

Investor Type and CSR Policy of European Multinational Enterprises

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Abstract

This study seeks to understand how different types of shareholders of European multinational firms from different industries are to be associated with the MNE's corporate social policies. Using firm-level data for more than 600 European firms in 2005, we find that the ownership of the state, individuals, and firms is significantly related to relatively poor corporate social policies. Furthermore, shareholder concentration is also significantly related to such policies. That is, more concentrated ownership goes hand in hand with poorer CSR policies. In our analysis, we control for size, leverage, profitability, industry, and country of origin. Apart from an aggregate construct of CSR, we use disaggregated measures for CSR policies and establish that especially environmental and stakeholder issues are related to ownership type and blockholders, in contrast to ethical issues. This study provides empirical support for the relationship between corporate governance by different investor types and CSR policies and offers a reasoning for why this might be the case. It offers insights to stakeholders who aim at making the firm more socially responsible. It especially shows how various investor types can be associated with CSR policies of the firm. Furthermore, it provides a perspective for executives and investor managers of multinational firms to consider if and how they might create social value next to shareholder value. Whereas most of the literature concentrates on the US, we focus on European firms.

Keywords: *Blockholders, Corporate Social Responsibility, Firm Policy, Investor Type*

JEL codes: G32, H42, M14, Q56

INTRODUCTION

It does matter whose voice is raised and what it says. Within the context of investors and corporations, this issue has been studied by, among others, Wahal (1996), Faccio and Lasfer (2000), Lehmann and Weigand (2000), Ryan and Schneider (2002), Gompers et al. (2003), Bhagat et al. (2004), Lehman et al. (2004), and Cornett et al. (2007). These studies all investigate the impact of investor type and investor activism on firm performance. For example, Ryan and Schneider (2002) argue that the investors' propensity for activism is related to their portfolio, to market characteristics and to characteristics of the investors themselves. Gompers et al. (2003) provide evidence that better governance goes hand in hand with better stock market performance. Bhagat et al. (2004) find mixed evidence for the issue of whether relational investing affects corporate performance in the US. This seems to have been the case in the 1980s but appears to have vanished in the 1990s. Lehmann et al. (2004) establish that in Europe the governance structure matters for different measures of firm performance. Cornett et al. (2007) find a significant relationship between a firm's operation cash flow returns and both the percentage of institutional stock ownership and the number of institutional shareholders. From this literature, it appears that corporate governance is to be associated with firm performance. In general, better governance goes hand in hand with better performance. Furthermore, the finance literature also shows that firms with stronger shareholder rights have higher firm value, higher profits, higher sales growth, lower capital expenditures, and make fewer corporate acquisitions (La Porta et al., 1997, 1998, 1999).

In this paper, we want to find out how institutional ownership might matter for policies with respect to corporate social responsibility (CSR). For example, do particular types of investors connect with firms with above or below average CSR policies? Is the presence of institutional investors beneficial or detrimental to CSR policies of the firm? Is CSR improved by blockholders or is dispersion more favourable in this respect? The connection between investor type and CSR is an important and relevant issue as the literature suggests that there is a demand for CSR from multiple stakeholders (McWilliams et al., 2006; Brammer and Millington, 2008). These stakeholders have different channels through which to express their concerns and to make their point. CSR especially appears to be the case in sectors where there are inconsistencies between making profits and social/ethical goals. Markets appear to work well for society, aligning corporate and social interests, when a firm's private and social costs are about the same. But when corporate and social interests are not aligned, markets are not fully efficient at doing their job (Heal, 2005).

A major problem that arises in assessing CSR is that we lack both a scientifically and a practically accepted definition of what socially responsible behavior actually is. It tends to vary across industries, cultures, firms – but also among individuals. Although CSR is often viewed as an aggregate construct, social responsiveness is fundamentally multidimensional (McWilliams et al., 2006). It embodies a large and varied range of corporate behavior in relation to its resources, processes and outputs, and it impacts both on the costs and the revenues of the firm (see Waddock and Graves, 1997; Dam, 2008). Furthermore, CSR generally includes much more than only social responsibility in a strict sense; there is a general understanding that also economic and environmental responsibility is included in the concept (Derwall, 2007). Showing a high degree of CSR may therefore require a very diverse range of activities (such as engagement in community activities, diversity of management and workforce, philanthropy, reduction of environmental impact, employee empowerment, etc.). Each of these activities may have a separately identifiable impact on firm performance and reputation. Then, CSR can be used as a deliberate strategy. A well-known example is product differentiation. Hereby, the socially responsible firm targets a niche of ‘conscious’ consumers and tries to sell its product at a premium.

Different stakeholder groups may have various expectations regarding the behavior of the firm and the salience of each stakeholder group can vary across countries and industries (Brammer et al., 2006). As corporations interact with different constituencies, they institutionalize those patterns of actions which prove to be most rewarding from both an economic and a social responsibility perspective. This process contributes to establishing the legitimacy of the organization within its socio-economic environment, and encourages the constant flow of resources necessary for its continued survival. The process also is reflected in significant differences in the interpretations and policies of firms operating in different countries and industries. In this perspective it has to be noted that the firm and its governance, as well as its stakeholder relations, are not static notions. In part, this is related to the wide variety of definitions and ways of measuring CSR. Both definitions and measurement are surrounded by problems of accuracy, validity and reliability (see Chatterji et al., 2009).

Our topic specifically relates to the literature that links corporate governance to CSR (see Berman et al., 1999; Johnson and Greening, 1999). For example, Johnson and Greening (1999) suggest that there is an association between institutional investor type and governance devices on CSR in the US in 1993. Neubaum and Zahra (2006) find that long-term institutional ownership is positively associated with corporate social performance and that the coordination of activism

interacts with long-term institutional holdings to positively affect this performance after three years. David et al. (2007) find that shareholder proposal activism reduces corporate social performance. Rather than pressuring firms to improve their CSR, it seems that activism engenders diversion of resources away from CSR to political activities by managers to resist external pressures and to retain discretion. Various studies have related (international) differences in firm performance to differences in CSR; most of them being case studies (for example Clark and Hebb, 2005; Brammer et al., 2006; Mahony and Roberts, 2007) or comparing a small number of countries (for example Aguilera et al., 2006). Furthermore, most studies focus on institutional investors only (mutual funds, pension funds). In our view, it is important to have a close look at the connection between governance by various investor types and CSR policies in a broad international setting. However, and quite remarkably, there has not been undertaken any recent thorough in-depth empirical multi-country study about the relationship between a broad range of investor types and CSR.

