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Do the individual investors care about corporate social responsibility?

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ABSTRACT- Nowadays there is an urge that a company activities and responsibilities having an impact on the environment, termed as corporate social responsibility activities must be disclosed to its stakeholders. This study investigates how investment decisions of an investor are affected by the notion of Corporate Social Responsibility (CSR). Data was collected through a questionnaire, circulated to a representative sample (n=475) of Pakistani stock exchange investors. In this study descriptive stat, correlation and regression are used for analysis. Our results show that behavioral biases significantly affect the investment decisions of an individual investor. Findings show that high CSR involvement firms tend to over-invest. We demonstrate that both Defend and Prospect strategies can mitigate over-investment by interacting with high CSR firms. The results show that firms CSR strategy plays an important role in shaping investment behavior of the investors. Further analysis can use psychological bias and other accounting data metrics such as Earning per Share (EPS) to assess other behavior in investment decision-making.

Keywords: Behavioral finance, corporate social responsibility, investment decision

I. INTRODUCTION

CSR activities are a company effort to gain, maintain or regain legitimacy from the community. The legitimacy of the community, as stakeholders, is as important as other resources for the sustainability of the company Fernando & Lawrence (2014). Harmonization of the various stakeholders' interests is needed to create value for the company and the community. The company activities and responsibilities that have an impact on the environment must be disclosed to its stakeholders. Additional information, in the form of its CSR activities that are not listed in the financial reports, will be able to increase the investment efficiency (Naqvi et al., 2021). Investors other than the personal information have the public information used by others which are termed as "information cascades". In financial markets, a cascade of information begins when investors ignore their private data and copy others. In developed countries, comprehensive research has been performed to explain the effect of CSR activity on the stock market (Sharma & Kumar, 2019). There is plenty of research available on analyzing investors' investment decision behavior. Studies indicate that the curiosity of researchers that how investors make investment decisions; however, much of the researches has been focusing on investigating only the effect of psychological factors on investment decision of investors (Xu & Wan, 2015). When we talk about human beings, they act irrationally for their decisions about investing. In order to become effective investors in the stock market, right, natural and logical patterns of conduct are absolutely necessary. But it is very rare or close to non-existent that investors follow a typical pattern of decision-making and reasonable action with a decision always in their favor, with gains and profits only(Zahera & Bansal, 2018). According to Nalurita (2020) though there is scarce evidence from developing nations. Most of the current studies in Pakistan are survey-based and mainly recognize behavioral biases that influence investors at the time of decision-making. However, they are either ineffective or inconclusive to

clarify the effect on the stock market of any particular behavioral bias. Using this knowledge induces a psychological propensity to blindly follow others while investing. There are many explanations why, without knowing whether it is reasonable or irrational, people go for behavioral biases. The conduct of following others appears to be independent of the personal decision-making process but essential to the atmosphere and business environment (Lin 2011).

There are ample of discussions and studies on the CSR and investment decisions relations in the literature. We discuss the two relations separately in the two literature review subsections below. CSR performance may play a fundamental role in corporate investment decisions by influencing the firm's financial constraints. Theory suggests that firms with superior CSR performance help facilitate their access to external finance, which allows them to undertake all desired investments (Kudłak et al., 2018). Masud et al., (2019) show that firms with better CSR scores exhibit cheaper equity financing. This is especially true for firms with improved responsible employee relations, environmental policies, and product strategies. Previous studies on the relation between CSR activities' earnings and voluntary disclosure also find similar results. They find that firms with outstanding CSR performance are able to reduce their cost of capital by attracting investments from specialized institutional investors and analysts.

Investment decisions are perceived to be critical activities in our everyday lives as a result of the global financial crisis (2007-2008). Various factors that assist individual investors to make investment decisions need to be understood. Researchers have focused in different ways on the actions of investors and the agents who are actually supervising investments. Nevertheless, the existence of psychological factors and the actions of individuals is under debate at the time of investment decision-making. Yan et al., (2020) reported some limitations and he suggested that the role of psychological factors along with demographic factors need to be tested to assess their impact on investor behavior, such as decision-making, in future research. On the topic such as psychology and investment decision studies have been conducted with mixed findings in the established literature. On the other hand, there has been very little work on corporate social responsibility and its impact on the investor's investment decision-making. The present research is focused on the social psychology of investors as well as the personal values of the investors which alter their neutral view of investing. This study can have critical importance in the field of finance investigating the relationship between different factors that can influence the general investment decision of the investors.

