Journal of Human Development and Communication
Volume 14, 2025 [54-73]

UNPACKING THE NEXUS BETWEEN INSTITUTIONAL INVESTORS' OWNERSHIP AND CORPORATE SUSTAINABILITY: A RECENT SYSTEMATIC EXPLORATION

Zuhairah Abdul Hadi [1]*, Wan Sallha Wan Yusoff [2], Juraini Zainol Abidin[3], Yazan Yaseen Alsmairat[4]

[1 2 3] Faculty of Business & Communication, Universiti Malaysia Perlis (UniMAP),
[4] Accounting and Finance Department, Jilin Normal University,China

ABSTRACT

The nexus between institutional investor ownership and sustainability has emerged as a critical research area, given the increasing emphasis on corporate accountability and environmental, social, and governance (ESG) practices. Despite extensive research on the role of institutional investors in shaping sustainability outcomes, the extent and consistency of their impact remain a topic of debate. This study aims to systematically examine the relationship between institutional investors and corporate sustainability outcomes by conducting a systematic literature review (SLR). Using an advanced search strategy across Scopus and Web of Science databases, 25 relevant primary data sources were identified. All selected articles in this review explicitly examine the direct relationship between institutional investors' equity holdings and corporate sustainability, with this being the primary outcome. The geographical distribution of the reviewed studies indicates a predominant emphasis on China, followed by a limited number of global comparative analyses. Only a few studies investigate other regions, specifically one each from Sub-Saharan Africa, Jordan, the United Kingdom, and Taiwan. The review employs a qualitative content analysis methodology to synthesise findings from diverse contexts, offering insights into the interplay between institutional investor ownership and sustainability outcomes. The flow of this study is based on the PRISMA framework. The findings from the analysis were divided into three themes: (1) Institutional Investors' ESG Preferences and Ownership Impact on Corporate Sustainability, (2) Factors Affecting the Relationship between Institutional Investors and Corporate Sustainability, and (3) Institutional Investors' Role in Sustainability Governance. The results reveal that institutional investors influence sustainability outcomes through various mechanisms, such as active ownership, stewardship engagement, and ESG-focused investment strategies. The efficacy of these mechanisms fluctuates based on investor classification, geographic distribution, and the regulatory environment. The findings highlight the significance of governance frameworks, investor diversity, and financial motivations in influencing corporate ESG performance. This study not only contributes to the ongoing discourse on institutional investors' role in corporate sustainability by providing a structured synthesis of recent literature and identifying critical gaps for future research but also provides practically pertinent insights for: (1) policymakers in developing stewardship codes or ESG disclosure requirements; (2) corporate executives in interacting with institutional investors; and (3) institutional investors seeking to enhance their investment strategies.

Keywords: corporate governance, corporate responsibility, ESG, institutional investors, sustainability

1. INTRODUCTION

The increasing need to address environmental, social, and governance (ESG) concerns has placed sustainability at the centre of scholarly and practical discussions. Institutional investors have become crucial stakeholders in corporate sustainability practices due to their significant ownership and long-term strategic interests (Khan & Dash, 2014). Institutional investors, including pension funds, mutual funds, insurance companies, and sovereign wealth funds, possess considerable influence to alter corporate conduct via their investment choices and proactive interaction with company management. As stewards of substantial financial assets, their investment choices and ownership frameworks can significantly influence the implementation and efficacy of sustainability practices in corporations. In recent years, there has been an increase in academic focus on the relationship between institutional investor ownership and corporate sustainability (Abd-Mutalib & Shafai, 2023; Kordsachia et al., 2022; Velte, 2023b), indicating a growing acknowledgement of their influence in promoting sustainable development and improving corporate accountability.

Notwithstanding the expanding corpus of literature, the relationship between institutional investors and sustainability outcomes remains intricate and multifaceted. Some studies emphasise the beneficial impact of institutional investors on corporate sustainability reporting (Ahmed Hashed & Ghaleb, 2023; García-Sánchez, Rodríguez-Ariza, et al., 2020; Lashitew, 2021; Whetman, 2018) and performance (Kordsachia et al., 2022; Liu & Wang, 2022; Velte, 2023a), while others point out possible trade-offs and conflicts of interest (Correa-Garcia et al., 2020; Erhemjamts & Huang, 2019; Oh et al., 2011). Long-term investors may promote improved ESG disclosures and sustainable practices (Kavadis & Thomsen, 2023; Kordsachia et al., 2022; Velte, 2023b), whereas short-term investors may prioritise financial returns over sustainability factors (García-Sánchez, Aibar-Guzmán, et al., 2020; Schoenmaker & Schramade, 2019). The diverse nature of institutional investors, including pension funds, sovereign wealth funds, hedge funds, and mutual funds, suggests that their influence on sustainability outcomes will likely differ markedly based on their investment strategies, incentives, and governance frameworks.

Recently, there has been an increase in ESG-related regulations, investor activism, and expectations for corporate accountability worldwide, particularly following the COVID-19 pandemic and in the context of climate change concerns. This study adds to the body of knowledge on institutional investors and sustainability in several important ways that set it apart from previous SLR studies on institutional ownership and sustainability outcomes, such as those carried out by Velte (2023b). Firstly, this study performs a systematic literature review (SLR) by systematically synthesizing the latest empirical research (2024) regarding the correlation between institutional investor ownership and corporate sustainability outcomes. Secondly, this study places particular emphasis on the institutional context and regional contrast by examining how variations in geographical and regulatory environments shape the influence of different types of institutional investors on corporate sustainability. It demonstrates how investor motivations and monitoring efficacy vary by jurisdiction, highlighting significant regional differences, particularly in emerging markets. This dimension is largely underexplored in Velte's review, which tends to generalise findings across global samples without deeply addressing regional policy frameworks or enforcement mechanisms. Thirdly, Velte focuses on the unidirectional viewpoint of how institutional investors impact corporate sustainability, whereas this study takes a bidirectional approach by looking at the preferences of institutional investors, and emphasising how different types are drawn to a company's ESG features. Fourthly, the current review goes beyond Velte's discussion of institutional investors' monitoring capabilities by showing how investor diversity moderates governance mechanisms to promote sustainable business practices.

