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### Dare to Be different? Conformity vs. differentiation in corporate social activities of chinese firms and market responses

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#### Citation

ZHANG, Yanlong; WANG, Heli; and ZHOU, Xiaoyu. Dare to Be different? Conformity vs. differentiation in corporate social activities of chinese firms and market responses. (2019). *Academy of Management Journal*. 1-52. Research Collection Lee Kong Chian School Of Business.

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# Journal

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## Dare to Be Different? Conformity vs. Differentiation in Corporate Social Activities of Chinese Firms and Market Responses

Journal:	<i>Academy of Management Journal</i>
Manuscript ID	AMJ-2017-0412.R3
Manuscript Type:	Revision
Keywords:	Network analysis < Analysis < Research Methods, Institutional theory < Theoretical Perspectives, Corporate social responsibility < Social Issues in Management < Topic Areas
Abstract:	<p>Building on the literature on optimal distinctiveness, this study explores the effects of conformity and differentiation in corporate social responsibility (CSR) practices on the evaluations by security analysts and the responses of the financial market in general. We develop the argument that while conformity in CSR scope enhances analyst coverage, differentiation in CSR emphasis leads to more-favorable analyst recommendations and higher market value. This suggests that firms may be able to simultaneously conform in CSR scope and differentiate in CSR emphasis to achieve optimal distinctiveness. To further enhance our understanding of the variation in the relationship between conformity/differentiation and the response of analysts and the market, we investigate how some firm- and analyst-level factors moderate this relationship. Using the case of corporate social activities of Chinese listed firms during the period from 2008 to 2014, we show that scope conformity has a stronger effect on analyst coverage for state-owned firms and firms with higher visibility; on the other hand, the relationship between emphasis differentiation and analyst recommendation/market value strengthens for firms covered by high-status brokerage houses but weakens for those experiencing high earnings pressure.</p>

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# Dare to Be Different? Conformity vs. Differentiation in Corporate Social Activities of Chinese Firms and Market Responses

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## **Acknowledgement**

We are deeply appreciative of associate editor Pursey Heugens for his exceptional guidance during the review and revision process, and three anonymous reviewers whose comments greatly enhanced the quality of this article. This research was made possible by a grant from Guanghua-Cisco Leadership Institute.

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3 **DARE TO BE DIFFERENT? CONFORMITY VS. DIFFERENTIATION IN CORPORATE**  
4 **SOCIAL ACTIVITIES OF CHINESE FIRMS**  
5 **AND MARKET RESPONSES**  
6

7 **ABSTRACT**

8 Building on the literature on optimal distinctiveness, this study explores the effects of conformity  
9 and differentiation in corporate social responsibility (CSR) practices on the evaluations by security  
10 analysts and the responses of the financial market in general. We develop the argument that while  
11 conformity in CSR scope enhances analyst coverage, differentiation in CSR emphasis leads to more-  
12 favorable analyst recommendations and higher market value. This suggests that firms may be able to  
13 simultaneously conform in CSR scope and differentiate in CSR emphasis to achieve optimal  
14 distinctiveness. To further enhance our understanding of the variation in the relationship between  
15 conformity/differentiation and the response of analysts and the market, we investigate how some  
16 firm- and analyst-level factors moderate this relationship. Using the case of corporate social activities  
17 of Chinese listed firms during the period from 2008 to 2014, we show that scope conformity has a  
18 stronger effect on analyst coverage for state-owned firms and firms with higher visibility; on the  
19 other hand, the relationship between emphasis differentiation and analyst recommendation/market  
20 value strengthens for firms covered by high-status brokerage houses but weakens for those  
21 experiencing high earnings pressure.  
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25 **Keywords:** optimal distinctiveness, corporate social responsibility, securities analysts  
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29 **INTRODUCTION**

30  
31 Organization and management researchers have long been puzzled by a core paradox—how  
32 firms can strategically manage the dual pressures of conforming to the institutional pressure to gain  
33 basic legitimacy while forging unique or differentiated identities to achieve a competitive advantage  
34 (e.g., Aguilera, Rupp, Williams, & Ganapathi, 2007; Deephouse, 1999; Durand & Kremp, 2016;  
35 White, 2010). The notion of optimal distinctiveness provides a useful conceptual focal point to  
36 synthesize a diverse literature on this common problem. Grounded in the strategic balance  
37 perspective that views conformity and differentiation as competing demands, much extant research  
38 on firm-level optimal distinctiveness focuses on one single, static convergence point where the  
39 legitimate distinctiveness of a firm is maximized (see Zhao, Fisher, Lounsbury, & Miller, 2017, for a  
40 review). This focus usefully captures a typical way through which firms balance the tension between  
41 conformity versus differentiation when dealing with fine-grained or well-recognized issues and  
42 practices (Brewer, 1991; Chen & Hambrick, 1995; Deephouse, 1999).  
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However, there are two important gaps in the optimal distinctiveness literature that have not been adequately addressed. The first reflects some recent developments in the field (e.g., Zhao et al., 2017) that suggest that a single balancing point between conformity and differentiation, while very useful, is ill-suited for capturing the variety of strategies firms could employ to achieve optimal distinctiveness. While existing studies provide some implications for research to move beyond a single balancing point, they are often not directly targeted toward the optimal distinctiveness field, and their discussions often encompass very-broad strategy topics (Miller, Breton-Miller, & Lester, 2013; Zhao et al., 2017). For example, Bowen, Siehl, and Schneider (1989) suggest that firms with similar products (implying conformity in product offering) may differentiate through customer service. Miller, Breton-Miller, and Lester (2013) argue that family ownership as a differentiated governance form may be more accepted when the firm conforms in other strategic behaviors. The focus on orchestration across multiple strategies in broad categories (e.g., customer service vs. product offering; ownership vs. other strategic behaviors) makes researchers omit the complexity within a single strategy dimension (practice) and thus overlook the possibility of orchestrating conformity and differentiation across multiple features within a single practice.

The second gap in the extant literature is that there is little understanding about variation across firms in their demands for conformity vs. differentiation, and subsequently in the effectiveness of their conformity vs. differentiation efforts in influencing market responses. While certain conformity vs. differentiation choices may be optimal for some firms, they may be suboptimal for others due to differences across firms in organizational features or the industry/institutional contexts in which the firms operate (King, Clemens, & Fry, 2011). It is thus imperative to contextualize discussions of optimal distinctiveness by examining conditions under which demands for conformity or differentiation may vary and conformity/differentiation may have differential impacts on firm outcomes.

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3 This study aims to address both gaps. First, we recognize the possibility of orchestrating  
4 conformity and differentiation across multiple features within a single but complex practice. In  
5 particular, building on but also extending the recent development in optimal distinctiveness literature  
6 (Brewer, 1991; Durand & Kremp, 2016; Zhao et al., 2017; Zuckerman, 2016), we explore a specific  
7 way that conformity and differentiation can be achieved simultaneously along two different elements  
8 of a practice in the context of Chinese firms' corporate social practices. The two elements of CSR  
9 strategies are: (1) the scope dimension that captures the number of different CSR fields covered by a  
10 focal firm, and (2) the emphasis dimension that assesses how much effort has been allocated by a  
11 focal firm in each CSR field. We argue that the scope dimension of CSR is associated with the  
12 legitimacy of a firm's social practice because the scope dimension represents a prototype with a  
13 material-like feature that audiences often find convenient to refer to when making judgments  
14 regarding legitimacy (Durrand, Granqvist, & Tyllström, 2017; Zhao, Ishihara, Jennings, &  
15 Lounsbury, 2018). On the other hand, the emphasis dimension of CSR is more abstract, allowing  
16 firms to choose different focuses that make a firm's CSR practice more unique as compared to that  
17 of their peers. This contrast between the two CSR dimensions is often reinforced by regulatory  
18 agencies, which typically institutionalize CSR practices by designating the issue fields that need to  
19 be covered but leave the emphasis dimension unspecified. We thus posit that firms can potentially  
20 achieve optimal distinctiveness by conforming in CSR scope but differentiating in CSR emphasis.  
21 By linking firms' CSR strategies to organizational outcomes, as reflected in the response of  
22 important audiences including security analysts and financial markets in general, we argue and  
23 hypothesize that CSR conformity in the scope dimension legitimizes firms among the community of  
24 analysts, positively influencing analyst coverage. In contrast, CSR differentiation in the emphasis  
25 dimension allows greater value-creation opportunities, leading to more-favorable analyst  
26 recommendations and superior firm market performance.  
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2 To address the second gap, we explore contingency factors that influence the effectiveness of  
3 firms' conformity and differentiation efforts. We argue that the relationship between CSR scope  
4 conformity and analyst coverage varies with the level of legitimacy pressures that firms face, which  
5 typically come from two sources: government/regulatory parties, and the general stakeholders/public.  
6 Accordingly, we examine the moderating roles of two critical firm-level factors, *state ownership* and  
7 *firm visibility*, which are likely to influence legitimacy pressure from the government/regulatory  
8 parties and the general public respectively. On the other hand, the relationship between CSR  
9 emphasis differentiation and analyst recommendation (market value) is influenced more by the  
10 extent that firms' differentiation efforts are appreciated and valued by market audiences. In  
11 particular, we argue that the effectiveness of firms' CSR differentiation can be conditioned by the  
12 extent to which analysts appreciate and/or have the ability to evaluate such efforts, as reflected in  
13 *high-status houses coverage*, and *firm earnings pressure* respectively.

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30 These issues were examined using a sample of Chinese public listed firms from 2008 to 2014, a  
31 period during which many Chinese companies adopted the CSR concept. China's integration into the  
32 global economy has facilitated the diffusion of CSR practices, with consumers and investors  
33 increasingly using their purchasing power and capital to encourage socially responsible behaviors.  
34 CSR practices thus allow Chinese firms to better understand and address the concerns of their  
35 stakeholders and explore new ways to achieve sustainable development. Meanwhile, the role of  
36 government in promoting CSR has also been heightened. The Chinese government considers CSR to  
37 be consistent with the general political initiative of building a harmonious society. Like some of its  
38 counterparts in Canada, South Africa, and Europe (European Commission, 2014), government  
39 agencies in China provided broad CSR guidelines for firms that specified the scope of socially  
40 responsible corporate conduct but not the standards or priorities of different issue fields (Luo, Wang,  
41 & Zhang, 2017; Marquis & Qian, 2014). This pressures firms to conform but also offers the  
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2 opportunity for firms to differentiate CSR activities based on their own unique features. Thus the  
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4 China CSR context, with clear reporting guidelines emphasizing scope but leaving emphasis  
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6 unregulated, makes the contrast between scope and emphasis more salient. The empirical context  
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8 thus allows us to show more clearly how we can move beyond a single optimal balancing point for  
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10 conformity and differentiation in the adoption of a complex practice.  
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## 13 14 **BACKGROUND AND THEORY**

