



Goodwill Hunting: Why and When Ultimate Controlling Owners Affect Their Firms' Corporate Social Responsibility Performance

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Abstract

Researchers have long been interested in how owners affect firms' corporate social responsibility (CSR) performance. However, owners face diverging ethical preferences between funding and potentially benefiting from their firms' CSR performance. To better understand owners' influence on firms' CSR performance, we focus on ultimate controlling owners with the highest control rights over their firms. We theorize that ultimate controlling owners with more control rights have stronger motivations and greater decision-making power to promote firms' CSR performance to demonstrate that they are responsible owners and gain legitimacy and goodwill from their stakeholders. Moreover, we explore how this positive relationship is strengthened when ultimate controlling owners and their firms share similar corporate names and receive increased financial analyst coverage, as these conditions increase the likelihood of gaining legitimacy and goodwill through their firms' improved CSR performance. We test our theory using a sample of 852 publicly listed Chinese firms from 2008 to 2017. Our findings support our theoretical predictions and contribute to a more nuanced understanding of how differences in ownership structure and owner type associated with ultimate controlling owners shape their motives and power to affect CSR performance in their firms.

Keywords Ultimate controlling owner · CSR performance · Legitimacy · Goodwill · Corporate name-sharing · Financial analyst coverage

Introduction

Firm owners often find themselves conflicted over corporate social responsibility (CSR), as they face diverging ethical preferences between funding and potentially benefiting from their firms' CSR (Dam & Scholtens, 2013; Faller & zu Knyphausen-Aufseß, 2018). CSR involves initiatives that voluntarily integrate social and environmental concerns into a firm's business operations and interactions with stakeholders (Aguilera et al., 2007; Hopkins, 2007). These initiatives, such as donations to support social causes or investments to reduce environmental pollution, often come with significant immediate costs, while their potential benefits to the firm and its owners remain uncertain (Dam & Scholtens, 2013; Faller & zu Knyphausen-Aufseß, 2018). Consequently, CSR is commonly viewed as a distinctive strategic investment in which owners are likely to be involved (Li & Zhang, 2010; Oh et al., 2011). Despite owners' crucial role in shaping firms' CSR, research has struggled to explain why and when owners choose to promote or suppress their firms' CSR performance (Faller & zu Knyphausen-Aufseß, 2018).

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In their review, Faller and zu Knyphausen-Aufseß (2018) highlighted that owners' equity ownership had been theorized to both decrease and increase firms' CSR performance depending on owners' preference for near-term financial costs and returns or the potential long-term financial and nonfinancial benefits from CSR is emphasized. Studies proposing a negative relationship have argued that owners bear a disproportionate amount of the costs of engaging in CSR, and while CSR generally benefits other stakeholders and society, the financial and nonfinancial returns to owners are highly uncertain and potentially limited (Dam & Scholtens, 2013; Lau et al., 2016; Mackenzie et al., 2013). In contrast, studies proposing a positive relationship have argued that firms are intricately connected within the broader social, political, and economic context and must meet the social and ethical expectations of key stakeholders to achieve their organizational goals (Aguilera et al., 2007; Campbell, 2007; Donaldson & Preston, 1995; Goodpaster, 1991). By promoting CSR performance that positively impacts society through initiatives driven by social responsibility principles, employing socially responsive processes, and managing societal relationships responsibly (Wood, 1991), firms gain legitimacy and goodwill from their stakeholders. Consistent with these contrasting theories, previous studies have generated mixed findings regarding the impact of owners' equity ownership on their firms' CSR performance (Faller & zu Knyphausen-Aufseß, 2018).

Given the conflicting theories and equivocal findings in the current literature, Faller and zu Knyphausen-Aufseß (2018, p. 22) observed that while the consensus is that owners can and often influence their firms' CSR performance, "the direction of this relationship has not yet been conclusively determined." They concluded that owners will actively promote firms' CSR performance when the expected financial and nonfinancial benefits exceed the associated costs. However, owners' evaluations of the costs and expected benefits of CSR are likely to vary significantly depending on different ownership structures (e.g., direct versus indirect) and owner types (e.g., immediate versus ultimate) (Faller & zu Knyphausen-Aufseß, 2018; Li & Zhang, 2010). Unfortunately, previous studies have predominantly focused on the ownership concentration of direct, immediate owners to understand firms' CSR performance without fully recognizing or systematically theorizing how differences in ownership structure and owner type might influence owners' underlying motivations and decision-making power to promote CSR performance in their firms (Faller & zu Knyphausen-Aufseß, 2018). To advance our understanding of the impact of owners on their firms' CSR performance, scholars have called for further research to more carefully conceptualize how differences in ownership structure and owner type, especially those associated with ultimate controlling owners, might shape owners' preferences, underlying motivations,

and decision-making power to promote CSR performance in their firms (Dam & Scholtens, 2013; Faller & zu Knyphausen-Aufseß, 2018; Li & Zhang, 2010).

We aim to advance our understanding of how owners might affect their firms' CSR performance. We theorize and examine why and when indirect, ultimate controlling owners who possess the highest control rights over their subsidiaries and affiliated firms affect their firms' CSR performance. As observed in the global research on corporate ownership (Claessens et al., 2000; Faccio & Lang, 2002; La Porta et al., 1999), ultimate controlling owners are prevalent in both developed and emerging economies, and they wield significant control over their firms, often surpassing their ownership (or cash-flow) rights. They exert control through various intricate ownership structures and arrangements, such as indirect pyramid ownership structures, deviations from the one-share-one-vote rule (or dual-class share structure), and complex cross-holdings (Faccio & Lang, 2002). In the presence of ultimate controlling owners who hold substantial decision-making power and exert effective control over firms along the ownership chain, focusing on direct, immediate owners becomes less meaningful because these owners are accountable to ultimate controlling owners and often lack the discretionary decision-making power to significantly affect their firms' CSR performance.

In this study, we propose an original theory to explain why ultimate controlling owners with greater control rights will promote CSR performance in their firms. More specifically, ultimate controlling owners with greater control rights face stronger external stakeholder pressure because of their higher potential for principal-principal conflicts—goal incongruence between ultimate controlling owners and minority owners and other stakeholders (Morck et al., 2005; Young et al., 2008). This added external pressure gives dominant ultimate controlling owners stronger motivations to promote CSR performance in their firms to demonstrate that they are responsible owners and gain legitimacy and goodwill from their stakeholders. To validate this theoretical mechanism, we further examine how this positive relationship is moderated by specific organizational conditions that influence the extent to which ultimate controlling owners may gain legitimacy and goodwill through their firms' CSR. Specifically, we investigate the moderating influence of corporate name-sharing and financial analyst coverage. We utilize a sample of 852 publicly listed Chinese firms from 2008 to 2017 to test our theory, and our results support our theoretical predictions.

We make several important contributions. First, we contribute significantly to the CSR literature by shifting our perspective from the ownership concentration of direct, immediate owners to the essential but overlooked roles of ultimate controlling owners and their control rights to understand how these owners will affect their firms' CSR performance.

While CSR scholars have recognized the need to more carefully consider how different ownership structures and owner types can affect owners' motives and influence on firms' CSR performance (Li & Zhang, 2010; Mackenzie et al., 2013), these differences have not been fully recognized or systematically theorized. Through our careful conceptualization of ultimate controlling owners' control rights and how they affect their underlying motives and influence on their firms, we establish these dominant owners as the focal owners of interest when investigating the impact of owners on their firms' CSR performance rather than the direct, immediate owners emphasized in previous studies.

Second, by shifting our focus to indirect, ultimate controlling owners, we offer original and revelatory theoretical insights into why ultimate controlling owners will promote better CSR performance in their firms. Combining agency, instrumental, and institutional arguments for CSR, we create a comprehensive theoretical framework that elucidates why ultimate controlling owners are motivated and empowered to promote CSR performance in their firms to demonstrate that they are responsible owners and gain legitimacy and goodwill from their stakeholders. Third, we advance a contingent understanding of when ultimate controlling owners will actively promote their firms' CSR performance to validate the underlying theoretical mechanism. Scholars have increasingly emphasized the importance of contingency models to gain deeper insights into firms' CSR (Arora et al., 2020; Faller & zu Knyphausen-Aufseß, 2018; Wang et al., 2016). In this regard, we make a significant contribution by identifying specific organizational conditions that influence the extent to which ultimate controlling owners are likely to gain legitimacy and goodwill through better CSR performance in their firms.