Previous studies show that CSR and business strategy affect investment efficiency. For examples, studies show that CSR has significant impacts on investment efficiency with high (low) CSR firms tend to over-invest (under-invest) (Yuan, 2020). On the other hand, other studies show that firms' business strategies affect the investment efficiency of firms by influencing their financial performance, corporate decisions, long-term planning and vision (Nardi et al., 2020). If high (low) CSR firms over-invest (under-invest) causing decline in investment efficiency, this in turn will exert negative impact on firms' financial performance and corporate decisions. Since business strategy also exerts significant impact on firms' financial performance and corporate decisions, we conjecture that CSR and business strategies are also related. Hence, we expect that the three factors should be mutually connected. To our best knowledge, our study is the first in the CSR literature to investigate and document this interrelationship in Pakistan.

Research on management discipline emphasizes the importance of business strategy, which determines the firm's long-term planning and vision. Recent studies examine the impact of business strategy firms' financial performance and decision making (Hasan et al., 2018) show that different type of strategies, such as Prospector, Defender and Analyzer, influence corporate decisions. Chen et al., (2020) show that the mismatch between business strategy and long-term incentive plan has a negative impact on firm performance. Hanlon (2008) argue that business strategy is associated with 10-K readability. They find that environmental uncertainty and managerial opportunism frame the level, wording, complexity of disclosures and eventually 10-K readability, which in turn affects business strategy of firms.

The study carried out by Abd Rahman et al., (2011) observed different parameters of CSR and their effects on investment behavior. Their work made known visibly that investors with more knowledge and experience relied on the information they possess more than the other's behavior and gave due consideration to their particular situation. On the other hand, the less experienced and with the low level of knowledge investors followed their intuition because they couldn't take any chance of errors. So, the study proposes that:
H_1: Corporate Social Responsibility has a significant impact on the investment decision

There is scarce literature that discusses the relationship of CSR with investment decision-making. The current literature discusses the relationship between the above-mentioned investment decision-making variable. This study is unique in the sense that it extends the search for an investment decision-making model

in the context of herding. In the Pakistan situation, although studies have been performed, there is still a collective inclusion of many variables. Adding all these variables together in this study would help much benefit investors may get when making their financial choices from each of these independent variables.

II. METHODS

Research Design

For the purpose of quantitative data, the authors adapted a survey questionnaire comprised of demographic characteristics of respondents such as; gender, age, investment experience, education, and income. The demographic variables have a significant influence on investment behavior and behavioral errors (Kumar & Goyal, 2015). The second section asks about the main variables of the research. Likert scale questionnaire was used for data collection. In the questionnaire other than the effects of variables on each other based on individual investors the demographic details were also mentioned like gender, age, experience, and education to know the results in substantiation of these demographics. The feedback from the respondents through this questionnaire was analyzed and results were obtained by processing the data through different techniques and methods.

Participants

The sample of the present study was taken from the investors of the Pakistan Stock Exchange who came across the biases concerned in this research while taking their investment decisions. The sample of the study was 475 investors of the Pakistan Stock Exchange. A purposive sampling technique was used in order to have a sample. Individual investors having traded in the PSX were the target population of the study. The PSX comprises the brokerage houses so the purposive sampling technique used was appropriate for sample selection. Hence it was used for data collection.

Data Collection Tool

The questionnaire items measuring the investment decision are obtained from Pasewark & Riley (2010). There are five items used in it regarding decision making. On the other hand, the questionnaire considering the effect of CSR on individual investor behavior is taken from (Williams, 2007) which comprises four items related to CSR in the stock market. The measurement instrument's reliability (internal consistency) is tested through Cronbach's Alpha. The internal consistency is also tested through composite reliability. Convergent validity is applied in this study on the latent variables to extract the average variance. Discriminant validity is also processed in order to check the difference between the latent variables. The descriptive analysis allowed us to know the health of the collected data. For the analysis, structural equation modeling (SEM) methodology is used to reach conclusions about the study hypothesis.

III. RESULTS

First of all, the internal consistency (reliability) of the theoretical model is calculated. Two criteria were used to ensure the internal consistency of each latent variable i.e. Cronbach's alpha and composite reliability. Cronbach's alpha is the first criterion to find out the internal consistency. Cronbach's alpha provides an estimation of reliability by using the correlation between variables with the assumption that equal reliability exists among all variables. Results showed that Cronbach's alpha of all latent variables ranged between 0.574-0.911. This showed that all latent variable has high internal consistency as Cronbach's alpha is higher than 0.50 as recommended by (Fornell & Larcker, 1981).

