.124, supporting the positive influence of controlling blockholders on CSR. The top five external blockholders ($TOP5NONPROM_{it-1}$) show a significant coefficient of 0.098*, while the top three ($TOP3NONPROM_{it-1}$) have a coefficient of 0.099*, indicating a significantly positive effect.

These findings are in contrast with Cheng et al. (2022), who found that common institutional ownership negatively affects CSR, suggesting a contradicting view of institutional ownership's influence. However, Tarighi et al. (2021) support that institutional ownership positively impacts CSR spending. Zhou et al. (2024) find that institutional investors positively influence CSR in Chinese firms, supporting the results of the present study on the positive impact of external blockholders.

This study extends the existing literature by quantitatively assessing the impact of blockholder concentration on CSR spending, measuring concentration through the largest holdings and the aggregated investments of the top three and top five blockholders. The findings reveal that while the coalition of the top five external blockholders significantly affects CSR spending, the influence of the top three, though present, is comparatively weaker. This suggests that the monitoring intensity of these coalitions does not surpass that of the largest external block holder.

Ozdemir et al. (2023) highlights the mitigating effects of CSR, institutional ownership, and cash holdings on economic policy uncertainty, paralleling the present study's findings on the significant positive impacts of ROA_{it-1} (0.151*) and AGEit-1 (0.145*) on CSR spending. The significant coefficient of $INDCSR_{it-1}$ (0.261*) underscores the role of industry standards in promoting CSR activities.

This study corroborates prior studies that identified a positive association between institutional ownership and CSR spending in the Chinese (Zhou et al., 2024) and Indian markets (Panicker, 2017; Nuvaid, Sardar & Chakravarty, 2018; Tokas & Yadav, 2020; Manogna & Mishra, 2021). However, it provides a nuanced analysis of blockholder concentration, offering deeper insights into the relationship between blockholder concentration and CSR spending. The results underscore the significant role of external blockholders and the significant effects of coalition strength on CSR initiatives.

Moderating effect of Group affiliation

In India, business groups often establish crossholdings among their subsidiaries, creating disparities between promoter controls and cash flow rights (Mitton, 2002; John, 2003; Baek, Kang & Suh Park, 2004). This leads to the emergence of type-2 agency problems (La Porta, Lopez-de-Silanes & Shleifer, 1999; Claessens, Djankov & Lang, 2000; Almeida & Wolfensohn, 2006), which can result in controlling shareholders engaging in opportunistic behavior, such as expropriating resources and undermining CSR investments (Lee & Choi, 2018). In business groups with pyramid-shaped inter-corporate holdings, where controlling rights exceed cash flow rights, this problem is further exacerbated (La Porta et al., 1999; Claessens et al., 2000; Lamont, 1997; Scharfstein & Stein, 2000; Shin & Stulz, 1998). This study investigates the potential role of external blockholders in mitigating opportunistic behavior in promoters.

H2: The Salience and monitoring power of external blockholders are less in group-affiliated firms than in standalone firms.

Hypothesis H2 is derived from the context of family-owned business groups in India, where cross-holdings among subsidiaries often lead to a disparity between promoters' control and cash flow rights, thus catalysing type-2 agency problems. The literature indicates that these structures enable controlling shareholders to engage in opportunistic behavior, potentially at the expense of CSR investments. This hypothesis anticipates that, in such intricate group-affiliated firms, the salience and monitoring power of external blockholders might be diminished compared to standalone firms because of these entrenched governance structures and the potential for promoter overreach. The present study tested the moderating effect of group affiliation status on the re-

lationship between blockholder concentration and CSR spending by employing the following empirical models:

$$CSR_{it} = \alpha_0 + \beta_1 TOPNONPROM_{it-1} * Gdummy_{it-1} + \beta_2 TOPPROM_{it-1} * Gdummy_{it-1} + \gamma_1 ROA_{it-1} + \gamma_2 LOGFCFE_{it-1} + \gamma_3 DEBT_{it-1} + \gamma_4 AGE_{it-1} + \gamma_5 INDCSR_{it-1} + \varepsilon_{it} \quad (5)$$

$$CSR_{it} = \alpha_0 + \beta_1 TOP5NONPROM_{it-1} * Gdummy_{it-1} + \beta_2 TOP5PROM_{it-1} * Gdummy_{it-1} + \gamma_1 ROA_{it-1} + \gamma_2 LOGFCFE_{it-1} + \gamma_3 DEBT_{it-1} + \gamma_4 AGE_{it-1} + \gamma_5 INDCSR_{it-1} + \varepsilon_{it} \quad (6)$$

