Institutional Investors and Corporate Social Responsibility: An Analysis of the Brazilian Firm

Abstract

This study investigates the influence of institutional investors as large shareholders on corporate social responsibility (CSR) engagement of the Brazilian firm. We analyzed 796 observations of Brazilian firms in the period 2010-2022. Models were estimated using the generalized method of moments. Results indicate that institutional investors, whether controlling or non-controlling shareholders, negatively influence the establishment of CSR strategies by firms. These results are robust in highlighting the negative relationship between institutional investors and the CSR dimensions: community, employees, and environment. Thus, the findings suggest that institutional investors seem to be more interested in short-term financial returns than in uncertain long-term sustainable returns. In addition, the results show that a well-structured corporate governance system may be able to broaden and strengthen the firm's involvement in CSR actions. The research contributes to the agency and stakeholder theory approach by providing additional evidence from the perspective that agency conflicts can affect the alignment of a firm's CSR strategies.

Keywords: Corporate social responsibility, Ownership structure, Institutional ownership, Stakeholder Theory, Agency Theory.

1 Introduction

There seems to be a growing pressure from society, in distinct markets, for an ethical corporate behavior, which means adequate and respectful firm relation with all its stakeholders and the socio-environment context (Sharma, 2019). This scenario leads to an expectation that firms assume a moral responsibility to engage in Corporate Social Responsibility (CSR) practices, aiding the promotion of social welfare and, this way, extending beyond economic objectives (Pareek & Sahu, 2022). In terms of firm strategy, the adoption of CSR practices has become increasingly relevant given that firm commitment to CSR may present both opportunities and risks for firms (Limkriangkrai et al., 2017).

Under the Stakeholder theoretical framework, firm engagement to CSR is proposed as able to create value for the firm as a consequence of an improvement in firm reputation and in the relation with all stakeholders (Freeman et al., 2012). The relevance given to CSR has led it to be considered a strategic firm investment (Oh et al., 2011) and, as an investment, it may be subject to a risk-return assessment. Possible CSR benefits tend to be in the long-run, being benefits in financial performance, in firm risk mitigation, or from reputation improvement. On the other hand, CSR costs are usually in the short-run (Cox et al., 2007). The increasing volume of funds directed to sustainable investment funds may be one additional factor that motivate firms towards recognizing CSR importance (Morningstar, 2024).

A growing body of literature has appraised the proposed benefit from CSR engagement (Freeman et al., 2012). In parallel, there has been an increasing volume of research that analyses the possible CSR determinants (Ali et al., 2017; Boubakri et al., 2021). In this context, agency conflicts have emerged as important for firm CSR policy. In fact, there is evidence that some important elements involved in agency conflicts play a role on firm CSR engagement. This is the case of corporate governance (Appuhami & Tashakor, 2017; Fuente et al., 2017; Godos-Díez et al., 2018; Olthuis & van den Oever, 2020; Radu & Smaili, 2022) and ownership structure (Crisóstomo & Freire, 2015; Dakhli, 2021; Pareek & Sahu, 2022).

The possible influence of firm ownership structure on strategic decision-making is one important driver for the research on the relation between firm ownership and CSR, given that CSR has been considered a strategic firm investment (Oh et al., 2011). As such, CSR has become relevant for shareholders who seem to influence firm policies as the literature has documented (Faller & zu Knyphausen-Aufseß, 2016; Oh et al., 2011; Zaid et al., 2020). In this context, the identity of the main firm blockholders has been object of attention as the case of institutional investors which have the idiosyncrasy of primarily focusing on their fiduciary duties (Faller & zu Knyphausen-Aufseß, 2016). The category of institutional investors

comprise, mainly, institutions with fiduciary duties such as investment funds, pension funds, insurance firms and mutual funds (Johnson & Greening, 1999). In recent decades, institutional investors have gained prominent presence in capital markets with increasing presence in firm equity ownership in distinct markets (Cox et al., 2007; Faller & zu Knyphausen-Aufseß, 2016; OECD, 2020). Regarding institutional investors, since the 2010s, there has been a huge increase in the volume of investments directed toward sustainable demands by institutional investors (Lopez-de-Silanes et al., 2024). It is also worth noting that social and environmental standards, as well as economic incentives, can play a significant role in institutional investors' decision-making regarding resource allocation what still requires more research (Nofsinger et al., 2019). While some investors prioritize the socio-environmental benefits generated by firms, others focus on financial performance, underscoring the investment strategies adopted by these stakeholders (Lopez-de-Silanes et al., 2024; Nofsinger et al., 2019).

Research on the relationship between institutional investors and firm CSR has advanced in distinct markets. Empirical studies have documented that institutional investors tend to prefer firms with advanced socio-environmental practices in South Korea (Chung et al., 2019) and the United States (Chen et al., 2020). Furthermore, some studies suggest that, in certain contexts, institutional investors do not foster firm social and environmental policies, as observed in Poland (Aluchna et al., 2022), Indonesia (Nurhalisa & Hernawati, 2023), and in an international sample (Acar et al., 2021). Emerging countries face specific challenges that may impact macro and micro investment, such as economic development, social inequality, and regulatory issues, which can influence the decision-making process of investors, among them, the so-called institutional investors. This reality, added to inconclusive research results, highlight the need for further research on how institutional investors can influence firm CSR policy within this context.

