



Ownership Influence and CSR Disclosure in China

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Abstract

Purpose – This study examines the relationship between ownership type and the likelihood of publication of a corporate social responsibility (CSR) report.

Design/methodology/approach – Drawing on stakeholder salience theory, the Probit model is employed for a sample of 1,839 Chinese listed firms to study how different types of owners influence firm CSR engagement.

Findings – The analysis reveals that the Chinese stock exchanges exert a positive influence on the likelihood of a firm producing a CSR report, an effect which is more significant in state owned enterprises (SOEs). Foreign investors lead to a greater likelihood of publication of a CSR report, though this effect is weaker in SOEs. In contrast, the holdings of state and domestic institutional investors are broadly neutral.

Practical implications – The study helps corporate managers to recognise how particular types of shareholders will value their efforts regarding CSR activities and disclosure, and also assists policy makers in improving the level of CSR disclosure through the development of new policy.

Social implications – Apposite CSR disclosure enhances trust and facilitates the shared values on which to build a more cohesive society.

Originality/value – The novelty of this study is that it addresses the effect of institutional investors on Chinese firm CSR engagement and thus provides an important insight for firms, investors, and other stakeholders into the interplay of portfolio investment and CSR.

Key words: CSR, foreign investors, institutional investors, SOEs, stakeholder salience theory, stock exchange

Paper type: Research paper

Ownership Influence and CSR Disclosure in China

1. INTRODUCTION

Corporate social responsibility (CSR) disclosure may be influenced by the motives and values of an organisation's shareholders. However, the precise effect of shareholders on CSR is far from clear (Neubaum & Zahra, 2006), with existing studies focusing on the examination of the impact of institutional investors in a US or European setting (i.e. Cox *et al.*, 2004; Johnson & Greening, 1999; Neubaum & Zahra, 2006; Dam & Scholtens, 2012). Somewhat less attention is focused on emerging markets regarding how various types of shareholders relate to CSR disclosure (Khan *et al.*, 2013).

In a Chinese setting, existing CSR studies have investigated the impact of companies being state-owned or otherwise on the likelihood of CSR disclosure (e.g. Li *et al.*, 2013 & 2016; Marquis & Qian, 2014). Despite the greatly increased prevalence of institutional investor ownership in China, its impact is still unexplored. Given the very different economic setting, it is uncertain whether the relationship between CSR disclosure and institutional ownership documented for developed nations will apply readily to Chinese companies. This paper thus seeks to fill the research gap by examining the relationship between Chinese firm CSR engagement and ownership structure, by determining the impact not only of state ownership, but also the impact of institutional investors and foreign investors.

Drawing on stakeholder salience theory, we argue that the more stakeholder attributes (power, legitimacy and urgency) a stakeholder embodies, the greater its influence will be on a firm's decision to issue a CSR report. We find that the Chinese stock exchanges exert a positive influence on the likelihood of a firm producing a CSR report, and such influence is more significant in SOEs. In contrast, the holdings of state and domestic institutional investors are broadly neutral. Foreign investors exert a positive impact on the likelihood of

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3 issuing a CSR report, though this relationship is moderated by the presence of state
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5 ownership.
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8 This paper makes several contributions. First, it adds to the emerging literature on CSR
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10 practices by providing empirical evidence on the CSR-shareholder relationship in China,
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12 while much of the existing literature is limited to examining the relation between CSR and
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14 financial performance or corporate governance. Second, while prior studies tend to focus
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16 exclusively on state ownership, this is the first study of the effect of different institutional
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18 investors on CSR disclosure and corporate governance in China. We account for investment
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20 horizon heterogeneity across institutional investors due to differences in their scale, role and
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22 societal position. Understanding the impact of shareholder type on CSR disclosure should
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24 offer an important insight for firms, investors, and other stakeholders into the interplay of
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26 portfolio investment and CSR (Dam & Scholtens, 2012). Our results may be used to help
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28 promote the CSR agenda and increase the level of CSR disclosure in Chinese listed firms.
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30 Finally, our study extends the transition economy CSR literature by examining ownership
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32 type.
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36 The remainder of our paper is organised as follows. Section 2 summarises the salient
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38 literature on CSR in China. Section 3 discusses the use of stakeholder salience theory as the
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40 theoretical framework for our study, and then proceeds to formulate the hypotheses. Section 4
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42 outlines our research design. The results are then presented in Section 5, and discussed
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44 further in Section 6. Section 7 sets out our conclusions and the implications and limitations of
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46 the research.
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49 50 51 52 **2. CSR DEVELOPMENT IN CHINA**

