



Are Politically Endorsed Firms More Socially Responsible? Selective Engagement in Corporate Social Responsibility

Xiaowei Rose Luo¹ · Danqing Wang²

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Abstract

The state plays a major role in corporate social responsibility (CSR) in emerging and transitional economies and often influences firms through political connection, and hence knowing how firms respond to the state's CSR initiatives can inform policy making and has important implication on the sustainability of society and environment. However, existent studies show conflicting results on politically connected firms' CSR participation. We examine the relationship between political endorsement and firms' engagement in different types of CSR simultaneously. Using a representative sample of more than 1,000 private firms in the early 2000s, we find that politically endorsed firms engage more in philanthropic donation, but less in environmental practices, which impose higher costs and constraints than philanthropy. This is consistent with our explanation that they attempt to maintain legitimacy and discretion through selective engagement in CSR. Our study contributes to research on CSR in transitional economies by reconciling conflicting findings about the CSR engagement of politically connected firms, provides a new lens to illuminate firms' strategic response in CSR, and has important policy implications.

Keywords Corporate social responsibility · Political endorsement · Transitional economy · China

Corporate social responsibility (CSR) has become an increasingly important part of firm activities in the past decades, as multiple stakeholders ranging from consumers, shareholders, activists, government, and the general public have recognised its impact and demanded corporate response (Campbell 2007). In emerging and transitional markets where the market-based institutions are relatively weak, government has played a major role in driving corporate social responsibility (Yin and Zhang 2012, Zhao 2012). For instance, in China, the state has promoted corporate social responsibility as a means to address the rising social problems such as social inequality and environmental pollution, which accompanied the fast economic growth (Lin 2011;

Moon and Shen 2010). This has led to a growing body of research on how and whether the state is effective in improving CSR participation (Yin and Quazi 2018). Indeed, knowing how firms responded to the state's CSR initiatives can inform policy making and has important implication on the sustainability of society and environment.

One important way through which the state influences firms' CSR engagement is political endorsement and connection, as corporate political ties can channel the government's expectations and pressure directly to firms (Luo et al. 2017). However, extant research has produced conflicting findings on whether politically endorsed firms are more socially responsible. Some show that such firms comply more with government demands and engage more in philanthropic donation and CSR reporting (e.g., Li et al. 2015; Luo et al. 2017; Zhang et al. 2016). Other studies suggest that politically connected firms may be protected from scrutiny, and thus perform worse in environmental practices and reporting (e.g., Cheng et al. 2017; Jiang et al. 2014; Wang and Jin 2007; Wang et al. 2018). One reason for such inconsistency may be that most studies examined only one type of CSR, but firms may strategically choose to engage more in one and less in another (e.g., Amaeshi et al. 2016).

✉ Xiaowei Rose Luo
xiaowei.luo@insead.edu

Danqing Wang
danqingw@ust.hk

¹ Department of Entrepreneurship and Family Enterprise, INSEAD, Boulevard De Constance, 77300 Fontainebleau, France

² School of Business and Management, The Hong Kong University of Science and Technology, Lee Shau Kee Business Building, Clear Water Bay, Hong Kong, China

In this study, we propose that political endorsement can lead firms in transitional markets to engage selectively in CSR. We introduce the concept of selective engagement to describe how firms strategically choose to do more in one type of CSR and less in another type based on a cost–benefit analysis. According to institutional theory, political endorsement grants firms legitimacy, and channels institutional pressures for compliance to these firms (Greenwood et al. 2011; Meyer and Rowan 1977; Oliver 1991). Noncompliance threatens the loss of continued legitimacy and the associated resource benefits. However, conforming to institutional pressures can impose severe constraints and costs on firms, because the external origin of these pressures can give rise to conflicts with organisations’ internal operational needs (Meyer and Rowan 1977). Whilst prior studies suggest that decoupling (i.e., adoption of the structural form without substantive implementation) is one way for firms to protect themselves from external interference (e.g. Bromley and Powell 2012; Luo et al. 2017), we argue that selective engagement is another important strategy to alleviate the tension between the need for legitimacy and the need for discretion. Politically endorsed firms can take advantage of the existence of multiple demands from the government, and engage more in CSR practices that impose fewer constraints on their discretion.

Specifically, we examine how political endorsement influenced private firms’ response to government expectations concerning two types of CSR, corporate philanthropy and environmental practices, in China’s transitional economy in the early 2000s. Private firms in China have a short history and are relatively lacking in legitimacy; political endorsement brings them legitimacy, gives them better access to state-controlled resources and reduces administrative hassle (Li et al. 2006). In the early 2000s, the social norms and regulations regarding CSR were not well established, and the government (at both the central and local levels) began to pay more attention to CSR due to rising social problems stemming from rapid economic growth.¹ We chose to contrast the two types of CSR, corporate philanthropy and environmental practices, for two main reasons. First, they were emphasised in the state guidelines as they respectively addressed the pressing concerns of the government about the rising social inequality and environmental problems (Lin 2011). This allows us to test the state’s influence

on the actual firms’ engagement in such CSR practices. Second, these two types of CSR represent CSR activities that impose different constraints and costs on firms. Compared with corporate philanthropy, environmental protection requires the modification of internal operations and hence imposes greater constraints and costs on firms (Lin and Ho 2011). We suggest that politically endorsed private firms may choose to engage less in environmental practices and more in philanthropy.

Our study contributes to the research on CSR in transitional economies by suggesting how to reconcile prior conflicting results about the CSR engagement of politically connected firms. By examining these firms’ engagement in different types of CSR at the same time, we uncover an important strategic response: selective engagement. This finding deepens our understanding of how political endorsement impacts firms’ CSR, and of the role of the state in CSR in transitional economies. Whilst the state can pressure firms to participate in CSR through political endorsement, these firms tend to avoid substantive engagement in CSR activities that impose greater constraints over their discretion. The mechanism of balancing legitimacy (and the associated resource benefits) and discretion can be potentially used to understand corporate response to other powerful stakeholders, such as investors, who demand firms to engage in various CSR practices, especially when the types of CSR are not yet institutionalised. Our study thus offers a new lens to illuminate firms’ strategic response in CSR. In addition, our study extends the research on organisational responses to multiple institutional pressures by revealing how organisations selectively engage in different domains to manage multiple institutional pressures from the same constituency (cf. Kraatz and Block 2008). We demonstrate selective engagement to be a likely response by organisations exposed to heightened expectations and monitoring. Lastly, for policy makers, identifying selective engagement can help them design more effective channels of influencing and monitoring to improve social and environmental sustainability.

Literature Review

Extensive research has been conducted on the antecedents of CSR practices. Among them, a large number of studies have examined corporate philanthropy and environmental practices, especially in the Chinese context. In their recent review, Moon and Shen (2010) found that the studies on the social and environmental aspects of CSR accounted for 56.25% and 41.38% of the total number of studies during the period of 2005–2007. This reflects the importance of these practices in CSR. Here, we mainly review studies with a focus on these two types of CSR in transitional economies, given our research context. These studies have examined

¹ Examples include ‘The call for contributing to local schools’ by Qujing city’s municipal government, Yunnan province, 2003 (Qujing city municipal government official website, <http://www.qj.gov.cn/zcfg/qjgfwj/ellsnd/200610093648-1.html>) and ‘The plan for environmentally sustainable development’ by Foshan city’s municipal government, Guangdong province, 2003 (Foshan city municipal government official website, http://www.foshan.gov.cn/zwgk/fsgb/fstrmzfwj/201009/t20100928_1871268.html).

