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Is managerial entrenchment always bad and corporate social responsibility always good? A cross-national examination of their combined influence on shareholder value

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Abstract

Research summary: Building on the comparative capitalism's notion of institutional complementarities, we examine whether firms' simultaneous adoption of managerial entrenchment provisions (MEPs) and corporate social responsibility (CSR) reinforces or undercuts one another in influencing firm financial performance. We propose that the financial impact of such configurations is contingent on the country's institutional setting. In Liberal Market Economies (LMEs), where firms face strong pressures to achieve short-term goals, the combination of MEPs and CSR creates shareholder value, particularly when firms engage in internally oriented CSR projects. Conversely, in Coordinated Market Economies (CMEs), where institutions already curb short-term demands, the combined adoption of MEPs and CSR initiatives destroys shareholder value,

particularly when this CSR is external. Overall, our study enhances understanding of the institutional complementarity between corporate governance and CSR.

Managerial summary: This study examines how two organizational practices, managerial entrenchment provisions (MEPs), and corporate social responsibility (CSR), combine between them to improve or reduce firms' financial success. Our analysis demonstrates that institutional framework has a strong influence on their combined effect. When the institutional context supports solutions to coordination problems among economic agents through market-based arrangements, MEPs allow the implementation of strategies directed to promote long-term investments and relationships. In this case, MEPs when paired with CSR allow generating intangibles that contribute to create shareholder value. Contrarily, in frameworks with coordination mechanisms based on nonmarket arrangements, the joint adoption of MEPs and CSR destroys value by increasing the power of managers and blockholders to extract rents at the expense of firms' minority shareholders.

KEYWORDS

comparative capitalism, corporate governance, corporate social responsibility, managerial entrenchment, shareholder value

1 | INTRODUCTION

Considerable strategy research is concerned with how to ensure that senior management acts in the benefit of firm shareholders. Corporate governance scholars, for example, studied the degree to which governance provisions, such as the takeover market, prevent managers from engaging in activities that fail to maximize stakeholders' long-run value (Aguilera, Desender, Bednar, & Lee, 2015). Also, the corporate social responsibility (CSR) literature developed a corporate control perspective (Filatotchev & Nakajima, 2014), according to which firms' CSR constitutes a form of self-regulation that limits the set of acceptable actions that corporations can adopt when interacting with their stakeholders (Matten & Moon, 2008; Scherer & Palazzo, 2011). Either through the adoption of corporate governance provisions or through the engagement in CSR, scholars predicted less room for managerial opportunism and higher incentives for generating shareholder value. The empirical evidence, however, produced mixed findings regarding the influence of takeover threats, CSR, and other governance arrangements on firm value.

Some research attributed this inconclusive evidence to the independent evaluation of the impact of each provision, neglecting the configurational relationship of these arrangements as

well as where they are embedded (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Misangyi & Acharya, 2014; Rediker & Seth, 1995). The effectiveness of a corporate governance provision is therefore said to increase or decrease depending on the combination of provisions—the so-called corporate governance bundle (Rediker & Seth, 1995; Sundaramurthy, Mahoney, & Mahoney, 1997). Inspired by the governance bundle thesis, several studies have explored how multiple governance provisions work interactively to generate firm value (Bell, Filatotchev, & Aguilera, 2014; Lewellyn & Fainshmidt, 2017; Misangyi & Acharya, 2014; Oh, Chang, & Kim, 2018). To date, however, this research has primarily focused on the study of complementarity or substitution among corporate governance arrangements at the firm level, paying less attention to how the governance bundles interact with the national institutional system to create or destroy firm value (Misangyi & Acharya, 2014).

In this study, we explore the effectiveness of governance bundles by focusing on the complex interplay between arrangements that thwart corporate control (i.e., managerial entrenchment provisions or MEPs) and CSR activities. We argue that the combined effect of MEPs and CSR on firm value is explained by their complementarity (or lack thereof), which in turn depends on the governance rationale behind their adoption—rationales that may vary from country to country. When MEPs and CSR are adopted with the same rationale (i.e., they are coherent between them), they will work together as complements by mutually reinforcing each other to enhance firm value. Yet, as each national institutional system may possess a distinctive dominant governance logic (Aguilera, Judge, & Terjesen, 2018; Crossland & Hambrick, 2011), we expect this coherence between MEPs and CSR to be fundamentally different across countries, therefore affecting firms' ability to create value differently.

In developing our argument, we draw upon comparative capitalism scholars' observation that institutions vary across countries but that the variation is not as large as to preclude the formation of shared national institutional settings or "varieties of capitalism" (VOC; Amable, 2003; Fainshmidt, Judge, Aguilera, & Smith, 2018; Hall & Soskice, 2001; Jackson & Deeg, 2008; Whitley, 1999). To explore the influence of VOC on the effectiveness of corporate arrangements, we adopted Hall and Soskice's (2001) framework, which distinguishes *Liberal Market Economies* (LMEs) from *Coordinated Market Economies* (CMEs). LMEs are characterized by a stock market-based financial system, fluid labor markets, education and training systems offering general skills, a limited use of networks and alliances among firms, and a concentration of firms' decision-making power in top management. On the other hand, CMEs are characterized by a bank- or state-based financial system providing patient capital, strong internal labor markets based on employment protection, training systems that promote firm-specific skills, an extensive use of networks and alliances among firms that favors the internalization of three stakeholder groups' interests—top management, shareholders, and workers—in firm's decision making (Kang & Moon, 2012).

Based on these institutional differences, we examine how MEPs and CSR coalesce to shape firm value in firms located in these two distinctive types of capitalisms. We propose that, in LMEs, the adoption of MEPs relaxes short-term market pressures and, hence, empowers managers to embrace a long-term perspective in decision making, such as the engagement in mutually beneficial long-term relations with firm stakeholders through CSR. This coherence between MEPs and CSR is likely to generate positive firm value. In contrast, in CMEs, non-market (negotiated) institutional arrangements exert strong influence on firms' governance and CSR. In this context, we argue that discretionary increases in MEPs and CSR do not appear to target the creation of shareholder value. Rather, CSR activities exceeding the stakeholders' negotiated expectations accompanied with the adoption of MEPs can be justified by the

reputational rents and private benefits that CSR may grant to top managers and large shareholders (blockholders), typically at the expense of minority shareholders. We tested, and found support for, our argument using a dataset that combines information on social, environmental, and governance dimensions with other firm- and macro-level variables of a sample of 3,187 publicly listed corporations from 37 countries. Taken together, our theory and findings contribute to the configurational perspective on corporate governance and to comparative strategic management by (a) showing that shareholder value does not automatically follow from a particular corporate governance bundle, but it is contingent on the country-level institutional framework, and (b) examining the contextual conditions for the emergence of positive interdependencies between corporate governance provisions and CSR.

2 | THEORY AND HYPOTHESES

A central premise of comparative institutional analysis is that “institutions matter” for explaining organizational outcomes, and that substantial variation exists across countries in terms of the institutions that matter most (Amable, 2003; Hall & Soskice, 2001; Whitley, 1999). Despite national diversity in institutions, countries tend to cluster into distinct institutional settings that define the “rules of the game” regarding how economic actors coordinate their actions in order to obtain competitive advantages and solve conflicts of interests among different stakeholder groups (Bell et al., 2014; Hall & Soskice, 2001; Haxhi & Aguilera, 2017; Jackson & Deeg, 2008). Different typologies of institutional settings have been proposed in the literature (e.g., Amable, 2003; Whitley, 1999), yet the most influential is probably that of Hall and Soskice (2001), which has been widely validated to cluster advanced industrialized countries (Fainshmidt et al., 2018; Witt & Jackson, 2016).

Hall and Soskice (2001) identified two varieties of capitalism (VOC), the Liberal Market Economies (LMEs) and the Coordinated Market Economies (CMEs), whose characteristics are summarized in Table 1. Though all nations function with multiple logics, it is quite likely that one logic would dominate all others (Aguilera et al., 2018). For LMEs, the logic of the market is the dominant one. Firms hinge on competitive market relations to resolve coordination problems with their finance suppliers. The governance of firms is oriented toward shareholder value maximization and demands from other stakeholders are subordinated to shareholders’ interests. Financing decisions in stock markets are usually based on short-term profitability (Flammer & Bansal, 2017), which could reduce the managerial interest on CSR activities (Kacperczyk, 2009), given CSR long-term payoffs (Eccles, Ioannou, & Serafeim, 2014). In contrast, firms in CMEs address coordination problems between managers and suppliers of capital through nonmarket arrangements. In CMEs, stock markets are less developed and firms are (a) generally owned by blockholders, (b) highly dependent on long-term debt financing, and (c) reliant on tightly interconnected relational business networks. Patient capital supplied by blockholders and banks reduces the pressure to increase short-term profitability (Aguilera & Jackson, 2003; Schneper & Guillén, 2004). Thus, CME firms can afford to adopt a long-term orientation and invest in projects generating returns in the long run, such as long-term relationships with stakeholders.

