Copernican Journal of Finance & Accounting

2024, volume 13, issue 4

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

Singh, G. (2024). Do Foreign Institutional Investors Impact Compliance with CSR Expenditure Regulation? Evidence from India. Copernican Journal of Finance & Accounting, 13(4), 111–127. http://dx.doi.org/10.12775/CJFA.2024.020

Geeta Singh*
IBS Hyderabad

DO FOREIGN INSTITUTIONAL INVESTORS IMPACT COMPLIANCE WITH CSR EXPENDITURE REGULATION? EVIDENCE FROM INDIA

Keywords: foreign institutional investors, CSR, business groups, agency problem, India.

J E L Classification: G380, G390, G320, M140.

Abstract: The paper examines the impact of foreign institutional investors' (FIIs) equity holding on the non-compliance with the mandatory CSR expenditure of the Indian firms from 2016 to 2020. Using a sample of 1,423 listed firms, we employ OLS and Logit regression models to establish that an increase in the FIIs reduces the extent of non-compliance with mandatory CSR expenditure and the likelihood of such non-compliance. Findings of the study support the monitoring role of the FIIs in reducing information asymmetry and agency problem. Further, we provide the channel for the negative relation between FIIs and non-compliance as FIIs' capability to reduce free cash flows of the firms. Given the presence of business groups in India, we conduct an additional analysis for the relation between FIIs and non-compliance with CSR regulation in business groups, and report a more pronounced negative relation in the member firms. Our study can provide insights for the policymakers and investors to understand the importance of FIIs in compliance with the regulation and in impacting the firms' reputation.

Date of submission: November 6, 2024; date of acceptance: December 20, 2024.

* Contact information: geeta.singh25august@gmail.com, IBS Hyderabad (ICFAI Foundation for Higher Education), Hyderabad, India, phone: 8096508380; ORCID ID: https://orcid.org/0000-0002-1210-2229.

Introduction

Institutional investors (II) are more sophisticated informed investors than individual investors, and they get involved in the firms based on the well-analyzed information (Amihud & Li, 2006). Given their access to more resources, professional expertise, and economies of scales, IIs have the ability and incentive to analyze information regarding the investee firms. Thus, IIs take informed decisions to invest in a firm. Further, with their vast resources, these investors can monitor the firms where they have substantial shareholding. This monitoring by IIs leads to an improvement in the corporate governance of the participating firms (Gillan & Starks, 2000, 2003; Aggarwal, Erel, Ferreira & Matos, 2011; Dyck, Lins, Roth & Wagner, 2019). However, it is worth noticing that all institutional investors cannot be grouped into a single category; rather, there are investors who are domestic and are exposed to the same regulatory environment, while others are foreign and may face more information asymmetry. There is an information gap between domestic institutional investors (DII) and foreign institutional investors (FII) (Tsang, Xie & Xin, 2019; Singh & Pathak, 2024). FIIs are the external investors facing the disadvantage of being distant and not enjoying proximity to the firms like DIIs; thus, they demand more information and induce more transparency in the firms they invest in. Therefore, we focus on the role of these outside investors in mitigating information asymmetry and inducing governance in the firms.

One of the recent shifts across the world is the conscious participation of the firms in the corporate social responsibility (CSR) (Laskowska, 2018). Asset managers and analysts are integrating the corporations' pursuits for CSR engagement and related information while making investment decisions (Ioannou & Serafeim, 2015; Amel-Zadeh & Serafeim, 2018). At this stage, it can be postulated the FIIs also impact the decision of the extent of a firm's engagement in the CSR, since they are active investors in the firm. India is the first and only country in the world to mandate CSR expenditure for firms satisfying certain criteria. In 2014, under Section 135(1) of the Companies Act of 2013, any Indian firm fulfilling certain criteria is mandated to spend at least two percent of the average net profits during immediately preceding financial year(s) on CSR related activities, and needs to comply with CSR provisions of the Companies (CSR Policy) Rules of 2014 (Potharla, 2024). The criteria include: (i) net worth of rupees 500 crore or more; (ii) turnover of rupees 1,000 crore or more; or (iii) net profit of rupees 5 crore or more (www1). We suggest that if foreign institutional investors induce transparency and engage in monitoring activities, then they pressurize the firms to follow and comply with the CSR regulations. The reputation-building hypothesis (Freeman, 1984; Makni, Francoeur & Bellavance, 2009) postulates that CSR engagement of the firms leads to building and enhancing their reputation in the market (Buchanan, Cao & Chen, 2018). This reputation leads to them fetching higher premium in market valuation (Kumar & Singh, 2024). Hence, it can be claimed that FIIs promote optimal allocation of firms' resources and mitigate an agency problem in the firms, encouraging them to comply with the mandates and fetch higher market premiums.