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54 It was not until 2006 that CSR was explicitly recognised in Company Law in China. In that
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56 year, the Shenzhen Stock Exchange (SZSE) issued the *Guide on the Social Responsibility of*
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3 *Listed Companies*, followed by a *Circular* published by the Shanghai Stock Exchange (SSE)
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5 in 2008. In the same year, the State-owned Assets Supervision and Administration
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7 Commission issued the *CSR Guideline for Central Government Controlled SOEs* requiring
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9 them to publish CSR reports within three years of the issued guideline. Meanwhile, the
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11 Ministry of Commerce released the *Guide on Implementation of CSR* in 2008 to promote
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13 social responsibility in foreign-funded enterprises. Despite government endorsement of CSR,
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15 implementation of the guidelines was far from effective due to their lack of clarity (Hu &
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17 Karbhari, 2015).
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21 Existing CSR studies for China are mainly concerned with examining the level and
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23 determinants of the CSR disclosure decision, including the influence of political connection
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25 (Marquis & Qian, 2014) and financial performance (Li *et al.*, 2013), and the coverage of the
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27 CSR report. Few studies directly examine the relationship between ownership type and CSR
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29 disclosure exclusively for state ownership. Lau *et al.* (2016) and Li *et al.* (2016) find that
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31 CSR disclosure is positively associated with state ownership, while no such relationship is
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33 found by Li *et al.* (2013) and Marquis and Qian (2014). These studies neither examine the
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35 effect of foreign or institutional investors on Chinese firm CSR engagement, nor do they
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37 address the impact of CSR initiatives by government agencies (such as the two stock
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39 exchanges) on CSR disclosure, the sole exception being Marquis and Qian (2014). Our study,
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41 however, differs from Marquis and Qian in two ways. First, we examine the effects of a
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43 variety of ownership types on firm CSR disclosure by employing stakeholder salience theory
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45 in contrast to the political legitimacy perspective employed by the authors. Second, we study
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47 how the effect of CSR initiatives by the two Chinese stock exchanges on the CSR reporting
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49 decision differs between SOEs and non-SOEs.
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3. STAKEHOLDER SALIENCE THEORY AND HYPOTHESES DEVELOPMENT

Freeman (1984, p.46) defines stakeholders as “any group or individual who can affect or is affected by the achievement of the organisation’s objectives”, but fails to address the prioritisation of stakeholder claims. To identify stakeholder relevance, Mitchell *et al.* (1997) propose the stakeholder salience theory. They define salience as “the degree to which managers give priority to competing stakeholder claims” (p.854), which is positively related to the stakeholder’s *power* to influence the firm, the *legitimacy* of the stakeholder’s relationship with the firm, and the *urgency* of the stakeholder’s claim on the firm. The more attributes managers assess as strong, the higher the salience of a particular stakeholder. The stakeholder salience model is dynamic because the attributes can change for any particular entity or stakeholder-manager relationship and are not objective as they are based on management perception. Further, the stakeholders may or may not be aware that they possess a particular attribute or may not be willing or wish to act on that attribute. Drawing on stakeholder salience theory, we argue that the more powerful and vocal the shareholders, the greater their influence on a firm’s decision to produce a CSR report.

3.1. State ownership

Nearly 60% of Chinese listed firms are state-owned enterprises (SOEs) (Li *et al.*, 2013), giving state owners important voting rights on key corporate decisions (Chen *et al.*, 2009) and providing them with greater power, legitimacy and influence over firm objectives, including firm support for CSR initiatives. The inherent political tie enables SOEs to enjoy financial and regulatory favour (Wu *et al.*, 2012), but also pressures them to pursue political and strategic goals in addition to profit maximising.

Existing studies on the effect of state holdings on the CSR reporting decision provide little empirical evidence in a developed nation setting (Van der Zee, 2012; Dam & Scholtens,

2012). Research in a Chinese corporate setting has proved inconclusive. Some studies find that CSR disclosure is positively related to state ownership (Lau *et al.*, 2016; Li *et al.*, 2016). However, Li *et al.* (2013) and Marquis and Qian (2014) find no such relationship. The government, as the paramount shareholder, provides critical resources and legitimacy to Chinese SOEs which are important to their continued viability and success. Stakeholder salience theory suggests that large state holdings can wield influence over firm managers' decisions. Therefore, SOE managers attend to the demands of powerful state owners and prioritise their social interests more than other firms. We thus hypothesize:

Hypothesis 1: SOEs are more likely to issue CSR reports than non-SOEs.