This study delves deeper into the analysis of emerging markets by focusing in Brazil, an emerging economy recognized as the 7th most populous country in the world and the 10th largest gross domestic product (GDP) in 2024 (Statista, 2025). Despite its status, Brazil faces significant challenges related to social inequality, ranking among the 14 most unequal countries globally (ONU, 2022). Brazil is home to the greatest biodiversity in the world and a variety of biomes, which amplifies concerns on the impacts of climate change on the preservation of species and ecosystems (Scarano, 2019). This situation highlights the need for increased attention to the country's social issues. It is worth mentioning that Brazil has shown to be concerned about sustainability issues by signing the Paris Agreement (United Nations, 2024)

and hosting the Eco-92 and, in 2025, the COP-30 (30th United Nations Climate Change Conference).

This study aims to investigate the influence of institutional investors as large shareholders on CSR engagement of the Brazilian firm. The analysis is based on a sample of 796 firm-year observations, covering a total of 76 Brazilian firms in the period 2010-2022. Information regarding shareholder identity was obtained from the reference form, a mandatory document published annually by firms listed on the Brazilian stock exchange. CSR data was collected from the CSRHub database. Results indicate that institutional investors, whether as controlling or noncontrolling shareholders, negatively influence firm commitment to CSR. These results suggest that institutional investors seem to prioritize short-term financial returns over medium- and long-term sustainable investment with uncertain results.

This study provides some relevant contributions to the literature. First, it provides additional evidence on the impact of shareholder identity on engagement in CSR practices within the emerging markets context. The findings highlight the effect of institutional investors on distinct CSR dimensions, including community, employee, and environmental concerns. These results enrich the discussion surrounding institutional investors' interest in firm CSR, as previous studies have primarily focused on the relationship between this type of investor and the overall CSR performance of firms (Chen et al., 2020; Chung et al., 2019; Pareek & Sahu, 2022). To the best of our knowledge, no research to date has individually examined the relationship between this type of investor and each specific CSR dimension (community, employees, and the environment) in Brazil. Secondly, this study contributes to the agency theoretical approach by providing additional evidence from the perspective that agency conflicts may impact firm CSR policy. The findings provide additional evidence on the importance of ownership structure in firm engagement in socio-environmental practices. Thirdly, the study highlights the importance of corporate governance for CSR through the use of a corporate governance index that includes aspects related to the composition of the firm's management and shareholders. In this way, the research contributes by robustly evidencing the importance of a solid corporate governance system in improving and engaging firms in CSR practices, since much of the literature analyzes corporate governance only through individual corporate governance practices (Appuhami & Tashakor, 2017; Fuente et al., 2017). In addition, it highlights the importance of regulatory agencies in monitoring and regulating the activities of economic sectors, which may foster firm CSR engagement (Forte et al., 2025).

2 Literature review and Hypothesis

2.1 Corporate Social Responsibility in emerging markets

CSR began to be formally introduced to society in the 20th century (Carroll, 1999). Since then, it has gained global prominence, becoming a topic of increasing relevance in corporate agenda and being recognized as important for the development and implementation of corporate strategies (Boubakri et al., 2021; Jamali & Mirshak, 2007; Lin-Hi & Müller, 2013). Political and institutional factors, such as the norms and regulations of each country, can play a significant role in establishing firm CSR policy (Bhatia & Makkar, 2020). Literature suggests that, in developed countries, CSR tends to be more structured and integrated into business strategies (Bhatia & Makkar, 2020; Sharma, 2019). Conversely, in developing countries, CSR often adopts a less formalized and more philanthropic approach (Jamali & Karam, 2018). Perhaps, this difference may explain the findings that firms located in developed countries demonstrate superior performance in CSR compared to those in developing countries (Bhatia & Makkar, 2020). Furthermore, in developing countries, differences are observed in the extent of firm information disclosure related to distinct CSR dimensions, such as the environment, community, and workers. This is because stakeholders in these contexts often have varying levels of awareness and expectations on firm CSR (Bhatia & Makkar, 2020).

Funds comprising the environmental, social, and governance (ESG) perspective into their strategies, experienced significant growth between 2020 and 2023 although the covid-19. During this period, the value of assets allocated to these funds increased by approximately 136%, rising from US$ 203 billion to US$ 480 billion, stimulated primarily by developed markets (Statista, 2024). In the global context, there is an estimated total investment of US$ 33.9 trillion in environmental, social, and governance strategies (Investment Managers, 2024). Reflecting this trend, in 2023, Brazil raised US$ 1.20 billion from the BRICS Bank to finance projects in sustainable infrastructure across both the public and private sectors and aimed at mitigating actions considered as able to induce climate change (Presidência da República, 2023). At least 57% of Latin American, a region comprising emerging economies, firms still do not follow global sustainability standards (RSM, 2024), reflecting the need to promote the commitment to CSR and sustainable investment in these markets.