In this study, we focus on the non-compliance with the CSR regulation by many Indian firms because of a greater proportion of such firms. For example, Bhattacharyya and Rahman (2019) observe that 40 percent of Indian firms have failed to comply with the mandatory CSR expenditure as of 2016. Similarly, Kumar and Singh (2023) report that 34 percent of the Indian firms were not following the CSR policy of mandatory expenditure as on 2020. Though we observe that the percent of non-compliant firms has decreased from 2016 to 2020, there is still a great proportion of such firms. Thus, we focus on the role of FIIs in impacting the extent of such non-compliance. Our study is motivated by two papers. First, Marshall, Rao, Roy and Thapa (2022), who examine the preference of different FIIs to invest in the socially responsible Indian investee firms for two years, from 2015 to 2016. The authors examine the impact of compliance with the CSR expenditure regulations on the investment by FIIs; however, since we can observe that FIIs have a monitoring role in enhancing the corporate governance, we propose that having large foreign investors as shareholders impacts many decisions of the firms, including their compliance with the regulations. Therefore, *ex-ante*, we posit the causal relation from FIIs towards compliance with CSR regulation. It is observed that though the Indian Companies Act of 2013 had legislated the CSR policy with effect from April 1, 2014, many of the companies either did not invest in CSR-related activities immediately, or did not report their CSR expenditure until 2015, with the expectation of a change in government in 2014 (Kumar & Singh, 2024). Thus, with the new government reinforcing the CSR regulation, most of the companies started reporting the CSR expenditure data from 2016 onwards. With the limited data of the initial two years (2014–2016), data utilized by Marshall et al. (2022) can lead to a selection bias and provide skewed insights. We extend the data to 2020 to develop a better understanding of the regulation. Secondly, Rahman

(2021) motivates us to investigate the role of FIIs regarding the CSR compliance, as he shows that an increase in the shareholding of the institutional investors leads to more compliance with the CSR expenditure regulation. However, Rahman (2021) considers only either presence or absence of the foreign institutional investors by introducing a binary variable to depict this, ignoring the extent of their holding. We analyze the extent of FII participation by their percent of shareholding in the firm, as a continuous variable, emphasizing on the level of FIIs' holding. This is because the block holding by FIIs would impact the firm's decision to a greater extent than FIIs being minority shareholders. With this background, we develop the following hypothesis:

H1: Foreign institutional investors decrease the non-compliance with the mandatory CSR expenditure.

The study is organized in five sections. Section 2 provides data utilized and methodology adopted for this study. In Section 3, results are presented with a discussion on the findings. Section 4 provides additional analysis, and, finally, we conclude the paper in Section 5.

Data and methodology

The sample period for the study is from 2016 to 2020, since we exclude COVID-19 pandemic period of 2021 and 2022. According to the report by Dasra and Bain & Company, titled "India Philanthropy Report 2021", domestic firms of the country have experienced a decline in profitability during the 2020–2021 period, such that the listed companies' profitability had reduced by 62 percent in the months immediately following India's initial COVID-19 lockdowns (www2). The decrease in profitability has a direct impact on the CSR expenditure. This suggests that the objective of our study to examine the impact of FII on CSR expenditure (our main argument) may not remain robust due to the inclusion of COVID-19 periods. Therefore, it is important that we segregate our study period from the COVID-19 pandemic period. In addition, Vinod, Umesh, and Sivakumar (2023) observe that the behavior of Indian firms during the COVID-19 pandemic changed in relation to the CSR expenditure, from being reactive to proactive during the different phases of the pandemic. Further, it is also observed that many FIIs, mostly US-based funds, started withdrawing from the Indian markets since January 2022, immediately after the COVID-19 pandemic (www3). In order to avoid the confounding impact of COVID-19 on