Though VOC is sometimes subject to some criticism (Fainshmidt et al., 2018; Judge, Fainshmidt, & Brown III, 2014), as discussed in our Robustness Checks section, it has advantages in terms of parsimony and capacity to explain countries’ economic organization and, more

TABLE 1 Corporate governance and firm role in society in LMEs and CMEs

	LMEs		CMEs	
	Developed	Nondeveloped	Developed	Nondeveloped
Representative countries in our sample (distribution in parenthesis) ^a	United States (38.4%), United Kingdom (13.7%), Canada (3.8%), Australia (3.2%), Ireland (0.6%), New Zealand (0.3%)	Hong Kong (2.5%), Singapore (1.8%), South Africa (0.3%), Israel (0.2%), Chile (0.2%)	Japan (11.2%), France (3.1%), Germany (3%), Switzerland (2.1%), Sweden (2.1%), Spain (1.6%), Italy (1.6%), Netherlands (1.1%), Belgium (1%), Finland (0.9%), Denmark (0.9%), Norway (0.8%), Greece (0.8%), Austria (0.7%), Portugal (0.5%), South Korea (0.1%), Luxembourg (0.1%)	China (1.1%), India (0.6%), Russia (0.6%), Mexico (0.3%), Poland (0.3%), Turkey (0.3%), Brazil (0.2%), Indonesia (0.2%), Czech Republic (0.1%)
Dominant coordination model	Liquid markets with informative transparency			
National corporate governance	Nonmarket institutions (collective bargaining and political exchange)			
Orientation/primary corporate goal	Stakeholder value/multiple goals			
Financial system	Patient capital (stock market-based)			
Key stakehold	Banks, top management, and labor			
Top management institutions	Dual boards (supervisory boards with employees, blockholders, and major suppliers and customers)			
Takeover activity	Rare events			
Managerial incentives	Intrinsic (compensation linked to financial performance like stock options)			
National CSR	Strong focus on the interest of a broad set of stakeholders			
Firm responsibilities toward society	Strong focus on shareholder interests (over other stakeholders)			
Stakeholder representation	No formal voice in corporate decisions			
Labor relations	De-centralized, individual bargaining, flexible labor market			

TABLE 1 (Continued)

	LMEs		CMEs	
	Developed	Nondeveloped	Developed	Nondeveloped
Employee skills	General, marketable, transferable		Industry- or firm-specific	
Institutional complementarities	In fluid labor markets, the possibility of labor adjustments in economic downturns or upturns allows reducing costs, expanding production, or pursuing new market opportunities, which make easier the firm's access to profitability-dependent finance. General skills are complementary to highly fluid labor markets, and fluid labor markets render forms of technology transfer that rely on labor mobility more feasible.		Production strategies that depend on workers with specific skills and high levels of corporate commitment that are secured by offering them long employment tenures, industry-based wages, and protective works councils	
Competitive Strgy	Radical innovation		Incremental innovation	

Note: Own elaboration from Fainshmidt et al. (2018), Hall and Soskice (2001), Hall and Gingerich (2009), Kang and Moon (2012), Matten and Moon (2008), and Vitols (2001).

^aOur sample includes 10,588 observations, 6,883 for LMEs and 3,705 for CMEs.

importantly for our purposes, studies applying VOC show that this framework offers a powerful conceptual tool to capture the influence of institutions on firms' corporate governance (Fiss, 2008) and CSR (Kang & Moon, 2012), as we articulate next.

2.1 | Varieties of capitalism and managerial entrenchment provisions

Countries' bundle of institutions defines how power over decision making is distributed within firms, starting with the degree of discretion available to CEOs (Crossland & Hambrick, 2011) and followed by the rights and influence of employees and other stakeholders (Aguilera & Jackson, 2003). In LMEs, dispersed ownership of corporations normally concentrates authority in a single insider group: the top management team. The market-driven financial system counterbalances the many risks associated with this insider power by exerting significant pressure to meet short-term goals. In turn, this pressure can lead insiders to adopt a myopic view and forgo projects with long-term payoffs (Gourevitch & Shinn, 2005), unless managers adopt MEPs, which grant them further insider power (e.g., Humphery-Jenner, 2014; Kacperczyk, 2009; Stein, 1988). In firms exposed to takeover threats, such greater insider power may lead to firm value enhancement, when managers use the extra protection to invest in long-term projects, such as firm-specific investments in R&D and human capital (Mahoney, Sundaramurthy, & Mahoney, 1997; Pugh, Page, & Jahera Jr, 1992; Sundaramurthy et al., 1997; Wang, Zhao, & He, 2016). However, if managers use the protection granted by MEPs to allocate firm resources for their personal benefit, the long-run competitiveness of the firm can be compromised (Mahoney et al., 1997). Hence, given the interdependence among MEPs, other governance provisions, and resource-allocation decisions, some authors suggest the need to adopt a contingency approach to examine the conditions under which MEPs enhance firm value (Sundaramurthy, 2000).

In contrast to LMEs, hostile takeovers are seen by CMEs' national governments as a threat to the coordinated, stakeholder-centered logic and, for this reason, takeovers have been largely discouraged by national institutions (Goergen, Martynova, & Renneboog, 2005; Humphery-Jenner, 2012; Schnepfer & Guillén, 2004). Even though institutions curtail the threat of takeovers, many leading corporations in CMEs complement such institutional protections by adopting additional firm-level governance provisions (Goergen et al., 2005; Humphery-Jenner, 2012). Such adoption of MEPs requires the approval of the company's board, which typically represents the blockholders' interests (Goergen et al., 2005), so any escalation in entrenchment might be interpreted as a strategy of managers and blockholders to reinforce their insider power in the firm and potentially pursue their private benefits at the expense of the company's overall financial performance. Consistent with this idea, empirical evidence for CMEs (e.g., Cronqvist, Heyman, Nilsson, Svaleryd, & Vlachos, 2009) shows that entrenchment discourages investments in projects that lead to more shareholder value.

2.2 | Varieties of capitalism and CSR

Given the imperfect protection of the interests of societal stakeholders by country-level institutions (Scherer & Palazzo, 2011), some corporations expanded their responsibilities beyond purely instrumental motives and demonstrated an increased awareness and involvement in the resolution of societal concerns through their engagement in CSR (Brammer, Jackson, & Matten, 2012; Matten & Moon, 2008; Scherer & Palazzo, 2011). From this perspective, CSR encompasses

a large array of voluntary and explicit attempts of corporations to integrate social and environmental concerns in their long-lasting interactions with their stakeholders, through activities differentiated from those that reflect the social responsibilities of government (Matten & Moon, 2008).

In LMEs, where institutions to channel stakeholder demands are absent or minimal, CSR is an opportunity for firms to differentiate themselves from their peers (Aguilera, Rupp, Williams, & Ganapathi, 2007). These instrumental reasons may clash with a stock market-based financial system that limits the magnitude and duration of CSR investments that do not add shareholder value. Firms are allowed to establish and develop relationships with stakeholders, if through these relationships firms expand their opportunities, beyond market-based transactions, for value-creating exchanges (Hillman & Keim, 2001; Surroca, Tribó, & Waddock, 2010; Wang & Bansal, 2012). Yet, for these opportunities to materialize, firms need to operate within a long-term horizon (Eccles et al., 2014; Flammer & Bansal, 2017), which is possible if managers are relieved from the pressures to meet short-term performance goals and provided with appropriate incentives to engage in long-term relationships with stakeholders (Flammer, Hong, & Minor, 2019). Yet, this value-enhancing view of CSR in LMEs is not exempt from criticism. Rather than contributing to create value, firms' engagement in CSR can be part of a managerial strategy to leave legacies, enhance their personal reputations, pursue career opportunities, and enjoy private benefits associated with the control of the firm (Barnea & Rubin, 2010; Cespa & Cestone, 2007; Hemingway & Maclagan, 2004; Pagano & Volpin, 2005; Prior, Surroca, & Tribó, 2008).

In contrast to LMEs, CME firms' responsibilities toward stakeholders are normative (Matten & Moon, 2008). This institutionalization of stakeholder expectations puts significant pressure on firms to comply with the normative expectations for acquiring legitimacy (Brammer et al., 2012) and, thus, leaves little discretion for firms to engage in differentiated CSR activities (Jackson & Apostolakou, 2010). Once legitimacy is granted, value-maximizing firms should have little interest in expanding CSR further (Matten & Moon, 2008). Yet, firms and their insider groups may have conflicting interests. Research has shown that corporate insiders can use CSR programs as ceremonial acts to secure their personal reputations and get their stakeholders' approval for decisions that enlarge insiders' private benefits while hurting overall firms' financial performance (Barnea & Rubin, 2010; Surroca & Tribó, 2008). In this case, the adoption of CSR would destroy value if CSR is feeding the firms' internal power (Hawn & Ioannou, 2016).

2.3 | Coherence between managerial entrenchment provisions and CSR

The VOC framework suggests that, within each variety of capitalism, one logic may dominate all others and that corporate practices may operate as complements when they are both designed following this overarching institutional logic—a market or a nonmarket coordination logic. Complementarities, in this context, refer to the mutual enhancement of two or more practices in a particular institutional setting to generate greater positive returns (Aguilera et al., 2008; Witt & Jackson, 2016). We take this argument further and stress that corporate arrangements such as MEPs and CSR (a) might deviate from the dominant logic within the variety but (b) they may still be designed following a coherent rationale: That is, both arrangements may follow the same logic, even when this logic is not dominant. When these conditions are present,

then, the resulting configurational bundle may lead to positive firm outcomes, as well. This argument is in line with the notion of governance deviance as a competitive strategy (Aguilera et al., 2018). Based on this notion, we propose that the coherence in the adoption rationale of both MEPs and CSR, in each variety of capitalism, will influence their firms' value. In other words, MEPs that grant higher insider protection may offer higher returns when coupled with the implementation of CSR if both practices are designed under the same logic, even when that logic is not the country's dominant one.