Li *et al.* (2013) argue that SOEs and non-SOEs have different priorities in stakeholder management. Non-SOEs focus on profit maximisation while SOEs tend to have wider strategic and political objectives (Wu *et al.*, 2016), causing them to engage in and report upon socially responsible activities as a result of pressure from their government owners. In addition, the *CSR Guide* and *Circular* issued by the two stock exchanges place a demand of legitimacy and urgency on SOEs disclosing CSR information. The combined pressure from the state owner and the two stock exchanges strengthens the imperative of their CSR demands to SOE executives. Consistent with stakeholder salience theory, when two or more stakeholders join forces to communicate their respective positions on CSR issues, they are likely to increase their impact. We argue that SOE managers are more likely to respond to CSR disclosure demands from state owners and the two stock exchanges in order to maintain their legitimacy. We thus hypothesize:

Hypothesis 2: Where required to publish CSR reports by the two stock exchanges, SOEs are more likely to issue CSR reports than non-SOEs.

3.2. Institutional investors

Institutional investors have come under increasing pressure to account for social performance in their portfolios (Cox *et al.*, 2004) in the hope of differentiating their services and to demonstrate their reliability and responsibility (Siegel & Vitaliano, 2007). However, institutional investors differ in their orientation towards the firm's social investments. Blair (1995) finds that institutional owner investment horizons influence their behaviour and incentives, arising from their different mandates and divergent stakeholder expectations. Stakeholder salience theory suggests that the CSR demands of short-term institutional investors may not be viewed as paramount compared to those of long-term institutional investors due to their limited influence on firm management (Neubaum & Zahra, 2006). We segment institutional ownership by investment horizon to examine whether firm decisions to issue a CSR report are related to short-term investments, including domestic mutual funds and insurance companies, or longer-term investments, the National Social Security Fund (NSSF), and the qualified foreign institutional investors (QFIIs).

Short-term institutional owners

Mutual funds in China are subject to the scrutiny of regulators, investors and the public, are required to make quarterly portfolio disclosures, and must follow mandated investment styles (National People's Congress, 2003), leading to an extremely high turnover rate. Such short-termism is inconsistent with CSR objectives which are inherently long-term (Graves & Waddock, 1994). It was not until 2007 that Chinese insurers were allowed to invest up to 10% of their total assets in A-shares (stock exchange listed) directly and an additional 10% in shares indirectly through mutual funds (Aggarwal *et al.*, 2015). To seek higher investment yields, they engaged in significant short term stock trading (Huang *et al.*, 2016).

Prior studies evidence mixed results on the effect of short-term institutional ownership on CSR performance. Neubaum and Zahra (2006) find such owners are less likely to focus on

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3 firm social performance, though Johnson and Greening (1999) and Cox *et al.* (2004) find no
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5 evidence of this. To date, no studies have examined how investment by mutual funds and
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7 insurance companies affects firm CSR disclosure in China. Given their transient focus,
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9 stakeholder salience theory suggests that the CSR expectations of short-term institutional
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11 investors will not receive as much management attention as those of long-term institutions.
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13 Because the former are solely focused on a financial investment relationship with an investee,
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15 CSR activity may be merely seen as a costly activity. We therefore hypothesize:

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18 *Hypothesis 3: The degree of short-term institutional stock ownership (e.g. mutual*
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20 *funds and insurance companies) is negatively associated with the probability of firms*
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22 *issuing CSR reports.*
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25 26 27 *Long-term institutional investors*

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29 Stakeholder salience theory suggests that a long-term investment horizon enables long-term
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31 institutional investors to establish effective and sustainable relationships with investee firms,
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33 thus increasing their salience to firm managers and gaining manager support for CSR
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35 disclosure (Neubaum & Zahra, 2006). Long-term institutional owners are more likely to
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37 invest in firms with good social performance due to its potentially favourable impact on long-
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39 run risk and return (Graves & Waddock, 1994).
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43 The Chinese public pension fund, the NSSF, established in 2000, began investing in the
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45 stock markets in 2003. Since then the NSSF has become the largest institutional investor in
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47 China (Leckie & Pan, 2007). The NSSF supports investment in long-term activities,
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49 consistent with a commitment to CSR. Drawing on stakeholder salience theory, the size and
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51 enduring focus of long-term institutional holdings can change firm management priorities and
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53 decisions, lending such investors more authority. Despite the lack of empirical research on
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55 the NSSF and CSR in China, the broad literature consensus suggests that such pension funds
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3 positively promote firm CSR disclosure (Johnson & Greening, 1999; Neubaum & Zahra,
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5 2006). Thus, we state the following hypothesis:
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8 *Hypothesis 4: The degree of NSSF ownership is positively associated with the*
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10 *likelihood of a firm issuing a CSR report.*
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12 13 14 **3.3. QFIIs**