Theory and Hypotheses

As CSR gains increasing attention in research and practice, scholars have shown a keen interest in understanding how owners affect their firms' CSR (for a review, see Faller & zu Knyphausen-Aufseß, 2018). However, given that owners have divergent ethical preferences regarding funding and potentially benefiting from their firms' CSR, they have been theorized to both decrease and increase firms' CSR depending on whether they prioritize near-term financial costs and returns or the potential long-term benefits of CSR (Faller & zu Knyphausen-Aufseß, 2018). The research emphasizing the near-term financial costs and returns of CSR draws on agency theory (Jensen & Meckling, 1976) to argue for a negative relationship between owners' equity ownership and firms' CSR investments and performance. This perspective highlights two main agency problems: the principal-agent problem relating to the goal incongruence between owners

(as principals) and managers (as agents) (Eisenhardt, 1989) and the principal-principal problem relating to the goal incongruence between controlling and minority owners, as well as other stakeholders (Morck et al., 2005; Young et al., 2008). Researchers have argued that owners bear a disproportionate share of the costs of engaging in CSR. Since the potential financial and nonfinancial benefits of CSR to owners are often uncertain and potentially limited, and other stakeholders (e.g., managers, employees, and minority owners) and society can benefit more at little or no cost, owners are motivated to minimize CSR investments and performance to preserve their returns and protect their investments (Dam & Scholtens, 2013; Lau et al., 2016; Mackenzie et al., 2013).

For instance, some researchers argue that top managers are likely to act opportunistically and promote CSR using their firms' resources to gain private benefits, such as greater personal prestige (Cox et al., 2004; Petrenko et al., 2016). To address such principal-agent problems, owners may suppress managerial-driven CSR initiatives in their firms. Other researchers have argued that controlling owners have incentives to maximize their private financial returns at the expense of minority owners and other stakeholders (Li & Qian, 2013; Morck et al., 2005). Reflecting such potential principal-principal conflicts, controlling owners will likely expropriate firm wealth and curtail their firms' CSR investments and performance (Dam & Scholtens, 2013; Lau et al., 2016). Several studies have found evidence that ownership concentration reduces firms' CSR performance, including environmental performance (Dam & Scholtens, 2013; Mackenzie et al., 2013; Walls et al., 2012).

In contrast, research drawing on instrumental theories that emphasize achieving economic goals through social activities (Garriga & Melé, 2004) or institutional theories that focus on firms' responses to external pressures (Aguilera et al., 2007; Campbell, 2007) has argued for a positive relationship between owners' equity ownership and firms' CSR performance. According to these perspectives, firms seek legitimacy and goodwill from their stakeholders by engaging in socially responsible actions. Research has shown that many stakeholders, including the government, customers, employees, and even the general public, view CSR as a legitimate and expected corporate activity (Li & Lu, 2020; Margolis & Walsh, 2003; Wang & Qian, 2011).

CSR scholars who emphasize the instrumental value of CSR have argued that owners are motivated to promote CSR investments and performance to enhance their firms' corporate reputations and moral capital (Godfrey, 2005; Koh et al., 2014), improve financial and/or social performance (Surroca et al., 2010; Wang & Qian, 2011), and mitigate risks against future negative events (Koh et al., 2014; Luo et al., 2018). These benefits from firms' CSR contribute to owners' overall financial and/or social returns (Earnhart & Lízal, 2006;

Zellweger et al., 2013). For example, research has found that state-, family-, and institution-owned firms increase their CSR performance as their owners are motivated to promote good management practices that can result in improved long-term financial and nonfinancial returns (Earnhart & Lízal, 2006; Li & Zhang, 2010; Oh et al., 2011). Additionally, highlighting firms' response to external pressures, other researchers have argued that owners must ensure that their firms meet key stakeholders' expectations and conform to the social rules and belief systems of the broader institutional context to secure the "right to operate" (Donaldson & Preston, 1995; Goodpaster, 1991). Hence, owners are motivated to encourage better CSR investments and performance to demonstrate that they are responsible and reliable owners who will promote the collective interests of all stakeholders (Oh et al., 2011). Several studies have supported these ideas, demonstrating that ownership concentration increases firms' CSR performance (Calza et al., 2013; Earnhart & Lízal, 2006).

Unfortunately, previous studies have yielded ambiguous findings regarding the impact of owners on their firms' CSR performance. These results have shown that ownership concentration might increase, decrease, or not affect firms' CSR performance. One significant reason for this lack of clarity is the inadequate theorization and contextualization in previous studies of firm owners (Faller & zu Knyphausen-Aufseß, 2018). Most previous studies have focused on the ownership concentration of direct, immediate owners to understand firms' CSR performance. While this approach may be appropriate for publicly listed firms in certain developed economies, such as those in the US and UK, where firm ownership is widely dispersed and directly held by immediate owners, most firms in both developed and emerging economies feature more complex and intricate ownership structures where indirect, ultimate controlling owners are present (Faccio & Lang, 2002; La Porta et al., 1999).

Research on corporate ownership worldwide has shown that ultimate controlling owners who possess the highest control rights over their subsidiaries or affiliated firms, often surpassing their ownership (or cash-flow) rights, are prevalent in both developed and emerging economies, including Europe (e.g., Spain and Turkey), Latin America (e.g., Brazil and Mexico), the Middle East (e.g., Israel and Egypt), and Asia (e.g., India and China) (Claessens et al., 2000; Faccio & Lang, 2002; La Porta et al., 1999). For instance, many firms in East Asia (e.g., China, Japan, and South Korea) are "predominantly controlled by a single large shareholder," and they "exhibit far more divergence between cash-flow rights and control rights than do US firms, because, in most countries, the largest shareholder often establishes control over a firm despite little cash-flow rights" (Claessens et al., 2000, p. 2742). In such complex ownership structures where ultimate controlling owners wield substantial decision-making

power over all the subsidiaries and affiliated firms along the ownership chain, focusing on direct, immediate owners becomes less meaningful because these owners are accountable to their ultimate controlling owners and often lack the discretionary decision-making power to significantly affect their firms' CSR performance. However, prior research has not adequately theorized or examined how ultimate controlling owners' underlying motivations and decision-making power may affect their firms' CSR performance. Combining agency, instrumental, and institutional arguments for CSR, we aim to develop a comprehensive framework that elucidates the reasons behind and the conditions under which indirect, ultimate controlling owners can affect their firms' CSR performance.

Ultimate Controlling Owners' Control Rights and Firms' CSR Performance

Ultimate controlling owners, who possess the highest control rights over their subsidiaries and affiliated firms, play a crucial role in many economies (Claessens et al., 2000; La Porta et al., 1999). For example, in 2021, Chinese state-owned business groups contributed approximately 30% of China's GDP, while Samsung Group alone accounted for 20.3% of South Korea's GDP. These ultimate controlling owners employ intricate, complex ownership structures (e.g., indirect pyramid ownership, dual-class share structure, and complex cross-holdings) that grant them dominant control over their firms, often beyond their ownership rights (Almeida & Wolfenzon, 2006; Claessens et al., 2000; Faccio & Lang, 2002). Ultimate controlling owners can be individuals (e.g., founders), families, institutional investors, or even the state (Almeida & Wolfenzon, 2006; La Porta et al., 1999). Examples of ultimate controlling owners include the family-owned Tata Group in India, which controls publicly listed firms Tata Steel, Tata Motors, and Tata Power. Similarly, the founder-owned Fosun International in China oversees publicly listed firms Fosun Pharma, Hainan Mining United, and Sichuan Tuopai Shede. These ultimate controlling owners exert significant power over their firms' strategic actions by setting strategic objectives, allocating critical corporate resources, and appointing top executives to these firms (Cuervo-Cazurra & Colpan, 2023; Faccio & Lang, 2002). As a result, to comprehend the impact of owners on their firms' CSR performance, it is essential to focus on the overlooked motives and influence of ultimate controlling owners.

We propose that ultimate controlling owners with greater control rights will promote CSR performance in their firms for several reasons. First, ultimate controlling owners with greater control rights face stronger external stakeholder pressure because of the higher potential for principal–principal conflicts (Morck et al., 2005; Young et al., 2008). Through

their dominant control rights, ultimate controlling owners can easily prioritize their self-interests at the expense of minority owners and other stakeholders and minimal cost or risk to themselves (Almeida & Wolfenzon, 2006; Johnson et al., 2000), such as engaging in related-party transactions or appointing family members or acquaintances to key managerial positions (Qian et al., 2017; Young et al., 2008). However, the possibility of principal–principal conflicts and expropriation behaviors by ultimate controlling owners are frowned on by minority owners and other stakeholders because such actions can lead to weaker firm performance, heightened risks of organizational distress, and even disruptions in the stock market by encouraging excessive speculation (Lo et al., 2010; Tu & Yu, 2015). In particular, market regulators view expropriation by ultimate controlling owners as exploitative and not conforming to market and societal norms. As a result, regulators have implemented legislation prohibiting and penalizing such behaviors, including prosecuting controlling owners and delisting their firms (Li & Qian, 2013; Yang & Schwarz, 2016).