2. LITERATURE REVIEW

The Institutional Investors Council Malaysia (2022) defines institutional investors as entities that manage substantial funds that can be invested in securities, real estate, or other asset classes. Entities classified as institutional investors include nominees, pension funds, trust funds, insurance companies, mutual funds, foundations, and banks (Markham, 2006). Institutional investors are large equity holders, thereby granting them the capacity to oversee corporate activities. Their presence as equity holders has been associated with mitigating agency problems due to their active role as corporate monitors (Maznorbalia et al., 2023; Qian, 2023). Due to their size and sophistication, institutional investors have the resources, both financial and expertise, to monitor corporate management. They possess superior access to board members in comparison to minor shareholders, thus positioning them as advocates for minority shareholders to safeguard their interests. Moreover, the fiduciary obligations to numerous beneficiaries compelled them to safeguard their investments, resulting in a proactive approach to overseeing the portfolio firms (Klettner, 2021; Velte, 2024).

Past studies have examined the correlation between institutional investors and various corporate outcomes. In the Asian context, much of this research has compared the influence of ownership type, such as government-linked versus private institutional investors (Ahmad, 2011; Hadi, 2012; Patibandla, 2006), investor origin, distinguishing between domestic and foreign investors (Chang et al., 2021; Hu et al., 2018a; Liu et al., 2014; Panicker, 2017; Shin & Park, 2020), and the nature of business affiliations between investors and portfolio companies (Azmi et al., 2021; Hong & Linh, 2023; Manogna & Mishra, 2021; Panicker, 2017). Meanwhile, studies conducted in America and broader international contexts have tended to focus on investment horizons, distinguishing between short-term and long-term ownership (Bushee, 1998; Chang et al., 2021), as well as on investor type, such as pension funds, mutual funds, and hedge funds (Velte, 2023b).

Building on these varied research focuses, recent studies have shifted attention toward the role of institutional investors in advancing corporate sustainability, particularly through their influence on environmental, social, and governance (ESG) practices. People increasingly recognise institutional investors as crucial drivers of corporate sustainability, particularly due to their influence on environmental, social, and governance (ESG) practices. Their substantial financial influence and enduring investment strategies establish them as key stakeholders in promoting sustainable business practices. The increasing emphasis on ESG by institutional investors signifies a transition in investment priorities from solely financial returns to a more comprehensive evaluation of long-term value creation and risk management (Klettner, 2021). Through the utilisation of their voting rights, participation in shareholder activism, and incorporation of ESG criteria into their investment strategies, institutional investors can promote corporate accountability and motivate companies to embrace more transparent and responsible business practices. This transition not only improves companies' resilience to sustainability-related risks but also promotes better alignment with changing regulatory frameworks and stakeholder expectations.

Several factors drive institutional investors' interest in ESG matters. Firstly, incorporating ESG factors aids in alleviating long-term risks linked to environmental deterioration, climate change, and social inequity. Amel-Zadeh & Serafeim (2017) discovered that institutional investors perceive ESG integration as a means to safeguard their portfolios from reputational and regulatory risks. Secondly, institutional investors encounter increasing pressure from stakeholders, such as regulators, beneficiaries, and civil society, to serve as stewards of sustainable corporate conduct. Heightened societal awareness of ESG issues has reinforced institutional investors' dedication to sustainability. Thirdly, empirical evidence indicates that companies with robust ESG performances frequently attain superior financial results over the long term, offering institutional investors both ethical and financial motivations to emphasise sustainability (Busch & Friede, 2018). The correlation between ESG performance and financial returns further substantiates the justification for institutional investors to promote sustainable practices.

People typically view institutional investors as corporate monitors, as their involvement is associated with superior firm performance, improved corporate governance, and more robust sustainability practices. Research indicates that institutional investors positively impact these dimensions, as they can shape corporate strategies via their voting power and active involvement (Abdul Wahab et al., 2008; Ahmad et al., 2011; Bae et al., 2018; Kordsachia et al., 2022; Masry, 2016; Potharla et al., 2021; Sakawa & Watanabel, 2020). Nevertheless, certain studies have yielded contradictory findings, indicating that institutional investors' capacity to oversee and enhance corporate outcomes is constrained, especially when their motivations are driven by liquidity issues or short-term profits. Critics contend that institutional investors may be transient, frequently pursuing rapid solutions for underperforming assets, and are less inclined to foster enduring enhancements in governance or sustainability (Correa-Garcia et al., 2020; Oh et al., 2011).

The variation in these findings is attributed to the heterogeneity among institutional investors. It is increasingly acknowledged that institutional investors should not be regarded as a uniform entity, as diverse investor types exhibit distinct motivations, resources, and abilities to impact corporate practices. The variability in monitoring efficacy stems from factors, including the investment horizon (long-term versus short-term) (Erhemjamts & Huang, 2019; Gloßner, 2019), the nature of business relationships with portfolio companies (related or unrelated) (Ali et al., 2021; Cornett et al., 2007) and external influences such as the legal frameworks in both the investors' home countries and the countries of investment (Tsang et al., 2019; Velte, 2024). These factors influence the ability of institutional investors to function as corporate monitors and, therefore, their effect on sustainability practices and disclosures.

