



Socially responsible investment returns and news: Evidence from Asia

Meng-Feng Yen¹ | Yung-Ming Shiu²  | Chi-Feng Wang³

¹ Department of Accounting and Institute of Banking and Finance, National Cheng Kung University 1, Tainan, Taiwan

² Department of Risk Management and Insurance, Risk and Insurance Research Center, College of Commerce National Chengchi University, Taipei, Taiwan

³ Department of International Business, National Kaohsiung University of Science and Technology, Kaohsiung, Taiwan

Correspondence

Yung-Ming Shiu Department of Risk Management and Insurance, Risk and Insurance Research Center, College of Commerce National Chengchi University, Taipei, Taiwan.

Email: yungming@nccu.edu.tw

Abstract

We set out in this study to examine (a) whether “socially responsible investment” (SRI) portfolios can outperform less-SRI portfolios in the emerging Asian stock markets and (b) whether investors within these emerging markets achieve awareness of SRI through publicly available news. On the basis of 2009–2013 data, we find that SRI portfolios tend to perform better in Japan. However, firms in the emerging Asian markets do not earn rewards for superior corporate social responsibility (CSR) practices. We also find that investors in the emerging Asian markets are indeed aware of SRI through public CSR news releases; in particular, investors in these markets reward high environmental-, social-, and governance-rated firms for their good CSR practices advertised through such news releases, relative to those with no news releases.

KEYWORDS

corporate social responsibility, individual investors, news advertisement effect, socially responsible investment

1 | INTRODUCTION

As a direct consequence of the alarming number of corporate scandals that emerged in the early part of this century, investors are increasingly demonstrating strong ethical concerns in the formation of their investment portfolios.¹ Socially responsible investment (SRI) has become very well developed in western countries over recent decades. As compared with western countries, SRI has exhibited a very sluggish start in the Asian markets, with the lack of any credible “environmental, social, and governance” (ESG) information probably being a key limitation to sustainable investment in Asia.

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¹These ethical concerns can be categorized under the “economic,” “environmental,” “social,” and “corporate governance” domains of “corporate social responsibility” (CSR). According to Carroll (1991), “four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic,” whereas the European Commission (2010) defined CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” There exist many definitions of CSR, which sometimes may cause confusion. Dahlsrud (2008) argued that the confusion was not about how CSR is defined, but how CSR is socially constructed in a specific context.

According to the typical understanding of SRI, it is regarded as non-profit-driven investment with the consequence of lower returns from a portfolio that includes stocks with higher corporate social responsibility (CSR) investment. In other words, when considering their portfolio decisions, portfolio managers may have become much more willing to take CSR concerns into account, as opposed to focusing solely on financial concerns. Some studies argue that high social and environmental standards can enhance the overall ecoefficiency of firms, thereby generating more market advantages than their less socially responsible competitors. For example, according to Porter and Kramer (2006), firms with relatively high long-term operating performance will undoubtedly achieve the goal of sustainable operations in the end, and indeed, Jo and Harjoto (2011) found that CSR had positive correlations with both corporate governance practices and firm value.

However, despite such a clear definition and the fact that several studies on western countries identify a positive relationship between CSR constraints and portfolio performance, there is still no general consensus as to whether firms engaging in SRI outperform their conventional counterparts in other markets. Economic development in the Asian region, as a whole, is now attracting much greater attention,

with the business communities within the region having quite different characteristics to those in the Western economies. Despite this, very few studies have set out to investigate the performance of SRI in Asia, particularly in the emerging Asian markets, based upon the returns of their equity portfolios.

The business communities in the emerging Asian markets, which are characterized by a lack of transparency, differ quite markedly from those in the United States and Europe. The proportion of individual investors is also found to be quite high in the emerging Asian markets relative to the developed markets.

As argued by Young and Makhija (2014), it is important to utilize institutional theory to explain CSR as legitimacy-seeking activities across countries. In the present study, we examine the performance of SRI in Asia, along with the awareness of CSR among investors in the emerging Asian markets.

Individual investors have insufficient access to the ESG ratings of firms, and indeed, they probably also have limited or even no access to professional third-party CSR databases or in-house CSR research, so they must simply rely on public information, such as media reports or publicly available corporate CSR reports. In the present study, we argue that CSR news releases play an important role in highlighting the returns of those firms with similar CSR performance levels, with our study raising some interesting findings, as described below.

Over the period from January 2009 to March 2013, Japanese investors were found to have been willing to reward firms for their superior CSR performance; in contrast, over the same period, firms in the emerging markets with superior CSR performance do not appear to have accrued any rewards for their efforts. It appears that in those emerging Asian markets that are characterized by higher proportions of individual investors, such investors may also have awareness of SRI if they have appropriate CSR information resources, such as news releases.

The contributions of our research are as follows. First, we use the "ASSET4" ESG ratings to compare high and low CSR-standard portfolios in an attempt to identify whether superior CSR practices are rewarded in the developed and emerging Asian markets.² Second, we examine whether positive CSR news has an impact on the awareness of SRI among individual investors in those emerging Asian markets with higher proportions of individual investors.³

2 | THEORY AND HYPOTHESES

2.1 | Does SRI lead to superior portfolio performance?

In recent years, SRI has gradually become more and more popular and investors select stocks partly based on corporate social performance

(CSP). The central question arising from the debate of whether incorporating an ethical dimension into the decision on stock selection adds value is whether a firm's social performance is associated with its financial performance (Derwall, Guenster, Bauer, & Koedijk, 2005).

Prior empirical research presented mixed results concerning the relationship between a firm's CSR engagement and financial returns, indicating the complexity of the theoretical explanations on the relationship (Shiu & Yang, 2016).⁴ Private costs theory predicts a negative relation between the two because CSR engagement merely represents a cost and may crowd out resources that can be used for maximizing profits (e.g., Anginer & Statman, 2010; Barnett & Salomon, 2006; Friedman, 1970). Some other studies found no evidence of any correlation between social and financial performance (e.g., Alexander & Buchholz, 1978; Aupperle, Carroll, & Hatfield, 1985; Bauer, Otten, & Rad, 2006; Bello, 2005; Kreander, Gray, Power, & Sinclair, 2005; Renneboog, Ter Horst, & Zhang, 2008; Statman, 2000).

Based on the stakeholder contract costs theory, those arguing a positive relation between the two believed that a firm with better social performance had lower costs of managing their relationships with various types of stakeholders (e.g., consumers, employees, community, and government), thus potentially earning higher financial returns than those with bad social practices (Preston & O'Bannon, 1997).

Prior studies, for example, Drucker (1984) and Mackey, Mackey, and Barney (2007), have taken a more economic-based perspective to assess the benefit of CSR engagement for a firm. Better CSP enhances corporate image, reputation (Fombrun & Shanley, 1990; McWilliams, Siegel, & Wright, 2006), and firm value (Chung, Jung, & Young, 2018). In the meanwhile, consumer loyalty towards and support for the firm are also increased (Godfrey & Hatch, 2007; Mackey et al., 2007). Employees also have a higher sense of honor to work for the firm, and it has better access to potential good employees (Turban & Greening, 1996). Good CSP can facilitate a better relationship with the government (Oliver, 1991).