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16 QFIIs may empower firms to promote CSR disclosure for the following reasons. First, QFIIs
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18 are subject to a strict approval process to vet new entrants (Huang & Zhu, 2015), confirming
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20 that they maintain long-term investment philosophies (CSRC, 2013). Stakeholder salience
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22 theory suggests that executives will pay more attention to the preferences of long-term
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24 institutional owners. Second, despite QFII holdings accounting for only 1% of Chinese stocks,
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26 their influence is important as they are more inclined to 'exercise their voice' rather than exit
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28 (Huang & Zhu, 2015), consistent with stakeholder salience theory which argues that vocal
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30 stakeholders are likely to have a greater influence on firm strategy. In addition, the increasing
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32 significance of foreign financing of Chinese stocks highlights the importance of QFII
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34 demands in the minds of investee firm managers, making a CSR disclosure request more
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36 compelling. We therefore state the following hypothesis:
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41 *Hypothesis 5: The degree of QFII ownership is positively associated with the*
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43 *likelihood of a firm issuing a CSR report.*
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47 Wu *et al.* (2016) find that in weaker legal environments, institutional investors may have
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49 fewer channels to effectively monitor firm activities, and this may affect the process of
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51 stakeholder prioritisation. Given the unique institutional features and weak legal environment
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53 in China (Fan *et al.*, 2013), we propose that the influence of foreign ownership on CSR
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55 disclosure is moderated by the presence of state ownership as the latter reduces reliance on
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external capital market funding, and may weaken foreign ownership pressure to engage in CSR activities. Senior managers must balance competing expectations, determining which stakeholders are salient and therefore should receive management attention (Neubaum & Zahra, 2006). We argue that foreign ownership demand for CSR disclosure may be moderated by state co-owners who enjoy greater power, legitimacy and urgency over listed firms. Thus, we propose the following hypothesis:

Hypothesis 6: There is a weaker association between the degree of QFII ownership and the likelihood of a firm issuing a CSR reports in SOEs than is the case in non-SOEs.

4. RESEARCH DESIGN

Our sample consists of all publicly traded Chinese firms listed on the SSE and SZSE for the year 2010, the first and only year that CSR ratings were disclosed for all Chinese firms by the Chinese Academy of Social Sciences Corporate Social Responsibility Research Centre (CASS-CSR). We obtain the CSR data from the Whitepaper on Chinese firms' CSR by the CASS-CSR (2011), the financial and ownership data from the China Stock Market and Accounting Research database, and the list of firms required to issue CSR reports from the Shanghai and Shenzhen Stock Exchanges, respectively. After removing firms with missing data, financial firms, and those in special treatment, our final sample consists of 1,839 firms, of which 459 published CSR reports.

Table 1 reports the number of firms issuing CSR reports by industry class where more than half of the CSR reports issued were by manufacturing firms. The mean percentage of published CSR reports across all industries is 25%, with the highest percentage of 49% for the mining industry.

[Insert Table 1 here]

4.1. The dependent variable – CSR report

CSR report is a dichotomous variable that equals 1 if the firm issued a CSR report in 2010, and 0 otherwise, according to the CASS-CSR data.

4.2. Shareholder variables

Shareholder variables include state control, institutional ownership, and foreign ownership.

State control is a dummy variable taking the value of 1 if the firm is ultimately controlled by the state, and 0 otherwise. To ensure this variable reflects the nature of the ultimate controller of a firm, we measure control consistent with La Porta *et al.* (1999). *Institutional ownership* has three types: (i) *mutual fund ownership* – the proportion of shares owned by Chinese mutual funds; (ii) *insurance ownership* – the proportion of shares owned by Chinese insurance companies; and (iii) *NSSF ownership* – the proportion of shares owned by the NSSF. Finally, *foreign ownership* is the proportion of shares owned by QFIIs.

4.3. Control variables

We include control variables to account for industry and firm characteristics. We compute the logarithm of total assets to gauge firm size and employ the return on assets (ROA) to measure firm financial performance, both of which have a positive effect on CSR disclosure (Orlitzky, 2001; Li *et al.*, 2013). Firm leverage, measured as total liabilities to total assets, is used to gauge the influence of creditor power on CSR disclosure (Roberts, 1992). Furthermore, we employ the Zeno index (Z-index) to gauge ownership concentration, consistent with Liu *et al.* (2014), and calculated as the number of shares owned by the largest shareholder deflated by the number of shares owned by the second largest shareholder. Sixteen industry dummies are created as Dam and Scholtens (2012) find industry has a significant influence on CSR. We use CSRC industry codes, with *diversified industries* as the reference category. We use a

stock exchange dummy to distinguish the firms listed in the SSE from those in the SZSE, with listing on the SZSE as the reference category. Finally, we include a required discloser dummy variable to equal 1 if a firm is required by either the SSE or the SZSE to issue a CSR report, and 0 otherwise.¹