In this paper, we investigate how investor type might matter for the corporate social policy of multinational firms in sixteen European countries¹ and 35 industries in 2005². To this extent, we analyze different investors in connection with the social responsibility policy of European multinational enterprises. We come up with preliminary evidence that particular investor types – namely the state, firms, individuals and blockholders – are to be significantly associated with relatively poor CSR policies. This research is distinct from the existing literature in several respects. First, we assess a much more recent period of time. We use detailed information about firms' CSR policies and arrive at three different factors that reflect these policies. Information is derived from a database of EIRIS and relates to 2005. This is much more recent than the CSR data used in previous studies. Second, we investigate European multinational enterprises from fifteen different countries and 35 industries. Most research so far has been conducted after US firms and studies with an international focus usually compare two or three countries. Third is that we look into investor types that differ from those assessed in most of the previous studies. Especially, we include several non-financial investors (the state, firms, employees) in the analysis and we look into blockholders. As far as we are aware of, the connection between blockholders and CSR has not been investigated yet in the empirical literature. Fourth, we perform a state-of-the-art empirical investigation into the relation between investor type and CSR policy. We first

¹ Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK.

² See Appendix A.4 for an overview of the industries.

apply factor analysis on a set of CSR indicators. Next, we apply the factor scores in a regression analysis, accounting for industry and country effects. Hence, we do not aggregate our CSR indicators into one variable, but let the factor analysis determine the main dimensions of CSR that constitute our dataset. As such, our approach is robust to the criticism by McWilliams et al. (2006); that is we do use an appropriate methodology and we disaggregate CSR into different categories.

The structure of this paper is as follows. We first provide the background about investor types and firm performance in connection with corporate social responsibility. Then, we introduce our data and methodology. Thereafter, we present and discuss the results. Finally, we conclude about the link between investor type and CSR policies.

BACKGROUND

The relationship between the investor and the management of the firm can be complicated when the two have different interests. Agency theory (Jensen and Meckling, 1976) very well describes the various problems in the agent-principal relationship between shareholders and managers. Furthermore, various investor types will differ in their interests which will result in differences in their preferences. Investor types basically differ for institutional reasons; regulation usually is at the basis of the existence of a particular type of investor. The different roles in society of these different investor types may result in different interests as well. The time horizon may differ between the various investor types, which will affect their investment decisions. For example, mutual funds have a short time horizon whereas pension fund have obligations to their participants which may last more than 60 years. Also, apart from financial objectives, the various investor types may have different non-financial interests. For example, employees who own shares in the company they work for will not only be interested in the financial performance of the firm's stock but also in the survival of the firm in order to keep their job. Or the state as a shareholder may also want the firm to stay within its jurisdiction and to operate in certain 'strategic' business operations, like airliners, weaponry, shipbuilding. And banks with both stocks and loans with a particular firm will also want the firm to be able to repay its debts. Given the nature of the different investor types, their shareholdings may vary: Some investor types have become huge, whereas other have remained relatively small. For example, in some countries, especially pension funds have turned into enormous managers of wealth (Ferreira and Matos, 2008). We also assume that interests may differ for small vis-à-vis large shareholders as well. For example, if minority shareholders are hardly

protected they may be unable to exert effective control over management. A large shareholder may exert effective monitoring and thereby affect the operations and strategy of the firm (Shleifer and Vishny, 1997). La Porta et al. (1998) report that for non-financial firms concentration of ownership is negatively related to investor protection, consistent with the hypothesis that small, diversified shareholders are unlikely to be important in countries that fail to protect their rights. In a theoretical model, Katz and Owen (2000) consider activist investors who perform value-enhancing activities which increase with ownership. They show that optimizing behavior by all investors leads to a concentration of shares in the hands of the activist. By yielding more ownership to the activist, the other investors adapt the risk profiles of their holdings.

For different investor types, we assume that the investment objectives can differ. Nevertheless, for all investor types, a major reason to invest always will be the prospect of financial return from dividends and increasing stock prices. However, the relative weight of this reason vis-à-vis other motives can differ per type of investor (Ryan and Schneider, 2002). So far, in the literature, in particular institutional investors have been analyzed. Most of the literature argues that institutional investors have a long-term focus (see Kochar and David, 1996). This focus provides the investors with an incentive to actively evaluate not only the financial performance of the firm, but also its strategies, activities and other stakeholders. In this perspective, in the empirical literature we did not come across a systematic analysis of the non-institutional investors, like the state or employees. However, given that it is likely that they may have non-financial objectives as to their investments, it seems interesting to include them in the analysis as well. As to ownership concentration, Gomes and Novaes (2005) argue that large shareholders of firms with majority blocks are often central to their companies and can have different interests from minority shareholders. Large shareholders (blockholders) may have more influence on the company than dispersed small shareholders due to their stronger incentives or more effective monitoring. Aoki (1984) notes that large shareholders make better investment decisions because they tend to evaluate the alternatives more carefully. Black (1992) argues this might result from their economies of scale that are based on their increased wealth. Several empirical studies find that the profitability of firms is enhanced by the presence of large shareholders (Stiglitz, 1985; Shleifer and Vishny, 1986, Gorton and Schmid, 2000). However, there is also evidence which suggests that large shareholders do not necessarily enhance shareholder value (Lehmann and Weigand, 2000).

In this study, we especially investigate whether different types of investors can be related to the firm's CSR policies as well. This is because there is a relationship between financial performance

and social performance. Therefore, management might act differently with regard to social activities in the presence of a particular type of shareholder than they would without this shareholder (see Neubaum and Zahra, 2006; David et al., 2007). However, management's objectives may differ from those of the shareholders. This is the source of the shareholder-management agency problems (Jensen and Meckling, 1976). Furthermore, management objectives will differ along different industries. In addition, Baron (2001) argues that firms can be altruistically or strategically motivated to act in a responsible manner. Dam (2008) suggests firms may engage in corporate social responsibility to preempt future regulations, because of liability management, for vertical product differentiation, to improve stakeholder relationships, to lower the cost of capital or because of some intrinsic motivation. To some extent, these strategies may be intended to improve the firm's financial performance as well. Baron (2001) points out that by product differentiation the responsible firm may be able to create a market for its own and to improve financial performance. Part of CSR will usually not relate to financial performance at all but is undertaken for its own sake (Derwall, 2007).