As previously discussed, the market logic of LMEs limits the options for firms to engage in valuable long-term interactions with stakeholders. For this reason, we argue that the rationale behind the adoption of MEPs, which deviates from the dominant logic, shows great coherence with that of CSR, as both arrangements can reinforce each other to extend firms' decision time horizon and increase organizational performance and legitimacy. Specifically, to develop CSR projects with superior long-term payoffs, firms should cultivate deep and lasting relationships with their stakeholders. The logic of the market behind the takeover activity and its short-term orientation toward profit maximization is incoherent with the establishment and maintenance of these long-term CSR relationships (Waddock & Graves, 1997). For example, Graham, Harvey, and Rajgopal (2005) reported that three-quarters of the executives they interviewed would sacrifice projects that could generate long-term economic value if their implementation would imply not meeting short-term earnings expectations. This myopia caused by the short-term orientation of capital markets could be alleviated by means of MEPs. In effect, a strong protection against the market-based discipline may shield managers from short-term pressures on performance and allow for the adoption of a long-term orientation in resource allocation decisions (Stein, 1988). This long-term horizon is important to develop, strengthen, and maintain ongoing relationships with firm stakeholders (Flammer & Bansal, 2017). Such long-term repeated interactions enable firms to enlarge the range of value-enhancing exchanges with their stakeholders beyond what is available through market interactions (Hillman & Keim, 2001).

Along with these lines, research has shown that with greater insider power (granted by MEPs), managers could assume more bidding and profitable investments toward their stakeholders. For example, Flammer and Bansal (2017) find that managers, when relieved from short-term market pressures, are more likely to adopt a long-term perspective in their value creation decisions, which will lead them to invest more heavily in building strong and long-lasting relationships with their stakeholders.¹

Given the foregoing arguments, we argue that the rationales with which MEPs and CSR programs are adopted in LMEs, though deviating from the dominant market logic, are coherent so that MEPs and CSR reinforce each other in a positive way by mutually generating greater financial performance. Hence, we expect:

¹There is, however, a risk that, once relieved from the market pressure, managers may take advantage of their immunity to pursue their personal agenda and use CSR to promote their social image. Past research seems, however, to reject this possibility based on two arguments. First, the use of CSR for entrenchment purposes is not necessary, once the MEPs have been approved. Managers may have little incentive to share with stakeholders the private gains expropriated from shareholders if stakeholders' support is not needed to keep their power within the firm (Cespa & Cestone, 2007). And second, if the motivation for CSR were self-promotion, the CSR investment would be directed to highly visible and discretionary areas such as charitable giving, promotion of education, support of the arts, or initiatives to protect the natural environment (Cronqvist et al., 2009; Surroca & Tribó, 2008), instead of developing stakeholder relationships that bind actors to long-term commitments (Witt & Jackson, 2016).

Hypothesis 1 (H1) In firms operating within LME institutional systems, the interaction between the extent of managerial entrenchment provisions (MEPs) and corporate social responsibility (CSR) activities has a positive impact on corporate shareholder value.

In contrast, we argue that, in CMEs, MEPs and CSR are adopted following incoherent rationales. Firms in this institutional setting are characterized by the presence of large shareholders that grant patient capital, releasing pressure on managers to focus on current performance (Aguilera & Jackson, 2003; Schnepfer & Guillén, 2004). Such blockholders' commitment opens opportunities to invest in projects that generate long-term returns, such as enduring collaborative relationships with stakeholders (Hall & Soskice, 2004). In this type of capitalism, incentives to engage in such long-run projects are preserved by corporate laws that make it difficult for a potential bidder to launch hostile takeovers and override the implicit social contracts with stakeholders (Schnepfer & Guillén, 2004). In short, the legal and ownership protection of insiders and the long-term collaboration with stakeholders are corporate arrangements that follow the dominant logic of nonmarket coordination.

Contrary to what we have argued in LMEs, adopting MEPs in a CME does not necessarily afford corporate insiders with greater incentives to invest in superior long-term projects (given the lack of short-term pressure on shareholder value). Instead, research shows that entrenchment is associated with a strengthening of insider power, which leads insiders to enjoy larger private benefits of controlling the firm, make less efficient investment decisions, and finally achieve lower corporate financial performance (Cronqvist et al., 2009; Goergen et al., 2005; Humphery-Jenner, 2014). This self-interested orientation of managers when adopting MEPs, represents a notable deviation from the dominant logic of corporate governance in CMEs, according to which the interests of all firm stakeholders should be balanced (Aguilera et al., 2018). In terms of the model of Aguilera et al. (2018), MEPs would therefore represent a form of deviance that under-conforms with the norms and expectations set by the CME's institutional environment.

Moreover, according to the logic of nonmarket coordination of CMEs, firms should meet, not exceed, institutionally-based expectations when addressing stakeholders' interests (Matten & Moon, 2008). So, while matching the expectations of stakeholders gives firms the legitimacy required to operate, exceeding them over-conforms with the dominant logic (Aguilera et al., 2018) and does not necessarily lead to positive organizational outcomes (Powell & DiMaggio, 1991), but to catering private benefit interests.

Hence, the rationales for the co-adoption of MEPs (under-conforming the dominant logic in CMEs) and CSR activities (over-conforming the dominant logic in CMEs) are not coherent nor aim to generate firm value. Instead, they are explained in terms of facilitating the accumulation of private benefits by corporate insiders. By reinforcing their power with additional MEPs, insiders may collect private benefits of reputation enhancement from CSR. In particular, through an engagement in CSR that goes beyond societal expectations, insiders, differently to minority shareholders, can enhance their reputations as individuals who respect their communities, employees, suppliers and customers, and the natural environment (Barnea & Rubin, 2010). The visibility of these insiders contrasts with that of minority shareholders who cannot claim that they are responsible for their firm's CSR, but bear part of its cost. Hence, there is a reputational rents transfer from minority shareholders to insiders.

In sum, in CMEs, the rationale for enhancing insider power through the adoption of MEPs is not coherent with the rationale of further engagement in CSR beyond normative expectations (Matten & Moon, 2008). Hence, the joint adoption of both corporate arrangements is likely to damage the financial performance of CME firms. Hence, we expect:

Hypothesis 2 (H2) In firms operating within CME institutional systems, the interaction between the extent of managerial entrenchment provisions (MEPs) and corporate social responsibility (CSR) activities has a negative impact on corporate shareholder value.

2.4 | Type of CSR actions

To further unpack the theoretical mechanism at work in our hypotheses (i.e., coherence in the rationales behind the adoption of MEPs and CSR), we believe that it is important to explore the type of CSR actions that firms undertake. In the argument leading to Hypothesis 1, the CSR activities that, when paired with MEPs, enhance shareholder value are those that aim to establish and maintain long-term relationships with stakeholders. These relationships will facilitate the development of trust and mutual gain and with that the provision from stakeholders of valuable firm-specific resources. In contrast, in Hypothesis 2, CSR programs do not appear to target the creation of shareholder value: They seem to be ceremonial acts to secure/enhance the personal reputations of top managers and blockholders and get their stakeholders' approval for decisions that may enlarge insiders' private benefits. So, in Hypothesis 1 (for LMEs), CSR activities involve substantive actions that pursue the development of organizational capabilities through the fulfillment of stakeholders' expectations. In contrast, in Hypothesis 2 (for CMEs), CSR activities may involve visible initiatives and communication activities that seek the public endorsement of the firm without further substantive content. This duality in CSR activities is addressed in the typology of Hawn and Ioannou (2016), which distinguishes between internal and external CSR.

Internal CSR reflects an inward-looking perspective and involves substantive actions targeting those internal stakeholders upon which the firm relies on developing intangible resources that are critical for business success. These actions often require significant resource commitments and dictate notable organizational changes in core practices, norms, structures, and routines. The adoption of internal actions is reflected in changes in corporate policies (e.g., policies to reduce emissions) as well as in a wide variety of CSR implementation practices (e.g., CSR committee). In contrast, external CSR reflects communication patterns and highly visible public initiatives intended to influence external audiences to generate public endorsements of the firm, its management, and its practices. The category of external actions comprises both claims that firms make to show a commitment to socially desirable behaviors (e.g., claims to provide pension funds or health care to employees) as well as reports and other disclosures through which the firm reviews its past CSR outcomes and explains its future goals, targets, and plans (e.g., reports on initiatives to reduce, reuse, recycle, substitute, phase out, or compensate CO₂ equivalents in production).

Based on this distinction, we refine our argument put forward for LMEs, our Hypothesis 1, by suggesting that MEPs and CSR mutually reinforce one another to create value particularly when the managers take advantage of the absence of short-term market pressures to invest in internal CSR activities. In effect, when relieved from short-term market pressures, managers may invest in prosocial actions that contribute to the accumulation of intangible firm-specific resources but that often require significant organizational changes and, for this reason, take relatively longer to materialize in firm value improvements. We see these actions as instrumental CSR (Aguilera et al., 2007). In contrast, the rationale for the joint adoption of MEPs and CSR in CMEs, our Hypothesis 2, is the accumulation of private (including reputational) benefits by corporate insiders. This rationale makes it more likely that an entrenched manager would focus on external CSR to appease external stakeholders. Hence, MEPs coupled with externally oriented CSR actions

end up primarily satisfying the interests of managers and blockholders at the expense of minority shareholders. These arguments are summarized in the following hypotheses:

Hypothesis 3a (H3a) The effect proposed in Hypothesis 1 will be stronger for Internal CSR than for External CSR.

