

# Corporate Social Responsibility, Ownership Structure, and Political Interference: Evidence from China

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**ABSTRACT.** Prior research suggests that ownership structure is associated to corporate social responsibility (CSR) in developed countries. This article examines whether and how ownership structure affects CSR in emerging markets using Chinese firms' social responsibility ranking. Our empirical evidences show that for non-state-owned firms, corporate ownership dispersion is positively associated to CSR. However, for state-owned firms, whose controlling shareholder is the state, this relation is reversed. We attribute the reversed relationship to political interferences and further test this hypothesis by demonstrating that regional economic development is negatively related to CSR for state-owned firms due to decreased political interference in more developed areas. This study is the first to directly examine the relationship between the dispersion of corporate ownership and CSR in emerging markets, and our results depict that it is important to consider ownership type in assessing CSR in emerging market where state ownership is still prevalent such as China. The results also reveal that firm size, profitability, employee power, leverage, and growth opportunity affect CSR in China.

**KEY WORDS:** corporate governance, corporate social responsibility, ownership structure, political interference

## Introduction

In recent years, there has been growing awareness of the role of corporations in society in an international setting. Among the unresolved issues that deserve attention, Aguilera et al. (2007, p. 837) postulate that an important question in corporate social responsibility (CSR) requiring further attention is “what catalyzes organizations to engage in increasingly robust CSR initiatives.” Prior research studies (Chapple and Moon, 2005; Deniz-Deniz and Garcia-Falcon, 2002; Graves and Waddock, 1994;

Johnson and Greening, 1999; Muller and Kolk, 2010; Roberts, 1992; Stanwick and Stanwick, 1998; Zu and Song, 2009) document a link among CSR and firm size, profitability, corporate governance, leverage, employees, industry, and environmental pressures, e.g., shareholder demands, regulation, or media pressure. Among those studies, Graves and Waddock (1994) and Johnson and Greening (1999) document a relationship between firm ownership structure and CSR. Keim (1978), Ullmann (1985), and Roberts (1992) all document a positive relationship between dispersed corporate ownership and CSR disclosure in the context of developed countries. Given the difference in people's ethical reasoning and decisions between developed and emerging countries (Ge and Thomas, 2007; Lam and Shi, 2008; Whitcomb et al., 1998), does ownership structure also affect CSR in emerging markets such as China? Do the factors that have been previously documented to drive CSR in Anglo-American countries (the USA and the UK) also determine CSR in emerging markets? In order to answer those questions, our study focuses on examining how a firm's ownership structure and political interference affect CSR in the largest emerging market, namely, China.

Using Shanghai National Accounting Institute's (SNAI) Chinese firms' social responsibility ranking, we show that for non-state-owned firms, corporate ownership dispersion is positively associated to CSR. However, for state-owned firms, this relation is reversed. We attribute the reversed relationship to political interferences and further test this hypothesis by demonstrating that regional economic development is negatively related to CSR for state-owned firms due to decreased political interference in more

developed areas. The results also reveal that firm's size, profitability, employee power, leverage, and growth opportunity affect CSRs in China.

This study contributes to the literature in several ways. First, this study directly examined the relationship between ownership structure and CSR in emerging markets, and our results depict that it is important to consider ownership type in assessing CSR in emerging market where state ownership is still prevalent, such as in China. Second, the high extent of retained government ownership in China allows us to investigate the link between CSR and ownership type using a unique data set provided by SNAI Chinese firms' social responsibility ranking. Our findings on the relationship between firm ownership type and CSR have implications in other countries where state-ownership is still prevalent, such as Singapore, Malaysia, Austria, and Finland (Claessens et al., 2000; Faccio and Lang, 2002). Third, we provide evidence of associations between CSR and firm's size, profitability, corporate governance, environmental pressures, and leverage. These findings are consistent with those of prior research, which are mostly documented in the developed-country context, suggesting that CSR activities are largely driven by strategic motivations and are constricted by economic considerations. Finally, while the issue of CSR has attracted growing research interest in recent years, most empirical results are based on the US data and this article is the first empirical CSR research examining drivers of CSR in emerging markets to use a large research sample. In both Amato and Amato (2007) and Muller and Whiteman (2009), the corresponding authors advocate non-US-based studies of CSR to examine the effect of cultural, economic, legal, and ethical differences in corporate social performance. This article adds to a growing number of non-US studies by investigating the link between firm's characteristics and CSR in China, the largest emerging market in the world.

The remainder of this study is organized as follows: The next section shows the relevant literature and identifies our research questions. The third section provides an institutional background and develops hypotheses. The fourth section discusses data gathering and methodology. The fifth section presents results, and the last section concludes, suggesting implications of the study.

## Literature review

Prior research on CSR mainly focuses on conceptualizing as well as empirically assessing its impact on business performance. A number of studies have been conducted in an attempt to link CSR with financial performance (i.e., Abratt and Sacks, 1988; Aupperle et al., 1985; Russo and Fouts, 1997; Waddock and Graves, 1997). In addition to corporate performance, recent studies also examined the impact of CSR on other stakeholders of the companies. For example, Mohr et al. (2001) observe the impact of CSR on the customer buying behavior, while Turban and Greening (1997) examine the impact of CSR on the organizational attractiveness to employees.