### 15 16 **Optimal Distinctiveness and the Complexity of Corporate Social Practices**

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18 The pursuit of optimal distinctiveness is a critical aspect of organizational life. The competing  
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20 pressure to be legitimate and distinctive is important and persistent, exerting significant influence on  
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22 firms' formulation of effective corporate strategies (Durand & Kremp, 2016; Zhao et al., 2017).  
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24 While earlier studies in the area focus on finding one single, static convergence point in which the  
25  
26 legitimate distinctiveness of a firm is maximized (Deephouse, 1999; Roberts & Amit, 2003; Stephan,  
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28 Murmann, Boeker, & Goodstein, 2003), Zhao et al. (2017) point out that such an approach may not  
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30 be appropriate because organizational environments are multiplex, fragmented, and dynamic. In  
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32 order to move beyond this single balancing-point solution, firms may adopt an orchestration  
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34 strategy,<sup>1</sup> i.e., to configure different responses across various aspects of strategies to achieve optimal  
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36 distinctiveness (Zhao et al., 2017). However, research along this line has not been directly targeted  
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38 toward the problem of optimal distinctiveness; moreover, the discussion of orchestration mainly rests  
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40 on the complex features of organizational environments (King et al., 2011). Building directly on and  
41  
42 extending the optimal distinctiveness literature, we argue that firms may also be able to derive  
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44 multiple strategic responses from the complexity of practice itself instead of that of the environment.  
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53 <sup>1</sup> In the review paper by Zhao et al. (2017), the authors propose three ways that future study can go beyond one single  
54 balancing point: *orchestration* (across multiple strategic dimensions in a complex environment), *stakeholder multiplicity*  
55 (multiple demands of diverse stakeholders), and *managing temporality* (temporally shifting legitimacy and differentiation  
56 expectations in dynamic environments). In this paper we focus on *orchestration* since the other two dimensions are not  
57 relevant to our discussion.  
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2 In other words, it is possible to simultaneously achieve conformity and differentiation within one  
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4 specific practice or strategic dimension.  
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7 In the case of corporate social practices, recent discussions on how firms undertake their social  
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9 responsibilities seem to have evolved into two streams of argument: the institutional perspective and  
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11 the strategic perspective. Work in the institutional tradition posits that firms engage in socially  
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13 responsible activities to meet stakeholders' expectations and conform to socially constructed values  
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15 and norms (Colyvas & Powell, 2006; Petersen & Vredenburg, 2009). Thus firms may find it  
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17 necessary to adopt and retain institutionalized CSR structures, procedures, or personnel to signal  
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19 normativity, credibility, and legitimacy to outside audiences (Marquis & Qian, 2014; McWilliams,  
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21 Siegel, & Wright, 2006; Zbaracki, 1998). As more countries realize the necessity of enhancing the  
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23 awareness of social responsibility in the business communities, various standards and national action  
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25 plans are formulated to integrate, disseminate, or shape the more-generic global CSR approaches  
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27 within their national policy framework (European Commission, 2014). Therefore pressure to  
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29 conform from national governments becomes increasingly more relevant for firms operating in both  
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31 emerging and developed economies.  
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37 Work from the strategic perspective stresses the value of adopting unique social practices, with  
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39 the aim of ultimately achieving positive financial outcomes for the firm (Elsbach, 1994; Harjoto &  
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41 Jo, 2011; Porter & Kramer, 2007; Zhang & Galletta, 2006). According to this perspective, instead of  
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43 conforming to institutional pressure and becoming similar to their peers, firms benefit most by  
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45 differentiating themselves from their peers through differentiating their social activities based on  
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47 unique firm strategies and operations, and more effectively addressing the particular needs of its  
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49 customers and other stakeholders (Bouwman, Frishkoff, & Frishkoff, 1987; Deephouse, 1999;  
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51 Durand & Calori, 2006; Luo & Bhattacharya, 2006; White, 2010). Differentiated CSR activities may  
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53 help firms obtain new resources and develop capabilities that are internally related to the know-how  
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2 and organizational culture, and strengthen relationships with key stakeholders (Francis & Armstrong,  
3 2003; Lys, Naughton, & Wang, 2015; Nicolai, Schulz, & Thomas, 2010). Therefore differentiation in  
4  
5 CSR enables firms to discover unique opportunities and strengthen their competitive position,  
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7 thereby bringing benefits to both society and themselves (Barney, 1991; Porter & Kramer, 2007).  
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11 It appears that there is an apparent tension between conformity in CSR to meet the need for  
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13 legitimacy and firms' search for uniqueness or differentiation in CSR in order to reap CSR-based  
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15 competitive advantages. However, what has been overlooked in the literature is that in the  
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17 management of complex practices such as CSR managers may be able to orchestrate across different  
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19 dimensions of the practice so as to achieve synergy between conformity and differentiation. More  
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21 specifically, CSR represents a more-integrated management philosophy rather than a clearly defined,  
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23 standardized operating procedure or governance principle (Aguilera, Williams, Conley, & Rupp,  
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25 2006). It involves interactions with multiple groups of stakeholders and is thus multidimensional in  
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27 nature and generally complex; it thus creates room for firms to orchestrate their strategic responses  
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29 along different dimensions and make it possible to achieve optimal distinctiveness by conforming in  
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31 one dimension (scope) but differentiating in another (emphasis).  
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37 The classification of the two dimensions—scope vs. emphasis—is based on some recent  
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39 communication and management studies that propose that firms' implementation of complex  
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41 practices can be characterized along the two dimensions (Ansari, Fiss, & Zajac, 2010; Fiss, Kennedy,  
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43 & Davis, 2012; Philippe & Durand, 2011; Yuan, Fulk, & Monge, 2007). The scope dimension  
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45 captures variation in terms of scope or the number of elements adopted by a firm. This dimension  
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47 indicates how far a firm's implementation presents far-reaching or restricted efforts toward full  
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49 adoption. In other words, it measures the dosage of the practice being adopted and is closer to the  
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51 notion of a scale of implementation (Ansari et al., 2010; Durand & Kremp, 2016; Fiss et al., 2012).  
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55 The emphasis dimension captures the extent to which a firm's practice appears to be unique as  
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2 compared to the commonly adopted practice, reflecting the efforts of an organization to differentiate  
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4 their practice in specific fields (Ansari et al., 2010; Deephouse, 1999; Litov, Moreton, & Zenger,  
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6 2012; Yuan et al., 2007). Given the complexity of CSR in terms of both its multidimensional nature  
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8 and variations in content or depth (Philippe & Durand, 2011), it is appropriate to describe firms'  
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10 CSR practices along the scope and emphasis dimensions. The scope dimension captures the extent to  
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12 which a firm covers a wide range of CSR issues such as environmental protection, labor practices,  
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14 product quality and safety, and fair operating practice. The emphasis dimension reflects the content  
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16 of a firm's specific CSR activities, or the extent to which a firm's pattern of CSR emphasis deviates  
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18 from the common patterns of other firms. It thus indicates the uniqueness of firms' CSR practice as  
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20 compared to their peer group.  
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### 26 **The Role of Chinese Security Analysts and Financial Markets**

27 A firm's optimal distinctiveness depends on a constant interaction between managerial agency  
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29 and the evaluations of external audiences. We next examine how firms conforming or differentiating  
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31 their CSR strategies affects certain important organizational outcomes, particularly in terms of the  
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33 responses of security analysts and financial markets in general.  
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37 Security analysts are considered a representative audience whose evaluations of organizational  
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39 practices have important implications for firm strategy and performance (Luo, Wang, Raithel, &  
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41 Zheng, 2015; White, 2010). Beginning in the early 1990s, there has been growing interest in firms'  
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43 social activities among the community of investors and analysts. In an early survey 26 percent of  
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45 U.S. investors said that a company's business practices and ethics were extremely important to their  
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47 investment decisions, and 72 percent claimed to consider a company's ethics when deciding whether  
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49 to invest in its stock. These data suggest that investors recognize that stakeholders' concerns can  
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51 translate into financial consequences for the companies in which they invest (Paine, 2003). As of  
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53 2018, more than 2,250 institutions with \$80 trillion in assets under management endorsed the United  
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2 Nations Principles for Responsible Investment (UNPRI) and committed to six principles including  
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4 “to incorporate Environmental, Social, and Governance (ESG) issues into investment analysis and  
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6 the decision making process; to promote acceptance and implementation of the principles within the  
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8 investment industry.”<sup>2</sup> An increasing body of finance and accounting literature suggests that CSR  
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10 reporting is an important source of nonmarketing information disclosure (Cronqvist & Yu, 2017;  
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12 Lins, Servaes, & Tamayo, 2017), and analysts have been learning to distinguish different types of  
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14 CSR activities and establish a criteria to evaluate whether firms’ CSR efforts can contribute to their  
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16 future performance (Khan et al., 2016).  
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21 The corporate social responsibility system was introduced in China during the late 1990s.  
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23 China’s integration into the global economy through trade and institutional participation was  
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25 accompanied by the importation of global social norms. A growing number of foreign buyers and  
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27 multinational companies who demand labor rights protection, better product quality, and greener  
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29 products have raised the awareness of Chinese suppliers about the balance between profit  
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31 maximization and enhancement of social standards, best practices, and morality (Yin & Zhang,  
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33 2012). Similar to national governments in other continents, the Chinese government has been  
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35 actively promoting CSR as a way to build a harmonious society. As part of the national-level action  
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37 plan, in 2006 the Shenzhen Stock Exchange issued the first detailed CSR reporting guideline, which  
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39 required its listed firms to engage in social practices according to a comprehensive framework. The  
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41 Shanghai Stock Exchange and the nation’s top regulator of state-owned enterprises (SOEs)  
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43 subsequently adopted similar regulatory guidelines (SASAC, 2008). Meanwhile, some third-party  
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45 rating agencies such as Runling began publishing CSR ratings and systematically comparing firms’  
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47 CSR practices in a list of issue fields. Chinese firms have consequently experienced increasing  
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57 <sup>2</sup> Detailed information about UNPRI can be found at <https://www.unpri.org/pri/about-the-pri>.  
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2 pressure to meet institutional demands in CSR and have thus become more and more active in  
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4 responding to the CSR requirements.  
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7 The systematic introduction of the CSR system among Chinese firms has also had reverberations  
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9 in China's investment community. Like their counterparts in developed economies, Chinese  
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11 investors and analysts began to seriously consider the social practices of listed firms (Koh, Qian, &  
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13 Wang, 2014). Some recent financial studies indicate that Chinese investors are increasingly  
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15 incorporating the social performance of a firm into their investment decisions (e.g., Hung, Shi, &  
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17 Wang, 2013). Furthermore, interviews and survey data show that the majority of analysts monitor  
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19 firms' CSR activities and consider firms' social performance in their reports (SynTao, 2009).  
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21 Similarly, there has been increasing interaction between firms and analysts regarding corporate  
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23 social activities. For instance, our field interviews suggest that Chinese firms often invite security  
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25 analysts to attend so-called "be-in-touch meetings" in which managers introduce and explain their  
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27 new projects and CSR practices to attract analysts' attention. CSR is increasingly becoming a critical  
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29 precondition for meeting the expectations of the Chinese government and public, resulting in  
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31 analysts frequently taking the social performance of firms into consideration.  
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37 We suggested earlier that firms' CSR practices can be described along the scope and emphasis  
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39 dimensions. In the sections below we develop the argument that due to its relatively more material  
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41 and salient features, the scope dimension of CSR is likely to be closely associated with the judgment  
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43 of the legitimacy of firms' social practices. In contrast, due to its abstract nature, the emphasis  
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45 dimension of CSR provides room for differentiation and is thus primarily associated with the value  
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47 of such practices. In addition, previous studies in behavioral accounting and sociology suggest that  
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49 analysts' decision-making processes are often characterized by two distinct yet interconnected goals  
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51 (Bouwman et al., 1987; De Graaf & Slager, 2006; Zuckerman, 1999): evaluating the basic legitimacy  
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53 of firms, and then estimating the distinctiveness of its strategy or product that affects a firm's future  
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2 market value. Building on these premises, we argue that firms achieve optimal distinctiveness in  
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4 CSR by conforming in the scope dimension, which attracts analyst coverage, but differentiating in  
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6 the emphasis dimension, which leads to better analyst recommendation and higher market value.  
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### 9 **CSR Scope Conformity and Analyst Coverage**

