# CORPORATE SOCIAL RESPONSIBILITY ENGAGEMENT AND DISCLOSURE BEHAVIORS IN CHINA: A STAKEHOLDER PERSPECTIVE

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# Corporate Social Responsibility Engagement and Disclosure Behaviors in China: A Stakeholder Perspective

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A thesis submitted in partial fulfillment of the requirements for the degree of doctor of philosophy

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# CERTIFICATE OF ORIGINALITY

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# ABSTRACT

Corporate social responsibility (CSR) reconciles the idea that businesses can have multiple goals of profitability and ethics, and they should simultaneously fulfill social obligations. The business-case CSR engagement has been generally supported in the literature, which evidences that CSR engagement is beneficial for a firm's stakeholder relationships and eventually, for its financial performance.

In addition to a firms' CSR practices, how a firm presents and communicates its practices with stakeholders works as a nexus to transfer CSR information into stakeholder knowledge that serves as the foundation for value creation. This study examines the overall story of CSR engagement and disclosure behaviors, based on annual CSR reports by various firms. A CSR report is an official and comprehensive means of disclosure to deliver CSR information to various stakeholder groups, such as investors, stock analysts, and third-party rating agents. The thesis considers a stakeholder perspective in order to investigate the engagement and disclosure practices in China, antecedents and outcomes, as well as their boundary conditions.

The first part of this paper lays out a foundation for further studies by exploring the key factors of CSR practices in China. Based on the explorative content analyses of a preliminary investigation, then I examine the factors that influence a firms' CSR engagement structures, achieved by capturing CSR disclosure emphasis. By adopting resource dependence theory (RDT), I argue that the engagement structure observed from a CSR report is a reflection of a firm's managerial focus when dealing with multifaceted stakeholder relationships. When firms have more available resources at their disposal, they tend to reach out by diversifying their CSR engagement. When a firm's resource environment is concentrated, and they primarily depend on one

critical stakeholder to survive, they tend to build a specialized CSR portfolio. From further investigation, I found that CSR in China can be indeed very effective. I examined the consequences of a firm's CSR disclosure tactics in Chapter 5, that is, the degree to which the reporting was informative and comprehensive. I argue that CSR disclosure tactics, in other words, how firms present CSR information to stakeholders, are organizational impression management skills. Proper disclosure tactics would induce positive stakeholder reactions and corporate gains. However, such disclosure tactics are not always welcomed. It is particularly effective for firms with high stakeholder exposure, but it works negatively for firms in which there is a single dominating stakeholder. Further investigation implied that stakeholders may hold certain biases when evaluating a firm's CSR performance (CSP).

To test our hypotheses, I collected longitudinal data from listed firms in China. In order to measure the attributes of CSR reports, a two-stage content analysis technique was adopted; it involves both manual coding and computer-aided text analysis. The studies were set in a Chinese context, because China has a unique stakeholder group: the government of China. The government plays a dual role since it serves as both as a policy maker and an economic participant. The government thus functions as a clear benchmark to distinguish stakeholder attributes from those of others. Moreover, CSR research has primarily been applied to Western economies, and it is necessary to shift the focus towards more developing countries in order to provide more contextual heterogeneity.

The three phases of the study combine to contribute to a more advanced understanding of CSR engagement and disclosure practices in China. Investigating the structure of CSR engagement, I try to reveal that the divergent CSR profiles now can be seen in the market which are the results of firms' heterogeneous resource

environments. Firms tailor their resource allocations according to the resource availability as well as resource distribution among stakeholders. By looking into the main channel through which CSR information is dispersed among stakeholders, the thesis has enriched the knowledge of CSR disclosure behaviors by identifying report attributes that may effectively influence stakeholder reactions, and it has also identified the factors that can further influence stakeholders' judgements to firms' CSR efforts. From a pragmatic viewpoint, our results provide managers with information necessary to use resources more effectively when creating their CSR strategies.

*Keywords: Corporate Social Responsibility (CSR), CSR Engagement, CSR Disclosure, CSR Reporting, Stakeholder Theory, Resource Slack, Organization Impression Management*

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# CHAPTER 1. INTRODUCTION

## 1.1 Introduction and Research Questions

Corporate social responsibility (CSR) considers the stakeholders, not only the shareholders, of firms ethically and voluntarily in a responsible manner beyond what is legally required (McWilliams & Siegel, 2001). The idea of CSR gained currency in the 1960s (Wang, Tong, Takeuchi, & George, 2016). The literature holds an extensive discussion of CSR, from its definition to the potential factors that contribute to CSR engagement and outcomes.

Sharing the theoretical argument as that of stakeholder theory (Freeman, 1984) that not only shareholders but stakeholders are important for organizations, since stakeholders influence or are influenced by an organization's behaviors, CSR is a form of realization of stakeholder theory in management practice, and it is generally believed that CSR engagement can induce superior financial performance (Margolis, Elfenbein, & Walsh, 2007).

Apart from substantive research on strategic competitiveness generated by CSR engagement (Aguilera, Rupp, Williams, & Ganapathi, 2007; Bansal & Roth, 2000; Barnett, 2007), antecedents and underlying mechanisms leading to CSR engagement also play a key part in CSR literature. A variety of studies with different theoretical lenses have enlightened our understanding of why firms would choose to initiate CSR strategies. The argument splits into two lines. The first line stems from the external environment of the organization. By employing institutional theory, a number of studies conceptualize CSR engagement as a strategic reaction to institutional pressures (Campbell, 2007; Luo, Wang, & Zhang, 2017). The second line focuses on an organization's internal capacity and demands. For example, McWilliams and Siegel (2001) explain how slack resources can motivate CSR engagement.

In most of the studies, CSR has been seen as a holistic construct known as CSR performance (CSP), and it has usually been presented in an aggregate manner (Wang et al., 2016). Alternatively, many studies have isolated single dimensions of CSR and to investigate their outcomes. These studies provided valuable insights, however, they have not addressed organizations' resource allocation when facing multiple stakeholders' demands. As a result, the interplay among stakeholders and how firms balance the complexity of interests have been largely hidden from the picture. However, the interconnection within the construct is supposed to reveal more about firm CSR strategy making, which would further contribute to the CSR process literature that has been rather under-developed compared with the fact that CSR process contains much theoretical and pragmatic values.

Besides the research on CSR itself, in recent years, scholars have also turned to CSR disclosure behaviors. Apart from engaging in CSR activities, how to communicate firms' CSR claims effectively also plays a critical link that contributes to stakeholders' positive reactions. It has become the consensus that the way in which firms communicate their CSR practices with their stakeholders has important implications for their CSR performance (Cheng, Ioannou, & Serafeim, 2014). As a particular practice of CSR engagement, CSR disclosure has also been regarded as an outcome of institutional pressure. An institutional argument usually converges as an isomorphic response towards the issuing of a CSR report (DiMaggio & Powell, 1983), but individual firm heterogeneity has been largely concealed. In practice, CSR disclosure bears potential strategic benefits, since it remains as a discretionary opportunity for firms to make self-presentations to their diverse stakeholder groups.

In addition, composing and issuing CSR reports have become an annual activity that requires organizational support from the managerial structure and sufficient resources. It is of potential value to look at firms' disclosure behaviors in order to determine how they might best make disclosures in order to maximize corporate returns.

Previous studies have enriched our knowledge of CSR disclosure behaviors, including both antecedents and outcomes. Surprisingly, the critical role a CSR report plays and CSR infomediaries in the flow of information from a firm to its stakeholders has gained very limited attention. When CSR disclosure considered as a firm-initiated corporate strategy, the current knowledge is quite limited, especially regarding the most widely adopted disclosure channel, CSR reporting.

Accordingly, the purpose of this thesis is to enhance the understanding of CSR engagement and disclosure behaviors by exploring two research questions:

- To investigate the structure of CSR engagement through the lens of CSR reporting. Specifically, how would firms balance and prioritize multiple stakeholder interests when they competing for limited firm resources? Under what conditions will firms diversify or specialize their CSR engagement?
- To investigate the specific attributes of CSR reporting behaviors. What factors would influence stakeholders' evaluation of a firm’s CSR reporting? Do stakeholders hold consistent standards when making judgements?

The motivation behind this thesis is the phenomenon that China has become the world largest source of CSR reports. Since the last decade, the economic development in China has shifted from GDP-oriented to a more sustainable path. The CSR awareness among enterprises has substantially increased. However, China CSR displays distinct features that are different from that of Western economies. CSR in China is more of a top-down government-driven practice instead of market-driven voluntary initiatives. While western firms focus more on the actual CSR practices and social influence of “sustainability” of development, Chinese firms care more about the external reporting and the external evaluations. The heterogeneity would trigger more theoretical and managerial implications in comparison with the mature understanding of CSR among Western companies.

The contribution of the thesis mainly resides in CSR process literature. Firstly, the thesis lays a foundation of stakeholder perspective by mapping out key CSR factors reported in China from manually coded text data. Secondly, it contributes a more fine-grained picture of CSR engagement by investigating the engagement structure. Instead of treating CSR as an aggregate construct, the examination of structure reveals firms' strategic prioritizations when making CSR decisions. Thirdly, it contributes a deeper understanding of CSR disclosure behaviors by isolating CSR reporting attributes, namely, informative and comprehensive reporting, and finds out how stakeholders would react to these reporting tactics.

## 1.2 Thesis Structure

Chapter 1 introduces the general CSR literature, discusses the gaps in the literature, and presents the research questions to be investigated in this thesis.

Chapter 2 discusses the evolution of the definition of CSR and the stakeholder framework of CSR, and introduces the nuances of CSR development in China.

Chapter 3 presents a qualitative study that explores the key factors of CSR reports; this serves as a foundation for the empirical studies presented in the following sections.

Chapter 4 investigates the structure of CSR engagement with multiple stakeholder groups. It is hypothesized that resource availability and resource dependency on stakeholders will affect a firm’s choice of engagement structure.

Firms are more likely to pursue a diversified CSR strategy to deal with concerns of many stakeholder groups when they have more slack resources, and their resources in demand are less concentrated. In contrast, firms with limited slack resources and higher dependency on resources provided by a particular stakeholder group are more likely to choose a focused CSR strategy. These hypotheses are tested using panel data from firms listed in China. This contributes a shift in focus for the understanding of CSR engagement, and it maps out a more holistic picture of how firms address demands from multiple stakeholders.

Chapter 5 investigates how CSR information is disseminated from organizations to their stakeholders. From an organizational impression management perspective, the study attempts to uncover the critical role a CSR report plays during the process, and it identifies two CSR reporting tactics that would significantly influence stakeholders' perception of a firm's CSR image, namely, its informativeness and comprehensiveness. It is argued that CSR reporting informativeness and comprehensiveness both contribute to better stakeholder reactions. However, a stakeholder's reaction is likely to be distorted by the heterogeneity of a firm, such as stakeholder exposure and stakeholder ownership power. The analysis of panel data from firms listed in China largely supports this prediction.

Chapter 6 discusses our conclusions, the limitations of this study, and areas of future study.

Chapter 4 and 5 are core empirical studies of the thesis. They jointly present the heterogeneity of China CSR that involves both firm engagement and communication. Both studies focus on a key concept in the thesis, which is the structure of CSR engagement. Chapter 4 emphasizes on the structure of CSR practices, while Chapter 5 emphasizes on the structure of CSR communication. The thesis firstly investigates the practice structure of CSR engagement and explores why the structure variances exist. Then the thesis investigates the communication structure and examines how stakeholders react to different communication strategies. The two studies try to illustrate that firms engage in CSR in different patterns due to firm heterogeneous reasons, however, through communication, firms have the chance to impress stakeholders through a balanced and up-to-date disclosure effort.

# CHAPTER 2. THEORETICAL BACKGROUND

## 2.1 The Definition of CSR

The definition of CSR has evolved and has been extensively refined (Carroll, 1991, 1999). The modern era of CSR is generally considered to have begun with Bowen (2013) and his landmark piece, *Social Responsibilities of the Businessmen*, in which he defines the responsibility of businessmen as "...the obligations...to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6). From the 1950s to 1970s, a number of deliberations and refinements were given to the concept of the social responsibilities of business. McGuire (1963) made a more precise definition that businessmen not only have economic and legal obligations, but that they also have obligations to society. Walton (1967) revisited the definition of the "social responsibility of businessmen," included the notion of "voluntarism" in the definition, and proposed that the fulfillment of social responsibilities did not necessarily come from a direct calculation of cost and economic gains; this paved the way towards a more modernized concept of CSR.

In the 1970s, various authors improved the definition of "social responsibilities of businessmen" from that of a more organizational and managerial perspective. The criticality of the managerial unit and managers were considered. In addition, another key aspect of CSR was brought up by Harold (1971), who pointed out that a socially responsible firm should balance a multiplicity of interests, instead of only striving to benefit the shareholders. He also offered a more fundamental argument that the fulfillment of social responsibilities is a form of utility maximization. Instead of pursuing only a single goal, an enterprise can pursue multiple goals in order to reach utility maximization.

In 1979, Carroll proposed a four-part definition of CSR (Carroll, 1979). He acknowledged that the definition of CSR should embrace the full range of responsibilities of business organizations to society. He defines CSR as an approach that "should encompass the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point of time" (Carroll, 1979, p. 500). He again used this definition in 1991 to argue that economic responsibility serves as a foundation for other categories, and once in place, then legal, ethical, and discretionary responsibilities can be incorporated (Carroll, 1991). In the 1991 version, Carroll refers to discretionary responsibility as a philanthropic responsibility.

## 2.2 CSR in China

According to Carroll (1999), CSR has primarily been considered as it applies to developed economies. In recent years, the contextual differences of CSR engagement in China has gained increasing attention among researchers. In China, a fast follower of CSR practices, there are different motivations and underlying logic (Yin & Zhang, 2012). Under the ethical leadership and traditional thought of Confucians, China's CSR development follows a unique path. The first part of this study investigates the major themes of CSR in China in order to have an overall understanding of the stakeholder framework.

CSR in China has had a relatively short period of development, and it displays rather distinctive features that are rooted in its specific cultural context (Yin & Zhang, 2012). Studies found that in China, CSR does not sync with Carroll's (1991) four-part pyramid of economic, social, ethical, and discretionary CSR. As a result of China’s tradition of ethical leadership (Yin & Zhang, 2012), there is less discussion of economic responsibility. Instead, in China, there is more emphasis on ethical and philanthropic responsibilities. Studies have shown that in recent years, environmental responsibility has been gaining increasing importance, and this has become another pillar of CSR in China (Yin & Zhang, 2012). Third, common practices that are legally required are considered to be CSR engagement in China, for example, paying dividends to shareholders and paying taxes to the state. There is a weak line between compulsory and voluntary actions, and this reflects the fact that in China, CSR is still considered to be a strategy for building legitimacy. These factors provide evidence that CSR is at an early stage of development in China.

To provide an institutional background, I note that in China, CSR has been developed under direction from the government. The central government released directives to guide implementation of CSR practices and to require annual disclosures of CSR. State-owned firms (SOEs) were the first to be required to take such actions. As government agents, the Shanghai and Shenzhen stock exchanges began echoing the central government's policy by mandating listed firms to disclose CSR reports, and they prioritized the collaborated firms in various index selections. Figure 1 shows that the number of CSR reports disclosed each year experienced a significant increase in 2009, immediately after the central government's CSR policy was implemented. Thus, in China, CSR has not evolved naturally, but instead, it has been a government-driven practice based on political and legitimacy concerns.

Insert figure 1

From the perspective of firms' motives for engagement, their CSR performance varies greatly. The China Entrepreneurs Survey System (Li, 2009) found that firms generally lack resources to engage in CSR; this is especially true for small- and medium-sized enterprises (SMEs). In the face of competition, they usually can spare very few resources to make additional investments with no immediate returns. In addition, social responsibility education about the social responsibility of business is still insufficient. The inclusion of CSR in business education is very limited, and this leads to the general lack of CSR sense (Li & Zhang, 2010). Finally, China continues to have a poor social accountability environment (Moon & Shen, 2010). CSR is undervalued and is not echoed in business practice. In recent years, however, the importance of stakeholders, not just shareholders, has been receiving increased attention. Firms are becoming aware of the new rules to the game.

## 2.3 Stakeholder Perspective

CSR has been considered in the framework of different theoretical perspectives; for example, the institutional perspective (Campbell, 2007), the supply and demand of CSR from the firm's perspective (McWilliams & Siegel, 2001), and the stakeholder perspective (Clarkson, 1995). The adoption of a theoretical framework simultaneously serves two purposes. First, it has the theoretical fitness to conceptualize the construct of interest, and second, it can guide the measurement of the construct. Without such a framework, there is a potential misalignment between the conceptualization and measurement that endangers the validity of the construct.

The stakeholder perspective advocated by Freeman (1984) has been shaped and formalized as stakeholder theory. Compared with the traditional conceptualization that views a corporation as a black box that transfers strategic materials from inputs to outputs, stakeholder theory describes business organizations as a constellation of cooperative and competitive interests possessing intrinsic value (Donaldson & Preston, 1995). From a normative perspective, stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activities (Donaldson & Preston, 1995). They are entities that can influence or can be influenced by the corporation's activities (Freeman, 1984). The “interests” refer to the stakes the entities hold in the organization, which are also intrinsic to the stakeholder itself.

One key interpretation of stakeholder theory is that it brings relationships into discussion to explain variations in corporate performance. Conventional analysis of the factors that contribute to financial performance are usually based on transactions. When taking relationships into consideration, this explains some superior returns from an off-book contextual perspective. Previously, the literature has built on this line of investigation and offered evidence that a firm’s relationships with key stakeholder groups will affect the profitability. Godfrey, Merrill, and Hansen (2009) provided evidence that CSR engagement can work as an insurance to mitigate the impact on the stock price when a negative event occurs. Lev, Petrovits, and Radhakrishnan (2010) found that CSR can enhance brand reputation and help firms achieve revenue growth. Luo, Wang, Raithel, and Zheng (2015) found that good CSR performance will attract better recommendations from stock analysisists, and this results in a positive relationship between CSR and stock returns. These studies show that stakeholder theory can be useful, and it can recommend better practices that result in a better stakeholder management strategy.

Moving beyond dyadic ties, Rowley (1997) argues that the stakeholder relationship is a network, and this brings multiple stakeholder relationships into the picture. This viewpoint considers that firms simultaneously have more than one stakeholder group. The situation can be more complex than dyadic or bilateral relationships. This is in line with stakeholder theory, which states that stakeholder management requires simultaneous attention to the legitimate interests of all stakeholders (Donaldson & Preston, 1995). This relies on an evaluation of the stakes held by each stakeholder in the organization.

Multiple stakeholder management echoes the development of CSR which is also a multidimensional construct. A number of studies have discussed the circumstances under which trade-offs must be made between the interests of different stakeholders. Barnett and Salomon (2006) proposed that caring for all stakeholders is costly, and that firms only need to care about stakeholders who can generate superior returns, such as employees, the community, and the environment. Godfrey et al. (2009) also takes a categorization approach to distinguishing stakeholder types. They provided evidence that CSR engagement of secondary stakeholders, which are the stakeholders that do not have direct capital exchange with firms, will generate an insurance-like effect that mitigates negative judgements towards firms under distress. Fu, Boehe, Orlitzky, and Swanson (2016) also bring the cost of stakeholder management into consideration. They argue that there is an optimal point of engagement in terms of resource allocation efficiency. When this point is passed, the cost of engagement will exceed the benefits it brings. There are different approaches than such an either-or approach. Hawn and Ioannou (2016) argue that in order to achieve superior performance, firms need to reduce the engagement gap between internal and external stakeholder engagement in order to build a consistent stakeholder management profile. Wang and Choi (2013) also emphasized that consistency in stakeholder management is important, since it provides a functional comparison that allows stakeholders to make inferences.

Stakeholder theory is descriptive in nature (Donaldson & Preston, 1995). It tells a story about a corporation that involves exchanges of resources between the organization and different stakeholder groups. Stakeholder theory can also by managerial, that is, CSR can be understood as a materialized form of stakeholder management that narrows down the theory to specific firm actions. I begin by considering organizations' managerial actions in China, and from this, a stakeholder framework foundation is set for the subsequent studies.

# CHAPTER 3. AN EXPLORATIVE STUDY OF CHINA CSR FROM AN STAKEHOLDER PERSPECTIVE

## 3.1 A Qualitative Approach

As an exploratory study, I will use the techniques of structural content analysis to analyze CSR reports in order to identify key CSR factors for each year from 2010 to 2013. The sample is taken from the Shanghai Stock Exchange (SSE) 50 Index during this period. All the constituents that are included at some point in the SSE 50 Index in the period from 2010 to 2013 are included; this is a total of 81 firms. The SSE 50 Index constituents are those that have the highest market value and liquidity among all listed firms. Longitudinal data were collected for each of these 81 firms, in order to ensure the consistency of the sample and the validity of the conclusions. Four-year reports were also collected for each firm. A total of 324 reports were assessed. Among the 81 firms, 77 are state controlled, 3 are private, and 1 is collectively owned. The data structure is summarized in table 1.

Insert table 1

The purpose of the qualitative study is to lay a theoretical and methodological foundation for the following two empirical studies. It establishes a stakeholder framework to understand the interconnections through different CSR profiles. The qualitative study also serves as a corpus for the text analysis of stakeholder engagement structure for CSR diversification, informative reporting and comprehensive reporting in Chapter 4 and 5. The corpus covers seven key stakeholders in CSR reports of Chinese firms. Under each stakeholder group, a variety of CSR practices and the way how firms describing the activities are captured, which creates a dictionary of 16,935 pieces of information. Based on the corpus established by the qualitative analysis, the three constructs are able to be quantified by categorizing the reported content into seven different stakeholder groups. The qualitative study serves as a cornerstone based on which the structure of CSR engagement is able to be observed.