FIIs, as well as CSR expenditure, we confine our study until 2020. Considering the fact that CSR regulation came into existence in 2014, with most of the firms reporting CSR expenditure from 2016 only (Kumar & Singh, 2024), our data starts from 2016. Firm-level data is sourced from Prowess, a database for the financial performance of the companies to decipher trends in the Indian economy and maintained by the Centre for Monitoring Indian Economy (CMIE). Our final dataset consists of 3328 firm-year observations from 1423 non-financial firms listed on the National Stock Exchange and Bombay Stock Exchange, after excluding government and financial firms, those with missing observations. We test the hypothesized relation through the following model:

$$NC_{it} = \beta_0 + \beta_1 FII_{it} + \beta_2 X_{it} + \beta_3 Fixed\ effects + \varepsilon_{it} \tag{1}$$

where $X_{i,t}$ is a vector of firm- and industry- specific variables following the extant literature, explained in Table 1. *FII* represents a continuous variable, measuring the engagement of the foreign institutional investors through their percent shareholding in the firm. NC_{it} is a continuous variable for measuring non-compliance with CSR expenditure in OLS regression as *N_CSR*; and for Logit regression, NC_{it} is a dummy variable assuming a value of 1 when the firms' mandatory CSR expenditure exceeds actual CSR expenditure, and 0 otherwise.

Table 1. Variables Definition

Variable	Definition
Actual CSR expenditure (*ACSR*)	It is the actual amount spent by the firm on CSR-related activities in a given year.
Non-compliance (*NC*)	It is a continuous variable, measured as the difference of mandatory CSR expenditure and actual CSR expenditure as *N_CSR*. It is a dummy variable (*NC*) assuming a value of 1 when firm does not comply with the mandatory CSR expenditure, and 0 when it complies with the regulation.
Foreign institutional investors (*FII*)	Shareholding of foreign institutional investors in percent.
Leverage (*Lev*)	Ratio of book value of total borrowings (Long-term + short-term) to the total equity of the firm.
Age (*Age*)	Number of years since inception.
Beta (*Beta*)	The slope coefficient of regression of a firm's monthly returns on the market returns.

Table 1. Variables…

Variable	Definition
Cash Ratio (*CR*)	Cash and cash equivalents as a proportion of firm’s total assets.
Profitability (*ROA*)	Return on assets is proxied by the ratio of profit after taxes and total assets.
Size (*Size*)	Natural log of firm’s total assets.
Promoter ownership (*PO*)	Proportion of the promoters’ shareholding in the firm (in percent).

Source: compiled by authors.

Empirical results and discussion

First, we report the sample statistics of all the variables in Table 2 (Panel A). The *NC* variable is 0.35, suggesting that 35 percent of firm-year observations are not complying with the mandatory CSR expenditure. *FII* mean value is 7.8 percent, such that in Indian firms, the average shareholding by FIIs is 7.8 percent; however, it is maximum to the extent of 52 percent, while some firms do not have participation from these investors (minimum being zero). Maximum and minimum values of *Age*, *Lev*, *Profitability*, *Beta* and *Size* show that our sample has a mix of firms at different stages of life cycle, level of debt, profits generated, risk, and size. In a balance sample, our data constitutes 2,387 firm-year observations.

We also conduct a univariate test for the difference in the mean value of FIIs’ shareholding for firms complying with CSR regulation in terms of the expenditure they are making towards CSR activities in Panel (B) Table 2. For this, we divide our sample into two sub-samples – complying firms and non-complying firms – and calculate the average FII holding of these categories. We observe that the mean FII is 7.492 percent for firms which are following CSR expenditure mandate (*FII_C*), whereas it is 7.293 percent for non-complying firms (*FII_NC*). Difference in the mean of FII shareholding in these subsamples is 0.199, which is significant. This supports our argument that there is a relation between FIIs and CSR expenditure.

Table 2. Descriptive Statistics

Panel A: Descriptive Statistics						
	Mean	**Median**	**Max**	**Min**	**Std. Dev.**	**N**
ACSR	68.49	11.00	8493.0	0.10	339.29	2387
Age	35.77	30.00	159.0	3.00	21.89	2387
Beta	1.21	1.19	2.91	-0.20	0.45	2387
CR	2.09	1.34	309	0.03	7.49	2387
Lev	0.94	0.33	156.6	0.00	5.06	2387
FII	7.81	4.57	51.65	0.00	9.25	2387
NC	0.35	0.00	1.00	0.00	0.48	2387
N_CSR	-4.44	0.00	2325	-1868	107.61	2387
Profitability	0.06	0.05	0.87	-1.09	0.08	2387
Size	9.39	9.27	16.09	5.38	1.45	2387
PO	56.90	58.69	89.77	0.00	14.62	2387
Panel B: Univariate Test for Difference in FII Holding						
	Mean	Difference	t-stat			
FII_NC	7.293	0.199**	2.06			
FII_C	7.492					