Using KLD (Kinder, Lydenberg, Domini & Co., Inc.) social performance rating, McGuire, Sundgren, and Schneeweis (1988) showed that firms with good social performance had higher sales growth and better risk-adjusted returns. A positive relationship was also found in Waddock and Graves (1997), again based on KLD ratings, between social performance and the return on the assets of a firm. Using corporate ecoefficiency scores, Derwall et al. (2005) examined whether any ecoefficiency premium existed in the U.S. stock markets. Their high-(low-) ranked portfolios composed of firms with the highest (lowest) 30% of total capitalization, on which they found that over the 1995–2003 period, the annualized Fama–French–Carhart four-factor alpha of the high-ranked portfolio was significantly higher (by 5.06%) than the low-ranked portfolio. Their results were found to be robust to transaction costs and industry effects, thereby indicating that investors in the United States were quite willing to reward firms for the effort put into enhancing their environmental standards.

²The "developed" and "emerging" Asian markets are defined in this study based upon the definition provided by the MSCI, with the "developed" markets including five countries, Australia, Hong Kong, Japan, New Zealand, and Singapore, and the emerging markets including eight countries, China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan, and Thailand.

³The emerging markets considered in this study to have higher proportions of individual investors are China, India, Korea, Taiwan, and Thailand. More details are provided in Section 3.

⁴Prior studies have suggested the mixed results were mainly attributable to inappropriate definitions of the CSR and financial performance terms (Ullmann, 1985) and misspecified models (McWilliams & Siegel, 2000).

Valuable contributions have been provided by a number of subsequent studies in which the performances of socially responsible portfolios were examined using a wider range of CSR criteria. Kempf and Osthoff (2007), for example, used the KLD STATS database to identify controversial sectors and CSR dimensions, employing “negative,” “positive,” and “best-in-class” screening, along with mixtures of several screens to examine whether portfolios constructed by SRI screening were rewarded. They presented evidence to show that over the 1991–2004 period, high-ranked portfolios located in the “environmental,” “employee,” and “community” dimensions had Fama–French–Carhart four-factor alphas that were larger than their low-ranked counterparts based on positive and best-in-class screening approaches. Their results also indicated that the most effective approach was best-in-class screening.

Similar evidence provided by Galema, Plantinga, and Scholtens (2008) and Statman and Glushkov (2009) indicated that the larger four-factor alphas were attributable to superior employees and community performance over the 1992–2006 period although there was less conclusive evidence on the developed markets outside of the United States. For example, Van de Velde, Vermeir, and Corten (2005) showed that over the 2000–2003 period, portfolios in the EU that were rated as “high- and low-sustainability” portfolios had statistically indifferent risk-adjusted returns, whereas Brammer, Brooks, and Pavelin (2006) subsequently found that after controlling for the Fama–French–Carhart factors, over the 2002–2005 period, the lowest CSR-ranked portfolios in the United Kingdom were found to perform slightly (albeit insignificantly) better than the high-ranked portfolios.

Other studies provided evidence based upon examinations of the performances of SRI mutual funds, with many socially responsible mutual funds in the developed markets offering different types of investors a mixture of negative and positive screens. For example, Bauer, Koedijk, and Otten (2005) found that having gone through a catch-up phase in the early 1990s, U.S. domestic ethical funds had statistically higher risk-adjusted returns than their conventional counterparts during the 1998–2001 period.

Only a few studies focusing on the emerging markets have employed the “capital asset pricing model” (CAPM) or the Fama–French–Carhart four-factor model to examine the performances of ethical funds and SRI equity portfolios, with most of the related studies examining the CSR performance of firms based upon their long-term operational performance, as opposed to stock returns.

From an examination of 21 firms in Russia, Black (2001) showed that the corporate governance domain within CSR had a powerful effect on the implied value ratio, whereas Klapper and Love (2004) subsequently noted, from an examination of 14 emerging markets, that better corporate governance was found to be highly correlated with better operating performance.

More reputable and credible firms were found by Zhang and Rezaee (2009) to have better 3-year net profit margins, returns on equity, and sales growth, whereas from their assessment of the CSR behavior of major firms in the emerging Asian markets over the 2001–2004 period, Cheung, Tan, Ahn, and Zhang (2010) provided

evidence of a significantly positive relationship between CSR practices and market valuation based upon the Tobin's Q and the market-to-book ratio.

Over recent years, SRI has come to be seen as a mixture of profit-seeking and nonprofit utility, with firms characterized by superior CSR performance being able to enhance their corporate image/reputation and generate greater market advantages than their less responsible competitors (Koh, Qian, & Wang, 2014; Orlitzky, Schmidt, & Rynes, 2003; Waddock & Graves, 1997); as a result, firms with superior CSR performance will tend to benefit from long-term improvements in both their financial and operational performance, which leads us to our first hypothesis:

Hypothesis 1. *SRI portfolio returns tend to be higher than less-SRI portfolio returns.*

2.2 | CSR news effects and SRI portfolio returns

Institutional theory argues that there are exogenous factors that put systematic pressures on the firm to engage or not engage in CSR behaviors (Davidson et al., 2018; Dobers & Halme, 2009; Young & Makhija, 2014). One of the most prominent factors is media attention.⁵ Based on the stakeholder theory, prior literature such as Zyglidopoulos, Georgiadis, Carroll, and Siegel (2012) found that media attention was positively associated with corporate CSR engagement. Institutional research has indicated that the media served as an important information intermediary that provided or facilitated the information on firms' actions. Such information could then affect the formation of stakeholders' perceptions of firm actions (Elsbach, 1994; Zuckerman, 1999). Pollock and Rindova (2003) further viewed the media as a propagator of legitimacy. By framing this information positively, the media may legitimate firms. The legitimacy can then influence investor behavior.

In the previous subsection, we argued that SRI portfolio returns are better than less-SRI portfolio returns. However, the instrumental benefits of a firm's CSR engagement are contingent upon its stakeholders' awareness and favorable attribution (Lee, Oh, & Kim, 2013). Stakeholders' low awareness of and unfavorable attributions towards a firm's CSR engagement would impede its attempts to maximize business benefits from its CSR activities (Du, Bhattacharya, & Sen, 2010). The argument relating the superiority of SRI portfolio returns over less-SRI portfolio returns thus rests on two implicit assumptions. The first is that corporate philanthropic activity must be known to investors; however, in the emerging Asian markets, particularly those characterized by greater participation by individual investors, this assumption is difficult to meet. Because individual investors have less access to information on the CSR activities of a firm, the benefits of engaging in CSR are not readily reflected in the performance of its

⁵The news effect of CSR is of course related to whether and how CSR information is released. For example, Cucari, Esposito De Falco, and Orlando (2018) argued that a firm's CSR disclosure was associated with its diversity of board of directors. Ben-Amar and Belgacem (2018) examined this interesting question and found that a more CSR-oriented firm tended to have more complex disclosures in the management's discussion and analysis section of its annual reports.

stock price. In particular, individual investors generally have less sufficient and easy access to news on corporate philanthropy, so even if they want to reward CSR firms, they may simply not know which firms engage in more CSR activities. Clearly, one of the major ESG resources available to individual investors is public CSR news releases.