Institutional investors are frequently categorized based on distinct attributes that influence their capacity for oversight. A primary distinction lies in their business affiliations with portfolio companies. Investors influenced by pressure, who maintain business relationships with the companies they invest in, are generally less effective in their monitoring roles. These investors may prioritise fostering positive relationships with management to protect their business interests, thereby increasing the likelihood of aligning with management decisions, even if such decisions are not in the best interest of shareholders (Ashrafi & Muhammad, 2013; Azmi et al., 2021; Hong & Linh, 2023). Conversely, pressure-insensitive investors, devoid of these business affiliations, are more predisposed to contest management decisions and demand accountability for inadequate performance (Brickley et al., 1988). Research conducted in India by Manogna & Mishra (2021) and Panicker (2017) revealed that banks and insurance companies, categorised as pressure-sensitive institutional investors, exhibited a positive correlation with sustainability. This conclusion, however, stands in contrast to findings from other regions, including Korea and international contexts, which identified a negative correlation (García-Sánchez, Rodríguez- Ariza, et al., 2020; Oh et al., 2011). The mixed findings suggest that the local context, encompassing legislation and regulatory frameworks related to shareholder protection and sustainability, has a significant influence on the efficacy of institutional investors as corporate monitors.

A crucial distinction pertains to the investment horizon, which categorises institutional investors as either short-term or long-term investors. Research indicates that long-term investors significantly enhance sustainability performance, as their emphasis on long-term value creation leads them to support practices that promote corporate sustainability (Bushee, 1998; Chang et al., 2021; Garel & Petit-Romec, 2021). Nonetheless, the affirmative correlation between long-term institutional investors and corporate sustainability has been challenged by certain studies, including Hu et al. (2018), which uncovered no definitive evidence substantiating this correlation. Researchers have also conducted studies to explore the impact of both domestic and foreign institutional investors on sustainability. Foreign investors, generally devoid of business affiliations with firms and possessing wider viewpoints from their home nations, have demonstrated a more significant impact on corporate governance and sustainability (Shin & Park, 2020; Velte, 2023b). They are frequently linked to enhanced sustainability practices, especially when originating from nations with robust shareholder protection and sustainability standards (Aggarwal et al., 2011; Dyck et al., 2019; García-Sánchez, Rodríguez-Ariza, et al., 2020). The global experience and long-term perspective of foreign institutional investors enhance their capacity to promote sustainability in emerging markets (Widjaja et al., 2024; Yoo & Chang, 2024).

The monitoring ability of institutional investors differs between public and private institutions. In developing nations, public institutional investors' oversight capabilities may be limited by political pressures, leading them to favour government initiatives over corporate accountability (Ahmad et al., 2011). Conversely, private institutional investors tend to be more proactive in oversight and can operate with greater autonomy from political influences. Additionally, ownership structures influence the relationship between institutional investors and sustainability. Yin et al. (2024) contend that significant institutional ownership may impede ESG performance, especially in competitive industries, as substantial institutional investors may partake in anti-competitive practices. Conversely, Lin et al. (2024) demonstrate that the involvement of foreign institutional investors can mitigate such friction, enhancing sustainability outcomes. The interplay between investor type and ownership structure is pivotal in assessing the influence of institutional investors on corporate sustainability, highlighting the necessity of differentiating between investor categories and their effects on governance and ESG practices.

3. MATERIAL AND METHODS

3.1 Identification

This study employed essential stages of the systematic review process to gather a substantial amount of relevant literature. The process began with the identification of keywords, followed by the investigation of related terms using dictionaries, thesauri, encyclopaedias, and prior research. All pertinent terms were identified, and search strings were constructed for the Web of Science and Scopus databases (refer to Table 1). The identification phase is a crucial component of the Systematic Literature Review (SLR) process, as it guarantees a thorough and methodical collection of pertinent studies. The identification process for the topic, "Unpacking the Nexus between Institutional Investors' Ownership and Sustainability", utilised two prominent academic databases: Scopus and Web of Science (WoS). This method yielded 690 records from Scopus and 119 records from WoS, culminating in a total of 809 records.

This result demonstrates the efficacy of the keyword selection in identifying pertinent literature. Scopus, as one of the largest abstracts and citation databases, offers comprehensive coverage, especially in multidisciplinary fields such as business, management, and social sciences. The substantial volume of records obtained from Scopus suggests that the topic is highly relevant to a diverse array of academic research within these disciplines. Conversely, Web of Science, recognised for its emphasis on high-impact journals, produced a smaller number of records. This discrepancy may be ascribed to the more rigorous indexing standards of WoS or differences in database coverage, as WoS frequently emphasizes journals with elevated citation metrics and recognized reputations.

Table 1 The search string.

Scopus	TITLE-ABS-KEY (("institutional investors" OR "institutional ownership") AND (sustainability OR esg)) AND (LIMIT-TO (PUBYEAR , 2024)) AND (LIMIT-TO (SUBJAREA , "BUSI") OR LIMIT- TO (SUBJAREA , "ECON") OR LIMIT-TO (SUBJAREA , "SOCI")) AND (LIMIT-TO (DOCTYPE , "ar")) AND (LIMIT-TO (LANGUAGE , "English”) Date of Access: Feb 2025
Wos	Refine results for (“institutional investors" OR "institutional ownership”) AND (sustainability OR esg) (Topic) and 2024 (Publication Years) and Article (Document Types) and English (Languages) and Business Economics (Research Areas) Date of Access: Feb 2025

3.2 Screening

The screening process (Refer Table 2) is a crucial phase in the Systematic Literature Review (SLR), as it narrows the extensive collection of records identified during the identification stage. This process employs specific inclusion and exclusion criteria to eliminate irrelevant or low-quality studies, ensuring that only those directly aligned with the research objectives are retained. In the initial stage, 809 records were meticulously screened according to stringent criteria, resulting in a substantial decrease in the dataset.

Next, 656 records were excluded based on clearly established criteria to maintain focus and relevance. Articles in languages other than English were eliminated to ensure accessibility and consistency in the analysis. Likewise, studies released before 2024 were omitted to emphasize the most contemporary and pertinent literature, thereby reflecting current trends and insights within the discipline. Additional exclusions encompass conference proceedings, review articles, and works "in press" to ensure a concentration on fully published, peer-reviewed articles. Furthermore, studies not in Business, Management & Accounting, Economics, Econometrics & Finance, or social science were omitted, as they are unlikely to directly enhance the comprehension of institutional investors' role in sustainability.