Table 1 Literature review of prior studies on antecedents of corporate philanthropy

Paper	Antecedents	Sample	Time frame	Findings
Zhang et al. (2010a)	State ownership	703 Chinese listed firms	May–June 2008	SOEs are less likely to donate
Zhang et al. (2010b)	Advertising intensity, Competition	1479 Chinese listed firms	May–June 2008	Advertising intensity is positively associated with both the probability and amount of corporate giving and firms in competitive industries are more likely to donate
Yin and Zhang (2012)	Peer pressure, Culture and religions	16 Chinese firms in Zhejiang province	Feb–Jul 2009	Peer pressure and traditional local culture are positively related to donation
Du et al. (2014)	Culture and religions	1288 Chinese listed firms	2004–2010	Religion (Buddhism and Taoism) is significantly and positively associated with firms' philanthropic giving
Gao and Hafsi (2015)	Market institutional development	2122 small and medium-sized firms	2008	Government intervention, measured as one of the Marketization Indices, increases corporate philanthropy (probability and amount)
Li et al. (2015)	Political connections	6845 observations from Chinese listed firms	2004–2011	A significant and positive relationship between political connections and the likelihood and extent of firm contributions
Zhang et al. (2016)	Political connections	820 privately owned Chinese listed firms	2001–2012	Achieved political connections facilitate firms' donation
Luo et al. (2017)	Political connections	2028 Chinese listed firms	2008–2011	Political connections enhance firms' CSR reporting (including reporting of donation activities)

the antecedents at the firm, industry and regional levels. Tables 1 and 2 present a summary of their main findings.

For corporate philanthropy, at the firm level, factors such as ownership, political connections and advertising intensity have been found to influence the likelihood as well as the amount of corporate philanthropy. For example, private firms are more likely to donate than state-owned firms, probably because private firms have more to gain from philanthropic donation with regard to legitimacy and access to state-controlled resources (Zhang et al. 2010a, b). Firms with political connections, such as executives' political affiliations, give more to philanthropic causes (Li et al. 2015; Zhang et al. 2016) and donate more quickly and more generously for disaster relief (Luo et al. 2017). High advertising intensity also increases firms' philanthropic donations (Zhang et al. 2010a, b).

At the industry level, strong industrial competition leads firms to donate more to differentiate themselves from competitors (Zhang et al. 2010a, b); however, pressure from industry peers and professional associations is not yet strong enough to influence firms' decisions (Yin and Zhang 2012).

At the regional level, culture and religions such as Buddhism and Taoism are positively associated with corporate giving (Du et al. 2014; Yin and Zhang 2012). Regarding

the role of market institutions, studies have identified some complicated effects that suggest the uniqueness of emerging markets. To the extent that market institutions foster strong competition, competition can encourage philanthropy, as discussed earlier, but some studies also note that firms donate less in regions with higher levels of market institutional development (Gao and Hafsi 2015).

With respect to environmental practices, we also review research at the three levels. One should notice that unlike corporate philanthropy which has consistent measures such as likelihood and amount of donation, extant research has looked at different aspects of environmental practices, such as environmental disclosure and pollutant emissions. We include these different aspects in this review.

At the firm level, state-owned firms have been found to perform better in environmental disclosure than private firms (Meng et al. 2013; Zeng et al. 2012); however, they also have higher pollutant emissions for most types of pollution (Jiang et al. 2014; Wang and Jin 2007). Firms with political connections, such as board members' party membership, disclose lower quality of environmental information (Cheng et al. 2017). In addition, Lin and Ho (2011) found that the internal quality of human resources affects adoption of green practices. Firms with a stronger brand image and reputation

Table 2 Literature review of prior studies on antecedents of environmental practices

Paper	Antecedents	Sample	Time frame	Findings
Wang and Jin (2007)	State ownership	517 Chinese firms from Northern Tianjin, Danyang, and Liupanshui	2000	SOEs have the worst environmental performance
Zeng et al. (2012)	Advertising intensity, Environmentally sensitive industries, Peer pressure, Market institutional development	2361 observations from Chinese listed manufacturing firms	2006–2008	SOEs, firms operating in environmentally sensitive industries, with higher peer pressure are more likely to engage in environmental disclosure, while market development has a negative effect
Meng et al. (2013)	State ownership	2360 observations from Chinese listed manufacturing firms	2006–2008	Economic performance has a positive effect on voluntary environmental disclosure, and state ownership negatively moderates this effect
Jiang et al. (2014)	State ownership	1882 Chinese manufacturing firms	2006–2007	Compared to SOEs, both foreign-owned firms and domestic public-listed firms exhibit less intensive pollutant emissions
Du et al. (2014)	Culture and religions	2104 observations from Chinese listed firms in polluting industries	2008–2010	Buddhism is positively related with environmental performance
Cheng et al. (2017)	Political connections	320 Chinese listed firms in polluting industries	2008–2013	Political connections decrease the quality of environmental disclosure
Wang et al. (2018)	Political connections	107 Chinese listed firms operating with three different kinds of environmental requirements	2008–2012	Corporate environmental actions follow an inverted U-shape as control of environmental practices moves from the central government to the most decentralised administrative level

are associated with higher quality environmental information disclosure (Zeng et al. 2012).

At the industry level, firms operating in environmentally sensitive industries are more likely to engage in voluntary disclosure, and peers' disclosure enhances firms' likelihood of such behaviour (Zeng et al. 2012).

At the regional level, Buddhism is associated with better environmental disclosure (Du et al. 2014). Nevertheless, market development negatively influences firms' environmental disclosure, probably due to increased competition (Zeng et al. 2012).

In sum, prior research suggests that in transitional markets such as China, state-related factors strongly influence firms' philanthropic and environmental practices. However, despite the importance of state-related factors, findings about how political connections affect these CSR practices are mixed. Moreover, most studies have examined the two practices one at a time, not considering the possibility that firms may strategically vary the level of their engagement in these two practices. One exception is Du (2015), who found that Chinese family-owned firms significantly increase philanthropic giving after engaging in environmental misconduct. Nevertheless, whether and how politically endorsed firms engage selectively in the two practices is little understood.

Theoretical Background and Hypotheses Development

In this study, we draw on the institutional theory to understand the motivation of firms to engage in CSR. According to this theory, organisations strive to achieve legitimacy by conforming to the regulations, social norms and prevailing practices in their institutional environment (DiMaggio and Powell 1983; Meyer and Rowan 1977). Legitimacy can bring organisations important benefits such as better access to resources, enhanced trust and in turn higher survival rates and prospects for growth (Oliver 1991; Suchman 1995). The institutional theory of CSR posits that CSR is significantly shaped by institutional pressures such as state regulations, social norms, nongovernmental organisations, collective action from the community and industrial associations (Campbell 2007). The core insight of this perspective is that it recognises the institutional sources of CSR and sees CSR as driven by firms' efforts to manage institutional pressures in addition to improving their market competitiveness.

In transitional markets, in which the state plays an important role in the economy and market-based institutions are relatively weak, the state is one of the most important institutional sources of CSR (Luo et al. 2017). The state can issue regulations and guidelines for CSR, creating coercive or normative pressures on firms (Marquis and Qian 2014). Firms engage in CSR to achieve or increase their legitimacy (Zhao 2012). Whilst state pressures for CSR can motivate firms to conform,

not all firms respond in the same way. Firms with institutional linkages have been found to be more exposed to institutional pressure (Oliver 1991). Political endorsement is thus likely to expose firms to state expectations that they engage in CSR, and to interference from the state.

Institutional theory holds that compliance with institutional pressures can yield both legitimacy benefits and loss of discretion (Meyer and Rowan 1977). CSR expectations from the state can clash with firms' existent structures and practices. For instance, philanthropic donations can take resources away from firm operations, and environmental practices can involve changes to firms' procedures and practices. In responding to institutional pressures, organisations balance the need for legitimacy (and the associated resource benefits) and the need for discretion (Oliver 1991). A classic way of doing so is through decoupling, in which organisations display structural conformity without substantive implementation. However, for politically endorsed firms, a lack of substantive implementation can expose them to accusations of hypocrisy and threaten the legitimacy and resource advantages they have gained (MacLean and Behnam 2010), due to their high exposure to state authorities (Marquis and Qian 2014).