As the dependent variable is a binary variable, we employ the Probit model to explain the likelihood of a firm issuing a CSR report. The specification for the baseline model is given in equation (1).

$$CSRRP_i = \beta_0 + \beta_1 SIZE_i + \beta_2 ROA_i + \beta_3 LEVERAGE_i + \beta_4 OWNCON_i + \beta_5 SSE_i + \beta_6 SE_i + \beta_7 SOE_i + \beta_8 MF_i + \beta_9 INSUR_i + \beta_{10} NSSF_i + \beta_{11} FOREIGN_i + \varepsilon_i \quad (1)$$

where *CSRRP* is the dichotomous variable measuring the presence of a CSR report for firm *i*, *SIZE* is the logarithm of total assets, *ROA* is return on assets, *LEVERAGE* is measured as total liabilities deflated by total assets, *OWNCON* measures ownership concentration, *SSE* is the Shanghai Stock Exchange dummy, *SE* is a dummy variable for stock exchange required discloser, *SOE* is the state owned enterprise dummy, *MF* is the percentage of shares owned by mutual funds, *INSUR* is the percentage of shares owned by insurance companies, *NSSF* is the percentage of shares owned by the NSSF, *FOREIGN* is the percentage of shares owned by QFIIs, β_0 is the intercept, and ε_i is the model error.

The specification for the full model including the interaction terms is given in equation (2).

$$CSRRP_i = \beta_0 + \beta_1 SIZE_i + \beta_2 ROA_i + \beta_3 LEVERAGE_i + \beta_4 OWNCON_i + \beta_5 SSE_i + \beta_6 SE_i + \beta_7 SOE_i + \beta_8 MF_i + \beta_9 INSUR_i + \beta_{10} NSSF_i + \beta_{11} FOREIGN_i + \beta_{12} SOE_i \times SE_i + \beta_{13} SOE_i \times FOREIGN_i + \varepsilon_i \quad (2)$$

where the interaction term *SOE*×*SE* tests hypothesis 2 and the interaction term *SOE*×*FOREIGN* tests hypothesis 6.

5. RESULTS

5.1. Descriptive analysis

Table 2 reports the descriptive statistics and correlation matrix for our model variables. In total, 25% of firms issued a CSR report and 50% are controlled by the state. Mutual fund investors are the biggest institutional investors, on average holding 3.32% of the shares outstanding.

[Insert Table 2 here]

5.2. The CSR models

Table 3 presents the results of seven specifications of the model explaining the likelihood of a firm issuing a CSR report. Model 1 presents results for the control variables. Firm size and financial performance are positively related to the likelihood of a firm publishing a CSR report, consistent with the existing literature (Waddock & Graves, 1997). Large firms are more likely to issue CSR reports because of their greater public visibility. Profitable firms enjoy more organisational slack, thus are more likely to invest in CSR activities. Higher ownership concentration reduces the likelihood of a firm publishing a CSR report, consistent with the existing literature (Roberts, 1992). Firms required by the two stock exchanges to publish CSR reports are more likely to provide such a report. However, none of the industry dummies are significant, suggesting that industry membership does not impact upon the likelihood of a firm issuing a CSR report.

[Insert Table 3 here]

Models 2 to 7 test the hypotheses. Hypothesis 1 states that SOEs are more likely to issue CSR reports than non-SOEs. In Model 2, the coefficient of *state control* is positive but insignificant and therefore hypothesis 1 is not supported. In Model 3, the interaction term