Given that ultimate controlling owners with greater control rights face stronger external pressure to reassure key stakeholders that they are responsible owners, we argue that they will be more motivated to promote CSR performance in their firms. By ensuring improved CSR performance in their firms, ultimate controlling owners with greater control rights can demonstrate that they are responsible and accountable owners who prioritize the collective interests of stakeholders, thereby gaining legitimacy and goodwill from their stakeholders (Aguilera et al., 2007; Campbell, 2007). By promoting better CSR performance in their firms, ultimate controlling owners can enhance their pragmatic legitimacy, defined as the “self-interested calculations” of their most immediate stakeholders (Suchman, 1995, p. 578), and moral legitimacy, which reflects a “positive normative evaluation of the organization and its activities” (Suchman, 1995, p. 579).

Second, ultimate controlling owners with greater control rights also wield more significant decision-making power to affect CSR investments and ensure better performance. In contexts where ownership and control are separated (Berle & Means, 1932), widely dispersed shareholders cannot directly affect firms' CSR investments and performance (Faller & zu Knyphausen-Aufseß, 2018). In such cases, firms' managers make decisions regarding CSR, while shareholders can only engage in dialog with managers, propose shareholder resolutions, or vote on CSR-related proposals (Sparkes & Cowton, 2004). However, ultimate controlling owners with greater control rights exert substantial power over their firms' strategic decisions, and they can set CSR performance objectives, allocate critical resources to CSR investments, and appoint top executives to strategic positions to achieve their CSR goals. Thus, ultimate controlling owners with greater control

rights possess the decision-making authority to promote better CSR performance in their firms. Hence, we predict the following:

Hypothesis 1 (H1) Ultimate controlling owners with greater control rights promote better CSR performance in their firms.

To validate our theorized underlying mechanism for why ultimate controlling owners with greater control rights will promote firms' CSR performance, we explore organizational conditions that influence the extent to which ultimate controlling owners are likely to gain legitimacy and goodwill through their firms' CSR performance. Specifically, we investigate two moderating factors: (1) corporate name-sharing and (2) financial analyst coverage.

Moderating Role of Corporate Name-Sharing

Corporate name-sharing between ultimate controlling owners and their firms is an organizational condition that will likely influence the degree to which these owners with greater control rights will promote better CSR performance in their firms. In complex ownership structures, ultimate controlling owners may make differing decisions regarding whether to share corporate names with their subsidiaries and affiliated firms. Some ultimate controlling owners choose to share similar corporate names with their firms as a strategic approach to strengthen their association and enhance brand recognition. A prominent illustration of this is the Tata Group. By adopting the same “Tata” corporate name across its subsidiaries, the ultimate controlling owner establishes a clear link with the firms they control. Conversely, other ultimate controlling owners prefer not to share similar corporate names with their firms. For example, several subsidiaries of Fosun International have distinct corporate names that do not directly connect to the ultimate controlling owner's name, such as Hainan Mining United or Sichuan Tuopai Shede.

When ultimate controlling owners and their subsidiaries and affiliated firms share similar corporate names, we argue that this strengthens the positive relationship between owners' control rights and their firms' CSR performance. As organizational scholars have explained, corporate names signify categories of meaning that help audiences classify social entities into equivalent or nonequivalent sets and make sense of their relationships (Glynn & Abzug, 2002). A group of firms with similar corporate names facilitates their classification as members of the same business group (Ingram, 1996). Such a classification enables key stakeholders to easily associate ultimate controlling owners with their firms. Consequently, key stakeholders can more directly connect firms' CSR performance to their ultimate controlling

owners. This clear association allows ultimate controlling owners to more directly demonstrate to their stakeholders that they are responsible owners and help them gain legitimacy and goodwill. However, when firms do not share similar corporate names with their ultimate controlling owners, key stakeholders are less likely to associate them as members of the same business group. As a result, ultimate controlling owners are less likely to gain legitimacy and goodwill from their firms' improved CSR performance. Hence, ultimate controlling owners who do not share the same corporate name with their firms are less motivated to promote CSR performance in their firms. Thus, we propose the following:

Hypothesis 2 (H2) The positive relationship between ultimate controlling owners' control rights and their firms' CSR performance is strengthened when they share similar corporate names.

Moderating Role of Financial Analyst Coverage

Financial analyst coverage is another crucial organizational condition that likely influences the degree to which these owners with greater control rights will promote better CSR performance in their firms. While most publicly listed firms receive some financial analyst coverage, the level of coverage can vary significantly, with certain firms receiving more attention than others (Zhang et al., 2020). Financial analysts play a critical role as information intermediaries in the capital market. They interact directly with top executives and industry experts through their professional networks, conducting in-depth research to provide high-quality information about publicly listed firms (Wiersema & Zhang, 2011). Their efforts reduce the information asymmetries among firms, investors, and other stakeholders (Irani & Oesch, 2013). Increased financial analyst coverage enhances a firm's visibility, subjecting it to greater public scrutiny and, more importantly, improving its transparency (Pollock et al., 2008). This increased transparency allows key stakeholders to be better informed about the firm, its top executives, and its ultimate controlling owners. Consequently, financial analyst coverage acts as a bridge through which key stakeholders can access information about a firm's CSR performance and, in turn, enables firms to benefit from their socially responsible practices (Dhaliwal et al., 2012).

In the context of our study, we argue that increased financial analyst coverage strengthens the positive relationship between ultimate controlling owners' control rights and their firms' CSR performance by reducing information asymmetry, improving information transparency, and enabling external stakeholders to identify and connect ultimate controlling owners with the firms they control. As a result, key stakeholders can more directly link firms' improved CSR performance to their ultimate controlling owners, allowing them

to demonstrate to their stakeholders that they are responsible owners and help them gain legitimacy and goodwill. This heightened association motivates ultimate controlling owners to promote CSR performance in their firms. Thus, we propose the following:

Hypothesis 3 (H3) The positive relationship between ultimate controlling owners' control rights and their firms' CSR performance is strengthened when their firms receive increased financial analyst coverage.

Methods

Sample and Data

Our sample frame comprises all publicly listed Chinese firms on the Shanghai and Shenzhen Stock Exchanges from 2008 to 2017. The Chinese context offers several crucial advantages in addressing our research question on why and when ultimate controlling owners affect their firms' CSR performance. First, many Chinese firms, both private and publicly listed, possess an ultimate controlling owner that exerts effective control over the firm, typically through an indirect pyramid ownership structure (Jiang & Kim, 2015). More importantly, the China Securities Regulatory Commission mandates that all publicly listed firms disclose their ownership control chain and identify their ultimate controlling owner. This requirement ensures the availability of high-quality, publicly accessible data on ultimate controlling owners, often lacking in other research contexts. Second, China has one of the most comprehensive datasets on publicly listed firms' CSR performance—comparable to those in many developed economies. The annual Rankins CSR Ratings (RKS) were created in 2007 and first released in 2009 (<http://www.rksratings.cn>). These ratings were modeled after the well-established CSR measure designed by Kinder, Lydenberg, Domini, & Co. (KLD) and adapted to the Chinese context. RKS provides an independent, valid, and reliable measure of publicly listed Chinese firms' CSR performance. This CSR dataset has been used in several articles published in leading management journals (e.g., Lau et al., 2016; Li & Lu, 2020; Marquis & Qian, 2014). Collectively, the Chinese context allows us to investigate the reasons behind and the conditions under which ultimate controlling owners can affect their firms' CSR performance.

The unit of analysis in our study is a publicly listed Chinese firm. We construct our data from multiple sources. First, we gather annual firm and financial analyst data, including information on the control rights of ultimate controlling owners and financial analyst coverage, from the China Stock Market and Accounting Research (CSMAR) database (<http://www.gtarsc.com>). Second, we obtain annual

ratings of firms' CSR performance from RKS. After combining the above databases and removing observations with missing data, our final sample consists of 5406 firm-year observations from 852 unique firms that RKS rated. We lag all predictor variables by one year.