After this thorough screening process, the final count of records was 153, comprising 152 articles from Scopus and 1 from Web of Science (WoS). The inconsistency in records between these databases aligns with the trends noted during the identification phase, wherein Scopus exhibited more extensive coverage. This is probably attributable to Scopus's incorporation of a broader array of journals and multidisciplinary sources in contrast to WoS, which prioritises high-impact journals with more rigorous indexing standards. Nevertheless, the WoS results, albeit limited in number, still provide valuable insights, especially from journals of considerable influence in the discipline.

The significant decrease in records from 809 to 153 explains the efficacy of the screening process in refining the dataset to concentrate on the most pertinent studies. The conclusive dataset of 153 records offers a practical and resilient basis for subsequent analysis. The articles are now more closely aligned with the fundamental themes of institutional investors and sustainability, facilitating a more profound examination of theoretical frameworks, empirical findings, and methodological approaches within the selected domains. Implementing rigorous screening criteria guarantees that the literature review will be thorough, pertinent, and academically robust, yielding significant insights into the relationship between institutional investors' ownership and sustainability.

Next, one duplicate paper was identified and removed to ensure the uniqueness and relevance of the data. This step was crucial for eliminating redundancies and maintaining the integrity of the analysis. Following this refinement, the remaining 152 unique records were retained for the next stage of analysis. This process ensures that only distinct and relevant studies are considered, enhancing the overall reliability and validity of the systematic review.

Table 2 The selection criterion searching

Criterion	Inclusion	Exclusion
Language	English	Non-English
Time line	2024	< 2024
Literature type	Journal (Article)	Conference, Book, Review
Publication Stage	Final	In Press
Subject	Business, Management & Accounting, Economics, Econometrics & Finance, and Social Science	Besides Business, Management & Accounting, Economics, Econometrics & Finance, and Social Science

3.3 Eligibility

The eligibility phase involves a thorough and critical assessment of the records retained following the screening stage. At this stage, the 152 articles designated for evaluation were rigorously examined to verify their adherence to the inclusion criteria and their congruence with the research objectives. The eligibility phase requires a thorough review of the titles, abstracts, and critical content of each article to ascertain their pertinence to the study of "Unpacking the Nexus between Institutional Investors' Ownership and Corporate Sustainability".
The review process resulted in the exclusion of 127 articles that failed to meet the necessary

standards or relevance criteria. Multiple critical factors led to these exclusions, including articles being outside the designated scope, possessing inconsequential or ambiguous titles, offering abstracts misaligned with the research objectives, or lacking the availability of the complete text. The exclusion of irrelevant articles was essential to ensure that the final dataset concentrated exclusively on studies that directly examine the relationship between institutional investors and sustainability. These articles may have covered irrelevant subjects or lacked substantive insights regarding the research question. Only empirical studies are included in the sample.

Consequently, 25 articles were selected for the upcoming review. The substantial decrease from 152 to 25 articles is due to the credibility and the selection of only the most pertinent and high-quality studies. The remaining articles constitute a meticulously curated dataset that aligns with the research objectives, providing valuable empirical insights into the correlation between institutional investors' ownership and sustainability. The 25 articles now constitute the basis for the ensuing phases of the systematic literature review, encompassing data extraction, synthesis, and analysis. The eligibility phase bolsters the credibility and depth of the review, thereby establishing a robust foundation for significant and impactful conclusions.

Data Abstraction and Analysis

An integrative analysis was used as one of the assessment strategies in this study to examine and synthesise a variety of research designs (quantitative methods). The goal of the study was to systematically explore and synthesise recent empirical evidence on the relationship between institutional investor ownership and corporate sustainability.

The process commenced with a methodical data collection phase, during which the authors meticulously examined 25 selected publications to derive assertions and evidence relevant to the study's aims. To confirm the coding process, peer debriefing was performed, in which two researchers independently coded a selection of articles and then compared their coding results to ensure that they were all interpreted in the same way. Any differences were talked about until everyone agreed, and the coding framework was changed to reflect this.

The authors examined the studies and, in conjunction with co-authors, formulated themes pertinent to the research context. The thematic development process utilised a three-stage coding methodology to guarantee systematic and thorough theme construction. First, an open coding was used. Important statements, findings, and ideas from each article were taken out, and initial descriptive codes were given. Second, axial coding was used to put similar codes into larger groups and find patterns and links between ideas like investor type, governance mechanisms, and sustainability reporting outcomes. Lastly, selective coding was used to improve and combine these categories into the final themes, making sure they covered the main ideas in the literature. A log was kept to record all analyses, observations, challenges, and reflections encountered during the data interpretation process. consensus.

The completed themes were subsequently polished to improve their coherence and pertinence.

The analysis and themes were reviewed and validated by two experts. The first reviewer is Dr. Effiezal Aswadi Abdul Wahab, who has over 15 years of expertise in corporate governance. The second reviewer is Associate Professor Dr. Nurisyal Muhamad, who has over 8 years of expertise in sustainability performance management. The expert review phase is an important step undertaken to verify the validity, clarity, significance, and relevance of each theme and subtheme. The experts established domain validity and confirmed that the themes accurately represented the key issues in the study. Adjustments based on the discretion of the author, based on feedback and comments by experts, have been made.