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3 between *state control* and *stock exchange* is positive and significant at the 5% level,
4 supporting hypothesis 2, which states that where required to publish CSR reports by the two
5 stock exchanges, SOEs are more likely to issue CSR reports than non-SOEs.
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9 Hypothesis 3 states that the degree of short-term institutional stock ownership is negatively
10 associated with the probability of firms issuing CSR reports. In Model 4, the coefficient for
11 *mutual fund ownership* is positive but insignificant, and the coefficient for *insurance*
12 *ownership* is negative and significant at the 10% level, offering weak support for hypothesis
13 3. Hypothesis 4 states that the extent of NSSF ownership is positively associated with the
14 presence of a CSR report. The coefficient of NSSF is positive but insignificant, and thus
15 hypothesis 4 is not supported.
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25 Hypothesis 5 states that the degree of QFII (foreign) ownership is positively associated with
26 the likelihood of a firm issuing a CSR report. In Model 5, the coefficient for *foreign*
27 *ownership* is positive and significant at the 10% level, offering weak support for hypothesis 5.
28 Hypothesis 6 states that there is a weaker association between the degree of QFII ownership
29 and the presence of a CSR report in SOEs than is the case in non-SOEs. In Model 6, the
30 coefficient of the interaction term between *foreign ownership* and *state control* is negative
31 and significant at the 5% level, thereby supporting hypothesis 6. Model 7 includes all
32 shareholder variables and the results are consistent with those of the reduced form models.²
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43 Two tests are conducted to check the robustness of the results. First, for all models, we
44 replace the Z-index with the ownership percentage of the largest shareholder to measure
45 ownership concentration. Second, in Models 5 and 6, we replace shares by foreign investors
46 with a binary variable measuring whether or not a firm has foreign investors. The unreported
47 results suggest that the findings regarding ownership concentration and foreign investment
48 are robust.
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6. DISCUSSION

6.1. *The effect of the state and the stock exchanges on CSR disclosure*

Our results show that firms under state control are not more likely to publish CSR reports than privately controlled firms, consistent with Marquis and Qian (2014) and Dam and Scholtens (2012). However, SOEs are more likely to issue CSR reports than non-SOEs where required to publish CSR reports by the two stock exchanges. These findings can be explained by stakeholder salience theory. First, although the Chinese state is clearly a powerful and legitimate stakeholder of the firms in which it has controlling shares, and promoting CSR is one of its social objectives, its demand for managers to publish CSR reports lacks urgency. Mitchell *et al.* (1997) argue that for stakeholders to achieve salience to firm managers, they must have either power to enforce their will or their claim should be perceived as urgent. Our results contrast with the study by Lau *et al.* (2016) who report a positive relationship, though this may be attributed to their use of the percentage of shares owned by the state as the measure of state control.

Second, the stock exchanges strengthen the salience of the CSR demand of state owners. Mitchell *et al.* (1997) argue that dominant stakeholders (e.g. state owners) with power and legitimacy may become salient if their legitimate stake becomes urgent, and therefore earn the manager's immediate priority. When the specific requirement from the stock exchanges for a CSR report is absent, managers appear not to treat the state owner's demand for CSR reports as their top priority. However, when a firm is required by the stock exchanges to publish a CSR report, the state owner's demand suddenly becomes urgent; thus, the managers of these firms are more likely to comply than is the case for privately controlled firms.

6.2. *The effect of institutional investors on CSR disclosure*

Our results show that short-term institutional investors have no impact on the likelihood of firm CSR disclosure, consistent with findings for developed countries such as in Johnson and Greening (1999), Neubaum and Zahra (2006) and Cox *et al.* (2004). The short-termism of Chinese mutual funds and insurance companies discussed in the extant literature is inconsistent with the objectives of CSR, and thus funds earn less salience in their relationship with firm managers.

We find that NSSF ownership has no direct impact on the likelihood of CSR disclosure. This is somewhat surprising as numerous studies for other countries document a positive relation (Johnson & Greening, 1999; Cox *et al.* 2004; Oh *et al.* 2011). Our results may be explained by the potential corporate governance shortcomings of the NSSF itself. According to Leckie and Pan (2007), the NSSF has no clearly defined objectives and purposes, no external independent director on the board, and the extremely abbreviated annual reports are not audited. These factors could lead to its long-term strategic goals and priorities being compromised, and thus the NSSF may not in effect behave as a long-term investor.

6.3. *The effect of foreign investors on CSR disclosure*

We find that holdings by QFIIs (foreign investors) exert a positive impact on the probability of firm CSR disclosure, consistent with other emerging market empirical studies (e.g. Oh *et al.*, 2011; Khan *et al.*, 2013). The QFIIs are principally large institutional investors with long-term investment philosophies, meaning they enjoy greater salience in their relationship with executives; thus, their CSR demands are more likely to be met. Furthermore, the QFIIs are more vocal than domestic institutional investors, therefore intensifying their salience in the minds of managers (Huang & Zhu, 2015). In addition, we find that the positive relation between the QFIIs and the likelihood of CSR disclosure is weakened considerably across

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3 firms controlled by the state. This may be because SOEs have more available resources, and
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5 as a result pay less attention to minority shareholders such as QFIIs, thus reducing their
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7 salience to managers.
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9 10 11 12 **7. CONCLUSION**