First, the notion that CSR can be associated with firm performance of course is an issue. Within this realm, a very large number of studies already has been undertaken. An overview is provided by Margolis and Walsh (2001). They find that "corporate social performance is found to have a positive relationship to financial performance in 42 studies (53%), no relationship in 19 studies (24%), a negative relationship in 4 studies (5%), and a mixed relationship in 15 studies (19%)". Orlitzky et al. (2003) establish a bidirectional and simultaneously positive relationship between CSR and corporate financial performance (CFP). More recent and more elaborated studies in general arrive at a similar conclusion. For example, Hull and Rothenberg (2008) find that innovation and the level of differentiation in the industry moderate the positive relationship between corporate social and financial performance. Brammer and Millington (2008) establish that firms with both unusually high and low corporate social performance have higher financial performance than other firms, with unusually poor social performers doing best in the short run and unusually good social performers doing best over longer time horizons. Scholtens (2008) finds that financial performance usually precedes above average social performance for most CSR dimensions, whereas it is the other way round with social and financial risk. A major problem for all these empirical studies is that there is no uniform way to measure CSR and CSR policies. Important is to be very well aware of the fact that there are major doubts regarding the accuracy, validity and reliability of the constructs used (see also Chatterji et al., 2009). There is no standard or benchmark for measuring CSR or CSR policies. Furthermore, it appears that the way in which

financial performance is measured has a significant impact on the results of the studies. In particular, when market data is used to reflect firms' financial performance, the positive relationship mostly does no longer hold and some find that it even turns negative (see Hong and Kacperczyk, 2009).

Given that a large part of the literature suggests that there is a relation between CSR and firm performance, it is important to establish how CSR can be connected with the governance by different types of investors (see also Walsh et al., 2003). The literature shows there is a connection between governance and financial performance as well as between CSR and financial performance. Now, we focus on the nexus between CSR and governance to find out whether there is an association between CSR policies and particular types of investors. In this respect, several studies already have been undertaken. For example, Turban and Greening (1997) argue that institutional investors see the long-term benefits of a firm's involvement and spending in CSR. Bushee and Noe (2000) establish that institutional ownership is positively related to the disclosure rankings of firms. Clark and Hebb (2005) find that investors seeking to protect the value of their investment are very attentive to the sensitivity of the share price regarding the reputation of the firm they invest in. However, they also observe that moral motives, such as climate change and HIV/AIDS, can drive the actions of financial companies. Atkinson and Galaskiewicz (1988) find evidence that company giving is influenced by the percentage of stock held by the CEO. Coffey and Fryxell (1991) find a negative relationship between compliance with the Sullivan principles and institutional ownership. Waddock and Graves (1994) find a significant relationship between corporate social performance and the number of institutions holding shares of a company. However, they find an insignificant relationship between social performance and the percentage of shares held by institutions. They attribute their findings to "token investments", i.e. investments for the sake of the socially responsible investor. This suggests that these investors invest only small amounts in order to signal to their shareholders that they are investing socially responsible. Johnson and Greening (1999) examine the relationships among types of institutional investors, board composition, top management team equity, and specific CSR dimensions. Their results are inconclusive and they suggest that it is necessary to consider various types of institutional investors to more precisely examine their different impacts. Bartkus et al. (2002) find strong evidence for 66 US companies that powerful owners discourage excessive philanthropy. Atkinson and Galaskiewicz (1988) as well as Brammer and Millington (2005) also arrive at negative relationship between ownership concentration and giving, but Galaskiewicz (1997) and Adams and Hardwick (1998) report no relationship. Rehbein et al. (2004) find that shareholder activists submit social-policy resolutions

with the intention to alter the social behavior of poor performers. Brammer and Millington (2005) offer partial support for the hypothesis that agency conflicts play a role by showing that there is a significantly lower propensity to become involved in charitable giving among firms with highly concentrated ownership. Barnea and Rubin (2006) – in a yet unpublished paper - more directly investigate the link between CSR and ownership. They employ a dataset that categorizes the largest 3,000 US corporations as either socially responsible or socially irresponsible. They find that insiders' ownership and leverage (i.e. the relationship between debt and equity of a firm) are negatively related to the firm's social rating, whereas institutional ownership is not related to this rating. Aguilera et al. (2006) argue that differences in corporate governance arrangements in the UK and the US translate to differences in the importance ascribed to a company's CSR policy. Mahoney and Roberts (2007) show for Canada that on some attributes of CSR institutional investor ownership is positively related to corporate social performance.

In line with e.g. Coffey and Fryxell (1991), Johnson and Greening (1999), and Lehmann and Weigand (2000), we especially are interested in the differences in the preferences of various types of shareholders. For example, one may expect that state-owned companies will take the effects on public goods into account in the decision making, irrespective of the size of the shareholdings. Then, state-owned firms will have better social performance than firms without state ownership. On the other hand, they might use their ownership to pursue their own political goals. For example, they want to keep particular industries and businesses in operation because they view it as strategic for their economy from the perspective of employment or defense. These industries usually are not the ones with the best CSR policies (Brammer and Millington, 2008). Then, state ownership can be associated with poor CSR performance. The same argument can be used for employee ownership. Firm ownership may be motivated by strategic reasons too, however, we assume that financial motives will dominate. For banks and institutional investors, we expect that they in particular will be interested in the financial characteristics of the investments. Here, the finance literature offers ample evidence that socially responsible investing does not significantly impact on investment returns (Bauer et al., 2005; Galema et al., 2008). Individual investors generally will be using much less information given the relatively large cost of information production and processing for small portfolios. Furthermore, given the size constraint, individual investors are unable to arrive at optimal portfolios (Barber and Odean, 2000). In tandem, these two arguments would result in underinvestment in firms with good CSR policies. Thus, we expect a neutral relationship between CSR policies and banks and financial investors and a negative relationship between firms' CSR policies and employee and state investments.

DATA & METHODOLOGY

We use cross-section data on shareholdings and on corporate social performance of 691 European companies in 2005. We are able to objectively measure shareholdings, however, measuring social performance is not without problems (see Chatterji et al., 2009). First, CSR consists of several dimensions, and one can question if every dimension is quantifiable, let alone suitable for aggregation. In addition, to a large extent datasets on social performance measure policies, not actual performance. Our dataset is also subject to these caveats, nonetheless, we argue that our CSR indicators do reveal relevant information.

The data on corporate social performance is taken from Ethical Investment Research Service (EIRIS). EIRIS has composed a cross-sectional dataset for 2005 which covers 2685 MNE's, located across the globe, and contains information on company policy, corporate reporting as well as on breaches by or convictions of the MNE. The topics that are included are environmental issues, stakeholder issues, governance, business ethics, and genetic engineering. Ratings between -2 and 3 are assigned. This data has also been used in e.g. Dam et al. (2007), for an analysis of the link between CSR and location choice of multinational enterprises. Many other studies have used the well-known KLD dataset, however, the KLD dataset covers US firms only. Our dataset covers many aspects of CSR for over 2600 firms globally, which allows us to focus on European countries. The main drawback of our dataset, compared to for example the KLD dataset, is that it is a cross-section, which limits the use of advanced techniques such as panel data econometrics.