$$CSR_{it} = \alpha_0 + \beta_1 TOP3NONPROM_{it-1} * Gdummy_{it-1} + \beta_2 TOP3PROM_{it-1} * Gdummy_{it-1} + \gamma_1 ROA_{it-1} + \gamma_2 LOGFCFE_{it-1} + \gamma_3 DEBT_{it-1} + \gamma_4 AGE_{it-1} + \gamma_5 INDCSR_{it-1} + \varepsilon_{it} \quad (7)$$

$$CSR_{it} = \alpha_0 + \beta_1 CONTESTNONPROM_{it-1} * Gdummy_{it-1} + \beta_2 DOMPROM_{it-1} * Gdummy_{it-1} + \gamma_1 ROA_{it-1} + \gamma_2 LOGFCFE_{it-1} + \gamma_3 DEBT_{it-1} + \gamma_4 AGE_{it-1} + \gamma_5 INDCSR_{it-1} + \varepsilon_{it} \quad (8)$$

Equations (5)–(8), $Gdummy_{it-1}$ refer to dummy variables for the group affiliation status of a firm. If the firm belongs to any business group, the value is '1'; otherwise, '0.' All the remaining variables are the same as those mentioned in equations (1) to (4).

Table 5. The moderating effect of group affiliation on the relationship between blockholder concentration and CSR spending

Variable	(1)	(2)	(3)	(4)
Blockholder Concentration				
$TOPNONPROM_{it-1}$ * $Gdummy_{it-1}$	0.167*			
$TOPPROM_{it-1}$ * $Gdummy_{it-1}$	0.196*			
$TOP5NONPROM_{it-1}$ * $Gdummy_{it-1}$		0.195*		
$TOP5PROM_{it-1}$ * $Gdummy_{it-1}$		0.134*		
$TOP3NONPROM_{it-1}$ * $Gdummy_{it-1}$			0.184*	
$TOP3PROM_{it-1}$ * $Gdummy_{it-1}$			0.153*	
$CONTESTNONPROM_{it-1}$ * $Gdummy_{it-1}$				0.068*
$DOMPROM_{it-1}$ * $Gdummy_{it-1}$				0.219*
ROA_{it-1}	0.153*	0.151*	0.150*	0.156*
$LOGFCFE_{it-1}$	0.009	0.009	0.009	0.008
$DEBT_{it-1}$	-0.008	-0.002	-0.004	-0.010
AGE_{it-1}	0.139*	0.156*	0.151*	0.134*
$INDCSR_{it-1}$	0.240*	0.262*	0.258*	0.235*
Constant	6.877*	6.050*	6.211*	7.300*
R-squared	0.206	0.199	0.200	0.187
Adjusted R-squared	0.205	0.199	0.200	0.1866
F-statistic	347.25*	334.44*	336.58*	308.56*
Observations	9388	9388	9388	9388
Companies	1918	1918	1918	1918

Note: * indicates that the coefficients are statistically significant at the 5 percent level.

S o u r c e : author's calculations.

As shown in Table 5, the findings are consistent with those obtained from the baseline model. The impact of external blockholder concentration on CSR spending is more pronounced than that of the promoters, as demonstrated by all three models. This finding suggests that external blockholders are crucial in promoting CSR initiatives, especially in group-affiliated firms. The coefficient of $TOPNONPROM_{it-1} * Gdummy_{it-1}$ is 0.167*, indicating a significant positive effect of external blockholder concentration on CSR spending. Similarly, $TOPPROM_{it-1} * Gdummy_{it-1}$ shows a coefficient of 0.196*, supporting the positive influence of controlling blockholders on CSR, although to a lesser extent than that of external blockholders. The impact of the top five external blockholders ($TOP5NONPROM_{it-1} * Gdummy_{it-1}$) is significant at 0.195*, while the top three ($TOP3NONPROM_{it-1} * Gdummy_{it-1}$) have a coefficient of 0.184*, which reinforces the positive impact on CSR spending.

These results align with the findings of Zhou et al. (2024), who identified the positive influence of institutions on CSR in Chinese firms. Interestingly, this study finds that external blockholders' contestability ($CONTESTNONPROM_{it-1} * Gdummy_{it-1}$) has a significant positive effect of 0.068*, highlighting the role of potential coalitions in enhancing CSR spending. This finding supports the notion presented by Ozdemir et al. (2023) that firm attributes, including institutional ownership, can mitigate negative impacts and promote positive outcomes.