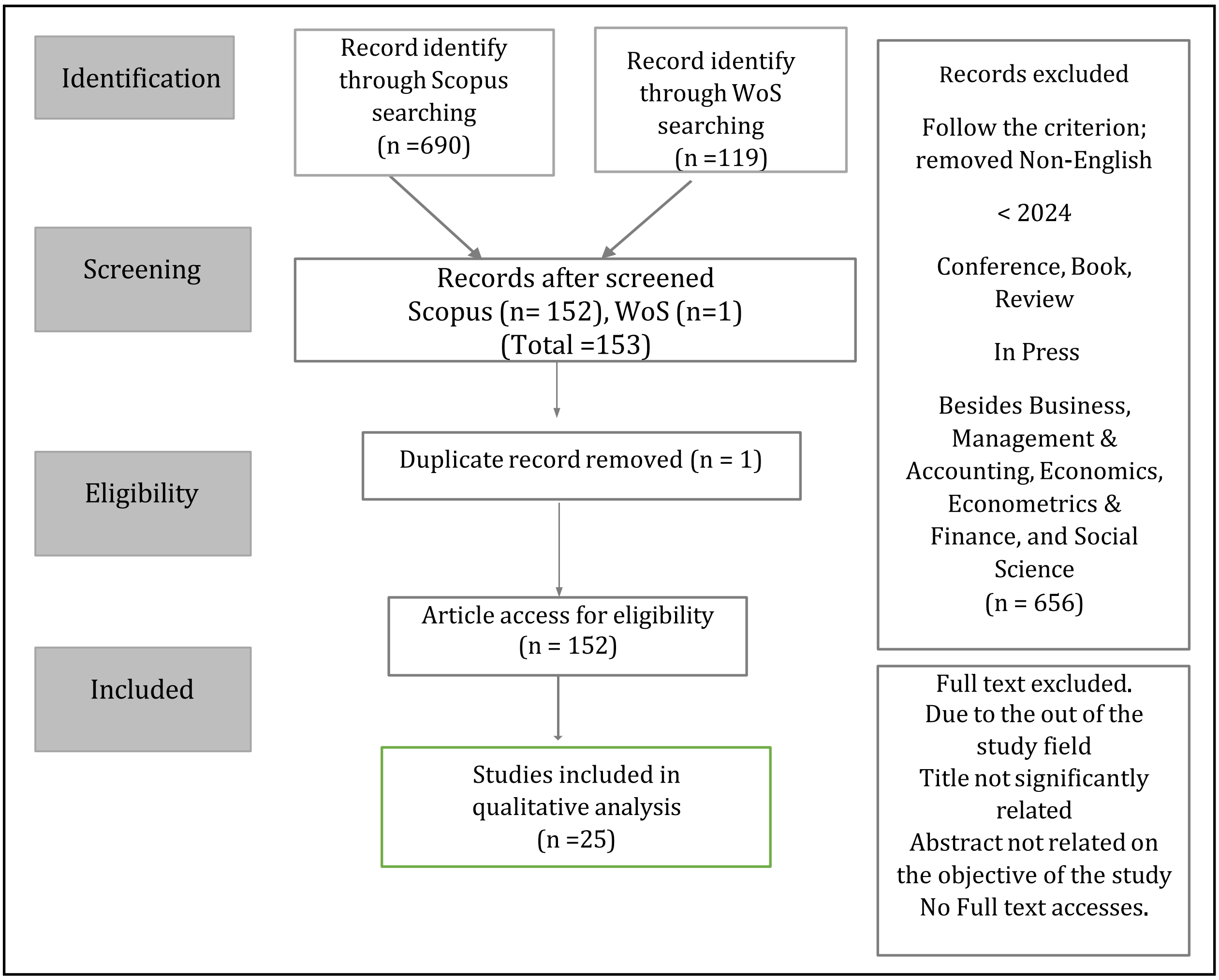

Figure 1. Flow diagram of the search process

Table 3 Number and details of Primary Studies (PS) Database

No	Authors	Year	Title	Source title
1	Liu et al.	2024	The relationship between heterogeneous institutional investors' shareholdings and corporate ESG performance: Evidence from China	Research in International Business and Finance
2	Lopez-de-Silanes et al.	2024	Institutional Investors and ESG Preferences	Corporate Governance: An International Review
3	Wu et al.	2024	Institutional investor ESG activism and green supply chain management performance: Exploring contingent roles of technological interdependences in different digital intelligence contexts	Technological Forecasting and Social Change
4	Zeng et al.	2024	ESG rating uncertainty and institutional investment—evidence from China	Borsa Istanbul Review
5	Zeng & Jiang	2024	Do state-owned institutional investors care more about ESG? Evidence from China	Finance Research Letters
6	Wu, Chen, et al.	2024	Institutional investor ESG activism and exploratory green innovation: Unpacking the heterogeneous responses of family firms	British Accounting Review

			across intergenerational contexts	
7	Yin et al.	2024	Common institutional ownership and corporate ESG performance in China	Finance Research Letters
8	Huang et al.	2024	Tax incentives, common institutional ownership, and corporate ESG performance	Managerial and Decision Economics
9	Jin et al.	2024	Institutional investor ESG activism and corporate green innovation against climate change: Exploring differences between digital and non- digital firms	Technological Forecasting and Social Change
10	Wei & Chengshu	2024	Company ESG performance and institutional investor ownership preferences	Business Ethics, the Environment and Responsibility
11	Sun & Zhao	2024	Responsible investment: Institutional shareholders and ESG performance	Pacific Basin Finance Journal
12	Yoo & Chang	2024	Domestic vs. Foreign Institutional Investors: Who Improves ESG and Value of Chinese Companies?	Sustainability (Switzerland)
13	Li et al.	2024	Revisiting the relationship between ESG, institutional ownership, and corporate innovation: An efficiency perspective	Corporate Social Responsibility and Environmental Management
14	Chen & Li	2024	Institutional investors' distraction and audit fees: The mediating effect of ESG rating disagreement	Scientific Bulletin of Mukachevo State University. Series Economics
15	Zhong & Cheng	2024	Institutional investors' geographic concentration and environmental, social, and governance performance: An inverted U-shaped relationship	Corporate Social Responsibility and Environmental Management
16	Yan & Yang	2024	The Impacts of External Sustainability: Institutional Investors' Sustainable Identity, Corporate Environmental Responsibility, and Green Innovation	Sustainability (Switzerland)
17	Blay et al.	2024	Impact of Board Committee Characteristics on Social Sustainability Reporting in Sub-Saharan Africa: The Moderating Role of Institutional Ownership	Journal of Risk and Financial Management
18	Alkurdi et al.	2024	Institutional investors' impact on sustainability disclosure: exploring the moderating role of financial performance	Journal of Financial Reporting and Accounting
19	Wang et al.	2024	Can Foreign Institutional Investors Stimulate Environmental Innovation? Evidence From China's Stock Market Liberalization	SAGE Open
20	Drobetz et al., 2024	2024	Institutional investors and corporate environmental costs: The roles of investment horizon and investor origin	European Financial Management
21	Hamdan et al.	2024	Institutional ownership and women representation on boards in three different institutional settings	Business Strategy and Development
22	Yang et al.	2024	Institutional investor stewardship and material sustainability information: Evidence from Taiwan	Pacific Basin Finance Journal
23	Li et al.	2024	Diversity of Institutional Investors' Bidding Opinions in Shaping the Sustainability of IPO	Sustainability (Switzerland)