2.2 Institutional Investors and Corporate Social Responsibility

Large firm blockholders tend to influence the shaping of firm policies to meet their own interests (Goergen & Renneboog, 2001). This will be also the case of institutional investors,

important players that have increased their presence in firm ownership all over (Buchanan et al., 2018; Johnson & Greening, 1999).

Institutional investors are indeed fiduciary institutions which manage substantial volumes of third-party capital and make strategic investments acting on behalf of the capital owners who expect adequate return for their investment. As such, institutional investors are institutions which have managers that look for the best return adjusted to risk to meet investors interests (Nofsinger et al., 2019). Institutional investors have gained increasing prominence in the global financial market in recent times all over the world (Dhingra & Yadav, 2024; OECD, 2020). Their growth has been observed, initially, in developed economies, and has also increased heavily in emerging markets although some peculiarities that may matter for investors, like the fragile regulatory systems, weak securities markets and political instability (Badhani et al., 2023; Cezarino et al., 2022).

Investors' decisions are driven by economic incentives. Regarding CSR investment, this is also an important driver that is balanced with social norms and firm ethical behavior as proposed under the Stakeholder theorical approach (Freeman et al., 2012). Professional investment managers of fiduciary institutions will have economic scrutiny as the basis for their investment decisions. Only one minority category of institutional investors, the so called Socially responsible mutual funds (SR funds), have put more emphasis on the social norms and firm ethical behavior by stablishing these issues as the core criteria for their investment decisions (Nofsinger et al., 2019). In fact, institutional investors as a whole seem to be overestimating corporate governance, more than social and environmental issues, given that they are targeting firms with a more qualified set of governance practices (Acar et al., 2021; Chung & Zhang, 2011; Motta & Uchida, 2018).

Specific country characteristics, i.e., the institutional environment, seem to matter for institutional investors' investment behavior (Acar et al., 2021). In developed economies, where financial markets tend to be more effective and legal rules more consolidated, institutional investors tend to align their objectives with the interests of different stakeholders, showing greater sensitivity to societal demands and broadening the focus on CSR perspectives (Acar et al., 2021). Conversely, in emerging markets, characterized by higher levels of country risk, social inequalities, weaker capital markets, and environmental challenges (Borges & Martelanc, 2019; Kohers et al., 2006), there seems to be a higher risk of corporate misconduct leading institutional investors to easily have economic issues as priority for their investment decisions which may also be focused in short-term returns (Cezarino et al., 2022). This scenario suggests that institutional investors as large firm blockholders, in emerging markets, tend to be oriented

towards financial returns in the short-run (Acar et al., 2021; Wei et al., 2024). This short-term financial orientation may leave CSR policy of firms with institutional investors as blockholders as secondary, given its uncertain real benefits in terms of financial return even in the long-run (Safiullah et al., 2022; Sun & Zhao, 2024). Under this reasoning, the following hypothesis is proposed:

Hypothesis 1: *Institutional investors have a negative influence on Brazilian firm engagement in Corporate Social Responsibility.*

This negative effect of institutional investors ownership is suggested to be observed for the three specific CSR axes: firm relation with external communities, firm relation with employees and firm relation with the natural environment. Emerging economies tend to have weaker rule of law concerning employee rights and on firm relation with distinct groups of stakeholders external to the firm (community). This scenario reduces pressure over firms for CSR actions towards employees and communities, and leaving institutional investors in these markets more comfortable to pursue financial returns in detriment of firm policies that may compromise these financial returns like the engagement in the implementation of practices and actions aimed at improving the work environment and supporting the local community (Suto & Takehara, 2018). The implementation of strategies aimed at the well-being of the community and employees in markets such as Brazil consumes funds, requires a shift in organizational culture, and has uncertain benefits (Belay et al., 2023; Muralidhar et al., 2024). This reasoning motivates the proposition of the following specific hypotheses:

Hypothesis 1a: *Institutional investors negatively influence Brazilian firm engagement in community-oriented practices.*

Hypothesis 1b: *Institutional investors negatively influence Brazilian firm engagement in employee-oriented practices.*

As previously mentioned, institutional investors in emerging markets tend to seek financial returns with a short-term investment horizon to avoid riskier investment in the long-run (Acar et al., 2021; Wei et al., 2024). Thus, these investors may not consider very relevant the uncertain positive long-term financial returns that may arise from firm concern with environmental issues to be relevant (Kordsachia et al., 2022) as well as stakeholder pressures for firm environmental concern (Wei et al., 2024). Following these arguments, it is suggested that institutional investors may be not favorable to firm commitment to environmental concerns in Brazil:

Hypothesis 1c: *Institutional investors negatively influence Brazilian firm engagement in environmental practices.*

3 Methodology

3.1 Sample

The sample consists of firms listed on the Brazilian stock exchange (*B3 S.A. - Brasil, Bolsa, Balcão*) which have their Corporate Social Responsibility (CSR) appraised by CSRHub. The sample is an unbalanced panel data set, comprising 796 firm-year observations over the period 2010-2022. Table 1 presents the sample distribution by industry.