The dominance of promoters, with ($DOMPROM_{it-1} * Gdummy_{it-1}$) showing a coefficient of 0.219*, suggests that promoters are more inclined towards CSR initiatives when there is a significant difference between the largest and second-largest promoter holdings. This finding is intriguing because it indicates that promoters' interest in CSR diminishes when the gap between the largest and second-largest holdings is smaller, likely because of reduced coalition possibilities. This aligns with Panicker (2017) and Manogna and Mishra (2021), who find that institutional investors have a more significant impact on group-affiliated firms than on standalone firms. Furthermore, the positive effects of ROA_{it-1} (0.153*) and AGE_{it-1} (0.139*) on CSR spending are in line with the findings of Desai and Raval (2022), who emphasize the importance of environmental performance on firm valuation. The significant coefficients for $INDCSR_{it-1}$ (0.240*) underscore the role of industry standards in promoting CSR activities.

Conclusion

This study investigates the impact of blockholder concentration on CSR spending by analyzing 1,918 companies over 9,388 firm-years. The findings confirm that controlling and external blockholders positively influence CSR spending, with the largest external blockholder having the most pronounced effect. This supports Stakeholder Identification and Salience Theory (Savage et al., 1991) and Resource Dependency Theory (Salancik et al., 1978), highlighting blockholders' influence due to their power, legitimacy, and urgency. This study reveals that substantial individual shareholdings by external blockholders have a more significant influence on CSR activities than collective investments by the top five or top three external blockholders. This suggests that while alliances among the top external blockholders exist, their impact is not as strong as that of the largest individual blockholder. Firms with a single promoter show a stronger inclination towards CSR spending by controlling for blockholders, especially when co-blockholders have minimal holdings. However, the ability of external blockholders to compete with one another is limited, emphasizing the need for increased cooperation and coordination. Furthermore, the study examines firms with group affiliations, demonstrating that external blockholder concentration substantially impacts CSR spending. However, the coalition effect among external blockholders is less significant than among promoters.

Implications

The findings of this study have several significant implications, particularly for emerging economies such as India. The significant impact of external blockholders on CSR spending indicates that sustainability considerations are becoming increasingly important to fund managers' investment decisions. Companies that fail to meet sustainability objectives risk losing the interests of these investors. The growing emphasis on CSR in emerging markets supports government social welfare measures and meets increasing expectations for transparency in CSR initiatives and fund disbursements from regulatory authorities.

Despite the existence of numerous stockholders, forming coalitions, particularly among top holders, is essential for actively monitoring investee firms and ensuring that CSR remains a priority. Increased cooperation and coordi-

nation among external blockholders are crucial for enhancing their collective impact on CSR. External blockholders are more noticeable in group-affiliated firms, suggesting that companies with higher external blockholder investments tend to allocate more resources to CSR activities. This finding highlights the importance of external blockholders in directing CSR endeavors in group-affiliated firms.

Emphasizing CSR initiatives can attract institutional investments, improve price discovery in capital markets, and promote corporate expansion. Reinforcing cooperative measures and supervisory frameworks among external blockholders is recommended to ensure that CSR remains prominent in corporate governance, particularly in emerging market environments. Firms should actively engage with external blockholders to understand their sustainability expectations and align their CSR initiatives accordingly. Policymakers should encourage the transparent reporting of CSR activities and foster an environment that promotes collaboration among blockholders. Firms should facilitate coalition formation among the top external blockholders to leverage their collective influence on CSR. Regulatory bodies should incentivize long-term CSR investments by offering tax benefits or recognition to firms that consistently meet their CSR targets. This study provides an insightful analysis of blockholder concentration and its impact on CSR spending, emphasizing the need for strategic alliances among blockholders to maximize their influence. The findings align with stakeholder identification and salience theories and offer valuable insights for policymakers and corporate managers in emerging economies.

Limitations of the Study

This study acknowledges potential biases in measuring CSR spending and blockholder influence. Relying only on data from Indian firms may limit the generalizability of the findings to other contexts. Future research should consider longitudinal studies with real-time data and explore alternative data sources to validate these results. Enhanced methods of measuring CSR impacts and blockholder dynamics, including qualitative assessments, can provide a more comprehensive understanding.

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