Hypothesis 3b (H3b) The effect proposed in Hypothesis 2 will be stronger for External CSR than for Internal CSR.

3 | METHODS

3.1 | Data sources and sample

We construct our data set by combining three main archival data sources: Thomson Reuters' ASSET4, Datastream, and Worldscope. Data on MEPS and CSR were gathered from ASSET4. This database provides auditable and systematic information for publicly traded global firms on their CSR. The final outcome of the database is a set of performance scores for four pillars—economic, environmental, social, and governance—and an overall CSR performance score. These scores range between 0 and 100. Although this database is relatively new, it has already been validated in CSR research (e.g., Bettinazzi & Zollo, 2017; Eccles et al., 2014; Flammer & Kacperczyk, 2019; Hawn, Chatterji, & Mitchell, 2018; Hawn & Ioannou, 2016; Ioannou & Serafeim, 2012; Luo, Wang, Raithel, & Zheng, 2015).

Stock market data were collected from Datastream and accounting information from Worldscope. To construct our sample, we depart from the ASSET4 universe of firms for which data on CSR and MEPS were available during the 10-year period, 2002–2011 (13,215 observations). After excluding countries with only one observation and observations with missing data on our key variables, the final sample consists of an incomplete panel data of 10,588 firm-year observations for the 2002–2011 period, representing a total of 3,187 corporations, which are headquartered in 37 countries. Comparison tests between corporations covered by ASSET4 that lacked full information ($N = 14,677$) and those included in the analyses ($N = 10,588$) showed no significant differences between both samples, suggesting that attrition does not seem to be of great concern.

The countries represented in our sample account for 87% of the World GDP in 2011. In accordance with our theoretical framework, countries were classified into LMEs and CMEs following the framework of Hall and Soskice (2001) and its subsequent refinements for assigning countries with ambiguous systems to the two types of capitalism (e.g., Ahrens, Schweickert, & Zenker, 2015; Mariotti & Marzano, 2019). This latter case refers to European state-led market economies such as France, Greece, Italy, Portugal, and Spain, which have been classified as CMEs because of their closeness to this configuration (Hall & Gingerich, 2009; Kang & Moon, 2012). Moreover, in order to provide further robustness to the analysis, we also differentiate the 37 countries into developed countries and nondeveloped countries (which include new-developed, emerging, and developing economies), and distinguish between LMEs and CMEs in each group using the taxonomy of Fainshmidt et al. (2018). Chile, Hong Kong, Israel, Singapore, and South Africa are, thus, classified as nondeveloped LMEs; while those countries with high level of centralized coordination of the economic activity were categorized as

nondeveloped CMEs. This latter group includes China, India, Indonesia, and Russia (state-led), Brazil and Mexico (family-led), Czech Republic and Poland (collaborative agglomerations), and Turkey (hierarchically coordinated). The final classification is shown in Table 1. We explore the sensitivity of our findings to alternative typologies in the Robustness checks section as well as in the Supporting Information.

3.2 | Dependent variable

Shareholder value has been approached by means of Tobin's Q , which is obtained by dividing the sum of the company's market equity value plus book value of debt by the overall amount of assets (Hawn & Ioannou, 2016). For robustness (Supporting Information), we also consider the return on assets (ROA) and the return on equity (ROE), obtaining similar findings.

3.3 | Independent variables

3.3.1 | Managerial entrenchment provisions

We adapt our data to the entrenchment index developed by Bebchuk, Cohen, and Ferrell (2009). Our variable of MEPs is the sum of five dummy variables, one for each of the following provisions: Staggered boards are coded one if the corporation has a board in which directors are divided into separate classes (typically three) with each class being elected to overlapping terms. Limitations on amending bylaws or the charter are coded one if the corporation has a provision limiting shareholders' ability through majority vote to amend the corporate bylaws and/or the corporate charter. Supermajority to approve a merger is coded one if the corporation requires more than a majority of shareholders to approve a merger. Golden parachutes is coded one if the corporation has introduced a severance agreement that provides benefits to management/board members in the event of firing, demotion, or resignation following a change in control. Finally, poison pills are coded one when, in the event of an unauthorized change in control, the corporation gives to their common shareholders the right to buy additional shares of the corporation or the acquirer or both at a bargain price when the acquirer accumulates a certain percentage of shares in the corporation.

3.3.2 | Corporate social responsibility

In line with previous research examining cross-national drivers and consequences of CSR (e.g., Cheng, Ioannou, & Serafeim, 2014), our CSR measure is the result of aggregating the pillars of social performance, environmental performance, and economic performance, and gives equal weight to each one (Cheng et al., 2014). For robustness, however, we conduct a principal components analysis of the three dimensions, uncovering similar results.

To test 3a and 3b, we used Hawn and Ioannou's (2016) indexes of *internal* and *external CSR*. Adding to the authors' description, in Supporting Information, we provide a complete description of the items used in each index. We compute the indexes by adding, using the same weights, the respective items and, then, standardizing the resulting two measures. The Cronbach's alpha are 83.04 for internal CSR and 88.04 for external CSR, which suggests a good internal consistency and reliability of the measures.

3.4 | Control variables

To control for potentially confounding effects on firm value, we include in our analyses variables to account for organizational characteristics. The first set of variables reflects corporate governance characteristics, which are collected from ASSET4. We include in our analyses measures of the quality of governance like board tenure, CEO duality, board size, blockholder ownership, and the existence of dual-class shares. Though *board tenure*, measured as the mean tenure among the members of the board, is typically connected to greater experience, commitment, and competence of directors; some research has shown that large tenures are detrimental for the value creation, because directors may be more likely to be friend and collude with the CEO, rather than monitor managers (Vafeas, 2003). *CEO duality* has been primarily shown to reduce the effectiveness of the board of directors as control mechanism (Rechner & Dalton, 1991), though some studies have also underlined the positive consequences of the duality (Donaldson & Davis, 1991). This variable is a dummy coded one when the CEO is also Chairman of the board, and zero otherwise. *Board size* is measured as the total number of board members. The problems of communication and coordination within the board are likely to increase with the number of board members, so a negative impact of this variable is expected on firm value (Yermack, 1996). Our variable *blockholdings* is computed as the difference between 100% and the percentage of free-float shares and it is, either, connected to minority expropriation (negative effect on performance) and to monitoring efficiency (positive effect; Burkart, Gromb, & Panunzi, 1997). We measure *dual-class shares* as a dummy coded one if the corporation uses such type of shares, and zero otherwise. Empirical evidence has documented the negative consequences for firm value of dual-class shares (Gompers, Ishii, & Metrick, 2010).

Finally, we include some control variables: *Size* is measured by the log of total assets. *Leverage* is the log of the ratio of the book value of debt to total assets. The connection of the previous variables with firms' performance is an empirical issue (Surroca et al., 2010; Waddock & Graves, 1997). As Hawn and Ioannou (2016), we control for intangibles that may positively affect firm value. The first measure of intangibles, *Asset intangibility*, is the log of the ratio of intangible assets to total assets. We take a log scale in order to reduce skewness. The second proxy is *R&D intensity*, which is measured as R&D expenses to total sales. We include *Mean Tobin's Q* as a way to control for the interaction of sector and year. Our regressions also include firm- fixed and time effects.

3.5 | Empirical methodology

To test our hypotheses, we rely on panel data firm-level analyses with fixed effects, given that Hausman tests reveal the existence of possible correlations between explanatory variables and the error term (Wooldridge, 2010). The empirical model to examine the effects of MEPs and CSR on shareholder value is:

$$\begin{aligned} \text{Tobin's } Q_{it} = & \beta_1 + \beta_2 \text{CSR}_{it-1} + \beta_3 \text{MEPs}_{it-1} + \beta_4 \text{MEPs} \times \text{CSR}_{it-1} + \beta_5 \text{Size}_{it} + \beta_6 \text{Leverage}_{it} \\ & + \beta_7 \text{Intangible assets}_{it} + \beta_8 \text{R\&D intensity}_{it} + \beta_9 \text{Board tenure}_{it} + \beta_{10} \text{CEO duality}_{it} \\ & + \beta_{11} \text{Board size}_{it} + \beta_{12} \text{Blockholdings}_{it} + \beta_{13} \text{Dual class shares}_{it} + \beta_{14} \text{Mean Tobin's } Q_{it} \\ & + \eta_a + \psi_t + \theta_{it} \end{aligned} \quad (1)$$

TABLE 2 (Continued)

Pearson's correlations	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Leverage	-0.23	-0.24	0.11	-0.05	0.02	-0.01	0.19							
Intran. Assets	0.17	0.03	0.01	0.03	0.10	0.08	-0.28	-0.13						
R&D investment	0.20	-0.02	0.03	0.02	0.03	0.01	-0.08	-0.22	0.11					
Board tenure	-0.05	-0.02	0.08	0.03	0.03	0.21	-0.17	0.06	0.05	-0.05				
CEO duality	0.03	-0.01	-0.06	-0.03	0.09	0.12	0.06	0.01	-0.01	0.01	0.14			
Board size	-0.15	-0.09	0.18	0.10	-0.02	-0.09	0.28	0.18	-0.08	-0.06	-0.05	0.04		
Blockhold.	0.05	0.04	-0.09	0.03	-0.09	-0.21	-0.01	-0.07	0.01	-0.04	0.17	-0.06	0.03	
Dual class shares	0.02	0.01	-0.01	0.02	-0.03	-0.10	0.02	-0.00	0.09	-0.02	-0.07	-0.05	0.03	0.04

Notes: Number of observations: 10,588. The variable size is taken in logs in all the specifications estimated. However, for comparability purposes, the descriptives are provided without such transformation. The variables of Internal CSR and External CSR have been rescaled for comparative purposes with respect to the overall value of CSR. The classification of countries as LMEs and CMEs is shown in Table 1.