N o t e : Table 2 presents the descriptive statistics of all the variables employed in the study in Panel A. Univariate results for the differences in means for FIIs' holdings in compliant and non-compliant firms are presented in Panel B. The t-statistics for the difference in means of two subsamples are based on the assumption of unequal variances. ***, ** and * show significance level at 1%, 5% and 10%, respectively. The definition of variables is reported in Table 1.

S o u r c e : compiled by authors.

Next, we present the linear association among the variables employed in this study through the extent of correlation among them. We present correlation matrix in Table 3. In this Table, in alignment with the hypothesized relation, we observe that FII is positively associated with actual CSR expenditure (*ACSR*); however, there is a negative correlation between non-compliance with the mandatory CSR expenditure. This provides us preliminary evidence for the positive and negative association of *ACSR* and *N_CSR* (and *NC*) with *FIIs*, respectively.

Table 3. Correlation Matrix

	ACSR	Beta	CR	Lev	FII	NC	N_CSR	Profit-ability	Size
Beta	0.041**								
	(0.043)								
CR	-0.001	0.010							
	(0.944)	(0.617)							
Lev	-0.008	0.106***	-0.029						
	(0.699)	(0.000)	(0.159)						
FII	**0.226*** **	-0.008	-0.001	0.036*					
	(0.000)	(0.683)	(0.958)	(0.079)					
NC	-0.038*	-0.018	0.037*	-0.022	**-0.004***				
	(0.062)	(0.377)	(0.072)	(0.277)	**(0.084)**				
N_CSR	0.039*	-0.010	-0.007	0.006	**-0.024*** **	0.203***			
	(0.058)	(0.627)	(0.735)	(0.771)	**(0.036)**	(0.000)			
Profit-ability	0.017	-0.278***	0.028	-0.163***	0.054***	-0.003	-0.023		
	(0.398)	(0.000)	(0.174)	(0.000)	(0.008)	(0.882)	(0.262)		
Size	-0.027	0.044**	-0.073***	0.030	-0.009	0.017	0.008	0.028	
	(0.190)	(0.032)	(0.000)	(0.150)	(0.669)	(0.404)	(0.709)	(0.165)	
PO	-0.082***	-0.014	0.000	-0.019	-0.401***	0.047**	-0.072***	0.001	-0.035*
	(0.000)	(0.501)	(0.983)	(0.362)	(0.000)	(0.021)	(0.000)	(0.972)	(0.088)

Note: ***, ** and * shows significance level at 1%, 5% and 10%, respectively.

Source: compiled by authors.

Next, we present the results of the baseline regression Eq. (1) in Table 4. In Column (I), we take actual CSR expenditure (*ACSR*) as the dependent variable and analyze its association with *FII*. We observe that *FII* positively impacts *ACSR*, such that an increase in the participation of FIIs, in terms of their shareholding, leads to an increase in the expenditure on CSR related activities by the company. Thus, FIIs promotes CSR engagement of the firms. Further, considering the extent of non-compliance with CSR (*N_CSR*) as a dependent variable in Column

(II), we find that the coefficient of FIIs' percent ownership is negative. This implies that the presence of FIIs reduces the non-compliance with the mandatory CSR expenditure. This supports our hypothesis, in alignment with the findings of Rahman (2021). We suggest that these results can be attributed to the monitoring by the FIIs and their capability to reduce the agency problem and information asymmetry in the firms. We take non-compliance as a dummy dependent variable (*NC*) and run logit regression to understand the likelihood of a firm to not comply with the CSR expenditure mandate. In Column (III), FII is negatively related to the *NC*, such that an increase in the equity holding of the FIIs reduces the likelihood of a firm to not comply with the CSR regulation. However, this relation is weaker than with the magnitude of the non-complying CSR expenditure, since it is significant at 10 percent level only. We can infer that FIIs monitor the firms and influence them to follow the mandates as per the regulations. This is true in terms of mandatory CSR expenditure regulation, as observed in Colum (II) and (III) of Table 4.