Compared with the growing body of literature on the nature and consequences of CSR, however, the issue of how to improve the companies' level of CSR, or what factors determine CSR level, has received relatively limited attention, especially in the emerging market setting. Jones (1999) establishes that an institutional framework for the determinants of CSR, suggesting that institutional structure, such as socio-cultural, national economy, industry, firm, and individual, mainly determines CSR. Following the logic of Jones (1999), a numbers of studies document several factors affecting the level of CSR based on the context of developed countries. For example, Stanwick and Stanwick (1998) find evidence of a positive relationship between corporate social performance (CSP) and organization size, financial performance, and environmental performance. Johnson and Greening (1999) examine the effects of corporate governance and institutional ownership type on CSP, which indicates that ownership structure is correlated to CSP.

Although several studies have shed light on the determinants of CSR in developed countries, research on this area is still quite limited in developing countries. Only a few recent articles have addressed this area, and none of them examines the ownership structure-CSR relationship directly in developing countries. Analyzing website reporting of 50 companies in seven Asian countries, Chapple and Moon (2005) conclude that variation of CSR is explained by factors in the respective national business systems. Muller and Kolk (2010), using survey data from 121 auto parts suppliers in Mexico, find that management's commitment to ethics is a dominant driver of CSP, and management's commitment to ethics interacts

positively with trade-related pressures to raise CSP levels. Based on a survey method and a small sample, Zu and Song (2009) document that firms smaller in size, state-owned, producing traditional goods, and located in poorer regions are more likely to have managers who opt for a higher CSR rating in China.

The studies related with emerging markets may be inconclusive given the small sample size. Considering the validity and reliability of the conclusion, the multivariate analysis of a large sample may describe a clear picture of determinants of CSR in emerging markets. According to the argument of Jones (1999) and the general framework for environmental constraint drivers of CSR provided by See (2009), the previous studies only examine one or several aspects of the driving factors of CSR, and are with high chances of missing important control variables affecting levels of CSR. Therefore, the multivariate regression in our study perceives the inclusion of a comprehensive set of control variables from not only existing evidences in prior studies, but also theoretical analysis on the determinants of CSR (Jones, 1999; See, 2009). Using the sample of manufacturing firms in China, we extend the existing research by examining the effect of ownership structure and economic development, as well as political interference, on the level of CSR according to the theoretical framework on harmonious society and Chinese CSR (See, 2009) after controlling for a variety of variables which have been documented as influencing factors of CSR.<sup>1</sup>

## Background and hypotheses development

### *Institutional background*

Chinese public listed companies (PLCs) differ from their counterparts in other countries in the relatively large government stake and the associated, generally more concentrated, shareholding structure (Tian and Estrin, 2008).<sup>2</sup> Table I compares the percentage of firms with the state as ultimate controller in China versus other countries. Consistent with prior research (Bennett et al., 2005), we observe that the government as owner plays a role in Chinese listed firms quite out of line with that observed in other markets or transition economies. In 1481 Chinese public listed companies with available financial and ownership

data, 63.15% have the state as ultimate controller, comparing with the highest 23.50% in Singapore and the lowest 0.08% in the U.S., amongst all other countries. The very high extent of retained government ownership of Chinese listed firms suggests that political interference becomes an important institutional characteristic of China's capital market which offers us a great opportunity to investigate the relationship between firm ownership type, ownership structure, and CSR.

Compared with western companies, Chinese enterprises face more severe agency problems that arise between controlling and non-controlling shareholders (Type II agency problem) because of controlling shareholders' significant stock ownership and control over the firms' board of directors (Jiang et al., 2010; Johnson et al., 2000). Shleifer and Vishny (1997) point out, "large investors may represent their own interests, which need not coincide with the interests of other investors in the firm, or with the interests of employees and managers." In order to exploit their own interests, controlling shareholders have clear incentives to divert corporate wealth by tunneling through inter-corporate loans (Jiang et al., 2010).

Type II agency problem diverts corporate wealth from related firms, and it has a negative effect on corporate business behavior, especially performance. The literature also documents such empirical evidences. Some economists usually view that political interference, the type II agency problem for state-owned enterprises (SOEs), is usually at the expense of corporate profitability (Boycko et al., 1996). Frye and Shleifer (1997) show that private ownership is preferable to state ownership because the government has a "grabbing hand" that extorts firms for the benefit of politicians and bureaucrats. Acemoglu and Johnson (2005) provide cross-country evidence that countries with weaker property rights and limited protection against expropriation by politicians and the country's elite have substantially lower income per capita and investment rates, and less-developed stock markets. Similar conclusions are drawn in China. Fan et al. (2007) document that the accounting and stock return performance of the firms run by politically connected CEOs is poor relative to their politically unconnected counterparts. Dougherty and McGuckin (2008) propose that decentralized administration has been a key factor in

TABLE I  
The percentage of firms with the state as ultimate controller in China compared with other countries

	China	HK	UK	Germany	Japan	France	Singapore
State (%)	63.15	1.40	0.08	6.30	0.80	5.11	23.50
Non-state (%)	36.85	98.60	99.20	93.70	99.20	94.89	76.50

This table is based on the 2007 data of 1481 Chinese public listed companies. Data for firms in Hong Kong, Japan, and Singapore come from Claessens et al. (2000), and data for the UK, Germany, and France are from Faccio and Lang (2002).

determining business productivity in China. In general, government intervention is shown to be detrimental to corporate performance as a result of diverting corporate wealth for political purposes.