Structural content analysis has been widely applied as a measure of CSR engagement (Cochran & Wood, 1984). CSR reports are used as the data source; these reports are issued by listed firms and a number of reports are verified by a third-party auditing firm. Additionally, more and more firms have adopted well-established reporting standards for information disclosure, for example, Global Reporting Initiatives (GRI) and ISO 26000. The adoption of guidelines and principles increases the completeness and accuracy of the reporting performance.

There are concerns regarding this method of measuring CSR, because there can be discrepancies between what firms report and what they have actually done. However, content analysis as a measure of CSR is the only method that can evaluate the details of a firm’s CSR practices. If reports are reliable, content analysis provides rich information, and more importantly, it documents archival data so that changes in engagement can be evaluated over time. CSR report delivers publicly available information about a firm's actions and image. The firm has legal consequences and needs to make sure that the disclosed information should be highly genuine. On the contrary, using an index measure or reputation ranking constructed by third-party organizations may use a different conceptualization of CSR, which puts the validity of our results at risk. Structural content analysis is thus arguably more suitable than the other available choices for this study, because the study relies on detailed CSR engagement information for each stakeholder group.

The coding of CSR reports has been conducted by the author and one independent researcher who had no prior knowledge of the study's research question and hypotheses. In the process of coding, uncertain issues were discussed case by case, and a coding book was compiled. Intercoder agreement was calculated using a small sample of coded reports. During the coding process, the response was measured using a nominal scale. The categories are mutually exclusive and contain paired observations of the same phenomenon. Each response variable has the same number of categories. Cohen's kappa coefficient is reported for two-paired coding that was independently conducted by rater 1 and rater 2 (the author). There is moderate agreement between the scores given by the two raters: $k = 0.458$ ($p < 0.001$), 95% CI (0.260, 0.656).

The CSR reports were coded from different stakeholder categories. According to Clarkson (1995), key stakeholders include shareholders, employees, customers, suppliers, and public stakeholders. Here, public stakeholders include the environment, community, and public policy perspectives. Consistent with Clarkson's framework, it was found that public stakeholders in China include the environment, the community, and last but not least, the government. The stakeholder group was used as key category, and the coded CSR actions taken towards each stakeholder were used as dimensions, based on which key factors were extracted; I included all practices mentioned in any of the reports. The process of establishing the framework takes references from the GRI guidelines and the KLD (Kinder, Lydenberg and Domini social performance ratings data) index.

After the content analysis of reports for 81 firms for four consecutive years, exploratory factor analysis (EFA) was conducted to determine the underlying factors for each stakeholder group in each year. Previous CSR practices studies have mostly relied on subjective theme extraction from websites or reports, or on self-reporting questionnaires. EFA was used as the statistical method for determining the principal factors. It allowed us to determine the number of latent constructs comprising the domain of interest (Kolk, Hong, & Van Dolen, 2010). From coding the CSR reports, I compiled an extensive list of actions taken towards each stakeholder group, and then I examined the structure of the correlations. Finally, these items can be grouped into a small number of subsets under each stakeholder group, each of which consists of correlated items reflecting common underlying stakeholder attention and interests. A summary of previous studies is presented in table 2. The number of factors extracted for each stakeholder is summarized in table 3.

Insert table 2 and table 3

The advantage of this method of extracting the CSR factors that reflect stakeholder attention and firm management adjustments over time is that the study does not make *a priori* assumptions or judgments about what should be considered to be a CSR action. The study accepted all actions reported by the firm in their CSR reports and made further analysis of the firms' managerial behavior. Since there is no theoretically supported weighting for the various CSR practices, I used a binary weighting for the calculation of the scores.

After identifying all reported actions under each stakeholder category for four consecutive years, EFA was performed to determine the factors for the stakeholder group, that is, to determine what claimed the stakeholder attention. I evaluated the reliability of the results and obtained a reasonably good Cronbach's alpha, considering the small number of items for each factor, which is considered evidence for reliability.

## 3.2 Findings

It is found that key stakeholder groups concerned in CSR reports include: shareholder, employee, customer, government, supplier, community and environment. The number of items for each stakeholder extracted from coding is presented below. EFA results are reported in Appendix 1. The reported factors and sub-dimensions for each stakeholder is summarized in table 4.

Insert table 4

From the big picture, it can be seen that the general trend of CSR performance in China over time is increasing. The average scores for each stakeholder are presented in table 5.

Insert table 5

*Community.* In early stage, factor 1 focuses on providing sponsorship for community activities, including sports, cultural and educational activities, especially education sponsorship that can be seen from school building, stationary and books donations. In factor 2, firms have reported their constant donations or donation in kind to support the development of communities via poverty alleviation and disaster relief. Last but not least is voluntary work. Voluntary teams organized by firms would go into communities to provide elderly care, to initiate environmental friendly campaigns, and to help the disadvantaged individuals or groups. In 2012 and 2013, the analysis shows that communication with communities starts to gain attention. The communication usually takes the form of organizing meetings with community management teams. Another dimension is hosting apprentice programs by connecting skill training with local employment. Firms would provide training programs for local graduates and have the policy of local employment preference. In 2013, it can be seen that the sponsorship provided by firms to communities become more versatile. It includes a wide range of activities being sponsored: community sports, culture, education, environment, as well as public health.

*Customer.* Social responsible practices regarding customer has changed from relatively simple to more versatile. In 2010, firms focus on improving product or service quality and dealing with after-sale customer complaints and feedbacks. In addition, firms also try to improve customers' social responsible awareness through green product design or spreading social responsibilities awareness through interactions. Factor 2 indicates that firms emphasize technology innovation and application to product and service design. Innovation is also regarded as a social responsible practice. In 2011, apart from the factors mentioned above, communication with customers has been identified. This include various practices that can maintain healthy relationship with customers, for example, distribute questionnaires for feedbacks, invite customers to visit, follow-up phone calls. In 2011, 2012 and 2013 data, another factor emerges as fair market competition, which means that firms have to take legal and ethical actions in market competitions. Malicious competition is prohibited. Fair market also means transparent product or service features and fair pricing. In 2013, a new factor converges: customer information security, which refers to established measures to protect customer privacy and to avoid personal information leakage.

*Employee.* Firms' responsible actions to employees have been relatively constant. The first factor is to protect employees' basic rights, which includes signing labor contracts, providing health issuance, providing labor protection, and providing retirement schemes. Other than basic rights, firms also pay attention to employees' welfare that beyond legal requirement, which is captured as factor 2. For example, firms would provide family care and support for employees who have difficulties, firms would encourage employees to participate in work-life balance scheme., firms have regular salary adjustment. In a word, firms show a variety of schemes to care for employees' wellbeing's and aim to create a healthy working environment. In addition, from what the data indicates, firms would pay attention to recruitment diversity and equity terms. It is also a responsible focus if the firm has equal recruitment and promotion terms including racial, gender, ethnic equity and inclusivity, and the firm has special facilities to help the disabled employees. In both 2011 and 2013 data, it is shown that communication mechanism is also taken into consideration by the management team. It is desirable to have well-established platform to have employees' opinion, and let employees have rights to decide issues related to their welfare and development. Another constant factor throughout the data from 2010 to 2013 is career development. Career development includes clear career promotion paths, skill training opportunity and further education opportunity.

*Environment.* The data from 2010 to 2013 shows that environment friendly practices evolve from green daily operation to innovation and application of new technologies. In 2010, firms' environmental friendly practices mostly focus on energy saving, pollution reduction and recycling/reusing. Recycling and economic cycle has been built. On the other hand, firms also emphasize on environment policy and green message delivering. Good practitioners have made clear environmental friendly policy and spread green messages to employees and to the public. In the following year from 2011, firms report their green programs carried out, such as upgrading high energy-consumption facilities and equipment. Preserving ecology has also been reported, especially for those firms whose operations have relatively large impact on the natural environment. In 2013, the data shows firms' actions to invest in green technology and applying new energy and materials such as solar system implementation and wind energy resources. The trend of evolution in environment management of the firms indicates two features of practice. Internally, firms start from the easiest actions, such as green office and pollution control. For some industries (e.g., finance), these are like low-hanging fruits. Then, firms begin to increase investment and upgrade technologies and energy resources. Externally, firms spread green messages to the public as a step of social image building.

*Government.* Social responsible practices towards government have been constant from 2010 to 2013. This might because the relatively steady government policies that guide firm actions. Two factors remain after deduction. Factor 1 includes five major national strategies that have been leading by the central government: serving three agricultures (issues of agriculture, farmer and rural area), supporting small and medium enterprises (SMEs), assisting the transformation of industrial structure, contributing to people's livelihood economy, and balancing regional development. Firms contribute to these national issues based on their own core business competence. For example, banking industry support the development of agriculture, SMEs and environmental friendly industries by providing more loans to firms in these categories., firms in construction industry would build economical housing to support people's livelihood., firms would engage in 'aiding Xinjiang construction' program to provide voluntary work for the purpose of regional development balance. Factor 2 is participating in government-led programs and providing services. For example, firms would participate in stadium building for Shanghai World Expo, 2008 Beijing Olympics, international summits. Firms can also participate in regional infrastructure construction, and secure energy and strategic material supplement.

*Shareholders.* In 2010 and 2011, firms respond to investors' CSR demands from two aspects: managerial structure and legal operations. Managerial structure remains as a key factor from EFA analysis, and it covers a variety of sub-dimensions. Shareholder meeting is highly valued as a responsible practice for investors. A related dimension is regular information disclosure. It is regarded as a responsibility to update the firm's operation information regularly to its investors to protect their rights to know. In addition, the analysis also shows that firms regard the establishment of formal committees as a responsible practice to shareholders. Formal committees include strategy committee, nomination committee, compensation committee, auditing committee and other forms of functional managerial groups. This might because that the presence of formal committees displays the legitimacy of power and monitored decision-making and implementing procedures, which can effectively avoid the irrationality in the top-down operation flows. Among all the committees, independent auditing committee has been paid special attention, which shows that firms give particular attention to the investors about their financial situation. Risk management can be properly carried out based on regular internal auditing. Apart from valuing the mechanisms that secure firm operations, investors also value the written regulations that formally address the rules and issues that can protect the orders in the firm. Factor 2 has only one dimension that is legal operations, which means that firms think complying with laws and regulations is a social responsible behavior. In addition to complying with laws, firms also declare their active actions to fight back corruption and embezzlement. For banking industry, firms would emphasize their effort in anti-money-laundry, while shipping industry would emphasize the importance of anti-smuggling. Last but not least, in 2011, a number of firms describe their strategies to expand their core business, which shows that firms believe that to better develop their core business competence is an essential means to be responsible to investors.

In the following years, cases of firms establishing CSR management committee or similar offices to take charge of CSR management issues become more prevalent, for example, CSR management office and environment management office. Usually these offices are under direct management of CEO or general manager. In addition, in 2013, the analysis shows that communication with investors has been grouped together with shareholder meeting and information disclosure. Here communication with investors means more versatile forms of communication, including face-to-face consultation, regular phone calls, open days, informal gatherings, and themed activities.

*Suppliers.* There is a relatively high consistency in the findings regarding the key factors of CSR practices towards suppliers. From 2010 to 2013, the established firm policy to manage its suppliers appear to be a key issue. Proper management of suppliers cannot only guarantee the quality of products; it is also critical to the organization's reputation. From 2011 forwards, firms are also value the communication with suppliers, such as site-visiting, regular meetings, issuing working guidelines and providing extra trainings.

## 3.3 Discussion

The main purpose of the first investigation was to lay a foundation for the stakeholder framework and to map out an overall picture of China's CSR development. By employing a stakeholder framework, I was able to isolate the key factors of CSR engagement during the years 2010 to 2013, by using structural content analysis and EFA. The results have several implications.

First, CSR engagement in China has been increasing in recent years. The overall increasing scores of CSR engagement indicate that CSR has been gaining more recognition and importance among firms. Second, the trend of evolution towards different stakeholders displays inconsistent features. For some stakeholder groups, CSR engagement has changed very little in terms of the key factors (for example, government and employees), while for other stakeholders, more factors have emerged over time. One explanation of the relatively steady status of CSR engagement of government and employees is that both of these groups are highly subjected to the state's policies and regulations, as well as social norms. Government policies are perceived as signals to take corresponding actions, and the treatment of employees is guided by labor law, regulations, and social norms, which are relatively steady over time. Generally, CSR engagement towards different stakeholder groups is becoming more multidimensional, which implies more versatile stakeholder demands and higher attention to CSR as an indispensable managerial tool.

A final implication is that CSR in China displays some distinctive features, such as the requirement to comply with regulations and laws regarding CSR practices; these include laws regarding legal operations, protection of employees' basic rights, and anti-corruption and embezzlement regulations, which indicate that the development of CSR in China is still at an early stage.

**Table 1 Data structure**

| | | |
|---|---|---|
| **Industry** | Commerce | 1 |
| | Finance | 23 |
| | Industrial | 43 |
| | Properties | 8 |
| | Public Utility | 6 |
| **Ownership type** | State | 77 |
| | Private | 3 |
| | Collective | 1 |

**Table 2 A summary of key CSR factors and sun-dimensions from previous studies**

| | | |
|---|---|---|
| **Kolk, Hong, and Van Dolen (2010)**<br>CSR reports and websites<br>Content analysis | Economic | Employee compensation<br>Donation/community spending<br>Local sourcing<br>Local hiring<br>Taxation |
| | Environmental | Recyclable materials<br>Energy conservation<br>Emission and waste |
| | Social labor | Labor/ management relations<br>Occupational health & safety<br>Training<br>Equal opportunity<br>Child labor/forced labor |
| | Society | Community<br>Corruption<br>Fair competition<br>Supplier relations |
| | Product | Consumer health & safety<br>Labeling<br>Market communication |
| **Kuo, Yeh, and Yu (2012)**<br>CSR reports<br>Content analysis | Employment and employee equity protection | Growth of job opportunities and employees<br>Efforts on ensuring non-discrimination, maternity benefits, salary equity, and adequacy of holidays<br>Active engagement in employee training and cultivation of local technical and managerial human resources |
| | Environmental management | Paying attention to environmental protection and use of consistent standards around the globe<br>Active engagement in promoting environmental awareness<br>Availability of tangible measures of environmental protection and effective fulfillment of the responsibility for environmental protection |

| | | |
|---|---|---|
| | | Paying attention to energy saving/carbon reduction and development of circular economy<br>Promotion of research, new techniques, and methods of energy saving/carbon reduction |
| | Product quality control | Strengthening product quality control at all times to provide qualified products to consumers |
| | Protection of consumer equity | Evaluation of customer satisfaction and active handling of customer complaints<br>Voluntary recall of defective products and provision of compensation |
| | Promotion of China's technological development | Degree of research, investment, and openness of core technologies |
| | Tax contribution | Longitudinal and cross-sectional comparison of tax revenue and its growth<br>The effects of tax contribution on regional economic development |
| | Scientific responsibility management system | Availability of an independent CSR management institution and incorporation of CSR performance into core management strategies<br>Introduction of stakeholder communication and performance improvement mechanisms |
| | Sound corporate image | Availability of active and effective improvement mechanisms |
| **S. Xu and Yang (2010)**<br>Open-ended CSR questionnaires | Economic responsibility | Boost economic benefit, create wealth<br>Efficiently provide quality products and services<br>Promote national and local economic development<br>Corporate sustainable development<br>Emphasize technology and innovation |
| | Legal responsibility | Abide by law and regulation/conduct operation by law<br>Pay taxes |
| | Environmental protection | Strengthen environmental protection, reduce pollution<br>Boost effort to harness environmental pollution<br>Conserve resources and boost resource utilization rate |
| | Consumer orientation | Product/service safety<br>Quality is the life of corporation<br>Consumer rights and interests<br>Genuine goods at fair prices |
| | People focused | Safe production and occupational health<br>Staff learning and education<br>Ban on child labor<br>Staff’s legitimate interests, welfare, and insurance<br>Minimum wage rates and timely wage payment<br>Union and human rights |
| | Charity | Donation and charity<br>Support and participate in social charity |

| | | |
|---|---|---|
| | | Pay attention to underprivileged people and schools of hope |
| | Employment | Increase job opportunities<br>Reemploy lays-off<br>Ease national employment pressure<br>Provide jobs for the disabled |
| | Good faith | Comply with business ethics<br>Operate in good faith, honor contracts |
| | Social stability and progress | Ensure social stability and harmony underline<br>Serve and repay society, promote social progress<br>Support culture, science and education<br>Patriotism, promote national prosperity |

**Table 3 The numbers of items for each stakeholder**

| STAKEHOLDER | NUMBER OF ITEMS |
|---|---|
| **COMMUNITY** | 11 |
| **CUSTOMER** | 8 |
| **EMPLOYEE** | 7 |
| **ENVIRONMENT** | 12 |
| **GOVERNMENT** | 7 |
| **SHAREHOLDER** | 9 |
| **SUPPLIER** | 5 |

**Table 4 The list of actions towards each stakeholder from structural content analysis of CSR reports**

| Stakeholder group | CSR dimensions |
|---|---|
| Community | The firm has apprentice program in local community. |
| | The firm make constant donation to society. |
| | The firm sponsors sports activities in local community. |
| | The firm sponsors cultural activities in local community. |
| | The firm sponsors education in local community. |
| | The firm sponsors other community actives. |
| | The firm maintains regular communication with community. |
| | The firm has organized voluntary teams to serve local community. |
| Customer | The firm devotes to improving product/service quality. |
| | The firm devotes to advocating product/service innovation. |
| | The firm has established customer information management system. |
| | The firm has platforms to dealing with customer complaints. |
| | The firm has various channels to communicate with customers (e.g., visiting day, online communication.) |

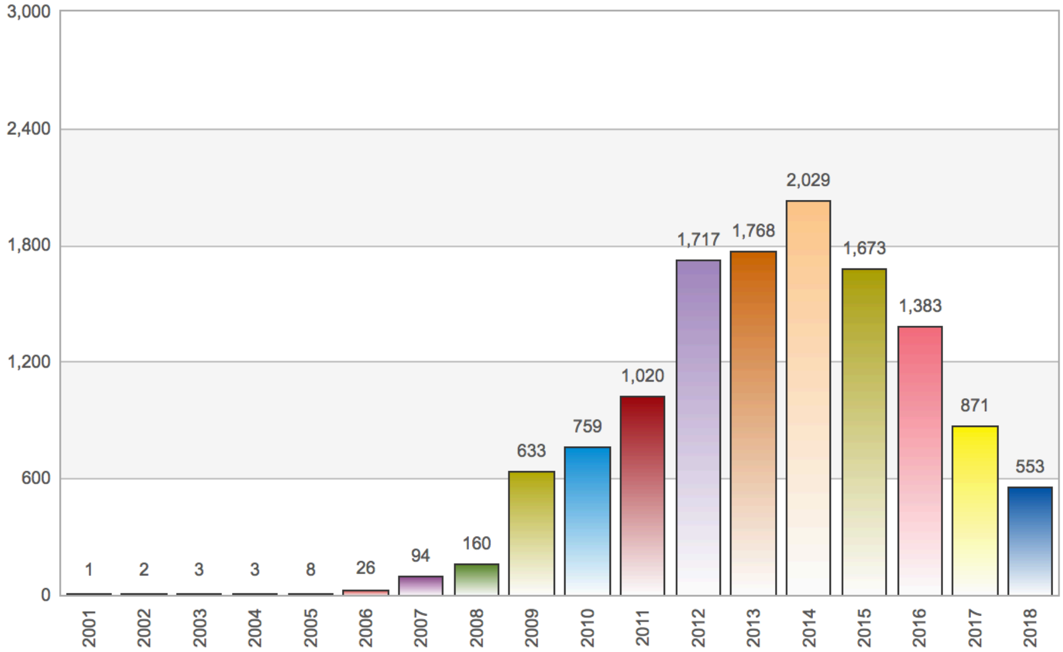
| | |
|---|---|
| | The firm promotes awareness of social responsibility by spreading CSR senses in customer groups. |
| Employee | The firm provides training and education for employees. |
| | The firm promotes employee diversity and equity. |
| | The firm provides various employee benefit schemes. |
| | The firm has established platforms to communicate with employees (e.g., employee representative meeting, suggestion box.) |
| | The firm has written regulations to guide employee behaviors. |
| | The firm provides measures to ensure job security and health |
| Environment | The firm promotes energy/material saving. |
| | The firm promotes pollution reduction. |
| | The firm actively contributes to ecology preservation. |
| | The firm initiates green programs. |
| | The firm has established environment management system. |
| | The firm spreads environmental friendly message to the public. |
| | The firm makes investment to preserving environment. |
| | The firm advocates green innovation. |
| | The firm adopts the usage of green energy/material. |
| Government | The firm contributes to balanced regional development. |
| | The firm supports the development of “three agricultures” (agriculture, farmers and rural area) |
| | The firm supports the development of small and medium enterprises. |
| | The firm supports industries transform. |
| | The firm supports people livelihood economy |
| | The firm supports national projects and provides services in the projects. |
| Investor | The firm has established formal committee to assist various organization functions (e.g., strategic committee, CSR committee.) |
| | Shareholders are evolved in committee management. |
| | The firm conducts independent auditing. |
| | The firm has written regulations to guide daily operation. |
| | The firm organizes regular shareholder meeting and interim meetings. |
| | The firm provides regular information updates to shareholders. |
| | The firm operates abiding the laws and regulations. |
| Supplier | The firm supports local procurement. |
| | The firm has regular communication with suppliers. |
| | The firm has written regulations manage suppliers. |
| | The firm has written procurement policy. |
| | The firm has requirement for supplier CSR performance. |

**Table 5 Average scores of CSR engagement for each stakeholder of sampled firms**

| *Stakeholder* | *2010 average* | *2011 average* | *2012 average* | *2013 average* |
|---|---|---|---|---|
| *Community* | 2.35 | 3.86 | 3.67 | 4.26 |
| *Customer* | 1.47 | 2.40 | 2.46 | 2.93 |
| *Employee* | 2.68 | 3.60 | 3.63 | 3.93 |
| *Environment* | 3.51 | 4.94 | 5.23 | 5.27 |
| *Government* | 1.68 | 1.73 | 2.37 | 2.15 |
| *Shareholder* | 2.31 | 3.77 | 3.93 | 4.99 |
| *Supplier* | 0.83 | 1.59 | 1.67 | 1.58 |
| | | | | |

*The qualitative analysis of stakeholder engagement takes equal weight for each item captured in the stakeholder analysis of CSR reports. Each item scores as 1.