Table 1 – Sample split by industry

Industry	Number of firms	%	Number of observations	%
Bank and financial services	10	13.16	104	13.07
Building	6	7.89	54	6.78
Chemicals and oil	7	9.21	71	8.92
Electrical	11	14.47	127	15.95
Food and drinks	6	7.89	61	7.66
Health	5	6.58	51	6.41
Mining, metals, and metal goods	2	2.63	26	3.27
Motor vehicles and parts, and other transport equipment	2	2.63	24	3.02
Paper and cellulose	3	3.95	38	4.77
Steel and metallurgy	4	5.27	50	6.28
Telecommunications, software and data	3	3.95	32	4.02
Trade	7	9.21	63	7.91
Miscellaneous manufacturing industries	2	2.63	17	2.14
Miscellaneous services	8	10.53	78	9.80
Total	**76**	**100.00**	**796**	**100.00**

3.2 Models and methods

To investigate the influence of institutional investors on CSR, models based on Equation (1) were estimated.

$$CSR_{i,t} = \beta_0 + \beta_1 INSTOWN_{i,t} + \beta_2 CG_{i,t} + \beta_3 REG\_SEC_{i,t} + \beta_4 ROA_{i,t} + \beta_5 GOPP_{i,t} + \beta_6 SIZE_{i,t} + \beta_{7:19} YEAR_t + \varepsilon_{i,t}$$

Equation (1)

Three different CSR dimensions (community, employees and environment) and distinct aspects of institutional ownership (INSTOWN) are taken into account in specific models that follow model of equation (1) (Section 3.3).

Problems of serial autocorrelation and heteroscedasticity in the residuals were detected in model estimates, using the Cumby-Huizinga and Breusch-Pagan tests, respectively. These issues can compromise estimates obtained through ordinary least squares (Wooldridge, 2002). Therefore, models were estimated using two-step system estimator (SE) with adjusted standard

errors for potential heteroskedasticity which uses the generalized method of moments (GMM) to deal with endogeneity problems and provides better estimators when the period of study is relatively short (Blundell & Bond, 1998). Additionally, for sensitivity analysis, models were also estimated using feasible generalized least squares (FGLS) for panel data, which corrects for problems related to heteroscedasticity and autocorrelation in the residuals (Wooldridge, 2002). Some variables were "winsorized" at the top and bottom 1% levels to remove potential issues associated with outliers.

3.3 Model Variables

Data on firms' Corporate Social Responsibility (CSR) were collected from the CSRHub database, a rating agency that provides consensus ratings on the environmental, social, and governance performance of 18,965 firms, based on the aggregation of over 967 sources of corporate sustainability data (CSRHub, 2024). The CSR metric calculated by CSRHub comprises four CSR dimensions: (i) community (which includes the subcategories "community development and philanthropy", "human rights and supply chain", and "products"), (ii) employees (which includes the subcategories "compensation and benefits", "diversity and labor rights", and "training, safety, and health"), (iii) environment (which includes the subcategories "energy and climate change", "environmental policy and reporting", and "resource management"), and (iv) governance (which includes the subcategories "board", "leadership ethics", and "transparency and reporting") (CSRHub, 2023). CSRHub assigns a score for each of these four dimensions. The overall CSR metric used in this research corresponds to the average of the dimensions: community, employees, and environment. The study takes into account the overall CSR metric and, separately, the individual dimensions of corporate social responsibility (CSR): community (CMTY), employees (EE), and environment (ENVIR). These four CSR variables (the overall CSR, community, employees and environment) were scaled from 0 to 1.

Firm shareholders classified as institutional investors comprise pension funds, investment funds, and insurance firms, following previous literature (Johnson & Greening, 1999; López-Iturriaga & Rodríguez-Sanz, 2012). Seven aspects for institutional ownership (INSTOWN) are taken into account in specific model estimates: (i) a dummy variable (D_MAIN_INSTINV) is set to 1 when the institutional investor is the main firm shareholder and to 0 otherwise; (ii) the proportion of voting shares held by the institutional investor as the main shareholder (OWNC_INSTINV_MAIN) (Chen et al., 2020; Li & Zhang, 2010; Pareek & Sahu, 2022); (iii) the presence of an institutional investor as the dominant shareholder

(D_MAIN_INSTINV_DOM); (iv) the proportion of voting shares held by the institutional investor as the dominant blockholder (OWNC_INSTINV_DOM); (v) the sum of the proportion of voting shares in hands of institutional shareholders that are among the five main firm shareholders (OWNC5_INSTINV); (vi) the average proportion of voting shares in hands of institutional shareholders that are among the five main firm shareholders (MEAN_OWNC5_INSTINV) (Lopez-de-Silanes et al., 2024); and (vii) the shareholding concentration of institutional investors obtained by the Herfindahl–Hirschman concentration index (HHI_INSTINV) (Lopez-de-Silanes et al., 2024). Information about firm shareholding control configuration (dominant, shared or dispersed) allows the identification of the institutional investor as the dominant shareholder. Such data is collected from the Reference Form (item 15.1/2), being available since 2010 when the Brazilian Securities and Exchange Commission (CVM) required firms to disclose the firm shareholding control configuration (dominant, shared or dispersed) among other data on ownership and corporate governance (CVM Instruction 480 on December 7, 2009) (Crisóstomo et al., 2020).