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11 In order to obtain basic legitimacy in the financial market, public firms often seek entry into  
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13 relations with security analysts, and present the analysts with different “offers” in an attempt to win  
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15 their favor. Due to the complexity associated with CSR practices, outside observers such as security  
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17 analysts often have difficulty measuring and assessing the extent of firms’ social activities (Aguilera  
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19 et al., 2006).  
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23 Complex and multidimensional practices often have both material and abstract features. The  
24  
25 material features such as shape, size, product design, or social codes induce a prototypical  
26  
27 categorization (Durrand et al., 2017; Suarez, Grodal, & Gotsopoulos, 2015). When a prototype is  
28  
29 available for characterizing a practice, audiences often refer to the prototype in evaluating the  
30  
31 legitimacy of the practice. This is because prototypes offer a clearly identifiable attribute that enables  
32  
33 audiences to easily observe and incorporate it into their evaluations. In contrast, activities deviating  
34  
35 from the prototype likely induce cognitive ambiguity that leads to audiences being less able to  
36  
37 understand the intended meaning (Zuckerman, 1999) and thus not recognizing them as legitimate  
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39 (Hannan, Pólos, & Carroll, 2012; Hsu & Hannan, 2005).  
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44 This reasoning is in line with the arguments and findings in the behavioral accounting literature  
45  
46 on analysts’ decision-making processes. Bouwman and colleagues (1987) empirically examine  
47  
48 analysts’ decision-making process using experimental methods. They determine that analysts usually  
49  
50 use processes and strategies that are designed to extract the relevant activities with minimum effort  
51  
52 when facing large amounts of data (Westphal & Zajac, 1998). The model of analysts’ evaluation  
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54 shows two distinct phases: familiarizing and reasoning. The goal of the first phase, which is closely  
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2 related to analyst coverage decisions, is to determine the extent to which firms' practices in certain  
3 fields meet the established guidelines or conventions. This phase reflects the checklist or prototype  
4 used to develop a feel for the firm. These checklists are similar to the standard templates that help  
5 professionals categorize the problems at hand and evaluate the legitimacy of a given practice  
6  
7 (Durand & Paoella, 2013; Durrand et al., 2017). In the case of CSR practice, the checklist or  
8 prototype is largely reflected in the scope of social practices, i.e., the extent to which a firm covers a  
9 wide range of social issues (e.g., environment, employee health and safety, product quality, and  
10 philanthropy). Indeed, the scope dimension in regard to whether or not a firm has covered a certain  
11 social issue field is easily identifiable, and much more overt compared to the emphasis dimension.  
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23 Moreover, as described earlier, in the context of China the state and other regulatory agencies  
24 have provided specific guidelines regarding the appropriate structure of CSR practices. This further  
25 heightens the extent to which a firm conforms to the scope-based prototype as the basis for analysts  
26 to determine its legitimacy. We thus expect that compared to the emphasis dimension, the CSR scope  
27 dimension is likely to play a dominant role in analysts' evaluating the conformity in firms' CSR  
28 practices. That said, we do not intend to argue that CSR is the only criterion for analysts' coverage  
29 decisions. Indeed, strategic and operational issues that have a direct effect on a firm's survival and  
30 economic performance are often the primary considerations in analysts' decisions to cover a firm  
31 (White, 2010). However, we contend that in addition to key strategic and operational considerations,  
32 conformity in CSR practices is an important and also essential criterion that analysts use to decide  
33 whether to cover a firm. This is true in general across different economies, with mounting pressure  
34 from various parties, including investors, on corporate executives to make CSR an integral part of  
35 corporate strategy (Cronqvist & Yu, 2017; Lins et al., 2017). This pressure is felt not only by firms  
36 but also by analysts in their decisions regarding whether or not to cover particular firms. According  
37 to one analyst we interviewed, "The first thing that I check with the corporate activities is whether  
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2 they are in line with the regulatory guidelines, including those associated with social practices.” We  
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4 thus hypothesize that:

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7 *Hypothesis 1 (H1): The scope conformity of firms’ CSR practices to established reporting*  
8 *guidelines positively affects analyst coverage.*  
9

10 Although most Chinese firms face pressures regarding legitimacy and thus need to conform to  
11 standard CSR practices, the level of pressure they face can vary significantly. Thus analysts’  
12 coverage evaluations are likely to be influenced by considering the variation in such pressures. For  
13 example, analysts may still cover a firm that faces less legitimacy pressure even if the firm shows a  
14 lower level of CSR conformity. Chinese firms’ legitimacy pressures typically come from two  
15 sources: government/regulatory parties, and the general stakeholders/public. Accordingly, we discuss  
16 two critical firm-level factors—*state ownership* and *firm visibility*—that are likely to influence the  
17 amount of legitimacy pressure that firms face from the government/regulatory parties and the general  
18 stakeholders or public respectively.  
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31 In the context of the Chinese economy, the government and its associated regulatory parties are  
32 important sources of legitimacy (Wang & Qian, 2011). Historically, SOEs have typically been  
33 regarded as important providers of various social services. Besides economic profitability, the  
34 Chinese government has other interests in SOEs, such as supplying scarce inputs for other  
35 enterprises, maintaining a high level of employment, and providing various other social services to  
36 employees and communities. Although this relationship has been significantly weakened by the  
37 governance reforms in the state sector in recent years, the Chinese government still has strong  
38 nonfinancial interests in SOEs compared to other forms of enterprises.  
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50 The Chinese government can exert both normative and regulative pressure to promote firms’  
51 adoption of certain practices. Compared to other firms, SOEs are more heavily influenced by the  
52 government: they receive support or institutional protection from the government agencies that either  
53 founded them or have considerable ownership in them, and the appointment of top management is  
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2 tightly controlled by the government. SOEs are thus under the direct influence of the government,  
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4 and consequently feel more pressure to respond to the call of its regulatory agencies (Marquis &  
5  
6 Qian, 2014). In the case of CSR, although all Chinese companies are encouraged to enhance their  
7  
8 social performance the listed SOEs are among the first wave of firms that are required to  
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10 systematically adopt the CSR guidelines established by the government (Gao, 2011).  
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14 Therefore, compared to private firms SOEs face greater legitimacy pressures from the  
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16 government and regulatory agencies regarding CSR practices. Such pressures are also likely to be  
17  
18 reflected in analysts' coverage decisions. As suggested by some previous studies, when evaluating  
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20 SOEs analysts suffer from more-serious information asymmetries since the performance of SOEs is  
21  
22 much less predictable according to normal business cycles, owing to the government's influence  
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24 (Cantor & Packer, 1997). They thus place greater focus on more-observable conformity actions of  
25  
26 SOEs but become cautious with any unusual practices, especially with those that obviously deviate  
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28 from government requirements. Accordingly, when deciding whether to cover an SOE as compared  
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30 to a private firm, the analysts are likely to pay greater attention to CSR conformity. We thus have:  
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34 *Hypothesis 2a (H2a): State ownership moderates the relationship between CSR scope*  
35  
36 *conformity and analyst coverage such that the postulated relationship is stronger among SOEs*  
37  
38 *than it is among non-SOEs.*

39 Firms may experience legitimacy pressure not only from the government but also from other  
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41 firm stakeholders and the general public (Lu & Abeysekera, 2014). This is especially the case for  
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43 firms with high visibility. Greater visibility is a double-edged sword for managers. On the one hand,  
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45 high visibility is generally associated with more-positive responses from firms' stakeholders,  
46  
47 including favorable evaluations from investors and the media, and customers' willingness to pay a  
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49 price premium (Pollock & Gulati, 2007; Rindova, Williamson, Petkova, & Sever, 2005). In regard to  
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51 CSR, high-visibility firms clearly have some advantage in making their social activities known to the  
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3 public. Indeed, greater firm visibility has been found to increase the benefit that a firm can obtain  
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5 from their social activities (Wang & Qian, 2011). On the other hand, a firm with high visibility is  
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7 also likely to raise the expectations of stakeholders, resulting in heightened legitimacy pressure. The  
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9 research points out that stakeholders who are more informed about a firm's activities are also more  
10  
11 likely to take action against the firm. As a consequence, more-visible organizations are subject to  
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13 greater levels of scrutiny from the public and stakeholders (Brammer & Millington, 2006). Similarly,  
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15 with high visibility the public and stakeholders have a higher level of scrutiny of the firm's CSR  
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17 activities. When the firm is not able to meet legitimacy expectations, e.g., when it experiences a  
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19 socially irresponsible event, the firm is more likely to attract negative attention from the media and  
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21 the public (Godfrey, 2005).  
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29 Therefore the downside of not meeting stakeholder expectations increases with an increase in  
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31 firm visibility, resulting in heightened legitimacy pressure regarding CSR practices. We expect that  
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33 analysts would also place greater weight on CSR conformity of such firms. First, being widely  
34  
35 known, highly visible firms are also likely to attract greater attention from analysts as compared to  
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37 less-visible firms. Second, due to the severe negative financial consequences for highly visible firms  
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39 often associated with nonconformity (Godfrey, Merrill, & Hansen, 2009; Wang & Qian, 2011),  
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41 analysts' assessment of the such firms is more likely to be influenced by conformity considerations.  
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47 We thus postulate that:  
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50 *Hypothesis 2b (H2b): Firm visibility moderates the relationship between CSR scope conformity*  
51 *and analyst coverage such that the postulated relationship is stronger among firms with greater*  
52 *visibility.*  
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#### 54 **CSR Emphasis Differentiation and Analyst Recommendations**

55 Although gaining legitimacy through conformity helps obtain analyst coverage, winning  
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2 favorable recommendations from analysts and other market actors requires firms to adopt distinct  
3 strategies that allow firms to be differentiated from their peers (Womack, 1996). Unlike material  
4 features that induce a prototypical categorization, abstract features with ambiguous information  
5 evoke audiences' goal-based evaluation (Durand & Paolella, 2013). In the goal-based evaluation  
6 process audiences favor those practices that are unique or span existing fields because they are  
7 considered more capable of handling the case in point. Hence when being evaluated on the  
8 dimensions with abstract features, firms with a greater degree of differentiation are better able to  
9 signal their competence and value to audiences. In the case of CSR practices, while the overt  
10 structure (CSR scope) represents the material feature of the practice, the abstract feature is reflected  
11 in the emphasis dimension where audiences are likely to explore in greater depth how specific CSR  
12 activities can serve the firm's strategic purposes, perhaps through enhancing firm relationships with  
13 salient stakeholders in their particular environments. In this process, firm efforts that are intended to  
14 align CSR activities with idiosyncratic firm features are preferred.

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32 This argument is again consistent with some of the findings of the behavioral accounting studies  
33 on the decision-making process of security analysts. It is suggested that after the familiarizing phase  
34 during which all items on the checklist are examined, analysts then proceed to the next phase with  
35 the goal of looking for something extraordinary or unique. This is then integrated into the  
36 accumulated findings through the formulation of causal relations that explain variations in the key  
37 outcomes (Bouwman et al., 1987; Orlikowski, 2000). In line with our argument, previous research  
38 suggests that professional investors may prefer varied and idiosyncratic practices in very-specific  
39 fields to maximize judgment accuracy for the task at hand (Lys et al., 2015; Zhang & Galletta, 2006).