			Performance	
24	Hu et al.	2024	Green-selecting: Foreign institutional ownership and corporate green practices	Finance Research Letters
25	Feng et al.	2024	Can corporate environmental, social, and governance performance influence foreign institutional investors to hold shares? Evidence from China	Business Strategy and the Environment

4. RESULT AND FINDING

4.1 Institutional Investors' ESG preferences and ownership impact on corporate sustainability

Institutional investors increasingly influence corporate sustainability strategies by impacting environmental, social, and governance (ESG) practices. Their ESG preferences fluctuate according to ownership type, investment duration, and financial motivations, which subsequently influence corporate decision-making (Zeng and Jiang, 2024; Lopez-de-Silanes et al., 2024). The increasing focus on ESG by institutional investors indicates a transition in investment priorities from exclusively financial returns to a more holistic assessment of long- term value generation and risk mitigation. The degree to which institutional investors emphasise ESG factors in their investment choices is a subject of ongoing discussion, with certain studies underscoring their active involvement in corporate sustainability, while other studies indicate inconsistencies and possible issues related to greenwashing (Lopez-de-Silanes et al. 2024).

Institutional investors exhibit an increasing inclination towards companies with robust ESG performance, although the extent of influence differs among investor categories. Liu et al. (2024) examined the correlation between diverse institutional investor shareholdings and corporate ESG performance in China, revealing that pressure-resistant institutional investors, such as pension funds and long-term asset managers, have a more substantial positive influence on ESG performance compared to pressure-sensitive investors, such as mutual funds and hedge funds. The research indicated that institutional investors exert significant influence in private enterprises and firms where CEOs do not occupy dual leadership positions, implying that governance mechanisms are vital in assessing the efficacy of institutional investor involvement.
Zeng and Jiang (2024) investigated whether state-owned institutional investors exhibit greater commitment to ESG integration compared to other types of investors. Their findings suggest that state-owned and foreign institutional investors invest more capital in firms with elevated ESG ratings, thereby supporting the notion that government-driven policies affect corporate sustainability efforts. This indicates that institutional investors, especially those connected to state policies, are crucial in promoting ESG practices, particularly in emerging markets like China.

Although institutional investors typically favour ESG-aligned investments, certain studies reveal inconsistencies in their ESG preferences, especially concerning apprehensions about greenwashing. Lopez-de-Silanes et al. (2024) investigated the influence of various ESG scores on institutional investor ownership choices, demonstrating that while institutional investors prefer high-ESG firms, they are reluctant to acquire substantial ownership in these companies. This paradox indicates that institutional investors are doubtful regarding the reliability of ESG disclosures, apprehensive that companies may inflate or distort their sustainability pledges to entice investment. Their research indicated that governance (G) scores have a more significant impact on institutional investment decisions compared to environmental (E) and social (S) scores, implying that investors prioritise the quality of corporate governance when evaluating ESG performance. This corresponds with the findings of Zeng et al. (2024), who investigated the influence of ESG rating uncertainty on institutional investment behaviour. Their research determined that although elevated ESG ratings draw institutional investment, ambiguity regarding these ratings dissuades investors, especially passive institutional investors. The findings highlight the imperative for standardised ESG reporting mechanisms to alleviate information asymmetry and guarantee that ESG ratings accurately represent corporate sustainability performance.

In addition to passive investment choices, institutional investors actively participate in ESG activism to influence corporate sustainability strategies. Hu et al. (2024) examined the influence of institutional investor activism on the performance of green supply chain management, discovering that companies react to ESG-oriented investor demands by implementing more sustainable supply chain practices, especially in sectors characterised by significant technological integration. Their research indicates that institutional investor ESG activism is especially impactful in technologically advanced companies, where technology facilitates greater transparency in supply chain management and improves sustainability outcomes. A subsequent study by Wu et al. (2024) examined the influence of institutional investor ESG activism on promoting corporate green innovation, specifically within family-owned enterprises. Their findings demonstrate that second-generation family firms respond more robustly to ESG activism than first-generation firms, implying that sustainability concerns become increasingly integrated into corporate culture over time. These findings underscore the growing influence of institutional investors as catalysts for change, actively encouraging firms to adopt more sustainable business practices.

The analysed studies collectively demonstrate the complex role of institutional investors in influencing corporate ESG performance. Although numerous institutional investors demonstrate a distinct inclination towards high-ESG firms, apprehensions regarding greenwashing, uncertainties in ESG ratings, and anti-competitive ownership frameworks complicate their investment choices. Moreover, ESG activism is becoming a potent instrument by which institutional investors promote corporate sustainability, especially within technology- driven sectors and family-owned enterprises. These findings highlight the necessity for more robust ESG reporting standards, improved transparency in ESG ratings, and a clearer distinction among investor categories to guarantee that institutional investors effectively support corporate sustainability objectives. Policymakers, corporate executives, and investors must cooperate to improve ESG accountability, mitigate greenwashing risks, and establish an investment framework that emphasises long-term sustainability rather than immediate financial returns.

4.2 Factors affecting the relationship between institutional investors and corporate sustainability

Institutional investors significantly influence corporate sustainability practices, especially regarding environmental, social, and governance (ESG) performance, sustainability reporting, and green innovation. Their investment choices and governance actions have been shown to influence corporate conduct in various ways, including the enhancement of sustainability disclosures and the modulation of the connection between board structures and sustainability performance. The degree of their influence, however, fluctuates according to geographic concentration, financial performance, and the regulatory framework.