Besides institutional ownership, other possible firm attributes that may matter for CSR are present in the model: corporate governance, firm from a regulated sector, profitability, growth opportunities, and firm size. *Corporate governance* (CG) is viewed as an instrument capable of reducing agency conflicts and, more recently, is also considered a means for enhancing firms' commitment to socio-environmental practices (Elkington, 2006; Jain & Jamali, 2016). In line with this perspective, the study utilizes two dimensions of corporate governance present in the LSEG Data & Analytics database, formerly known as Refinitiv: Management and Shareholders. The Management dimension focuses on aspects related to the structure of boards of directors, executive boards, and committees, as well as compensation practices. By its turn, the Shareholders dimension addresses the characteristics of shareholder rights and defenses against takeovers (LSEG Business, 2022). The *Corporate governance* (CG) variable is calculated as the arithmetic mean of these two dimensions' scores. Firms that operate in *regulated sectors* (REG_SEC) tend to have greater oversight and monitoring of their activities, aimed at avoiding practices that could cause harm society and the environment (Forte et al., 2024). Therefore, the dummy variable (REG_SEC) is set to 1 for firms from regulated sectors and 0 otherwise. Firm *growth opportunities* (GOPP), proxied by Tobin's Q, measured as the ratio between the firm's market value and its book value (Narula et al., 2024). Firm *profitability* (ROA) was measured using the return on assets, calculated as the ratio of net income to total assets (Narula et al., 2024). F*irm size* (SIZE), suggested in the literature as a relevant factor for adherence to CSR practices—based on the suggestion that larger firms tend

to have more resources available for sustainable investments—was operationalized using the natural logarithm of total assets (Forte et al., 2024; Galbreath, 2018).

4 Analysis of results and discussion

Table 2 presents descriptive statistics of model variables. Corporate Social Responsibility (CSR) is calculated as the arithmetic mean of the scores across the three CSR dimensions: community (CMTY), employees (EE), and environment (ENVIR). The highest firm commitment observed to environmental issues (mean score 57.03%), in comparison to employee (56.56%) and community (54.90%) scores, may be due to internal and international pressure for firm environmental concerns. It is worth noting the higher CSR average score (56.17%) then the average in Latin American countries (41.46%) (Husted & Sousa-Filho, 2019) or in Southeast Asia (44.32%) (Truong, 2024). On the other hand, it is lower than the European average (59.55%) (Qureshi et al., 2020).

Table 2 - Descriptive statistics

Panel A

Variables	N	Mean	Median	Std. Dev.	CV	Minimum	Maximum
CSR	796	0.5617	0.5711	0.0726	0.1293	0.2600	0.8033
CMTY	796	0.5490	0.5533	0.0779	0.1419	0.2800	0.8200
EE	796	0.5656	0.5733	0.0903	0.1596	0.2200	0.8100
ENVIR	796	0.5703	0.5767	0.0857	0.1503	0.2500	0.8267
OWNC_INSTINV_MAIN	796	0.0510	0.0000	0.1534	3.0087	0.0000	0.7082
OWNC_INSTINV_DOM	796	0.0350	0.0000	0.1370	3.9290	0.0000	0.7082
OWNC5_INSTINV	796	0.0834	0.0000	0.1619	1.9400	0.0000	0.7391
MEAN_OWNC5_INSTINV	796	0.0709	0.0000	0.1488	2.1001	0.0000	0.7082
HHI_INSTINV	796	0.0302	0.0000	0.0936	3.0944	0.0000	0.5015
CG	796	0.5411	0.5546	0.2207	0.4079	0.0150	0.9760
ROA	796	0.0656	0.0593	0.1030	1.5710	-0.4068	0.4134
GOPP	796	1.4043	0.9800	1.2751	0.9080	0.0472	7.1958
SIZE	796	15.5200	15.1642	1.5396	0.0992	12.412	20.0745

Panel B

Institutional investor as the main shareholder (D_MAIN_INSTINV)	
Presence of an institutional investor as the main shareholder	No institutional investor as the main shareholder
112 (14.07%)	684 (85.93%)
Institutional investor as the Dominant shareholder (D_DOM_INSTINV)	
Presence of a dominant institutional investor as the main shareholder	No institutional investor as the dominant shareholder
54 (6.78%)	742 (93.22%)
Regulated sectors (REG_SEC)	
Firms operating in regulated sectors	Firms not operating in regulated sectors
519 (65.20%)	277 (34.80%)

The main firm shareholder is an institutional investor (D_MAIN_INSTINV) in 14.07% of the Brazilian firms, holding an average 5.10% of voting shares (OWNC_INSTINV_MAIN). When considering the proportion of voting shares held by the five main institutional shareholders (OWNC5_INSTINV), this average increases to 8.34%. Average ownership concentration held by the five main shareholders (MEAN_OWNC5_INSTINV) is 7.09%. The

analysis of the dominant blockholder shows that institutional investors occupy this position (D_DOM_INSTINV) in 6.78% of firms (Table 2, Panel B), with an average 3.50% of voting shares (OWNC_INSTINV_DOM) (Table 2, Panel A). It is noticeable the high variability of voting ownership concentration among institutional investors (high coefficient of variation) in Brazilian firms as previously observed (Kirch et al., 2012; Scaramussa & Bortolon, 2024).