Table 4. Result of the Baseline Regression Eq. (1)

Dependent Variable	ASCR	N_CSR	NC
Variables	**(I)**	**(II)**	**(III)**
C	-70.910	26.461	-1.266**
	(0.194)	(0.143)	(0.001)
FII	**6.569*** **	**-1.262*** **	**-0.009***
	(0.000)	**(0.000)**	**(0.078)**
Age	0.001	-0.016	0.001
	(0.997)	(0.339)	(0.641)
Beta	34.471**	-4.624*	-0.099
	(0.018)	(0.086)	(0.314)
CR	-0.098	-0.048	0.016
	(0.909)	(0.260)	(0.381)
Profitability	63.038**	-31.481	-0.484
	(0.046)	(0.530)	(0.396)
Size	-4.997**	0.926*	0.035
	(0.026)	(0.062)	(0.250)

Table 4. Result...

Dependent Variable	ASCR	N_CSR	NC
Variables	**(I)**	**(II)**	**(III)**
Lev	-0.722*	0.209***	-0.012**
	(0.058)	(0.000)	(0.001)
PO	1.248**	-0.474**	0.006*
	(0.009)	(0.003)	(0.066)
Industry FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes

Note: *, ** and *** denote the rejection of null hypothesis at 10%, 5% and 1% level, respectively. Values in parentheses are p-values.

Source: compiled by authors.

To test the conjecture of FIIs reducing the agency cost and monitoring the firms, we take a proxy of information asymmetry through free cash flow (FCF). Jensen (1986) proposes the free cash flow (FCF) hypothesis, and argues that in the absence of profitable investment opportunities, managers of a firm can use free cash flow for personal gains and expropriate the outside investors. These outside investors can be FIIs or other non-promoter investors. Following Lins, Volpin, and Wagner (2013) and Attig, Boubakri, Ghoul, and Guedhami (2016), we calculate free cash flow as the difference between operating income before depreciation and capital expenditures deflated by total assets. As per Gillan and Starks (2000, 2003), Aggarwal et al. (2011), Dyck et al. (2019), and Singh and Pathak (2024), FIIs reduce this agency problem and information symmetry through monitoring the firms. Therefore, we regress *FCF* on *FII* in Table 5 to examine the empirical impact of FIIs' holding on the agency problem, proxied through *FCF*. The results of OLS regression suggest that FIIs negatively impact *FCF*, providing evidence for the monitoring role of these institutional investors. In Column (I), the dependent variable is FCF, which is negatively associated with FII, such that an increase in the shareholding of *FII* leads to a decrease in the *FCF*, or a reduction in the agency problem. Next, as per our argument, more agency problem should lead to less investment in CSR, and, therefore, we regress *FCF* on *ACSR* and non-compliance with the CSR mandate (*N_CSR*) and observe from Column (II) and (III) that an increase in the *FCF* leads to a reduction in CSR expenditure and increase in the non-compliance with the CSR expenditure mandate, respectively. This provides us the channel for our findings, i.e., FIIs reduce non-compliance with the mandatory CSR expenditure by reducing information asymmetry and agency problem.

One of the concerns in our findings can be the presence of endogeneity issue. To address this, we employ generalized methods of moments (GMM) and re-run our baseline regression model. Results presented in Column (IV) of Table 5 show that our results are consistent with the earlier findings, and thus, the model is free from the endogeneity problem.

Table 5. Regression Results Showing Channel of the Impact of FII on Non-Compliance with CSR Expenditure Regulation

Dependent Variable	**FCF**	**ASCR**	**N_CSR**	**N_CSR (GMM)**
Variables	**(I)**	**(II)**	**(III)**	**(IV)**
C	0.633***	0.189***	22.947***	6.671***
	(0.000)	(0.000)	(0.000)	(0.000)
FII	**-0.002*** **	**6.042*** **	**-0.415*** **	**-1.255*** **
	(0.000)	**(0.000)**	**(0.000)**	**(0.000)**
FCF		**-9.988*** **	**1.265*** **	
		(0.000)	**(0.000)**	
Age	0.000	0.048***	-0.011**	0.074***
	(0.288)	(0.000)	(0.005)	(0.000)
Beta	-0.049**	22.861***	-1.551***	26.647***
	(0.021)	(0.000)	(0.000)	(0.000)
CR	0.000	-0.042*	-0.112**	4.615
	(0.554)	(0.065)	(0.001)	(0.814)
Profitability	-0.111**	-22.145***	-11.114***	12.593***
	(0.043)	(0.000)	(0.000)	(0.000
Size	-0.009**	-3.568***	0.087*	-2.469**
	(0.020)	(0.000)	(0.083)	(0.003)
Lev	0.000	-0.518***	0.037	0.124
	(0.873)	(0.000)	(0.419)	(0.104)