#### *Hypotheses development*

Previous literature indirectly supports the argument that when firm's ownership gets more dispersed, the CSR level gets higher (Keim, 1978; Ullmann, 1985). Keim (1978) stated that as the distribution of ownership of a corporation becomes less concentrated, the demands placed on the corporation by share owners become broader. Dispersed corporate ownership, especially by investors concerned with corporate social activities (e.g., social responsibility mutual funds, church, and civic pension plans, and ethical investors), heightens pressure for management to disclose social responsibility activities (Ullmann, 1985). Some studies show CSP is positively related to the number of institutions holding the shares of a company (Graves and Waddock, 1994) and pension fund equity (Johnson and Greening, 1999).

Consistent with the western counterparts, the shareholders of Chinese non-state-owned firms should have the same relationship between ownership dispersion and CSR. According to the theory of type II agency problem, the largest shareholder of non-state-owned firms expropriates minority shareholders to achieve its own interest, which impairs other stakeholders' interest and declines CSR. Therefore, well-protected minority shareholders are associated with higher levels of CSR engagement (Johnson and Greening, 1999; See, 2009). Corporate ownership dispersion lessens the extent of type II agency problem. The less the ownership dispersion, the more the

control of largest shareholder over company to divert corporate wealth. Taken together, corporate ownership dispersion is negatively related to levels of CSR for Chinese non-state-owned firms.

With much higher impact of political interference on company behaviors, we expect the relationship between ownership dispersion and CSR to be negative for state-owned firms. Higher levels of perceived governmental influence on corporate activity would be expected to lead to a greater effort by management to meet expectations of government. The government, largest shareholder of SOEs, has incentives to divert wealth to obtain social stability (Bai et al., 2006), which helps to improve CSR. High levels of government ownership create incentives for CEOs to achieve non-financial objectives related to government policy,<sup>3</sup> such as infrastructure development and resolution of the region's fiscal and unemployment challenges, and hence, these social or political objectives exert pressure on firms to pursue CSR (See, 2009). Roberts (1992) documents that political interference positively impact social responsibility disclosures. In the example provided by Tian and Estrin (2008), the *Sinopec Shanghai Petrochemical Company Limited*, which has the government as majority shareholder, employed 38,000 people for its core operation in 1998. When it tried to lay off 17,000 employees, its government shareholder prevented it, instead forcing it to find alternative employment.<sup>4</sup> Although this kind of behavior may harm corporate wealth, it satisfies the government shareholder's political interests and committed a high level of CSR.<sup>5</sup> Accordingly, we propose our first hypothesis as follows:

*H1a:* For SOEs, as the state is the largest shareholder, the corporate ownership dispersion is positively related to the level of CSR.

*H1b*: For non-state-owned firms, corporate ownership dispersion is negatively related to the level of CSR.

In addition to corporate ownership dispersion, we employ another index of economic development to examine the relationship between political interference and CSR for firms of different ownership types. Jones (1999) argues that the more developed a society is the more prominent the social responsibility discourse will be. It is assumed that higher levels of development lead to higher CSR because of higher levels of resources and greater awareness of issues, and thus, Asia lags behind the West in CSR penetration (KPMG, 2005; Welford, 2004). The conclusion is intuitively comprehensible for developed countries. However, given the low levels of economic development and specific institutional characteristics in emerging markets, as well as China, one might counterargue that the profile of operation, such as specific norms of business–society relations, corporate governance, governmental responsibility, societal governance, is more significant for informing CSR difference than is the stage of development (Chapple and Moon, 2005), which might distort the positive relationship between economic development and CSR. A comparative study by Chapple and Moon (2005) of seven Asian countries fails to observe any correlation between per capita GDP and CSR levels.

In contrast to western countries, the stage of economic development might comprehensively indicate political interference other than resource constraint considering the reform of market transition in China. The market transition in China is proved successful for the rapid economic growth in the past three decades. The journey of market transition is analyzed as reforming government through regional decentralization, entry and expansion of non-state (mostly local government) enterprises, financial stability through “financial dualism,” and a dual-track approach to market liberalization (Qian, 2000). It is assumed that the decrease of political interference in business explains the rapid economic growth in China. In fact, the private sector, represents the extent of government decentralization, grows much faster than the others (the state sector and the listed sector), and provides most of the economy’s growth (Allen et al., 2005). The

evidences provided by the literature on the impact of government intervention on corporate performance also contribute to the similar argument. Thus, we establish a negative relationship between political interference and regional economic development in China. Based on the reasons that we discussed above on why and how political interference differently affects levels of CSR for firms of different ownership types, we propose our second hypothesis below:

*H2a*: For SOEs, the regional economic development is negatively related to the level of CSR.