**Figure 1 The number of CSR reports issued annually from 2001 to 2018 (SynTao Sustainability Solutions)**



# CHAPTER 4. FIRM RESOURCE AVAILABILITY, DISTRIBUTION AND CSR DIVERSIFICATION

Each year, there are some outstanding cases of CSR excellence seizes great amount of public attention. For example, Baofeng Energy Group Co Ltd. has been known as a leading firm in poverty alleviation through the construction of public infrastructure; Samsung (in Greater China) has set up 16 training centers in China by 2017 to train more ultrasound diagnosticians; and Volvo extends its technology of superior safety control and launch the education programme for children and family safe trips. These firms have focused on specific social issues for promoting public good as their key CSR initiatives. On the other hand, Tencent Holding Ltd., using the advantage of internet, has been contributing to a wider range of social issues; and Alibaba Group Holding Ltd. emphasizes the social responsibilities of the "platform economics", which simultaneously covers multiple issues of peoples' employment, poverty alleviation, education, environmental protection, technology and innovation, corporate governance and trust building. These firms tend to have a broader focus in their CSR strategies and are known as CSR versatilists. Combined with corporate interpretation of CSR and their heterogeneous resources and attributes, ways of doing CSR among firms are dissimilar. In addition, the hotspot of social issues keeps changing with the general trend and critical events taking place within a time period. The engagement structure and involvement over time have aroused more corporate CSR strategic concerns.

One of the challenges faced by many organizations is how to balance and prioritize different dimensions of CSR competing for limited resources (Wang et al., 2016). While the existing literature on CSR provides an impressive amount of evidence demonstrating the value of CSR for stakeholder management of modern corporations, extant studies offer limited understanding of a macroscopic picture of resource allocation for organizations investing in multiple-stakeholder CSR and what contributes to the choices firm's make. The need to address this echoes one recurrent criticism of stakeholder theory, which is that there is a lack of explanation about the inevitable trade-offs among different stakeholder groups (Garcia-Castro & Francoeur, 2016; Jensen, 2002).

In addition, stakeholders may not instantly know the CSR practices conducted by the firm. Since a CSR report is by far the most comprehensive document that describes the CSR actions (Dhaliwal, Li, Tsang, & Yang, 2011), it is proposed that how CSR information is presented in a corporate report is a necessary bridge between CSR activities and stakeholder knowledge. In this study, I propose that the information disclosed in CSR report is a functional proxy that stands for a firm's CSR actions. In the second investigation, I used the proxy structure to make inferences of a firm's multiple-stakeholder management strategy. In the third investigation, specific CSR reporting attributes will be considered.

## 4.1 Introduction

CSR has been conceptualized as a stakeholder management strategy. A large number of studies have documented the mechanisms and outcomes. For example, CSR investment can generate human capital by building a stronger relationship with employees (Bode, Singh, & Rogan, 2015; Jones, Willness, & Madey, 2014). CSR also builds a firm reputation and brand name, and this in turn attracts socially responsible customers (Lev, Petrovits, & Radhakrishnan, 2010; Servaes & Tamayo, 2013). Long-term CSR engagement works as an insurance for stock and bond prices during negative events; it does this by tempering shareholders' negative judgements (Godfrey et al., 2009; Shiu & Yang, 2017). From an institutional perspective, CSR helps the firm gain legitimacy and build political connections with government (Wang & Qian, 2011).

Intuitively, there are numerous mechanisms through which CSR will be positively embraced by the targeted stakeholder group. However, the tension in CSR is how firms allocate limited resources to satisfy multiple stakeholder demands. Derived from stakeholder management literature, a few studies operationalized CSR in a multiple-stakeholder context. The cornerstone is stakeholder salience theory, which was proposed by Mitchell, Agle, and Wood (1997), who theorized that when faced with multiple stakeholder demands, firms would prioritize stakeholders who have higher power, legitimacy, and urgency, because firms only have limited resources and thus cannot please every group. Kim and Lyon (2014) proposed a dynamic view, in which the CSR investment should be based on the balance of power among competing stakeholder groups, implying that stakeholders' preferences may change over time. Firms should keep pace with the stakeholder attributes and flexibly shift the focus of engagement.

One key insight that can be drawn from stakeholder salience theory is that firms need to be selective when investing in CSR. Several studies have documented divergent outcomes that are a consequence of different combinations of investment. Barnett and Salomon (2006) determined that building stakeholder relationships is costly. Firms only have limited resources and need to select stakeholders that will generate superior returns; in this case, relationships with employees, the community, and the environment are the most profitable. Godfrey et al. (2009) categorized the stakeholders as being primary or secondary. Primary stakeholder engagement will generate exchange of capital that relates to the core business, while secondary stakeholder engagement is an other-regarding orientation with a pure motivation to improve social welfare. However, compared to primary stakeholder engagement, that of secondary stakeholders accumulates higher moral capital that more effectively mitigates loss of value during negative events. In contrast, Jayachandran, Kalaignanam, and Eilert (2013) found that investment in primary stakeholder groups will generate higher return than will investment in secondary groups. Hawn and Ioannou (2016) classified CSR as being internal or external. Internal actions include corporate policy and quantitative indicators of CSR implementation. External actions include communication and claims of CSR disclosure. The two categories jointly improve the market value of the firm, but the larger the gap between internal and external CSR, the more negative the effect on market value. Garcia-Castro and Francoeur (2016) took a complementarity approach and found that in order to maximize the return on CSR, there needs to be at least a minimum investment for every primary stakeholder. Extremely high investment in any particular stakeholder has a negative effect, since the cost attached to a single dimension may exceed the generated return.

The studies discussed above rely on the consequences of multiple-stakeholder CSR. For firms to obtain superior returns on their CSR investment, they need to be consciously aware of stakeholder attributes and the consequential benefits (or loss) each investment would yield, and then use rational analysis to design CSR programs. However, in their qualitative interview study, Crilly, Zollo, and Hansen (2012) found that when firms have multiple or even competing stakeholder demands, they typically experience a period of learning or muddling through, due to information asymmetry and limited executive cognition. In addition, problematic searching incurs high costs. Firms only have limited resources to try various options and make errors. Thus, in this study, I adopt the assumption of firm-bounded rationality, and I address this gap in the literature by identifying the antecedents of firm resource allocation strategies in CSR decision making.

As discussed by various prior studies, synergies created by different resource allocation strategies will bring different outcomes. A less-explored question is what contributes to a firm's resource allocation strategy when making CSR decisions. When firms have incomplete information and limited resources that prevent exploring every option, will they make a specialized investment to do one thing really well, or will they cover as many stakeholders as they can? This is a particularly important issue in sectors where CSR is still new and regulatory bodies provide ambiguous guidelines. Drawing on the logic of population ecology and environmental niches (Carroll, 1985; Freeman & Hannan, 1989; Levins, 1968), I introduce the relatively less studied concept of CSR diversification to capture the differences in resource allocation to various stakeholder groups, and I then investigate the factors that influence a firm's choices. Instead of looking at whether to engage, or how much to engage, this section contributes to the literature by investigating the choice of resource allocation strategy and the CSR engagement structure.

At the construct level, despite the rich insights offered by the literature on the antecedents and consequences of CSR activities, most prior studies examined a single dimension or an aggregate of multiple dimensions (Aguinis & Glavas, 2012; Wang et al., 2016), but this approach conceals the trade-offs in how firms balance and prioritize different demands. Aggregating investments and efforts to engage with multiple stakeholder groups into a composite score provides an understanding of the overall impact of CSR activities on performance. However, as the value and benefits of CSR are increasingly recognized, there has been a parallel increase in the need to disaggregate CSR activities in order to understand how managers handle the demands of multiple stakeholders in their CSR decisions.

The context of study is set in China. From a research context perspective, CSR has been primarily studied in the U.S; however, the research focus has taken on a global strategy as it shifts from a U.S.-only to a non-US based approach (Wang et al., 2016). The understanding of CSR is still limited in developing countries, where CSR is at an early stage of development, and governments are making efforts to promote CSR as a more legitimate business practice. In addition, in developing economies, ethical and transparent business practices are increasingly desired. From a government perspective, CSR can produce new public awareness of engagement in social issues, create replicable social and process innovations, and provide financial support to nonprofit organizations and other worthy causes. The importance of CSR as a business strategy, as well as a government agenda to promote a healthier competition environment, has been widely recognized by various stakeholder groups (Darigan & Post, 2009).

Hence, the contribution of this aspect of our study is threefold. First, the study proposes a less-explored aspect of CSR engagement, that is, CSR diversification, and introduces a new measure to capture this aspect. Second, it contributes to stakeholder management and the literature by identifying factors that influence the strategy of a firm's CSR engagement with multiple stakeholder groups, that is, a diversified or specialized CSR strategy. Third, the study contributes to the understanding of the interaction between a firm and the government when the choice for CSR engagement is more instrumental and resource oriented. I used computer-aided text analysis to systematically extract engagement information from CSR reports. By introducing CSR diversification as a key concept, the study directly tests firm resource allocation behaviors for CSR activities and then to determine how firm resource availability and resource dependence on government can influence firm CSR behaviors. I adopted a two-level hierarchical linear model for analyzing the data. The results offer implications for early-stage CSR engagement in developing economies.

## 4.2 Theory and Hypotheses

### 4.2.1 CSR Diversification and Specialization

In the strategy literature, corporate diversification has been advanced as a solution for competitiveness and growth, or even survival (Montgomery, 1994; Penrose, 1959; Rumelt, 1974). Numerous studies have investigated the antecedents of diversification, for example, organizational resources, managerial motives, and a range of incentives (Hoskisson & Hitt, 1990). However, there has been little discussion about the diversification of CSR strategy, since most studies equate diversified CSR that covers a number of stakeholders as high corporate social performance (Bansal, 2005; Kang, 2013). The issue that has often been ignored is the engagement distance among stakeholder groups, which reflects the way firms recognize and manage multiple stakeholder relationships via different resource allocation choices. This is a practical managerial tension to conquer since firms usually face resource constraints, multiple stakeholder demands, and competition pressure from peers.

This study investigates CSR diversification, which is considered as a representation of both the width and depth of CSR engagement among multiple stakeholder dimensions. The different weights of each stakeholder in CSR engagement implies that the perceived salience of each stakeholder by firms' decision-makers influences the amount of resources allocated to each stakeholder. Low diversification in CSR engagement (high specialization in a specific dimension) indicates wide differences in perceived salience of stakeholders. There are particular stakeholders that exert key influence on firm operations. The firm chooses to prioritize these stakeholders which leaves less resources for the stakeholders perceived to have low salience comparably. In contrast, high diversification of CSR engagement with multiple CSR dimensions implies that stakeholders are perceived with relatively balanced salience. As a consequence, CSR resource allocation is diversified. The study treats CSR diversified strategy and CSR specialized strategy as two ends of a continuum. This study investigates the conditions under which a diversified or a specialized strategy is more likely to be adopted when the firm builds its CSR program.

With resource limitation, there is a trade-off between an organization's niche width and its capacity for performance (Freeman & Hannan, 1989; Levins, 1968). Greater diversity in targeted domains will result in lower investments in each and hence results in lower appeal among targeted audiences for organizations of broader niche widths. In contrast, low diversity with high specialization will result in narrower widths but high appeal to this specific domain. Freeman and Hannan (1989, p.106) summarized the issues when they noted that "organizations and their designers face a classic problem: should they seek to become jacks-of-all-trades, or should they concentrate on developing one or a few capacities?". Thus, organizations would either devote finite resources to a range of activities to be a generalist, or target a specific domain as a specialist.

It is common to see that firms engage in a wide range of CSR activities to improve employee welfare, contribute to community development, promote green awareness to the public, etc. With limited resources, they can choose to engage with several stakeholder groups simultaneously and spread their resources thin, or to focus on one stakeholder group and be a star performer in a particular domain. Most firms may choose to be somewhere in between these two extremes. They may have a main focus of engagement or expertise in delivering value for specific stakeholders, and they may also not be willing to risk ignoring other non-prioritized stakeholders. With limited resources at hand, heterogeneous resource allocation creates a unique CSR profile for every firm.

I capture the degree of prioritizing or balancing resource allocation as CSR diversification (specialization). CSR diversification provides a macro picture of a firm's resource allocation strategy. High CSR diversification spreads resources to every stakeholder group. Low CSR diversification concentrates resources to a limited number of stakeholders. With same amount of investment to CSR engagement, generalist and specialist strategies may lead to different managerial outcomes. Garcia-Castro and Francoeur (2016) showed that firms need to avoid a 'blank page' for every primary stakeholder, but firms also need to avoid extremely high investment in any one specific CSR dimension. However, they took a different approach to examine CSR engagement. They used set-theoretic methods to analyze the complex configuration of CSR dimensions, which is an indirect test of necessary conditions for better firm performance. Their findings were echoed by Fu et al. (2016) that the inconsistency in CSR engagement has a U-shape relationship with firm risk. So the question is what factors influence firms' choice of the CSR strategy?

I argue that firm's resource environment has a critical influence on firm's choices when developing their CSR strategy, and this strategy depends on environmental factors both within the firm and outside the firm. Firstly, firms can only do as much as they can support in terms of resource availability, especially for CSR engagement. The continuing debate of a business case for CSR has been questioned, because whether the firm will obtain financial returns from CSR engagement, or how much return should be expected, depends on a variety of firm dynamics (Barnett, 2007). Secondly, firms are not self-contained. They rely on external actors for critical resources, which gives external actors power to exert pressure on the focal firm and to influence the firm's behaviors (Pfeffer & Salancik, 1978). Based on these arguments, CSR diversification is a joint result of resource availability and resource dependence embedded in the firm's resource environment.

### 4.2.2 Resource availability

Organizational slack is potentially utilizable resources that can be diverted or redeployed for the achievement of organizational goals (George, 2005). Slack allows the firm to 'take advantage of opportunities afforded by the environment' (Thompson, 1967, p.150). It is used to stabilize a firm's operations by absorbing excess resources during periods of growth and by allowing the firm to maintain its vision and commitments during distress (Cyert & March, 1963; Levinthal & March, 1981). Slack resource also allows firm to make investment in capacities that may not have an immediate return (Levinthal & March, 1981). Slack resource theory states that more available slack will lead to better firm CSR performance (Bansal, 2005; Bowen, 2002; Waddock & Graves, 1997). Better firm performance results in a surplus of resources that provides firms with the financial wherewithal to consider social issues and to do something about them (Surroca, Tribó, & Waddock, 2010).

Resource slack has been conceptualized as uncommitted resources that have managerial discretion and can be deployed elsewhere. A typical form is cash and marketable securities that is captured as financial slack (Singh, 1986). Firms with more slack availability have more strategic options than firms without such resources. Slack can ensure that the firm has the financial strength required to launch new initiatives as soon as they are ready, but 'Without slack, any reductions in cash flow will result in immediate shortages of funds ... and cancellation of capital investments' (Bromiley, 1991, p. 43). Managers of those firms may be tempted to address the demands of more stakeholder groups as a way to showcase their financial strength and to amplify their social influence. As Carroll (1985) noted that large corporations with abundant resources tend to pursue a generalist strategy, firms with more resource slack will pursue a more diversified CSR engagement strategy. On the other hand, specialist organizations typically are more constrained by financial scarcity and are less motivated to try to address the concerns of multiple stakeholder groups and avoid spreading their investments too thin. As a result, firms with less cash on hand are more likely to pursue a focused CSR strategy by concentrating their investment in only limited dimensions, which results in low CSR diversification.

*Hypothesis 1: Firm financial slack is positively related to CSR diversification.*

### 4.2.3 Resource dependence

The choice of a proper CSR strategy is also dependent on the firm's resource environment. According to Carroll (1985), being a generalist is more advantageous in a fine-grained environment where resources are evenly distributed. Being a specialist has the chance to be better than a generalist in a coarse-grained environment (resources are unevenly distributed) if they happen to situate in abundant resources (Carroll, 1985). A generalist, such as a newspaper organization, relies on a wide range of readers from diverse backgrounds. In contrast, a specialist, such as a microbrewery, creates a unique flavor that only attracts a certain segment of customers. When the resources are evenly distributed among stakeholder groups and no single group can determine the firm's survival or development, the firm is more likely to diversify its CSR activities to satisfy various stakeholder demands. When the resource environment is coarse-grained, which means that the resources the firm depends on are mostly held by one or a few stakeholder groups, the firm is more likely to adopt a specialized CSR strategy with low diversification to prioritize these groups' demands.

China is at the transition from a planned economy to a market economy (Peng & Luo, 2000). However, government remains a central controller of resources and has extensive involvement in economic activities (Allen, Qian, & Qian, 2005; Wang & Qian, 2011). China government controls finance, energy, land, mainstream media, information and other forms of resources that are critical for firm's development or even survival. Further, the state is often involved in the economy as the dominant shareholder of firms (McFarlan, Xu, & Manty, 2009; Tenev, Zhang, & Brefort, 2002). There is also high uncertainty in regulatory policies (Frynas, Mellahi, & Pigman, 2006). Firms would prefer to build close connections with government to reduce uncertainty. So China government remains as a unique stakeholder or even a shareholder that can provide a variety of key resources. For instance, SOEs control the 'lifeblood' of the economy. There are SOEs whose operations are of inferior competitiveness compared with other types of enterprises when facing foreign competition and technological turbulence. However, SOEs are deemed nationally important and they are likely to face a lower level of foreign competition because of government intervention in market (Lin & Germain, 2003). The study proposes two mechanisms by which firms' state ownership will lead to lower diversification in CSR.

When government is a key shareholder of the firm, the firm may mainly focus on doing what government requires them to do as a prerequisite or a short-cut for resource supply. As the central planner of economic and societal activities, government requires that firms need to implement CSR activities that are related with their business operation (The State-owned Assets Supervision and Administration

Commission, 2008). Government may also assign different missions to firms to ensure that they deliver value to the economy and society in a more economical way. For example, China government has issued a policy for green finance, which requires banks to reduce loans for pollution-intensive industries and to increase financial support for clean industries and start-ups (China Banking Regulatory Commission, 2012). Government stresses product and service quality especially for service industry such as State Grid Corporation and China United Telecom. It requires real estate firms to participate in affordable housing construction to alleviate housing pressure for low income population. If firms have high state ownership, the government is the key holder of critical resources and firms have less choice about obliging government's demands. In this case, firms are more likely to develop a specialized CSR engagement strategy. A different possibility is that government may demand higher transparency of firm operation. Government has to ensure that the resources are well utilized via a transparent procedure. In this case, more state ownership in the equity structure will lead to higher resource allocation to shareholder engagement, such as communication with shareholders, regular disclosure of firm performance, lawful and ethical operation, etc. The emphasis on shareholders is also motivated by firm's acts to secure reciprocity relationship with government, which results in higher shareholder engagement compared to other stakeholders. The two mechanisms both lead to a specialized CSR strategy with low diversification.

On the other hand, when government is not a key shareholder in firm equity, firm's dependency on other stakeholders will be amplified. When the firm is less dependent on government for resources, it has to seek engagement and support from other stakeholder groups. Investment in CSR will more likely be targeted to other stakeholders in order to build reciprocity relationships. Then the firm is more likely to develop a more diversified CSR engagement strategy.

*Hypothesis 2: State ownership in firm equity structure is negatively related to CSR diversification.*

## 4.3 Methodology

### 4.3.1 Sample and data

The sample for this study consists of listed firms in China from both Shanghai Stock Exchange and Shenzhen Stock Exchange. Data of firm CSP was collected from firm CSR reports. The reports were in Chinese. All reports were collected from four major web sources: Shanghai Stock Exchange, Rankins CSR Ratings (RKS), SynTao Material and Quantitative Indicators database (MQI) and China Corporate Social Responsibility Monitoring and Evaluation System. RKS ratings and MQI database are two leading China CSR research and investment consultancies. The total number of CSR reports collected is 3563 for 765 firms. 542 firms with at least 2 consecutive yearly reports were retained, resulting in 3230 reports from 2009 to 2016. By adopting the techniques of machine learning in automated text categorization, only reports with clean and compatible formats were retained for analysis, which resulted in 490 firms with 2520 reports. I wanted to control for the reporting quality that could have an effect on our measure of CSR diversification, so I retained all firm year observations that had third-party CSR report ratings provided by RKS. The latest RKS ratings I could obtain is 2015 data. So the final sample consists of 439 firms with a total of 1960 reports from 2009 to 2015. The sample is presented in table 6.