We use 20 different indicators from this dataset that aim at measuring various aspects of corporate social responsibility. For the detailed definitions of these indicators, see Appendix A.1. By applying factor analysis, the 20 indicators are efficiently summarized by three factor scores which we labeled: "Stakeholders", "Ethics" and "Environment". Reducing the number of variables by applying factor analysis is a nice way to ensure sufficient variation in CSR scores while still taking into consideration the main dimensions of CSR data. In addition, factor analysis was also applied to generate a single factor, labeled "CSR", which is an aggregate measure of corporate social responsibility. We use these factors in our econometric analysis. For more details, see Appendix A.2 where we summarize the factor analysis and give the factor loadings for each indicator.

INSERT TABLE 1 ABOUT HERE

Table 1 gives descriptive statistics for the European companies in our sample. One would expect the social responsibility indicators to have mean equal to zero and standard deviation equal to one, since factors are constructed this way, but the fact that we applied factor analysis on the complete dataset first and then selected European companies from the sample explains why Table 1 shows some deviations from these numbers. Note that since we use oblimin rotation in our factor analysis, the factors are not orthogonal, but have positive correlation.

Data on ownership percentages is extracted from Amadeus, a database that contains accounting information for a large number of European firms. However, not all information is disclosed in Amadeus. Therefore we are forced to exclude those European companies that do not disclose their main shareholders. As such, we end up with a cross-section data set for 2005 of 770 companies. Amadeus provides additional information on shareholders. For example, they are classified in groups: State, Self- or Employee ownership, Bank ownership, Private/Individual ownership, Financial Company ownership and Firm ownership. We simply aggregate the shareholdings per type. For example, if two banks each have a share of 25% in the company, our variable Bank will have the value 50%; Financial Company Ownership measures the total percentage of shareholdings by financial companies, etc. Figure 1 gives an overview of the average percentage of total shareholdings per type of investor. It clearly shows that financial companies are the largest owners in European MNEs; they own almost 50%. Firms rank second with about one quarter of total shareholdings.

INSERT FIGURE 1 ABOUT HERE

Next to the type of shareholder, we are also interested in the relative size of the shareholdings. To this extent, we first come up with a crude measure of ownership concentration, namely a dummy variable that classifies whether a firm has blockholdings or not. Blockholdings are defined as large blocks of shares held by one shareholder (Bolton and von Thadden, 1998). Blockholdings usually are measured at the 5%, 10% or 20% level. For US research this is often 5% (see Atkinson and Galaskiewicz, 1988), whereas studies on continental Europe usually apply the 10 or 20% threshold (see La Porta et al., 1999). Morck et al. (1989) propose that entrenchment of management is reached at levels of ownership between 5% and 25%. We define a company as having a blockholder if there is at least one shareholder who owns a share of equity larger than a specific

threshold value. Since the level of this threshold value is arbitrary, we created dummy variables for blockholdings for threshold values of 5%, 10% and 20%. However, blockholdings only show the largest shareholdings in a company, and discard quite some information on the exact composition of ownership of the firm. Therefore, we also try to summarize the shareholder structure with the Hirschman-Herfindahl index (HHI). The HHI is constructed by summing the squared shareholdings of every shareholder of a company. The traditional HHI is often used as a measure of concentration in a particular industry, using market shares. We feel the HHI is an accurate way to measure shareholder concentration, since, first, it takes into account all shareholder information and, second, it is a continuous measure that ranges between 0% and 100%.

Figure 2 gives the characteristics of our sample for the two concentration measures. Apparently, blockholders are quite common in Europe: Even at a threshold level of 20%, almost 40% of the firms appear to have blockholdings. Furthermore, the solid line in figure 2 shows that the mean HHI of all companies is about 12.0% in 2005 (with a standard deviation of 19.5%). To illustrate that the HHI provides an intuitive measure for ownership concentration, we also investigated the average shareholding of the largest five shareholders (not reported in the table). The average shareholding of the five largest shareholders is about 11% with a standard deviation of 8%. This suggests that the standard deviation of the HHI is higher than that of the average first five shareholders. This is because this last measure discards the information about the other shareholders.

INSERT FIGURE 2 ABOUT HERE

Previous literature (e.g. Ulmann, 1985, McWilliams and Siegel, 2000) finds that size, risk, industry and R&D investments are important control variables for corporate social performance. This research will use *operating revenue*, *return on total assets*, *industry type*, *country of origin*, *leverage* and *liquidity* ratio of the firm as control variables. Size, measured by *operating revenue*, is a relevant control variable as there is some evidence that smaller companies are less concerned with CSR (Waddock and Graves, 1997). *Return on assets* is another control variable since many studies find a correlation between financial and social performance as shown in the survey by Margolis and Walsh (2001). *Leverage* (debt to equity) and *liquidity* (liquidity ratio; liquid assets to total assets) act as a control related to the level of risk a company is willing to take (Barnea and Rubin, 2006). Finally, fifteen dummy variables are constructed to control for the company's country (see footnote 1 for the countries) and 34 dummies are constructed to account for industry effects (see Appendix

A.4 for the industries). Table 2 presents the descriptive statistics of the control variables. The relatively large standard errors and min-max ranges reveal that there is substantial variation in the controls.

INSERT TABLE 2 ABOUT HERE

Table 3 shows the correlations among the various types of ownership and the correlations between ownership concentration and type. The correlations between the various control variables are low, so we do not expect any multicollinearity problems. Note that theoretically we should have a perfect linear dependency between the ownership types, since in the end shares aggregate to 100%. However, ownership shares below 2.5% are usually not reported, and therefore this linear dependency will not be there, or at least not be perfect. The correlations between the various types are quite low, however, we cannot *a priori* trust that we will not encounter multicollinearity problems, given the nature of the data. We also see that there is quite a large correlation between ownership concentration and firms, but that state-ownership is not that correlated with ownership concentration. This means that for the larger part, high ownership concentration is not due to state-ownership, but to firm ownership.

INSERT TABLE 3 ABOUT HERE

Many researchers have investigated the effect of the type of shareholders on companies such as Coffey and Fryxell (1991), Johnson and Greening (1999), Lehmann and Weigand (2000), Neubaum and Zahra (2006), and David et al. (2007). We follow this line of research and assume that the shareholder interest is distinct between the types but similar within a particular type. We want to investigate the relation between CSR performance and type of shareholder. To do so, we estimate the following equation:

$$G_i = v + \beta T_i + \gamma X_i + \mu_i,$$

Here the dependent variable G_i is a measure of corporate social performance of company i , v is a constant, T_i the set of aggregate shareholdings per type for company i , X_i a set of firm specific control variables, and μ_i an error term. We run these regressions including country or industry specific effects.