*H2b*: For non-state-owned firms, the regional economic development is unlikely relevant to the level of CSR.

## Research methods

### *Data and sample*

The SNAI issued a set of indexes that provided scores and ranking of CSR for Chinese PLCs on Dec. 24, 2008. It is the first set of CSR indexes covering all Chinese PLCs, totalling more than 1000 firms. This makes our sample size to be much larger than samples used in prior studies (Gao, 2009; Zu and Song, 2009).<sup>6</sup> The SNAI system of CSR index was formulated according to the standard of SA8000 issued by Social Accountability International (SAI).<sup>7</sup> SNAI argued that the general motivation of issuing the CSR index was to encourage PLCs to make more CSR disclosure and improve firm’s value. The system groups the 36 questions into eight categories: environment, energy saving, employees, employment and promotion, social problems, consumer satisfaction, other stakeholders, law, and business ethics.<sup>8</sup> Table II presents the full list of questions of SNAI CSR index.

It is suggested that SNAI attempts to provide a broad measure for CSR. The index consists of most dimensions of CSR debated in the literature and may be able to capture the full picture of CSR. The index is assigned to all Chinese PLCs, thus making a large sample of multivariate regression analysis possible, which in turn will provide more conclusive empirical evidences and greatly contribute to the literature.



TABLE II  
Corporate social responsibility score rating criteria

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1. Environmental problems, including curbing polluted environment; recycling waste harmful to environment; producing products good to environment protection; using other means to control pollution
  2. Energy saving, including making use of old and waste materials; great effort to reduce energy consuming; continuously improving energy saving of products; pushing research on energy saving
  3. Employee problems, including caring healthy and safety of employee; training employee; reemployment of laid-off employees; reasonably arrangement of working time and positions; establishment and enforcement of standards on overtime; no employment of child labor; providing employee benefit
  4. Employment and fair promotion, including employment and promotion of minorities; employment and promotion of female; employment and promotion of the handicapped; employment and promotion of veterans
  5. Social problems, including donation to community; donation to education institutes; donation to medical activities; donation to arts and sports; donation to disaster areas; attention to public safety; opening company facilities to the public
  6. Consumers problems, including delivery on time; improvement of products quality; attaching importance to safe use of products; bettering after service; attention to interests of specific consumers
  7. Other stakeholders, including respect to interests of creditors; consideration on interests of suppliers
  8. Abidance by law and business ethics, including anti-corruption, extortion, bribery; operating faithfully and lawfully
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The empirical research is carried out in the context of the manufacturing industry of Chinese PLCs. It is identified that the unique characteristics of an industry make the nature of CSR unique, based on different internal characteristics and external demands (Griffin and Mahon, 1997). The empirical investigations show that industry is an important variable in multiple industry analyses. For example, Beliveau et al. (1994) find that CSR levels and their relationship with firm profitability varies by industry. Therefore, it is suggested that CSR research should be narrowly defined in operational terms to a specific industry or setting (Rowley and Berman, 2000). Recent studies on CSR in emerging markets often use samples from different industries, which possibly harm the robustness of results (Cheung et al., 2010; Zu and Song, 2009). Our study contributes to the literature on determinants of CSR in emerging markets employing sample of a unique manufacturing industry.

In total, we identified 867 companies, which are about 56% of the total number of firms listed in the Chinese stock market, with an SNAI CSR index. Among the 867 contributing firms, 175 of them have missing financial or ownership data, which reduces our sample to 692. The firm's financial and ownership data for this study were drawn on the Wind database, a widely used database for Chinese PLCs.

#### *Multivariate analysis*

We estimate the following regression to test the relationship between CSR levels and political interference for different ownership types (SOEs or non-state-owned firms) after controlling for other factors that have been documented to affect CSR.

$$\begin{aligned}
 CSR_i = & \beta_0 + \beta_1 \text{Control}_i + \beta_2 \text{Per GDP}_i \\
 & + \beta_3 \text{ROE}_i + \beta_4 \text{Total Asset}_i \\
 & + \beta_5 \text{Institutional Ownership}_i \\
 & + \beta_6 \text{Employee}_i + \beta_7 \text{Leverage}_i \\
 & + \beta_8 \text{Tobin's } Q_i + \varepsilon_i
 \end{aligned}$$

where  $CSR_i$  is the SNAI CSR score for the firm  $i$ ;  $\text{Control}_i$  the shareholding of the largest shareholder for the firm  $i$  in the 2007 annual report;  $\text{Per GDP}_i$  the log form of GDP per person for the province in which the firm  $i$  is located in 2007;  $\text{ROE}_i$  the net income divided by total equity for the firm  $i$  in 2007;  $\text{Total Asset}_i$  the log form of total assets for the firm  $i$  in the 2007 annual report.  $\text{Institutional Ownership}_i$  the shareholding of institutional investors at the end of 2007 for firm  $i$ ;  $\text{Employee}_i$  the number of total employee divided by the total assets for firm  $i$ ;  $\text{Leverage}_i$  the total debts divided by total assets at the end of 2007 for firm  $i$ ; and  $\text{Tobin's } Q_i$  is the sum of market value and book value of debts divided by total assets for firm  $i$ .