Institutional investors significantly impact corporate sustainability through their geographic concentration and access to firm-specific information. Zhong and Cheng (2024) examined the correlation between the geographic concentration of institutional investors and corporate ESG performance, revealing an inverted U-shaped relationship. Their findings indicate that moderate geographic concentration improves ESG performance, as investors in close proximity can engage more effectively in corporate governance and oversight. Nonetheless, past a specific threshold, the advantages diminish, as excessive geographic concentration can result in redundant oversight and constrain firms' strategic flexibility. The research indicates that high-speed railway networks and institutional frameworks mitigate the adverse effects of excessive geographic concentration, suggesting that improved accessibility for firms can foster a more favourable investor influence on ESG practices. This indicates that policymaker's ought to prioritise enhancing connectivity between enterprises and institutional investors to optimise the beneficial effects on sustainability outcomes.

Besides geographic factors, the sustainable identity of institutional investors and their external sustainability commitments substantially influence corporate environmental responsibility and green innovation. Yan and Yang (2024) investigated the impact of institutional investors' adherence to sustainability principles on corporate green innovation, employing a difference-in-differences (DID) analysis of Chinese-listed companies. Their research indicates that institutional investors possessing a robust sustainability identity positively impact corporate green innovation, especially in companies that already exhibit significant environmental responsibility. The research indicated that companies react to the sustainable identity of institutional investors in a manner akin to their response to third-party sustainability ratings, underscoring the significance of external sustainability influences in corporate decision-making. This discovery highlights the function of institutional investors as external catalysts for sustainable corporate innovation, especially in sectors where internal sustainability efforts may be inadequate to effect significant change.

Blay et al. (2024) examined the moderating influence of institutional investors on the relationship between board committee attributes and social sustainability reporting in Sub- Saharan Africa (SSA). Their findings suggest that although institutional ownership did not directly influence the level of social sustainability reporting, it significantly moderated the effects of sustainability committee independence and gender diversity on sustainability disclosures. This indicates that institutional investors indirectly influence corporate sustainability results by strengthening governance frameworks that promote social responsibility initiatives. The research indicates that companies in South Africa and Mauritius demonstrated more robust governance frameworks and elevated social sustainability reporting, emphasising the significance of regulatory structures in influencing institutional investors.

An important aspect of institutional investors' effect on corporate sustainability is their impact on sustainability disclosure practices, especially concerning financial performance. Alkurdi et al. (2024) investigated the influence of institutional investors on sustainability disclosure and assessed whether financial performance moderates this relationship. Their findings confirm that institutional investors have a positive and significant impact on firm sustainability disclosure, suggesting that investors encourage transparency and accountability in corporate sustainability practices. The study indicates that financial performance serves as a moderating factor, suggesting that firms with superior financial performance are more inclined to positively respond to the sustainability expectations of institutional investors. This suggests that institutional investors advocate for improved sustainability disclosures, but their impact is more pronounced in financially stable companies. The study underscores the necessity for regulators to advocate for equitable sustainability policies that harmonise economic and environmental objectives, ensuring that even financially limited firms uphold their commitment to sustainability reporting.

The aggregated findings from these studies explain the complex role of institutional investors in influencing corporate sustainability practices. Geographic concentration, sustainable identity, board committee structures, and financial performance all act as mediating factors that determine the extent of investor influence. While institutional investors actively promote sustainability disclosures and green innovation, their effectiveness is influenced by regulatory frameworks, accessibility to firms, and firms' existing sustainability commitments. These findings highlight the importance of strengthening corporate governance mechanisms, improving investor access to firms, and ensuring that sustainability commitments are integrated into long-term corporate strategies. Policymakers and corporate leaders must work together to enhance institutional investor engagement in sustainability governance, ensuring that corporate sustainability initiatives are both effective and enduring.

4.3 Institutional Investors' Role in Sustainability Governance

Institutional investors are important in sustainability governance by impacting corporate environmental innovation, board diversity, stewardship, and corporate social responsibility. Their role encompasses not only financial oversight but also the active formulation of governance frameworks that improve long-term environmental, social, and governance (ESG) results. The extent of influence differs according to the category of institutional investor, their nation of origin, investment timeframe, and level of engagement. This section consolidates findings from various studies to enhance comprehension of the role of institutional investors in sustainability governance.

Foreign institutional investors are recognised as pivotal catalysts of corporate environmental innovation, especially in markets experiencing stock market liberalisation. Wang et al. (2024) investigated the influence of foreign institutional investors in China, discovering that their involvement substantially enhances corporate environmental innovation via three main mechanisms: oversight, risk mitigation, and knowledge transfer. The research indicated that foreign institutional investors promote firms to augment green patent portfolios, elevate research and development (R&D) investments, and secure green financing, resulting in enhanced environmental innovation. This effect was more significant in areas with greater innovation capacity, indicating that institutional investors' capacity to impact sustainability governance depends on a firm's current innovation ecosystem. Hu et al. (2024) similarly discovered that foreign institutional ownership positively forecasts corporate green practices, as firms with elevated foreign investment were more inclined to enhance their carbon footprint, augment sustainability-focused investments, and undertake more stringent green reporting. These findings underscore the influence of institutional investors in fostering authentic corporate environmental accountability, alleviating apprehensions regarding greenwashing.

A vital component of institutional investors' involvement in sustainability governance pertains to corporate environmental expenditures and long-term investment strategies. Drobetz et al. (2024) examined the correlation between institutional investor ownership and corporate environmental expenditures, demonstrating that long-term institutional investors, especially from developed economies, facilitate a reduction in corporate environmental costs. Their findings suggest that companies with significant institutional investor ownership exhibit reduced monetised environmental impact, diminished cost of equity, and enhanced firm valuation as a result of sustainable business practices. The results offer novel insights into how institutional investors influence corporate environmental impact by aligning long-term financial incentives with sustainability outcomes. Furthermore, Feng et al. (2024) discovered that companies exhibiting robust ESG performance garner increased foreign institutional investor ownership, substantiating the assertion that sustainability-oriented investors are more predisposed to engage with firms dedicated to responsible governance practices.