Composite reliability is the second criterion for finding the internal consistency of all latent variables. The outer loading is used by composite reliability (CR) to check the internal consistency of all variables. In CR, the accuracy of the constructs is stated, while AVE calculates the amount of variance assigned to the construct compared to the amount due to measurement error. For each construct, composite reliability is measured and then compared with the cut-off value of 0.6 (Bagozzi & Yi, 1988). Results showed that the composite reliability of latent variable has high internal consistency as composite reliability is higher than 0.70 as recommended by (Arnold & Reynolds, 2003).

To test the correlation between all observed variables of the same variable, convergent validity can be used. For finding convergent validity of latent variables, average variance extracted (AVE) is used. Results showed that the convergent validity of all latent variables ranged between 0.511-0.849. Convergent validity was analyzed in terms of AVE, using a cutoff point of .50 (Pirson & Malhotra, 2011). This showed that all

latent variables have high convergent validity as AVE is higher than 0.50 thresholds. Results of convergent validity of each latent variable are presented in Table 1.

Discriminant validity finds out the difference among all latent variables. Discriminant validity was evaluated by comparing the values of the AVE with the square of the correlation between the factors. According to Fornell & Larcker (1981), an AVE that is higher than the coefficient of the correlation between factors provides evidence of discriminant validity.

Table 1. Results of Cronbach's Alpha, Composite Reliability and Convergent Validity

Construct	Cronbach's Alpha	Construct Reliability	Convergent Validity
CSR	0.867	0.904	0.653
Investment Decisions	0.574	0.776	0.542

The results showed that the average extracted variance of the square root is greater than the correlations between latent variables. Results have been listed in the table 2.

Table 2. Discriminant Validity (Fornell-Larcker Criterion)

Construct	CSR	Inv_Dec
CSR	0.808	
Investment Decision	-0.442	0.736

*The highlighted diagonal values shows the square root of AVE

Descriptive Statistics

Corporate Social Responsibility

The Table below depicts 475 responses of the respondents for the current study variable that is Personal Value (Corporate Social Responsibility). There are different reactions of investors that come out from this when they are opting to personal value. For the first item of the variable CSR 49 respondents strongly disagrees, 172 disagree, 145 respondents agree, 77 were strongly agreed, whereas 32 are neutral on this. For the second item of CSR 9 out of 475 respondents strongly disagree, 65 disagree, 215 agree, 77 strongly agree and 109 are neutral. The third item for CSR got 475 responses out of which 18 of the respondents strongly disagree, 95 disagree, 203 agree, 108 strongly agree, and 51 are neutral. The fourth item for CSR got 22 responses to strongly disagree responses out of 475, 156 disagree, 171 agree, 83 strongly agree and only 43 are neutral on this. The above table also shows the mean values of all the four items of anger variable representing the positive or negative responses of the respondents. The mean values against five items of anger are 3.06, 3.60, 3.61 and 3.29 respectively. All the mean values for CSR are positively indicating positive responses from the investors.

Table 3. Descriptive Statistics and Frequency Distribution with respect to CSR

Items	Item-wise Frequency and Descriptive Statistics (N=475)						
	SD	D	N	A	SA	Mean	Std. Dev.
PVCSR_1	49	172	32	145	77	3.06	1.315
PVCSR_1	9	65	109	215	77	3.60	.976
PVCSR_1	18	95	51	203	108	3.61	1.150
PVCSR_1	22	156	43	171	83	3.29	1.222

Note: SD is strongly disagree, D is disagree, N is neutral, A is agree and SA is strongly agree

Investment Decision

Table 4 below depicts 475 responses of the respondents for five items of the current study variable that is Investment Decision. There are different reactions of investors that come out from this when they are taking Investment Decisions. For the first item of the variable Investment Decision 55 respondents strongly disagree, 155 disagree, 133 respondents agree, 46 were strongly agreed, whereas 86 are neutral on this. For the second item of Investment Decision 71 out of 475 respondents strongly disagree, 96 disagree, 206 agree, 58 strongly agree and 44 are neutral. The third item for Investment Decision got 475 responses out of which 72 of the respondents strongly disagree, 104 disagree, 171 agree, 54 strongly agree, and 74 are neutral. The fourth item for Investment Decision got 48 responses to strongly disagree responses out of 475, 81 disagree, 150 agree, 67 strongly agree and only 129 are neutral on this. For the fifth item of Investment Decision out of

a total of 475 responses 43 strongly disagree, 76 disagree, 176 agree, 54 strongly agree and 126 were neutral. The above table also shows the mean values of all the five items of the Investment Decision variable representing the positive or negative responses of the respondents. The mean values against five items of Investment Decision are 2.92, 3.18, 3.07, 3.23, and 3.26 respectively. All the mean values for Investment Decisions are positively indicating positive responses from the investors.