We used shareholding of the largest shareholder to measure the extent of corporate ownership dispersion. In order to make sure that the results are not driven by firm's heterogeneity, we added control variables that cover firm's characteristics that have been studied in prior studies (Chapple and Moon, 2005; Deniz-Deniz and Garcia-Falcon, 2002; Johnson and Greening, 1999; Muller and Kolk, 2010; Roberts, 1992; Stanwick and Stanwick, 1998; Zu and Song, 2009). Firm's size, embodying a diverse range of firm attributes, is documented to be positively correlated to CSR decision and performance (Johnson and Greening, 1999; Muller and Kolk, 2010; Orlitzky, 2001; Stanwick and Stanwick, 1998). As regards size, we took the log form of total assets as the control variable considering the presence of scale economies in improving social performance (Orlitzky, 2001). Prior research shows that a positive relationship between firm's financial performance and CSR (Orlitzky, 2001; Scholtens, 2008). Accordingly, we predicted ROE positively related to levels of CSR, representing relative levels of resource availability for investment in CSR. We also controlled for shareholding of institutional investors to cover the effect of corporate governance on CSR (Johnson and Greening, 1999). The debt ratio captures not only the effect of resource constraint but also the influence of creditor power (Roberts, 1992) on corporate CSR decision, which was controlled in our model of estimating firms' social behavior. Johnson and Greening (1999) find that number of employees positively affects corporate CSP, which is also advocated by Deniz-Deniz and Garcia-Falcon (2002). We included number of employees per capital to control the impact of employee. Following Tobin (1969), a large investment literature has been built on the foundation of Q-theory (Hubbard, 1998; Lang et al., 1996). Hence, Tobin's Q was employed to capture corporate future alternative investment opportunities to CSR decision.

## Empirical results

### *Descriptive statistics and variable correlations*

Table III provides the descriptive statistics of CSR and financial characteristics for the 692 listed firms in the sample and also the comparison of those char-

acteristics for state-owned and non-state-owned firms with two-sample Wilcoxon rank-sum tests for differences across the two sub-samples. The average CSR score for our sample firm is 31.71, and there is no significant difference between state- and non-state-owned firms. The controlling right of largest shareholder for SOEs is significantly higher than that for non-state-owned firms ( $p$  value  $< 0.001$  for three measures). SOEs have higher firm's size and leverage ratio, but lower Per GDP, ROE, and Tobin's Q than non-state-owned firms do. We find no significant difference between institutional ownership and the number of employees for SOEs and those for non-state-owned firms.

Table IV presents Pearson correlations between the dependent and independent variables in our model. CSR levels are positively related with largest shareholding percentage, ROE, firm's size, and institutional ownership. Meanwhile, CSR levels show negative relationship with per GDP and Tobin's Q. These are consistent with the literature and partially support our H2 that the regional economic development is negatively related to the level of CSR.

### *Regression results*

Table V presents the results of the multiple regression analysis. As noted in the table, three models are highly significant with adjusted  $R^2$ s of 0.115, 0.135, and 0.146. Results indicate that shareholding of the largest shareholder is positively associated with CSR levels for SOEs, but negatively related to CSR levels for non-state-owned firms. These associations are both significant at  $p = 0.05$ , two-tailed, and suggests that controlling right of largest shareholder show different influence on the extent of firm social response activities between SOEs and non-state-owned firms. Table V reveals that a negative relationship between Per GDP and CSR is confirmed for SOEs, but Per GDP does not show significant impact on the level of CSR for non-state-owned firms after controlling for various factors. Therefore, we accept both hypotheses, supporting the different frameworks for determinants of CSR between SOEs and non-state firm in emerging markets. Our results provide direct empirical evidences to the theoretical argument on Chinese CSR of See (2009).

TABLE III  
Descriptive statistics

Variable	Mean	Standard deviation	State-owned	Non-state-owned	Rank-sum <i>Z</i> for the difference
CSR	31.710	11.780	31.936	31.324	0.793
Control	0.362	0.146	0.383	0.325	5.097**
Per GDP	10.121	0.563	10.082	10.187	-3.105**
ROE	0.111	0.140	0.103	0.126	-3.454**
Total Asset	21.559	1.078	21.771	21.196	6.544**
Institutional Ownership	0.265	0.210	0.272	0.253	1.312
Employee	1.295	0.967	1.240	1.388	-1.301
Leverage	0.498	0.167	0.514	0.471	3.142**
Tobin's Q	3.053	2.038	2.800	3.486	-4.202**

CSR<sub>*i*</sub>, SNAI CSR rating for firm *i*; Control<sub>*i*</sub>, shareholding of the largest shareholder for firm *i* in the 2007 annual report; Per GDP<sub>*i*</sub>, the log form of GDP per person for the province in which firm *i* is located in 2007; ROE<sub>*i*</sub>, net income divided by total equity for firm *i* in 2007; Total Asset<sub>*i*</sub>, the log form of total assets for firm *i* in the 2007 annual report; Institutional Ownership<sub>*i*</sub>, shareholding of institutional investors at the end of 2007 for firm *i*; Employee<sub>*i*</sub>, the number of total employee divided by the total assets for firm *i*; Leverage<sub>*i*</sub>, total debt divided by total assets at the end of 2007 for firm *i*; and Tobin's Q<sub>*i*</sub>, the sum of market value and book value of debts divided by total assets for firm *i*.