Dependent Variable

Firms' CSR Performance

We measured publicly listed Chinese firms' CSR performance using the annual RKS rating. RKS draws on firms' annual CSR reports and other public communications (including press releases) to assess their CSR performance. Using a rating system based on the Global Reporting Initiative (3.0) adapted to the Chinese context, RKS assesses up to 70 subdimensions, with minor variations in subdimensions across some years, along 3 key dimensions: (1) an overall evaluation that assesses the three key areas of CSR strategy, CSR organization and management, and stakeholder CSR participation using 15–16 subdimensions; (2) a content evaluation that assesses the six key areas of economic responsibility, labor and human rights, environment, fair operation, consumer protection, and community involvement using 30–32 subdimensions; and (3) a technical evaluation that assesses the seven key areas of CSR content and scope, CSR relevance and balance, CSR information content, CSR innovation, CSR transparency, CSR regularity, and CSR communication effectiveness using 19–20 subdimensions.

Each firm's CSR rating is evaluated by at least three RKS experts, each with at least 3 years of CSR experience and no conflicts of interest involving the focal firm. The rating scale is 0 to 4 points, with an interval of 0.5 points. A composite CSR performance score (ranging from 0 to 100) is created based on the weighted average of the scores of the three key dimensions (overall 30%, content 50%, and technical 20%). This measure indicates the focus, resources, and outcomes of firms' CSR, with a higher rating indicating improved CSR performance. We use the composite score in our primary analysis but also conduct supplementary analyses using only the overall evaluation and content evaluation dimensions as robustness checks.

Independent Variable

Ultimate Controlling Owners' Control Rights

Following the finance research on ownership control (Claessens et al., 2000; Faccio & Lang, 2002), we measured *ultimate controlling owners' control rights* based on their voting rights within their ownership chain instead of their simple ownership rights. We followed Claessens et al. (2000) to measure control (voting) rights by taking the minimal

percentage ownership within the ownership chain between an ultimate controlling owner and their firms. In indirect, complex ownership structures, control (voting) rights differ from ownership (cash-flow) rights traditionally captured by ownership concentration. For example, when the ultimate controlling owner directly controls Firm Z, if it owns 30% of its shares, it has 30% of the ownership (cash-flow) rights and 30% of the control (voting) rights [i.e., the ultimate controlling owner's control rights equal its ownership (voting) rights].

However, control (voting) rights differ from ownership (cash-flow) rights in situations where the ultimate controlling owner does not directly control a firm (e.g., indirect pyramid ownership structure). For example, suppose the ultimate controlling owner owns 30% of the shares in Firm X, which owns 20% of the shares in Firm Y, which owns 30% of the shares in Firm Z. In this case, the ultimate controlling owner only has 1.8% ($30\% * 20\% * 30\%$) of the ownership (cash-flow) rights in Firm Z—the product of all its stakes along the ownership chain. However, Firm Z's ultimate controlling owner's control (voting) rights are 20%, the lowest stake along the ownership chain. In this case, the ultimate controlling owner's control (voting) rights are greater than its ownership (cash-flow) rights. In our empirical context, 88.33% of publicly listed Chinese firms in our sample have an indirect pyramid ownership structure, and only 11.67% have a direct ownership structure where control (voting) rights equal their ownership (cash-flow) rights.

Moderator Variables

Corporate Name-Sharing

We followed the research on subsidiaries (e.g., Belenzon et al., 2019) and used a dichotomous variable to assess *corporate name-sharing*. When an ultimate controlling owner shares similar corporate names [i.e., at least two of the same Chinese characters, excluding characters reflecting the legal status of the firm (e.g., company), the nature of the business (e.g., telecommunications), or the geographical location (e.g., Beijing)] with its publicly listed firm, this variable takes the value of one and zero otherwise.

Financial Analyst Coverage

Following previous studies (White, 2010; Zhang et al., 2020), we considered a financial analyst to be covering a particular firm in year t when that analyst has issued an annual earnings forecast for that firm during its fiscal period ending in year t . As White (2010) suggested, we calculated adjusted *financial analyst coverage* as the proportion of financial analysts covering an industry segment j that covers firm i . Specifically, if there are A_j financial analysts covering

an industry segment j and ai Financial analysts who choose to cover firm i in that industry segment, then the adjusted financial analyst coverage is calculated as ai/Aj (Zhang et al., 2020).

Control Variables

We carefully reviewed the CSR literature and included a comprehensive list of control variables for factors likely to affect firms' CSR performance to avoid potential endogeneity threats from omitted variables. To account for firms' general characteristics, we included *firm age*, measured as the number of years since the firm was established, and *firm size*, measured as the natural log of total assets (Wang & Qian, 2011). Firms' discretionary resources have been suggested to encourage and ensure improved CSR performance. We controlled for firms' *slack resources*, calculated as the net cash flow from operating, financing, and investing activities scaled by total assets to minimize the noise from firm size (Carow et al., 2004). We also controlled for *firm performance* using return on assets (ROA), calculated as net income over total assets.

Research on CSR has also accounted for firms' information disclosure experiences. To control this, we included *firm reporting experience*, which equals one if the firm issued a CSR report last year and zero otherwise, and *firm voluntary reporting*, which equals one if the firm issued a CSR report voluntarily and zero otherwise.¹ Prior research has also shown that firms with high media coverage are more likely to engage in CSR (Marquis & Qian, 2014). Therefore, we controlled for *firm media coverage*, measured as the total number of news reports per year. We also controlled for potential international pressure on Chinese publicly listed firms to engage in CSR by including firms' *foreign sales*, measured as the percentage of foreign sales.

We also controlled for several corporate governance variables affecting firms' CSR performance. Specifically, we included *foreign ownership*, measured as the percentage of ownership by foreign investors, and *managerial ownership*, calculated as the percentage of ownership by managers (including directors, executives, and supervisors). While our theory does not differentiate the types of ultimate controlling owners and should apply to all owner types, including individuals, families, institutional investors, or even the

state, research suggests that types of owners might affect their motives and influence to promote CSR performance in their firms (Faller & zu Knyphausen-Aufseß, 2018). In particular, we controlled for state ultimate controlling owners by including a dichotomous variable that equals one when the ultimate controlling owner is the Chinese government and zero otherwise.² We also controlled for the role of the board of directors on firms' CSR performance by including *board size*, measured as the number of directors on the firm's board, and *board independence*, measured as the proportion of independent directors (Lau et al., 2016). To control for potential principal–principal conflict and ultimate controlling owners' expropriation, we included *related-party transactions*, measured as the total value of transactions with related parties scaled by total assets (Jia et al., 2013).

Given the role of top executives in firms' CSR as highlighted in prior research (Petrenko et al., 2016), we controlled for the influence of CEOs using *CEO duality*, a dichotomous variable that equals one if the CEO is also the board chair and zero otherwise. Research has also examined the influence of top executives' political connections on CSR performance. We controlled for this influence using a dichotomous variable that equals one when the board chair has served in the government and zero otherwise (Gupta et al., 2021). Following previous studies (e.g., Zhou et al., 2017), we controlled for the degree of institutional development of the province where the publicly listed firm is headquartered using the composite “marketization” index developed by the NERI of China (Fan et al., 2011). Finally, we added industry- and year-fixed effects to our regression model to minimize the influence of industry characteristics and time series factors on the regression results. We included 12 industry dummies representing 13 industry categories identified by the CSRC.³

Empirical Model

We carefully followed Du et al. (2023) recommendations for addressing endogeneity problems in CSR research. First, we diagnosed potential endogeneity threats and explicitly identified specific sources of endogeneity threats in our study.

¹ Some Chinese publicly listed firms must issue CSR reports because of stock market regulations. For example, Chinese firms listed on the Hong Kong or New York Stock Exchanges are required to issue CSR reports. Similarly, Chinese publicly listed firms in the financial industries or those in the Shenzhen Stock Exchange 100 Index are required to issue CSR reports. Other publicly listed Chinese firms are not required to issue CSR reports, and these are classified as voluntary reports if they do so.

² In supplementary analysis, we also controlled for individual and foreign ultimate controlling owners using dummy variables that equals one when the ultimate controlling owner is an individual or foreign owner and zero otherwise. They were not significant and therefore excluded in Table 3. Results for the supplementary analysis are provided in the Supplementary Materials (Table 11).

³ The industry categories are agriculture, forestry, livestock rearing, and fishing; mining; manufacturing; electric power, gas, and water production and supply; construction; transport and storage; information technology; wholesale and retail trade; finance and insurance; real estate; social service; communication and cultural industries; and a comprehensive residual category.

Second, we explained and justified the prescribed solutions for addressing these endogeneity threats. Finally, we carefully reported the results of our primary and supplementary analyses to increase transparency and establish the validity and robustness of our findings (Hill et al., 2021). The main endogeneity threat for our study is sample selection bias because the selection of firms into our sample is not random (Certo et al., 2016; Wooldridge, 2010). Specifically, there might be systematic differences between firms that received a CSR rating and those that did not because they failed to issue a CSR report.