In addition, we are interested in the relation between ownership concentration and CSR. We therefore estimate the following equation:

$$G_k = \nu + \beta H_k + \gamma X_k + \mu_k$$

With G_k a measure of corporate social performance of company k , ν a constant, H_k a measure of ownership concentration for company k (either blockholder dummies or the Hirschman-Herfindahl index), X_k a set of firm specific control variables, and μ_k an error term. Again, we include country and industry specific effects. We are aware of potential endogeneity issues; do responsible firms attract a certain type of shareholders, or do certain type of shareholders activate responsible behavior? Perhaps estimating a system with 2SLS using an appropriate instrument could disentangle both effects. However, such an approach introduces new problems, such as finding the correct instrument and making sure the system is identified. Another solution would be to look at Granger causation, however, since we have cross-section data this is not an option. Nonetheless, we feel that a simple OLS regression is suitable to see whether a certain ownership type is to be associated with more responsible behavior, regardless of the causality. Of course, in a general supply and demand system one could potentially draw wrong inference (e.g. one could incorrectly conclude that a higher price leads to higher demand, while in fact this is a supply-side effect), but since the number of shares outstanding of a firm is usually (almost) fixed, we have no theoretical reason to believe that a simple OLS would lead to incorrect inference. It only means that we should be somewhat careful when it comes to statements about causality.

RESULTS

Table 4 shows the estimation results about the relationships between various types of shareholders and CSR policies of European multinational enterprises. We use four alternative measures of CSR policies as the dependent variable, namely *CSR*, *Stakeholders*, *Ethics*, and *Environment*, where the first measure is an aggregation of the latter three. The table shows that there is little statistical significance when it comes to the ownership type variables. So, our main finding is that, overall, there are little differences between ownership types when it comes to CSR policies. However, for some CSR policy measures and some ownership types we do find a significant and negative effect on CSR policies. Basically, it seems that ownership by “professional investors” (*Banks, Financial Companies and Firms*) is not significantly associated with CSR policies, whereas ownership by

more “strategic” parties (*State, Self-ownership/Employees*) is to be negatively associated with CSR policies. The same is the case for individual investors. In Appendix A.3 we show the same regression, but now accounting for industry specific effects. The results are qualitatively similar, however, now the category Self-owned/Employees has a significantly negative effect on particular dimensions of CSR. The results in table 4 (as well as those in Appendix A.3) are well-aligned with the conjectures we derived earlier in this paper.

INSERT TABLE 4 ABOUT HERE

Table 5 reports the estimation results of the relation between blockholdings for various threshold levels (5%, 10%, and 20%) as well as the estimation of equation (1). First of all, the control variables have the expected signs. Company size, measured by *Operating Revenue*, is very important for the level of engagement in CSR in a company, a phenomenon that is widely recognized and accepted in the literature (see Brammer and Millington, 2005). Furthermore, there appears to be a trade-off between returns and social performance, as can be seen from the negative coefficient of *Return on Total Assets*. Table 5 also shows that the trade-off is not fully captured by our ownership measures. If we interpret liquidity as a measure for risk-taking behavior, the results show that risk-averse companies are also socially more responsible- a plausible finding, which is in line with the literature too (see Scholtens, 2008). Columns (1)-(3) of table 5 show that the larger is the threshold value for a blockholder, the more (significantly) negative is the coefficient for this dummy variable. We conclude that there is a negative relation between ownership concentration, as measured by the Hirschman-Herfindahl Index, and CSR policies for European multinationals. This too is in line with our a priori notion about this relationship.

INSERT TABLE 5 ABOUT HERE

CONCLUSION

This paper analyzes whether corporate social responsibility (CSR) policies can be associated with different types of investors for a large group of European multinational enterprises. In particular, we investigate the role of banks, financial investors (insurance companies, pension funds and mutual funds), the state, firms, employees/self-owners, and individual investors, as well as concentrated ownership. Ownership concentration is measured by looking at whether there are blockholdings as well as the Hirschman-Herfindahl Index. The measure for CSR policies is

constructed using data from EIRIS. Our main results show that for the most dominant shareholders (banks, financial investors, firms), there is no significant association with the CSR policy of the firm they invest in. This is in line with the findings from the literature about responsible investments. However, there appears to be a significant and negative association between the ownership of the state, self-ownership / employees, and blockholders and the CSR policies of the firms they invest in. For these groups, it appears that strategic reasons do prevail in their investment decisions (esp. with the state and employees) or that the costs and constraint due to the relatively small size of the investment (with individual investors) result in not taking into account relatively good CSR policies. To the best of our knowledge, this has not been researched before in the economic literature. The main results also show that concentrated ownership is to be associated with significantly worse corporate social performance. The intuitive argument behind this finding is that corporate social performance can be viewed as private provision of a public good. Assuming a trade-off between financial performance and social performance, large shareholders pay a relatively high price for social performance. Stated differently, the larger the share of a shareholder in a company, the less likely she is to prefer social initiatives by this firm, since the benefits do not outweigh the costs to her personally, even if the initiative is socially optimal.

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Appendix A.1

Details of the Ethical Investment Research Services (EIRIS) dataset.

The complete dataset covers the following topics: Environmental policy, Environmental management, Environmental reporting, Environmental performance, Chemicals of concern, Ozone depleting chemicals, Greenhouse gases, Mining and quarrying, Nuclear power, Pollution convictions, Roads, Tropical hardwood, Water pollution, Governance, Board practice, Bribery & corruption, Codes of ethics, Directors' pay, Disclosure, Political donations, Responsibility for stakeholders, Women on the board, Human rights overall, Human rights policy, Human rights systems, Human rights reporting, Human rights principles, Core ILO standards, Supply chain overall, Supply chain elements, Positive products and services, Stakeholder issues, Stakeholder policy, Stakeholder systems, Stakeholder engagement, Stakeholder reporting, Employee issues, Equal opportunities, Health & safety, Job creation and security, Trade unions and employee participation, Training, Customers & suppliers, Advertising complaints, Customer/supplier relations, Community involvement, Other ethical concerns: Alcohol, Animal testing, Business Details, Contraception / abortion / clinics, Anti-personnel landmines, Financial institutions, Fur, Gambling, Genetic engineering, Intensive farming and meat sale, Military production and sale, Pornography and adult entertainment services, Size, Third world, Tobacco. We selected 20 indicators of which detailed definitions are given below. The inclusion in our final dataset is mainly driven by data availability and consistency, since not every company scores on each issue.