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51 This point can be illustrated with an example of Chinese firms' environmental protection  
52 activities and how analysts evaluate them. In China environmental protection has not been a central  
53 focus for firms in the financial sector. However, in 2003 the International Finance Corporation and a  
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2 group of leading financial institutions proposed the Equator Principles, which provide a minimum  
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4 standard of environmental and social risk management in project finance (Equator Principles, 2006).  
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6 In 2008 the Industrial Bank of China became the first and only Chinese bank to adopt the Equator  
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8 Principles. Compared to the conventional CSR issues addressed by other Chinese banks, the  
9  
10 Industrial Bank's unique CSR practice in a once-neglected CSR field was perceived as an important  
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12 step forward in the industry, and commended by both executives and analysts in the banking sector  
13  
14 (ChinaCSR, 2008).  
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18 The above example underscores the point that firms are evaluated based more on the extent to  
19  
20 which they effectively differentiate their efforts to satisfy the specific needs of their salient  
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22 stakeholders and the manner in which these differentiated practices fit firms' competitive positioning  
23  
24 (Werbel & Wortman Jr, 2000). As one Chinese analyst remarked, "When integrating CSR factors  
25  
26 into an investment analysis, the key is to focus on unique factors that are likely to have a material  
27  
28 impact on the sustainability of a firm's business model and its share price performance." In contrast,  
29  
30 the scope dimension is less consequential when conducting such analyses. Just like the composite  
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32 index developed by third-party rating agencies, such indexes only provide a good and efficient first  
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34 view of how comprehensively a firm has covered various aspects of a CSR rating scale, but may not  
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36 adequately reflect the differences in the level of effort spent in satisfying the demand of salient  
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38 stakeholders in the firm's particular competitive context.  
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44 In sum, the emphasis dimension of firms' CSR practice provides crucial evidence for security  
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46 analysts and the general market to arrive at their evaluations of a firm's market value. We thus have:

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48 *Hypothesis 3 (H3): The emphasis differentiation of CSR practices is positively associated with*  
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50 *analysts' investment recommendations and the firm's market value.*

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52 The benefits from emphasis differentiation in CSR may also vary across firms, depending on the  
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54 extent that audiences appreciate firms' differentiation efforts. In particular, we examine two factors  
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3 that are believed to affect analysts' appreciation and/or capability in evaluating firm differentiation in  
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6 CSR: *high-status houses coverage*, and the extent to which the firm faces *earnings pressure*.  
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9 Previous studies have suggested that brokerage houses can be divided into two hemispheres with  
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11 high and low status. Compared to low-status houses, high-status ones often have more resources to  
12  
13 enable their analysts to conduct independent research. Moreover, analysts serving in high-status  
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15 houses often specialize in one or two industries and cover a limited number of firms, while low-  
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17 status houses usually serve more clients on a smaller scale and with higher turnover. Thus while  
18  
19 analysts in low-status houses may spend more time conferring with clients and have little time to  
20  
21 conduct research, analysts in high-status houses are often able to develop in-depth knowledge and  
22  
23 expertise about the industry and the firms that they cover (Ioannou & Serafeim, 2015). This enhances  
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25 the ability of analysts in high-status houses to understand firm differentiation efforts.  
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32 In addition, high-status houses are less risk averse because they have established a reputation  
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34 and strong legitimate base that buffers the potential negative consequences caused by their bold  
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36 actions. In contrast, analysts in low-status houses are more likely to suffer reduced promotion  
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38 opportunities or even job loss when they make bold forecasts that are not fulfilled. Thus analysts in  
39  
40 low-status houses tend to take fewer risks in their forecasts by being more conservative and closer to  
41  
42 the consensus forecast when evaluating more-innovative CSR activities. In comparison, analysts in  
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44 high-status houses are more likely to dissent from the prevailing view and shift toward an alternative  
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46 or emerging view without fearing the loss of status or being eliminated as players in the competition  
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48 for business (Ioannou & Serafeim, 2015; Phillips & Zuckerman, 2001). For example, Ioannou and  
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50 Serafeim (2015) document that during the transition of the prevailing view from an agency logic to a  
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3 stakeholder logic, high-status brokerage houses were the first to shift their perception of CSR from a  
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5 pessimistic view to a more-optimistic one, as indicated by their analysts' more-positive  
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7 recommendations of firms with better CSR performance. Similarly, we should also expect that  
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9 compared to houses with lower status, high-status houses are likely to be more appreciative of firms'  
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11 efforts to strategically differentiate themselves in CSR.  
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16 We thus predict that when covered by analysts from high-status houses, firms' efforts to  
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18 differentiate their CSR practices are more likely to be recognized and appreciated, leading to better  
19  
20 analyst recommendations and greater market value.  
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23 *Hypothesis 4a (H4a): High-status houses coverage moderates the relationship between*  
24 *differentiation of CSR and analysts' investment recommendations and the firm's market value,*  
25 *such that for firms covered by higher-status houses the postulated relationship is stronger.*  
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28 While analysts have increasingly incorporated corporate social activities into their evaluations,  
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30 as financial market intermediaries they still place strong emphasis on the financial prospects of the  
31  
32 firms they cover. Indeed, the capacity of an organization to deliver a value proposition, i.e., its  
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34 pragmatic legitimacy, serves as the basis of organizational legitimacy and has been shown to have  
35  
36 the greatest impact on an organization's success (Deephouse & Suchman, 2008; Ginzel, Kramer, &  
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38 Sutton, 1992; Suchman, 1995). On the other hand, if a firm does not present itself as a viable profit-  
39  
40 making business then efforts to engage in unique or innovative CSR may be ineffective and  
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42 stakeholders may perceive it negatively (Ginzel et al., 1992; Koh et al., 2014; Wang & Qian, 2011),  
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44 leading to negative organizational outcomes. Thus under circumstances of adverse firm economic  
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46 performance it is unlikely that analysts will still appreciate firms' CSR differentiation efforts.  
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54 Consequently, an effort to differentiate through manipulation of CSR emphasis may not result in  
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3 positive analyst recommendations or favorable market reaction, but may instead signal shirking in  
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5 pragmatic exchanges (Suchman, 1995).  
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8 Firm earnings are often considered the most important performance measure reported to  
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10 outsiders, especially to analysts (Zhang & Gimeno, 2010). Meeting earnings benchmarks set by  
11  
12 financial analysts helps to build credibility in the capital market and signal the firm's profit-making  
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14 capability, while failure to meet the earning expectations often results in negative analyst perceptions  
15  
16 of the firm in terms of its economic viability. Analysts are consequently likely to question such a  
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18 firm's ability to use CSR to effectively differentiate itself from other firms and to gain competitive  
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20 advantage (Kaszniak & McNichols, 2002; Prior, Surroca, & Tribó, 2008). We thus hypothesize:  
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25 *Hypothesis 4b (H4b): Earning pressure moderates the relationship between differentiation of*  
26 *CSR, and analysts' investment recommendations and the firm's market value such that the*  
27 *postulated relationships are weaker among firms facing greater earning pressure.*  
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## 30 DATA AND METHOD

### 31 Data

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33 The initial sample of this study is drawn from Chinese listed firms that reported CSR activities  
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35 from 2008 to 2014. We used China's public listed firms because of the reliability and consistency of  
36  
37 their information compared to that collected through other sources, given the difficulty of data  
38  
39 collection in emerging economies (Xu & Wang, 1999). The information on Chinese firms' CSR is  
40  
41 drawn from the China Listed Firm Corporate Social Responsibility Research Database maintained by  
42  
43 the GTA Information Technology Co., Ltd. ([www.gtarsc.com](http://www.gtarsc.com)), a private firm that collects and  
44  
45 categorizes CSR activities reported by listed firms starting in 2008. International scholars have  
46  
47 widely used the data offered by GTA. For instance, Wang and Qian (2011) use this data to study  
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49 corporate philanthropy and corporate financial performance; Sun, Hu, and Hillman (2016) discuss  
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51 the dark side of board political capital; and Luo, Wang, and Zhang (2017) analyze institutional  
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2 complexity and firms' CSR reporting. The GTA corporate social responsibility research database  
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4 contains firms' social activities in ten different CSR issue fields—shareholder protection, creditor  
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6 protection, employee protection, supplier protection, customer protection, environment protection,  
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8 public relations, CSR capacity building (system construction), work safety, and deficiency. Our  
9  
10 analysis excludes the deficiency category because many reported activities in this field concern the  
11  
12 overall deficiency of firms that is not directly related to social responsibility. The database collected  
13  
14 information on specific social activities from each of these fields. The activity-level information  
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16 includes project name, value, and unit. For instance, the real estate firm Vanke had twenty-seven  
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18 activities in the *environmental protection* field in 2014, including the reduction of carbon emissions,  
19  
20 waste sorting in communities, and electricity generated from renewable energy.  
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25 The information on analyst coverage and recommendations is drawn from the China Listed Firm  
26  
27 Financial Analyst Forecasting Research Database. Other information on basic firm-level  
28  
29 characteristics is based primarily on the China Stock Market and Accounting Research database  
30  
31 (Marquis & Qian, 2014). The final sample totaled 3,230 firm-years observations.  
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### 34 **Dependent variables**

35  
36 *Adjusted Analysts Coverage.* Following previous studies (Fombrun, Gardberg, & Barnett, 2000;  
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38 Mattingly & Berman, 2006; White, 2010), we considered an analyst to be covering a firm in year  $t$  if  
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40 that analyst has issued an annual earnings forecast for that firm's fiscal period ending in year  $t$ . We  
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42 calculated *Adjusted Analyst Coverage* (White, 2010), which is the share of analysts covering an  
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44 industry segment  $j$  that find it attractive to cover firm  $i$ . Formally, if there are  $A_j$  analysts covering  
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46 industry segment  $j$ , and a count of these analysts,  $a_i$ , chooses to cover firm  $i$  in that industry  
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48 segment, then the adjusted coverage equals  $a_i/A_j$ .  
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52 *Analysts Recommendation.* Consistent with past research (Luo et al., 2015; Watson, 2015), we  
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54 used the mean investment recommendation for each firm  $i$  in year  $t$  as one of the dependent variables  
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2 of our study. The CSMAR database recorded analysts' investment recommendations on a five-point  
3 scale, with one indicating a "strong buy" recommendation and five indicating a "sell"  
4 recommendation. The score was reversed when we constructed the variable so that higher  
5 recommendation. The score was reversed when we constructed the variable so that higher  
6 recommendations took larger values. We assigned equal weight to each recommendation, and the  
7 dependent variable is the average of all the investment recommendations published by the analysts  
8 that followed the firm.  
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16 *Tobin's Q*. We used Tobin's Q to measure each firm's market value, which was calculated as the  
17 sum of the market value of equity and book value of debt over the book value of total assets  
18 (Wernerfelt & Montgomery, 1988). Market value is usually based on expected cash flows and risks,  
19 which indicate future corporate performance.  
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### 27 **Key Independent Variables: Conformity and Differentiation**

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29 Our independent variables were the degree of conformity and differentiation of firms' CSR  
30 activities. We defined scope conformity as the extent of the focal firm's CSR portfolio resembling  
31 the practices defined in the established guideline, and it mainly captures the variation along the scope  
32 dimension of a firm's CSR practice. As discussed above, the CSR guideline has already established a  
33 standard CSR practice framework for all firms, which clearly identified important CSR issues.  
34 Therefore firms that followed the guideline and addressed more issues are considered to be showing  
35 higher conformity to the established norms.  
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46 When comparing the scope conformity between firms that cover the same number (but not all)  
47 of CSR issue fields, it is important to consider the relative importance of the issue fields being  
48 covered. In fact, as previous studies have acknowledged, how to develop a weighting system for  
49 different CSR issue fields is an important methodological challenge that affects our capability to  
50 develop precise composite CSR measures (Watson, 2015). This study used the concept network  
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2 method to develop weights for each CSR field (Kennedy & Fiss, 2013). We first created a two-mode  
3 affiliation matrix for each year with nine CSR fields and the sample firms as the columns and rows  
4 respectively. The numbers in this affiliation matrix represent the number of projects or activities in a  
5 given CSR field reported by a given firm. To determine which CSR field is most essential to the  
6 firm's CSR practice, we then transformed the two-mode affiliation networks (issue fields by firms)  
7 to one-mode concept networks (issue fields only) that show how different CSR fields co-occur and  
8 how strong the connections are among them. In such networks, activities that are more tightly  
9 connected with others can be viewed as the most essential CSR issue in an industry and at a  
10 particular time. To evaluate the importance of each issue field we calculated the eigenvector  
11 centrality values, which measure the network centrality of each issue field.