We propose that politically endorsed firms may respond with *selective* engagement with various types of CSR. That is, they will comply more substantively with the type of CSR that imposes fewer constraints over their discretion. Substantive compliance can boost the government's confidence in the endorsed firms, and the government is likely to trust that these firms will meet the state's other expectations in due time (Zhao 2012). In this way, firms can alleviate the government's monitoring and in effect reduce (or postpone) institutional pressures for compliance with the other types of CSR that impose more constraints on organisational discretion. Through selective engagement, firms can minimise the loss of discretion in the near term while maintaining legitimacy.

Next, we develop hypotheses based on our theoretical framework. We first consider the effect of political endorsement on corporate philanthropy. To ascertain the mechanism that the endorsed firms are driven to conform to the government's expectation for philanthropy in order to maintain legitimacy and the associated resource benefits, we further hypothesize that resource dependence on the state can amplify the effect of political endorsement on philanthropy. Lastly, we hypothesize that endorsed firms will engage less in environmental practices than in philanthropy, reflecting selective engagement.

The Relationship between Political Endorsement and Corporate Philanthropy

Firms seek political endorsement to enhance their legitimacy and gain access to state-controlled resources, and this

endorsement can take two main forms. One is through corporate executives' acquisition of important political offices (Hillman et al. 1999). In China, firm executives seek office at various levels of government—for example, as a member of the People's Congress (PC) or the People's Political Consultative Conference (PPCC). The political appointment of executives suggests government approval of their firms and is the most important means for private firms to participate in politics (Li et al. 2006) and influence policy making (Oliver and Holzinger 2008). The second form of political endorsement occurs when the government grants awards to firms for their exemplary compliance with public policies, such as paying taxes, investing in science and technology and creating jobs. Oliver and Holzinger (2008) argued that active compliance with government policies can enhance organisational legitimacy.

Political endorsement can make firms comply more with government expectations of corporate philanthropy. When compliance is voluntary, the government cannot reasonably expect it to be uniform, and is likely to have higher expectations of endorsed firms (Zhang et al. 2016). As endorsed firms achieve higher organisational legitimacy, the government is likely to expect them to behave in accordance with their elevated social standing and lead other firms in responding to government demands (Zeng et al. 2012). Whilst private firms in China in general lack legitimacy, endorsed private firms are perceived as a distinct category vis-à-vis other private firms because they have been scrutinised and approved by the government. Private entrepreneurs holding important political offices are called 'red capitalists' in China (Dickson 2003); this title differentiates them from other capitalists (private firm owners) without government endorsement and suggests that they are more aligned with the state. Since endorsed private firms are viewed as being more in the public arena than other private firms, the government expects endorsed firms be more responsive to calls for CSR, such as philanthropic donations (Dickson 2003). For instance, following the 2008 earthquake in Sichuan province, reports in the news media (controlled by the government and reflecting its views) on corporate contributions to disaster relief often pointed out that the executives were in top political positions (see, e.g., *South Daily*, 10 June 2008).²

Firms that have been politically endorsed are also more likely to respond to such higher expectations due to the potential loss of legitimacy and resource benefits (Oliver 1991). Failure to meet the government's expectations would be inconsistent with their elevated social standing, and would thus invite challenges to their legitimacy. In terms of

political appointments, private entrepreneurs aspire to such positions as a means of changing the government's and the public's perception of them and of their businesses (Ma and Parish 2006). That they have been entrusted with important positions in the government indicates that they and their businesses have gained official approval. However, that approval can be withdrawn.

In addition, private firms in China typically expend non-trivial resources to obtain political endorsement, and these sunk costs can make them more vigilant about preserving their endorsement. To obtain government awards, they must nominate themselves and submit their qualifications; a panel of government officials then judges and selects the winners. Ma and Parish (2006) also described the significant resources firms must commit for their top executives to obtain political appointment.

Moreover, political endorsement provides a channel of influence through which the government can interfere with firms. Hillman and colleagues (1999) suggested that executives' political appointment is a form of co-optation, which the government can leverage to impose its will on firms. Through more frequent interactions between state officials and corporate executives, political endorsement can channel the pressure for charitable contributions more frequently to firms (Luo et al. 2017). We hence propose that politically endorsed firms may engage in more corporate philanthropy as a response to government expectations.

Hypothesis 1 Political endorsement has a positive effect on firms' engagement in corporate philanthropy.

The Moderating Role of Resource Dependence on the Government

Institutional research suggests that organisations with higher resource dependence on institutional stakeholders tend to comply more with institutional pressures, because non-compliance can be more detrimental for these firms (Oliver 1991). Endorsed firms that depend more on state-owned firms for resource exchange may be even more vulnerable to government expectations. In transitional economies, the government wields a significant influence over state-owned firms, whose decisions reflect government preferences more than market competition (e.g., Nee 1992). Endorsed firms that have higher resource dependence on state-owned firms are thus more subject to government power (Pfeffer and Salancik 1978). The potential loss of political endorsement from failing to meet the government's expectations of philanthropy may result in uncertainty and disruption in a firm's resource exchange. In contrast, endorsed firms that do not depend on state-owned firms for resource exchange, due to alternative channels of suppliers and customers, may perceive that they have less to lose if the endorsement is

² 'Delegates of People's Congress in Guangdong Province donated 0.6 billion RMB' (<http://npc.people.com.cn/GB/7359299.html>).

rescinded. Hence they may comply less with the state's expectations of corporate philanthropy.

Hypothesis 2 The positive effect of political endorsement on firms' philanthropy is stronger for firms with greater resource dependence on state-owned firms.

The Relationship Between Political Endorsement and Selective Engagement

Whilst political endorsement can lead the government to have higher expectations for firms' CSR, these firms may not respond to the same extent to expectations for various types of CSR. Given the voluntary nature of CSR demands, the government may intend the endorsed firms to pioneer engagement in CSR and then influence other firms (Zhao 2012). However, meeting government expectations of various types of CSR can impose severe constraints on firm discretion, and therefore endorsed firms may not engage indiscriminately if they are concerned about maintaining their discretion. Studies of organisational response to institutional pressure have suggested that maintaining discretion over firms' internal operations is a key concern and shapes how firms respond to external institutional pressure (Meyer and Rowan 1977; Oliver 1991). Numerous studies have shown that organisations find ways to display symbolic conformity to institutional pressures while keeping their internal operations intact (e.g. Bansal and Roth 2000; Fiss and Zajac 2004, 2006; Kennedy and Fiss 2009). Powerful leaders are even more likely to decouple policy adoption from actual implementation because they aim to retain discretion over organisational decision making (Westphal and Zajac 2001). Kraatz and Block (2008) suggested that organisations play off demands from one constituency against those from another, to keep their autonomy and discretion.

However, because political endorsement gives rise to higher expectations from the same pressuring constituency—the government—responses such as decoupling or playing off demands from multiple constituencies tend not to be feasible for endorsed firms. Higher expectations are typically accompanied by more attention and monitoring, and a higher demand for accountability (Lounsbury 2007). Paradoxically, although the existence of multiple government expectations might seem to be more constraining, it allows endorsed firms to choose to comply more substantively with expectations that exert less constraint on discretion, and postpone (or alleviate) expectations that impose more constraint. In the context of corporate governance reform, Westphal and Zajac (1998) found that adoption of long-term incentive plans helped firms to meet the shareholders' demand for more control over corporate executives, thus reducing the shareholders' pressures to enact further governance reforms, such as separation of CEO -and chairman

position. For firms with political endorsement, complying with one type of CSR can substantively strengthen the firms' legitimacy and the government's faith in them; such compliance can also deter a reawakening of government scrutiny and distrust thus reducing the institutional pressure for compliance with other types of CSR (Suchman 1995). Whilst the two types of CSR, philanthropy and environmental practices, are not related in terms of targets, beneficiaries or synergy of resources or capabilities (Yin and Quazi 2018), exemplary engagement in one type may confirm a firm's legitimate standing to the government and bolster a belief that it will eventually engage the same way in the other type, thus alleviating government attention on the other type.