Beyond awareness, the next assumption is related to stockholders' attribution. In the context of this paper, investors have to be willing to reward CSR firms by investing in these firms. As compared with institutional investors, individual investors have consistently shown themselves to be less rational when setting out to construct their investment portfolios; thus, such investors are quite likely to include CSR firms in their portfolio simply because they feel that these firms are in pursuit of a good cause. Conversely, institutional investors place more emphasis on the profitability of target firms. We are not saying that individual investors care only about target firms' CSR activity rather than financial performance. However, it is safe to say that individual investors are more easily affected by emotion. Both of these two assumptions are necessary conditions for better returns on SRI portfolios. It is worthwhile to note that the first assumption on investors' perception of CSR engagement is of particular importance. If it is not satisfied, SRI portfolios would not perform well, even the second assumption that investors are willing to reward CSR firms is met.

This concept is partly supported by several studies within the extant marketing literature in which it is pointed out that good "cause-related marketing" is an important strategy for promoting corporate image, positive responses from consumers to the products on offer, and increasing the purchasing intentions of such consumers. Haidt (2003) and Kim and Johnson (2013) further argued that moral emotions had a significantly positive effect on consumers in terms of their purchasing intentions towards social-cause products.

In the above discussion, we highlighted the importance of whether investors well perceived a firm's engagement in CSR activities, which is one of the two necessary conditions for better returns on SRI portfolios. We then argue that publicly available positive news on CSR is instrumental in legitimating firms and impressing investors. The returns on SRI portfolios are therefore enhanced. On the basis of this logic, we predict better returns on SRI portfolios in the presence of positive public CSR news:

Hypothesis 2. *SRI portfolios with positive public CSR news reports tend to have higher returns than SRI portfolios without.*

3 | DATA AND METHODOLOGY

3.1 | ASSET4 ESG data

Our analysis in the present study makes use of the ASSET4 ESG data compiled by Thomson Reuters, which provides over 250 key CSR indicators; all of which are z-scored and then normalized within the range of 0% to 100%. The scores are aggregated into a framework of 18

categories grouped under four specific domains ("economic," "environmental," "social," and "corporate governance"), which then form an integrated overall rating on a firm.

The ASSET4 ESG team searches for ESG news reports from all major English-speaking news outlets and matches the fiscal year of controversial news with the fiscal year of the ESG rating in order to evaluate the potential impact on the overall CSR rating once such controversial news is linked to the CSR performance indicators.⁶ The ASSET4 team had quite a slow start in terms of collecting ESG data on the emerging Asian markets. As we can see from the numbers shown in Table 1 on those firms included in the database between 2002 and 2012, there were actually very few firms included in the database prior to 2007; thus, our portfolios are constructed starting from the fiscal year, 2007.

Given that the ASSET4 ESG rating is a relative score, the score that is applied to a firm will change when a new firm is added into the database in the same fiscal year. In order to overcome any "look-ahead" bias, we calculate the monthly total returns over the year $t + 2$ as the performance of a portfolio constructed on the basis of its ESG rating in fiscal year t . For example, at the end of 2008, an SRI portfolio is constructed on those stocks with high ESG ratings in the fiscal year 2007, with the monthly returns of this portfolio then being calculated for the year 2009.

3.2 | Portfolio formation

We use the ASSET4 ESG ratings in the present study to construct high and low CSR-standard portfolios for three regions in Asia. Based upon the MSCI definition, these three regions compose of "Japan," "other developed Asian countries," and "all emerging Asian countries."⁷ Two screening policies are used to group the firms into the high-rated portfolios where (a) the CSR practice of a firm outperforms 50% of all stocks in a certain region and (b) the CSR practice of a firm outperforms 50% of stocks in each industry in a certain region.⁸

The first policy is used to examine whether investors reward firms for their relative CSR performance in a certain region; however, according to Derwall et al. (2005), industry bias greatly influences portfolio performance; therefore, in order to overcome any potential bias towards certain industries, we employ the second policy to identify those firms with relatively good CSR performance in each industry in a certain region.

Finally, portfolios are formed based on the ASSET4 ESG rating at the end of year t for the fiscal year $t - 1$, essentially as a result of the database limitations referred to above. Our rating data cover the years 2007 to 2011, on which high- and low-rated portfolios are

⁶News is not a major dimension in the ASSET4 computation of CSR scores; indeed, out of a total of over 250 key indicators, only about 25 indicators are news related. Furthermore, only controversial news (negative news) is taken into consideration.

⁷The "other developed Asian countries" in the MSCI definition comprise of Australia, Hong Kong, New Zealand, and Singapore.

⁸We assign firms to one of the following industries based upon the business classification of Thomson Reuters: energy, basic materials, industrials, consumer cyclicals, consumer noncyclicals, financials, health care, technology, telecommunications service, and utilities.

TABLE 1 Number of firms listed in ASSET4

Location	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Developed Asian countries	26	26	227	386	389	401	402	432	460	413	219
Australia	–	–	1	1	1	3	4	22	40	50	50
Hong Kong	4	4	17	19	19	20	20	21	28	22	3
Japan	20	20	180	327	330	339	337	341	344	301	148
New Zealand	2	2	8	11	11	11	11	12	13	13	12
Singapore	–	–	21	28	28	28	30	36	35	27	6
2. Emerging Asian countries	3	3	6	6	6	30	108	182	434	330	33
China	1	1	2	2	2	10	24	44	67	41	1
India	–	–	–	–	–	7	23	33	60	73	30
Indonesia	–	–	–	–	–	–	3	6	13	5	–
Korea	1	1	3	3	3	9	25	39	99	69	–
Malaysia	–	–	–	–	–	1	11	16	38	32	2
Philippines	–	–	–	–	–	–	1	6	18	18	–
Taiwan	1	1	1	1	1	3	17	30	122	78	–
Thailand	–	–	–	–	–	1	4	8	17	14	–
ASSET4 Database (totals)	958	969	1,822	2,239	2,252	2,429	2,922	3,353	3,971	3,257	1,000

Note. ASSET4 has been reporting ESG ratings on firms on an annual basis since its initial search for ESG information in 2002. The last report, the 2012 ESG rating, composing of 1,000 firms around the world, became available on March 2, 2013; however, the ASSET4 team indicated that 2012 fiscal year data on 2,500 companies was due to have been completed by Oct–Nov 2013.

constructed, with all of these being rebalanced on an annual basis. Our investment horizon runs from January 2009 to March 2013.