Minor endogeneity threats from omitted variables (i.e., unobserved heterogeneity) and measurement errors may also be present in our study, and we addressed these threats by applying the prescribed solutions recommended by Hill et al. (2021). We included a comprehensive list of relevant control variables from previous studies to address the risk of omitted variables. We also ran a sensitivity analysis that included fixed effects and supplementary analyses using instrumental variable estimators [i.e., two-stage least squares (2SLS) and generalized method of moments (GMM), results are in Table 5, 6 of the Supplementary Materials]. To address the threat of measurement error, we used the most reliable and valid measure for ultimate controlling owners' control rights in the finance literature (Claessens et al., 2000). We also ran supplementary analyses using alternative measures for the independent variable (deviation in ultimate controlling owners' control (voting) and ownership (cash-flow) rights) and the dependent variable (RKS overall evaluation and content evaluation) (Table 7–9 of the Supplementary Materials). The endogeneity threat from simultaneity (i.e., reverse causality) is theoretically unlikely and empirically handled through lagged predictor variables in our estimation models.

To effectively address the potential endogeneity problem presented by sample selection bias, we carefully implemented the two-stage Heckman (1979) process following the approach recommended by Certo et al. (2016). Our first-stage model used a probit model to estimate the probability of an observation's entering our sample. In the first-stage model, we estimated a probit model for whether or not firms received a CSR rating by RKS because they issued their CSR report. The first-stage dependent variable equals one if the firm received a CSR rating and zero otherwise. We included at least one exclusion restriction variable in the first-stage model that influences the probability of an observation appearing in our sample, but it does not influence our ultimate dependent variable of interest and is excluded from the second-stage model (Certo et al., 2016).

Given that different exclusion restriction variables have been applied in previous studies set in the Chinese context, we ran multiple analyses and used the approach that Certo et al. (2016) recommended to determine the most appropriate exclusion restriction variable. We applied the publicly

listed firms' (1) stock exchange, a dummy variable that equals 1 if the firm is listed on the Shenzhen Stock Exchange and 0 if it is listed on the Shanghai Stock Exchange (Marquis & Qian, 2014); (2) board interlocks with firms that issued a CSR report, a dummy variable coded as 1 if a firm had at least one board member serving on the board of any of the firms that had issued a CSR report in the previous year (Luo et al., 2017); and (3) average donations of peer firms in the same province. All three exclusion restriction variables met the appropriateness criteria that Certo et al. (2016) recommended. Most importantly, they are likely to affect the probability of whether or not firms received a CSR rating because they had issued a CSR report, our first-stage dependent variable. However, they are unlikely to affect firms' CSR performance as rated by RKS, our second-stage dependent variable. Since the publicly listed firms' stock exchanges produced better results based on Certo et al. (2016) appropriateness criteria, we reported this set of results in our study (results from other exclusion restriction variables applied independently and in combinations are provided in Table 10 in the Supplementary Materials). Table 1 presents the results of the first-stage probit regression. We then calculated the inverse Mills ratio (IMR) based on our first-stage model and controlled for this factor in the second-stage models.

Our second-stage model used OLS to predict our ultimate dependent variable, firms' CSR performance, and included a selection parameter from our first-stage model, the inverse Mills ratio (IMR). To test our hypotheses in the second stage, we applied the following equation:

$$\begin{aligned} \text{CSR performance} = & \beta_0 + \beta_1 \text{control rights} + \beta_2 \text{moderators} \\ & + \beta_3 \text{control rights} * \text{moderators} \\ & + \beta_4 \text{IMR} + \beta_5 X + \varepsilon, \end{aligned}$$

where the moderators are *corporate name-sharing* and *financial analyst coverage*, *IMR* is the inverse Mills ratio, *X* is the set of control variables, and ε is the error term. We mean-centered our independent and moderator variables (Aiken & West, 1991).

Results

Table 2 presents the descriptive statistics. We checked for potential multicollinearity problems by computing variance inflation factors (VIFs). The average VIF value of our variables was 1.24, and the highest value was 2.05, well below the rule-of-thumb cutoff of 10. However, several reasonably high bivariate correlations (albeit $< \pm 0.3$) among our study variables and opposite beta coefficient signs prompted us to check for common factor multicollinearity problems and the risk of Type 1 error in our results (Kalnins, 2018). As

Table 1 First-stage Heckman model predicting whether firms have a CSR rating

Variables	Model
Stock exchanges	−0.25*** (0.04)
Provincial institutional development	0.01 (0.01)
Firm age	−0.26*** (0.04)
Firm size	0.20*** (0.02)
Slack resources	0.63*** (0.11)
ROA	0.15*** (0.04)
Related-party transactions	−0.03 (0.09)
Board size	0.02* (0.01)
Board independence	0.30 (0.32)
CEO duality	−0.01 (0.04)
Political connection	0.05 (0.03)
Managerial ownership	0.33* (0.15)
State owner	0.09* (0.04)
Foreign sale	0.59*** (0.17)
Foreign ownership	−3.44 (2.62)
Reporting experiences	3.31*** (0.04)
Media coverage	0.11*** (0.01)
Constant	−5.97*** (0.36)
Observations	20,721
Wald χ^2	2204.37

Robust standard errors in parentheses

† $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; two-tailed tests

Kalnins (2018, p. 2376) argued, a Type 1 error may result when all of the following three conditions are present: (1) two variables, at least one of which appears to support a hypothesis, are correlated approximately ± 0.3 or higher but lower for large sample sizes; (2) the two variables have beta coefficients of opposite signs if positively correlated; and (3) a hypothesized variable's bivariate correlation with

the dependent variable has a sign opposite that of the beta coefficient. Among the variables, our independent variable, ultimate controlling owners' control rights, and moderator variables, corporate name-sharing, and financial analyst coverage, met all three conditions, posing the risk of Type 1 error in our results.

We thus adopt Kalnins (2018, p. 2378) approach to mitigate potential issues by presenting multiple specifications. This involves conducting separate regressions with only one of the collinear variables of interest, then with the other, and finally including both variables together. By examining the consistency of coefficient signs and magnitudes across these specifications, we can assess the impact of multicollinearity on the results. If the signs remain consistent and the magnitudes are relatively stable, multicollinearity is unlikely to distort the findings. However, if the coefficients switch signs or show significant changes in magnitudes when a correlated variable is added, drawing conclusive support for a hypothesis becomes challenging because of the increased likelihood of encountering false positives or Type 1 errors. Table 3 presents the results of the second-stage estimations following Kalnins (2018) mitigation approach.

H1 examines the effect of ultimate controlling owners' control rights on their firms' CSR performance. Table 3, Model 1 includes only the control variables and the year and industry fixed effects. Model 2 reflects the addition of our independent variable, ultimate controlling owners' control rights, to establish its independent effect. Ultimate controlling owners' control rights were positively and significantly associated with firms' CSR performance ($b = 3.04$, $p < 0.01$). In Model 3, we added the moderator, corporate name-sharing, to establish its independent effect. Corporate name-sharing was negatively and significantly associated with firms' CSR performance ($b = -1.06$, $p < 0.001$). In Model 4, we included both collinear variables, and corporate name-sharing was negatively and significantly associated with firms' CSR performance ($b = -1.12$, $p < 0.001$). At the same time, ultimate controlling owners' control rights remained positively and significantly associated ($b = 3.27$, $p < 0.001$), supporting H1. A one standard deviation increase in ultimate controlling owners' control rights was associated with a rise of 4% in the index score for firms' CSR performance, demonstrating meaningful, practical significance.