Compared with corporate philanthropy, environmental practices impose many more constraints on firm discretion. Environmental procedures directly interfere with the core production processes of organisations, such as existing operational processes, and may conflict with existing routines (Lin and Ho 2011). Moreover, engagement in environmental practices may involve the firm's operations on an ongoing basis and thus continually divert resources away from its business objectives. In contrast, corporate philanthropy can be viewed as a peripheral activity of organisations and presents a lesser challenge to firms' internal functioning. Philanthropy can also be engaged in as a one-time event over a relatively long period and hence be less costly to organisations (e.g. Zhang et al. 2010a, b). We therefore argue that political endorsement may drive firms to engage more in corporate philanthropy than in environmental practices.

Hypothesis 3 Politically endorsed firms engage less in environmental practices than in corporate philanthropy.

Methods

Sample and Data Sources

Our sample consists of randomly sampled private manufacturing firms with annual sales greater than 5 million RMB (153,846 USD) in China. The main data come from a national survey funded by the International Finance Corporation and conducted by the National Statistics Bureau in 2006. Recent management studies have also used these data (e.g. Ge and Zhao 2017).

Given the vast regional diversity of China, twelve cities were selected from the coastal (i.e. Beijing, Hangzhou, Wujiang and Foshan), middle (i.e. Changchun, Dandong, Shijiazhuang, Zibo), and western regions (i.e. Chifeng, Xi'an, Shiyang, Chongqing) to ensure a representative sample. Within each city, a stratified sampling method was used to ensure sample representativeness. Firms were sampled based on their ownership type (i.e. state-owned, domestic

private and joint ventures) and size (i.e. fewer than 500 employees, from 501 to 2000 employees, or more than 2000 employees). A total of 1268 firms were sampled, and four were removed because of apparently erroneous information reported. Of the 1264 firms, 1142 were private (i.e. including both domestic private firms and joint ventures), and these comprised the sample for this study. The characteristics of the sampled firms were comparable with national statistics in terms of geographic location and financial performance (for a detailed description of the survey, see Shen and Yao 2010).³

One main goal of the survey was to investigate Chinese firms' CSR participation. The questionnaire was administered to each firm's management team, which included the owner or top executive and the managers of finance, production, sales and human resources. This multiple informant approach ensured that information was collected from respondents in charge of the issues.

We complemented the survey data with information on government awards given to the sampled firms, which we collected from each firm's website. For firms without a website, we searched the firm name as the keyword for government award information using Baidu (the most commonly used search engine in China) and Google.⁴ We also cross-checked information reported in the survey with that reported on firms' websites to ensure accuracy. The threat of common method bias was thus reduced by using multiple sources of data.

Measurement

Dependent Variables

For corporate philanthropy, the survey asked whether the firm had donated to philanthropic institutions or charities or made other charitable contributions in the past 3 years (2003–2005), and it also asked for the amount of donations in the same period. Given the lack of institutionalised incentives or social norms for corporate philanthropy when the survey was administered, this three-year time span was appropriate for identifying corporate philanthropic activities

that may happen only once every few years. The dependent variables for corporate philanthropy are *whether the firm donated* (coded as 1 if donated, else as 0), and the *donation amount* (we take the natural log of this amount per Galaskiewicz 1997; firms that did not donate are coded as 0).⁵ We expect endorsed firms' engagement in this domain to be reflected both in a larger amount of corporate donation and a higher likelihood of donation.

To measure a firm's selective engagement, we compare a firm's industry-adjusted engagement in philanthropy and environmental practices, because these activities are different in nature and the costs involved. The coding of the variable 'selective engagement' is done in two steps. In the first step, we compare a firm's engagement in each of the two activities against the median value of firms in its two-digit industry, given that industry is an often-used reference set. For philanthropy, we use the amount of corporate donation for such comparison. For environmental practices, we use firms' environmental expenditures, such as for the purchase of facilities or equipment to reduce water pollution, gas emission or noise pollution, between 2003 and 2005. As we have argued, the government is likely to have higher expectations for endorsed firms, and hence it is reasonable to assume that the government may expect their engagement in philanthropy and environmental efforts to be above the median level of their industry. (For a robustness check, we use the quartile measure as a cutoff point,⁶ and our main findings remain unchanged.) Our selective engagement argument (H3) means that endorsed firms are likely to exceed the median in corporate donation but not in environmental practices.

In the second step, we create the variable 'selective engagement', based on four mutually exclusive categories: (1) dedicated to philanthropy only (1 if a firm donated above the industry median and spent less than the industry median

³ The percentage of private firms in the whole sample (91%) was comparable with national statistics: the Ministry of Commerce reported that private firms accounted for 92% of firms nationwide in 2007 (http://www.gov.cn/ztl/2007-08/10/content_712562.htm). The sampled firms' profitability (pretax ratio of profit to fixed capital) was 25.2%, similar to the rate (between 20% and 25%) found in Bai et al. (2007).

⁴ Given the benefits of obtaining government awards, we can reasonably assume that firms are willing to disclose award information to the public through their own websites or news reports. Information collected on awards is therefore less likely to suffer from a downward bias.

⁵ Firms that did not report their donation amount are also coded as 0; omitting these firms from the analysis does not significantly alter our results.

⁶ When using the quartile measure, we test two ways of coding the categories for selective engagement. First, we consider firms that spent in the top 25 percentile (high) on corporate donation and in the bottom 25 percentile (low) on environmental protection as dedicated to philanthropy only (category 1). Second, we consider firms that spent in the top 25 percentile (high) on corporate donation and below median on environmental protection as dedicated to philanthropy only. Other categories are coded accordingly. The pattern of findings is the same as reported here.

on environmental practices, and 0 otherwise) (17.76% of our sample)⁷; (2) dedicated to environmental practices only (1 if a firm spent more than the industry median on environmental practices and donated below the industry median, and 0 otherwise) (19.86% of our sample); (3) dedicated to both philanthropy and environmental practices (1 if a firm donated above the industry median and spent more than the industry median on the environment, and 0 otherwise) (19.34% of our sample); and (4) dedicated to neither (1 if a firm spent less than the industry median on environmental practices and donated below the industry median, and 0 otherwise) (43.04% of our sample). We treat the first category as the reference category. For H3 to be supported, we should observe endorsement to be negatively associated with the second, third and fourth category as compared with the first category.

Independent Variables

Based on the two main forms of political endorsement, we measure government endorsement using two variables: whether the top executive held an important *political appointment* and whether the firm obtained *government awards*. The *political appointment* variable is coded as 1 if the firm's top executive served as a delegate to the PC or the PPCC at the national, provincial, city or prefecture/county level (0 otherwise). The PC and CPPCC are the only important political organisations in China that are open to business leaders. As stipulated by the Chinese Constitution, the national PC is the highest organ of state power in China and the national PPCC is an advisory body to the Communist Party. Private firms can gain legitimacy and political access through their top executives' occupation of such delegate positions (Ma and Parish 2006; O'Brien 1994; Tian et al. 2008). Elections are held every 5 years.⁸ The most recent election before our survey year for the People's Congress was held in 2002 (the Tenth Congress), and for the People's Political Consultative Conference was held in early 2003 (the Ninth PPCC). Thus, by the time of even the earliest donation made by our sample firms (2003), the majority of political delegates had already obtained their political positions. Our ability to establish the time precedence of political

positions helps us to reduce concerns about reverse causality (Ma and Parish 2006). We collected information on government awards given between 1998 and 2003 (e.g., if a firm was listed as a 'Top 50 Conscientious Tax Payer' by the Beijing Municipal Office, State Administration of Taxation). For this variable, firms that obtained governmental awards are coded as 1 and as 0 otherwise.