Table 5. Regression…

Dependent Variable	FCF	ASCR	N_CSR	N_CSR (GMM)
Variables	(I)	(II)	(III)	(IV)
PO	0.001**	0.152***	-0.360***	-0.615***
	(0.038)	(0.000)	(0.000)	(0.000)
Industry FE	Yes	Yes	Yes	
Time FE	Yes	Yes	Yes	

N o t e : *, ** and *** denote the rejection of null hypothesis at 10%, 5% and 1% level, respectively. Values in parentheses are p-values.

S o u r c e : compiled by authors.

Additional Analysis

It is worth noticing that one of the distinctive characteristics of the Indian market is the presence of the largest number of business groups for any country. Business groups can be defined as a set of publicly traded, legally independent firms operating across different industries, however, linked through substantial cross-ownership and generally controlled by families (Khanna & Palepu, 1999, 2000). Therefore, we analyze the association of CSR and FIIs in firms affiliated to business groups. In Column (I), Table 6, we observe that groups invest in the CSR activities more than the standalone firms, as evident from the positive coefficient of *Group*. Further, with the increase in the equity holding of the FIIs, CSR expenditure further increases in the group-affiliated firms, as *FII*Group* is positive and significant. Regarding non-compliance with the mandatory CSR expenditure, we observe that such non-compliance further reduces with the increase in the equity holding of FIIs, when the firm is a member of business groups, as per the results presented in Column (II), Table 6. Taking non-compliance as a dummy variable (*NC*), we again provide evidence for the decreasing likelihood of non-compliance with the mandatory CSR expenditure. The tendency of business groups to avoid non-compliance with the mandatory CSR expenditure can be attributed to their concerns over maintaining reputation in the market (Khanna & Palepu, 2000; Mukherjee, Makarius & Stevens, 2018; Holmes Jr, Hoskisson, Kim, Wan & Holcomb, 2018). The positive reputation of the business groups' members is important for them, as it boosts their access to foreign capital and technological resources (Lamin, 2013). Following Manos, Murinde and Green (2012) and Manos, Murinde and Green (2007), business groups are closed structured with cross-holding among the promoters of member firms. Outside investors, like FIIs, suffer from a higher degree of information asymmetry. Participation by the monitoring FIIs in such business groups leads to better governance and reduced information asymmetry. This pushes the member firms to comply with the regulations of the country, especially the CSR expenditure regulation, along with driving their reputation in the market.

Table 6. Additional Analysis

Dependent Variable	ASCR	N_CSR	NC
Variables	**(I)**	**(II)**	**(III)**
C	68.194**	28.772***	-0.381**
	(0.041)	(0.000)	(0.037)
FII	**0.242***	**-0.639*****	**-0.012****
	(0.072)	**(0.000)**	**(0.021)**
Group	**3.656****	**-2.033*****	**-0.266*****
	(0.019)	**(0.000)**	**(0.000)**
FII*Group	**1.905***	**-0.067****	**-0.009****
	(0.097)	**(0.001)**	**(0.010)**
Age	0.048	0.046***	0.001*
	(0.566)	(0.000)	(0.101)
Beta	-1.786*	-1.358***	-0.048*
	(0.067)	(0.000)	(0.084)
CR	-0.086**	-0.059**	0.009
	(0.022)	(0.001)	(0.230)
Profitability	-8.279**	-27.301***	-0.468*
	(0.023)	(0.000)	(0.054)
Size	0.773	0.069	0.015**
	(0.334)	(0.229)	(0.005)
Lev	0.099*	0.146***	-0.009*
	(0.073)	(0.000)	(0.060)

Table 6. Additional...

Dependent Variable	ASCR	N_CSR	NC
Variables	**(I)**	**(II)**	**(III)**
PO	-0.898**	-0.456***	0.005**
	(0.039)	(0.000)	(0.008)
Industry FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes

Note: *, ** and *** denote the rejection of null hypothesis at 10%, 5% and 1% level, respectively. Values in the parenthesis are p-values.

Source: compiled by authors.