H2 investigates the potential moderating influence of corporate name-sharing on the positive relationship between ultimate controlling owners' control rights and their firms' CSR performance. In Model 5, the interaction term was positive and significant ($\beta = 9.53$, $p < 0.001$). This result reveals that the positive relationship between ultimate controlling owners' control rights and their firms' CSR performance is stronger when ultimate controlling owners share similar corporate names with their firms, supporting H2. Regarding practical significance, assuming the mean CSR performance

Table 2 Descriptive statistics and correlation matrix

Variables	Mean	SD	1	2	3	4	5	6	7	8
1 CSR performance	40.19	12.16								
2 UCO's control rights	0.42	0.16	0.17							
3 Corporate name-sharing	0.52	0.50	0.09	0.15						
4 Financial analyst coverage	0.12	0.16	0.23	0.21	0.14					
5 Provincial institutional development	7.85	1.85	0.17	0.02	-0.01	-0.06				
6 Firm age	2.78	0.38	0.01	-0.22	-0.04	-0.17	0.18			
7 Firm size	22.98	1.46	0.47	0.26	0.28	0.34	0.12	0.08		
8 Slack resources	0.02	0.10	-0.02	-0.01	-0.02	0.02	-0.01	-0.07	-0.01	
9 Firm performance (ROA)	0.05	0.12	-0.01	0.02	0.00	0.08	0.00	-0.05	-0.08	0.02
10 Related-party transactions	0.03	0.11	-0.06	-0.03	-0.03	-0.04	0.01	0.03	-0.10	0.01
11 Board size	9.24	1.98	0.15	0.03	0.14	0.14	-0.11	0.01	0.23	0.00
12 Board independence	0.37	0.06	0.07	0.08	0.01	0.04	0.02	-0.09	0.13	0.01
13 CEO duality	0.17	0.37	-0.06	-0.08	-0.08	-0.04	0.10	-0.04	-0.12	0.02
14 Political connection	0.35	0.48	0.03	0.00	0.02	0.08	-0.03	-0.10	0.04	0.00
15 Foreign ownership	0.00	0.01	0.04	-0.03	0.04	0.08	0.03	0.00	0.06	0.03
16 Managerial ownership	0.03	0.09	-0.09	-0.03	-0.26	-0.03	0.07	-0.24	-0.26	0.08
17 State owner	0.62	0.49	0.16	0.19	0.26	0.06	-0.09	0.08	0.32	-0.04
18 Foreign sales	0.02	0.10	0.05	-0.03	-0.06	-0.07	0.04	0.00	-0.05	-0.01
19 Reporting experiences	0.84	0.37	0.10	-0.01	0.12	0.00	0.05	0.16	0.18	-0.16
20 Media coverage	4.03	1.42	0.34	0.12	0.17	0.37	0.00	-0.02	0.55	0.02
21 Volunteer reporting	0.44	0.50	-0.11	-0.04	-0.23	-0.20	0.04	-0.01	-0.38	0.01

Variables	9	10	11	12	13	14	15	16	17	18	19	20
10 Related-party transactions	0.00											
11 Board size	-0.01	-0.03										
12 Board independence	-0.01	0.00	-0.33									
13 CEO duality	0.07	0.03	-0.15	0.08								
14 Political connection	0.03	-0.03	0.03	0.00	0.06							
15 Foreign ownership	0.05	-0.01	0.00	0.01	0.06	0.02						
16 Managerial ownership	0.05	0.01	-0.15	0.03	0.38	0.05	-0.02					
17 State owner	-0.08	-0.05	0.25	-0.01	-0.29	-0.11	-0.01	-0.38				
18 Foreign sales	-0.02	0.01	-0.02	-0.02	0.04	0.01	-0.02	-0.03	-0.03			
19 Reporting experiences	-0.05	-0.01	0.05	0.02	-0.09	0.00	0.03	-0.15	0.15	-0.01		
20 Media coverage	0.05	-0.06	0.16	0.11	0.00	0.12	0.11	-0.09	0.10	-0.07	0.07	
21 Volunteer reporting	-0.03	0.03	-0.16	-0.04	0.09	-0.02	-0.07	0.23	-0.28	0.07	-0.15	-0.26

N=5406; correlations with absolute values greater than 0.03 are significant at 95% confidence intervals

of 40.19, the increase in firms' CSR performance due to corporate name-sharing was 23.71%.

H3 examines the potential moderating influence of financial analyst coverage on the positive relationship between ultimate controlling owners' control rights and their firms' CSR performance. In Model 6, the interaction term between ultimate controlling owners' control rights and analyst coverage was positive and significant ($\beta = 20.02, p < 0.001$). This result suggests that the positive relationship between ultimate controlling owners' control rights and their firms' CSR performance was stronger when firms received increased financial analyst coverage, supporting H3. Regarding

practical significance, assuming the mean CSR performance of 40.19, the increase in firms' CSR performance due to a one standard deviation increase in financial analyst coverage was 7.99%.

We plotted graphs to illustrate the interaction effects. Figure 1 shows that for ultimate controlling owners who share similar corporate names with their firms, the relationship between their control rights and CSR performance was more positive (i.e., steeper slope) than those who do not share similar corporate names. Similarly, Fig. 2 shows that for firms with increased financial analyst coverage, the relationship between ultimate controlling owners' control rights

Table 3 Ultimate controlling owners' control rights on firms' CSR performance

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
UCO's control rights		3.04** (0.95)		3.27*** (0.95)	-1.15 (1.24)	0.27 (1.14)
UCO's control rights * Corporate name-sharing					9.53*** (1.78)	
UCO's control rights * Financial analyst coverage						20.02*** (5.57)
Corporate name-sharing			-1.06*** (0.30)	-1.12*** (0.30)	-5.08*** (0.80)	
Financial analyst coverage						-3.19 (2.81)
Provincial institutional development	0.73*** (0.09)	0.71*** (0.09)	0.74*** (0.09)	0.72*** (0.09)	0.72*** (0.09)	0.70*** (0.09)
Firm age	-2.85*** (0.45)	-2.53*** (0.46)	-2.97*** (0.45)	-2.64*** (0.46)	-2.35*** (0.46)	-2.35*** (0.46)
Firm size	3.13*** (0.16)	3.03*** (0.16)	3.20*** (0.16)	3.10*** (0.16)	3.08*** (0.16)	2.88*** (0.16)
Slack resources	3.40* (1.40)	3.42* (1.40)	3.41* (1.40)	3.43* (1.40)	3.44* (1.39)	3.41* (1.40)
Firm performance (ROA)	2.24+ (1.24)	2.03 (1.24)	2.32+ (1.24)	2.11+ (1.24)	2.01 (1.24)	1.50 (1.24)
Related-party transactions	-0.84 (1.22)	-0.88 (1.22)	-0.84 (1.22)	-0.87 (1.22)	-0.99 (1.22)	-0.95 (1.22)
Board size	0.48*** (0.08)	0.49*** (0.08)	0.49*** (0.08)	0.50*** (0.08)	0.49*** (0.08)	0.46*** (0.08)
Board independence	7.25** (2.67)	7.00** (2.67)	7.11** (2.67)	6.83* (2.67)	6.27* (2.66)	6.66* (2.66)
CEO duality	-0.72+ (0.42)	-0.68 (0.42)	-0.65 (0.42)	-0.59 (0.42)	-0.57 (0.42)	-0.60 (0.42)
Political connection	0.64* (0.31)	0.65* (0.31)	0.65* (0.31)	0.67* (0.31)	0.71* (0.31)	0.68* (0.31)
Foreign ownership	11.26 (22.25)	14.07 (22.23)	11.52 (22.24)	14.55 (22.22)	18.59 (22.15)	11.17 (22.21)
Managerial ownership	1.10 (1.82)	0.97 (1.82)	-0.08 (1.85)	-0.30 (1.85)	0.02 (1.85)	0.86 (1.82)
State owner	1.76*** (0.35)	1.59*** (0.35)	1.91*** (0.35)	1.73*** (0.36)	1.85*** (0.36)	1.83*** (0.35)
Foreign sale	9.53*** (1.50)	9.67*** (1.50)	9.22*** (1.51)	9.35*** (1.50)	9.30*** (1.50)	9.97*** (1.50)
Reporting experiences	13.54*** (1.96)	13.43*** (1.96)	13.74*** (1.96)	13.63*** (1.96)	13.28*** (1.96)	13.23*** (1.96)
Media coverage	1.56*** (0.13)	1.56*** (0.13)	1.57*** (0.13)	1.57*** (0.13)	1.51*** (0.13)	1.39*** (0.13)
Volunteer reporting	1.25*** (0.32)	1.15*** (0.32)	1.19*** (0.32)	1.08*** (0.32)	1.03** (0.32)	1.17*** (0.32)
IMR	7.68*** (1.08)	7.59*** (1.08)	7.75*** (1.08)	7.66*** (1.08)	7.47*** (1.08)	7.46*** (1.08)
Constant	-66.73*** (4.70)	-66.48*** (4.69)	-67.57*** (4.70)	-67.35*** (4.69)	-64.70*** (4.71)	-63.26*** (4.71)
Year and industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5406	5406	5406	5406	5406	5406
Wald χ^2	2130.34	2146.04	2145.44	2163.27	2207.79	2207.60