TABLE 3 Fixed-effect regression results for Tobin's Q on MEFs and CSR across variants of capitalism

Independent variables:	All		LMEs		CMEs		Developed LMEs		Developed CMEs		Nondeveloped LMEs		Nondeveloped CMEs		
	Model 1	Model 2	Model 2	Model 2	Model 3	Model 3	Model 4	Model 4	Model 5	Model 5	Model 6	Model 6	Model 7	Model 7	
CSR ($t - 1$)	0.029 (0.011)	0.044 (0.010)	0.044 (0.010)	0.027 (0.008)	0.041 (0.009)	0.035 (0.009)	0.087 (0.052)	0.087 (0.052)	0.035 (0.009)	0.087 (0.052)	0.087 (0.052)	0.087 (0.052)	0.087 (0.052)	0.087 (0.052)	-0.012 (0.077)
MEFs ($t - 1$)	-0.034 (0.014)	-0.040 (0.013)	-0.040 (0.013)	-0.007 (0.004)	-0.032 (0.012)	-0.008 (0.004)	-0.072 (0.045)	-0.072 (0.045)	-0.008 (0.004)	-0.072 (0.045)	-0.072 (0.045)	-0.072 (0.045)	-0.072 (0.045)	-0.072 (0.045)	0.104 (0.084)
MEFs \times CSR ($t - 1$)	0.045 (0.014)	0.057 (0.012)	0.057 (0.012)	-0.009 (0.004)	0.042 (0.011)	-0.008 (0.004)	0.090 (0.041)	0.090 (0.041)	-0.008 (0.004)	0.090 (0.041)	0.090 (0.041)	0.090 (0.041)	0.090 (0.041)	0.090 (0.041)	-0.019 (0.009)
Size	-1.118 (0.051)	-1.129 (0.055)	-1.129 (0.055)	-0.303 (0.038)	-1.145 (0.052)	-0.660 (0.067)	-0.095 (0.072)	-0.660 (0.067)	-0.660 (0.067)	-0.660 (0.067)	-0.660 (0.067)	-0.660 (0.067)	-0.660 (0.067)	-0.660 (0.067)	-0.096 (0.078)
Leverage	-0.011 (0.016)	-0.002 (0.016)	-0.002 (0.016)	-0.089 (0.048)	-0.008 (0.030)	-0.096 (0.047)	0.015 (0.017)	-0.096 (0.047)	-0.096 (0.047)	-0.096 (0.047)	0.015 (0.017)	0.015 (0.017)	0.015 (0.017)	0.015 (0.017)	-0.016 (0.030)
Intangible assets	-0.026 (0.010)	-0.027 (0.012)	-0.027 (0.012)	-0.018 (0.010)	-0.021 (0.011)	-0.042 (0.017)	-0.056 (0.077)	-0.042 (0.017)	-0.042 (0.017)	-0.042 (0.017)	-0.056 (0.077)	-0.056 (0.077)	-0.056 (0.077)	-0.056 (0.077)	-0.011 (0.093)
R&D intensity	0.295 (0.065)	0.070 (0.121)	0.070 (0.121)	1.239 (0.484)	0.114 (0.109)	1.259 (0.506)	0.018 (0.649)	1.259 (0.506)	1.259 (0.506)	1.259 (0.506)	0.018 (0.649)	0.018 (0.649)	0.018 (0.649)	0.018 (0.649)	0.598 (1.106)
Board tenure	0.027 (0.006)	0.049 (0.009)	0.049 (0.009)	-0.002 (0.005)	0.037 (0.008)	-0.002 (0.005)	0.186 (0.055)	0.037 (0.008)	-0.002 (0.005)	0.186 (0.055)	0.186 (0.055)	0.186 (0.055)	0.186 (0.055)	0.186 (0.055)	-0.122 (0.110)
CEO duality	0.012 (0.007)	0.019 (0.008)	0.019 (0.008)	0.010 (0.007)	0.016 (0.007)	0.018 (0.007)	0.025 (0.050)	0.016 (0.007)	0.018 (0.007)	0.018 (0.007)	0.025 (0.050)	0.025 (0.050)	0.025 (0.050)	0.025 (0.050)	-0.033 (0.060)
Board size	0.007 (0.010)	0.007 (0.015)	0.007 (0.015)	0.006 (0.006)	0.021 (0.014)	0.008 (0.006)	-0.075 (0.076)	0.021 (0.014)	0.008 (0.006)	0.008 (0.006)	-0.075 (0.076)	-0.075 (0.076)	-0.075 (0.076)	-0.075 (0.076)	0.001 (0.055)
Blockholdings	-0.011 (0.009)	-0.010 (0.010)	-0.010 (0.010)	-0.016 (0.009)	-0.007 (0.010)	-0.016 (0.009)	-0.013 (0.033)	-0.007 (0.010)	-0.016 (0.009)	-0.016 (0.009)	-0.013 (0.033)	-0.013 (0.033)	-0.013 (0.033)	-0.013 (0.033)	-0.027 (0.050)
Dual class shares	-0.012 (0.008)	-0.026 (0.011)	-0.026 (0.011)	0.011 (0.006)	-0.027 (0.010)	0.011 (0.006)	0.080 (0.087)	-0.027 (0.010)	0.011 (0.006)	0.011 (0.006)	0.080 (0.087)	0.080 (0.087)	0.080 (0.087)	0.080 (0.087)	-0.003 (0.142)
Mean Tobin's Q	0.292 (0.023)	0.293 (0.027)	0.293 (0.027)	0.199 (0.023)	0.295 (0.025)	0.184 (0.023)	0.208 (0.145)	0.295 (0.025)	0.184 (0.023)	0.184 (0.023)	0.208 (0.145)	0.208 (0.145)	0.208 (0.145)	0.208 (0.145)	0.707 (0.331)
Constant	1.159 (0.042)	0.778 (0.296)	0.778 (0.296)	1.215 (0.068)	0.998 (0.045)	1.428 (0.079)	0.098 (0.052)	0.998 (0.045)	1.428 (0.079)	1.428 (0.079)	0.098 (0.052)	0.098 (0.052)	0.098 (0.052)	0.098 (0.052)	1.190 (1.375)
Number of observations	10,588	6,883	6,883	3,705	6,355	3,341	528	6,355	3,341	3,341	528	528	528	528	364
R ² (%)	28.39	30.93	30.93	28.37	31.44	30.75	30.43	31.44	30.75	30.75	30.43	30.43	30.43	30.43	19.49

Notes: The classification of countries as LMEs and CMEs as well as developed and nondeveloped is shown in Table 1. Standard errors are in parentheses. Time and firm dummies are included. All variables are standardized.

Subscripts i and t index firm and time period, respectively. A firm-specific component of the error term (η_i) is included to eliminate the unobservable firm heterogeneity (e.g., managers' cognitions: Crilly & Sloan, 2012) that might be correlated with independent variables. A failure to control for this firm-specific term could lead the relationship of MEPs and CSR on financial performance to be spurious given their mutual connection to such unobservable component. Also, to tackle possible reverse causality problems, we measure the explanatory variables and their interaction term in $t - 1$.² Finally, we included time dummies (ψ_t). To mitigate the influence of outliers, our dependent and independent explanatory variables have been minorized at 5% (10% of total outliers considering both tails of the distribution have been winsorized), though results considering other cut-offs points or without that correction remained qualitatively similar to those shown in the tables.

4 | RESULTS

The descriptive statistics presented in Table 2 show that corporations in LMEs engage in fewer CSR activities than their counterparts in CMEs (47.30 vs. 53.37), which is as expected (Ioannou & Serafeim, 2012). However, this finding reverses for specific CSR dimensions: Internal/substantive CSR is larger in LMEs in comparison to CMEs (42.80 vs. 37.87), while the opposite is true for external/symbolic CSR (4.50 vs. 15.50). Consistent with Aggarwal, Erel, Stulz, and Williamson (2010), we also observe that MEPs (1.54 vs. 0.88) and Tobin's Q (1.56 vs. 1.40) are higher in LMEs than in CMEs. Pearson correlations show that Tobin's Q is positively related to CSR ($r = .04$), particularly when CSR is internal ($r = .07$), and negatively related to MEPs ($r = -.05$).