To measure firms' resource dependence on state-owned firms, we use firms' reliance on state-owned firms as important suppliers or customers (Pfeffer and Salancik 1978). The survey asked firms to rank the importance of state-owned firms as suppliers and customers, respectively, out of seven choices for supply and consumption (e.g., private firms, foreign firms). We code the variable *SOE suppliers* as 1 if state-owned firms were ranked within the top three, and we code the same way for the variable *SOE customers*.⁹ We then create the interaction terms between these variables and political endorsement to test the moderating effect proposed in H2.

Control Variables

To examine corporate engagement in philanthropy, we control for factors that prior studies have shown may influence corporate engagement in CSR and organisational response to institutional pressures. Firms that place greater emphasis on their public image and have more contact with individual consumers have been found to engage in more CSR (McWilliams and Siegel 2000). We therefore control for *advertising intensity* and *consumer industries* (industries that sell products directly to consumers). We also control for firms with higher product quality through *ISO 9001 certification*, because they may also be more concerned about public image (Terlaak and King 2006).

Managers have been found to pursue corporate philanthropy for their own gain, and an incentive alignment between owners and managers may reduce such managerial motivation (Atkinson and Galaskiewicz 1988). Hence we control for *whether the CEO owns shares*. Although CSR has not become an industry norm in China's transitional economy, a firm that is a *member of industry associations that promote CSR* will likely be subject to peer influence (DiMaggio and Powell 1983; Galaskiewicz and Burt 1991). We code this variable based on questions asking whether the firms had participated in a business association and whether the association had organised any activities involving social responsibility; it is coded as 1 if both questions were answered in the affirmative and as 0 otherwise. In addition, firms may consistently participate in social initiatives

⁷ We code firms that spent at the median level of their same-industry peers as in the above-median group. Coding them in the below-median group does not change our results.

⁸ Delegates to the two government bodies are elected directly at the county level and indirectly at the other three levels (prefectural, provincial and national level) by lower-level members. These are part-time positions. Although 'election' is involved in the process, political scientists have provided evidence that the candidacy is normally bestowed by the government; thus, there is much room for corporate leaders to strive for such a candidacy-*cum*-election (O'Brien 1994).

⁹ We also try coding them as 1 if state-owned firms were ranked within the top two, and our results remain unchanged.

over time. As we do not have data on firms' CSR practices before 2003, we use information on whether they had formed a *CSR plan* before 2003 (coded as 1, and 0 for otherwise) and assume that the existence of this plan is a reasonable proxy for greater involvement in CSR. We also control for *firm profitability* (in 2002), which may affect the availability of slack resources to devote to CSR (Waddock and Graves 1997). Firms with *foreign direct investment* or *export orientation* may depend less on domestic markets and so may be less likely to engage in CSR based in China, although Christmann and Taylor (2001) argued that such global ties can increase self-regulation of environmental performance. We also control for whether the firm is located in *coastal areas*, *firm size*, and *firm age*. Larger firms are more visible and resourceful (Roberts and Dowling 2002) and older firms may be more inert and less inclined to meet recent government expectations (Hannan and Freeman 1984).

A firm's resource dependence on the government may lead it to comply with government expectations (Oliver 1991), and hence we control for *SOE suppliers* and *SOE customers* (these variables were described earlier). Government inspection may render firms vulnerable, and firms may actively comply with government expectations as a way to create goodwill and alleviate surveillance. We thus measure the extent of *government inspection* in the firm's production process, which ranges from 0 (no inspection) to 4 (extensive inspection).

To analyse firms' selective engagement in environmental practices vs. philanthropy, we consider the preceding control variables and further control for *polluting industries*, which is coded as 1 if firms are in heavily polluting industries (e.g., chemicals, oil refineries, iron and steel, cement). Firms in these industries have been found to engage more in environmental practices (Nakamura et al. 2001).

Correction for Endogeneity

In addition to ensuring that our key independent variables for political endorsement were measured before the dependent variables, we address the potential self-selection process of political endorsement by estimating two-stage Heckman selection models and carefully choosing instrumental variables that fit the exclusion criteria (Heckman 1979; Shaver 1998), as described next.

In the first stage, we use probit models to predict the probability of obtaining political appointments and government awards. The instrumental variable we use to predict political appointment is the prevalence of private firms in the sampled city (measured as the total number of private firms in that city). A large number of private firms indicates the importance of the private sector and thus increases the likelihood that a private entrepreneur from that city will be incorporated into the political regime. However, the prevalence of

private firms is not theoretically related to a firm's CSR practices, as is confirmed by the small correlation coefficient (e.g., the correlation between prevalence of private firms and whether a firm donated is 0.08). The instrument we use to predict governmental awards is whether firms regularly conduct external auditing. Corporate income tax evasion is a severe problem in China's transitional economy (Fisman and Wei 2004). Hence firms that abide by taxation laws are highly regarded by the government—as evidenced by the 'top corporate taxpayer' award as a major type of government award. Firms that conduct external auditing are more likely to comply with tax laws and thus more likely to obtain government awards. However, external auditing may not be related to a firm's engagement in CSR. We then compute the inverse Mills ratios based on the selection equations and include them in the second stage analysis (Heckman 1979).¹⁰ (See Table 6 in "Appendix" section for the first-stage selection models.)

Models

We use a logistic model for the binary dependent variable (i.e., whether firms made a philanthropic donation). We use ordinary least-squares (OLS) regression for *donation amount*. To analyse firms' selective engagement, based on the four categories outlined, we use a multinomial logistic model. The model tests the effects of covariates on the likelihood of a firm falling in each of the other three categories as opposed to the first (reference) category. Given that our analysis of philanthropy already shows the effects of independent variables on philanthropy, the comparison of the fourth category (dedicated to neither) and the first category would be repetitive and therefore we do not present it in the table (the results are consistent with those from the analysis of philanthropy).

Results

Table 3 presents the correlations and descriptive statistics. 67% of the firms in the sample made corporate donations between 2003 and 2005. The median of the total donation

¹⁰ To predict political endorsement, we include the control variables used in the main analysis and two more variables: the firm's ownership history (i.e., whether the private firm was transformed from a state-owned enterprise) and the top executive's past work experience in the government, which may enhance connection with the government and so facilitate obtaining endorsement (O'Brien 1994). In lieu of a measure for previous donations, the two variables of previous CSR plan and membership in CSR-promoting industrial associations provide a reasonable proxy, given the strong association between these variables and corporate donation (Galaskiewicz and Burt 1991).