Insert table 6

### 4.3.2 Measures

*CSR diversification.* The dependent variable *CSR diversification* is operationalized based on the weighted proportion of word count for each stakeholder group in CSR reports. Word count proxies the effort, attention or resources the firm executives are willing to input for each stakeholder group. Most frequently used method is linguistic inquiry and word count (LIWC) (Pennebaker, Booth, & Francis, 2007). Analyzing text of executive letters (Osborne, Stubbart, & Ramaprasad, 2001), media reports (Shen, Tang, & Chen, 2014; Tetlock, 2007; Tetlock, Saar-Tsechansky, & Macskassy, 2008; Uotila, Maula, Keil, & Zahra, 2009), idea proposal (Reitzig & Maciejovsky, 2015), firm advertisements (Supran & Oreskes, 2017) and other management texts has become a widely accepted measure in management research. Typical techniques adopted include word count, word frequencies, text categorization, making inferences about sentiments, intentions and ideologies, etc. (Morris, 1994). Computerized word count and text categorization have been shown to have equal or higher accuracy than human-scored schema (King & Lowe, 2003; Laver, Benoit, & Garry, 2003), since human coders may not apply complex coding rules and definitions consistently to all documents. By using a pilot sample of 409 reports, I first established a training corpus of pre-classified documents to enable machine learning (based on Python programming language) of different stakeholder activities and descriptions. For the final sample of 1960 reports I computed word count for each stakeholder and its relevant proportion to the total word count of the report. Based on the word proportion of each stakeholder group relative to the report total word count, a CSR diversification score was then computed with Herfindahl index (Alesina, Devleeschauwer, Easterly, Kurlat, & Wacziarg, 2003). Procedures are described in detail below.

The key in the operationalization is to accurately classify CSR report paragraphs into different stakeholder groups and then to calculate word count for each stakeholder group. Firstly, I employed structured content analysis to systematically capture information from CSR reports (Cochran & Wood, 1984) in order to create a set of pre-classified documents for automated text categorization. Drawing references from GRI, I generated a coding book and coding rules to guide the coding process. For each firm I separately documented actions towards shareholder, employee, customer, supplier, community and the public. Following the stakeholder literature, I separated public stakeholder into government and environment categories (Clarkson, 1995). The coding book defined that each stakeholder was a category. Related activities for each stakeholder and phrase or sentence examples were given to facilitate coders' understanding. The coding rules defined the coding unit (should be at sentence level or above) and the general principles when unexpected descriptions emerged, and how to organize documents in order to ensure coding reliability and validity. I specifically coded CSR actions with detailed descriptions and evidenced figures in order to avoid firm general introduction, slogans and 'empty talks' that are not related with any stakeholder actions. The manual coding was conducted by three graduate students, who completed a training session for identifying different stakeholders and specific content in CSR reports. Ambiguous events were documented and discussed one by one in order to achieve high consensus. A sample of 409 reports was manually coded and resulted in 63 codes. The coded 16,935 pieces of information consisted of a set of training corpus that included specific actions and descriptions of CSR activities for each stakeholder group. A proportion of reports were coded by all coders to calculate inter-rater reliability. Automated text categorization facilitated by machine learning was conducted based on the manually coded information.

The automated categorization of texts into predefined categories has witnessed increased interest in the last ten years (Sebastiani, 2002). The dominant approach is based on machine learning techniques: a general inductive process that automatically builds a classifier by learning the characteristics of the categories from a set of pre-classified documents (Sebastiani, 2002). By using Python programming language (George, Osinga, Lavie, & Scott, 2016), I introduced the coded pre-classified corpus to train a classifier and automatically categorized paragraphs of CSR reports to seven stakeholder groups, and documented each stakeholder word count. Percentage of each stakeholder to total word count was then computed.

The measure of corporate diversification was developed by Jacquemin and Berry (1979) based on the Herfindahl index. Later in 2003, the index was adopted as a fractionalization index by Alesina et al. (2003) in the study of economic growth and ethnic, linguistic and religious fractionalization, which is essentially a measure of heterogeneity. I used the same formula to compute CSR diversification: how heterogeneous the CSR engagement is among different stakeholder groups.

$$CSRD_j = 1 - \sum_{i=1}^{N} s_{ij}^2$$

where $S_{ij}$ is the percentage of stakeholder $i$ ($i = 1 \dots 7$) in firm $j$'s CSR report. As the formula shows, CSR diversification is computed as one minus Herfindahl index of stakeholder word count percentage in CSR reports. A higher index score is associated with a more diversified firm CSR profile. A lower index score is associated with a more specialized firm CSR profile.

Insert figure 2

*Independent variables*

Data for the independent variables were obtained from the China Stock Market & Accounting Research Database.

*Resource slack* has been operationalized as firm cash and short-term stocks to firm total market capitalization in order to eliminate the effect of firm size (Mishra & McConaughy, 1999; Tang, Qian, Chen, & Shen, 2015). Unabsorbed slack can be deployed to support organizational changes. Unabsorbed slack was square root transformed.

*State ownership.* State ownership is operationalized as the government shareholding to other shareholding ratio in firm equity structure. I used this measure instead of the absolute percentage of government shares because this ratio inherently controls for firm size (Fennell & Alexander, 1987). Further, the ratio measure more accurately reflects the government's position and power in the firm equity structure. State ownership was relative stable with little variation across time, 56.2% of all firm observations had 0.0 standard deviations across years and the mean standard deviation was 0.06. Hence, State ownership was calculated as the average across years for a firm (2009-2015) and then was logarithm transformed.

*Control variables*

I control for firm characteristics that might influence CSR diversification. Specifically, I controlled for *firm absorbed slack*, measured by the selling, general and administrative costs to sales ratio at level-1, which is the resource that has already committed to firm operations (Cheng & Kesner, 1997; Singh, 1986). *Firm size*, measured by the log of firm yearly average total assets of level-1 with a one-year lag at level-2, since the total assets were reported at end of each natural year. Firm *industry type* was also controlled for as manufacturing (=1) and others (=0) at level-2.

*Firm performance* was measured by ROE at level-1. Data for these control variables were obtained from CSMAR.

In addition, I controlled for CSR reporting quality with the RKS score, a third party CSR report rating. Higher quality CSR reports are usually lengthier since they are more descriptive and detailed which can result in higher scores for CSR diversification. Like the KLD, RKS is entirely independent of the companies it rates. Firms' CSR activities are rated on four dimensions: (1) overall evaluation of the firm's CSR strategy; (2) content evaluation focuses on each stakeholder social responsibilities; (3) technical evaluation focuses on reporting transparency and (4) industry-specific assessment focuses on the heterogeneity in CSR practices of different industry types. Four dimensions together include over 70 sub-dimensions, and ratings range from 0 to 100.

### 4.3.3 Estimation method

A multilevel research agenda for CSR has been proposed by Aguinis and Glavas (2012), which advances that data can be nested not only within hierarchies, but also across time. Longitudinal data is desired when to take time effect into consideration that captures change within individual organizations. For this reason, I used hierarchical linear modeling (HLM) (Bryk & Raudenbush, 1992) (HLM Software version 7.02) for longitudinal data, which allows for the simultaneous analysis of both year and firm level variance in CSR diversification.

The use of HLM improves the precision of estimates relative to traditional approaches because it recognizes that data at a lower level within a higher level system may not be independent of each other (Hofmann, 1997). This study uses longitudinal data. There are two levels of data with yearly observations (level-1) nested within each firm (level-2). HLM takes path-dependence nature of CSR engagement into consideration, that is, firm yearly CSR practices are not independent of each other. Similarly, a number of studies have used HLM analyses to test: the effect of CSP on firm performance (Jayachandran et al., 2003); how top management team diversity affects firm performance (Nielsen & Nielsen, 2013); ownership structure on firm performance in private equity and the buyouts context (Castellaneta & Gottschalg, 2016).

A two-level HLM longitudinal model was specified in which repeated observations of CSR diversification was the dependent variable. HLM partitions explained variance between levels rather than estimating total variance explained (Cullen, Parboteeah, & Hoegl, 2004; Woltman, Feldstain, MacKay, & Rocchi, 2012). The intra-class correlation coefficient (ICC) showed that the between-firm variance of CSR diversification to the total variance is 43 percent (ICC = 0.43).

In HLM longitudinal data analysis, group mean centering at level-1 disaggregates between- and within-firm effects, and it is easier to conduct statistical inference on both fixed-effects between-firm and within-firm effects directly from modeling results. Raudenbush and Bryk (2002) showed that group mean centering would generally yield more accurate variance estimates of within-group effects than grand-mean centering via "a heuristic illustration" (Cullen et al., 2004). Mean centering makes results more interpretable than uncentered raw predictors (Hofmann & Gavin, 1998). Firm unabsorbed slack, absorbed slack, ROE and RKS ratings change with each firm year observation, and are group mean-centered at level-1. State ownership, industry type, and firm size are firm characteristics that grand mean-centered at level-2. In addition, collinearity diagnostic statistics in regression analysis showed that the variance inflation factors were less than 10 ($1.01 \leq$VIF$\leq 1.11$), suggesting that multicollinearity was not a problem (Studenmund, 1992).

Hypothesis testing followed sequential steps and standard HLM practices (Bryk & Raudenbush, 1992). Firstly, I tested a baseline model in which level-1 and level-2 control variables were entered. Next, I separately introduced level-1 and level-2 predictor variables into the multilevel model. In the final step, I tested if there were any cross-level moderation effects. In this step, all level-1 variables to facilitate the interpretation of coefficients are grand mean centered (Jansen et al., 2012). I reported significance of the -2 log likelihood value and chi-square statistics to assess changes in variance and explained by models at different steps and overall fit (Detert & Burris, 2007; Schilling, 2002).

## 4.4 Results

Table 7 presents the descriptive statistics and correlation matrix for the level-1 and level-2 variables. Table 8 presents the results of HLM analyses to test hypotheses.

H1a is supported in that *resource slack* was positively related to firm CSR diversification ($\gamma = 0.026, p$=0.041). With more cash on hand, firms tend to pursue a more diversified strategy. *State ownership* was negatively related to firm *CSR diversification* ($\gamma = -0.006, p$=0.033), indicating that more state ownership in the firm will foster a more specialized CSR engagement. Thus, Hypothesis 2 is supported,

*Cross-level moderation effects*. I also tested for cross-level moderation effects. Specifically, I examined the interaction effects of state ownership, firm size, and industry type with unabsorbed slack and absorbed slack. However, no significant results were found.

Covariates. The Table 8 baseline model shows that firm performance ($\gamma$=0.001, p=0.003) and CSR reporting quality ($\gamma$=0.002, $p<0.001$) are positively related to CSR diversification. As expected, reporting quality was positively related to CSR diversification ($\gamma$=0.002, $p<0.001$), which confirms that higher quality reports have more detailed information. Industry type was not related to CSR diversification (γ=-0.004, p=0.237). Firm size is positively related with CSR diversification (γ=0.008, p-value<0.001). Large firms tend to have more diversified CSR strategy.

Insert table 7 and table 8

## 4.5 Subsidiary Analyses

After a Hausman test (p-value<0.000), I also conducted random-effect analysis. Hypothesis 1for resource slack is weakly supported with coefficient=0.004 (p-value=0.063, one-tail test). Hypothesis 2 for state ownership is also supported with coefficient=-0.007 (p-value=0. 018).

I conducted subsidiary analyses to investigate which CSR dimension specialization is associated with a higher level of state ownership. After a Breusch and Pagan Lagrangian multiplier test (p-value=0.000), a random-effects GLS regression was used where each CSR dimension word count, i.e., shareholder, community, customer, environment, employee, government and supplier and business partners, was the dependent variable. The word count for each stakeholder was log transformed. In addition to firm size, firm performance and CSR reporting quality, I also controlled for industry, ownership and year effects.

The regressions showed that there is a significant positive relationship between state ownership and environmental engagement (γ=0.018, p-value=0.020). Customer engagement reveals a surprising finding. Higher state ownership leads to a negative customer engagement (γ=-0.020, p-value=0.025). No significant results were found in terms of the relationships between state ownership and community (γ=0.001, p-value=0.816), employee (γ=0.007, p-value=0.361), shareholder (γ=0.006, p-value=0.454), supplier and business partner (γ=-0.006, p-value=0.114), and government (γ=-0.003, p-value=0.389) engagement respectively. I captured government engagement from CSR reports as responsiveness to government policies and prominent government-led projects, such as free trading zone trials, One Belt One Road, Western Development Program, etc.

In addition, I found a negative relationship between private ownership and government engagement ($\gamma$=-0.012, p-value=0.002). The relationships for public utility sector ($\gamma$=-0.010, p-value=0.062), finance sector ($\gamma$=-0.011, p-value=0.002) and real estate sector ($\gamma$=-0.015, p-value=0.041) with government engagement were also negative. A significantly positive effect was found between ROE and community engagement ($\gamma$=0.0005, p-value=0.026). However, the relationship between ROE and environmental engagement is negative ($\gamma$=-0.001, p-value=0.032). Firm size is positively related with community engagement ($\gamma$=0.006, p-value=0.002) and environmental engagement ($\gamma$=0.005, p-value=0.040). The relationship is also positive for retailing industry ($\gamma$=0.016, p-value=0.045). However, the community engagement is negative for public utility industry ($\gamma$=-0.015, p-value=0.074). I also found a significant relationship between finance sector and supplier and business partner ($\gamma$=0.011, p-value=0.037).

## 4.6 Discussion

By adopting the logics of resource availability and resource dependence, I have examined a less explored aspect of CSR that is resource allocation strategy for multiple stakeholder management. I argue that with limited resources at hand, firms may either choose to be a CSR generalist or a CSR specialist. More commonly, firms may fall in between. I introduce CSR diversification to capture the variation of firm choices. It is found that only unabsorbed slack leads to more diversified CSR engagement, because it has the capacity to support organizational changes associated with CSR practices. This is consistent with previous findings that firms with financial discretion will tackle more social issues (Bowen, 2002; Waddock & Graves, 1997). On the other hand, absorbed slack does not have a significant effect on CSR diversification, which does not reflect previous studies of absorbed slack and innovation (Greve, 2003; Singh, 1986). One explanation is that absorbed slack can only support related CSR activities that the firm has already invested in. It may work more effectively in a vertical manner of engagement. This is a similar finding to firm diversification research which found that firms may choose related diversification over unrelated diversification. A meta-analysis found that the level of unrelated diversification has been declining in a faster pace than related diversification when face pressure to reduce detrimental diversification (Richter, Schommer, & Karna, 2017). Similarly, absorbed slack may only reinforce extant CSR activities rather than exploring new dimensions.

I also found that firm performance positively affects CSR diversification. Firms with better performance tend to have more diversified CSR practices to reward multiple stakeholder groups and to strengthen the existing relationships. With better firm performance, firms are more likely to have higher level of slacks and aspiration. There is also possibility of reverse causality that higher CSR diversification leads to better firm performance. However, the counter argument has been disapproved by Garcia-Castro and Francoeur (2016) and Fu et al. (2016) who argue that stakeholder investment and firm performance does not follow a simple monotonic function. There are potential complementarities and trade-offs between investments in several stakeholder groups.

This study also contributes to the understanding of government's role in promoting CSR practices in China. I found evidence that when government is a large shareholder of the firm, firms are more likely to adopt a specialized CSR strategy to concentrate limited resources and serve government's purpose. China government as a central planner ensures that firms will deliver ultimate value to promote social welfares based on their heterogeneous expertise. The results reject the competing prediction that state ownership will lead to a more diversified CSR strategy because government has issued a number of documents to require multifaceted CSR engagement.

The findings also imply that firms' motivation to CSR engagement can be very resource-oriented. Their consideration of CSR engagement is more as a calculation of resource pool they have now and the future resource they target at to obtain. In either way, they need to be selective about which stakeholder to focus on. Government can put much influence on firms' strategic choices (Wang & Qian, 2011). The unique feature of government weakens the influence of other stakeholders who in a free market economy should also have irreplaceable influence for firm development. I found indirect support for this conclusion in subsidiary analysis. The interesting finding is that state ownership leads to a significantly negative customer engagement, indicating that SOEs' operations are quite detached from customer relationship building. With support from government, SOEs depend less on other stakeholders who are otherwise critical for firm development. In addition, the positive relationship between state ownership and environmental engagement indicates that sustainable development has been put into practice, and under government policy, SOEs are very responsive to government's call for green production.

Other general findings were also reported. It is evidenced that firms with better performance is more likely to invest in community engagement, for example, providing community service or react to natural disaster relief. If firms are performing well, they are less likely to make investment in green operation, suggesting that firms' environmental engagement is instrumental. Environmental engagement is more of a firm strategy to gain legitimacy other than generating returns. Another surprising finding was that firms in finance industry and real estate industry are less responsive to government projects. Same finding is with private-owned firms that they are less responsive to government projects than other ownership types. Lastly, compared with firms in other industries, firms in finance sector are more likely to maintain good relationships with suppliers and other business partners.

## 4.7 Limitations and Future Research

I recognize that there are certain limitations of the study.

Firstly, there might be potential endogeneity issues that drive the results. There might be a third factor that both drive firms to be more resourceful and CSR diversified. Drawing from corporate diversification literature, a possible instrument could be firm size, which is highly correlated with firm resources. Larger firms are more likely to be resourceful and are more likely to seek diversification (Hitt et al., 2006). Another instrument could be firm geographic location. Firms that are in the location where the industry is highly developed are more able to acquire more resources (Fernhaber, Gilbert and McDougall, 2014). However, a developed industrial location is of more competitive environment, where firms are more likely to seek new opportunities via diversification.

Secondly, the sample size was very much constrained by CSR report formats, since only clean and compatible PDF format can be accurately converted to TXT format for automated text categorization without generating errors in characters. Thirdly, I operationalized CSR diversification and specialization based on CSR reporting, which has the risk that firms decouple their actions from their reporting. There is a possibility that firms' reporting may misrepresent their real actions.

However, the false or fake reporting will bring legal punishments and great loss if this decoupling is to be found. Generally speaking, the reporting can reflect how much resources the firm invests in. Fourthly, the study is only conducted in China context. There may be different findings in other countries, since China is only one representation of emerging economies. Replications are needed in other countries with different economic and regulatory conditions.

This study contributes to multiple stakeholder management and CSR antecedents literature by introducing a new concept of CSR engagement: CSR diversification. It draws a more complete picture of firm resource allocation strategy when managing multiple stakeholder relationships. I further propose and empirically test resource availability and resource dependence that may lead to different firm choices. Finally, the study contributes to the understanding of CSR engagement strategy in China and the role government plays in promoting CSR practices as a more legitimate business practice.

**Table 6 Descriptive statistics of CSR reports**

| Year of CSR reports | N | % |
|---|---|---|
| 2009 | 113 | 5.70 |
| 2010 | 342 | 17.24 |
| 2011 | 366 | 18.45 |
| 2012 | 294 | 14.82 |
| 2013 | 289 | 14.57 |
| 2014 | 291 | 14.67 |
| 2015 | 289 | 14.57 |
| | | |
| Total firms | 439 | |
| Total reports | 1960 | |
| | | |
| Number reports per firm | | |
| Minimum | 2 | |
| Maximum | 7 | |
| Mean | 4.47 | |
| SD | 1.54 | |
| Report word count (characters) | | |
| Minimum | | 603 |
| Maximum | | 35052 |
| Mean | | 3404.61 |
| S.D. | | 2863.63 |

**Table 7 Descriptive statistics: Means, standard deviations, and correlations**

| Level-1 Variables | Mean | S.D. | (1) | (2) | (3) | (4) |
|---|---|---|---|---|---|---|
| CSR diversification (log) [a] | 1.77 | 0.06 | | | | |
| (1) Unabsorbed slack (sqrt) [b] | 0.33 | 0.15 | 0.05* | | | |
| (2) Absorbed slack (sqrt) [c] | 0.33 | 0.12 | 0.02 | -0.26** | | |
| (3) Firm performance | 5.88 | 7.08 | 0.06* | -0.15** | 0.003 | |
| (4) Reporting quality | 35.19 | 9.73 | 0.41** | 0.06** | -0.004 | -0.03 |
| **Level-2 Variables** | **Mean** | **S.D.** | **(1)** | **(2)** | **(3)** | **(4)** |
| (1) CSR diversification (log) [d] | 1.77 | 0.04 | | | | |
| (2) State ownership (log) [e] | 0.43 | 0.33 | -0.01 | | | |
| (3) Firm size (log) [f] | 22.55 | 1.22 | 0.25** | 0.29** | | |
| (4) Firm industry | 0.54 | 0.50 | -0.07 | -0.22** | -0.14** | |

*$p$ < 0.05 (2-tailed), **$p$ < 0.01 (2-tailed)

[a] log CSR diversification.

[b] square root of cash and short-term securities to total market capitalization ratio.

[c] square root of selling, general and administrative costs to sales ratio.

[d] CSR diversification at level-2 is calculated by averaging CSR diversification of each firm at level-1.

[e] log government shares to others' ratio.