Conclusion

We provide the first study to analyze the impact of equity participation of the foreign institutional investors on the violation of the mandatory CSR expenditure in Indian firms. From the results presented in Table 4, it is evident that the higher the participation of FIIs in firms, the higher their CSR expenditure, and the lesser the non-compliance with the mandatory CSR expenditure. Further, the study of ours is the first one to empirically provide the channel of such a relation. Results presented in Table 5 suggest that the FIIs push the firms to comply with the CSR regulation by reducing the information asymmetry and agency problem, as proxied by the extent of free cash flow. Our results support the monitoring role of the FIIs in Indian firms. Given the large number of business group affiliated firms in India, we provide additional analysis focusing on the behavior of the FIIs in the group member firms. Supporting the notion of business groups' legacy of many years, FIIs contribute towards such reputation maintenance and reducing information asymmetry by pushing them to comply with the CSR mandate, and thus, a more strengthened relation between FIIs and non-compliance in the business groups.

Our study provides insights for the policymakers for encouraging foreign investors to invest in Indian firms, since the presence of such outside investors pushes the firms to follow regulations – CSR regulation in this study. Further, this study can guide investors to understand the level of information asymmetry in the firms through the participation of the foreign institutional investors. Future work can be extended to compare the role of FIIs in other emerging economies through other regulation, not confined to only CSR regulation.

Reference

Aggarwal, R., Erel, I., Ferreira, M.A., & Matos, P. (2011). Does governance travel around the world? Evidence from institutional investors. *Journal of Financial Economic*, 100, 154–181. https://doi.org/10.1016/j.jfineco.2010.10.018.

Amel-Zadeh, A., & Serafeim, G. (2018). Why and how investors use ESG information: Evidence from a global survey. *Financial Analysts Journal*, 74(3), 87–103. https://doi.org/10.2469/faj.v74.n3.2.

Amihud, Y., & Li, K. (2006). The declining information content of dividend announcements and the effects of institutional holdings. *Journal of Financial and Quantitative analysis*, 41(3), 637–660. https://doi.org/10.1017/S0022109000002568.

Attig, N., Boubakri, N., El Ghoul, S., & Guedhami, O. (2016). The global financial crisis, family control, and dividend policy. *Financial Management*, 45(2), 291–313. https://doi.org/10.1111/fima.12115.

Bhattacharyya, A., & Rahman, M.L. (2019), Mandatory CSR expenditure and firm performance. *Journal of Contemporary Accounting and Economics*, 15(3), 100163. https://doi.org/10.1016/j.jcae.2019.100163.

Buchanan, B., Cao, C.X., & Chen, C. (2018). Corporate social responsibility, firm value, and influential institutional ownership. *Journal of Corporate Finance*, 52, 73–95. https://doi.org/10.1016/j.jcorpfin.2018.07.004.

Dyck, A., Lins, K.V., Roth, L., & Wagner, H.F. (2019). Do institutional investors drive corporate social responsibility? International evidence. *Journal of financial economics*, 131(3), 693–714. https://doi.org/10.1016/j.jfineco.2018.08.013.

Freeman, R. (1984). *Strategic Management: A Stakeholder Approach*. Massachusetts Pitman Publishing.

Gillan, S., & Starks, L. (2000). Corporate governance proposals and share- holder activism: the role of institutional investors. *Journal of Financial Economics*, 57, 275–305. https://doi.org/10.1016/S0304-405X(00)00058-1.

Gillan, S., & Starks, L. (2003). Corporate governance, corporate ownership, and the role of institutional investors: a global perspective. *Journal of Applied Finance*, 13, 4–22. http://dx.doi.org/10.2139/ssrn.439500.

Holmes Jr, R.M., Hoskisson, R.E., Kim, H., Wan, W.P., & Holcomb, T.R. (2018). International strategy and business groups: A review and future research agenda. *Journal of World Business*, 53(2), 134–150. https://doi.org/10.1016/j.jwb.2016.11.003.

Ioannou, I., & Serafeim, G. (2015). The impact of corporate social responsibility on investment recommendations: Analysts' perceptions and shifting institutional logics. *Strategic Management Journal*, 36(7), 1053–1081. https://doi.org/10.1002/smj.2268.

Jensen, M.C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review*, 76(2), 323–329.

Khanna, T., & Palepu, K. (1999). Policy shocks, market intermediaries, and corporate strategy: The evolution of business groups in Chile and India. *Journal of Economics & Management Strategy*, 8(2), 271–310. https://doi.org/10.1111/j.1430-9134.1999.00271.x.