Table 3 displays the results for the empirical Specification (1). Model 1 presents the estimation results for the whole sample. Model 2 estimates the model for all firms in LMEs, while Model 3 does the same for firms in CMEs. Results in Model 2 show that MEPs have a negative impact on Tobin's Q ($\beta = -.040$, $p = .002$), while the coefficient of CSR is positive ($\beta = .044$, $p < .001$). We also observe that the effect of the interaction term between MEPs and CSR on the Tobin's Q is also positive ($\beta = .057$, $p < .001$). Moreover, the total marginal effect of MEPs on Tobin's Q is positive for high values of CSR. Note that the marginal effect of MEPs on Tobin's Q is $-0.040 + 0.057 \times \text{CSR}$, which means that for values of the standardized variable of CSR larger than 0.702 (0.040/0.057), the overall effect of increases in MEPs on shareholder value is positive. For firms in LMEs, the CSR standardized value of 0.702 is in the third quartile of the distribution. This result is graphically portrayed in Figure 1A, where there is a representation of Tobin's Q for LMEs countries in terms of MEPs (standardized values) and different cutoff levels of CSR, fixing the value of the explanatory variables of Specification (1) in their means. For the third quartile cutoff of the CSR distribution (CSR_75), the connection between Tobin's Q and MEPs is not decreasing, while for larger CSR levels (CSR_90), which corresponds to the last decile, the relationship between Tobin's Q and MEPs is positive.

The positive interaction effect of MEPs and CSR on Tobin's Q holds once we split LMEs into developed (Model 4) and nondeveloped countries (Model 6): The coefficient of the interaction is

²Apart from the firm-specific error component (η_i), endogeneity problems may be connected to the nonfirm specific part of the error term (θ_{it}). We address this potential endogeneity problem by means of instrumental variables for MEPs and CSR in the Robustness analyses section.

$\beta = .042$ ($p < .001$) for developed LMEs and $\beta = .090$ ($p = .029$) for nondeveloped LMEs. All of these results support Hypothesis 1.

The analysis of CMEs' countries (Model 3) shows that MEPs have only a limited negative impact on Tobin's Q ($\beta = -.007$, $p = .104$), while the impact of CSR is clearly positive ($\beta = .027$, $p = .001$). The interaction term of MEPs \times CSR has a negative impact on Tobin's Q ($\beta = -.009$, $p = .022$). In this case, the marginal impact of MEPs on Tobin's Q is negative for any value of CSR, as shown in Figure 1B. Also, the negative value for the interaction term holds for developed ($\beta = -.008$, $p = .062$, Model 5) and nondeveloped ($\beta = -0.019$, $p = .038$, Model 7) CMEs. These results support Hypothesis 2.

Concerning the economic significance: For LMEs, an increase of one standard deviation in MEPs (taking the mean value of CSR, which is 47.30) generates an increase in Tobin's Q of 0.45%.³ If we take the median value of the last quartile of the CSR distribution (82.28), the increase would rise to 2.7%. For CMEs, an increase of one standard deviation in MEPs (taking the mean value of CSR, which is 53.37) generates a decrease in Tobin's Q of 1.0%.

Table 4 tests Hypotheses 3a and 3b by distinguishing between internal and external CSR. Results show that, in LMEs, the coefficient MEPs \times CSR is only positive for internal CSR ($\beta = .020$, $p = .040$). In CMEs, this coefficient is negative for MEPs \times external CSR ($\beta = -.016$, $p < .001$) and weakly positive for MEPs \times internal CSR ($\beta = .013$, $p = .095$). The previous results also hold when we separate the analysis between developed and nondeveloped countries. For LMEs, the coefficient of MEPs \times internal CSR is positive for developed ($\beta = .020$, $p = .042$, Model 4) and nondeveloped ($\beta = .026$, $p = .060$, Model 6) countries. For CMEs, the coefficient of MEPs \times external CSR is negative for developed ($\beta = -.014$, $p = .001$, Model 5) and nondeveloped ($\beta = -.124$, $p = .060$, Model 7) countries. All these results support Hypotheses 3a and 3b.

4.1 | Robustness checks

Our results withstand a battery of robustness tests. An initial analysis examines the potential problem of endogeneity. As additional tests, we highlight the mechanism at work; we use alternative empirical methods and alternative measures for the main model variables; and check the sensitivity of our findings to other typologies of institutional configurations, including a more comprehensive and dynamic VOC (available in the Supporting Information).

4.1.1 | Accounting for endogeneity

A potential problem in interpreting our findings is the possible endogeneity of MEPs and CSR. To tackle this problem, we follow a two-stage procedure that consists of generating instruments that will replace the potential endogenous variables in our main tests (Wooldridge, 2010).⁴

³For LMEs, this is the result of $-0.040 + (0.057/53.61) \times 47.30 \times 0.93 = 0.007$, which is 0.45% of 1.56, where the mean value of Tobin's Q in LMEs is 1.56; SD (MEPs \times CSR in LMEs) = 53.61; SD (MEPs in LMEs) = 0.93 and mean CSR in LMEs is 47.30. For CMEs, the economic impact is the result of $(-0.007 - (0.009/51.04) \times 53.37 \times 0.78) = 0.014$, which is 1% of 1.40, where the mean value of Tobin's Q in CMEs is 1.40; SD (MEPs \times CSR in CMEs) = 51.04; SD (MEPs in CMEs) = 0.78 and mean CSR in CMEs is 53.37.

⁴Refer Supporting Information for details in the construction and the validity of the instruments.

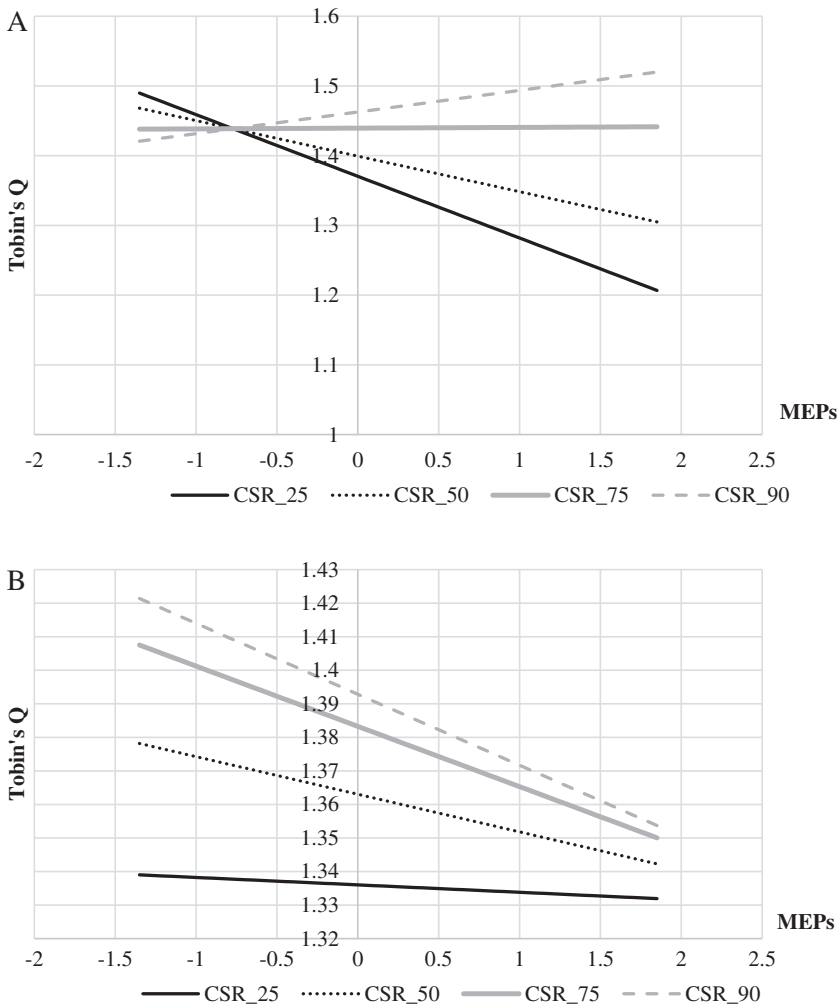


FIGURE 1 Effect of CSR on the relationship between MEPs and Tobin's Q in LMEs and CMEs. Panel A: Tobin's Q in terms of standardized MEPs for different CSR levels, LMEs. Note: This figure represents a simulation of Model 2 in Table 3 (LMEs), taking the mean values of the standardized variables with significant coefficients in the estimation and changing the values of MEPs for different cutoff values of CSR: First quartile cutoff (CSR_25), second quartile cutoff (CSR_50) the third quartile cutoff (CSR_75) and the last decile cutoff (CSR_90). Panel B: Tobin's Q in terms of standardized MEPs for different CSR levels, CMEs. Note: This figure represents a simulation of Model 3 in Table 3 (CMEs), taking the mean values of the standardized variables with significant coefficients in the estimation and changing the values of MEPs for different cutoff values of CSR: First quartile cutoff (CSR_25), second quartile cutoff (CSR_50) the third quartile cutoff (CSR_75) and the last decile cutoff (CSR_90)

Instruments are constructed in the first stage of the procedure and, then, we re-estimate Specification (1) using two-stage fixed-effect estimations for LMEs and CMEs. As shown in Table S1, we find that MEPs, when combined with CSR, have a significant positive effect on shareholder value in LMEs ($\beta = .239, p < .001$, Model 3) and a negative impact in CMEs ($\beta = -.015, p = .055$, Model 4). These results provide further support for Hypotheses 1 and 2.