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14 Drawing upon stakeholder salience theory, this paper examines the impact of different types
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16 of ownership on the likelihood of CSR disclosure in Chinese listed firms. The results
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18 highlight that where firms are required to disclose by the stock exchanges, the likelihood of
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20 issuing CSR reports is higher in SOEs than in non-SOEs. The results also suggest that foreign
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22 ownership has a positive impact on the presence of CSR reports, though this effect is weaker
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24 in SOEs.
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27 Our study also provides several unexpected yet insightful results. First, no significant
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29 relationship is found between state ownership and the likelihood of CSR disclosure,
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31 confirming existing studies (e.g. Dam & Scholtens, 2012). We argue that SOEs have the least
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33 need to use CSR disclosure to seek preferred status due to their inherent political legitimacy.
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35 Second, insurance company ownership exerts a negative impact on the likelihood of CSR
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37 disclosure, suggesting that they perceive producing a CSR report as merely a short-term cost.
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41 Our study has important implications for both policy and society. The results reveal that the
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43 issue of varying CSR guidelines by different authorities may have led to inconsistent
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45 disclosure practices across firms. To enhance the quantity and quality of CSR disclosure, the
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47 Chinese government should provide more detailed guidance in terms of required CSR report
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49 content and form (e.g. a standalone report). This should ensure CSR disclosure comparability,
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51 but more importantly, firm accountability to all stakeholders, thereby enhancing trust and
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53 facilitating the shared values on which to build a more cohesive society. Second, our results
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55 shed additional light on the positive effects of foreign ownership on the likelihood of CSR
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3 disclosure. Chinese policy-makers may consider allowing more QFIIs into the domestic
4 securities market to facilitate socially responsible investments. Third, Chinese firms should
5 provide greater CSR training to their managers, accountants and auditors.
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10 Our study also has some practical implications. First, our results confirm that different
11 owners may have divergent and even competing perspectives on CSR. Understanding this
12 should help corporate managers to recognise how particular types of shareholders will value
13 their efforts regarding CSR activities and disclosure; therefore improving corporate responses
14 to those shareholders through CSR goal congruence. Second, our study should provide some
15 guidance to help Chinese listed firms to direct their efforts more effectively by, for example,
16 disclosing more CSR information when attempting to attract QFIIs or long-term investors.
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21 Our results should nevertheless be interpreted with a degree of caution. First, the single
22 year dataset employed may somewhat restrict the generalisation of our findings. Second, this
23 study makes the simplifying assumption that CSR engagement and CSR disclosure are
24 synonymous. Third, our study examines the causal effects of ownership on the likelihood of
25 CSR disclosure, though CSR performance itself is not measured. Finally, while the study
26 examines how ownership impacts upon CSR disclosure, it may also be insightful to
27 understand how CSR disclosure is affected by other stakeholders, such as customers and the
28 accounting profession.
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NOTES:

¹ The two stock exchanges require that SZSE 100 Index component firms, SSE Corporate Governance Index firms, and SSE firms listed overseas must provide a CSR report.

² Two additional models examine the impact of managerial ownership on the likelihood of CSR disclosure where the percentage of shares owned by directors and senior managers is employed to measure managerial ownership. However, the unreported results are insignificant and do not alter the results for the other variables, indicating that managerial ownership has little impact on the CSR disclosure in China.

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Table 1: The proportion of firms publishing a CSR report by the CSRC industry classification

	Industry	No. of CSR report firms	No. of Non- CSR firms	Total number of firms	Per cent of CSR report firms (%)
1	Agriculture, forestry, livestock farming and fishery	7	28	35	20%
2	Mining	22	23	45	49%
3	Manufacturing	263	902	1165	23%
4	Electric power, gas and water production and supply	27	42	69	39%
5	Construction	11	28	39	28%
6	Wholesale and retail trade	24	80	104	23%
7	Transport, storage and postal service	32	40	72	44%
8	Accommodation and catering	1	8	9	11%
9	Information transmission, software and information technology services	17	70	87	20%
10	Real estate	32	80	112	29%
11	Leasing and commercial service	3	19	22	14%
12	Scientific research and technical service	1	8	9	11%
13	Water conservancy, environment and public facility management	4	4	8	50%
14	Resident service, repair and other services	1	6	7	14%
15	Health and social service	1	1	2	50%
16	Culture, sports and entertainment	1	10	11	9%
17	Diversified	12	31	43	28%
	Total	459	1380	1839	25%

Note: The labels *CSR report firms* and *Non-CSR report firms* correspond to the number of firms publishing a CSR report and those which do not, classified by the 2012 CSRC industry classification code. *Total number of firms* corresponds to the total number of firms in each industry class. *Percentage of CSR firms* is the *Number of CSR report firms* divided by the *Total number of firms* for each industry.