The corporate governance of Brazilian firms (CG) exhibits an average performance (54.11%) with fair variability (coefficient of variation = 0.4079). This result is near to the global average of 54.29% (Makpotche et al., 2024). There is fairly high proportion (65.20%) of firms operating in regulated sectors (REG_SEC). This high proportion reflects Brazil's regulatory structure, which currently comprises 11 regulatory agencies that aim to enhance the monitoring and supervision of various sectors of the economy.

Models based on Equation (1) were estimated using two step system generalized method of moments (GMM) (Tables 4 to 7) and Feasible Generalized Least Squares (FGLS) (not reported in virtue of space priority). Models with CSR as a whole as the dependent variable indicate that, in fact, institutional investors have a negative impact on firms' engagement in CSR, as outlined in Hypothesis 1 under the argument that these investors do not appreciate investment with uncertain returns in CSR (Table 4). The result is robust to seven different proxies that take into account institutional investors among the five main firm voting shareholders. In fact, institutional investors in Brazil seem to be primarily focused on short-term financial returns, in detriment of uncertain long-term value creation provided by CSR (Jiang & Anandarajan, 2009).

The results show a positive influence of corporate governance (CG) on Brazilian firm CSR (Tables 4, 5, 6 and 7) in all models. The same positive effect is observed from the fact that the firm operates in a regulated sector (REG_SEC). As expected, a more efficient corporate governance system can mitigate agency conflicts, aligning the interests of managers and diverse stakeholders (Rodriguez-Fernandez, 2016). This alignment can help CSR strategies gain prominence in the decision-making process of managers. Regarding firm operation in a regulated sector, it seems that a firms from regulated sector are indeed more prone to be more committed to CSR issues in accordance with previous result in Brazil (Forte et al., 2025).

Table 4 – Determinants of firm CSR

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
D_MAIN_INSTINV	-0.036**						
	(0.016)						
OWNC_INSTINV_MAIN		-0.113**					
		(0.046)					
D_DOM_INSTINV			-0.064**				
			(0.025)				
OWNC_INSTINV_DOM				-0.127**			
				(0.051)			
OWNC5_INSTINV					-0.145***		
					(0.038)		
MEAN_OWNC5_INSTINV						-0.132**	
						(0.055)	
HHI_INSTINV							-0.197**
							(0.082)
CG	0.124***	0.113**	0.117**	0.108**	0.095*	0.096*	0.097*
	(0.046)	(0.052)	(0.056)	(0.047)	(0.053)	(0.054)	(0.052)
REG_SEC	0.104***	0.110***	0.101**	0.103***	0.106***	0.111***	0.112***
	(0.035)	(0.039)	(0.040)	(0.039)	(0.036)	(0.035)	(0.036)
GOPP	0.006	0.006	0.006	0.006	0.006	0.006	0.006
	(0.007)	(0.007)	(0.007)	(0.006)	(0.008)	(0.007)	(0.007)
ROA	0.023	0.036	0.037	0.041	0.024	0.029	0.035
	(0.034)	(0.033)	(0.034)	(0.037)	(0.035)	(0.033)	(0.034)
SIZE	0.014**	0.012	0.015*	0.014*	0.013*	0.013*	0.012
	(0.006)	(0.008)	(0.008)	(0.007)	(0.008)	(0.007)	(0.008)
INTERCEPT	-0.723**	-0.676**	-0.698**	-0.660**	-0.674**	-0.651**	-0.639*
	(0.276)	(0.306)	(0.310)	(0.286)	(0.337)	(0.316)	(0.333)
YEAR	YES	YES	YES	YES	YES	YES	YES
INTERCEPT	-0.723**	-0.676**	-0.698**	-0.660**	-0.674**	-0.651**	-0.639*
	(0.276)	(0.306)	(0.310)	(0.286)	(0.337)	(0.316)	(0.333)
No of Observations	796	796	796	796	796	796	796
No of Firms	76	76	76	76	76	76	76
AR(2)	-1.414	-1.434	-1.209	-1.315	-1.387	-1.464	-1.363
p-value	0.157	0.152	0.226	0.188	0.165	0.143	0.173
Hansen	61.75	61.12	58.12	58.41	61.71	60.43	60.35
p-value	0.591	0.614	0.715	0.705	0.593	0.637	0.640

Standard errors in parentheses.
Note: Models estimated by GMM-sys. *** p<0.01, ** p<0.05, * p<0.1.

Models appraising the effect institutional investors ownership on firm commitment to "community" issues are presented in Table 5. The results show that indeed institutional investors ownership negatively affect the firm social policy towards "community" (Table 5; Models 1 to 7). This result is also robust for all different proxies for institutional investors ownership. Although the relevance of firm commitment to social issues, in Brazil, an important emerging market, perhaps, the absence of stronger regulations protecting social demands, may ease institutional investors to place firm commitment to social issues on the back burner, leading to the suggested negative impact, as discussed in Hypothesis 1a.