Khanna, T., & Palepu, K. (2000). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. *Journal of Finance*, 55, 867–890. https://doi.org/10.1111/0022-1082.00229.

Kumar, S., & Singh, G. (2023). Does mandatory CSR expenditure regulation matter to promoters? Empirical evidence from India. *Meditari Accountancy Research*, 31(5), 1325–1351. https://doi.org/10.1108/MEDAR-09-2021-1428.

Kumar, S., & Singh, G. (2024). Cross-listing and noncompliance with the mandatory CSR expenditure regulation. *International Journal of Managerial Finance*, 20(1), 20–39. https://doi.org/10.1108/IJMF-04-2022-0162.

Lamin, A. (2013). Business groups as information resource: An investigation of business group affiliation in the Indian software services industry. *Academy of Management Journal*, 56(5), 1487–1509. https://doi.org/10.5465/amj.2011.0176.

Laskowska, A. (2018). Stock market indices as a measurment tool for profitability of corporate social responsibility activities. *Copernican Journal of Finance & Accounting*, 7(4), 71–86. https://doi.org/10.12775/CJFA.2018.021.

Lins, K.V., Volpin, P., & Wagner, H.F. (2013). Does Family Control Matter? International Evidence from the 2008–2009 Financial Crisis. *Review of Financial Studies*, 26(10), 2538–2619. https://doi.org/10.1093/rfs/hht044.

Makni, R., Francoeur, C., & Bellavance, F. (2009). Causality between corporate social performance and financial performance: evidence from Canadian firms. *Journal of Business Ethics*, 89(3), 409. https://doi.org/10.1007/s10551-008-0007-7.

Manos, R., Murinde, V., & Green, C.J. (2012). Dividend policy and business groups: Evidence from Indian firms. *International Review of Economics & Finance*, 21(1), 42–56. https://doi.org/10.1016/j.iref.2011.05.002.

Manos, R., Murinde, V., & Green, C.J. (2007). Leverage and business groups: Evidence from Indian firms. *Journal of Economics and Business*, 59(5), 443–465. https://doi.org/10.1016/j.jeconbus.2007.04.006.

Marshall, A., Rao, S., Roy, P.P., & Thapa, C. (2022). Mandatory corporate social responsibility and foreign institutional investor preferences. *Journal of Corporate Finance*, 76, 102261. https://doi.org/10.1016/j.jcorpfin.2022.102261.

Mukherjee, D., Makarius, E.E., & Stevens, C.E. (2018). Business group reputation and affiliates' internationalization strategies. *Journal of World Business*, 53(2), 93–103. https://doi.org/10.1016/j.jwb.2017.12.003.

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. https://doi.org/10.12775/CJFA.2024.009.

Rahman, M.L. (2021). Institutional ownership and violations of mandatory CSR regulation. *Economics Letters*, 206, 109967. https://doi.org/10.1016/j.econlet.2021.109967.

Singh, G., & Pathak, R. (2024). Does institutional investors' heterogeneity impact the dividend policy? Evidence from India. *International Journal of Corporate Governance*, 14(2), 95–117. https://doi.org/10.1504/IJCG.2024.138075.

Tsang, A., Xie, F., & Xin, X. (2019). Foreign institutional investors and corporate voluntary disclosure around the world. *The Accounting Review*, 94(5), 319–348. https://doi.org/10.2308/accr-52353.

Vinod, M.S., Umesh, P., & Sivakumar, N. (2023). Impact of COVID-19 on corporate social responsibility in India – a mixed methods approach. *International Journal of Organizational Analysis*, 31(1), 168–195. https://doi.org/10.1108/IJOA-03-2022-3206.

(www1) https://www.mca.gov.in/Ministry/pdf/FAQ_CSR.pdf (accessed: 13.09.2022).

(www2) Inside the reshaping of CSR in India during COVID-19. https://www.sattva.co.in/news-media/inside-the-reshaping-of-csr-in-india-during-covid-19/? (accessed: 13.09.2022).

(www3) Foreign funds withdraw from Indian markets at fastest pace since 2022, trigger investor concerns". https://bfsi.economictimes.indiatimes.com/news/industry/foreign-funds-withdraw-from-indian-markets-at-fastest-pace-since-2022-trigger-investor-concerns/115096749?" (accessed: 09.11.2024).