Institutional investors also impact board diversity and corporate governance frameworks, which are essential elements of sustainability governance. Hamdan et al. (2024) examined the influence of institutional investors on female representation on boards in various institutional contexts, revealing that country-specific institutional factors, including education, legal support, and cultural norms, significantly affect the degree of gender diversity on boards. Their research indicated that institutional investors in nations with elevated gender equality and robust legal structures were more successful in enhancing female representation on corporate boards. In areas with reduced female labour market participation, institutional investors exerted minimal impact on board diversity, indicating that regulatory measures, like gender quotas, might be essential to align corporate governance frameworks with wider sustainability goals.

Stewardship represents a crucial mechanism by which institutional investors enhance sustainability governance, especially concerning significant ESG disclosures and responsible investment practices. Yang et al. (2024) investigated the role of institutional investor stewardship in enhancing sustainability governance in Taiwan, demonstrating that institutional investors advocate for both material and immaterial ESG disclosures. Their findings suggest that domestic institutional investors are more proactive than foreign investors in advancing sustainability governance, utilising their local informational advantage to improve corporate transparency. This corresponds with Li et al. (2024), who examined the correlation between institutional investor bidding perspectives and Initial public offering (IPO) sustainability. Their research revealed that variability in institutional investor perspectives is inversely related to post-IPO ESG performance and financial stability, indicating that although institutional investor involvement improves governance, excessive divergence in investor expectations may result in market volatility and impede corporate sustainability results.

The aggregated results from these studies reveal the intricate and diverse role of institutional investors in sustainability governance. Although foreign institutional investors significantly influence environmental innovation and green financing, domestic investors more effectively enhance corporate governance reforms and sustainability reporting. Long-term institutional investors mitigate corporate environmental expenses, whereas variations in institutional frameworks influence the efficacy of investor-driven board diversity initiatives. These insights highlight the significance of regulatory frameworks, investor engagement strategies, and corporate governance reforms in enabling institutional investors to effectively participate in sustainability governance. Enhancing ESG disclosure standards, promoting proactive institutional investor stewardship, and aligning investment incentives with sustainability objectives will be crucial for cultivating responsible corporate governance and long-term value generation.

5.0 DISCUSSION AND CONCLUSION

Institutional investors play a significant role in shaping corporate sustainability governance through their influence on environmental innovation, board diversity, stewardship, and corporate social responsibility. Their impact extends beyond financial oversight, actively contributing to governance structures that enhance long-term environmental, social, and governance (ESG) performance. The degree of influence varies depending on the type of institutional investor, their investment horizon, level of engagement, and regulatory frameworks.
Foreign institutional investors serve as key drivers of corporate environmental innovation, particularly in markets undergoing stock market liberalisation. Their involvement stimulates green innovation through mechanisms such as monitoring, risk mitigation, and knowledge transfer. Companies with higher foreign institutional ownership tend to improve green patent portfolios, allocate more resources to sustainability-focused research and development, and gain better access to green financing. These effects are more pronounced in regions with established innovation ecosystems, suggesting that the external environment plays a crucial role in determining investor effectiveness in promoting sustainability.

Institutional investors also contribute to sustainability governance by reducing corporate environmental costs and aligning financial incentives with sustainable business practices. Firms with strong institutional investor backing exhibit lower monetised environmental impact, reduced cost of equity, and enhanced firm valuation due to sustainable operational strategies. The presence of long-term institutional investors, particularly from developed economies, ensures that companies maintain a commitment to responsible governance, further reinforcing the link between financial stability and ESG performance. Additionally, companies with robust ESG ratings tend to attract more institutional investment, illustrating the reciprocal relationship between sustainability efforts and investor confidence.

Board diversity and governance structures are another focal point of institutional investor influence. Institutional investors, particularly in countries with progressive gender equality policies, advocate for greater female representation on corporate boards. However, in regions where female labour market participation is lower, their influence on board diversity remains limited. Regulatory measures, such as gender quotas, may be necessary to complement investor-driven governance improvements. Institutional investors also enhance corporate transparency through stewardship initiatives, particularly in advancing material ESG disclosures. Domestic institutional investors are often more proactive than foreign investors in this regard, leveraging their familiarity with local markets to drive sustainability governance reforms.

Investment decision-making by institutional investors also affects corporate sustainability outcomes, particularly regarding initial public offerings (IPOs). Greater diversity in institutional investor bidding perspectives is associated with lower post-IPO stock price stability, financial performance, and ESG outcomes. This suggests that while institutional engagement fosters governance improvements, excessive divergence in investor expectations may introduce volatility and impede corporate sustainability strategies. Additionally, firms with strong ESG performance are more likely to secure and retain institutional investment, reinforcing the role of sustainability commitments in shaping corporate valuation.

The collective findings highlight the intricate and multifaceted role of institutional investors in sustainability governance. While foreign institutional investors significantly influence environmental innovation and green financing, domestic investors play a more substantial role in governance reforms and sustainability reporting. Long-term institutional investors contribute to lowering corporate environmental costs, whereas variations in institutional contexts determine the effectiveness of investor-led governance initiatives. Strengthening ESG disclosure standards, promoting institutional investor stewardship, and aligning investment incentives with sustainability objectives will be essential for fostering responsible corporate governance and long-term value creation.

This SLR indicates that although institutional investors can influence sustainability practices, their impact on reporting quality is inconsistent, raising issues regarding incomplete disclosures, uncertainty in ESG ratings, and greenwashing. The results indicate that ownership effects differ based on investor type, concentration, and market context. Due to variations in regulatory frameworks, enforcement efficacy, and market maturity among countries, cross-national comparisons are crucial for identifying the conditions under which institutional investors most effectively improve transparent, credible, and decision-useful sustainability reporting.

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