Positive CSR news reports are also collected on those firms with high-rated CSR scores in order to identify the advertisement effect of positive news on SRI awareness among individual investors in those

emerging Asian markets with higher proportions of individual investors. The proportions of individual investors across the various Asian countries are listed in Table 2, where a country with a "higher proportion of individual investors" is defined as a country in which individual investors account for the greatest number of stock market participants.

TABLE 2 Proportions of individual investors in the Asian stock markets

Countries	Market type	Individual investors (%)	Local institutional investors (%)	Foreigner investors (%)	Other market participants (%)	Observation period	High/Low
Australia	Developed	N/A	N/A	N/A	N/A	–	–
China	Emerging	83.52	14.39 (combined)		2.09	Jan 2011–Dec 2011	H
Hong Kong	Developed	17.00	21.00	46.00	16.00	Oct 2011–Sep 2012	L
India	Emerging	44.11	32.31	7.45	16.13	Jan 2012–Dec 2012	H
Indonesia	Emerging	N/A	N/A	N/A	N/A	–	–
Japan	Developed	17.73	8.49	53.18	20.60	Jan 2012–Dec 2012	L
Korea	Emerging	53.53	15.49	14.44	16.54	Jan 2012–Dec 2012	H
Malaysia	Emerging	19.08	40.08	26.05	14.79	May 2013	L
New Zealand	Developed	N/A	N/A	N/A	N/A	–	–
Philippines	Emerging	N/A	N/A	N/A	N/A	–	–
Singapore	Developed	N/A	N/A	N/A	N/A	–	–
Taiwan	Emerging	62.04	15.35	22.62	0.00	Jan 2012–Dec 2012	H
Thailand	Emerging	60.81	7.99	19.97	11.23	Jan 2013–May 2013	H

Note. This table summarizes the proportions of individual investors, local institutional investors, and foreign investors (including both institutional and retail investors) in the Asian markets. Our data on the proportions of individual investors were collected from all relevant exchange websites at the end of December 2012. If the largest trading participant in a country is individual investors, this country is recognized as a country with a relatively high proportion of individual investors. Of those countries characterized as "emerging Asian markets," the ones with a relatively high proportion of individual investors are China, India, Korea, Taiwan, and Thailand. Because institutional investors are not divided into local institutional investors and foreign institutional investors in China, we show the aggregated proportion of total institutional investors for that country, which is 14.39%.

Two additional portfolios are constructed for each of the screening policies using the news databases (LexisNexis and ASSET4 Assetmaster Professional); these portfolios compose of (a) firms whose CSR practices outperform 50% of stocks, which had positive CSR news releases, and (b) firms whose CSR practices outperform 50% of stocks, which had no positive CSR news release.

A search for public news releases on the various ESG issues is carried out in the LexisNexis database using appropriate keywords, including "corporate social responsibility," "philanthropy," "environment," "society," "community," "employee," "corporate governance," "financial performance," "operating performance," and "donation." We read the news one by one to make sure that it is a piece of positive news. For any positive ESG news releases that is identified, the fiscal year is matched with the fiscal year of the ESG ratings, after which, a firm characterized by both positive news release and superior CSR practices is then grouped into the portfolio with superior CSR practices and positive news releases.

As opposed to examining whether individual investors can benefit from our empirical strategy of constructing portfolios based upon a mixture of ASSET4 ESG ratings and CSR news releases, our primary focus in the present study is on whether individual investors in the emerging Asian markets have awareness of SRI. Furthermore, when examining the advertisement effect of positive CSR news releases, we also take into account the immediacy of this effect.

In contrast to the way in which the portfolios are formed, we use the ESG ratings and positive news on fiscal year t to construct portfolios at the end of year t . For example, at the end of 2008, portfolios are constructed based upon the ESG rating and CSR news releases occurring in that year; we then calculate the portfolio performance over the period from January to December of 2009.

2007–2011 rating data and positive CSR news releases are collected for the construction of the portfolios, which are then rebalanced on an annual basis. Because all of the firms in our sample, with the exception of Indian firms, have a fiscal year ending on December 31, in order to ensure that our portfolios include all of the emerging Asian markets with relatively high proportions of individual investors, our investment horizon runs from April 2008 to December 2012.

One advantage of using the equity portfolio approach is that we can measure the risk-adjusted returns of an equity portfolio over a certain time period, and as a result, we can evaluate the risk-adjusted returns of social portfolios to identify whether investors are prepared to reward listed firms with higher CSR standards. Furthermore, the adoption of such an approach, involving performance measurement of equity portfolios, as opposed to mutual funds, is also free from exposure to the operational risks of fund managers.

3.3 | Performance measurement

The Fama and French (1993) three-factor model, enhanced with the Carhart (1997) momentum factor, is employed for our analysis in this

TABLE 3 Formation of the excess market return factor

Country	Market proxy	Risk-free interest rate
China	MSCI China Index	One-year time deposit rate
India	MSCI India Index	364-day primary T-bill yield
Indonesia	MSCI Indonesia Index	One-year time deposit rate
Korea	MSCI Korea Index	One-year treasury bond yield
Malaysia	MSCI Malaysia Index	One-year time deposit rate
Philippines	MSCI Philippines Index	364-day treasury bill
Taiwan	MSCI Taiwan Index	One-year time deposit rate
Thailand	MSCI Thailand Index	Bangkok Bank 1-year time deposit rate

Note. For each month, we apply a proxy for market return using the return of a value-weighted portfolio of MSCI emerging Asian country indices; the excess market return factor, MKT , for the overall emerging Asian market is the value-weighted portfolio market return less the risk-free rate. The calculation of the risk-free rate is based on a value-weighted portfolio of risk-free interest rates within these emerging countries, which are detailed below. The weights of the two portfolios above are in proportion to the domestic market capitalization of each component country. Data on the market capitalizations of these countries are obtained from the World Federation of Exchanges. When calculating MKT for the emerging Asian markets with a relatively high proportion of individual investors, only China, India, Korea, Taiwan, and Thailand are included in the two value-weighted portfolios.

study of the performance of the portfolios, based upon the following regression model:

$$R_{it} - R_{ft} = \alpha_i + \beta_{1i}MKT_t + \beta_{2i}SMB_t + \beta_{3i}HML_t + \beta_{4i}UMD_t + \varepsilon_{it},$$

where the dependent variable is the monthly return of portfolio i in month t in excess of the risk-free rate.

The data on the total returns of our sample firms are obtained from the Datastream database, whereas the four explanatory factors for the "Japan" sample and the "other developed Asian countries" sample are obtained from the Kenneth French Data Library.⁹ These explanatory factors for the "emerging Asian markets" are calculated separately in this study using data on the book equity and market equity of all individual stocks (including dead stocks) from the Datastream database.

The monthly returns of the market risk factor (MKT) in the emerging Asian markets are computed for a value-weighted portfolio composing of MSCI emerging country indices in excess of the risk-free rate in these emerging Asian countries.¹⁰ The risk-free interest rate for these emerging markets is also computed by forming a value-weighted portfolio composing of the 1-year time deposit rates and treasury-bill yields in these countries, as shown in Table 3.