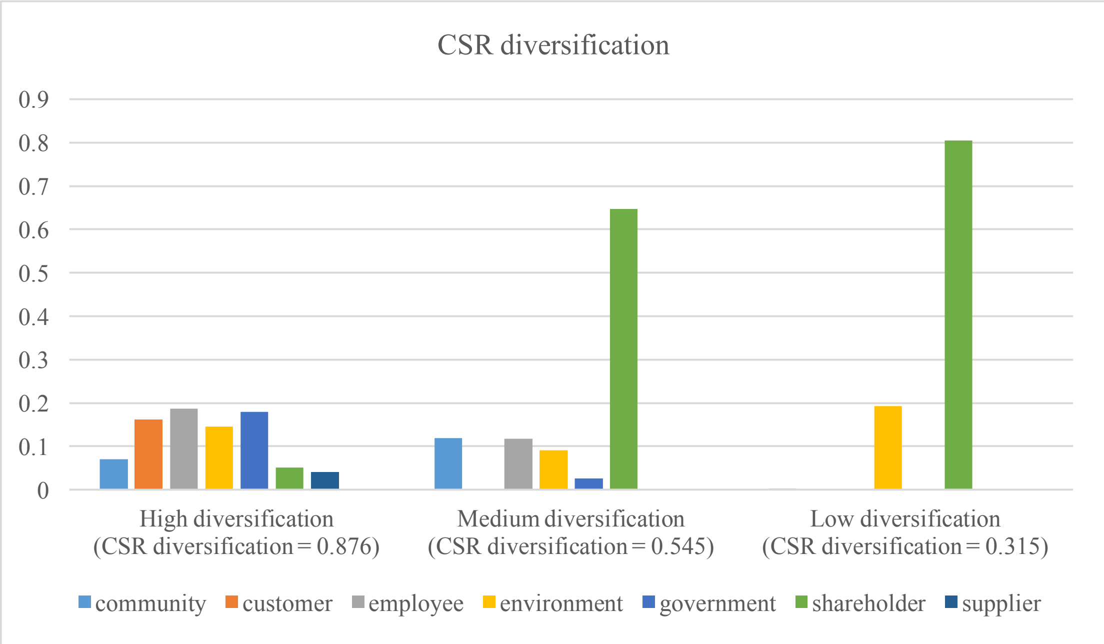
[f] log firm total assets at t-1.

**Table 8 Results of hierarchical linear modeling for firm CSR diversification**

| **Variable** | **(1)** | **(2)** | **(3)** |
|---|---|---|---|
| *Level 1 (time level)* | | | |
| Firm performance | 0.001 | 0.001 | 0.001 |
| | (.003) | (.004) | (.004) |
| Reporting quality | 0.002 | 0.002 | 0.002 |
| | (.001) | (.001) | (.001) |
| Unabsorbed slack | | 0.026 | 0.026 |
| | | (.041) | (.038) |
| Absorbed slack | | -0.032 | -0.032 |
| | | (.453) | (.443) |
| *Level 2 (firm level)* | | | |
| Firm size | 0.008 | 0.008 | 0.009 |
| | (.001) | (.001) | (.001) |
| Industry type | -0.004 | -0.004 | -0.006 |
| | (.237) | (.231) | (.119) |
| State ownership | | | -0.006 |
| | | | (.033) |
| Constant | 1.771 | 1.771 | 1.771 |
| | (.001) | (.001) | (.001) |
| | | | |
| Parameters | 12 | 23 | 24 |
| Deviance | -6456.895 | -6345.392 | -6349.626 |
| $\chi^2$ statistic | | 16.633 | 20.866 |
| | | (.119) | (.052) |

*Notes:* Exact *p*-values reported in the parentheses.

**Figure 2 Illustration of CSR diversification (raw score)**



# CHAPTER 5. CSR INFORMATIVE REPORTING COMPREHENSIVE REPORTING AND INFOMEDIARIES' PERCEPTION

## 5.1 Introduction

Corporate social responsibility (CSR), defined as firm actions that appear to promote social good beyond legal compliance and the interests of the firm (McWilliams & Siegel, 2001), has been found to effectively influence stakeholder relationships (Godfrey, Merrill, & Hansen, 2009) and is often associated with superior financial returns (Orlitzky, Schmidt, & Rynes, 2003). The focus of research has been passed from testing the direct association between corporate social performance and financial performance to the mediating paths that explain its underlying mechanisms (Surroca, Tribó, & Waddock, 2010; Wang & Qian, 2011).

An information-based perspective has recently begun to emphasize the importance of CSR reporting in the mediation process. CSR reporting is a firm disclosure activity that annually distributes CSR information to various stakeholder groups. CSR reporting has been recognized by firms as a strategy to achieve various corporate goals, such as obtaining local legitimacy (Marano, Tashman, & Kostova, 2017), managing political dependence (X. R. Luo, Wang, & Zhang, 2017; Marquis & Qian, 2013), and manipulating stakeholder perceptions (Kim & Lyon, 2014; Marquis, Toffel, & Zhou, 2016). Therefore, the question of the way in which to compose a CSR report that consists of more strategic value for firms deserves more research attention.

Each year, a huge number of firms issue CSR reports, which makes processing information by stakeholders a tremendous task. CSR is multi-dimensional in nature (Luo, Wang, Raithel, & Zheng, 2015). The evaluation of CSR performance based on

CSR reports requires expertise and experience to distinguish the good performers from the bad. More importantly, only with specialized expertise can the stakeholders distinguish the substantive CSR engagement from decoupling and greenwashing (Crilly, Hansen, & Zollo, 2016). As a consequence of the increase in market demands, CSR infomediaries have emerged in both developed countries and emerging economies in order to gather CSR information and disclose ratings in a standardized manner.

Infomediaries are formal organizations that provide mediated information to audiences. They are a special type of stakeholder focusing on collection and distribution of information about firms and social issues (Deephouse & Heugens, 2009). The emergence of information infomediary in CSR field (such as KLD, RepRisk, Asset4, RKS ratings, etc.) has made firm CSR information more accessible and comparable among general stakeholders. They are organizations that specialize in obtaining and evaluating CSR information that is not readily comprehensible to general stakeholders, such as investors, customers, and government. Prior studies have proven that CSR infomediaries can significantly influence stock analysts' investment recommendations (Ioannou & Serafeim, 2015) and also play a mediating role in the relationship between firm CSR performance and analysts' recommendations (X. Luo et al., 2015). Firms who obtained higher scores in CSR reporting from infomediary agents are more likely to obtain government and media endorsements (Dai, Du, Young, & Tang, 2016). On the other hand, infomediaries' coverage of corporate social irresponsibility can increase stakeholders' awareness and therefore generates more financial risk for the focal firm (Kölbel, Busch, & Jancso, 2017). The conclusion can be drawn based on previous studies that infomediaries occupy a critical link between firm actions and stakeholder perceptions. However, compared with a relatively richer understanding of the influence that infomediaries can exert on stakeholders' perception of firms' corporate social performances, less attention has been given to the question of the way in which firms can actively influence the way infomediaries portray them.

A stream of literature in the organizational impression management field has discussed the ways managers attempt to influence security analysts' impressions. For example, in order to investigate how much information should be to disclosed, Busenbark, Lange, and Certo (2017) looked at impression management tactics through information disclosure activities by proposing foreshadowing as a specific tactic to disclose some of the firm's information while still preserving the firm's competitive information advantage among its peers. From the point-of-view of the type of information disclosed, Westphal and Clement (2008) discussed the mechanism of the way in which the unsolicited disclosure of a firm's negative information would induce relatively positive reaction from a security analyst. We intend to further examine this stream of literature by moving from security infomediaries to CSR infomediaries and by investigating self-presentation tactics in the voluntary CSR reporting activity. The voluntary disclosure form gives firms more discrepancy in reporting activities. Different from prior studies that focus on how much information and what information to disclose, I shift to the specific techniques involved in framing the relevant information for CSR infomediaries' assessment.

In this study, I identified two strategies in CSR reporting that firms may adopt in order to manage CSR infomediaries' perceptions in order to be evaluated more favorably as issuing high-quality CSR reports. The first strategy involves informative reporting that focuses on CSR activity content and involves substantive resource investment and new information disclosed compared to the previous issuance, which is opposite of repetitive behavior with no substantial information disclosure. Informative reporting focuses on communicating activity advancement and involves disclosing the substantial changes in CSR practices occurring during a particular time period. The second strategy is comprehensive reporting that directs stakeholders' attention from report content to report style and format, which refers to the complete and comprehensive form of reporting when covering multiple stakeholder interests. This addresses the form of display that directs stakeholder's focus to non-content-related reporting merits that show the efforts to accommodate multifaceted or even competing stakeholders' demands. We propose that these two reporting actions can both be effective in managing CSR infomediaries' perceptions of the firm's reporting quality; therefore, these methods are more likely to obtain a favorable CSR infomediaries' evaluation.

Theoretically, I employ organizational impression management perspective, and argue that firms are concerned with self-presentations in order to manage stakeholder impressions (Bolino, Kacmar, Turnley, & Gilstrap, 2008). We propose that both informative and comprehensive reporting are two tactics that firms adopt to frame and disseminate information, which plays a critical role in the "sense-giving" process in order to facilitate positive stakeholder perceptions. In this study, I focused on CSR infomediaries as a specific stakeholder group.

We also examined the boundary conditions that will moderate the relationships between firm informative and comprehensive reporting and CSR infomediaries' perception. We first proposed that relationships between a firm's CSR comprehensive reporting and infomediaries' perception will be positively influenced by the firm's media exposure. When the firm is highly exposed to stakeholders' scrutiny, the firm becomes highly visible and therefore draws more stakeholder attention to the firm's

CSR reporting activities. The firm's effort to accommodate divergent stakeholder interests via comprehensive reporting can be more visible to stakeholders with higher rather than lower stakeholder exposure.

Second, I propose that the relationship between firm informative reporting and infomediaries' perception will be negatively influenced by a firm's dominating government ownership power. When the firm is owned by the government with dominant power among all stakeholders, government is both the major shareholder in the firm and policy maker in the society; this dual role would trigger negative perceptions from infomediaries since government by nature has the responsibility to promote social good. When the responsibility is transferred and exhibited from government to its controlled firms, firms' substantial resource allocation to CSR is likely to be perceived as an agency cost.

In order to test our hypotheses, I used longitudinal data from 2010 to 2015 from Chinese listed firms. There is a trend for increasing CSR research focus in developing economies that bear more contextual heterogeneity compared with Western countries (Wang, Tong, Takeuchi, & George, 2016), which has the potential to further enrich CSR theories. In addition, CSR infomediaries have emerged rapidly in China in recent years, such as RKS rating, SynTao, GoldenBee, and a variety of CSR evaluation programs. Third, China's context offers a unique situation in which the power of the government as a dominant stakeholder with dual roles in both the economy and society can be observed. In order to test the informative and comprehensive reporting actions, I developed two measures for capturing these two dimensions by extending content analytical techniques. Overall, the results support our predictions.

The study aimed to make the following contributions. First, I have contributed to CSR reporting literature by addressing two reporting tactics that can significantly influence CSR infomediaries' perceptions of the reporting quality. Previous literature has proven discrepancies in CSR reporting quality, its antecedent causes, and subsequent outcomes but has no direct concept of the way in which a high-quality report is defined and constructed. We filled this gap by proposing two tactics (informative and comprehensive reporting) that would be perceived as high-quality issuers in the eyes of CSR infomediaries. Second, I bridged the CSR literature's reporting and infomediary literature by demonstrating that CSR reporting can be an effective strategy in managing infomediaries' perceptions, which are of strategic value for the firm in order to induce positive stakeholder reactions. Beyond previous conclusions in which infomediaries can shape stakeholders' perceptions of the firm's performance in a field, I proved that the firm also has the capability to proactively influence the way in which infomediaries portray it. Finally, I contributed to infomediary literature by revealing that there may be potential biases in infomediary evaluations resulting from a firm's stakeholder attributes.

To our knowledge, this study is among one of the earliest studies that examine CSR infomediaries from an impression management perspective. Given that CSR infomediaries occupy an increasingly important link in transferring CSR information, shaping public understanding of firms and their CSR activities, and providing critical evaluations in order to facilitate investors' decision-making, studies that discuss the approaches for obtaining favorable assessments from CSR infomediaries have an impact on a firm's CSR strategies.

## 5.2 Theory and Hypotheses

This study takes a firm-initiated perspective in order to conceptualize CSR reporting as an organization impression management tactic. I propose that as a critical channel through which CSR information flows from organizations to stakeholders, the properties of CSR report quality will significantly affect stakeholders' impressions. The next section introduces the theoretical background.

### 5.2.1 CSR disclosure literature

A growing stream of research has focused on CSR disclosure as a related, yet independent, stream of CSR literature. The main voice of CSR disclosure literature addresses three main issues: (1) the factors that influence firms' reporting-related decision-making, that is whether to issue CSR reports; (2) the determinants of CSR report quality, which are captured in the studies as report "substantiveness"; and (3) stakeholder reactions toward CSR reporting. Overall, a large number of studies view corporations as reactive actors under institutional pressures. A small proportion of studies see corporations as initiators to proactively use CSR reporting as a corporate strategy.

A number of studies address the variations in firm reporting behaviors when under institutional pressures. Certain firms treat CSR reporting as a passive response to external forces. Marquis et al. (2016) conceptualized corporate CSR reporting as a response to various pressures from stakeholders', who require a more holistic picture sof firm performance in addition to financial reports. They try to explain 'how, when, and why' firms would pursue symbolic compliance, such as selective disclosure that only reports positive information while concealing the negative information. They found evidence that when firms are more exposed to the environmental damage-related scrutiny and global norms, firms are less likely to engage in selective disclosure. Another study that addresses CSR reporting as a response to institutional complexity is from Luo et al. (2017). Their main focus was to uncover the way in which conflicting institutional pressures could impact corporate social behaviors. They discovered that when firms are under incompatible institutional demands, firms tend to pursue a decoupling strategy in order to accommodate institutional conflicts.

Crilly et al. (2012) assumes a horizontal view in order to compare firms' responses to institutional pressures. They tried to understand why firms respond differently to the same institutional pressures. They found that decoupling can be the outcome of organizational learning efforts that are fraught with complexity under conditions of inconsistent and rapidly changing stakeholder pressures. Kim and Lyon (2014) echoed similar perspectives in which stakeholder pressures are not in a steady state but exist as a dynamic process that requires firms to make constant adjustments in their strategies. They argue that CSR disclosure is not always welcomed by stakeholders. Sometimes, firms have to claim undue modesty in their report in order to mitigate stakeholders' judgements, and firms' choice of 'greenwash' or 'brown wash' depends on which stakeholder is more salient at a given point of time.

CSR reporting can be a more proactive behavior of firms. From a firm-initiated perspective, Marquis and Qian (2013) explained variations in firms' reporting behaviors by establishing a political legitimacy argument. They conceptualized CSR reporting as a strategic tool used to manage firms' political dependence. Although their propositions have not gained full empirical support, their findings partially explain that when firms' political dependence on government is high, they are more likely to issue CSR reports. Additionally, when firms are under close governmental monitoring, they are more likely to issue high quality reports.

Another stream of literature investigates stakeholder reactions as consequences to firms' CSR disclosure behaviors. Dhaliwal et al. (2011) argued that CSR disclosure reduces information asymmetry and uncertainty related to factors affecting firm value, which in return will reduce the cost of equity capital. However, information asymmetry is still in place for some stakeholders who are incapable of detecting the trap. Crilly et al. (2016) found that there are linguistic variations in the composition of CSR reports among firms that engage in decoupling strategy and firms that do not. Not all stakeholders can detect this difference in linguistic properties, which implies that some stakeholders are more deceived than others. They found that generalist stakeholders and stakeholders with conflicts of interest are unable to detect these linguistic nuances.

In contrast to prior studies, the thesis takes a more fine-grained perspective in order to advance CSR disclosure literature, that is to look at the specific attributes of firms' CSR reporting behaviors. It is believed that the attributes are a reflection of firms' managerial ideology, and stakeholders do pick up these subtleties. In addition, I propose and will test the theory that CSR reporting attributes are the results of firms' resource environments. When the firm has abundant resources and the resources are scattered among stakeholders, firms tend to issue more comprehensive CSR reports in order to balance multiple stakeholder interests. Moreover, the thesis takes a more proactive stance of organizations and proposes that CSR reporting attributes (such as reporting comprehensiveness and informativeness) have a significant influence on stakeholders' perception of their CSR performance. CSR reporting can be an assertive organizational impression management strategy.

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### 5.2.2 CSR infomediaries and CSR reporting

CSR infomediaries collect, process, and release CSR performance information to firms' stakeholders. Prior studies have found that CSR information will significantly influence security analysts' recommendations, which will further influence the focal firm's stock performance (Luo et al., 2015). Eccles, Serafeim, and Krzus (2011) found that after analyzing Bloomberg datasets that corporate analysts would actively screen out firms with poor environmental, social, and corporate governance (ESG) ratings or involvement in controversial ESG issues. Their finding demonstrated that CSR infomediaries play a critical role in connecting a firm's CSR activities and external stakeholders' perceptions, which also side-proves the importance of investigating the factors that would affect CSR infomediaries' perceptions.

The main stream CSR literature has widely adopted CSR ratings from agents such as KLD, Assets4, and ESG. CSR infomediaries in China are also rapidly emerging. They are established as business consulting firms. Their main duty is to disclose CSR ratings and to function as filters in order to advance socially responsible investment. Usually the raters of CSR infomediaries are in possession of CSR knowledge, experience, and working backgrounds. It is also common that CSR infomediaries leverage relevant expertise and authority from universities and government entities who have been conducting relevant CSR studies. Through collaborations with renowned experts, their knowledge of professionalism are further enriched. Particularly, in the emerging market in which the CSR concept is still of high vagueness, high-profiled CSR infomediaries are accepted as the legitimate party that can speak for firms' CSR performances. Their interpretations and assessment results are also integrated into other stakeholders' decision-making.

CSR infomediaries usually maintain a consistent methodology to give ratings throughout years. However, the rating process involves human judgements. Consequently, the results are inevitably affected by the existence of technical reporting skills. This gives rooms for firms to manipulate self-presentations and strategically manage infomediaries' perceptions.

### 5.2.3 Organizational Impression Management

Organizations can be seen "as if they were living, breathing entities with predictable behavioral tendencies" (Staw, 1991). Whetten, Felin, and King (2009) echo that organizations can be thought of as social actors with motives and intentions. This perspective has bestowed organizations with psychological traits and self-regulated behaviors. It can be justified that organizations are marked as social actors in modern society, and they are held accountable for their own actions (Highhouse, Brooks, & Gregarus, 2009). Similar to individual human beings, organizations also strive to obtain approval and status. Accordingly, it is suggested that corporations similar to people are concerned with self-presentation in order to manage stakeholders' impressions (Bolino et al., 2008)

Impression management (IM) describes the efforts of an actor to create, maintain, protect, and/or alter an image held by a target audience (Bolino et al., 2008). IM scholars have devoted a significant body of research to demonstrating the way in which firm managers would deliver the appropriate information to the audience. Through assertive and defensive tactics, organizations create and enhance desirable images in order to achieve organizational goals (Mohamed, Gardner, & Paolillo, 1999). Although this stream of literature has offered substantial implications for IM approaches in managerial messages, communication research suggests that the IM literature misses the key element regarding how communication influences audience assessments (Pan, McNamara, Lee, Haleblian, & Devers, 2018).

Organizations' IM behaviors and audience perceptions are in an interplay of "defining the situation" that guides their behaviors (Goffman, 1959). The success of an actor's presentation, or the positiveness of audience's assessment, is determined by the degree to which the actor's performance is congruent with the audience's definition of the situation. The actor is more likely to create the desired impression and solicit favorable responses when the congruence is high. Conversely, when the audience perceives the actor's presentation is inappropriate, a negative impression and response are more likely to happen (Gardner & Martinko, 1988).

CSR reporting and general stakeholder communication literature highlights various tactics in framing the information in the best light to positively influence stakeholder perceptions. For example, selective disclosure entails purposely disclosing positive information while disguising the negative information in order to create a misleading impression of the firm's overall environmental performance (Marquis et al., 2016). Firms may also downplay their environmental performance by brown-washing in the report when the salient stakeholder value financial performance is over the CSR's performance (Kim & Lyon, 2014). Moreover, firms can actively disclose negative environmental information in order to reduce the firm's unsystematic risk (Bansal & Clelland, 2004). The way firms frame and disseminate the information constituents an important role in the 'sense-giving' process to facilitate positive stakeholder reactions.

In addition, firms also use language strategically to present themselves in the best light (Van Leeuwen, 2008). We draw from Zavyalova et al. (2012) and impression management theories in which the fundamental difference that triggers divergent stakeholder reactions is the level of perception consistency between what the firm does and what the firm is expected to do in the eyes of the stakeholder. High consistency would induce a positive reaction, while low consistency would induce the opposite. In order to positively lead stakeholder perceptions, the firm needs to compose CSR report that approaches their stakeholder's expectation. Two tactics are proposed below, which include informative and comprehensive reporting. They emphasize different aspects in order to induce positive perceptions.

### 5.2.4 Comprehensive reporting and informative reporting

Another key take-away from Zavyalova et al. (2012) indicates that depending on the capacity of the released information to address the core issue, the focus of preparing the information can vary. The firm may draw stakeholder attention to the firm's changes of internal processes, which consists of an informative piece of information. Alternatively, the firm may deflect stakeholder's attention from the informative content to the display of other firm merits superficially, which serves as a positive signal to seek stakeholder approval. As long as the action is congruent with stakeholder's expectation under certain circumstances, both actions can be instrumental. They offer an evidenced argument that in order to induce positive stakeholder reaction, both the substantial content of the released information and the symbolic showcase of stakeholder-caring are effective means of yielding a positive stakeholder reaction.