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25 Based on these weights, we followed previous studies (Ansari et al., 2010; Fiss et al., 2012;  
26 Yuan et al., 2007) and operationalized CSR *scope conformity* as the sum of the products of dummies  
27 for each of the nine issue fields and the prior period's eigenvector centrality scores for each issue  
28 field. A higher score indicates greater scope conformity. More formally,  
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$$34 \quad \text{Scope Conformity}_t = \sum_{i=1}^9 CEN_{i(t-1)} CSR_{it}$$

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38 where  $CEN_{it}$  refers to the eigenvector centrality of issue field  $i$  at time  $t$ , and  $CSR_{it}$  refers to whether  
39 issue field  $i$  was included in the firm's report at time  $t$  (Yes = 1, No = 0). Thus the value of *scope*  
40 *conformity* is determined by both the number of issue fields addressed and the importance  
41 (eigenvector centrality) of these fields. A firm that addresses a large number of CSR fields but  
42 misses a field of higher importance may have a lower *scope conformity* score than one that addresses  
43 a lower number of fields with higher importance.  
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52 The second measure, emphasis differentiation, is defined as the extent to which a firm's  
53 pattern of CSR emphasis deviates from the common patterns of other firms in the same industry. We  
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1  
2 adopted a more-nuanced measure that quantifies the extent of efforts allocated to each issue field. It  
3  
4 is a continuous measure calculated based on the percentage of firms' efforts devoted to each CSR  
5  
6 issue field rather than on a binary variable measuring whether or not a practice was adopted. In  
7  
8 essence, our concept and measure of emphasis differentiation is closer to that of *strategic deviation*  
9  
10 (Deephouse, 1999) and *uniqueness* (Litov et al., 2012) used in some other studies. Previous studies  
11  
12 have argued that when comparing CSR practices it is important to normalize the measures by  
13  
14 industry such that a firm is compared with the other firms in its own industry (Aguilera et al., 2006).  
15  
16 Moreover, for complex and nascent practices like CSR, the content or the relative importance of its  
17  
18 multiple constituents may change over time (Ansari et al., 2010). To capture these nuances, we  
19  
20 calculated the difference between a firm's emphasis and the industry average emphasis, and then  
21  
22 weighted the absolute value of these differences using the eigenvector centrality of each field. The  
23  
24 sum of the weighted differences across all nine CSR fields was used as an indicator of a firm's CSR  
25  
26 *emphasis differentiation* from the common practice. Lower scores indicate greater similarity to  
27  
28 commonly adopted practices, whereas higher scores indicate greater differentiation of a firm's CSR  
29  
30 activities, making its CSR unique compared to others. More formally,  
31  
32

$$33 \quad \textit{Emphasis Differentiation}_t = \sum_{i=1}^9 |AE_{it} - FE_{it}| CEN_{i(t-1)}$$

34  
35 where  $AE_{it}$  is the averaged emphasis in issue field  $i$  at time  $t$ ,  $FE_{it}$  is the firm's emphasis in issue field  
36  
37  $i$  at time  $t$ , and  $CEN_{it}$  is the eigenvector centrality of issue field  $i$  at time  $t$ . Both conformity and  
38  
39 differentiation measures are continuous variables. Standardized scores are used in subsequent  
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41 analyses.  
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### 50 **Other Independent Variables**

51 We constructed a dummy variable indicating a firm's ownership type based on the status of the  
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53 firm's ultimate controllers. Firms that are controlled by state asset management agencies or other  
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1  
2 government agencies are regarded as *state-owned enterprises* (SOE), otherwise they are regarded as  
3  
4 nonstate owned.  
5

6  
7 Firm *visibility* was operationalized by a firm's advertising intensity. This variable was calculated  
8  
9 as the ratio of selling and administrative expenses to sales (Wang & Qian, 2011). It captures a firm's  
10  
11 willingness to spend on marketing and selling-related activities in an effort to differentiate itself from  
12  
13 competitors.  
14

15  
16 *High-status houses coverage* is measured by the ratio of star houses to the total number of  
17  
18 brokerage houses that cover a firm. Beginning in 2003, Chinese analysts, often working in teams for  
19  
20 a brokerage house, have been ranked annually according to their performance by *New Fortune*  
21  
22 magazine. Highly ranked analyst teams are included in the New Fortune Best Analyst list  
23  
24 (<http://www.xcf.cn>). If a brokerage house has analyst teams on the New Fortune Best Analyst list we  
25  
26 coded the brokerage house as a star house.  
27  
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29  
30 *Earnings pressure* is used to account for the extent to which firm performance meets analysts'  
31  
32 expectations. This variable is measured as the difference between analysts' consensus forecasts of a  
33  
34 firm's earnings in year *t* and the firm's actual earnings for year *t* (Gentry & Shen, 2013; Washburn &  
35  
36 Bromiley, 2014).  
37  
38

### 39 **Control Variables**

40  
41 We controlled the factors that were suggested in previous studies to influence our dependent  
42  
43 variables. We included a few variables to control the characteristics of CEOs and corporate  
44  
45 governance, which tend to influence analysts' coverage and recommendations as well as firm value  
46  
47 (Jiraporn, Liu, & Kim, 2014; Lang, Lins, & Miller, 2004). *CEO power* is a composite index (Briscoe,  
48  
49 Chin, & Hambrick, 2014) calculated as Cronbach's alpha value of (1) CEO duality, that is, whether  
50  
51 the CEO also serves as the chair of the board of directors, (2) whether the CEO was the founder of  
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53 the firm, and (3) the equity share held by the CEO. The reliability score is 0.67. *CEO MBA* is a  
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2 dummy variable indicating whether a CEO holds an MBA degree (Yes = 1, No = 0).  
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4 Two additional CEO-related variables are specific to the context of China: CEO returnee and  
5 CEO party member. *CEO returnee* is a dummy variable indicating whether a CEO had overseas  
6 work or education experience (Yes = 1, No = 0). *CEO party member* indicates whether the CEO is a  
7 member of the Communist Party (Yes = 1, No = 0). Moreover, the *percentage of independent*  
8 *directors* was included to measure the strength of the internal monitoring for effective corporate  
9 governance (Harjoto & Jo, 2011). *TMT equity holding*, operationalized as the percentage of firm  
10 equity held by a firm's top management team, was used to measure managerial incentives. We  
11 included a dummy variable (Yes = 1, No = 0) to indicate firms' membership in *socially contested*  
12 *industries*, such as alcoholic beverages, defense, and tobacco manufacturing (Kim & Skinner, 2012;  
13 Koh et al., 2014). We controlled for the influence of *ownership concentration*, calculated as the total  
14 equity shares held by the five largest shareholders, on the market value of firms (Bai, Liu, Lu, Song,  
15 & Zhang, 2004).  
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32 We also controlled for several typical firm-level variables. *List age* refers to the number of years  
33 that the firm was listed on China's stock exchanges as of 2014. *Firm size* is measured by the number  
34 of firm employees. We used its natural logarithm to correct its skewed distribution. *Return on asset*  
35 is an accounting measure of firm profitability, which calculates management's efficiency in using its  
36 assets to generate earnings. *Financial leverage* (i.e., the ratio of total debt to equity) serves as a  
37 proxy for capital structure, which is significantly correlated with firm performance (Mishra & Modi,  
38 2013). The *overall level of CSR* measures a firm's total number of CSR activities in each year. *Share*  
39 *price* is measured by the median of the monthly average of open price and close price in a single  
40 year.  
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53 To ensure that our results are not driven by outliers, we winsorized all variables generated from  
54 the accounting data at the 2.5 percentile in each tail (our results are also robust at other cutoff points,  
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1  
2 e.g., 0.5 percent or 1 percent in each tail). We also lagged these variables by one year. Table 1  
3  
4 summarizes the correlation matrix and descriptive statistics.  
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6  
7 \*\*\*\*\*Insert Table 1 About Here\*\*\*\*\*  
8

## 9 **Methods**

10 Taking advantage of our panel dataset, we used firm fixed-effects models to control for all time-  
11 invariant differences across firms. To determine whether the fixed-effects model was appropriate for  
12 this study, we additionally conducted a Hausman test in which the null hypothesis is that the unique  
13 errors are not correlated with the regressors. The test result rejects the null hypothesis, thereby  
14 supporting our choice of fixed-effects models. In addition to the firm fixed-effects models, we used  
15 three additional estimation methods to check the robustness of our empirical findings, namely the  
16 instrumental variable approach, first-difference regression, and dose-response functions. Details of  
17 these tests are described in the Robustness Tests section.  
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## 30 **RESULTS**

31 Our first analysis explored the effect of scope conformity on the adjusted analysts' coverage.  
32 Hypothesis 1 states that the scope conformity of firms' CSR practices is positively associated with  
33 adjusted analysts' coverage. The results are reported in Table 2, in which Model 1 used *adjusted*  
34 *analyst coverage* as the outcome variable. Model 1 incorporated scope conformity and other control  
35 variables. The coefficient of the scope conformity is positive and statistically significant  
36 ( $[M1]\beta_{scope\ conformity} = 0.073, p < 0.001$ ), which is consistent with our prediction. Models 2 and 3  
37 test Hypothesis 3, which states that the emphasis differentiation of firms' CSR practices is positively  
38 associated with analysts' recommendation and firms' market value. We incorporated emphasis  
39 differentiation and control variables in both models. The positive and statistically significant  
40 coefficients ( $[M2]\beta_{emphasis\ differentiation} = 0.036, p < 0.01$ ;  $[M3]\beta_{emphasis\ differentiation} = 0.172, p <$   
41  $0.001$ ) supported our H3.  
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\*\*\*\*\*Insert Table 2 About Here\*\*\*\*\*

Our second analysis explored the alignment between firms' CSR strategies and macro as well as firm-level characteristics. Hypotheses 2a and 2b postulate that state ownership and firms' visibility moderate the relationship between CSR scope conformity and adjusted analyst coverage, such that the relationships are stronger among state firms or firms with higher visibility. Models 4 and 5 (Table 3) included both the explanatory variables and their interaction terms with the moderators. The interaction term between scope conformity and SOE is positive and significant ( $[M4]\beta_{scope\ conformity \times SOE} = 0.021, p < 0.01$ ), indicating that the positive relationship between scope conformity and adjusted analyst coverage is stronger among SOEs than it is among non-SOEs. This supports our H2a. The interaction term between scope conformity and firms' visibility in Model 5 is also positive and statistically significant ( $[M5]\beta_{scope\ conformity \times visibility} = 0.060, p < 0.05$ ), suggesting that the positive relationship between scope conformity and adjusted analyst coverage is stronger for firms with higher visibility. Our H2b is thus supported.

Models 6 and 8 test our Hypothesis 4a, which suggests that the relationship between emphasis differentiation and analyst recommendation and firms' market value is moderated by the characteristics of the key referent audience. The interaction term between emphasis differentiation and high-status houses coverage in Model 6 is positive and significant ( $[M6]\beta_{emphasis\ differentiation \times high - status\ houses\ coverage} = 0.067, p < 0.1$ ), indicating that the emphasis differentiation of firms' CSR practice brings relatively more beneficial impact on analyst recommendation if firms are covered by more star brokerage houses. Similarly, when we changed the outcome variable to firms' Tobin's Q in Model 8, the interaction term was also positive and significant ( $[M8]\beta_{emphasis\ differentiation \times high - status\ houses\ coverage} = 0.135, p < 0.05$ ), indicating that a firm covered by more high-status brokerage houses will benefit more from its emphasis differentiation of CSR practice as compared to those covered by fewer high-status brokerage houses.

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3 These results lend support to our H4a.