Following Fama and French (1993), as at the end of June of each year t , we construct 2×3 portfolios from the intersections of the two market values and three book-to-market ratio groups. The size breakpoint for year t is the median market equity in the emerging

⁹In line with Fama and French (1993), firms in the financial industry are excluded.

¹⁰The weights are in accordance with the domestic market capitalizations of the countries included in the emerging Asian markets, with the market capitalization details being provided by the World Federation of Exchanges.

Asian markets at the end of June in year t . The book-to-market ratio for June in year t is the book equity for the last fiscal year end in year $t - 1$ divided by the market value for December in year $t - 1$. The book-to-market ratio breakpoints in the emerging Asian markets are the 30th and 70th percentiles.

For the six portfolios described above, the size factor, “small minus big” (*SMB*), is defined as the average return on the three small portfolios minus the average return on the three big portfolios. The value factor, “high minus low” (*HML*), is defined as the average return on the two value portfolios minus the average return on the two growth portfolios. Both the *SMB* and *HML* factors are rebalanced at the end of June of each year.

We also follow Carhart (1997) to compute the momentum factor, “up minus down” (*UMD*), ranking all stocks in the emerging Asian markets in each month t based upon their average returns over the prior 11-month period (from month $t - 12$ to month $t - 2$). Six value-weighted portfolios are then constructed based upon the market value and the prior ($t - 2$ to $t - 12$) returns. The portfolios, which are formed monthly, are the intersections of two portfolios formed on the market value, and three portfolios formed on the prior ($t - 2$ to $t - 12$) returns.

The monthly size breakpoint is the median market value of the emerging Asian markets. The monthly prior return ($t - 2$ to $t - 12$) breakpoints in the emerging Asian markets are the 30th and 70th percentiles. The momentum factor, *UMD*, is the average return on the two high prior return portfolios minus the average return on the two low prior return portfolios, with this momentum factor being rebalanced at the end of each month.

3.4 | Positive CSR news

In order to examine whether SRI portfolios with positive CSR news have higher returns than SRI portfolios without, CSR news on the firms included in ESG high-rated portfolios are collected from LexisNexis and ASSET4 Assetmaster Professional. We carry out a keyword search for CSR news associated with our sample of firms using a total of nine keywords, including CSR, environment, society, community, employee, corporate governance, financial performance, operating performance, and donation. It is worth noting that after using the keywords to identify the news, we manually inspect each piece of news, scrutinizing each article to ensure that it is indeed referring to positive CSR information. According to whether they have any positive CSR news, ESG high-rated portfolios are divided into two groups. The first group includes portfolios with positive CSR news release, whereas the second without.

In order to control for possible confounding effects from other news during the sample period, we adopt the following robustness procedures. First, within a particular sample year, firms with any negative CSR news are excluded from our portfolios, and second, within a particular sample year, firms are also removed if there is any good but not CSR-related news released within the year (such as new products, strategic alliances or mergers, and acquisitions).

4 | EMPIRICAL RESULTS

4.1 | Descriptive statistical analysis

The descriptive statistics on firms with superior and inferior CSR performance are presented in Table 4, which reveals that the results on the mean returns of the portfolios are quite mixed. During our observation period (January 2009 to March 2013), under both screening policies, the high-rated portfolio is found to have a higher annualized average monthly return than the low-rated portfolio for Japan, a finding which is also observed during the January 2006–March 2013 period.

However, we find almost totally opposite results for the “other developed Asian countries” sample, where the high-rated portfolio tends to generate a lower annualized average monthly return than the low-rated portfolio under both screening policies over the January 2009–March 2013 period, and under the industry-adjusted policy for the extended observation period (2006–2013). In line with the results for the “other developed Asian countries” sample, the high-rated portfolio lags behind the low-rated portfolio under both screening policies in the emerging Asian markets.

A paired t test is subsequently carried out from which we find that the difference is statistically significant at conventional levels under the positive screening policy; however, the high-rated portfolio tends to exhibit a higher Sharp ratio than the low-rated portfolio under both screening policies, for both observation periods and for both the “Japan” and “other developed Asian countries” samples.

Our results provide inconsistent results on the two screening policies in the “emerging Asian markets,” because, under the positive screening (industry-adjusted) policy, a smaller (larger) Sharpe ratio is discernible for the high-rated portfolio than the low-rated portfolio. The annualized market average returns in the “Japan” and “other developed Asian countries” samples are also found to be higher during the 2009–2013 period than the 2006–2013 period, with this difference being quite substantial, particularly for Japan.

These findings imply that following the turbulence of the 2007–2008 financial crisis, the economies of the developed Asian countries had been on an upward trend, which thereby explains why, under both screening policies, the high- and low-rated portfolios in both the “Japan” and “other developed Asian countries” samples tend to show higher average returns over the 2009–2013 period than the 2006–2013 period.

A related finding based upon a comparison between both periods for the “Japan” and “other Asian developed countries” samples suggests that the outperformance of the high-rated portfolio evaluated using the Sharpe ratio tends to be more pronounced over the 2006–2013 period than the 2009–2013 period. Given that the 2006–2013 period includes the years of the dramatic market downturn resulting from the global financial crisis, this result indicates that relatively good CSR performance would translate into larger risk-adjusted returns than normal, thereby providing downside protection for portfolios when the stock markets of the developed Asian countries experience turmoil.

TABLE 4 Portfolio characteristics

Market location	Mean return (%)		Std. dev. (%)		Sharp ratio		Monthly return (%)				Avg. market rtn. (%)	Paired t test	
	H	L	H	L	H	L	Max.		Min.			%	t stat.
							H	L	H	L			
Panel A: January 2009 to March 2013													
1. Positive screening policy													
Japan	15.87	11.83	20.50	16.10	0.771	0.731	12.78	9.07	-11.26	-9.74	12.83	0.36	1.02
Other developed Asian markets	21.38	27.05	17.09	24.38	1.247	1.107	17.79	29.37	-8.24	-10.59	22.42	-0.50	-1.22
Emerging Asian markets	17.63	25.56	17.18	20.19	0.799	1.073	13.41	19.52	-12.70	-12.30	18.55	-0.60**	-2.14
2. Industry-adjusted policy													
Japan	15.43	12.21	20.18	16.37	0.761	0.742	12.34	9.35	-11.31	-9.70	12.83	0.29	0.94
Other developed Asian markets	21.68	24.88	17.48	21.22	1.237	1.169	18.94	21.86	-8.27	-10.23	22.42	-0.28	-0.85
Emerging Asian markets	19.02	21.85	16.80	21.97	0.900	0.817	12.29	22.52	-11.05	-17.91	18.55	-0.28	-0.72
Panel B: January 2006 to March 2013													
1. Positive screening policy													
Japan	4.62	1.62	20.78	16.81	0.147	0.004	12.78	9.52	-18.98	-16.64	0.45	0.30	1.10
Other developed Asian markets	17.36	16.02	19.67	25.42	0.803	0.569	17.79	29.37	-19.18	-21.31	14.08	-0.01	-0.02
2. Industry-adjusted policy													
Japan	3.95	2.38	20.57	16.94	0.116	0.048	12.34	9.59	-19.10	-16.40	0.45	0.18	0.72
Other developed Asian markets	15.25	18.15	18.49	25.80	0.741	0.643	18.94	21.86	-17.79	-25.52	14.08	-0.35	-0.96