Table 4. Descriptive Statistics and Frequency Distribution with respect to Investment Decision

Items	Item-wise Frequency and Descriptive Statistics (N=475)						
	SD	D	N	A	SA	Mean	Std. Dev.
Investment Decision1	55	155	86	133	46	2.92	1.205
Investment Decision2	71	96	44	206	58	3.18	1.302
Investment Decision3	72	104	74	171	54	3.07	1.280
Investment Decision4	48	81	129	150	67	3.23	1.186
Investment Decision5	43	76	126	176	54	3.26	1.133

Note: SD is strongly disagree, D is disagree, N is neutral, A is agree and SA is strongly agree.

Correlation Analysis

Table 5 below indicates the correlation matrix. As it can be seen from the correlation matrix, CSR carries a moderate association with investment decision.

Table 5. Correlation Analysis

Variable	PVCSR	Investment Decision
PVCSR	1	
Investment Decision	.395**	1

The Corporate Social Responsibility is the exogenous and latent variable of this research which is denoted as "PVCSR". According to Sherif (1966) CSR measured the behavior of individuals or institutions that contributes to the society and affects the decisions. The CSR is measured through 4 items. The CSR was analyzed through these four items. CSR comprised on the mean score of four items and denoted as PVCSR.

In this study, the endogenous variable (dependent variable) was Investment Decision. Investment Decision is the dependent variable of this research which is denoted as "INV_DEC". Investment Decision according to (Avram et al., 2009) measured the decision or an expense made now to make gains in the future. The Investment Decision was measured through five items Outer loading of two items were lower than 0.5 that's why omitted. So, Investment Decision was analyzed through three items. Investment decision was analyzed through these three items. Investment Decision comprised on the mean score of three items and denoted as "INV_DEC".

Path Coefficient of Structural Model

Following are the research hypotheses that were tested through the structural model.

H_1: CSR have a significant impact on the Investment Decision.

In the hypothesis, it was hypothesized that CSR is significantly related with the investment decision. The P-Value is 0.002**;** since the P Value is less than $p < 0.05$ according to criterion the hypothesis is accepted. Results showed that $\beta = -0.157$, which displayed that CSR has a significant impact on investment decision.

Table 6: Testing of Structural Model

Structural Path	Estimate	T Score	P
Personal Values -> Investment Decisions	-0.157**	2.871	0.002

Note: ** Represents significant at 1percent,
whereas * represents significant at 5percent

IV. DISCUSSION AND CONCLUSIONS

The findings of the authors show that there is a significant impact of corporate social responsibility on the individual investors investment decisions in the Pakistan stock market over a decade experiencing various market cycles, mainly due to the dominance of institutional investors and, secondly, due to the low

market participation of individual investors. The study accepted the hypothesis that corporate social responsibility does effects the investment decision. Thus it can be concluded in Pakistani society context, the CSR positively relates to the investment decision. People in Pakistan, while deciding about an investment scenario, do consider their personal values and try to value firms CSR activities. This phenomenon refers to personal valuing behavior. Based on the previous studies this study is conducted concerning Pakistani context by considering the investors of Pakistan Stock Exchange. It is seen that investors here are also influenced by these biases with prominent difference of gender and experience. There are some factors which affect males more than females like anger, fear, herding and stress. On the other hand some factors affect females more than males like mood and social interaction.

In particular, this research shows that CSR leads to outcomes such as increased customer loyalty, willingness to pay premium prices, and lower reputational risks in times of crisis. Each of these marketing outcomes in turn has the potential to support increased profitability. The model of the current study specifies that CSR induces investor's investment decision. The other effects are same as being positive or negative in alliance with the previous research model and findings. In the current study, it is proposed that proper attention should be paid to the consequences of the prejudices that investors typically become victims of without being aware of. These prejudices have some significant consequences that can lead to serious investment breakdowns. While other personal and psychological biases have both positive and negative effects, the negative aspects can be more cautiously viewed so that the potential outcomes can be more secure.

An investor's success is highly dependent on the ability to learn and adjusts through viable investment strategies to dynamic market conditions. To promote the achievements of better investment results, stock exchanges periodically conduct educational program to enhance the financial literacy and awareness of investors regarding the firm's corporate socially responsibility activities. The results indicate that this learning program should be tailored to motivate them to learn by drawing on their own experiences. Consequently, they would be able to learn quickly from their previous trading experiences, which decreased the sensitivity when trading stocks to behavioral biases.

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