\*\**p* < 0.01.

TABLE IV  
Variable correlations

Variable	1	2	3	4	5	6	7	8
1. CSR	1.000							
2. Control	0.085*	1.000						
3. Per GDP	-0.086*	0.056	1.000					
4. ROE	0.159**	0.133**	0.002	1.000				
5. Total Asset	0.293**	0.266**	0.055	0.201**	1.000			
6. Institutional Ownership	0.083*	0.072	0.082*	0.254**	0.194**	1.000		
7. Employee	0.006	-0.055	-0.142**	-0.136**	-0.293**	-0.048	1.000	
8. Leverage	0.017	0.051	-0.033	-0.018	0.309**	-0.032	-0.134**	1.000
9. Tobin's Q	-0.117**	-0.040	0.087*	0.284**	-0.336**	0.215**	0.028	-0.412**

Please refer to Table III for variable definitions.

\**p* < 0.05; \*\**p* < 0.01.

Consistent with the findings of prior research (Chapple and Moon, 2005; Deniz-Deniz and Garcia-Falcon, 2002; Stanwick and Stanwick, 1998), some of the other variables of firm's characteristics are also significant with expected signs. For example, ROE and firm's size are significantly positive in the regression of CSR as expected. The evidence of Employee in Table V appears significant for non-state-owned firms, but not for SOEs. Possible reason is that the variance of employee size

is lower for SOEs than for non-state-owned firms, as shown in Table III. Both leverage ratio and Tobin's Q are negatively associated with CSR levels for SOEs, but are not significant for non-state-owned firms, suggesting the involvement in social response activities are much highly constrained by the resource on hand meeting the demand of obligation and investment for SOEs. Institutional ownership is not significant in either of the two subsamples.



TABLE V

Multiple regression results for tests of the relation between CSR, ownership dispersion, and political interference

Variables	Full sample		State-owned		Non-state-owned	
	Parameter estimate	<i>t</i> -statistic	Parameter estimate	<i>t</i> -statistic	Parameter estimate	<i>t</i> -statistic
Control	-0.04	-0.01	7.39*	2.00	-12.84*	-2.47
Per GDP	-1.79*	-2.35	-3.42**	-3.78	0.978	0.68
ROE	11.12**	3.31	7.01	1.62	12.93*	2.36
Total Asset	3.17**	6.50	2.72**	4.69	4.215**	4.45
Institutional Ownership	1.26	0.58	2.46	0.94	-0.640	-0.17
Employee	1.05*	2.28	-0.31	-0.48	2.520**	3.72
Leverage	-7.13*	-2.51	-9.18*	-2.54	-0.756	-0.17
Tobin's Q	-0.56*	-2.17	-0.74*	-2.12	-0.263	-0.66
Constant	-16.23	-1.27	10.11	0.67	-67.50**	-2.75
<i>N</i>	692		437		255	
Adj. <i>R</i> <sup>2</sup>	0.115		0.135		0.146	

Please refer to Table III for variable definitions.

\**p* < 0.05; \*\**p* < 0.01.*Further analysis*

It is noted that shareholding of the largest shareholder only represents one dimension of controlling right of the largest shareholder. Other factors, such as constraints from other shareholders, illustrate an influence on the extent of controlling right of largest shareholder. In order to fully investigate whether controlling right of largest shareholder influenced the level of CSR, we repeat the analysis with different proxies of controlling right. We measure controlling right as (1) shareholding of the largest shareholder divided by shareholding of top 10 largest shareholders for firm *i* or (2) shareholding of the largest shareholder minus shareholding of other top nine largest shareholders. The results are presented in Table VI and show that there are positive and significant associations between the controlling right and CSR score for SOEs, but negative and significant associations for non-state-owned firms. We can conclude that the results are applicable for different proxies of controlling right.

It is also true that many firms that are nominally privately owned have very strong political links with the ruling Communist Party and the state. There is a growing body of economic and financial literature on the implications of political connections – and in particular the measurement of the value of political

connections – in the business world (Agrawal and Knoeber, 2001; Claessens et al., 2008; Faccio, 2006; Fisman, 2001; Johnson and Mitton, 2003; Khwaja and Mian, 2005; Ramalho, 2007). Several studies have shed light on the impacts of political connection in China. Using a sample of 790 newly partially privatized firms in China, Fan et al. (2007) find that firms with politically connected CEOs underperform those without politically connected CEOs. Employing a nationwide survey of private firms, Li et al. (2008) find that political connection of Chinese private sectors has a positive effect on the performance by helping private entrepreneurs to obtain loans from banks or other state institutions, and affording them more confidence in the legal system. Based on the evidences provided by the literature, we can see that political connection would affect corporate business activities, especially for Chinese non-state-owned firms.