4  
5 Our Hypothesis 4b states that the relationship between the emphasis differentiation, and analyst  
6  
7 recommendation and firms' market value is moderated by the earnings pressure that firms face. The  
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9 interaction term between emphasis differentiation and earnings pressure in Model 7 is negative and  
10  
11 significant ( $[M7]\beta_{emphasis\ differentiation \times earnings\ pressure} = -0.062, p < 0.05$ ), indicating that the  
12  
13 emphasis differentiation of firms' CSR practice will bring relatively less-beneficial impact on analyst  
14  
15 recommendation when firms face greater earnings pressure. When we changed the outcome variable  
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17 to firms' Tobin's Q in Model 9, the interaction term was negative and significant  
18  
19 ( $[M9]\beta_{emphasis\ differentiation \times earnings\ pressure} = -0.146, p < 0.001$ ), indicating that the positive impact  
20  
21 of firms' emphasis differentiation brings less-beneficial impact on firms' market value for those  
22  
23 facing greater earnings pressure than those with better financial performance. These results lend  
24  
25 support to our H4b.  
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30 \*\*\*\*\*Insert Table 3 About Here\*\*\*\*\*

### 31 32 **Robustness Tests**

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34 We employed several model specifications as alternatives to the fixed-effects models to test the  
35  
36 robustness of our main results: the instrumental variable approach, first-difference regressions, and  
37  
38 the dose-response function. We first adopted the instrumental variable approach to address  
39  
40 endogeneity concerns. The ideal instrumental variable should have an influence on CSR scope  
41  
42 conformity and CSR emphasis differentiation but be exogenous to the adjusted analysts' coverage,  
43  
44 recommendation, or market value. Using this principle, we included an instrumental variable, i.e., the  
45  
46 number of *social organizations* in Chinese provinces normalized by regional GDP. The data were  
47  
48 drawn from the China Statistical Yearbook, which has information about various types of social  
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50 organizations including charity organizations, environmental protection organizations, and other  
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52 types of NGOs or voluntary organizations. Previous literature suggests social organizations' activism  
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2 exerts a strong impact on CSR activities (Cantor & Packer, 1997), and we thus argue that regions  
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4 with more social organizations tend to represent a wide variety of stakeholder interests and thus may  
5  
6 press firms to address a wide range of issues. This may positively affect CSR scope conformity.  
7  
8 Moreover, heterogeneous social organizations may provide diverse collaborative opportunities for  
9  
10 firms to differentiate their CSR practices to address their unique challenges, and are thus positively  
11  
12 associated with firms' emphasis differentiation. However, the number of social organizations in a  
13  
14 province is less likely to have an impact on analyst coverage, recommendation decisions, or firms'  
15  
16 market value.  
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20  
21 Columns 1 and 2 in Table 4 show the first-stage regression results, with scope conformity and  
22  
23 emphasis differentiation as the dependent variables. The main variables of interest are the  
24  
25 coefficients on the instrumental variable—number of *social organizations* in a region, which is  
26  
27 positive and significant. Columns 3 to 5 report the results from the second-stage regressions with the  
28  
29 main variable of interest replaced by the fitted values of scope conformity and emphasis  
30  
31 differentiation from the first-stage regressions. The coefficient estimates of these models are again  
32  
33 highly consistent with the baseline results.  
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37 We also used the first-difference regressions (see Table 5) to examine whether year-to-year  
38  
39 changes in the degree of scope conformity are associated with corresponding changes in the level of  
40  
41 adjusted analyst coverage. Compared to the fixed-effects models, the first-difference models were  
42  
43 more efficient and robust when serial correlations are present. We regressed the dependent variables  
44  
45 on the same independent and control variables in the first-difference format, including year and firm  
46  
47 fixed-effects (White, 2010). The t-statistics are based on cluster-adjusted standard errors at the firm  
48  
49 level. The results indicate that the year-to-year increases in scope conformity are associated with  
50  
51 higher adjusted analyst coverage. Moreover, conditional on adjusted analyst coverage, the year-to-  
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53 year increase in emphasis differentiation enhances the analyst recommendations that firms received,  
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2 as well as the firms' Tobin's Q. These results are highly consistent with our main findings.  
3

4 \*\*\*\*\*Insert Tables 4, 5, & 6 About Here\*\*\*\*\*  
5

6  
7 The third specification employed a newly developed method called the dose-response  
8 function (DRF), which helps estimate the causal effects of CSR practices on analyst and market  
9 reactions. The approach is in line with the more commonly used matching methods but with a major  
10 difference: while the matching methods deal with selection issues associated with binary treatments,  
11 in many observational studies the treatment may not be binary or even categorical. In such a case,  
12 one may be interested in estimating the DRF where the treatment might take on continuous values. A  
13 similar method has been used in related fields. For instance, Fryges (2009) employs the DRF method  
14 to estimate the relationship between individual firms' export behavior and firm performance. Instead  
15 of distinguishing firms' export status as exporting and nonexporting, the study introduces continuous  
16 treatment and estimates the impact of different levels of firms' export activities. Moreover, in the  
17 accounting field Core (2010) uses a similar method to study whether CEO equity incentives cause  
18 accounting irregularities.  
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34 This method is also applicable to the context of this paper since firms' CSR scope conformity  
35 and emphasis differentiation are not binary treatment variables. DRF is generally used together with  
36 the generalized propensity score (GPS) methodology. It is important to note that the observational  
37 data we used are different from experimental data because the selection in the treatment versus  
38 nontreatment group is not randomized, which may undermine our causal inference. The  
39 implementation of the GPS method consists of three steps (Bia & Mattei, 2008). In the first step we  
40 estimated the conditional distribution of the treatment given the covariates. In the second step we  
41 estimated the conditional expectation of the outcome as a function of two scalar variables, the  
42 treatment level and the GPS. In the third step we used a DRF to estimate the average treatment  
43 effects (ATE) of the treatment variables, which helps us understand how the degree of scope  
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2 conformity and emphasis differentiation affect the amount of outcomes. We used Stata *gpscore*  
3  
4 procedure to estimate the model (Bia & Mattei, 2008). Results from the DRF model (see Table 6)  
5  
6 show that the effect of scope conformity on adjusted analyst coverage, and the effects of emphasis  
7  
8 differentiation on analyst recommendation and Tobin's Q are positive and significant, which lend  
9  
10 support to our causal inference. While the GPS-based DRF approach uses observable measures to  
11  
12 construct a weight based on selection, the IV method relies on an instrumental variable created from  
13  
14 unmeasured or unobserved factors. Thus an advantage of the IV method is that it accounts for  
15  
16 unmeasured factors correlated with the outcome. This is especially helpful in analyzing datasets that  
17  
18 were not created for the purpose of a particular research question.  
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23 In regard to the operationalization of the emphasis dimension, we used the multidimensional  
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25 scaling method, a dimension-reduction and visualization technique, to construct an alternative  
26  
27 measure (Kennedy & Fiss, 2013). Dissimilarities (for instance, Euclidean distances) among  
28  
29 observations in a high-dimensional space are represented in a lower-dimensional space (typically two  
30  
31 dimensions) so that the Euclidean distance in the lower-dimensional space approximates the  
32  
33 dissimilarities in the higher-dimensional space. The Euclidean distance from the centroid is used as  
34  
35 an indicator of emphasis differentiation. The results obtained using this measure are substantively  
36  
37 similar to those using the above indicator.  
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41 In addition, we estimated the relative influence of both independent variables on the outcome  
42  
43 variables. The results are reported in Table 7. Model 1 of Table 7 shows the effects of both  
44  
45 independent variables on adjusted analyst coverage. The coefficient of scope conformity is positive  
46  
47 and significant, while the coefficient of emphasis is not statistically significant. Similarly, Model 2  
48  
49 shows that scope conformity has no significant impact on analyst recommendations while emphasis  
50  
51 differentiation is significantly and positively related to analyst recommendations. Model 3 shows that  
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53 emphasis differentiation again has a significant impact on Tobin's Q, while the scope conformity's  
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2 coefficient is negative and only marginally significant at the 0.1 level. These results are in line with  
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4 our arguments for the dominance of conformity in scope and differentiation in emphasis.  
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7 \*\*\*\*\*Insert Table 7 About Here\*\*\*\*\*  
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## 10 DISCUSSION