TABLE 4 Fixed-effect regression results for Tobin's Q on MEPs and CSR across variants of capitalism: Internal versus external CSR

Independent variables	All		LMEs		CMEs		Developed LMEs		Developed CMEs		Nondeveloped LMEs		Nondeveloped CMEs	
	Model 1	Model 2	Model 2	Model 3	Model 3	Model 4	Model 4	Model 5	Model 5	Model 6	Model 6	Model 7	Model 7	
Ext. CSR ($t-1$)	-0.004 (0.005)	-0.004 (0.008)	-0.004 (0.008)	-0.008 (0.007)	-0.004 (0.008)	-0.004 (0.008)	-0.011 (0.007)	-0.011 (0.007)	-0.011 (0.007)	-0.019 (0.007)	-0.019 (0.007)	-0.033 (0.088)	-0.033 (0.088)	
Int. CSR ($t-1$)	0.019 (0.007)	0.038 (0.010)	0.038 (0.010)	-0.002 (0.008)	0.039 (0.010)	0.039 (0.010)	0.000 (0.008)	0.000 (0.008)	0.000 (0.008)	0.038 (0.060)	0.038 (0.060)	-0.017 (0.192)	-0.017 (0.192)	
MEPs ($t-1$)	-0.014 (0.007)	-0.020 (0.010)	-0.020 (0.010)	-0.007 (0.004)	-0.018 (0.010)	-0.018 (0.010)	-0.007 (0.004)	-0.007 (0.004)	-0.007 (0.004)	-0.021 (0.041)	-0.021 (0.041)	-0.055 (0.138)	-0.055 (0.138)	
MEPs \times Ext. CSR ($t-1$)	-0.006 (0.005)	0.002 (0.007)	0.002 (0.007)	-0.016 (0.004)	0.003 (0.007)	0.003 (0.007)	-0.014 (0.004)	-0.014 (0.004)	-0.014 (0.004)	-0.016 (0.005)	-0.016 (0.005)	-0.124 (0.064)	-0.124 (0.064)	
MEPs \times Int. CSR ($t-1$)	0.013 (0.007)	0.020 (0.010)	0.020 (0.010)	0.013 (0.008)	0.020 (0.010)	0.020 (0.010)	0.013 (0.008)	0.013 (0.008)	0.013 (0.008)	0.026 (0.014)	0.026 (0.014)	0.192 (0.135)	0.192 (0.135)	
Size	-0.675 (0.035)	-0.815 (0.050)	-0.815 (0.050)	-0.303 (0.040)	-0.817 (0.050)	-0.817 (0.050)	-0.303 (0.040)	-0.303 (0.040)	-0.303 (0.040)	-0.139 (0.093)	-0.139 (0.093)	-0.123 (0.173)	-0.123 (0.173)	
Leverage	0.028 (0.012)	0.067 (0.017)	0.067 (0.017)	-0.111 (0.038)	0.104 (0.028)	0.104 (0.028)	-0.111 (0.038)	-0.111 (0.038)	-0.111 (0.038)	-0.021 (0.034)	-0.021 (0.034)	-0.159 (0.043)	-0.159 (0.043)	
Intangible assets	-0.016 (0.008)	-0.010 (0.011)	-0.010 (0.011)	-0.018 (0.010)	-0.011 (0.011)	-0.011 (0.011)	-0.018 (0.010)	-0.018 (0.010)	-0.018 (0.010)	0.114 (0.104)	0.114 (0.104)	-0.096 (0.210)	-0.096 (0.210)	
R&D intensity	0.228 (0.096)	0.226 (0.102)	0.226 (0.102)	0.960 (0.506)	0.345 (0.102)	0.345 (0.102)	0.960 (0.506)	0.960 (0.506)	0.960 (0.506)	0.036 (0.067)	0.036 (0.067)	-0.418 (2.204)	-0.418 (2.204)	
Board tenure	0.008 (0.005)	0.014 (0.008)	0.014 (0.008)	-0.001 (0.005)	0.012 (0.008)	0.012 (0.008)	-0.001 (0.005)	-0.001 (0.005)	-0.001 (0.005)	0.016 (0.008)	0.016 (0.008)	-0.020 (0.006)	-0.020 (0.006)	
CEO duality	0.004 (0.006)	0.009 (0.007)	0.009 (0.007)	-0.000 (0.007)	0.008 (0.007)	0.008 (0.007)	-0.000 (0.007)	-0.000 (0.007)	-0.000 (0.007)	0.057 (0.056)	0.057 (0.056)	-0.122 (0.155)	-0.122 (0.155)	
Board size	-0.008 (0.007)	-0.013 (0.013)	-0.013 (0.013)	0.005 (0.006)	-0.013 (0.013)	-0.013 (0.013)	0.005 (0.006)	0.005 (0.006)	0.005 (0.006)	-0.016 (0.009)	-0.016 (0.009)	0.020 (0.167)	0.020 (0.167)	
Blockholdings	0.003 (0.006)	0.016 (0.010)	0.016 (0.010)	-0.012 (0.009)	0.018 (0.010)	0.018 (0.010)	-0.012 (0.009)	-0.012 (0.009)	-0.012 (0.009)	-0.017 (0.040)	-0.017 (0.040)	0.090 (0.174)	0.090 (0.174)	
Dual class shares	-0.001 (0.006)	-0.001 (0.010)	-0.001 (0.010)	-0.003 (0.006)	-0.001 (0.010)	-0.001 (0.010)	-0.003 (0.006)	-0.003 (0.006)	-0.003 (0.006)	-0.033 (0.092)	-0.033 (0.092)	-0.001 (0.002)	-0.001 (0.002)	
Mean Tobin's Q	0.034 (0.017)	0.025 (0.022)	0.025 (0.022)	0.199 (0.023)	0.024 (0.022)	0.024 (0.022)	0.199 (0.023)	0.191 (0.023)	0.191 (0.023)	0.343 (0.175)	0.343 (0.175)	0.460 (0.541)	0.460 (0.541)	
Constant	1.236 (0.028)	1.219 (0.039)	1.219 (0.039)	1.239 (0.073)	1.300 (0.039)	1.300 (0.039)	1.239 (0.073)	1.465 (0.078)	1.465 (0.078)	1.147 (0.355)	1.147 (0.355)	1.131 (2.587)	1.131 (2.587)	
Number of observations	10,588	6,883	6,883	3,705	6,355	6,355	3,705	3,341	3,341	528	528	364	364	
R^2 (%)	29.15	29.51	29.51	28.86	29.06	29.06	28.86	30.53	30.53	36.95	36.95	28.73	28.73	

Notes: The classification of countries as LMEs and CMEs as well as developed and nondeveloped is shown in Table 1. We follow Hawn and Ioannou (2016) to measure internal and external CSR (see the Online Appendix for details). Standard errors are in parentheses. Time and firm dummies are included. All variables are standardized. All tests are two-tailed.

4.1.2 | Other robustness checks

Our results also withstand tests examining the mechanism at work, alternative empirical methods, alternative measures for the main model variables, and alternative typologies of institutional configurations (the details are presented in the Supporting Information).

In a first test, we provide further evidence on the theoretical mechanisms at work using the Guillén and Capron's (2016) index of countries' minority shareholder rights protection. The premise is that the stronger the minority shareholder protection, the larger the degree of development of the stock market, and the higher the pressures on managers for short-term profits. In contrast, if minority shareholder rights are weak, corporate insiders will have more leeway to expropriate minority shareholders by defining value-destroying strategies, such as the combination of MEPs and CSR. Our results show that, within LMEs, corporations benefit more from the joint adoption of MEPs and CSR in countries with strong minority shareholder protection. Conversely, in CMEs, the negative effect on performance of combining MEPs and CSR is larger in countries with weak minority shareholder rights.

We also tested our hypotheses using two methodological approaches: A nonparametric (distribution-free) estimation method that assesses the impact on shareholder value of a "shock" in CSR in a context of a high MEPs and a general model that includes a three-way interaction among MEPs, CSR, and the institutional setting. Findings in both cases are in accordance with our expectations. Also, we employed ROA and ROE as alternative proxies of firm value. The results are consistent to those found for the Tobin's Q.

Finally, we test the robustness of our findings to alternative classifications, such as the typologies of Hall and Gingerich (2009) and Dhaliwal, Radhakrishnan, Tsang, and Yang (2012), to the deletion of the countries with the largest number of observations, and to the reclassification of countries that are border line between LMEs and CMEs categories. Results are consistent to those shown in this article. Perhaps more importantly, we replicated our analysis with a more comprehensive and dynamic VOC typology in order to check if our findings are also affected by two important criticisms the VOC framework has received: Its overlooking of the institutional variety within each variety of capitalism and its inability to cope with the changes that countries can experience over time and that may lead them to shift between varieties (Fainshmidt et al., 2018; Judge et al., 2014). To address these criticisms, we followed the approach of Fainshmidt et al. (2018) that consists in clustering, using a comprehensive set of institutional dimensions, the countries in categories at different points of time, 2002 and 2011, which are the initial and final period of our sample (details and results are in the Supporting Information). We then re-estimated Specification (1) using, first, the clusters found in 2002 and, then, those of 2011, in order to allow for a more dynamic and comprehensive view of institutions. The consistency among the results for both years and with those depicted in Table 3 reduces concerns related to the dynamic evolution of countries across types of capitalisms. Besides, we observe that there is substantial institutional stability and that the changes of category by countries are rare events that do not substantially affect the results.