Correspondingly, I propose two strategies that firms may adopt to impress CSR infomediaries of their performances. Informative reporting refers to non-repetitive information disclosure compared with previous years and contains updated CSR knowledge available to stakeholders. It involves substantial resource investment in activities that will integrate the firm's changes in internal operations into the disclosure effort. This is in contrast with a report that is composed with repetitive writing with no substantial changes in content year after year. Comprehensive reporting indicates that the form of report is of high completeness by covering heterogeneous stakeholder interests in order to deliver the impression that every aspect of a firm's interaction with stakeholders are aimed at are tended with attention and efforts. This tactic diverges from the reporting content concept by displaying a positive symbol of multi-stakeholder awareness and equity.

*CSR comprehensive reporting*

Any firm must deal with multiple stakeholder groups (Freeman, 1984). A challenge firms would face in CSR reporting is the way in which CSR activities should be framed in order to fit better with multiple stakeholder preferences. Because firms' resource is finite, they are unlikely to substantively engage all stakeholders equally (Mitchell, Agle, & Wood, 1997), but they may adopt symbolic reporting by showing attention and efforts to all stakeholders. Prior research has documented several actions of symbolic reporting, such as the investments in advertising, public relations, and social responsiveness (Fombrun & Shanley, 1990; Highhouse et al., 2009). In the context of CSR reporting, it refers to a comprehensive form of display that shows the firm's thoughtfulness in treating multiple stakeholder relationships. A comprehensive report may positively influence stakeholders' impression toward firms' managerial ideologies and capabilities deal with a network of stakeholder relationships.

One key interpretation of instrumental stakeholder theory implies that stakeholder fairness can increase firm values (Phillips, 1997). A balancing disclosure facilitates a functional comparison among the engagement of different stakeholders. Based on instrumental stakeholder theory and resource-based view, Wang and Choi

(2013) argue that the consistency in CSR engagement can generate value for the firm. Stakeholders may occasionally look at the way in which the firm treats other stakeholders in order to assess whether the firm is trustworthy. The various non-financial stakeholders, such as customers, community, employees, environment, and government, are often considered as a whole (Clarkson, 1995; Hillman & Keim, 2001). For example, a customer with high awareness of social responsibility may assess the firm's product with a reference to the way in which the firm treats its employees or whether the firm has green operations. Thus, the consistency of firms' engagement toward various stakeholders plays a critical role when it faces external evaluation. By drawing references to the way in which a firms treat the others, stakeholders may have a holistic picture of what they can expect and whether the firm's engagement is a sincere one (Wang & Choi, 2013). This positive comprehensiveness can also find support in Fiss & Zajac's 2006 study in which they performed a comparison between acquiescence and balancing framing of annual reports. They found that a balancing frame generates more value for shareholder returns than an acquiescence frame that has a strong shareholder orientation. Accordingly, in the presenting process of firms' CSR information, I propose that a balanced approach with high comprehensiveness in order to incorporate each stakeholder's interest can induce more positive stakeholder reaction than a weighted disclosure, which shows more efforts to accommodate divergent stakeholder preferences.

*Hypothesis 1: there is a positive relationship between CSR comprehensive reporting and CSR infomediaries' perception.*

Compared with comprehensive reporting, informative reporting involves firms making real investments in CSR activities and reporting the updated information. Huge variations in the report informativeness can be expected considering the long-term engagement these investments would demand. Different motivations to issue CSR reports could lead to huge gaps in informativeness among firms. Some firms issue CSR reports in order to obtain legitimacy and avoid regulatory scrutiny. Such reporting behaviors would be in contrast to a substantive reporting approach in which the firm's accountability and responsibility to disclose information to stakeholders who have the right to know is reflected (Deegan, 2002). Out of the instrumental purpose, firms may put less effort in composing the report and deriving CSR reports from a template with similar content each year. Their investment only satisfies the basic requirement and generates a display of conformity.

A different motivation toward CSR can change the way firms frame the disclosure. Firms may choose to make substantive disclosure by actively revising the report in order to be informative to stakeholders. Firms may utilize this disclosure opportunity as a way to show accountability, transparency, and responsibility, which is predicted to relate to more positive stakeholder reaction. A prior study has found that the modification of firms' Management's Discussion & Analysis (MD&A) disclosure induces more favorable investor responses, which implies that the audience often pick up the informativeness of firm disclosure (Brown & Tucker, 2011). More empirical findings support the finding that the informativeness of organization's disclosure is positively associated with merger and acquisition decisions (Hoberg & Phillips, 2010) and initial public offering (IPO) prospectus (Hanley & Hoberg, 2010). Modification of CSR information in the report is congruent with the infomediaries' expectations. Informativeness in reporting showcases the firm's intention to communicate and their efforts to make real CSR progress, which also gives side evidence that the firm has done concrete CSR activities. By interviewing managers from a CSR infomediary in China, RKS, Marquis and Qian (2013) state that high substantiveness in reporting is closely associated with the substantial engagement of CSR activities. The informative talks are more likely to be derived from the real actions. Crilly et al. (2016) also described that substantive CSR engagement usually leads to more complex language articulation and expressions. On the contrary, the repetitive talks concerning the same matter would give the impression that the firm does not make substantive progress, thus inducing negative impressions from CSR infomediaries who have abundant assessment-related expertise. Thus, I propose that CSR infomediaries will have more positive impressions toward informative reporting disclosure with high modification than uninformative CSR disclosure with similar information as shown in previous years.

*Hypothesis 2: there is a positive relationship between CSR informative reporting and CSR infomediaries' perception.*

Comprehensive reporting could be a formality of technical writing, while informative reporting requires more resource investment from CSR practice to disclosure process. Informative reporting is a more substantial form of engagement that discloses firm CSR news and updates. I propose that being informative in reporting is more of a baseline requirement, and without it, the comprehensiveness in covering multiple stakeholder interests is only considered superficial and symbolic. When the report is sufficiently informative in content, the formality of comprehensiveness will be granted additional value.

*Hypothesis 3: the relationship between informative reporting and CSR infomediaries' perception will be strengthened by comprehensive reporting.*

As comprehensive and informative reporting are two tactics that firms may utilize to manage CSR infomediaries' perceptions, a follow-up question is that do firms cultivate the same returns when adopting these tactics? In their theoretical piece to summarize the cognitive mechanisms of impression management, Gardner and

Martinko (1988) make the proposition that the audience's perception towards the actor's actions will be further influenced by the factors besides which IM strategies actors use, such as the audience's specific attributes. For example, an audience's similarity to the actor would intensify their impression of actor's ability, manipulativeness, and sociability. In this study, I propose that the actors' attributes can also influence the audience's perceptions and lead to perception biases.

Prior literature has confirmed that stakeholders are aware of firms' CSR activities. Madsen and Rodgers (2015) found that stakeholders do pay attention to firms' CSR activities, and stakeholder's attention plays a critical role in transforming CSR into strategic value (Ramchander, Schwebach, & Staking, 2012). Kölbel et al. (2017) found that media exposure exerts a mediating effect on explaining stakeholder sanctions as a reaction to a firms' irresponsible behaviors. Firms whose activities are more exposed to stakeholders are more likely to be seen in the first place, which brings more pressure for the firms when making disclosures and increasing the audience's similarity towards them. Media exposure brings more stakeholder attention in addition to exposing the divergent nature of stakeholder interests. Incompatible demands by stakeholders may make conformity difficult to achieve. With the inevitable trade-offs, firms' efforts to accommodate divergent stakeholder interests by issuing CSR reports in a comprehensive manner are more likely to be noticed and appreciated. Higher familiarity generated from frequent media exposure also inflates an audience's trust towards firms' actions compared with firms that the audience are less familiar with. Thus, I propose that the relationship between firms' comprehensive reporting tactics and CSR infomediaries' perception can be influenced by firms' exposure to diverse stakeholder groups.

Stakeholders' knowledge of firms' operations either comes from the firms' self-reported information or the information disclosed by other parties, such as news media. The emergence of business press with corporations as core subjects has intensified the critical influence of the news media on corporations (Carroll, 2000; Kjærgaard, Morsing, & Ravasi, 2011). News media usually selectively report information and disseminate their own interpretations about organizations. Their activities exert a considerable amount of influence on the way in which organizations are known, thus shaping the perceptions of the organizations' external stakeholders. Following Wartick (1992), I defined media exposure as aggregated news reporting relating to a specific company within a prescribed period. Media exposure significantly raises the firm's visibility and invites more public scrutiny. In addition, the media has the capability to mobilize social and environmental movements that potentially shape institutional norms with which firms need to comply in order to obtain legitimacy. Thus, firms with high media exposure and stakeholder's knowledge of their operations tend to be more carefully constructed in CSR report in order to avoid any punishment resulted from violating a potential stakeholder's expectation.

From the assessor's perspective, CSR infomediaries' perceptions toward the reporting performance of those who have high media exposure may also be biased. Wartick (1992) stated that newsworthiness is one dimension of corporate reputation. The newsworthy firms may enjoy certain reputation surplus when being evaluated. According to the arguments provided by Tversky and Kahneman (1974) and their cognitive bias argument, the availability of information may benefit firms with high media exposure disproportionally over those with less exposure by inflating audiences' familiarity with their activities. When two firms engage in the same production activity, people tend to take for granted that the firm who is more familiar to them is more likely to produce liable products. So I propose that CSR infomediaries are more likely to hold a favorable bias towards firms who have higher media exposure.

*Hypothesis 4: the relationship between CSR comprehensive reporting and infomediaries' perception is positively moderated by media exposure.*

In addition, I propose that the relationship between informative reporting and infomediaries' perception will be negatively affected by state ownership. CSR as a relatively recent business practice that is still in the early stages in emerging economies in which the business environment is of low transparency and accountability (Li & Zhang, 2007). These organizations generally lack the supporting organizational structure to monitor resource allocation for CSR activities. In this situation, without a regulated procedures and monitoring system, firms may be thrown under sceptics of resource misallocation. This is especially the case when the firm has a dominant stakeholder who serves two concurrent roles. In China, state-owned enterprises (SOEs) have a dominant stakeholder, which is the government. Additionally, the government is not only the largest shareholder but also the policy maker that has inherent social responsibilities. When the responsibility is transferred by the government to its controlled firms, firms' substantial resource allocation to CSR is likely to be perceived as an agency cost. Thus, I predict that the duality of the role brought by the dominating government ownership would trigger negative perceptions from the infomediaries.

State capitalism can bring resources for SOEs. However, resource utilization efficiency has been a problem for firms whose government ownership takes the majority share (Zhou, Gao, & Zhao, 2017). Audience's impression towards government-owned firms may hold different standards than non-SOEs because government is viewed as both a regulator and participant of economic activities. The dual identity implies that government has the dominating power among all stakeholders but very little monitoring over their ways of utilizing the power. SOEs in China are owned by the 'people' and society as a whole (Zhou et al., 2017). The 'people' are the nominal owners of the SOEs but have neither contractual or monitoring mechanisms to align their interests with politicians who hold the real control over the enterprise (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014). Without effective monitoring of resource utilization, government officials may look for opportunities to pursue their own interests, such as political support and reappointments. Government officials, who hold the real control over the decision-making process, can make self-seeking decisions to utilize resources for their best interests under the name of CSR. SOEs' managers are often appointed for political reasons instead of for their managerial expertise and capabilities (Qian, 1996). Their lack of appropriate skills compromises the firms' efficiency in using resources (Xu & Zhang, 2008). CSR is a discretionary organizational act. There are few standards regarding what should and should not be done. This gives SOE managers a considerable amount of space to misuse resources in the name of CSR.

Additionally, SOE managers may lack the motivation to engage in CSR in the first place. Prior literature has found that CSR and CSR reporting is a political strategy used to build government connections and legitimacy (Luo et al., 2017; Marquis & Qian, 2013). SOEs do not need extra efforts to build legitimacy since state ownership itself is a form of political legitimacy in developing economies (Marquis & Qian, 2013). With low motivation and monitoring forces for CSR procedures, SOEs' utilization of resources to build CSR profiles are more likely to be interpreted as a form of misallocation of resources by the external audience's perspective of the organization. Thus, I propose that when firms are controlled mostly by the government, stakeholders may hold sceptic opinions toward their informative reporting effort.

*Hypothesis 5: the relationship between CSR informative reporting and infomediaries' perception is negatively moderated by state ownership.*

# 5.3 Methodology

## 5.3.1 Sample and Data

The sample of our data consists of listed firms in China from both Shanghai Stock Exchange and Shenzhen Stock Exchange. Since our measure is based on CSR report analysis, I aimed to collect as many CSR reports as I could. We downloaded all the reports from four major China CSR report databases including Shanghai Stock Exchange, RKS ratings, MQI database8 and China Corporate Social Responsibility Monitoring and Evaluation System. RKS ratings and MQI database are two leading China CSR research and investment consultancies. The total number of CSR reports I could collected is 3563 for 765 firms. 542 firms with at least 2 consecutive yearly reports were retained, resulting in 3230 reports from 2009 to 2016. By adopting the techniques of machine learning in automated text categorization, only reports with clean and compatible formats were retained for analysis, which resulted in 490 firms with 2520 reports. Because I adopt RKS ratings as a proxy for stakeholder perception of firm CSR image, I retained all the reports with RKS ratings. Firms with missing data of characteristics and financial performance were also ruled out. The final sample consists of 392 firms covering the period from year 2010 to 2015, with total firm-year observation of 1435.

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### 5.3.2 Measures

*Independent variables*

CSR informative reporting and comprehensive reporting are computed from CSR reports using content analysis. Other variables of firm characteristics and financial performance are obtained from the China Stock Market & Accounting Research (CSMAR; http://dx.gtarsc.com/ ).

*Informative reporting*

Analyzing text of executive letters (Osborne, Stubbart, & Ramaprasad, 2001), media reports (Shen, Tang, & Chen, 2014; Tetlock, 2007; Tetlock, Saar-Tsechansky, & Macskassy, 2008; Uotila, Maula, Keil, & Zahra, 2009), idea proposal (Reitzig & Maciejovsky, 2015), firm advertisements (Oreskes, 2017) and other management texts has become a widely accepted measure in management research.

We employed Vector Space Model (VSM) introduced by Salton, Wong, and Yang (1975) to compare a firm's current CSR report to that from the previous year. The VSM represents a document as a vector in an $n$-dimensional Euclidean space, where $n$ is the number of unique words in all documents in the sample and the value of each vector element is the frequency of a particular word in that document (Brown & Tucker, 2011). The similarity of any two documents is measured by the angle between the two vectors representing the documents: a smaller angle indicates more similar documents, while a larger angle indicates less similar documents. We calculate the difference score between a firm's current year CSR report and a previous year CSR report. A higher score indicates greater similarity between two years' reports and thus a low informativeness. A low score indicates lower similarity and thus high informativeness. Then the final score was inversed to facilitate interpretation.

*Comprehensive reporting*

CSR report comprehensiveness is operationalized on the base of the proportion of word count for each stakeholder statement in the report. Word count proxies the effort and attention the firm executives are willing to input for each stakeholder group. By using a pilot sample of 409 reports, I first established a training corpus of pre-classified documents to train the computer to learn different stakeholder descriptions based on Python programming language. Then I applied the established corpus to categorize stakeholder statements for the full sample. Based on the word proportion of each stakeholder group relative to the report total word count, a CSR report comprehensiveness score was then computed using the method introduced by Wang and Choi (2013) for inter-domain CSR consistency. We computed the variance of all stakeholder sections proportions and then inversely coded. A high score indicates high comprehensiveness of report. A low score indicates otherwise.

*Media exposure*

We measure media exposure by using Baidu News Search (http://news.baidu.com/) to assign a value for each firm as media exposure, the number of news articles about a firm in a given year (Du, Chang, Zeng, Du, & Pei, 2016; Marquis & Qian, 2013).

*State ownership*

We create a binary variable to capture firm state. 1 indicates state-owned, and 0 indicates otherwise.

*Dependent variable*

The dependent variable of infomediaries' perception of firm CSR reporting performance is operationalized as RKS ratings, which is a third-party evaluation of firm CSR reporting activities. RKS is like a China version of KLD (Marquis & Qian, 2013), whose rating is totally independent from firms to give ratings annually. It represents a mainstream CSR infomediaries' rating in China.

RKS evaluation system is developed based on the GRI 3.0 guidelines. It rates firm CSR activities based on the reported content from the aspects of macro evaluation of the disclosure, including the description and validity of CSR strategy, stakeholder evolvement and stakeholder management mechanism, the completeness of both CSR achievement and obstacles, the consistency of methodology used in composing reports over time, innovativeness of CSR activities, and reliability and transparency. Secondly, RKS rates report content, which covers CSR strategy and management structure, as well as evaluations for economic, environmental, social performance with predefined items. Thirdly, RKS gives technical evaluation that focuses on transparency and readability. These three components total the score to 100 marks.

The informative and comprehensive reporting measure CSR reporting with treatments different from RKS rating. Overall, RKS rating is based on quantifying specific content according to pre-defined items. Evaluation process is a matching process with human judgement. While Chapter 5 measures report composition attributes from a holistic view. Informative reporting measures the amount of new information disclosed every year. Comprehensive reporting measures the structure of communication in multiple stakeholder environment. Measures in Chapter 5 involves very little human judgements, and are quantified by computer-aided text analysis techniques. Neither the two constructs fall within the prescribed RKS rating methodology and evaluation scope. If significant relationships between the two constructs and evaluation results were found, it would be an evidence that these two dimensions play an underlying role to exert an influence on the evaluating body sub-consciously.

*Control variables*

We control for firm characteristics that might influence CSR diversification. Specifically, I controlled for *firm size*, measured by the log of firm yearly average total assets. *Firm performance* was measured by ROE centered by industry means. Stock market exchange require certain firms to issue CSR reports. For example, at the end of 2008, SOEs in corporate governance index were required to issue CSR reports. So I created a dummy variable that controls for *voluntary disclosure versus required disclosure*. 1 equals to voluntary reporting, while 0 represents required reporting. Additionally, *stock exchanges* are also controlled with 1 equals to Shanghai Stock Exchange and 0 equals to Shenzhen Stock Exchange.

Because firms who have issued CSR reports before are likely to be more experienced in composing reports and more knowledgeable of stakeholder preferences, so I controlled for *reporting history*, which equals to 1 if the firm has issued CSR report before, and 0 indicates that this is the first CSR report the firm issued.

It is possible that firms who do a good job in advertising themselves in public are more likely to plant a more positive image to stakeholders. So I controlled for firms' *advertising intensity* to rule out the possibility.

*Political connections* are also controlled, since I suspect that firms with better political connections are more likely to obtain high score from third-party rating due to sensitive political network effect. We create a dummy variable of political connection that 1 refers to the firm's CEO holds or held government positions, and 0 refers to no political connections.

The level of *institutional development* where the firm situates is controlled, since firms in more developed areas have more clear awareness and understanding of CSR. Firms in these areas are more likely to issue high quality reports than firms in less developed areas.

Firms who are *overseas listed* are controlled since foreign listed firms usually are very competitive firms domestically. The high status brought by financial success may put these firms on the short lists of good CSR performers. Similarly, firms who are *monopolistic* are also controlled due to their unique status in China.

Last but not least, 5 *industry dummies* representing 6 industries and 5 *year dummies* representing 6 years are added in the analysis to control for *industry* and *year* effects. Industry categories are defined by the China Securities Regulatory Commission.

### 5.3.3 Estimation Method

Using ordinary least squares to estimate panel data can result in biased estimations due to unobserved heterogeneity (George, 2005). A random or fixed-effects model can capture these relationships. However, such a model does not account for heteroscedasticity and autocorrelation in longitudinal data. In case of these two issues, a series of tests were conducted in advance. A White's test shows that heteroscedasticity does exist in the data (prob>chi2 =0.000). Wooldridge test for autocorrelation has also been conducted, which shows that there is autocorrelation in the series data (prob>F=0.0001). In the presence of heteroscedasticity and autocorrelation, cross-sectional feasible generalized least square (FGLS) has been adopted as the estimation method, since it presents reliable estimations when simultaneously dealing with these two issues (George, 2005). Hausman test indicates that fixed-effect is appropriate in the analysis (p-value<0.000). So in FGLS, all time invariant dummy variables were included. I report heteroscedasticity-robust standard errors with autocorrelation adjusted.

Table 10 reports the descriptive statistics and correlations among the variables. Table 11 gives the results of FGLS regression analysis. Model 0 is the baseline where all control variables were added. In model 1, both independent variables entered. In model 2 to model 8, interaction effects were tested and reported. All independent variables and control variables were lagged for 1 year to rule out the possibility of inverse causality, except for media exposure and report issuing variables. Since media exposure is a fast-changing factor that has strong real-time effect on people's perceptions. To capture the time-sensitivity of media exposure is more appropriate when assessing its impact on stakeholders' concurrent judgements toward firms' CSR image. Report issuing variables include informative reporting, comprehensive reporting, reporting history and voluntary disclosure. The Wald chi2 test is significant from model 0 to model 8.

## 5.4 Results

Results of analysis largely support our hypotheses. Hypothesis 1 and hypothesis 2 separately predict a positive relationship between firm CSR informative reporting and comprehensive reporting and RKS ratings. The predictions are both supported as positive and significant (Hypothesis 1: $p<0.000$; Hypothesis 2: $p<0.000$). I speculate that the two terms of CSR report quality likely do not work in isolations, so for hypothesis 3 I tested for the interaction effect of the two terms. The interaction term is also positive and significant ($p=0.002$), which means that the two reporting tactics work jointly to influence stakeholder perceptions.