Robust standard errors in parentheses

† $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; two-tailed tests

Fig. 1 Moderating effect of corporate name-sharing

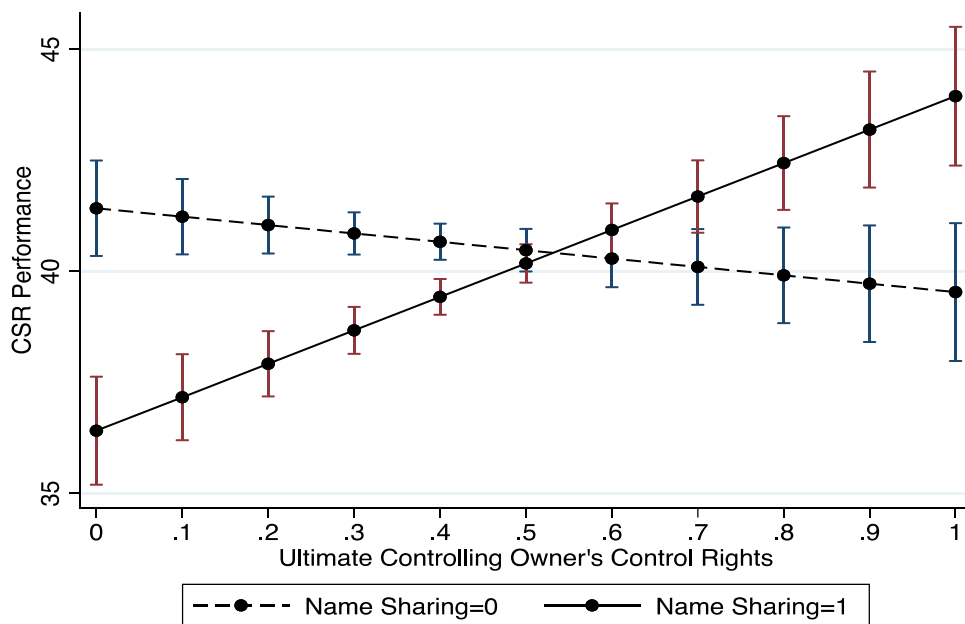
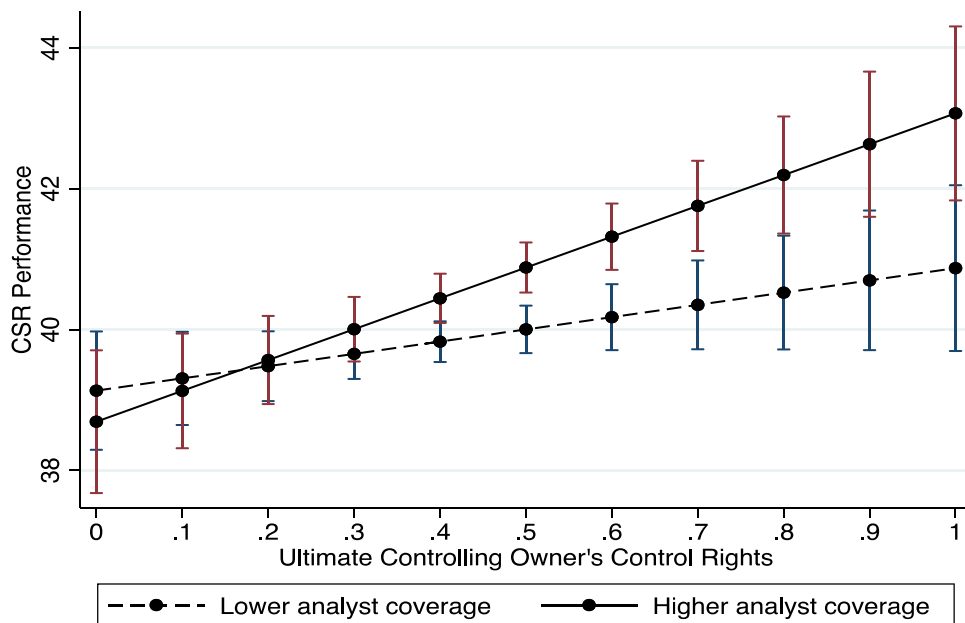


Fig. 2 Moderating effect of financial analyst coverage



and CSR performance was more positive (i.e., steeper slope) than those with less coverage.

Supplementary Analyses and Robustness Tests

We conducted supplementary tests to differentiate the effects of ultimate controlling owners' control rights from previous studies that have examined direct, immediate owners' ownership concentration on firms' CSR performance. In our data, 18.67% of our observations involved ultimate controlling owners who were also direct, immediate owners via a

simple, direct ownership structure, and 81.33% who controlled their firms through an indirect, pyramid ownership structure. We replaced ultimate controlling owners' control rights with ownership concentration of direct, immediate owners and ran our main effects model for our full sample, the subsample when direct, immediate owners are also the ultimate controlling owners (18.67%), and the subsample when direct, immediate owners are not the ultimate controlling owners (81.33%). As the results in Table 4 show, for our full sample, the ownership concentration was positively and significantly related to firms' CSR performance ($\beta=2.33$,

Table 4 Effect of ownership concentration on firms' CSR performance

Variables	Full sample	UCO is the direct, immediate owner sub-sample	UCO is NOT the direct, immediate owner sub-sample
Ownership concentration	2.33* (0.96)	7.02* (3.16)	1.52 (1.02)
Provincial institutional development	0.68*** (0.09)	1.40*** (0.25)	0.60*** (0.09)
Firm age	-2.47*** (0.45)	2.32* (0.93)	-3.55*** (0.50)
Firm size	3.10*** (0.16)	2.21*** (0.46)	3.24*** (0.17)
Slack resources	2.13 (1.39)	2.65 (2.46)	1.40 (1.59)
Firm performance (ROA)	17.13*** (3.30)	31.51*** (8.94)	14.67*** (3.50)
Related-party transactions	-0.99 (1.23)	-0.93 (1.97)	-0.33 (1.44)
Board size	0.49*** (0.08)	0.54* (0.27)	0.46*** (0.09)
Board independence	7.46** (2.65)	8.44 (7.47)	6.04* (2.81)
CEO duality	-0.65 (0.42)	-1.30 (0.90)	-0.59 (0.46)
Political connection	0.57 [†] (0.31)	3.48*** (0.72)	-0.17 (0.33)
Foreign ownership	0.51 (22.27)	-174.56* (75.12)	13.33 (23.05)
Managerial ownership	0.81 (1.84)	-3.79 (2.72)	-1.05 (3.56)
State owner	1.73*** (0.36)	0.76 (1.35)	1.58*** (0.38)
Foreign sale	9.66*** (1.49)	12.85** (4.65)	10.84*** (1.56)
Reporting experiences	11.44*** (1.81)	9.58** (3.45)	10.79*** (2.02)
Media coverage	1.44*** (0.13)	1.87*** (0.33)	1.40*** (0.13)
Volunteer reporting	1.34*** (0.33)	4.04*** (1.04)	0.85* (0.34)
IMR	6.56*** (1.01)	4.26* (1.95)	6.37*** (1.13)
Constant	-65.81*** (4.65)	-59.52*** (12.20)	-64.25*** (5.05)
Year and industry fixed effects	Yes	Yes	Yes
Observations	5406	631	4775
Wald χ^2	2184.79	519.77	2036.47

Robust standard errors in parentheses

[†] $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; two-tailed tests

$p < 0.05$). However, for the subsample when direct, immediate owners are ultimate controlling owners, the effect of ownership concentration on firms' CSR performance was positive and significant ($\beta = 7.02$, $p < 0.05$). In contrast, for the subsample when direct, immediate owners are not ultimate controlling owners, the effect of ownership concentration was positive but not significant ($\beta = 1.52$, $p = 0.14$). Hence, the results for the two subsamples show that the positive and significant effect between ownership concentration and firms' CSR performance was driven entirely by owners who were ultimate controlling owners. The supplementary tests showed that ownership concentration affects firms' CSR performance only when it captures the control rights of ultimate controlling owners. However, when a firm is controlled indirectly through a pyramid ownership structure, the ownership concentration of direct, immediate owners has no significant effect on their firms' CSR performance.

Furthermore, to address potential endogeneity threats from measurement errors, we ran supplementary analyses using an alternative measure for the independent variable, deviation in ultimate controlling owners' control (voting) and ownership (cash-flow) rights, and following previous research (Marquis & Qian, 2014), two alternative measures of the dependent variable, RKS overall evaluation and content evaluation, in place of the composite index score. The results (available in Table 8, 9 in the Supplementary Materials) are similar to those reported above.