Table 3 Descriptive statistics and correlation matrix

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Whether a firm donated	0.67	0.47															
2. Donation amount (ln)	1.12	1.75	0.43*														
3. Selective engagement	2.88	1.51	-0.29*	-0.34*													
4. Environment expenditures (ln)	2.04	2.17	0.14*	0.28*	-0.22*												
5. Political appointment	0.38	0.49	0.25*	0.29*	-0.16*	0.11*											
6. Government award	0.13	0.33	0.15*	0.19*	-0.10*	0.03	0.14*										
7.ISO 9001 certificate	0.58	0.49	0.19*	0.21*	-0.10*	0.12*	0.10*	0.13*									
8. Advertising intensity (%)	0.07	0.45	0.05	0.08*	-0.01	0.10*	0.02	0.02	0.04								
9. Consumer industries	0.17	0.38	0.03	0.07*	-0.00	-0.06*	0.02	0.01	-0.07*	0.07*							
10. Polluting industries	0.32	0.47	-0.05	-0.03	-0.04	0.13*	-0.06*	-0.03	-0.12*	-0.04	-0.31*						
11. High-tech industries	0.05	0.21	-0.03	-0.01	-0.03	-0.04	-0.04	0.02	0.12*	-0.02	-0.01	-0.15*					
12.SOE suppliers	0.65	0.48	0.10*	0.08*	-0.07*	0.11*	0.08*	0.09*	0.11*	-0.03	-0.10*	0.04	-0.03				
13.SOE customers	0.57	0.50	0.09*	0.04	-0.04	0.06*	0.11*	0.06	0.16*	-0.03	-0.19*	0.06*	0.04	0.37*			
14. Government inspection	3.45	1.12	0.14*	0.12*	-0.10*	0.12*	0.09*	0.03	0.09*	0.02	-0.02	0.05	-0.09*	0.11*	0.09*		
15.CEO has shares	0.64	0.48	0.03	-0.05	-0.03	-0.07*	0.01	-0.05	-0.06*	0.03	0.02	0.02	-0.06*	-0.03	0.11*	0.11*	
16. Previous CSR plan	0.06	0.23	0.10*	0.15*	-0.05	0.08*	0.08*	0.04	0.06*	0.01	0.03	-0.03	0.00	0.00	0.05	0.05	-0.02
17. Industrial association membership	0.28	0.45	0.29*	0.30*	-0.08*	0.15*	0.20*	0.10*	0.17*	0.09*	0.05	-0.07*	-0.02	0.09*	0.13*	0.13*	0.09*
18. Profitability	1.26	10.96	0.07*	0.11*	-0.05	0.11*	0.07*	0.08*	0.01	0.00	-0.01	-0.02	-0.02	-0.02	-0.14*	-0.14*	-0.08*
19. FDI	0.11	0.31	-0.03	0.01	0.02	0.06*	-0.05	0.03	0.08*	-0.01	0.08*	0.00	0.12*	-0.05	-0.07*	-0.07*	-0.17*
20. Export (%)	0.16	0.30	-0.05	-0.04	-0.01	-0.03	-0.09*	-0.04	-0.03	-0.02	0.23*	-0.08*	0.12*	-0.14*	-0.06*	-0.06*	-0.01
21. Coastal areas	0.33	0.47	-0.01	0.11*	-0.06*	0.05	-0.16*	-0.03	0.09*	0.05	0.14*	-0.06*	0.09*	-0.06*	-0.13*	-0.13*	-0.01
22. Firm size (ln)	5.41	1.29	0.19*	0.38*	-0.19*	0.35*	0.22*	0.17*	0.21*	0.04	0.14*	-0.17*	0.09*	0.04	0.01	0.01	-0.22*
23. Firm age	14.53	14.75	0.12*	0.15*	-0.05*	0.12*	0.17*	0.23*	0.11*	0.00	0.02	-0.07*	0.00	0.15*	0.01	0.01	-0.16*
24. SOE origin	0.25	0.43	0.15*	0.10*	-0.02	0.02	0.17*	0.08*	0.11*	-0.02	-0.04	-0.02	0.01	0.15*	0.06*	0.06*	0.12*
25. Government working experience	0.07	0.26	0.06*	0.10*	-0.06*	0.11*	0.13*	0.08*	0.00	0.00	-0.01	0.03	0.00	0.01	0.07*	0.07*	0.07*
26. Number of private firms in sampled city	9629.42	7887.36	0.08*	0.16*	-0.08*	0.05	-0.08*	-0.02	0.04	0.05	0.12*	0.01	0.04	-0.05	-0.07*	-0.07*	0.08*
27. External auditing	0.75	0.44	0.16*	0.19*	-0.13*	0.13*	0.06*	0.09*	0.21*	0.04	0.02	-0.07*	0.07*	0.08*	0.06*	0.06*	-0.09*
28. Market share (%)	0.05	0.07	0.14*	0.20*	-0.03*	0.14*	0.10*	0.08*	0.18*	0.02	-0.03	-0.03	0.10*	0.11*	0.03	0.03	-0.07*
29. Internal funds (%)	0.35	0.36	-0.07*	-0.09*	0.01	0.01	-0.10*	-0.03	-0.06*	0.03	-0.02	0.09*	-0.02	-0.10*	0.03	0.03	0.09*
30. Sales growth (%)	0.85	3.56	0.02	0.08*	-0.08*	0.05	0.03	0.01	0.00	-0.01	-0.04	0.03	-0.02	0.02	0.01	0.01	0.00

Table 3 (continued)

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
31. Industry-level expenditure difference between environmental practices and donation	0.14	1.17	0.27*	0.15*	-0.03	-0.22*	0.01	-0.02	-0.17*	-0.01	0.15*	0.09*	0.02	-0.10*	-0.05	-0.05	0.03
Variable	Mean	SD	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
17. Industrial association membership	0.28	0.45	0.19*														
18. Profitability	1.26	10.96	0.02	0.02													
19. FDI	0.11	0.31	0.00	-0.08*	0.10*												
20. Export (%)	0.16	0.30	-0.03	-0.01	-0.01	0.25*											
21. Coastal areas	0.33	0.47	-0.04	0.03	0.00	0.09*	0.18*										
22. Firm size (ln)	5.41	1.29	0.06*	0.14*	0.27*	0.02	0.08*	0.06*									
23. Firm age	14.53	14.75	0.04	0.07*	0.04	-0.07*	-0.10*	-0.03	0.31*								
24. SOE origin	0.25	0.43	0.04	0.14*	0.00	-0.08*	-0.11*	-0.10*	0.12*	0.19*							
25. Government working experience	0.07	0.26	0.05	0.05	0.00	-0.03	-0.01	-0.06*	0.06*	0.03	0.11*						
26. Number of private firms in sampled city	9629.42	7887.36	-0.03	0.10*	0.01	0.05	0.27*	0.73*	0.11*	-0.08*	-0.07*	-0.03					
27. External auditing	0.75	0.44	0.08*	0.13*	0.05	0.15*	0.07*	0.04	0.16*	0.04	0.03	-0.01	0.06*				
28. Market share (%)	0.05	0.07	0.09*	0.06*	0.09*	0.12*	-0.04	0.02	0.15*	0.10*	0.13*	0.02	0.01	0.17*			
29. Internal funds (%)	0.35	0.36	-0.01	-0.07*	-0.02	0.03	0.00	-0.02	-0.11*	-0.12*	-0.07*	-0.06*	-0.01	0.04	-0.01		
30. Sales growth (%)	0.85	3.56	-0.01	0.04	0.01	-0.03	0.00	-0.02	0.00	-0.06*	-0.01	0.00	0.01	0.01	0.02	0.01	
31. Industry-level expenditure differences between environmental practices and donation	0.14	1.17	-0.04	0.06*	-0.06*	-0.05	0.10*	0.13*	0.05	-0.04	-0.03	0.01	0.21*	0.00	-0.10*	0.00	-0.02