Hypothesis 4 propose that the relationship between comprehensive reporting and infomediaries' perception is strengthened if the firms are under high media exposure.

The results show that the interaction between comprehensive reporting and media exposure (Hypothesis 4) is positive and significant (*p=0.093*). The result supports hypothesis 5 that the interaction of informative reporting and state ownership is negative and significant (Hypothesis 5, *p=0.004*). Interaction graphs are presents in figure 3 to 5.

| Insert table 11 and figure 3-5 |
| --- |

## 5.5 Discussion, Limitations and Future Research

The study proposes to investigate the self-presentation strategies firms use to manage CSR infomediaries' perceptions. By adopting organizational impression management perspective, I define informative and comprehensive reporting as two tactics that deliver positive impressions to infomediaries. Our study empirically proves that both informative and comprehensive reporting lead to higher CSR infomediary ratings. Surprisingly, from the interaction graph figure 1, it can be seen that when firms have not achieved the comprehensive form of reporting, the importance of informativeness is no ground to be appreciated. When firms have achieved the form of comprehensiveness, informativeness is seen to be even more important for evaluators. Actually the comprehensiveness of reporting serves as a baseline in infomediaries' evaluation, which reflects that CSR reporting is more valued as a formality in China context, while the substantial information is only an additional value.

The study also examines the boundary conditions that moderate the relationships. I found that when firms under higher stakeholder exposure, their effort of publishing comprehensive CSR reports are likely to obtain higher ratings from CSR infomediaries. When firms are dominated by state ownership, their effort of publishing informative CSR reports are likely to be perceived as agency costs and lead to negative ratings from CSR infomediaries.

The study provides some insights to the composition of high quality CSR reports to manage organizational impression of stakeholders, which fills the gap in the literature of how CSR information is disseminated from corporations to stakeholders and then accumulates into superior returns. The study makes three contributions to CSR disclosure literature and organizational theory. First, a major contribution is to develop a logical step of information flow from organizations to their stakeholders. Though studies have established a variety of mechanisms of how CSR value is realized through good stakeholder relationship building, the linkage between CSR engagement to CSR knowledge of stakeholders has not been a focus of theory development and empirical analysis. Within the domain of CSR reporting, the study identified two key dimensions of CSR reporting tactics as organizational impression management tactics, which are reporting with informativeness a reporting comprehensiveness. Second, this is the among the earliest studies to specify the elements that can influence stakeholders' judgement towards firm CSR performance and offer empirical test to prove it. The finding that stakeholders value non-repetitive information as well as a comprehensive form indicates that the form and substance are both important in CSR disclosure. However, a further step of analysis shows that a comprehensive form of reporting works as a baseline to obtain good ratings. When the baseline is not achieved, informativeness is not considered as valid. When the baseline is satisfied, the importance of informativeness plays an even stronger role in influencing stakeholder's judgements. This is a meaningful finding that bears practical implications for managers, who now can have a better picture of what really counts in CSR reporting, and how to utilize limited resources to obtain better results. Thirdly, another valuable finding the study offers is that stakeholders may hold double standards when making judgements towards firms. Their evaluation is highly influenced by firms' attributes such as the degree of media exposure and the state ownership. When firms are highly exposed, their high quality reporting is more easily observed by external parties, and their effort to accommodate multiple stakeholder interests and to increase transparency by disclosing comprehensive information are more appreciated. However, when firms' largest ownership is solely controlled by the state, in this case the China government, infomediaries as third-party stakeholders may hold skeptics over their resource allocation and utilization. Infomediaries may give a more conservative rating towards this type of firms with a mind-set that there is probably an agency problem, especially in the environment where CSR is at initial stage of development, and the general business environment is of low accountability (Li & Zhang, 2010).

CSR reporting is essentially a corporate self-presentation tactic. Firms have the general knowledge that CSR is positively embraced by the market and stakeholders. From a firm perspective of supply and demand, CSR can be seen as a special form of product in need (McWilliams & Siegel, 2001). So how to "sell" this product is of strategic value given that firms invest significant resources to practice and to report their CSR activities each year. In this case, firms need to know the "tricks" in reporting, that is the effort casting the "product" under the best light. The proposition and results of this study points to the importance of examining more CSR report attributes that serves an inevitable link between firms' CSR practices and stakeholder perceptions. The findings suggest that both the substance of reporting and the form of reporting tactics play a critical role to influence raters' judgements.

The study also provides some initial evidence that infomediaries' judgements towards firms' behaviors may be different resulting from firm attributes. It is a tough notion to accept that some firms may need to go extra miles to obtain the same returns as the other firms do, while some firms can jump the gun and cultivate easier success. This further emphasizes the importance of managing stakeholder impressions. CSR reporting works as a platform to accommodate competing stakeholder interest, the self-presentation tactics may help firms achieve better stakeholder relationships and corporate image.

There are certain limitations of this study. Firstly, there might be endogeneity problem with comprehensive and informative reporting and CSR infomediaries' perception. A possible instrument could be firm reputation. Firms who have maintained good reputation are more likely to possess excellent tactics to issue public reports skillfully, and reputational firms are more likely to obtain high ratings from third-party assessors.

Secondly, due to report processing requirement by computers, the sample size is confined by the number of viable CSR reports I could find. Some CSR reports were ruled out due to their incompatible format for machine-learning, which results that the sample size is relatively small. Thirdly, I only compute the word count proportions for each stakeholder described in CSR reports, which is not as good as directly measure the evidenced activities in the reports. Word count proportion is a relatively rough measure. Fourthly, there is the possibility that SOEs are under closer scrutiny by government and their resource utilization is better than other non-SOEs. The future study can have a more concrete research design to rule out this opposite possibility. Generally speaking, SOEs' inefficiency in resource allocation and utilization is a severe problem in China. That is why China government has been conducting continuous reforms to increase SOEs' competitiveness with a more market-orientated policy.

To conclude, the study identifies two corporate CSR reporting tactics that can significantly increase stakeholders' positive perceptions of firms' CSR image. It fills the gap of how CSR information is disseminated from corporations to stakeholders from an organizational impression management perspective. The study also offers initial evidence that stakeholders' evaluation of firms' reporting behaviors may hold double standards. Firms with high media exposure to stakeholders are more likely to be recognized and appreciated, while firms with a dominating state ownership may be suspected to have an agency problem, which results in a more conservative judgement.

## Table 9 CSR disclosure literature summary

| Author(s) | Year | Journal | Brief Summary |
|---|---|---|---|
| Dhaliwal, Li, Tsang, & Yang | 2011 | The Accounting Review | The study examines a potential benefit associated with the initiation of voluntary disclosure of CSR activities: a reduction in firms' cost of equity capital. Finding shows that firms with a high cost of equity capital in the previous year tend to initiate disclosure of CSR activities in the current year and that initiating firms with superior CSP enjoy a subsequent reduction in the cost of equity capital. |
| Okhmatovskiy & David | 2011 | Organization Science | This paper studies firm substitution of internal governance code to replace external code of conduct to shift stakeholder attention, and to display a form of compliance to institutional pressure. It focuses on the conditions when firms would choose this form of compliance as opposed to substantive form. |
| Wang & Bansal | 2012 | Strategic Management Journal | New ventures suffer from the liability of newness which will weaken CSR positive effects, but long-term orientation can counteract the liability and generate future financial returns. (Boundary conditions of CSR effectiveness) |
| Marquis & Qian | 2013 | Organization Science | The more politically connected with government, the more likely the firm issues CSR report. Whereas the higher government monitoring risk, the more substantive the CSR communication (reporting) is. |
| Kim & Lyon | 2014 | Organization Science | By extending the theory of organizational information disclosure, the study presents the possibility of undue modesty and green washing, both misrepresents the firm's green actions. It proposes that the different choice between greenwashing and brown washing is based on which stakeholder is more salient at a given point of time. |
| Cheng, Ioannou, & Serafeim | 2014 | Strategic Management Journal | CSR disclosure reduces agency costs and information asymmetry. Firms with higher CSP face significantly lower capital constraints and easier access to finance. |
| Husted, Jamali, & Saffar | 2016 | Strategic Management Journal | Building on economic geography and institutional theory, the authors develop and test theory relating geographic variables to the strength of corporate social responsibility (CSR) engagement and the cost of equity capital. |
| Marquis, Toffel, & Zhou | 2016 | Organization Science | The study investigates when firms are less likely to engage in selective disclosure, focusing on organizational and institutional factors. (industry type, scrutiny and global norms). |
| Luo, Wang, & Zhang | 2017 | Academy of Management Journal | The study explores the co-existence of conflicting pressures from central and local government and firms' response. When the firm is under both central government's requirements to issue CSR report and local government's requirement to pursue short-term GDP growth, the firm is under tension and more likely to take early move but issue low-quality report. |

## Table 10 Descriptive statistics and correlation table

| | Variables | Mean | S.D. | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|---|---|---|
| (1) | Stakeholder reaction | 35.750 | 9.170 | | | | | | |
| (2) | Informative reporting | 0.413 | 0.167 | 0.063** | | | | | |
| (3) | Comprehensive reporting | 0.963 | 0.023 | 0.458*** | 0.118*** | | | | |
| (4) | Firm size | 22.762 | 1.207 | 0.277*** | 0.126*** | 0.062** | | | |
| (5) | Firm performance | -0.002 | 0.032 | 0.036 | 0.038 | 0.042 | -0.056** | | |
| (6) | Stake ownership | 0.740 | 0.439 | 0.143*** | 0.046* | 0.120*** | 0.149*** | -0.132*** | |
| (7) | Political connection | 0.190 | 0.392 | 0.034 | 0.032 | -0.002 | 0.005 | 0.024 | -0.026 |
| (8) | Advertising intensity | 23.040 | 798.400 | -0.011 | -0.026 | 0.042 | -0.012 | 0.045* | 0.016 |
| (9) | Media exposure | 1217.000 | 7077.000 | 0.037 | 0.022 | 0.058** | 0.054** | 0.025 | 0.043 |
| (10) | Reporting experience | 0.003 | 0.053 | -0.011 | -0.013 | 0.039 | 0.009 | 0.007 | 0.031 |
| (11) | Voluntary disclosure | 0.224 | 0.417 | -0.089*** | 0.012 | -0.047* | -0.134*** | -0.061** | -0.176*** |
| (12) | International listed | 0.010 | 0.098 | -0.006 | -0.019 | 0.041 | 0.188*** | 0.006 | 0.059** |
| (13) | Institutional development | 5.945 | 2.473 | 0.157*** | 0.059** | -0.002 | 0.155*** | 0.031 | 0.054** |
| (14) | Monopolistic firm | 0.070 | 0.256 | 0.058** | 0.015 | -0.041 | 0.148*** | 0.013 | 0.132*** |
| (15) | Stock exchange | 0.879 | 0.326 | 0.149*** | -0.008 | -0.016 | 0.065** | -0.141*** | 0.103*** |

| | Variables | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
|---|---|---|---|---|---|---|---|---|---|
| (8) | Advertising intensity | -0.013 | | | | | | | |
| (9) | Media exposure | 0.051* | -0.004 | | | | | | |
| (10) | Reporting experience | -0.026 | -0.002 | -0.008 | | | | | |
| (11) | Voluntary disclosure | -0.026 | -0.015 | -0.051* | 0.003 | | | | |
| (12) | International listed | 0.024 | 0.004 | 0.059** | -0.005 | -0.019 | | | |
| (13) | Institutional development | 0.049* | -0.026 | 0.051* | -0.002 | -0.074*** | 0.032 | | |
| (14) | Monopolistic firm | -0.001 | -0.008 | -0.032 | -0.015 | -0.017 | -0.027 | -0.008 | |
| (15) | Stock exchange | 0.01 | 0.011 | -0.083*** | 0.020 | -0.227*** | -0.007 | 0.246*** | 0.068*** |

*Notes:* $n$ = 1435. *$p$<0.05; **$p$<001; ***$p$<0.001.

## Table 11 FGLS estimation results

| Variables | (0) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---|---|---|---|---|---|---|---|---|---|
| Firm size | 1.498 | 1.250 | 1.184 | 1.284 | 1.222 | 1.261 | 1.284 | 1.255 | 1.282 |
| | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) |
| State ownership | 1.461 | 1.085 | 1.164 | 1.051 | 1.134 | 1.074 | 1.031 | 0.748 | 0.700 |
| | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.007) | (.012) |
| Firm performance | 14.168 | 9.003 | 8.686 | 8.749 | 9.279 | 8.671 | 8.761 | 8.969 | 8.549 |
| | (.000) | (.004) | (.004) | (.006) | (.003) | (.005) | (.007) | (.005) | (.008) |
| Advertising intensity | -0.456 | -0.269 | -0.338 | -0.237 | -0.294 | -0.249 | -0.244 | -0.251 | -0.234 |
| | (.004) | (.108) | (.051) | (.158) | (.083) | (.142) | (.138) | (.130) | (.152) |
| Political connection | -0.057 | 0.032 | 0.101 | 0.003 | 0.054 | 0.016 | 0.005 | 0.080 | 0.059 |
| | (.775) | (.879) | (.642) | (.989) | (.794) | (.938) | (.980) | (.697) | (.771) |
| Reporting history | 0.230 | 1.037 | 1.071 | 1.057 | 1.038 | 1.061 | 1.034 | 1.085 | 1.080 |
| | (.868) | (.392) | (.409) | (.371) | (.402) | (.377) | (.377) | (.361) | (.353) |
| Voluntary disclosure | -0.228 | -0.484 | -0.520 | -0.443 | -0.503 | -0.466 | -0.474 | -0.519 | -0.509 |
| | (.334) | (.067) | (.042) | (.091) | (.054) | (.072) | (.074) | (.048) | (.053) |
| Media exposure | 0.339 | 0.231 | 0.235 | 0.213 | 0.230 | 0.220 | 0.219 | 0.252 | 0.240 |
| | (.000) | (.001) | (.001) | (.005) | (.002) | (.003) | (.003) | (.000) | (.001) |
| Institutional development | 0.219 | 0.122 | 0.110 | 0.126 | 0.113 | 0.120 | 0.132 | 0.153 | 0.160 |
| | (.000) | (.039) | (.047) | (.036) | (.049) | (.041) | (.032) | (.012) | (.011) |
| International listed | -2.616 | -0.859 | -0.793 | -1.074 | -0.782 | -1.082 | -0.895 | -0.895 | -0.907 |
| | (.120) | (.598) | (.593) | (.515) | (.621) | (.502) | (.599) | (.589) | (.594) |
| Monopolistic firm | 1.349 | 1.737 | 1.748 | 1.821 | 1.729 | 1.815 | 1.737 | 1.682 | 1.677 |
| | (.003) | (.001) | (.001) | (.001) | (.001) | (.001) | (.002) | (.002) | (.003) |
| Stock exchange | -1.266 | -1.735 | -1.632 | -1.864 | -1.705 | -1.859 | -1.726 | -1.587 | -1.578 |
| | (.002) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.001) |
| Informative reporting | | 2.499 | 2.526 | 2.518 | 2.411 | 2.487 | 2.545 | 2.137 | 2.161 |
| | | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.001) | (.001) |
| Comprehensive reporting | | 92.756 | 110.897 | 90.984 | 98.677 | 94.833 | 85.636 | 90.425 | 85.777 |
| | | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) |
| Informative X Comprehensive | | | 56.844 | | | | | | |
| | | | (.019) | | | | | | |

| Table 11 Continued | (0) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---|---|---|---|---|---|---|---|---|---|
| Informative | | | | -0.179 | | 0.108 | | | |
| X Media exposure | | | | (.611) | | (.757) | | | |
| Comprehensive | | | | | 4.481 | 4.566 | | | |
| X Media exposure | | | | | (.093) | (.086) | | | |
| Informative | | | | | | | -3.448 | | -3.512 |
| X State ownership | | | | | | | (.004) | | (.004) |
| Comprehensive | | | | | | | | -1.759 | 0.639 |
| X State ownership | | | | | | | | (.836) | (.940) |
| Constant | -7.471 | -90.858 | 1.161 | -0.949 | -93.381 | 0.796 | -1.540 | -87.096 | -0.627 |
| | (.001) | (.000) | (.648) | (.722) | (.000) | (.765) | (.575) | (.000) | (.822) |
| Industry effect | Included | Included | Included | Included | Included | Included | Included | Included | Included |
| Year effect | Included | Included | Included | Included | Included | Included | Included | Included | Included |
| Wald chi2 | 1965.210 | 2217.430 | 2540.170 | 2131.650 | 2479.840 | 2282.810 | 1998.030 | 2279.960 | 2082.370 |
| d.f. | 22 | 24 | 25 | 25 | 25 | 26 | 25 | 25 | 26 |
| | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) | (.000) |

*Notes:* Exact *p*-values are reported in the parentheses

**Figure 3 Interaction of informative reporting and comprehensive reporting**

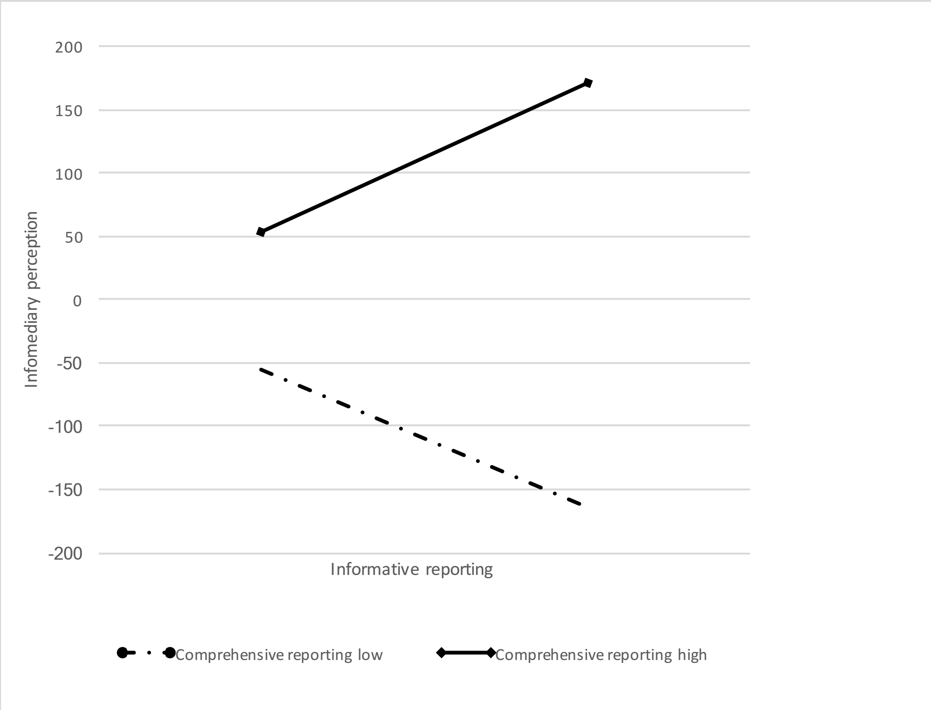
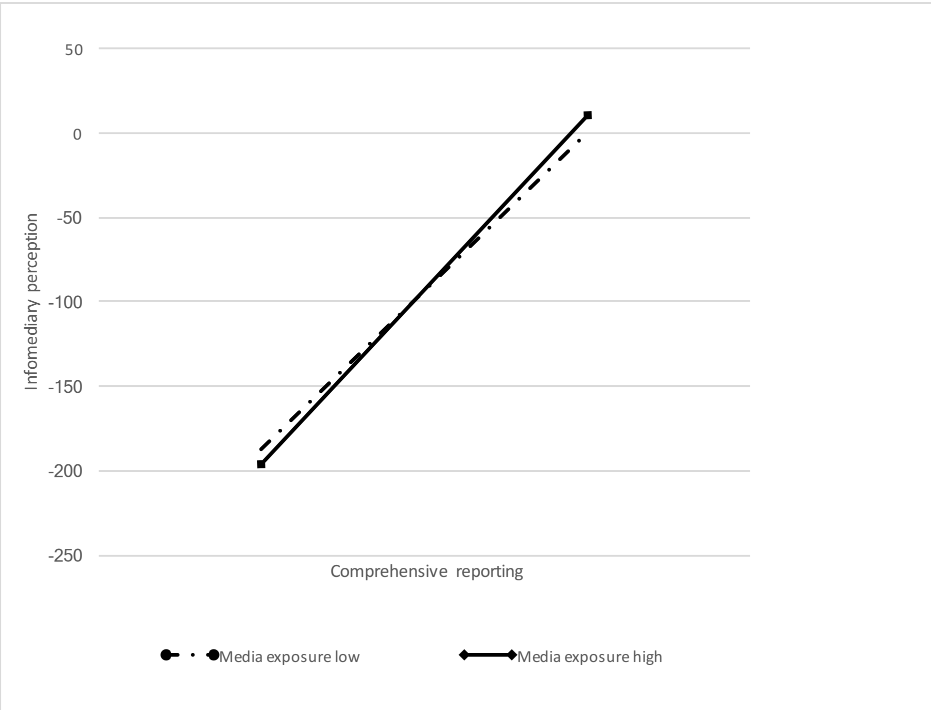
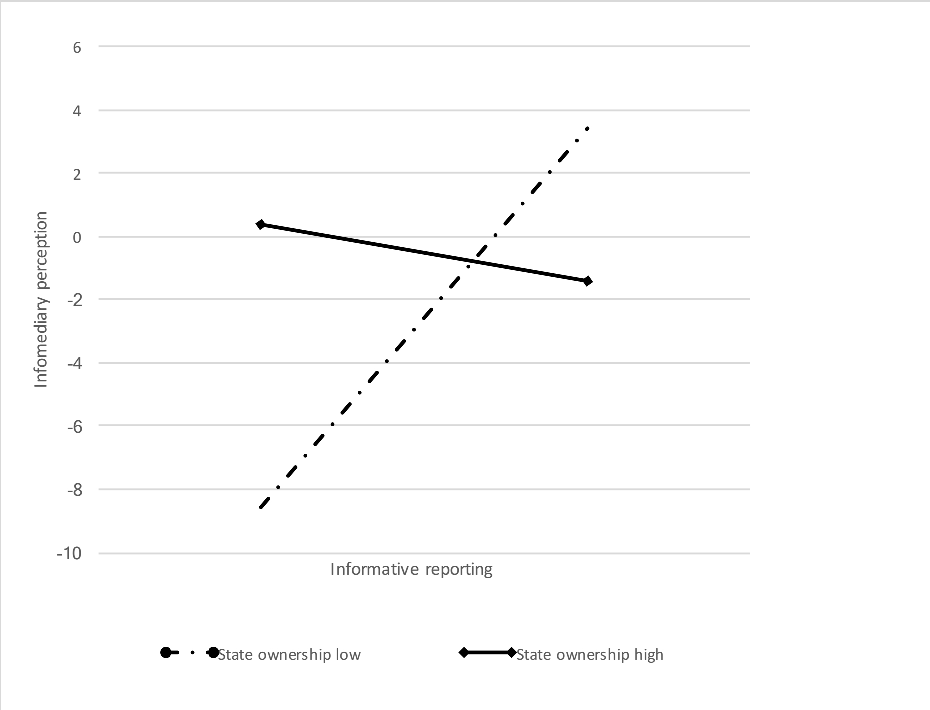



**Figure 4 Interaction of comprehensive reporting and media exposure**



## Figure 5 Interaction of informative reporting and state ownership



# CHAPTER 6. CONCLUSIONS AND FUTURE WORKS

## 6.1 Conclusion

This thesis discusses CSR engagement and disclosure behaviors in China. In particular, the studies go beyond the issuance of a CSR report and focus on report attributes in detail, including their antecedents and outcomes. I first presented a stakeholder framework and made an explorative effort to investigate the key dimensions of what Chinese firms generally talk about in their CSR reports. This stakeholder framework is the foundation for the second and third parts of the study, which both discuss multiple stakeholder management issues. Chapter 4 asks the question of what organizational factors would drive a diversified or specialized CSR engagement profile? By adopting resource dependence theory and population ecology theory, I found that there is support for the hypotheses that a firm's decision is significantly influenced by its resource environment. Chapter 5 examines the outcomes of CSR reporting attributes, which are the reporting informativeness and reporting comprehensiveness. I proposed that CSR reporting is a technique that manages the stakeholder's impression of an organization. Looking from an organizational impression management perspective, there is support for the hypothesis that the reporting informativeness and comprehensiveness of a CSR report both contribute to better stakeholder impressions of a firm's CSR performance. However, stakeholders may hold double standards when making evaluations. Their evaluation is biased due to different levels of stakeholder exposure and stakeholder ownership power.