Note. The high-rated (H) and low-rated (L) portfolios constructed using the positive screening policy compose of firms with an ESG rating, which is correspondingly higher or lower than the median in a certain Asian region. The high- (low-) rated portfolio based on the industry-adjusted policy includes firms with an ESG rating higher (lower) than the median in each industry in a certain Asian region. The mean return, standard deviation, and Sharp ratio are annualized. The market benchmark for Japan is the Nikkei 225, whereas that for the "other developed Asian markets" is the MSCI Pacific (excl. Japan) Index. The MSCI EM Asia Index is our market benchmark for emerging countries in Asia. All data are collected from the Datastream database. The final column shows the paired t-test results for the difference in the means of the monthly returns between the high- and low-rated portfolios.

**Indicates statistical significance at the 5% level.

4.2 | SRI performance in the Asian markets

The relative performance of the high- and low-rated value-weighted portfolios in the Asian markets is shown in Table 5, based upon the Fama–French–Carhart four-factor model under the positive screening policy. The portfolios are classified as high-rated (low-rated) if their ESG rating is higher (lower) than the median. The returns on the "Difference" portfolio are obtained by subtracting the returns on the low-rated portfolio from the returns on the corresponding high-rated portfolio.

Panel A of Table 5 shows that during the 2009–2013 period, investors tended to reward the high-rated portfolio of Japanese stocks, resulting in positive and significant abnormal returns of 1.06% per month, which was significantly (0.53%) more than that of the low-rated portfolio. Within the developed Asian countries (excluding Japan), we still find that the "Difference" portfolio has a positive alpha, albeit insignificant. It is, however, interesting to note that the high-rated portfolio earns a significantly positive abnormal return of 0.37% per month. These results are consistent with institutional theory that argues that firms engage in CSR activities in order to enhance perceptions of their legitimacy by customers and investors (Young & Makhija, 2014). Customers and investors would

perceive legitimate firms as more trustworthy, understandable, and predictable (Suchman, 1995).

The results on the developed Asian markets over the longer sample period, from January 2006 to March 2013, are presented in Panel B of Table 5, from which we can see that the abnormal returns of the "Difference" portfolio in Japan all remain positive, albeit with no statistical significance.

Because all of the results presented above may be subject to industry bias, appropriate controls are put in place for the industry effect; more specifically, the high-rated (low-rated) portfolio is constructed based upon the highest (lowest) 50% of ESG-ranked stocks in each industry in a certain region. The results reported on Japan in Table 6, where adjustment is made for the industry effect, are found to be quite similar to those reported in Table 5, without any adjustment.

Our finding of the high-rated portfolio outperforming the low-rated portfolio remains statistically significant in the 2009–2013 period although it is of reduced magnitude and also turns statistically insignificant over the 2006–2013 period. The results for all other markets are insignificant. Taken together, our results appear to suggest that in the developed Asian markets as a whole, the CSR premium is only found to exist in Japan. Furthermore, the premium

TABLE 5 Performance of value-weighted portfolios based on the positive screening policy

	Alpha (%)		MKT		SMB		HML		UMD		R ²
Portfolio rating	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	
Panel A: January 2009 to March 2013											
1. Japan											
High	1.057**	2.41	0.856***	8.33	−0.658***	−3.15	0.774***	4.12	−0.051	−0.48	.74
Low	0.530	1.48	0.815***	9.71	−0.008	−0.05	0.505***	3.29	0.034	0.40	.72
Difference	0.527*	1.97	0.041	0.65	−0.650***	−5.11	0.269**	2.35	−0.085	−1.33	.47
2. Developed Asian markets (excl. Japan)											
High	0.370*	1.90	0.642***	20.67	−0.048	−0.60	0.531***	6.75	−0.141***	−2.88	.93
Low	0.356	1.09	0.840***	16.05	0.269*	1.99	0.906***	6.83	−0.247***	−2.99	.90
Difference	0.014	0.04	−0.198***	−3.94	−0.317**	−2.44	−0.375***	−2.94	0.106	1.34	.48
3. All emerging Asian markets											
High	0.547	1.40	0.637***	7.69	−0.506***	−4.08	−0.054	−0.64	0.041	0.55	.71
Low	0.917*	1.98	0.740***	7.52	−0.533***	−3.61	0.083	0.82	−0.010	−0.11	.70
Difference	−0.370	−1.42	−0.103*	−1.86	0.026	0.32	−0.137**	−2.42	0.050	1.02	.19
Panel B: January 2006 to March 2013											
1. Japan											
High	0.367	1.06	1.058***	13.02	−0.557***	−3.58	0.315*	1.99	−0.041	−0.44	.72
Low	0.173	0.62	0.957***	14.77	−0.002	−0.01	0.121	0.96	0.024	0.32	.73
Difference	0.194	0.88	0.101*	1.95	−0.556***	−5.59	0.194*	1.92	−0.065	−1.08	.39
2. Developed Asian markets (excl. Japan)											
High	−0.027	−0.09	0.954***	15.94	−0.211	−1.34	0.475***	2.64	0.031	0.37	.76
Low	−0.225	−0.76	0.803***	13.83	0.161	1.04	0.329*	1.89	0.072	0.88	.71
Difference	0.198	0.94	0.151***	3.62	−0.372***	−3.37	0.145	1.16	−0.041	−0.70	.21

Note. This table summarizes the monthly abnormal returns, factor loadings, and adjusted R^2 of each portfolio using the Fama–French–Carhart four-factor model. The high- (low-) rated value-weighted portfolios compose of firms with an ESG rating higher (lower) than the median in a certain region.

***Indicates statistical significance at the 1% level.

**Indicates statistical significance at the 5% level.

*Indicates statistical significance at the 10% level.

tends to be more distinct for the bull market subperiod (2009–2013) than for the full sample period spanning both bull and bear markets (2006–2013).

A potential reason for the presence of the CSR premium in Japan, despite the lack of such premium in the emerging Asian markets, is that investors within the emerging stock markets are likely to have less access to information on the social performance of firms.¹¹ The CSR information, which is compiled by SRI professionals (such as SRI investment firms like Calvert Investments, or independent third-party SRI research institutes such as the MSCI ESG Research unit), is not usually freely available, particularly to individual investors.

Even in those cases where such investors do have access to this information, the coverage of the information may prove to be quite

limited in the emerging markets, given that listed firms in these markets may be relatively less willing to voluntarily disclose details of their social performance. As a result, individual investors have to rely on public media reports to gather information on the social performance of their targeted firms. In our subsequent analysis, we examine whether positive CSR news has any incremental effect on SRI awareness among investors in those emerging Asian markets with higher proportions of individual investors.