Table 5 - Determinants of firm 'Community concerns'

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
D_MAIN_INSTINV	-0.035**						
	(0.014)						
OWNC_INSTINV_MAIN		-0.090**					
		(0.040)					
D_DOM_INSTINV			-0.056**				
			(0.023)				
OWNC_INSTINV_DOM				-0.118***			
				(0.044)			
OWNC5_INSTINV					-0.122**		
					(0.046)		
MEAN_OWNC5_INSTINV						-0.117**	
						(0.048)	
HHI_INSTINV							-0.187*
							(0.105)
CG	0.136***	0.131***	0.135***	0.140***	0.116**	0.132***	0.133***
	(0.049)	(0.047)	(0.045)	(0.040)	(0.048)	(0.041)	(0.041)
REG_SEC	0.093**	0.082**	0.085*	0.092**	0.090**	0.089**	0.077**
	(0.036)	(0.040)	(0.047)	(0.043)	(0.040)	(0.039)	(0.038)
GOPP	0.010	0.009	0.011	0.010	0.010	0.010	0.023**
	(0.007)	(0.007)	(0.007)	(0.006)	(0.007)	(0.007)	(0.011)
ROA	0.056	0.070**	0.061*	0.062*	0.064*	0.048	0.041
	(0.034)	(0.034)	(0.031)	(0.032)	(0.036)	(0.049)	(0.054)
SIZE	0.015	0.015	0.015	0.014	0.014	0.013	0.020**
	(0.009)	(0.009)	(0.011)	(0.009)	(0.009)	(0.009)	(0.010)
INTERCEPT	-0.769**	-0.762**	-0.788**	-0.735**	-0.770**	-0.728**	-0.923**
	(0.319)	(0.338)	(0.387)	(0.293)	(0.320)	(0.348)	(0.351)
YEAR	YES	YES	YES	YES	YES	YES	YES
No of Observations	796	796	796	796	796	796	796
No of Firms	76	76	76	76	76	76	76
AR(2)	-1.443	-1.555	-1.429	-1.568	-1.497	-1.612	-1.356
p-value	0.149	0.120	0.153	0.117	0.134	0.107	0.175
Hansen	65.01	63.86	64.00	63.92	65.58	64.45	66.23
p-value	0.476	0.517	0.512	0.515	0.457	0.461	0.366

Standard errors in parentheses.
Note: Models estimated by GMM-sys. *** p<0.01, ** p<0.05, * p<0.1.

Models assessing the effect institutional investors ownership on firm commitment to "employees" are shown in Table 6. As proposed (Hypothesis 1b), institutional ownership appears as detrimental to firm engagement in actions favoring employees. It is worth mentioning that recently, in Brazil, after the 2016 coup d'etat, labor rights have been weakened with regulatory changes, allowing firms to be less committed to workers' demands (CLACSO, 2017; Krein, 2018). This scenario favors the trend of institutional investors seeking for financial returns in the short-run avoiding the use of cash flow in uncertain firm social actions as is the case of favoring labor force issues.

Table 6 - Determinants of firm 'Employee concerns'

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
D_MAIN_INSTINV	-0.035*						
	(0.019)						
OWNC_INSTINV_MAIN		-0.114**					
		(0.054)					
D_DOM_INSTINV			-0.072**				
			(0.035)				
OWNC_INSTINV_DOM				-0.141**			
				(0.067)			
OWNC5_INSTINV					-0.143***		
					(0.045)		
MEAN_OWNC5_INSTINV						-0.144**	
						(0.065)	
HHI_INSTINV							-0.221**
							(0.102)
CG	0.134**	0.131**	0.136**	0.131**	0.124**	0.129**	0.126**
	(0.054)	(0.052)	(0.057)	(0.058)	(0.054)	(0.057)	(0.054)
REG_SEC	0.088**	0.097*	0.094*	0.098**	0.099**	0.099**	0.102**
	(0.043)	(0.052)	(0.054)	(0.048)	(0.048)	(0.041)	(0.046)
GOPP	0.004	0.006	0.007	0.007	0.003	0.005	0.005
	(0.009)	(0.009)	(0.007)	(0.008)	(0.008)	(0.008)	(0.008)
ROA	0.049	0.058	0.059	0.063	0.052	0.053	0.061
	(0.053)	(0.052)	(0.052)	(0.051)	(0.047)	(0.050)	(0.053)
SIZE	0.018**	0.017*	0.018*	0.018*	0.016*	0.016*	0.016*
	(0.009)	(0.010)	(0.009)	(0.009)	(0.009)	(0.010)	(0.010)
INTERCEPT	-0.869***	-0.934***	-0.907**	-0.895**	-0.850**	-0.858**	-0.908***
	(0.325)	(0.342)	(0.347)	(0.346)	(0.332)	(0.365)	(0.327)
YEAR	YES	YES	YES	YES	YES	YES	YES
No of Observations	796	796	796	796	796	796	796
No of Firms	76	76	76	76	76	76	76
AR(2)	-1.494	-1.276	-1.456	-1.432	-1.489	-1.303	-1.355
p-value	0.135	0.202	0.145	0.152	0.136	0.193	0.175
Hansen	61.58	63.95	63.02	62.57	60.75	63.85	63.11
p-value	0.597	0.514	0.546	0.562	0.627	0.517	0.543

Standard errors in parentheses.
Note: Models estimated by GMM-sys. *** p<0.01, ** p<0.05, * p<0.1.