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Table 2: Descriptive statistics and correlations for the model variables

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1 <i>CSRRP</i>	0.25	0.43											
2 <i>SIZE</i>	21.78	1.24	0.45										
3 <i>ROA</i>	0.05	0.05	0.12	0.03									
4 <i>LEVERAGE</i>	0.43	0.22	0.16	0.49	-0.41								
5 <i>OWNCON</i>	15.39	31.93	0.02	0.15	-0.11	0.17							
6 <i>SSE</i>	0.42	0.49	0.19	0.34	-0.11	0.34	0.17						
7 <i>SE</i>	0.18	0.38	0.72	0.51	0.07	0.19	0.07	0.29					
8 <i>SOE</i>	0.50	0.50	0.20	0.39	-0.14	0.37	0.19	0.35	0.27				
9 <i>MF (%)</i>	3.32	4.23	0.09	0.02	0.23	-0.01	-0.16	0.00	0.07	-0.03			
10 <i>INSUR (%)</i>	0.40	1.11	0.03	0.10	0.02	0.04	-0.03	0.12	0.06	0.08	0.12		
11 <i>NSSF (%)</i>	0.35	0.88	0.01	0.03	0.11	-0.07	-0.10	0.00	-0.03	0.03	0.14	0.04	
12 <i>FOREIGN (%)</i>	0.11	0.43	0.08	0.07	0.08	0.05	-0.01	0.08	0.07	0.07	0.13	0.04	0.02

Note: N = 1,839. When the absolute value of a correlation coefficient is greater than or equal to 0.06, it is significant at the 1% level.

Table 3: Probit models of the likelihood of firm CSR report publication

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Control variables							
<i>SIZE</i>	0.289*** (0.050)	0.286*** (0.050)	0.284*** (0.050)	0.296*** (0.051)	0.297*** (0.051)	0.300*** (0.051)	0.298*** (0.051)
<i>ROA</i>	3.401*** (1.052)	3.447*** (1.057)	3.659*** (1.060)	3.257*** (1.100)	3.147*** (1.103)	3.006*** (1.104)	3.195*** (1.107)
<i>LEVERAGE</i>	-0.047 (0.268)	-0.064 (0.270)	-0.020 (0.272)	-0.098 (0.274)	-0.120 (0.275)	-0.152 (0.276)	-0.107 (0.277)
<i>OWNCON</i>	-0.003** (0.002)	-0.003** (0.002)	-0.003** (0.002)	-0.003** (0.002)	-0.003** (0.002)	-0.003** (0.002)	-0.003** (0.002)
<i>SSE</i>	-0.215*** (0.077)	-0.223** (0.099)	-0.208** (0.099)	-0.207** (0.099)	-0.218** (0.100)	-0.227** (0.100)	-0.213** (0.101)
<i>SE</i>	2.448*** (0.128)	2.445*** (0.125)	2.037*** (0.207)	2.454*** (0.126)	2.459*** (0.127)	2.459*** (0.127)	2.055*** (0.212)
Shareholder variables							
H1: <i>SOE</i>		0.046 (0.097)	-0.038 (0.103)	0.052 (0.098)	0.046 (0.098)	0.097 (0.101)	0.014 (0.108)
H2: <i>SOE</i> × <i>SE</i>			0.589** (0.248)				0.577** (0.252)
H3: <i>MF</i>				0.007 (0.010)	0.005 (0.011)	0.006 (0.011)	0.006 (0.011)
H3: <i>INSUR</i>				-0.100* (0.052)	-0.104** (0.052)	-0.100* (0.052)	-0.094* (0.052)
H4: <i>NSSF</i>				0.025 (0.045)	0.027 (0.046)	0.024 (0.046)	0.024 (0.046)
H5: <i>FOREIGN</i>					0.151* (0.091)	0.384*** (0.142)	0.374*** (0.139)
H6: <i>FOREIGN</i> × <i>SOE</i>						-0.394** (0.189)	-0.386** (0.189)
Intercept	-7.485*** (1.043)	-7.432*** (1.049)	-7.365*** (1.058)	-7.654*** (1.064)	-7.656*** (1.067)	-7.758*** (1.070)	-7.672*** (1.078)
Pseudo R ²	0.455	0.455	0.458	0.458	0.459	0.461	0.464

Note: Standard errors are shown in parentheses; industry dummies are included, but not reported here. * p < 0.1, ** p < 0.05, *** p < 0.01 level, two-tailed coefficient test (N = 1,839).