4.3 | The advertisement effect of positive CSR news

In this subsection, we carry out an examination of the advertisement effect of positive CSR news releases on the awareness of SRI among investors based upon data on emerging Asian markets with higher proportions of individual investors (composing of China, India, Korea, Taiwan, and Thailand). We do not examine this effect for those emerging Asian markets with high proportions of foreign or domestic

¹¹Another reason might be that these emerging markets and developed Asian countries (excluding Japan) are not particularly receptive to the logic of social justice and environmental protection (Sjöström & Welford, 2009). In addition, cultural contexts and institutional environments may also play an important role in the issues associated with CSR (Dobers & Halme, 2009).

TABLE 6 Performance of value-weighted portfolios based on the industry-adjusted policy

	Alpha (%)		MKT		SMB		HML		UMD		R ²	
Portfolio rating	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.		
Panel A: January 2009 to March 2013												
1. Japan												
High	1.026**	2.38	0.848***	8.41	−0.642***	−3.14	0.767***	4.16	−0.037	−0.36	.74	
Low	0.574	1.57	0.815***	9.54	−0.051	−0.29	0.534***	3.41	0.028	0.31	.72	
Difference	0.452*	1.91	0.033	0.59	−0.591***	−5.25	0.233**	2.30	−0.064	−1.13	.47	
2. Developed Asian markets (excl. Japan)												
High	0.381*	1.83	0.645***	19.46	−0.029	−0.34	0.564***	6.71	−0.159***	−3.04	.92	
Low	0.335	1.12	0.777***	16.24	0.132	1.07	0.732***	6.04	−0.131*	−1.74	.89	
Difference	0.046	0.14	−0.132**	−2.53	−0.161	−1.20	−0.168	−1.27	−0.028	−0.34	.12	
3. All emerging Asian markets												
High	0.628	1.67	0.626***	7.82	−0.457***	−3.81	−0.044	−0.54	0.015	0.22	.72	
Low	0.725	1.32	0.788***	6.73	−0.669***	−3.82	0.037	0.31	0.093	0.89	.65	
Difference	−0.098	−0.27	−0.162**	−2.08	0.212*	1.82	−0.081	−1.02	−0.078	−1.12	.16	
Panel B: January 2006 to March 2013												
1. Japan												
High	0.320	0.93	1.051***	12.98	−0.543***	−3.50	0.294*	1.86	−0.032	−0.34	.72	
Low	0.215	0.78	0.963***	14.82	−0.037	−0.30	0.162	1.28	0.023	0.31	.73	
Difference	0.104	0.50	0.089*	1.81	−0.506***	−5.40	0.131	1.38	−0.055	−0.97	.35	
2. Developed Asian markets (excl. Japan)												
High	−0.123	−0.40	0.939***	15.63	−0.181	−1.14	0.488***	2.70	0.025	0.30	.76	
Low	−0.113	−0.40	0.828***	14.75	0.098	0.66	0.337**	2.00	0.088*	1.12	.73	
Difference	−0.009	−0.05	0.111***	3.01	−0.280***	−2.86	0.151	1.36	−0.063**	−1.21	.17	

Note. This table summarizes the monthly abnormal returns, factor loadings, and adjusted R^2 of each portfolio using the Fama–French–Carhart four-factor model. The high- (low-) rated value-weighted portfolios compose of firms with an ESG rating higher (lower) than the median in a certain region.

***Indicates statistical significance at the 1% level.

**Indicates statistical significance at the 5% level.

*Indicates statistical significance at the 10% level.

institutional investors, essentially because they have other valuable sources of CSP information available to them.

We begin by examining the performance of the value-weighted portfolios, which are constructed using positive screening. Panel A of Table 7 indicates that the alpha of the high-rated portfolio is less than that of the low-rated portfolio over the 2009–2013 period, albeit without any statistical significance. However, once the immediacy of the advertisement effect of CSR news releases on high-rated firms during the 2008–2012 period is taken into consideration, we have a completely different picture.

As shown in Panel B of Table 7, high-rated firms on which there are positive CSR news releases tend to earn an average monthly risk-adjusted return of 0.70%, which is approximately 0.605% higher than those firms on which there are no positive news releases over the April 2008 to December 2012 period, with statistical significance. It therefore seems clear that positive CSR news releases are positively related to the returns of socially responsible firms.

The results, after controlling for the potential effects of industry bias, are presented in Table 8, where both the high- and low-rated

portfolios are found to generate a positive, albeit insignificant, alpha over both observation periods. Once again, we find that the alpha of the “Difference” portfolio is negative, but statistically insignificant, over the 2009–2013 period. We subsequently go on to consider the advertisement effect of CSR news releases, examining observations on the 2008–2012 period, with the results showing that the alpha of the “Difference” portfolio turns positive and even greater than that reported in Table 7.

Furthermore, over the 2008–2012 period, the alpha of the high-rated portfolio under the industry-adjusted policy is also found to be greater than that under the positive screening policy, with the former revealing significance at the 10% level. Taken together, we conclude that positive CSR news releases do have an effect on the price of more socially responsible stocks in those emerging Asian markets with relatively high proportions of individual investors.

The portfolio of high ESG-rated stocks advertised by CSR news releases tends to outperform its counterpart on which there are no news releases on the good social performance of its component stocks after controlling for the market risk, size, value, and momentum

TABLE 7 Performance of value-weighted portfolios in the emerging Asian markets based on the positive screening policy

	Alpha (%)		MKT		SMB		HML		UMD		
Portfolio rating	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	R ²
Panel A: January 2009 to March 2013											
High	0.474	1.25	0.641***	8.56	−0.449***	−4.66	−0.042	−0.49	0.020	0.27	.73
Low	0.820*	1.77	0.784***	8.60	−0.482***	−4.10	0.068	0.64	−0.024	−0.26	.72
Difference	−0.346	−1.23	−0.144**	−2.59	0.033	0.46	−0.111*	−1.72	0.044	0.79	.19
Panel B: April 2008 to December 2012											
High (with positive CSR news releases)	0.700	1.49	0.653***	9.24	−0.317***	−2.78	0.065	0.68	0.069	0.82	.66
High (without positive CSR news releases)	0.096	0.22	0.695***	10.78	−0.454***	−4.37	−0.019	−0.22	−0.049	−0.64	.78
Difference	0.605*	1.73	−0.042	−0.79	0.137	1.62	0.084	1.18	0.118*	1.90	.22

Note. This table summarizes the monthly abnormal returns, factor loadings, and adjusted R^2 of each portfolio in the emerging Asian markets with higher proportions of individual investors, using the Fama–French–Carhart four-factor model. The high- (low-) rated value-weighted portfolios in Panel A compose of firms with an ESG rating higher (lower) than the median in a certain region. The high-rated value-weighted portfolios in Panel B with and without news releases take into account the immediacy of the advertisement effect of CSR news release; these portfolios compose firms with superior ESG ratings and releases of positive CSR news, or no news releases at all, in the same fiscal year.