In order to make sure that the empirical results of non-state-owned firms are not affected by their political link, we added control variable PC as our political connection proxy, as defined by Fan et al. (2007). We traced the chairman or Chief Executive Officer (CEO)'s political connections by examining whether he or she was currently or formerly an officer of either the central government, a local government, National People's Congress, a local

TABLE VI

Multiple regression results for tests of the relation between CSR, ownership dispersion, and political interference using additional proxies for ownership concentration

Variables	Full sample		State-owned		Non-state-owned	
	Parameter estimate	<i>t</i> -statistic	Parameter estimate	<i>t</i> -statistic	Parameter estimate	<i>t</i> -statistic
(A) Ownership concentration is measured as shareholding of the largest shareholder divided by shareholding of top 10 largest shareholders						
Control2	-0.607	-0.28	5.918*	2.18	-11.42**	-2.92
Per GDP	-1.792*	-2.35	-3.519**	-3.88	0.612	0.43
ROE	11.09**	3.30	7.657	1.77	10.96*	2.03
Total Asset	3.198**	6.62	2.878**	5.10	4.491**	4.72
Institutional Ownership	1.126	0.51	3.893	1.44	-2.934	-0.77
Employee	1.058*	2.28	-0.288	-0.45	2.493**	3.70
Leverage	-7.115*	-2.51	-9.485**	-2.63	-0.0679	-0.01
Tobin's Q	-0.572*	-2.18	-0.676	-1.94	-0.293	-0.73
Constant	-16.33	-1.28	5.963	-0.40	-66.55**	-2.73
<i>N</i>	692		437		255	
Adj. <i>R</i> <sup>2</sup>	0.115		0.136		0.154	
(B) Ownership concentration is measured as shareholding of the largest shareholder minuses shareholding of other top nine largest shareholders						
Control3	-0.265	-0.14	5.598*	2.41	-10.39**	-3.12
Per GDP	-1.795*	-2.35	-3.489**	-3.86	0.726	0.51
ROE	11.12**	3.31	7.289	1.69	11.47*	2.13
Total Asset	3.190**	6.55	2.782**	4.89	4.577**	4.80
Institutional Ownership	1.213	0.55	3.465	1.30	-2.773	-0.74
Employee	1.058*	2.28	-0.302	-0.47	2.528**	3.76
Leverage	-7.127*	-2.51	-9.413**	-2.61	-0.082	-0.02
Tobin's Q	-0.569*	-2.18	-0.693*	-1.99	-0.288	-0.72
Constant	-16.49	-1.28	10.84	0.72	-75.40**	-3.07
<i>N</i>	692		437		255	
Adj. <i>R</i> <sup>2</sup>	0.115		0.138		0.158	

Control2<sub>*i*</sub>, shareholding of the largest shareholder divided by shareholding of top 10 largest shareholders for firm *i*; Control3<sub>*i*</sub>, shareholding of the largest shareholder minuses shareholding of other top nine largest shareholders.

Please refer to Table III for all other variable definitions.

\**p* < 0.05; \*\**p* < 0.01.

people's congresses, Chinese People's Political Consultative Conference, a local people's political consultative conference, or the military. PC is a dummy variable equal to 1 if the chairman or CEO is politically connected, and 0 otherwise.

Table VII presents the results of the multiple regression analysis for non-state-owned firms considering the impact of political connection. Nevertheless, we obtain similar results as shown in Tables V and VI. Results indicate that *Control*, *Control2*, and *Control3* are all negatively related to

CSR levels even after controlling for political connection of non-state-owned firms, but Per GDP does not show significant impact on levels of CSR. Thus, the results are robust and consistent with the main results that we documented before, i.e., for non-state-owned firms, corporate ownership dispersion is negatively related to the level of CSR and the regional economic development is not relevant to the level of CSR.

Another interesting result is that PC is positively associated with CSR levels, indicating that polit-

TABLE VII  
Multiple regression results including political connection for tests of non-state-owned firms

Variables	Parameter estimate	<i>t</i> -statistic	Parameter estimate	<i>t</i> -statistic	Parameter estimate	<i>t</i> -statistic
Control	-13.23*	-2.57				
Control2			-11.84**	-3.06		
Control3					-10.75**	-3.26
Per GDP	1.061	0.75	0.684	0.49	0.803	0.57
PC	3.531*	2.39	3.613*	2.46	3.623*	2.47
ROE	11.57*	2.12	9.510	1.77	10.04	1.87
Total Asset	3.936**	4.16	4.217*	4.44	4.303**	4.53
Institutional Ownership	-1.202	-0.33	-3.596	-0.95	-3.425	-0.92
Employee	2.683**	3.97	2.659**	3.96	2.696**	4.03
Leverage	0.456	0.1	1.201	0.27	1.187	0.26
Tobin's Q	-0.294	-0.74	-0.326	-0.82	-0.321	-0.81
Constant	-64.03**	-2.63	-62.97**	-2.6	-72.12**	-2.96
<i>N</i>	255		255		255	
Adj. <i>R</i> <sup>2</sup>	0.162		0.171		0.175	

PC is a dummy variable equal to 1 if the chairman or CEO is politically connected, and 0 otherwise. Please refer to Tables III and VI for all other variable definitions.