Table 7 presents model estimates having firm environmental concerns as the dependent variable. The results show the negative impact of institutional investors on firm engagement in environmental issues, as proposed in Hypothesis 1c. Despite the constant pressures exerted by various stakeholders for greater firm commitment to environmental actions (Chan et al., 2014), institutional investors as large shareholders in Brazil seem to be not sensitive to such pressures.

Table 7 - Determinants of firm 'Environmental concerns'

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
D_MAIN_INSTINV	-0.050**						
	(0.019)						
OWNC_INSTINV_MAIN		-0.169***					
		(0.054)					
D_DOM_INSTINV			-0.097***				
			(0.025)				
OWNC_INSTINV_DOM				-0.208***			
				(0.050)			
OWNC5_INSTINV					-0.216***		
					(0.053)		
MEAN_OWNC5_INSTINV						-0.219***	
						(0.055)	
HHI_INSTINV							-0.333***
							(0.099)
CG	0.112*	0.097*	0.119*	0.114*	0.110*	0.112*	0.118*
	(0.062)	(0.056)	(0.062)	(0.063)	(0.063)	(0.067)	(0.067)
REG_SEC	0.132***	0.143***	0.117***	0.150***	0.236***	0.236***	0.239***
	(0.032)	(0.038)	(0.043)	(0.039)	(0.058)	(0.063)	(0.062)
GOPP	0.010	0.010	0.011	0.008	-0.016	-0.014	-0.013
	(0.008)	(0.008)	(0.007)	(0.008)	(0.019)	(0.020)	(0.023)
ROA	-0.023	0.000	0.005	0.013	0.031	0.032	0.048
	(0.054)	(0.048)	(0.053)	(0.051)	(0.063)	(0.149)	(0.080)
SIZE	0.011	0.011	0.014*	0.010	-0.004	-0.004	-0.005
	(0.008)	(0.007)	(0.007)	(0.007)	(0.009)	(0.009)	(0.012)
INTERCEPT	-0.702**	-0.684**	-0.716**	-0.657**	-0.337	-0.373	-0.397
	(0.284)	(0.318)	(0.290)	(0.309)	(0.271)	(0.283)	(0.394)
YEAR	YES	YES	YES	YES	YES	YES	YES
No of Observations	796	796	796	796	796	796	796
No of Firms	76	76	76	76	76	76	76
AR(2)	-0.677	-0.690	-0.584	-0.709	-1.024	-0.951	-1.026
p-value	0.499	0.490	0.559	0.478	0.306	0.341	0.305
Hansen	65.81	64.40	66.74	65.78	59.30	60.44	56.94
p-value	0.929	0.967	0.904	0.940	0.501	0.424	0.233

Standard errors in parentheses.
Note: Models estimated by GMM-sys. *** p<0.01, ** p<0.05, * p<0.1.

Institutional investors may perceive investing in environmental practices as potentially detrimental to financial returns, given that such sustainable initiatives often involve high costs and high risks (Zhang & Fu, 2023). Thus, in institutional environments considered riskier, institutional investors avoid investment in environmental concerns which offer uncertain long-term returns (Seckin-Halac et al., 2021). Additionally, it is important to highlight that emerging economies often lack effective environmental policy formulation and government oversight of practices that may negatively impact biodiversity and the environment. It is worth noting that environmental protection in Brazil has also been weakened after the 2016 coup d'etat (Schlindwein, 2022). In this context, it is easier for institutional investors to restrict firm commitment to environmental issues.

5 Conclusion

The work investigates the influence of institutional investors on the Corporate Social Responsibility of the Brazilian firm under the agency and stakeholder theoretical approaches. The results indicate that in Brazil, an important emerging market, relevant firm voting ownership held by institutional investors tend to lessen firm CSR. The interests of institutional investors in Brazil seem to conflict with CSR issues and, ultimately with the interests of many other stakeholders who benefit from firm CSR.

Brazil, as most emerging markets, present distinct characteristics when compared to developed economies, such as weak regulatory structures, greater vulnerability to crises and higher institutional risks. This situation makes investors more averse to uncertain investments like CSR. In such environments institutional investors tend to increase their focus on short-term financial returns and less risky investment projects. In such environments, institutional investors as fiduciary institutions will have capital owners' interests on financial return as mandatory at the expanse of uncertain return on CSR. The results are sound, show an adverse effect of institutional ownership on CSR as whole and on its specific dimensions (community, employee and environmental issues). Additionally, it was shown that a well-structured corporate governance system is capable of strengthening the firm engagement in CSR practices. The same is observed for the fact that the firm operates in a regulated sector of the economy, signaling that government action to monitor firm behavior and protect firm customers indirectly favors firm CSR.

The research contributes to the literature by providing additional evidence on the dynamics of the relationship between firm shareholder identity and firm commitment to CSR practices. In addition, the work advances by presenting additional evidence to the agency theoretical perspective by showing that agency conflicts can affect the establishment of CSR strategies, given that institutional investors ownership in Brazil can affect firm CSR issues.

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