Variable	Definition	Score
Environmental policy	How does EIRIS rate the company's environmental policy and commitment?	Inadequate=-1, Weak=0, Moderate=1, Good=2, Exceptional=3
Environmental management	How does EIRIS rate the company's environmental management system?	Inadequate= -1, Weak =0, Moderate= 1, Good =2, Exceptional=3
Environmental reporting	How does EIRIS rate the company's environmental reporting?	Inadequate= -1, Weak=0, Moderate= , Good=2, Exceptional=3
Environmental performance	What level of improvements in environmental impact can the Company demonstrate?	No data or inadequate data=-1, No improvement=0, Minor improvement=1, Significant improvement=2, Major improvement=3
Bribery & corruption	Does the company have policies and procedures on bribery and corruption?	No policy disclosed=1, Has adopted a policy=2, Has clear policy and procedures=3
Codes of ethics policy	Does the Company have a code of ethics and, if so, how comprehensive is it?	Limited, Basic=1, Intermediate=2, Advanced=3
Codes of ethics system	Does the Company have a system for implementing a code of ethics and, if so, how comprehensive is it?	No=-1, Limited=0, Basic=1, Intermediate=2, Advanced=3
Ethics Communication	Has the company adopted a code of ethics or business principles which it	No evidence of=1, Has adopted=2, Clearly

	communicates to all employees?	communicates=3
Stakeholder policy	How good are the company's policies towards its stakeholders overall?	Little or no=0, Basic=1, Moderate=2, Good=3
Stakeholder systems	How good are the company's management systems for stakeholders overall?	Little or no=0, Basic=1, Moderate=2, Good=3
Stakeholder engagement	What level of engagement with stakeholders is disclosed by the company?	Little or no=0, Basic=1, Moderate=2, Good=3
Stakeholder reporting	How good is the company's quantitative reporting on stakeholder relationships?	Little or no=0, Some=1, Moderate=2, Good=3
Equal opportunities Employees	How good is the company's policy on equal opportunity and diversity issues?	Little or no evidence of=0, Basic=1, Moderate=2, Good=3
Equal opportunities: Systems and Practice	How clear is the evidence of systems and practices to support equal opportunities and diversity?	Little or no evidence=0, Some evidence=1, Clear evidence=2, Very clear evidence=3
Employee Health & safety	How clear is the evidence of health & safety systems?	Little or no evidence=1, Some evidence=2, Clear evidence=3
Job creation and security	How clear is the evidence of systems and practices to advance job creation and security?	Little or no evidence=1, Some evidence=2, Clear evidence=3
Employee Trade union participation	How clear is the evidence of systems to manage employee relations?	Little or no evidence=1, Some evidence=2, Clear evidence=3
Customer/supplier relationships policy	Does the company have policies on maintaining good relations with customers and/or suppliers?	Little or no evidence of policy=1, Has adopted policy=2, Clearly communicates policy=3
Customer/supplier relationships system	How clear is the evidence of systems to maintain good relations with customers and/or suppliers?	Little or no evidence=0, Some evidence=1, Clear evidence=2, Very clear evidence=3

Appendix A.2

Summary of Factor Analysis for Social Responsibility Indicators

<i>Indicator</i>	Factor Loadings		
	<i>"Stakeholders"</i>	<i>"Ethics"</i>	<i>"Environment"</i>
Environmental Policy	0.00	0.08	0.88
Environmental Management	-0.04	0.03	0.90
Environmental Reporting	0.08	0.01	0.74
Environmental Performance	0.10	0.04	0.73
Bribery and Corruption	0.13	0.77	-0.02
Code of Ethics Policy	-0.05	0.99	0.05
Code of Ethics System	0.10	0.70	0.14
Ethics Communication	-0.10	0.92	0.08
Stakeholder Policy	0.64	0.39	-0.07
Stakeholder System	0.85	0.10	0.08
Stakeholder Engagement	0.68	0.07	0.09
Stakeholder Reporting	0.76	-0.06	0.18
Equal Opportunities Employees	0.42	0.45	-0.11
Equal Opportunities: System and Practice	0.84	-0.05	-0.04
Employee Health and Safety	0.55	0.07	0.29
Employee Job Creation and Security	0.77	-0.12	-0.03
Employee Trade Union Participation	0.38	-0.11	0.30
Customer/Supplier Relationships Policy	0.46	0.15	0.04
Customer/Supplier Relationship System	0.60	0.03	0.11
Community Involvement	0.57	0.19	0.03

Extraction Method: Maximum

Likelihood.

Rotation Method: Oblimin with Kaiser Normalization.

Data Source: EIRIS. All statistics are for the year 2005.

Appendix A.3

Ownership Type and Corporate Social Performance of MNE's in 2005

(accounting for industry effects)

<i>Dependent Variable</i>	(1) <i>CSR</i>	(2) <i>Stakeholders</i>	(3) <i>Ethics</i>	(4) <i>Environment</i>
<i>State</i>	-0.0118† (-1.73)	-0.0135† (-1.96)	-0.00647 (-0.92)	-0.00485 (-0.92)
<i>Self/Employees</i>	-0.0332* (-2.16)	-0.0235 (-1.52)	-0.0294† (-1.87)	-0.0282* (-2.38)
<i>Banks</i>	-0.00135 (-0.42)	-0.00194 (-0.59)	-0.000763 (-0.23)	-0.000229 (-0.09)
<i>Individuals</i>	-0.00474† (-1.74)	-0.00403 (-1.47)	-0.00282 (-1.01)	-0.00396† (-1.89)
<i>Financial Companies</i>	0.000277 (0.17)	0.000378 (0.24)	-0.0000120 (-0.01)	-0.0000502 (-0.04)
<i>Firms</i>	- 0.00447** (-3.23)	- -0.00420** (-3.00)	- -0.00387** (-2.72)	- -0.00180† (-1.68)
<i>log Operating Revenue</i>	0.360** (16.51)	0.291** (13.24)	0.296** (13.25)	0.280** (16.68)
<i>Leverage</i>	- 0.0000429 (-0.51)	- -0.0000453 (-0.53)	- -0.0000908 (-1.05)	- 0.00000151 (0.02)
<i>Return on Total Assets</i>	-0.00555 (-1.55)	-0.00448 (-1.24)	-0.0100** (-2.73)	-0.000608 (-0.22)
<i>Liquidity Ratio</i>	0.0510** (3.26)	0.0447** (2.82)	0.0404* (2.51)	0.0330** (2.73)
<i>Constant</i>	-4.966** (-13.94)	-3.878** (-10.78)	-4.159** (-11.37)	-4.100** (-14.92)
<i>Adj. R²</i>	0.410	0.322	0.274	0.536
<i>N</i>	691	691	691	691

The estimated equation is $G_i = v + \beta T_i + \gamma X_i + \mu_i$, using Ordinary Least Squares. Here v is a constant, G_i a measure of corporate social performance of company i , T_i the set of aggregate shareholdings per type for company i , X_i a set of firm specific control variables, and μ_i an error term. t-statistics in parentheses. For brevity sake the industry dummy variables are not reported. † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$.