\* $p < 0.05$ ; \*\* $p < 0.01$ .

ical connection of Chinese non-state-owned firms positively impacts CSR. See (2009) argues that the Chinese government has clear incentives to encourage firms to pursue high level of CSR for its political purposes. Hence, our article indicates that political interference has a positive influence on CSR level in China. The results of Table VII suggest that our conclusion is also applicable for non-state-owned firms with political connections. The result provides additional empirical evidence to the theory of our article and theoretical argument on Chinese CSR of See (2009).

#### Robustness tests

We conduct two robustness tests on our findings. First, multicollinearity could be a potential problem in the regression models. In order to check this, we test the value of variance inflation factor for different models. The results indicate that the values of variance inflation factor for all the variables are less than 2, suggesting little multicollinearity for the regression analysis.

Second, Griffin and Mahon (1997) argue that multiple measures of financial performance should

be used. Zhang and Rezaee (2009) adopt three proxies of financial performance: ROE, net profit margin, and sales growth. Cheung et al. (2010) measure the market valuation of firms as Tobin's Q and market-to-book ratio (MTBR). Hence, we conduct several sensitivity tests to confirm the validity of results using different proxies for the firm's performance. Nevertheless, we obtain similar results from the valuation tests based on financial performance indexes of return on assets (ROA), sales growth, and market value index of MTBR.<sup>9</sup>

#### Concluding remarks

Based on the SNAI CSR score, this study examines the determinants of CSR levels taking advantage of a unique research opportunity in China. The dual ownership structure of Chinese PLCs deriving from the market transition of China's economy provides us with a rich experimental setting to test whether political interference, as well as ownership structure, has an influence on the level of CSR. This study contributes to the literature on the driving factors of CSR by providing evidence that political interference is an important determinant of CSR. It is the

first one to investigate the relationship between political interference and CSR in an emerging market which is advocated by prior studies (See, 2009; Zu and Song, 2009).

Using a sample of companies from manufacturing industry in 2007, we provide the following findings: after controlling for firm specific factors that are likely to explain CSR based on prior literature, we find that controlling right of largest shareholder is positively related with the level of CSR for SOEs, which indicates the assumption of political interference that usually dominates in an emerging market. On the contrary, our results illustrate a significant and negative relationship between controlling right of largest shareholder and CSR levels for non-state-owned firms, and this is still true after we control for the political connection of those firms. The results also reveal that firm size, profitability, employee size, leverage, and Tobin's Q affect CSR decision and level. These results are consistent with prior studies related to the determinants of CSR.

In addition to enriching the academic literature, our findings have implications for CSR determinants and decisions in general and in emerging markets in particular. Our results suggest that Chinese SOEs' response to CSR is political and economic driven, which indicates that it is better for Chinese investors distinguish SOEs from non-state-owned firms in evaluating firms' CSR behavior, and hence a positive relationship between CSR and market value can not be concluded intuitively for SOEs.<sup>10</sup> It is suggested that in order to improve the level of CSR, it is important for non-state-owned firms to build strong corporate governance, especially to prevent the largest shareholder from expropriating external shareholders. We believe that the evidences revealed from this study of China are useful to other emerging economies around the world with cultural, legal, economic, and ethical backgrounds different from those of the developed countries.

## Notes

<sup>1</sup> See (2009) argues that the relationship between concentrated state ownership, economic development (per capita GDP), and levels of CSR is largely absent in the literature, which could be the important institutional characteristics of China.

<sup>2</sup> In 1998, the five largest shareholders accounted for 60.6% of equity, compared with 25.4% in the United States and 33.1% in Japan. The largest shareholder on average holds more than 40% of the equity (Tian and Estrin, 2008).

<sup>3</sup> Estrin and Perotin (1991) argue that firms with the government as an owner will not concentrate on profit maximization because the state has both political and economic objectives. Bai and Xu (2005) find evidence that nonfinancial objectives are written into CEO contracts for SOEs.

<sup>4</sup> In fact, the company only succeeded in laying off 13,000 of the employees it had originally planned to do; however, it has had to continue paying the wages of the remaining 4,000.

<sup>5</sup> It is assumed that the Chinese government has clear incentives to encourage firms to pursue CSR. Early in 2008, the State-owned Assets Supervision and Administration Commission (SASAC) issued CSR guidelines requiring all SOEs to understand the importance of CSR.

<sup>6</sup> Gao (2009) is based on a content analysis of the official websites of top 100 companies in China. Zu and Song (2009) use a sample of 83 Chinese industrial enterprises by means of questionnaire survey. As opposite to related research, our sample might be more comprehensive and objective.

<sup>7</sup> SA8000 is a global social accountability standard for decent working conditions, developed and overseen by Social Accountability International (SAI).

<sup>8</sup> Ideally, we should examine the association between specific elements of CSR and the ownership structure. SNAI only issued the overall rating of CSR for Chinese public listed companies and did not provide detailed distinct elements rating of CSR for those firms. Thus, we can only examine the relation between the overall rating of CSR and ownership structure based on our data available.

<sup>9</sup> The results are not presented in the article, but will be made available at the requests of readers.

<sup>10</sup> Consider the significant and negative relationship between CSR and Tobin's Q, as shown in Tables IV and V.

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