## 6.2 Implications

The Chinese government has the most influential role to push for CSR adoption. The government's CSR promotion strategy is to begin with SOEs who are the proxies of the government in economic activities. Based on a variety of regulations and laws, I can see that the Chinese government demands multifaceted CSR engagement from enterprises. However, SOEs tend to have their own strategic focuses and to avoid diversifying their engagement, while non-SOEs appears to seek multiple stakeholder engagement. There are noticeable variations in policy adoptions between these two ownership types. This finding suggests that SOEs have less need to bond with multiple stakeholders, while non-SOEs, without enjoying government privileges, are more careful in maintaining relationships with multiple stakeholders.

Chapter 5 describes several implications. From the government's perspective, it has issued/formulated directives to guide firms' CSR reporting behavior. However, there is little monitoring effort over the quality of reports published. The lack of monitoring government-level monitoring leads to the result that firms may still prepare uninformed and incomprehensive reports simply in order to fulfil their obligations of CSR report publication.

The lack of government monitoring leads to another consequence, that is, the lack of addressing the growing importance of impressing CSR rating agents that collect, process, and assess firms' CSR reporting performances. The bad news for firms is that the rating process involves potential bias that results from the attributes of firms' CSR reports. Firms may not cultivate the same returns when the effort of CSR report preparation are relatively even. When a well-known firm does a good job in framing the reporting format, it tends to achieve a better CSR rating than a "nobody" firm that has made similar efforts. This is discouraging for many firms that are not known well by the general stakeholders, and this may be one reason to explain the large variations among firm reporting quality. Some firms may be aware that their investment in CSR communication may not pay off. Moreover, when the substantive investment is made by the state on behalf of the firm, infomediaries' evaluation may be even worse due to their being skeptical to agency costs.

The result also suggests that in China, the form of CSR reporting is still valued as more important than the content of reporting, which indicates the symbolic formality of reporting is still dominant in stakeholder's evaluation.

From the managerial perspective, firm managers may need to be aware of the critical role CSR infomediaries play during the process of CSR communication, and the good news is that managers may possess the knowledge to positively shape their perceptions. However, firms may also be aware that their investment in conducting quality CSR communication may not pay off since infomediaries' judgement may be influenced by firms' attributes, such as firm's media exposure and state ownership.

## 6.3 Contributions

This paper contributes to the theory of CSR in several ways. First, the thesis contributes to the understanding of CSR strategy. By treating CSR as an interconnected construct, CSR diversification reveals more strategic concerns when making CSR strategies, which further contributes to the CSR process literature. The thesis gives a general understanding of why firms' CSR strategies differ from each other and the way in which firms could utilize CSR reporting as a strategic tool to positively impress stakeholders.

The thesis contributes to CSR reporting literature by bringing up two tactics of firm presentation and advances our understanding of what a high- quality report is, which has been received little attention in the past. The quality of the report has been studied as a key dependent variable of various corporate and institutional factors. Now the thesis offers initial knowledge of the way in which firms can purposively manage the report quality and achieve positive stakeholder perceptions.

The thesis also contributes to both stakeholder management and impression management literature by providing solid evidence that stakeholders hold certain biases derived from firm attributes when undertaking an evaluation of a firm's CSR performance. Most studies in the impression management field focus on a firm's actions to manage audience impression. Little attention has been given to examine the audience's perceptions. The thesis shows that even facing with the same impression management strategy of "what you do", the audience's perceptions are twisted by "who you are".

From a pragmatic perspective, this study provides managers with some insight as to the way in which to make rationale resource allocations when composing annual CSR reports in order to maximize their returns. Overall, the thesis provides some new understanding of CSR in China from CSR practices to CSR communication from a stakeholder's perspective.

## 6.4 Limitations and future works

This paper has several limitations and also suggests directions for future research. First, more concrete evidence from cognitive processing is needed to support the notion that CSR reporting attributes, such as informativeness and comprehensiveness, are the results of a firm's substantive CSR practices, not only their writing techniques. Future research may be taken in line with the research of Crilly et al. (2016), where a cognitive-linguistic perspective can be further enriched by considering the possibility of decoupling the informativeness and comprehensiveness of a report.

Second, the measures of informative and comprehensive reporting can be further enhanced. The measure of report informativeness can be more fine-grained if the similarity score for each stakeholder in each year's report is calculated. In this way, it can give a clearer understanding of how a firm’s attention shifts towards different stakeholders over time. The measure of comprehensiveness is based on the proportion of words written for each stakeholder group. A more specific measure that quantifies evidence-based CSR action is preferable for future studies.

Third, regarding the negative impact of state ownership on stakeholders' evaluation of CSR informativeness, there might be other explanations, such as the lack of transparency in government-controlled enterprises. Highly transparent and informative disclosure may bear potential political risk that may drag down stakeholders' interpretations of report content. Future research is needed to investigate when a lack of transparency is more present in government-related organizations than in non-government-related organizations, where political power plays a less significant role.

Fourth, the thesis considered only CSR reports written in Chinese, although China is a distinctive context that has many heterogeneous features. The Chinese language also reflects cultural differences and is ideologically unique. In future studies, inclusion of Western countries and other language contexts is desirable.

# APPENDICES

## Appendix 1. Explorative Factor Analysis of Key dimensions reported by China listed firms from 2010 to 2013.

Firstly, most of the Kaiser-Meyer-Olkin measures of sampling adequacy were above 0.6, with a few exceptions above 0.5. The communalities were all above 0.3, further confirming that each item shared some common variance with other items. Given these overall indicators, factor analysis was deemed to be suitable with the items listed below. The selection of items based on three criteria. Firstly, Eigen value is above 1. Secondly, there is no cross loading on other items that is above 0,3. Thirdly, Cronbach's alpha is acceptable. Fourthly, there is theoretical evidence why it is considered as CSR practice in the specific stakeholder group.

### Shareholder 2010 to 2013

Note: Factor loadings<.3 are suppressed.

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

| Shareholder 2010 | Firm governance | Legal operations | Communalities |
|---|---|---|---|
| Meeting with shareholders | .742 | | .567 |
| Information updates | .715 | | .532 |
| Formal committee | .874 | | .764 |
| Shareholders manage committee | .717 | -.349 | .636 |
| Independent auditing | .745 | | .637 |
| Written regulations | .761 | | .659 |
| Legal operations | | .902 | .820 |
| Cronbach's alpha | .810 | | |

| Shareholder 2011 | Managerial structure | Communication | Communalities |
|---|---|---|---|
| Meeting with shareholders | | .880 | .835 |

| | | | |
|---|---|---|---|
| **Information updates** | | .920 | .848 |
| **Formal committee** | .814 | | .679 |
| **Shareholders manage committee** | .772 | | .615 |
| **Independent auditing** | .758 | | .607 |
| **Written regulations** | .637 | | .406 |
| **Cronbach's alpha** | .749 | .799 | |

| **Shareholder 2012** | **Managerial structure** | **Communication** | **Communalities** |
|---|---|---|---|
| **Meeting with shareholders** | | .844 | .826 |
| **Information updates** | | .803 | .678 |
| **Formal committee** | .764 | | .631 |
| **Shareholders manage committee** | .734 | | .556 |
| **Independent auditing** | .500 | | .473 |
| **Written regulations** | .686 | | .476 |
| **CSR committee** | .615 | | .646 |
| **Legal operations** | | .936 | .889 |
| **Cronbach's alpha** | .566 | .520 | |

| **Shareholder 2013** | **Managerial structure** | **Communication** | **Communalities** |
|---|---|---|---|
| **Meeting with shareholders** | | .737 | .671 |
| **Information updates** | | .874 | .770 |
| **Formal committee** | .754 | | .617 |
| **Shareholders manage committee** | .778 | | .606 |
| **Independent auditing** | .596 | | .370 |
| **Written regulations** | .664 | | .444 |
| **CSR committee** | .567 | | .512 |
| **Cronbach's alpha** | .626 | .690 | |

| **Employee 2010** | **Advancing cares** | **Basic rights** | **Communalities** |
|---|---|---|---|
| **Job security and health** | .863 | | .745 |
| **Career development** | .856 | | .801 |
| **Diversity and equity** | .756 | | .814 |
| **Welfare** | .849 | | .742 |
| **Basic rights** | | .932 | .880 |
| **Cronbach's alpha** | .855 | | |

| **Employee 2011** | **Advancing cares** | **Basic rights** | **Communalities** |
|---|---|---|---|
| **Job security and health** | .839 | | .722 |
| **Career development** | .847 | | .801 |
| **Diversity and equity** | .588 | | .605 |
| **Welfare** | .793 | | .644 |
| **Basic rights** | | .777 | .653 |
| **Cronbach's alpha** | .766 | | |

| Employee 2012 | Advancing cares | Basic rights | Communalities |
|---|---|---|---|
| **Job security and health** | .787 | | .749 |
| **Career development** | .741 | | .559 |
| **Diversity and equity** | .696 | | .643 |
| **Welfare** | .865 | | .800 |
| **Communication** | .655 | | .431 |
| **Basic rights** | | .952 | .908 |
| **Cronbach's alpha** | .807 | | |

| Employee 2013 | Advancing cares | Basic rights | Communalities |
|---|---|---|---|
| **Career development** | .847 | | .729 |
| **Diversity and equity** | .706 | | .645 |
| **Welfare** | .729 | | .566 |
| **Communication** | | .777 | .610 |
| **Job health and security** | | .739 | .548 |
| **Cronbach's alpha** | .608 | .204 | |

| Customer 2010 | Product | Innovation | Communalities |
|---|---|---|---|
| **Product/service quality** | .754 | | .605 |
| **Build CSR into product/service** | .797 | | .651 |
| **Deal with customer complaints** | .753 | | .568 |
| **Product/service innovation** | | .983 | .971 |
| **Cronbach's alpha** | .647 | | |

| Customer 2011 | Product | Innovation | Communalities |
|---|---|---|---|
| **Fair market** | .722 | | .542 |
| **Build CSR into product/service** | .658 | | .584 |
| **Deal with customer complaints** | .766 | | .592 |
| **Communicate with customers** | .615 | | .455 |
| **Product/service innovation** | -307 | .875 | .860 |
| **Cronbach's alpha** | .641 | | |

| Customer 2012 | Product | Communalities |
|---|---|---|
| **Product/service quality** | .591 | .349 |
| **Fair market** | .732 | .535 |
| **Build CSR into product/service** | .681 | .464 |
| **Deal with customer complaints** | .733 | .538 |
| **Communicate with customers** | .562 | .316 |
| **Cronbach's alpha** | .675 | |

| Customer 2013 | Management | Product | Communalities |
|---|---|---|---|
| **Fair market** | .692 | | .539 |

| | | | |
|---|---|---|---|
| **Customer information management** | .857 | | .743 |
| **Build CSR into product/service** | . | .783 | .652 |
| **Deal with customer complaints** | .751 | | .636 |
| **Communicate with customers** | | .630 | .403 |
| **Product/service quality** | | .773 | .605 |
| **Cronbach's alpha** | .546 | .502 | |

| **Government 2010** | **Support policy** | **Communication** | **Communalities** |
|---|---|---|---|
| **Participate in government-lead CSR programs** | | .934 | .878 |
| **Communication with government** | | .937 | .898 |
| **Three agriculture** | .827 | | .710 |
| **Support SMEs** | .823 | | .682 |
| **Support livelihood economy** | .837 | | .701 |
| **Regional development** | .694 | | .484 |
| **Cronbach's alpha** | .808 | .875 | |

| **Government 2011** | **Support policy** | **Communication** | **Communalities** |
|---|---|---|---|
| **Participate in government-lead CSR programs** | | .956 | .924 |
| **Communication with government** | | .925 | .916 |
| **Three agriculture** | .899 | | .814 |
| **Support SMEs** | .871 | | .763 |
| **Support industry transformation** | .715 | | .555 |
| **Support livelihood economy** | .877 | | .768 |
| **Regional development** | .834 | | .697 |
| **Cronbach's alpha** | .897 | .918 | |

| **Government 2012** | **Support policy** | **Communication** | **Communalities** |
|---|---|---|---|
| **Participate in government-lead CSR programs** | -.335 | .901 | .924 |
| **Communication with government** | -.344 | .896 | .921 |
| **Three agriculture** | .868 | | .790 |
| **Support SMEs** | .948 | | .907 |
| **Support industry transformation** | .853 | | .746 |
| **Support livelihood economy** | .920 | | .860 |
| **Regional development** | .880 | | .798 |
| **Cronbach's alpha** | .944 | .917 | |

| **Government 2013** | **Support policy** | **Communication** | **Communalities** |
|---|---|---|---|
| **Participate in government-lead CSR programs** | | .986 | .982 |
| **Three agriculture** | .775 | | .602 |
| **Support SMEs** | .890 | | .792 |
| **Support industry transformation** | .917 | | .848 |
| **Support livelihood economy** | .714 | | .548 |
| **Cronbach's alpha** | .832 | | |

| Community 2010 | Sponsorship | Communication | Communalities |
|---|---|---|---|
| Constant donation | | .769 | .668 |
| Sponsor sports | .749 | | .573 |
| Sponsor education | .829 | | .690 |
| Sponsor culture | .776 | | .602 |
| Communicate with community | | .727 | .589 |
| Voluntary work | | .800 | .659 |
| Cronbach's alpha | .683 | .604 | |

| Community 2011 | Local support | Sponsorship | Communalities |
|---|---|---|---|
| Local employment | .545 | | .305 |
| Constant donation | .57 | | .325 |
| Voluntary work | .649 | | .447 |
| Sponsor culture | .622 | | .444 |
| Disaster relieve and donation | .502 | | .647 |
| Sponsor sports | | .786 | .707 |
| Cronbach's alpha | .521 | | |

| Community 2012 | Communication | Sponsorship | Local support | Communalities |
|---|---|---|---|---|
| Apprentice program | .698 | | | .523 |
| Voluntary work | .740 | | | .612 |
| Communicate with community | .827 | | | .707 |
| Sponsor sports | | .881 | | .783 |
| Sponsor culture | | .822 | | .717 |
| Disaster relieve and donation | | | .823 | .694 |
| Community service | | | .860 | .749 |
| Cronbach's alpha | .630 | .658 | .640 | |

| Community 2013 | Sponsorship | Local support | Communalities |
|---|---|---|---|
| Sponsor sports | .809 | | .656 |
| Sponsor culture | .815 | | .665 |
| Sponsor education | .807 | | .654 |
| Sponsor other activities | .784 | | .615 |
| Apprentice program | | .725 | .541 |
| Constant donation | | .587 | .354 |
| Communicate with community | | .725 | .527 |
| Voluntary | | .768 | .610 |
| Cronbach's alpha | .813 | .475 | |

| Environment 2010 | Green operation | Green policy | Green outreach | Communalities |
|---|---|---|---|---|
| Corporate with ENGOs | | | .758 | .631 |
| Energy saving | .958 | | | .926 |
| Pollution reduction/recycle | .947 | | | .917 |
| Sustainable procurement | | | .774 | .639 |

| | | | | |
|---|---|---|---|---|
| **Green policy** | | .839 | | .792 |
| **Spread green message** | | .880 | | .796 |
| **Cronbach's alpha** | 0.925 | 0.70 | 0.50 | |

| **Environment 2011** | **Green program** | **Green operation** | **Green policy** | **Communalities** |
|---|---|---|---|---|
| **Green program** | .762 | | | .645 |
| **Energy saving** | | .846 | | .777 |
| **Pollution reduction/recycle** | | .831 | | .751 |
| **Green policy** | | | .748 | .614 |
| **Spread green message** | | | .791 | .691 |
| **Green management** | .692 | | | .496 |
| **Preserve ecology** | .682 | .304 | -.327 | .664 |
| **Cronbach's alpha** | .577 | .676 | .434 | |

| **Environment 2012** | **Green program** | **Green policy and outreach** | **Communalities** |
|---|---|---|---|
| **Preserve ecology** | .577 | | .334 |
| **Green program** | .637 | | .429 |
| **Green management** | .723 | | .528 |
| **Make green investment** | .529 | | .303 |
| **Green innovation** | .690 | | .486 |
| **Sustainable procurement** | | .859 | .740 |
| **Green policy** | | .662 | .463 |
| **Spread green message** | | .824 | .744 |
| **Cronbach's alpha** | .645 | .712 | |

| **Environment 2013** | **Green program** | **Innovation** | **Green outreach** | **Green operation** | **Communalities** |
|---|---|---|---|---|---|
| **Energy saving** | | | | .982 | .967 |
| **Preserve ecology** | .594 | | | | .376 |
| **Green program** | .666 | | -.335 | | .665 |
| **Green management** | .713 | | | | .655 |
| **Spread green message** | | | .937 | | .890 |
| **Make green investment** | .686 | | | | .518 |
| **Green innovation** | | .854 | | | .804 |
| **Green material/energy** | | .812 | | | .731 |

| | | |
|---|---|---|
| **Cronbach's alpha** | .598 | .623 |

| **Supplier 2010** | **Policy** | **Management** | **Communalities** |
|---|---|---|---|
| **Local procurement** | | .826 | .684 |
| **Procurement policy** | .973 | | .958 |
| **Supplier's CSR** | .972 | | .960 |
| **Regulations for suppliers** | | .772 | .661 |
| **Cronbach's alpha** | .957 | .307 | |

| **Supplier 2011** | **Policy and communication** | **Management** | **Communalities** |
|---|---|---|---|
| **Local procurement** | | .846 | .721 |
| **Procurement policy** | .857 | | .740 |
| **Supplier's CSR** | .935 | | .874 |
| **Communicate with suppliers** | .740 | | .555 |
| **Regulations for suppliers** | | .810 | .685 |
| **Cronbach's alpha** | .804 | .546 | |

| **Supplier 2012** | **Policy and communication** | **Communalities** |
|---|---|---|
| **Procurement policy** | .885 | .783 |
| **Supplier's CSR** | .901 | .812 |
| **Communicate with suppliers** | .865 | .749 |
| **Cronbach's alpha** | .860 | |

| **Supplier 2013** | **Policy and communication** | **Communalities** |
|---|---|---|
| **Procurement policy** | .655 | .655 |
| **Supplier's CSR** | .757 | .757 |
| **Communicate with suppliers** | .631 | .631 |
| **Regulations for suppliers** | .451 | .451 |
| **Cronbach's alpha** | .662 | |

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