Appendix A.4
Industries and distribution of firms in the sample

Industry	Number of firms	Percentage
Aerospace & Defence	12	1.74
Automobiles & Parts	17	2.46
Beverages	8	1.16
Chemicals	26	3.76
Construction & Building Materials	45	6.51
Diversified Industrials	5	0.72
Electricity	13	1.88
Electronic & Electrical Equipment	21	3.04
Engineering & Machinery	36	5.21
Food & Drug Retailers	12	1.74
Food Producers & Processors	19	2.75
Forestry & Paper	7	1.01
General Retailers	36	5.21
Health	24	3.47
Household Goods & Textiles	20	2.89
Information Technology Hardware	23	3.33
Insurance	1	0.14
Leisure & Hotels	27	3.91
Media & Entertainment	43	6.22
Mining	7	1.01
Oil & Gas	25	3.62
Personal Care & Household Products	9	1.3
Pharmaceuticals & Biotechnology	26	3.76
Real Estate	34	4.92
Software & Computer Services	37	5.35
Speciality & Other Finance	6	0.87
Steel & Other Metals	5	0.72
Support Services	72	10.42
Telecommunication Services	23	3.33
Tobacco	5	0.72
Transport	30	4.34
Utilities - Other	16	2.32
Water	1	0.14
<i>Total</i>	<i>691</i>	<i>100</i>

Table 1**Descriptives Statistics of Social Responsibility Indicators 2005**

Variable	Obs	Mean	Std. dev.	Correlations			
				<i>CSR</i>	<i>Stakeholders</i>	<i>Ethics</i>	<i>Environment</i>
<i>CSR</i>	761	0.19	1.13	1.00			
<i>Stakeholders</i>	761	0.31	1.06	0.95	1.00		
<i>Ethics</i>	761	-0.15	1.04	0.82	0.70	1.00	
<i>Environment</i>	761	0.16	0.97	0.82	0.70	0.55	1.00

Source: EIRIS

Table 2
Firm Characteristics in 2005

Variable	No. of obs	Mean	Std. dev.	Min	Max	Correlations			
						<i>Operating revenue</i>	<i>Leverage</i>	<i>Return on total assets</i>	<i>Liquidity ratio</i>
<i>Operating Revenue</i>									
<i>(Millions €)</i>	752	5.79	15.0	0.001	216	1			
<i>Leverage (%)</i>	709	139	413	0.0	9635	0.03	1		
<i>Return on Total Assets (%)</i>	760	7.34	11.34	-78.4	71.9	0.03	-0.08	1	
<i>Liquidity Ratio</i>	759	1.38	2.35	0.07	50.0	-0.04	-0.05	-0.01	1

Source: Amadeus

Table 3**Correlations between Ownership Types and Ownership Concentration in 2005**

	<i>Ownership Concentration (HHI)</i>	<i>State</i>	<i>Self- owned/ Em- ployees</i>	<i>Banks</i>	<i>Indivi- duals/ Private</i>	<i>Financial Companies</i>	<i>Firms</i>
<i>Ownership Concentration (HHI)</i>	1.00						
<i>State</i>	0.18	1.00					
<i>Self-owned/ Employees</i>	0.05	0.07	1.00				
<i>Banks</i>	-0.01	-0.04	-0.03	1.00			
<i>Individuals or Private</i>	0.18	-0.06	-0.02	-0.08	1.00		
<i>Financial Companies</i>	0.14	-0.11	-0.15	0.18	-0.07	1.00	
<i>Firms</i>	0.64	-0.04	0.09	-0.03	-0.01	-0.13	1.00

Table 4**Ownership Type and Corporate Social Performance of MNE's in 2005**

<i>Dependent Variable</i>	(1) <i>CSR</i>	(2) <i>Stakeholders</i>	(3) <i>Ethics</i>	(4) <i>Environment</i>
<i>State</i>	-0.0112 [†] (-1.71)	-0.0125 [†] (-1.89)	-0.00964 (-1.45)	-0.00280 (-0.50)
<i>Self/Employees</i>	-0.0209 (-1.31)	-0.0189 (-1.17)	-0.0179 (-1.11)	-0.00675 (-0.50)
<i>Banks</i>	-0.00180 (-0.55)	-0.00241 (-0.73)	-0.000307 (-0.09)	-0.000809 (-0.29)
<i>Individuals</i>	-0.00437 [†] (-1.65)	-0.00355 (-1.33)	-0.00311 (-1.16)	-0.00427 [†] (-1.89)
<i>Financial Companies</i>	-0.00153 (-0.98)	-0.00122 (-0.78)	-0.000816 (-0.52)	-0.00149 (-1.12)
<i>Firms</i>	-0.00277 [†] (-1.89)	-0.00325* (-2.19)	-0.00101 (-0.68)	-0.00189 (-1.51)
<i>log Operating Revenue</i>	0.406** (18.68)	0.329** (14.99)	0.308** (13.98)	0.331** (17.83)
<i>Leverage</i>	0.00 (-0.27)	0.00 (-0.25)	0.00 (-0.70)	0.00 (-0.05)
<i>Return on Total Assets</i>	-0.00586 [†] (-1.73)	-0.00494 (-1.44)	-0.00711* (-2.08)	-0.00237 (-0.82)
<i>Liquidity Ratio</i>	0.0519** (3.39)	0.0448** (2.90)	0.0425** (2.74)	0.0298* (2.28)
<i>Constant</i>	-5.530** (-8.06)	-4.477** (-6.46)	-5.011** (-7.21)	-3.773** (-6.44)
<i>R²</i>	0.397	0.307	0.278	0.406
<i>N</i>	691	691	691	691

The estimated equation is $G_i = v + \beta T_i + \gamma X_i + \mu_i$, using Ordinary Least Squares. Here v is a constant, G_i a measure of corporate social performance of company i , T_i the set of aggregate shareholdings per type for company i , X_i a set of firm specific control variables, and μ_i an error term. t-statistics in parentheses. For brevity sake the country dummy variables are not reported. [†] $p < 0.10$, * $p < 0.05$, ** $p < 0.01$.