Table 4 Regression analyses of private firms' donation probability and amount

Variable	Donation Probability				Donation Amount	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Control variable						
ISO 9001	0.68*** (0.17)	0.24 (0.24)	0.23 (0.24)	0.24 (0.24)	-0.06 (0.15)	-0.05 (0.15)
Advertising intensity (%)	1.12 (0.84)	0.93 (0.83)	0.70 (0.85)	0.69 (0.85)	0.12 (0.09)	0.12 (0.09)
Consumer industry	0.17 (0.20)	0.17 (0.22)	0.21 (0.22)	0.22 (0.22)	0.10 (0.13)	0.08 (0.13)
SOEs as suppliers	0.19 (0.15)	0.04 (0.16)	0.00 (0.17)	-0.26 (0.19)	-0.00 (0.11)	-0.13 (0.13)
SOEs as customers	0.10 (0.16)	-0.06 (0.17)	-0.05 (0.18)	-0.06 (0.20)	-0.26* (0.11)	-0.18 (0.13)
Government inspection	0.16** (0.06)	0.16* (0.06)	0.17** (0.07)	0.18** (0.07)	0.13** (0.04)	0.12** (0.04)
CEO has shares	0.27 (0.15)	0.15 (0.17)	0.19 (0.17)	0.19 (0.18)	-0.10 (0.11)	-0.10 (0.11)
Previous CSR plan	0.50 (0.40)	0.37 (0.41)	0.41 (0.42)	0.38 (0.42)	0.55** (0.20)	0.56** (0.20)
Industrial association membership	1.53*** (0.20)	0.85** (0.32)	0.84* (0.33)	0.85* (0.33)	0.13 (0.19)	0.15 (0.19)
Profitability	0.06 (0.04)	0.06 (0.04)	0.07 (0.05)	0.07 (0.05)	0.002 (0.004)	0.00 (0.004)
FDI	0.11 (0.22)	-0.08 (0.25)	-0.10 (0.26)	-0.11 (0.26)	-0.09 (0.16)	-0.07 (0.16)
Export (%)	-0.34 (0.25)	-0.06 (0.27)	-0.07 (0.28)	-0.08 (0.28)	-0.29 (0.17)	-0.30 (0.17)
Coastal areas	-0.09 (0.15)	0.47 (0.31)	0.50 (0.31)	0.51 (0.32)	0.83*** (0.18)	0.83*** (0.18)
Firm size (ln)	0.22*** (0.07)	-0.10 (0.14)	-0.13 (0.14)	-0.14 (0.14)	0.14 (0.08)	0.13 (0.08)
Firm age	0.01 (0.01)	-0.01 (0.01)	-0.02 (0.01)	-0.02 (0.01)	-0.02** (0.01)	-0.02* (0.01)
Inverse Mills ratio for political appointment		-1.03 (0.67)	-0.71 (0.69)	-0.75 (0.70)	-0.42 (0.41)	-0.42 (0.41)
Inverse Mills ratio for government award		-1.25* (0.63)	-1.22 (0.64)	-1.22 (0.65)	-1.23** (0.41)	-1.19** (0.41)
Independent variable						
Political appointment (H1)			0.90*** (0.17)	0.35 (0.28)	0.70*** (0.10)	0.47** (0.17)
Government award (H1)			1.01*** (0.30)	0.85 (0.58)	0.46** (0.14)	0.96*** (0.29)
Political appointment* SOEs as suppliers (H1a)				0.98** (0.36)		0.55** 0.21
Government award* SOEs as suppliers (H1a)				0.21 (0.69)		-0.54 (0.32)
Political appointment* SOEs as customers (H1a)				-0.08 (0.35)		-0.23 (0.20)
Government award* SOEs as customers (H1a)				0.09 (0.64)		-0.13 (0.30)
Constant	-2.09*** (0.43)	3.70 (2.16)	3.05 (2.22)	3.31 (2.23)	2.42 (1.34)	2.38 (1.34)
Observations	1142	1142	1142	1142	1142	1142
R-squared					0.30	0.30
Log likelihood	-630.09	-626.29	-603.65	-599.28		
Pseudo R-squared	0.14	0.14	0.17	0.18		

Standard errors in parentheses. $N=1142$ firms. *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$. Two-tailed tests of significance

amount is 50,000 RMB (7,692 USD), with a maximum of 0.25 billion RMB (38,461,538 USD). This percentage is higher than the 47% found in a study using a sample of Chinese publicly listed firms during a similar period (Wang and Qian 2011). This finding suggests that publicly listed firms are less likely than unlisted privately owned firms to engage in philanthropy. Publicly listed firms are a small subset of Chinese firms, and most are controlled by the state (Ring et al. 2005). For this reason, results based on public firms may not be generalizable to unlisted firms. The unique data set that we use offers an opportunity to examine these rank-and-file players in China's transitional economy. With

respect to environmental practices, the median expenditure is 105,000 RMB (16,154 USD), with a maximum 0.1 billion RMB (15,384,615 USD).

Table 4 shows the results of regression analyses predicting the likelihood of corporate donation and the donation amount. Table 5 presents the results of multinomial logistic analysis of the likelihood of firms' selective engagement in philanthropy and environmental practices. Two-tailed tests of significance are used.

Table 5 Multinomial logistic models predicting private firms' selective engagement in environmental practices and donation

Variables	Model 1		Model 2			Model 3	
	Dedicated to environment vs. dedicated to donation	Dedicated to both vs. dedicated to donation	Dedicated to environment vs. dedicated to donation	Dedicated to both (25%) vs. dedicated to donation	Dedicated to both (25–50%) vs. dedicated to donation	Dedicated to environment vs. dedicated to donation	Dedicated to both vs. dedicated to donation
ISO 9001	0.13 (0.34)	0.42 (0.34)	0.17 (0.34)	0.04 (0.51)	0.72 (0.44)	−0.10 (0.35)	0.23 (0.35)
Advertising intensity (%)	0.96 (0.64)	1.03 (0.61)	0.89 (0.61)	0.95 (0.60)	0.41 (0.85)	0.68 (0.64)	0.78 (0.60)
Consumer industry	−1.11*** (0.33)	−0.59 (0.31)	−1.05** (0.33)	−0.82 (0.45)	−0.71 (0.42)	−0.78* (0.34)	−0.44 (0.31)
Polluting industry	−0.05 (0.23)	0.15 (0.24)	−0.00 (0.23)	0.21 (0.34)	0.37 (0.30)	0.30 (0.24)	0.34 (0.25)
CEO has shares	−0.39 (0.26)	−0.39 (0.26)	−0.40 (0.26)	−0.18 (0.37)	−0.38 (0.33)	−0.33 (0.27)	−0.35 (0.26)
Previous CSR plan	−1.17* (0.52)	−0.24 (0.37)	−1.08* (0.52)	−0.84 (0.58)	0.29 (0.45)	−1.34* (0.53)	−0.39 (0.38)
Industrial association membership	−0.73 (0.43)	0.40 (0.41)	−0.73 (0.43)	0.52 (0.58)	0.33 (0.53)	−0.72 (0.44)	0.32 (0.42)
Profitability	−0.05 (0.05)	−0.01 (0.01)	−0.07 (0.06)	−0.02 (0.01)	−0.12* (0.06)	−0.06 (0.05)	−0.01 (0.01)
FDI	0.33 (0.40)	1.06** (0.38)	0.33 (0.40)	1.07* (0.51)	1.11* (0.49)	0.13 (0.41)	0.90* (0.39)
Export (%)	0.45 (0.40)	−0.77 (0.43)	0.44 (0.40)	−1.18 (0.67)	−0.78 (0.58)	0.67 (0.41)	−0.55 (0.44)
Coastal areas	−0.02 (0.42)	0.98* (0.40)	0.08 (0.42)	0.94 (0.55)	0.63 (0.52)	0.32 (0.43)	1.25*** (0.41)
Firm size (ln)	−0.11 (0.19)	0.21 (0.19)	−0.10 (0.19)	0.55* (0.28)	0.12 (0.25)	−0.10 (0.20)	0.19 (0.19)
Firm age	0.02 (0.02)	0.01 (0.02)	0.02 (0.02)	0.0001 (0.03)	0.01 (0.02)	0.01 (0.02)	0.01 (0.02)
SOE suppliers	0.03 (0.25)	0.12 (0.25)	0.05 (0.25)	−0.18 (0.38)	0.10 (0.33)	−0.09 (0.26)	0.03 (0.26)
SOE customers	0.08 (0.26)	−0.41 (0.26)	0.01 (0.25)	−0.25 (0.37)	−0.41 (0.33)	0.01 (0.26)	−0.46 (0.26)
Government inspection	−0.02 (0.11)	0.08 (0.12)	−0.002 (0.11)	−0.10 (0.15)	0.31 (0.21)	−0.06 (0.11)	0.02 (0.12)
Inverse Mills ratio for political appointment	−2.13* (0.96)	−1.99* (0.96)	−2.22* (0.96)	−0.58 (1.40)	−2.48* (1.24)	−2.39* (0.99)	−2.33* (0.98)
Inverse Mills ratio for government award	1.92 (1.01)	0.75 (1.10)	1.86 (1.00)	−1.27 (1.79)	1.65 (1.37)	1.67 (1.03)	0.58 (1.12)
Independent variables							
Political appointment (H2)	−1.28*** (0.23)	−0.13 (0.22)	−1.25*** (0.23)	0.38 (0.34)	−0.75** (0.29)	−1.23*** (0.23)	−0.11 (0.23)
Government award (H2)	−1.06** (0.33)	−0.64* (0.28)	−1.04** (0.33)	−0.49 (0.37)	−0.99* (0.41)	−1.07** (0.34)	−0.65* (0.28)
Industry-level expenditure difference between environmental practice and donation						−0.76*** (0.11)	−0.52*** (0.11)
Constant	0.58 (3.12)	−1.05 (3.22)	0.64 (3.11)	−1.73 (4.91)	−2.92 (4.13)	1.35 (3.22)	0.09 (3.29)
Log likelihood	−1248.71	−1248.71	−1333.31	−1333.31	−1333.31	−1213.06	−1213.06
Pseudo R-squared	0.16	0.16	0.14	0.14	0.14	0.19	0.19