11 The complexity of CSR presents new challenges for businesses regarding how to effectively  
12 engage in social practices. Building on and extending the optimal distinctiveness perspective, we  
13 argue that firms may be able to simultaneously conform in CSR scope and differentiate in CSR  
14 emphasis to achieve optimal distinctiveness. We evaluated the effectiveness of firms' CSR practices  
15 through exploring how firms' conformity and differentiation efforts can affect the way their CSR  
16 practices are assessed or interpreted by key constituents, such as security analysts and other market  
17 actors (Marquis & Qian, 2014; Watson, 2015). We demonstrated that as CSR becomes an  
18 institutionalized practice among Chinese firms, conforming to basic principles of CSR in terms of  
19 scope makes firms appear legitimate in the analyst community, and the efforts in differentiating a  
20 CSR portfolio in the emphasis dimension lead to more-favorable analyst recommendations and  
21 higher market value. Furthermore, to enhance our understanding of the variation in the relationship  
22 between conformity/differentiation and the response of analysts and the market, we investigated how  
23 this relationship is conditioned by some firm- and analyst-level factors.  
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41 Our study contributes to the emerging optimal distinctiveness literature by theoretically  
42 articulating and empirically testing the orchestration mechanisms that firms adopt within a single  
43 complex practice, and examining the way that such orchestration helps firms gain recognition and  
44 favorable evaluation by sophisticated audiences. In particular, what we examine is a form of  
45 *compensatory orchestration*, reflecting the idea that deviation in one strategic dimension can be  
46 compensated by legitimacy in a different strategic dimension. The current understanding of  
47 *compensatory orchestration*, summarized by Zhao et al. (2017), rests on the availability of multiple  
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2 strategies in the market space and features of organizational environments that are multiple,  
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4 fragmented, and dynamic. This study shifts the research focus from multiple strategies and  
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6 dynamisms in the environment to complexity in the practice itself. By doing so, our study points to  
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8 the possibility of simultaneously achieving conformity and differentiation in one specific practice or  
9  
10 strategy dimension.  
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13  
14 In the context of analysts' evaluations of firms' CSR practices, our findings suggest that firms  
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16 can strategically configure their responses across different dimensions of CSR practices to secure  
17  
18 analysts' preferences and enhanced performance evaluations. Specifically, firms are positively  
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20 received by analysts when firms make efforts to cover more important CSR fields that are congruent  
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22 with normative and regulative expectations, and when the deployment of attention across different  
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24 CSR fields reflects the idiosyncratic needs or positioning of these firms. Through such compensatory  
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26 orchestration idiosyncratic differentiation decisions are coupled with supportive and congruent  
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28 actions that help firms overcome the liability of distinctiveness. In other words, the seemingly  
29  
30 contradicting operation, i.e., conformity vs. differentiation, can be mutually reinforcing, which  
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32 jointly helps firms to gain basic legitimacy and to stake out a competitive position.  
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36  
37 Another key contribution of this study is that it contextualizes optimal distinctiveness  
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39 discussions and enhances our understanding of the conditions under which orchestration along  
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41 different dimensions of firms' social responsibility practices leads to differential impacts on firms'  
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43 performance and their perceived value among key audiences. We argue that the extent of conformity  
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45 pressure varies across firms. In our case, state ownership and firms' visibility lead to variations in  
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47 firms' legitimacy pressure, which in turn conditions the effectiveness of firms' conforming actions.  
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49 Our results indicate that firms that depend on the state for critical resources and legitimacy may feel  
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51 a greater imperative to conform to regulatory pressure; similarly, firms that attract more market  
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53 attention are expected to conform to the expectations of the general public. Thus firm decisions on  
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2 CSR conformity need to take the influences of various stakeholders into account.  
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4         On the other hand, the effectiveness of emphasis differentiation in CSR practices largely varies  
5 with the extent to which audiences appreciate the firm's differentiation efforts. Previous studies  
6 postulate that different stakeholders often have heterogeneous expectations because they may have  
7 been socialized to value or ignore certain dimensions of a practice during evaluation processes  
8 (Ioannou & Serafeim, 2015; Zhao et al., 2017). Our study further argues that even in the same  
9 stakeholder/audience group the status heterogeneity of group members can lead to variations in their  
10 preferences or expectations. We found evidence suggesting that the higher reputation and stronger  
11 legitimacy base enjoyed by high-status brokerage houses allow analysts associated with such houses  
12 to show greater flexibility and make bolder forecasts when facing ambiguous classifications and  
13 innovative offerings. Our study also highlights the fact that the extent to which audiences appreciate  
14 a firm's differentiation effort can be affected by whether the firm has gained fundamental, pragmatic  
15 legitimacy in terms of financial performance. Our findings indicate that market valuations of unique  
16 CSR practices are discounted if firms experience legitimacy challenges in terms of poor financial  
17 performance (as reflected in high earnings pressure).  
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37         Moreover, our key arguments for scope conformity and emphasis differentiation can be  
38 potentially generalized to CSR strategies in a broad range of contexts or to the analyses of the  
39 adoptions of other management innovations. The particular context in which our study's empirical  
40 analysis is situated, i.e., CSR practices among Chinese firms, provides a good opportunity to  
41 examine a salient contrast between scope conformity and emphasis differentiation, and the  
42 effectiveness of a firm's orchestration efforts and its contingencies in a dynamic context with  
43 emerging market categories. As national governments play an increasingly important role in  
44 promoting CSR practices in many countries, including those in Europe, North America, and Africa,  
45 the pressure from regulatory institutions becomes increasingly potent in shaping firms' CSR strategy  
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2 (European Commission, 2014). While the Chinese context has some distinctive features, we expect  
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4 that our key arguments can also help us understand firms' CSR strategies in other economies. That  
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6 said, nuanced variations may still occur due to differences in specific organizational environments  
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8 where even with complex practices the dominance of conformity in scope (vs. conformity in  
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10 emphasis) and differentiation in emphasis (vs. differentiation in scope) may not always be as  
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12 obvious.  
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16 Our analytical framework can also be applied to investigating the impacts of firms' adoption of  
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18 other management practices that are complex and multidimensional. For instance, previous studies  
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20 have examined the adoption of total quality management (TQM) practices (Douglas & Judge, 2001;  
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22 Westphal, Gulati, & Shortell, 1997). However, much research only focuses on the adoption of  
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24 different core elements supporting the TQM philosophy and tries to understand how this degree of  
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26 adoption affects firms' performance (Douglas & Judge, 2001). Similar to CSR, TQM practice also  
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28 has multiple elements with specific operational items within each element. Thus our framework  
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30 would allow researchers to parse firms' adoption of TQM along the scope and emphasis dimensions  
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32 and accordingly examine their implications for achieving legitimacy and performance advantages. In  
33  
34 addition to TQM, the voluntary adoption of diversity programs, i.e., practices that assess and develop  
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36 the diversity of the workforce and its equal treatment, could be another instance. As such practices  
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38 gradually disperse from the United States to Europe and other nations, firms face increasing social  
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40 pressure to address various forms of workplace discrimination (Ferner, Almond, & Colling, 2005).  
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42 Diversity policies often encompass a wide range of individual differences, not just gender and race  
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44 but other visible or less-visible differences that could lead to discrimination in the workplace. Firms  
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46 may comply with the all-encompassing initiatives, or address some particular subjects that are  
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48 pertinent to their industry or sociocultural environment (Kalev, Dobbin, & Kelly, 2006), or  
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50 simultaneously achieve both. Again, our framework would help better capture these nuanced  
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2 variations and their implications for various management and even financial outcomes.  
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5 Methodologically, we experimented with a new method to quantify the relative importance of  
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7 different CSR issue fields. Previous studies have acknowledged that an important methodological  
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9 difficulty faced by scholars is how to develop a weighting system for different CSR subjects. This  
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11 issue affected our capability to develop precise composite CSR measures (Watson, 2015). Different  
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13 from studies that rely on either subjective academic opinions about category importance or the  
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15 assignment of equal importance to issue areas, our study borrows insights from concept network  
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17 analysis and views the different issue areas as an interconnected system that reflects the pattern of  
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19 association of these abstract concepts for specific actors (Fiss et al., 2012). The aggregation of these  
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21 individual networks generates structural patterns that help us better understand how practices are put  
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23 together, and to quantitatively grasp the temporal and sectoral variations of complex CSR practices.  
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28 In addition to contributions to the academic literature, our findings also have practical  
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30 implications for corporate executives who are responsible for designing firms' social programs. Our  
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32 results indicate that investment communities not only care about the financial metrics of  
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34 organizations but also consider nonfinancial metrics such as environmental and social issues. With a  
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36 greater number of investors incorporating firms' social performance in their investment decisions, it  
37  
38 is time for corporate leaders to reexamine their strategies in coping with pressures during the  
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40 institutionalization of CSR. However, when considering their strategic options many managers still  
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42 focus on rankings in various sustainability or corporate philanthropy indices, and try to achieve a  
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44 higher ranking by investing much time and effort in tailoring their social program according to the  
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46 reporting frameworks specified by the rating agencies (Aguilera et al., 2006). Although such  
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48 practices may help firms obtain basic legitimacy from the investment community, they fall short in  
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50 convincing the audience that firms' social practices are well aligned with firms' competitive  
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52 positioning and the industrial or market contexts in which they operate. Executives are thus advised  
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2 to fully appreciate the complexity of CSR practices and to more effectively orchestrate their efforts  
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4 in the overt versus substantive dimensions of the practice.  
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7 When interpreting the current findings, it is important to consider the limitations associated with  
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9 this study. First, ideally the level of CSR differentiation should incorporate not only the number of  
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11 social activities in different fields but also the uniqueness in each activity. However, our data is  
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13 limited in that it only contains the number of activities in each field but not specific information for  
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15 each activity. This limitation is also observed in the previous studies we cite such as Litov et al.  
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17 (2012) and Deephouse (1999), both of which do not directly measure uniqueness in specific strategic  
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19 action but proxy it by looking at deviation of effort allocation from the norm in terms of sales and  
20  
21 assets respectively. Future studies are encouraged to develop more-comprehensive measures that can  
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23 fully appreciate the qualitative differences of specific activities in each CSR field.  
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27 Second, as CSR becomes an increasingly important issue in today's business world, it may  
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29 require a learning process in both the firm's and analysts' perspectives. It is possible that firms gain  
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31 experience over time in balancing and orchestrating between conformity and differentiation.  
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33 Similarly, it may take time for security analysts to explore methods that more effectively incorporate  
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35 CSR information into their valuation model. In a supplementary analysis we incorporate time at a  
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37 moderator and do find some scant evidence for a learning process. However, limited by the data  
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39 availability and the theoretical scope of the current study, we are not able to fully explore this issue  
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41 here. Future studies could thus examine whether the impact of CSR conformity and differentiation is  
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43 potentiated as firms and the financial analysts learn about CSR practices over time.  
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## 48 **CONCLUSION**

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50 This paper borrows insights from the optimal distinctiveness literature and advances this line of  
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52 inquiry by investigating the way that firms orchestrate different dimensions of CSR practices to  
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54 simultaneously cope with conformity pressure and seek differentiation advantages. We find that  
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2 conformity along the more-salient CSR scope dimension helps firms gain legitimacy and thus leads  
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4 to more analyst coverage, while the differentiation efforts along the more-substantive emphasis  
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6 dimension create strategic value for firms and lead to more favorable evaluations by analysts and  
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8 higher market value. Moreover, we find that the effectiveness of these orchestration efforts is also  
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10 influenced by firm- and analyst-level factors. Because firm stakeholders, the general public, and  
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12 many national governments increasingly view CSR as an essential component of corporate activities,  
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14 our study provides a new perspective for understanding how firms cope with such complex forces to  
15  
16 get ahead in the new environment.  
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**Table 1: Means, standard deviations, and correlations**

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	
1 Adjusted analyst coverage	1.00																								
2 Analyst recommendation	0.24	1.00																							
3 Tobin's Q	0.15	0.08	1.00																						
4 Scope conformity	0.02	-0.01	-0.30	1.00																					
5 Emphasis differentiation	-0.01	0.14	0.13	-0.08	1.00																				
6 State-owned enterprises	0.03	-0.13	-0.04	-0.20	-0.01	1.00																			
7 Earnings pressure	-0.09	-0.25	-0.11	0.01	0.01	0.01	1.00																		
8 TMT equity holding	-0.01	0.09	0.21	0.13	-0.01	-0.29	-0.03	1.00																	
9 Socially contested industries	-0.07	0.03	0.20	0.18	-0.07	-0.07	0.01	0.03	1.00																
10 CEO power	0.00	0.09	0.25	0.07	-0.04	-0.23	-0.03	0.41	0.12	1.00															
11 CEO returnee	0.06	-0.01	0.00	0.02	-0.06	-0.03	-0.01	0.05	0.01	0.09	1.00														
12 CEO party member	0.03	-0.03	-0.09	0.03	0.00	0.09	-0.01	-0.08	-0.11	0.02	0.01	1.00													
13 CEO MBA degree	0.07	0.04	0.04	0.05	-0.02	-0.09	-0.04	0.13	0.02	0.15	0.14	-0.04	1.00												
14 Pct. Independent directors	0.00	0.04	0.00	0.07	-0.02	-0.04	0.04	0.03	0.02	0.08	-0.01	0.06	0.03	1.00											
15 Ownership concentration	0.09	-0.02	0.00	-0.01	0.07	0.04	-0.03	0.05	-0.07	-0.02	0.10	0.06	0.06	0.08	1.00										
16 Financial leverage	0.01	-0.06	-0.50	-0.04	-0.04	0.11	0.05	-0.26	-0.20	-0.21	-0.01	0.08	-0.03	0.00	0.01	1.00									
17 Visibility	0.01	-0.02	0.18	0.01	-0.02	-0.17	0.05	0.07	0.19	0.13	0.07	0.00	0.01	-0.02	-0.08	-0.10	1.00								
18 List age	-0.01	0.01	-0.25	0.14	-0.06	0.08	0.02	-0.41	0.07	-0.28	-0.08	0.07	-0.10	0.00	-0.31	0.14	-0.11	1.00							
19 Firm size	0.30	0.11	-0.34	0.09	0.11	0.06	-0.10	-0.24	0.01	-0.17	0.02	0.08	0.01	0.07	0.25	0.35	-0.07	0.08	1.00						
20 Firm ROA	0.27	0.27	0.44	-0.11	0.05	0.01	-0.50	0.05	0.15	0.08	-0.01	-0.03	0.00	-0.01	0.06	-0.44	-0.02	-0.02	-0.06	1.00					
21 Share price	0.28	0.20	0.60	-0.20	0.08	0.04	-0.49	0.18	0.17	0.20	0.01	-0.05	0.05	-0.06	0.04	-0.20	0.11	0.46	-0.08	-0.23	1.00				
22 Overall level of CSR	0.06	0.02	-0.01	0.04	0.10	0.05	-0.06	-0.16	-0.03	-0.10	-0.01	0.09	-0.02	0.01	0.11	0.12	-0.10	-0.04	0.36	0.12	-0.09	1.00			
23 High-status houses coverage	0.11	0.17	0.01	-0.10	0.17	-0.20	-0.11	-0.03	0.01	0.01	0.01	0.05	0.05	0.03	0.09	0.05	0.08	0.06	0.17	0.07	0.02	0.09	1.00		
24 Social organization	0.01	-0.01	-0.01	0.06	-0.07	0.11	-0.01	-0.04	-0.07	-0.04	-0.11	0.05	-0.07	-0.04	-0.15	-0.01	-0.02	-0.02	-0.11	0.00	0.10	-0.04	-0.16	1.00	
Mean	0.40	4.08	1.70	0.00	0.00	0.43	0.28	0.04	0.05	-0.01	0.18	0.39	0.12	0.37	0.55	0.47	0.15	0.07	8.28	10.74	14.62	23.10	0.54	0.86	
S.D.	0.33	0.55	1.38	1.00	1.00	0.49	0.45	0.12	0.21	0.80	0.38	0.49	0.32	0.06	0.17	0.27	0.13	0.08	1.51	5.74	12.19	45.94	0.27	0.36	

Note: Correlations  $\geq |0.08|$  are significant at  $p < 0.001$ ; correlations  $\geq |0.05|$  are significant at  $p < 0.01$ ; correlations  $\geq |0.04|$  are significant at  $p < 0.05$ .