***Indicates statistical significance at the 1% level.

**Indicates statistical significance at the 5% level.

*Indicates statistical significance at the 10% level.

factors. An apparent implication of this finding is that investors within these markets are indeed aware of SRI, although this tends to be through the advertisement effect of news releases on the good CSR performance of firms.

In order to determine whether the portfolio weighting scheme has any impact on our results, all of the above value-weighted portfolios are subsequently replaced by their corresponding equally weighted portfolios. The results based on the equally weighted scheme are generally found to be consistent with those based on the value-weighted scheme.¹²

The following findings are derived from the empirical results presented above. In line with prior studies such as Bauer et al. (2006), we find evidence in support of the notion that the performance of SRI portfolios is not consistent across countries; however, in contrast to their study, we find that SRI portfolios tend to perform better in Japan, but this is not the case in the emerging Asian markets. This evidence is consistent with institutional theory and highlights the importance of considering the normative institutional features that may influence firms' CSR activities (Young & Makhija, 2014).

We also demonstrate that the portfolio of high ESG-rated stocks advertised by CSR news releases tends to outperform its counterpart on which there are no news releases on the good social performance of its component stocks. This finding provides further insights into what managers should do in order to draw additional

benefit from legitimacy through CSR activity. Engagement in CSR is beneficial to the firm when its philanthropy is publicly known to its stakeholders.¹³

5 | DISCUSSIONS

We believe that our study also has relevant implications for managers and practitioners. First, firms in emerging Asian markets do not necessarily have business benefits from their CSR activities. One of the most important goals of business is to maximize its profits. Firms have to efficiently and strategically use their available but limited resources to attain their intended goals. Given the cost of CSR, firms in the developing region should consider weighing benefits and costs associated with CSR before engaging in CSR activities. Second, the media plays a significant role in legitimating firms. Managers of firms with a history of CSR activities need to realize the importance of media legitimation effects. Firms that wish to use CSR claims in their communications to maximize business benefits may do so through media. Socially responsible firms may well be able to obtain better prices if they can advertise their CSR performance through the various media channels. Our findings also have an important implication for policy makers. For those emerging Asian markets with higher proportions of individual investors, they can make more public ESG information for firms if they wish to enhance the development of SRI in their countries. In addition,

¹²For example, the high-rated portfolio tends to outperform the low-rated portfolio in both the "Japan" and "developed Asian markets (excluding Japan)" samples, with statistical significance, over the 2009–2013 period, a finding which is similar to, although slightly more enhanced than, the finding based on the value-weighted scheme. Similarly, based on both weighting schemes, the high-rated portfolio tends to lag behind the low-rated portfolio in the emerging Asian markets as a whole.

¹³We have repeated our experiments using the CAPM and Fama–French three-factor models. All the results for robustness check are available upon request. We find that the results remain quantitatively and qualitatively consistent between the Fama–French three-factor model and the Fama–French–Carhart 4 factor model. Although the results for the CAPM model are quantitatively similar to both three- and four-factor models above, their statistical significance is reduced relative to the latter two models.

TABLE 8 Performance of value-weighted portfolios in the emerging Asian markets based on the industry-adjusted policy

	Alpha (%)		MKT		SMB		HML		UMD		
Portfolio rating	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	Coeff.	t stat.	R ²
Panel A: January 2009 to March 2013											
High	0.556	1.50	0.621***	8.50	−0.418***	−4.45	−0.016	−0.19	−0.018	−0.25	.73
Low	0.608	1.12	0.856***	8.03	−0.562***	−4.09	−0.024	−0.19	0.114	1.07	.68
Difference	−0.052	−0.14	−0.235***	−3.19	0.143	1.51	0.007	0.09	−0.133*	−1.79	.19
Panel B: April 2008 to December 2012											
High (with positive CSR news releases)	0.784*	1.68	0.661***	9.44	−0.295**	−2.61	0.046	0.49	0.092	1.11	.66
High (without positive CSR news releases)	0.166	0.38	0.664***	10.08	−0.491***	−4.63	0.003	0.04	−0.120	−1.53	.77
Difference	0.618	1.36	−0.003	−0.04	0.197*	1.78	0.043	0.47	0.212**	2.61	.20

Note. This table summarizes the monthly abnormal returns, factor loadings, and adjusted R² of each portfolio in the emerging Asian markets with higher proportions of individual investors, using the Fama–French–Carhart four-factor model. The high- (low-) rated value-weighted portfolios in Panel A compose of firms with an ESG rating higher (lower) than the median in a certain region. The high-rated value-weighted portfolios in Panel B with and without news releases take into account the immediacy of the advertisement effect of CSR news release; these portfolios compose of firms with superior ESG ratings and releases of positive CSR news, or no news releases at all, in the same fiscal year.

***Indicates statistical significance at the 1% level.
**Indicates statistical significance at the 5% level.
*Indicates statistical significance at the 10% level.

a theoretical implication that can be derived from our research is that the integration of institutional theory and media effects enables us to consider innovative approaches to conceptualizing the notion of legitimacy.

6 | CONCLUSIONS

The concept of SRI originated from western countries and has been gradually spreading into the Asian markets over recent years. Yet little research has examined whether SRI portfolios in the emerging Asian stock markets have higher returns than less-SRI portfolios and whether investors within these emerging markets achieve awareness of SRI through publicly available news. We set out in this study to fill in the gap in the literature by constructing portfolios based upon both positive screening and industry bias-adjustment methods.

One of the main limitations is related to the ASSET4 database that we use in our empirical analysis. Because a fiscal year in different countries in Asia may span quite different time periods, for example, the fiscal year in India runs from April 1 to March 31 of the following year, the ASSET4 team is faced with a time-lagging problem when collecting the financial data and computing the CSR ratings.¹⁴ In addition, the ASSET4 database is not validated in our research. However, it is worthwhile to note that find that the environmental ratings of ASSET4, along with other databases such as KLD have convergent

validity. The readers are cautioned that this study is examining relationships and is not suggesting evidence of a causal relationship.

Future related works could focus on an examination of the effects of CSR engagement using data on developed markets or economies, with the results subsequently being compared with the findings of the present study. Presumably, as compared with investors in the emerging economies, investors in the developed markets have easier access to corporate CSR news and greater expectations of and more value SRI from firms. It is expected that investors in developed countries are more willing to reward firms for superior CSR performance than their counterparts in developing countries. Furthermore, it would be also interesting to examine whether portfolio performance is adversely affected by negative news releases in the emerging markets. Tackling these questions would seem to provide a promising avenue for future studies.

ORCID
Yung-Ming Shiu  <https://orcid.org/0000-0002-5024-3946>

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¹⁴Thomson Reuters (March 2013) noted that "we typically have over 60% coverage for a new fiscal year around the month of October. It's not an exact science but that would mean around 2,500 companies with fiscal year 2012 data should be completed by October-November 2013." Through personal correspondence, Thomson Reuters (November 2012) replied "I have confirmed that ratings in ASSET4 are updated on an annual basis ... and once collected we update the database on a bi-weekly basis."

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