Discussion

By emphasizing ultimate controlling owners, we provide original and revelatory insights into how different ownership structures (i.e., direct versus indirect) and owner types (i.e., immediate versus ultimate) can shape owners' motivations and impact their firms' CSR performance. While CSR scholars have long been interested in the role of owners in firms' CSR, previous research focusing on the ownership concentration of direct, immediate owners has yielded conflicting theories and equivocal findings due to owners' diverging preferences between funding and potentially benefiting from their firms' CSR (Faller & zu Knyphausen-Aufseß, 2018). The current literature overlooks how differences in ownership structures and owner types can affect their underlying motives and influence on their firms' CSR practices. In many developed and emerging economies, ultimate controlling owners are prevalent, and they wield considerable power over their subsidiaries and affiliated firms through indirect and intricate ownership structures. Despite their pivotal role, the effect of these influential owners on their firms' CSR performance remains relatively unexplored. To improve the understanding of the effects of owners on firms' CSR, we focus on ultimate controlling owners and develop theories

to explain why and when those with greater control rights exhibit stronger motivations and greater decision-making power to promote better CSR performance in their firms. In doing so, we offer the following key theoretical, ethical, and practical implications.

Theoretical Implications

We contribute significantly to understanding owners' roles in shaping their firms' CSR performance by shifting our focus from the conventional emphasis on the ownership concentration of direct, immediate owners to the essential but overlooked roles of ultimate controlling owners. While CSR scholars recognize the need to more carefully consider how different ownership structures (e.g., direct versus indirect) and owner types (e.g., immediate versus ultimate) can affect owners' motives and influence on firms' CSR performance (Li & Zhang, 2010; Mackenzie et al., 2013), these differences have not been fully recognized or systematically theorized. As Greenwood and Freeman (2018) advocated, business ethics research needs to deepen problematizing thinking by asking questions that are taken for granted and digging deeper into underlying theories and mechanisms supported by quantitative empirical methods. The current literature focusing primarily on the ownership concentration of direct, immediate owners has struggled to explain why and when owners choose to promote or suppress their firms' CSR performance (Faller & zu Knyphausen-Aufseß, 2018). Analyzing the impact of direct, immediate owners without considering how different ownership structures and owner types will shape owners' motives and influence can lead to ambiguous or even misleading conclusions. This has hindered our understanding of owners' vital role in shaping their firms' CSR performance and our ability to promote socially responsible corporate activities that will contribute to a better society. By shifting our focus to ultimate controlling owners, we establish these dominant owners as the focal owners of interest when investigating the impact of owners on their firms' CSR performance instead of direct, immediate owners emphasized in previous studies. Doing so gives us more accurate insights into the relationship between owners and their firms' CSR performance.

Second, by shifting our focus from direct, immediate owners to indirect, ultimate controlling owners, we offer original and revelatory theoretical insights into why ultimate controlling owners will promote better CSR performance in their firms. Combining agency, instrumental, and institutional arguments for CSR, we create a comprehensive theoretical framework that elucidates why ultimate controlling owners with greater control rights face more substantial external stakeholder pressure because of a higher potential for principal–principal conflicts. This stronger external pressure creates stronger motivations for ultimate controlling

owners to promote CSR performance in their subsidiaries or affiliated firms to demonstrate that they are responsible owners and, in turn, gain legitimacy and goodwill from their stakeholders. In doing so, we advance the scientific utility by offering a more refined and contextualized understanding of the roles played by ultimate controlling owners in shaping their firms' CSR performance.

Third, we advance a contingent approach to understanding when ultimate controlling owners actively promote their firms' CSR performance. As Du et al. (2023) encouraged, it is essential to "examine not only antecedents and outcomes, but also the underlying processes and boundary conditions of CSR actions" (Du et al., 2023: p4). Our study contributes by identifying specific organizational conditions that influence ultimate controlling owners' underlying motives and decision-making power to promote CSR performance in their firms. By considering these nuanced moderating conditions, we can validate the proposed underlying mechanism and contribute a more comprehensive understanding of the complex dynamics among ownership structures, owners' motives and influences, and firms' CSR performance. However, stronger motivations and greater decision-making power do not necessarily guarantee that ultimate controlling owners will act more responsibly, leading us to some ethical and practical contributions.

Ethical and Practical Implications

Our study also has some important ethical and practical implications. Scholars and regulators are often conflicted over the ethical roles of ultimate controlling owners. Large owners have competing incentives to ethically ensure good governance on the one hand and unethically expropriate wealth at the expense of others on the other hand (Jiang & Kim, 2015; Shleifer & Vishny, 1986). In many Western developed market-oriented markets, ultimate controlling owners are frowned upon, given their potential for principal–principal conflicts and expropriation risks that harm the interests of other key stakeholders (Morck et al., 2005; Young et al., 2008). However, within broader social, political, and economic contexts, ultimate controlling owners still need to secure the moral right to operate and demonstrate that they are ethically responsible owners who safeguard the interests of all stakeholders (Donaldson & Preston, 1995; Goodpaster, 1991). Moreover, many ultimate controlling owners (e.g., state- or family-owned) have broader objectives beyond simple financial returns (Oh et al., 2011; Wang & Qian, 2011), which can bring about net positive and more equitable returns to society. Our study shows that ultimate controlling owners with the highest control rights promote improved CSR performance in their firms to pursue legitimacy and goodwill. Hence, ultimate controlling owners are not inherently good or bad, and changing the prevailing

ownership structure is less important to promote CSR performance. Instead, policymakers and regulators can advocate CSR as an essential and legitimate corporate activity to encourage ultimate controlling owners to actively promote CSR performance in their firms and contribute positively to society.

Furthermore, regulators and social activists should focus on ultimate controlling owners rather than direct, immediate owners when advocating for firms to promote ethical business practices and to do more for society. When firms are controlled through indirect, intricate ownership structures, ultimate controlling owners have the final decision authority to commit critical firm resources to promote CSR that benefits society. Hence, social initiatives are more likely to advance in economies with ultimate controlling owners when stakeholders interact directly with these owners. Such interactions with ultimate controlling owners are more efficient and effective in bringing about sustainable ethical and social development. Lastly, our study also revealed how external observers of businesses (in our case, financial analyst coverage) can influence the extent to which ultimate controlling owners will promote CSR performance in their firms to gain legitimacy and goodwill. The positive moderating effect of financial analyst coverage suggests that improving external governance mechanisms that promote higher ethical values and social expectations can encourage ultimate controlling owners to promote better CSR performance in their firms and contribute to society.

Limitations and Directions for Future Research

Our study has limitations and offers potential opportunities for further research. First, although we believe that our theory and findings can be generalized to contexts in which ultimate controlling owners are present, the potential for principal–principal conflicts and owners' expropriation risks remains high, and ultimate controlling owners are motivated and empowered to demonstrate that they are responsible owners who safeguard the interests of their stakeholders (e.g., Spain, Turkey, South Korea, or India), the specificities of the Chinese setting need to be recognized, and comparative research in other settings are needed to validate the generalizability of our framework. Notably, in China, the government plays a significant role in the economy, from the active involvement of state-owned enterprises to national policies governing capital markets and business practices, including advocating for CSR. Additionally, market institutions in China are still developing, and corporate governance issues, including the expropriation and managerial fraud committed by ultimate controlling owners, remain prevalent. While China provides an ideal context for testing our theoretical framework, exploring how differences in the

government's role in business and institutional development impact the role of ultimate controlling owners on firms' CSR performance is a fruitful direction for future research.

Second, while we theorized why ultimate controlling owners' underlying motives and decision-making power will affect their firms' CSR performance, we did not directly measure the unobservable qualities of their motivation. Our study sought to account for ultimate controlling owners' preferences to expropriate wealth using related-party transactions as a proxy and to validate the underlying motivational mechanism through our two organizational moderators. Future research can more carefully explore the underlying motivational mechanism using survey data that directly reflect the presence of principal–principal conflicts and ultimate controlling owners' need to promote firms' CSR performance and gain legitimacy and goodwill. Future research can also examine whether ultimate controlling owners gain legitimacy and goodwill from stakeholders by promoting improved CSR performance in their firms.

In summary, we theorized and empirically examined why and when ultimate controlling owners with the highest control rights affect their firms' CSR performance to demonstrate that they are responsible owners and gain legitimacy and goodwill from their stakeholders. By shedding light on the significant yet overlooked role of ultimate controlling owners as a critical determinant of firms' CSR performance, we advance a more nuanced and contingent understanding of the motivations and conditions under which owners actively promote improved CSR performance in their firms. Ultimately, our study offers original and valuable insights that can inform and guide efforts to enhance socially responsible corporate practices and governance for the benefit of both firms and their stakeholders.

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Declarations

Conflict of interest The authors declare that they have no conflict of interest.

Ethical Approval This article does not contain any studies with human participants performed by any of the authors.

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