5 | DISCUSSION

In this study we seek to identify how corporations' governance and social responsibility influence, both separately and in combination, the creation of shareholder value. We examine these effects by relying on the literature on comparative capitalisms. We argue that each variety of

capitalism, or set of countries in an institutional setting, has its own bundle of interrelated corporate arrangements that reinforce one another by generating shareholder value if they are adopted with the same rationale (i.e., they are coherent). Hence, we propose that, although any component of the firm's bundle of arrangements influences shareholder value independently, they also interact with each other to create or destroy value. The financial performance outcome is, we argue, contingent on the coherence of the rationale with which the different corporate arrangements have been adopted in the variety of capitalism where the firm is headquartered. In developing theory and testing it empirically, we focus on a key set of corporate governance practices, namely the managerial entrenchment provisions (MEPs), and analyze the corporations' role in society by means of their corporate social responsibility (CSR). Under different conditions, our analyses produce unequivocal evidence in support for our configurational predictions.

5.1 | Main findings and contributions

Our analysis adds to configurational work of corporate governance by testing its external validity across national institutional systems. Most research in the area has primarily focused on the study of complementarity or substitution among governance arrangements at the firm level, without acknowledging that national institutional systems may influence the effectiveness of a particular governance bundle (Aguilera et al., 2008; Aguilera, Desender, & de Castro, 2012; Filatotchev & Allcock, 2010). We showed how the bundle formed by the combination of MEPs and CSR is effective in certain systems, yet not in others, thus emphasizing the importance of the contingency conditions driving the bundles' effectiveness.

Another contribution of our study lies in the exploration of the combined effect of MEPs and CSR on shareholder value under different varieties of capitalism. As advanced by Hall and Soskice (2001), for firms to create shareholder value, institutions and corporate arrangements and corporate arrangements among themselves need to be part of a coherent system. In institutional frameworks dominated by market mechanisms of coordination, actions that shield managers from short-term pressure, such as MEPs, allow the implementation of long-term investments and relationships, such as those identified by firms' CSR, needed for developing firm-specific resources. Corporate governance arrangements that relieve firms' dependence on market coordination mechanisms may foster, thus, valuable collaborative agreements with stakeholders. We propose and find evidence that, for firms in liberal market economies (LMEs), the combination of MEPs and CSR create shareholder value, particularly when CSR is internal. This result extends previous work on the interrelations between takeover protection and CSR (e.g., Kacperczyk, 2009) by examining the conditions for positive interdependencies between the two corporate arrangements.

Our comparative capitalisms framework also suggests that, where nonmarket mechanisms ensure coordination among actors in the spheres of corporate governance and stakeholder relationships, such as it is the case for coordinated market economies (CMEs), individual corporations (and managers) should leave to institutions the definition, in a collective manner, of the corporation's obligations toward shareholders and other stakeholders (Kang & Moon, 2012; Matten & Moon, 2008). When firms adopt individual initiatives related to their governance and social responsibility that deviate from nonmarket coordination, their dominant actors (managers and blockholders) are likely to increase their power to extract rents, such as reputational rents, at the expense of firms' minority shareholders (Barnea & Rubin, 2010; Cespa & Cestone,

2007). We consequently hypothesize, and demonstrate empirically, that in CMEs, where coordination takes place by means of nonmarket mechanisms, the combined adoption of MEPs and CSR initiatives is negatively related to shareholder value, particularly when this CSR is external.

Our findings comparing firms in LMEs and CMEs thus extend existing research on comparative capitalisms, by showing that corporate governance and CSR are related to each other through the mechanism of coherence in the rationales with which they are adopted. Remarkably, our findings suggest that this thesis holds even when we consider less advanced economies and account for institutional change—two aspects somewhat understudied in past VOC research (Fainshmidt et al., 2018). Specifically, the inclusion in our analyses of nondeveloped countries allows to test the external validity of the mechanism of coherence beyond the LME/CME dichotomy. Our findings show that, even when there exists some institutional variety, when countries mainly rely on markets or collective bargaining as coordination logics, the effectiveness of the bundles of corporate arrangements is essentially the same as in developed countries. Moreover, we uncover that despite the institutional development that most countries experience along with the period analyzed in this study, there are very few country cases where changes in institutions over time have been large enough for being classified in one variety at the beginning of the period (2002) and in another at the end (2011). This result updates previous findings for earlier periods (Hall & Gingerich, 2009) and shows that institutions, because of their path dependence, change very slowly and that such changes parallel similar reconfigurations in other countries within each variety of capitalism. At the end, except the border line countries, the rest of countries tend to continue clustering together over time in the same variety of capitalism.

Our study also adds to corporate governance literature on MEPs. First, we show that these governance provisions impose costs to shareholders irrespective of the institutional setting. And second, our study gives response to the call for more research investigating the conditions under which MEPs may interact with other corporate practices to create firm value (Wang et al., 2016). One of these conditions, as we have shown in this study, is when MEPs are coupled with a strong firm commitment toward its stakeholders in institutional contexts where the attention to stakeholders is voluntary and strategic (LMEs).

5.2 | Managerial implications

Our analyses and results have significant implications for a myriad of institutional actors, including investors and regulators. As stated previously, in absence of the protection provided by MEPs, the market-based discipline of LMEs reduces the incentives for managers to invest in valuable long-term relationships with stakeholders. In this situation, managers will have more incentives to spend generous amounts of company resources in symbolic CSR activities to avoid being disciplined by firm investors (Prior et al., 2008). The findings for LMEs suggest that managers immune to the short-term pressure of external markets because of the protection provided by MEPs, can credibly fulfill contracts with stakeholders, who in exchange will be more willing to acquire costly firm-specific skills that are necessary to create shareholder value. Hence, a clear recommendation for LMEs is not to hinder the adoption of MEPs if they are accompanied by the implementation of explicit and substantive CSR activities. Moreover, in order to deter the risk that such CSR would be part of a managerial entrenchment strategy, managers' compensation should be designed to remunerate the generation of shareholder value together with the advances in CSR (Flammer et al., 2019; Flammer & Bansal, 2017).

Our findings for CMEs reveal some managerial insights to reduce the negative consequences for firm value from combining MEPs and externally oriented CSR. It is worth noting that the negative financial outcome is particularly damaging in situations where minority shareholders' rights are weak. One possible solution to this problem would be limiting the possibility of raising MEPs in firms with highly concentrated ownership structures or to require the approbation of such modifications by a larger percentage of owners. A second step in this direction would be to enforce financial reporting practices that require providing more detail about the CSR expenses in the company's public accounts. Another measure to prevent stakeholders' actions that, in the end, harm minority shareholders' interests would be to give stakeholders economic and political rights over the corporation to align their interests to those of shareholders.

5.3 | Limitations and future research

Our study has several shortcomings that offer opportunities for future research. We acknowledge some limitations in our data. We focused on major listed corporations of (primarily) developed countries, so it would be of interest to expand our coverage in two dimensions: Countries and types of firms. With the inclusion of new countries (and, possibly, geographical areas), we could apply recent developments of the comparative capitalisms framework that introduce new varieties of capitalism for nondeveloped economies. Also, within each country, it may be of interest to include privately-held firms in the sample. Such firms are likely to differ substantially from those of public firms (Ioannou & Serafeim, 2012), so it would be of practical and theoretical relevance to test if our findings hold for them.

A possible criticism, using the analogy with VOC scholarship (Judge et al., 2014), is that our study is focused on the creation of economic wealth (i.e., shareholder value). It may therefore be of academic and practical interest to explore the extent to which the combination of CSR and MEPs can contribute to other outcomes that benefit society directly. Another possible extension is to determine which single stakeholder would be the most relevant in order to reinforce the positive joint effects of combining MEPs and CSR (in LMEs) or the negative ones (in CMEs). The notion of institutional complementarities could also be explored in more depth by focusing on the interaction between CSR and other dimensions of corporate governance or considering other institutions, such as the culture. Finally, the inclusion in the analysis of ownership structure characteristics like the degree of heterogeneity among blockholders may affect the relationship between managers and stakeholders to create value in LMEs and between managers and blockholders to destroy value in CMEs. The investigation of these issues is left for future research.

6 | CONCLUSION

Our study examines *how* two organizational practices, MEPs and CSR, which typically are studied independently, combine to create or destroy shareholder value. Our findings show that their joint effect is contingent on the institutional setting where corporations are headquartered. In institutional settings that promote market-based arrangements to deal with the coordination problems among economic actors, MEPs relax corporations' short-term focus. In this case, MEPs when paired with internally oriented CSR initiatives become coherent with each other

and therefore promote the development of intangibles that ultimately create shareholder value. On the contrary, in institutional settings where coordination relies on nonmarket mechanisms, MEPs coupled with externally oriented CSR actions end up fulfilling mostly the interests of managers and blockholders at the expense of minority shareholders. We hope our research will inspire future studies on how the interrelations among corporations' institutional environment, their governance, and their role in society affect the corporation's ability to create value for all firm participants.

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