Table 5

**Corporate Social Performance and Measures of Shareholder Concentration
in European MNE's in 2005**

Dependent Variable:	(1) <i>CSR</i>	(2) <i>CSR</i>	(3) <i>CSR</i>	(4) <i>CSR</i>
<i>Blockholder, threshold=5%</i>	-0.0985 (-0.75)			
<i>Blockholder, threshold=10%</i>		-0.179* (-2.42)		
<i>Blockholder, threshold=20%</i>			-0.223** (-2.94)	
<i>Hirschman-Herfindahl Index</i>				-0.511** (-2.68)
<i>log Operating Revenue</i>	0.406** (19.00)	0.404** (19.16)	0.405** (19.28)	0.405** (19.31)
<i>Leverage</i>	0.00 (-0.20)	0.00 (-0.19)	0.00 (-0.26)	0.00 (-0.22)
<i>Return on Total Assets</i>	-0.006 [†] (-1.88)	-0.007 [†] (-1.95)	-0.005 [†] (-1.80)	-0.006 [†] (-1.67)
<i>Liquidity Ratio</i>	0.0521** (3.39)	0.0496** (3.23)	0.0509** (3.34)	0.0523** (3.42)
<i>Constant</i>	-5.520** (-7.83)	-5.405** (-7.87)	-5.375** (-7.86)	-5.549** (-8.17)
<i>R²</i>	0.387	0.392	0.394	0.393
<i>N</i>	691	691	691	691

The estimated equation is $G_i = v + \beta H_i + \gamma X_i + \mu_i$, using Ordinary Least Squares. Here v is a constant, G_i a measure of corporate social performance of company i , H_i the measure of ownership concentration for company i , X_i a set of firm specific control variables, and μ_i an error term. t-statistics in parentheses. For brevity sake the country dummy variables are not reported. [†] $p < 0.10$, * $p < 0.05$, ** $p < 0.01$.

Figure 1

Average shareholding by type in European Multinational Enterprises

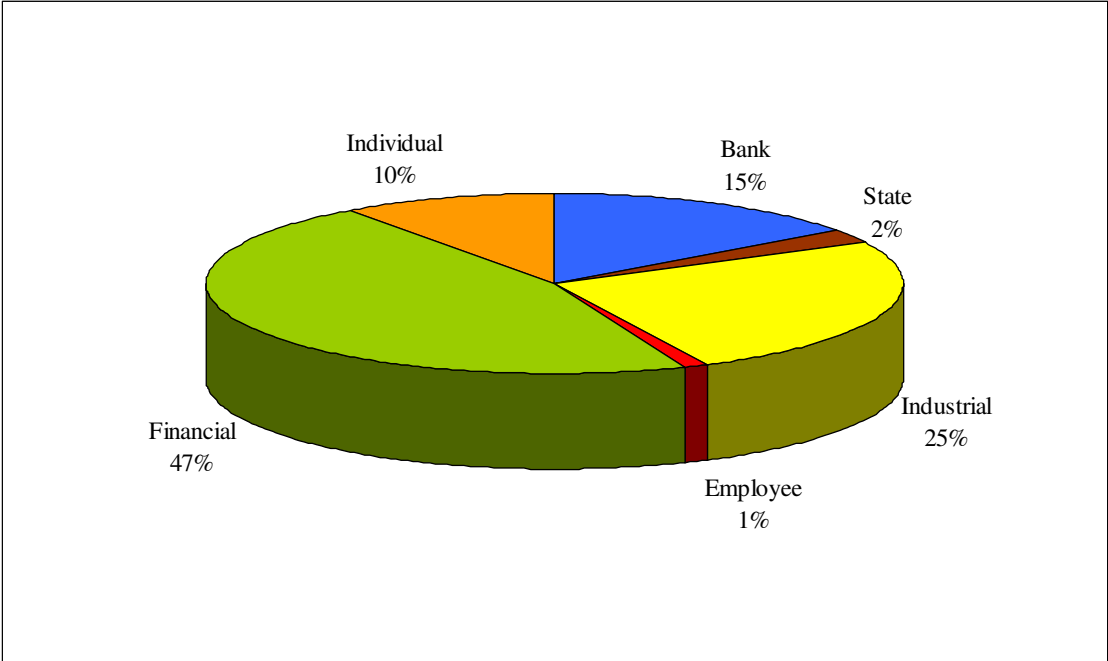
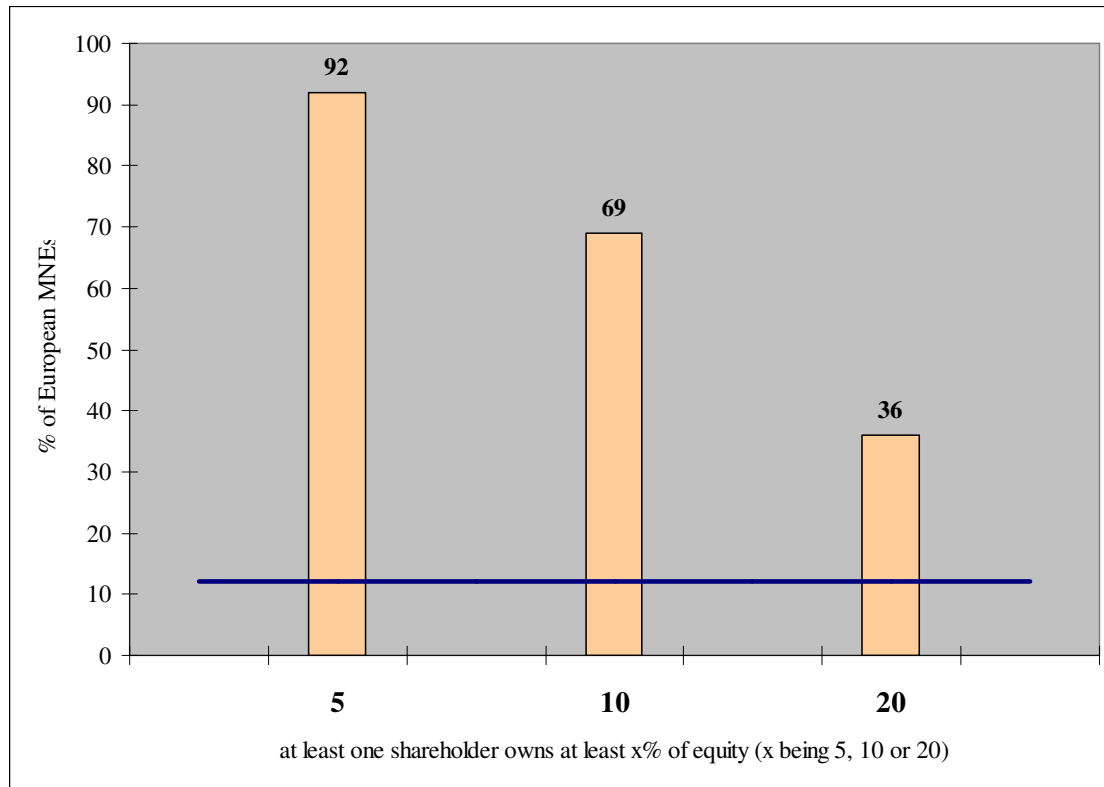


Figure 2

Ownership concentration in European Multinational Enterprises



The horizontal line shows the value of the HHI; the blocks relate to the percentage of European multinational enterprises with one shareholder who owns at least 5, 10 or 20% of its equity.