**Table 2: Impacts of firms' CSR strategy on analyst coverage, analyst recommendation, and Tobin's Q**

	M1: Adjusted Analyst Coverage			M2: Analyst Recommendation			M3: Tobin's Q		
	<i>Coef.</i>	<i>SE</i>		<i>Coef.</i>	<i>SE</i>		<i>Coef.</i>	<i>SE</i>	
Scope conformity	0.073	0.006	***	--	--		--	--	
Emphasis differentiation	--	--		0.036	0.012	**	0.172	0.018	***
Adjusted Analyst Coverage	--	--		0.249	0.047	***	0.113	0.023	***
SOE	-0.008	0.012		0.016	0.029		-0.281	0.049	***
Earnings pressure	-0.048	0.012	***	-0.159	0.028	***	-0.252	0.047	***
TMT equity holding	-0.023	0.093		0.059	0.220		-0.469	0.373	
Socially contested industries	-0.039	0.044		-0.180	0.099	†	-1.082	0.152	***
CEO power	0.003	0.011		0.060	0.027	*	0.059	0.046	
CEO returnee	-0.005	0.017		0.022	0.041		-0.083	0.071	
CEO party member	0.027	0.024		-0.059	0.033	†	-0.073	0.056	
CEO MBA degree	-0.032	0.021		0.011	0.049		0.029	0.084	
Pct. independent directors	0.262	0.125	*	0.214	0.293		0.173	0.498	
Ownership concentration	-0.294	0.267		-0.206	0.190		0.131	0.325	
Financial leverage	0.078	0.132		0.062	0.094		-0.372	0.161	*
Visibility	-0.304	0.353		-0.238	0.258		0.263	0.428	
List age	-0.057	0.011	***	0.040	0.006	***	-0.198	0.011	***
Firm size	0.111	0.033	***	0.042	0.023	†	-0.155	0.040	***
Firm ROA	2.563	0.308	***	0.953	0.221	***	3.364	0.379	***
Share price	0.002	0.002		0.005	0.001	***	0.036	0.002	***
Overall level of CSR	0.002	0.001	*	-0.001	0.001		-0.002	0.001	*
High-status houses coverage				0.096	0.041	*	0.249	0.062	***
Constant	2.71	0.555	***	2.528	0.388	***	6.407	0.663	***
No. of Observations	3230			3203			3224		
Adjusted R-Square	0.67			0.45			0.79		

Note: \*\*\*  $p < 0.001$ ; \*\*  $p < 0.01$ ; \*  $p < 0.05$ ; †  $p < 0.1$

**Table 3: Impacts of firms' CSR strategy on analyst coverage, analyst recommendation, and Tobin's Q**

	M4: Adjusted Analyst Coverage			M5: Adjusted Analyst Coverage			M6: Analyst Recommendation			M7: Analyst Recommendation			M8: Tobin's Q		M9: Tobin's Q			
	Coef.	SE		Coef.	SE		Coef.	SE		Coef.	SE		Coef.	SE	Coef.	SE		
Scope conformity	0.059	0.00	***	0.018	0.005	***	--	--		--	--		--	--	--	--		
Emphasis differentiation	--	--		--	--		0.034	0.020	†	0.080	0.014	***	0.168	0.032	***	0.314	0.023	***
Scope conformity × SOE	0.021	0.007	**	--	--		--	--		--	--		--	--	--	--		
Scope conformity × Visibility	--	--		0.060	0.029	*	--	--		--	--		--	--	--	--		
Emphasis differentiation × high-status houses coverage	--	--		--	--		0.067	0.039	†	--	--		0.135	0.064	*	--	--	
Emphasis differentiation × Earnings pressure	--	--		--	--		--	--		-0.062	0.026	*	--	--		-0.146	0.045	***
Adjusted analyst coverage	--	--		--	--		0.123	0.014	***	0.249	0.047	***	0.041	0.022	†	0.112	0.072	
SOE	-0.011	0.010		0.010	0.041		0.030	0.029		0.019	0.029		0.045	0.042		-0.271	0.049	***
Earnings pressure	-0.164	0.039	***	-0.299	0.034	***	-0.160	0.028	***	-0.160	0.028	***	-0.101	0.046	*	-0.260	0.047	***
TMT equity holding	0.011	0.307		-0.042	0.309		0.064	0.220		0.093	0.220		-0.426	0.354		-0.401	0.373	
Socially contested industries	0.113	0.072		0.148	0.070		-0.141	0.101		-0.116	0.050	*	-1.292	0.163	***	-1.057	0.385	***
CEO power	0.012	0.038		0.009	0.037		0.056	0.027	*	0.060	0.027	*	-0.004	0.044		0.062	0.046	
CEO returnee	-0.048	0.058		-0.050	0.056		0.030	0.041		0.022	0.041		-0.049	0.067		-0.082	0.070	
CEO party member	0.018	0.046		0.017	0.043		-0.067	0.033	*	-0.054	0.033	†	-0.083	0.053		-0.067	0.055	
CEO MBA degree	-0.115	0.069	†	-0.092	0.067	†	0.015	0.049		0.011	0.049		-0.021	0.080		0.027	0.084	
Pct. independent directors	-0.422	0.410		-0.310	0.390		0.212	0.292		0.270	0.293		-0.043	0.471		0.296	0.499	
Ownership concentration	-0.329	0.267		-0.234	0.254		-0.180	0.190		-0.227	0.193		0.772	0.299	**	0.173	0.324	
Financial leverage	-0.373	0.132	**	-0.105	0.116	**	0.057	0.094		0.058	0.094		-0.442	0.153	**	-0.390	0.161	*
Visibility	-0.267	0.354		-0.596	0.331		-0.246	0.258		-0.250	0.258		0.121	0.405		0.234	0.427	
List age	-0.056	0.011	***	-0.057	0.011	***	0.041	0.007	***	0.043	0.007	***	-0.021	0.010	*	-0.092	0.011	***
Firm size	0.112	0.033	***	0.110	0.033	***	0.041	0.024	†	0.042	0.023	†	-0.278	0.036	***	-0.153	0.040	***
Firm ROA	2.577	0.309	***	2.552	0.310	***	0.916	0.221	***	0.947	0.222	***	2.265	0.364	***	3.325	0.378	***
Share price	0.001	0.001		0.001	0.002		0.006	0.001	***	0.004	0.001	***	0.047	0.002	***	0.036	0.002	***
Overall level of CSR	0.001	0.001		0.002	0.001	**	-0.001	0.001		-0.002	0.001	*	-0.005	0.001	***	-0.003	0.001	***
High-status houses coverage							0.097	0.041	*	0.099	0.041	*	0.131	0.066	*	0.248	0.062	***
Constant	2.778	0.556	***	2.718	0.555	***	2.447	0.390	***	2.460	0.389	***	4.434	0.635	***	6.216	0.665	***
No. of Observations	3230			3230			3203			3203			3224		3224			
Adjusted R-Square	0.74			0.73			0.37			0.38			0.79		0.79			

Note: \*\*\*  $p < 0.001$ ; \*\*  $p < 0.01$ ; \*  $p < 0.05$ ; †  $p < 0.1$ .

**Table 4: Two-stage least squares regressions with the instruments of regional social organizations**

	First stage regression		Second stage regression		
	(1) Scope conformity	(2) Emphasis differentiation	(3) Adjusted analyst coverage	(4) Analyst recommendation	(5) Tobin's Q
Social organizations	0.122* (0.051)	0.972*** (0.148)	--	--	--
Scope conformity (Instrumented)	--	--	1.289 ** (0.499)	--	--
Emphasis differentiation (Instrumented)	--	--	--	0.266*** (0.047)	1.021*** (0.232)
Control variables	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Number of observations	2725	2725	2719	2719	2719

Note: \*\*\*  $p < 0.001$ ; \*\*  $p < 0.01$ ; \*  $p < 0.05$ ; †  $p < 0.1$ . Standard errors are in parentheses.

**Table 5: First differences regressions predicting the effects of CSR strategies**

	Δ Adjusted analyst coverage			Δ Analyst recommendation			Δ Tobin's Q		
	Coef.	SE		Coef.	SE		Coef.	SE	
Δ Scope conformity	0.073	0.009	***	--	--	--	--		
Δ Emphasis differentiation	--	--		0.036	0.013	**	0.283	0.019	***
Control variables	Yes			Yes			Yes		
No. of Observations	2057			2037			2050		
R-squared	0.38			0.25			0.38		

Note: \*\*\*  $p < 0.001$ ; \*\*  $p < 0.01$ ; \*  $p < 0.05$ ; †  $p < 0.1$ . All models include year and firm fixed effects, and control variables as in Table 3 (which are not shown for brevity).

**Table 6: Dose-response models predicting the average treatment effects of CSR strategies**

	Adjusted analyst Coverage			Analyst recommendation			Tobin's Q		
	Coef.	SE		Coef.	SE		Coef.	SE	
Continuous treatment variable									
<i>Scope conformity</i>	0.886	0.111	***	--	--	--	--		
<i>Emphasis differentiation</i>	--	--		0.061	0.029	*	0.565	0.079	***
Control variables	Yes			Yes			Yes		
No. of Observations	3230			3203			3224		
R-squared	0.39			0.13			0.60		

Note: \*\*\*  $p < 0.001$ ; \*\*  $p < 0.01$ ; \*  $p < 0.05$ ; †  $p < 0.1$ . All models include year and firm fixed effects, and control variables as in Table 3 (which are not shown for brevity).

**Table 7: Models estimating the effects of scope conformity and emphasis differentiation on analyst coverage, recommendation, and Tobin's Q**

	M1: Adjusted Analyst Coverage		M2: Analyst Recommendation		M3: Tobin's Q	
	<i>Coef.</i>	<i>SE</i>	<i>Coef.</i>	<i>SE</i>	<i>Coef.</i>	<i>SE</i>
	Scope conformity	0.035	0.015 *	-0.021	0.036	-0.113
Emphasis differentiation	0.021	0.014	0.071	0.033 *	0.484	0.054 ***
Adjusted Analyst Coverage	--	--	0.142	0.019 ***	0.164	0.030 ***
SOE	-0.012	0.017	0.006	0.035	-0.138	0.065 *
Earnings pressure	-0.049	0.014 ***	-0.139	0.034 ***	-0.056	0.054
TMT equity holding	0.085	0.109	-0.221	0.267	-0.524	0.415
Socially contested industries	-0.011	0.069	-0.227	0.167	-0.974	0.263 ***
CEO power	-0.007	0.012	0.065	0.031 *	0.015	0.049
CEO returnee	-0.020	0.025	0.025	0.060	0.028	0.095
CEO party member	0.011	0.018	-0.073	0.044 †	-0.028	0.069
CEO MBA degree	-0.051	0.026 †	-0.004	0.064	0.019	0.101
Pct. independent directors	-0.158	0.165	0.598	0.403	-0.176	0.627
Ownership concentration	-0.134	0.110	-0.189	0.277	-0.206	0.418
Financial leverage	0.100	0.053 †	0.024	0.128	-0.398	0.202 *
Visibility	-0.010	0.154	-0.877	0.398 *	0.611	0.585
List age	-0.029	0.013 ***	0.270	0.051 ***	-0.092	0.019 ***
Firm size	0.027	0.013 *	0.060	0.031 †	-0.185	0.051 ***
Firm ROA	0.529	0.121 ***	0.078	0.297	1.770	0.465 ***
Share price	0.003	0.001 ***	0.008	0.002 ***	0.038	0.003 ***
Overall level of CSR	0.001	0.001	0.000	0.001	-0.002	0.001 †
High-status houses coverage			0.078	0.055	0.134	0.087
Constant	0.423	0.150 **	2.468	0.377 ***	3.369	0.575 ***
No. of Observations	3230		3203		3224	
Adjusted R-Square	0.66		0.54		0.79	

Note: \*\*\*  $p < 0.001$ ; \*\*  $p < 0.01$ ; \*  $p < 0.05$ ; †  $p < 0.1$ . Standard errors are in parentheses.

### Biographical Sketches

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