Standard errors in parentheses. $N = 1142$ firms. *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$. Two-tailed tests of significance

Assessment of Endogeneity

In Table 4, Model 1 is the baseline including only control variables. In Model 2, the addition of the inverse Mills ratios improves the model fit over the baseline (Model 2 vs. Model 1, $p < .05$). The inverse Mills ratio for government awards is statistically significant, supporting the importance of controlling for the self-selection of government awards with respect to philanthropy. In Table 5, the inverse Mills ratio for political appointment is statistically significant, confirming the importance of controlling for the self-selection of political appointment when explaining firms' selective engagement in philanthropy and environmental practices.

Effect of Endorsement on Philanthropy and Selective Engagement

Hypothesis 1 proposes that political endorsement positively affects corporate donation. In Model 3 of Table 4, the addition of the two variables for political endorsement improves the model fit over Model 2. Model 5 uses the same covariates as in Model 3 to predict the donation amount. In Models 3 and 5, both variables for endorsement have a strong positive effect ($p < .001$ or $p < .01$). H1 receives strong support.

Hypothesis 2 proposes that the positive effect of political endorsement on philanthropy is even stronger for firms with higher resource dependence on state-owned firms. In Models 4 and 6 (Table 4), the interaction terms between endorsement and *SOE suppliers* and *SOE customers* were added. For both likelihood of corporate donation (Model 4) and donation amount (Model 6), only the interaction between political appointment and *SOE suppliers* has a significant effect ($p < 0.01$). Thus, private firms where the top leader holds a political appointment are even more likely to donate, and donate larger amounts, when such firms' most important suppliers are state-owned firms. However, the effect of government awards on philanthropy is not moderated by dependence on state-owned firms for supplies. Dependence on state-owned firms as customers does not moderate the positive effect of political endorsement, either. H2 receives partial support.

H3 posits that politically endorsed firms engage less in environmental practices than in corporate donation. In Model 1 of Table 5, both political appointment ($p < .001$) and government awards ($p < .01$) have a strong and negative effect on the likelihood that firms choose to be dedicated only to environmental practices (i.e., engage more in environmental practices than in philanthropy). Thus, endorsed firms are less likely to choose to be dedicated to environmental practices only than to choose the category of being dedicated to philanthropy only (i.e., engage more in philanthropy than in environmental practices) (the reference category). In addition, firms that have obtained government awards are less likely to choose the category of dedication to both (i.e., surpass their industry peers in both domains)

($p < .05$), as compared with the category of being dedicated to philanthropy only. On the whole (with the exception of the insignificant effect of political appointment on the category of dedication to both), endorsed firms are more likely to choose to be dedicated to philanthropy only than to be dedicated to environmental practices only or to be dedicated to both. H3 is largely supported.

Regarding control variables, for corporate donation, firms that are subject to extensive government inspection engage in more donation ($p < .01$). Consistent with studies that suggest the importance of peer pressure in corporate philanthropy (e.g., Galaskiewicz and Burt 1991), being involved with associations that promote CSR increases the likelihood of corporate donation ($p < .05$). Having a previous CSR plan increases the amount of donation ($p < .01$). Older firms tend to donate less than younger firms ($p < .05$). Firms in coastal areas made larger donations ($p < .001$). In terms of selective engagement, consistent with Christmann and Taylor's (2001) argument about environmental performance, firms with foreign direct investment are more likely to fall into the category of dedication to both than that of dedication to philanthropy only ($p < .01$).

Further Analysis

We have argued that the effect of government awards results from governmental expectations and the endorsed firms' vulnerability to such expectations. Hence this effect is not simply one of concern for reputation, which could pertain to other types of awards. For instance, the effect of government awards may be different from that of awards given by professional associations.¹¹ We conduct a further test to see whether the two types of award affect corporate donation differently. We collected information on whether sampled firms received awards from various industry associations (e.g., being included in the list of 'Trusted Products' from the Chinese Association for Technical Supervision Information). The effect on corporate donation of industrial awards is negative and insignificant (results available from the authors). The comparison further supports our argument that vulnerability to government expectations resulting from endorsement leads firms to engage in philanthropy.

Our argument concerning endorsed firms' selective engagement means that these firms are more likely to be dedicated to philanthropy only than to both philanthropy and environmental practices. As political appointment does not

¹¹ Government awards are based on criteria different from awards that are determined by consumers or peers. Awards granted by the government or its agencies are based mostly on the impact that firms have on local development, whereas professional associations typically award firms based on their product or capability.

seem to significantly affect this likelihood, we further examine two subgroups within the category of dedication to both (the categories of dedication to the environment and dedication to philanthropy are unchanged from Model 1, Table 5). One consists of firms whose donation amounts and environmental expenditures were both in the top 25th percentile of their respective industries, and the other consists of firms whose donation amounts and environmental expenditures were both between the 25th and 50th percentile. As shown in Model 2 of Table 5, political appointment has a strong negative effect ($p < .01$) on the likelihood of firms choosing the dedication to both category (25th to 50th percentile) than the dedication to philanthropy category, but the effect of political appointment on the likelihood of firms choosing the dedication to both category (top 25th percentile) is insignificant. In addition, a similar pattern is observed for government awards. Endorsed firms are much less likely to engage in both activities at medium–high level (25th to 50th percentile) than to be dedicated to philanthropy only, and our H3 receives strong support from this comparison. At the same time, these results may indicate that some firms that engage in both activities in the top 25th percentile may be driven by intrinsic motivation.

We have argued that endorsed firms engage less in environmental practices than in philanthropy because the former imposes more constraints on firm discretion. Whilst constraints on discretion may be reflected in different ways and are hard to measure, costs incurred in compliance may be one proxy. We use the difference between the average expenditures on environmental practices and philanthropy in the focal firm's industry (based on our sample) to measure the difference in discretion imposed by the two types of institutional pressures. As can be seen in Model 3, Table 5, the larger such a difference (i.e., the more constraints imposed on a firm by compliance with environmental practices than compliance with philanthropy), the less likely a firm is to choose the category of dedicated engagement in environmental practices or that of dedication to both (i.e., the more likely a firm is to choose to engage more in philanthropy than in environmental practices). This finding is consistent with our argument that the constraints imposed by institutional pressure affect an organisation's selective engagement.

Our argument that selective engagement is endorsed firms' strategic response to multiple institutional pressures suggests that political endorsement may not influence corporate engagement in environmental practices as much as it does philanthropy. We examine the effect of endorsement on environmental expenditure (see Table 7 in "Appendix" section). Neither of the endorsement variables are significant, and through an equality constraint test, we find that the difference in the effects of political endorsement on philanthropy and environmental expenditures is statistically significant ($p < .05$). In addition, consistent with the results in Model 3, Table 5, the industry-level difference in costs of environmental

practices and philanthropy is negatively associated with a firm's expenditures on environmental practices, supporting the notion that constraints over discretion lead firms to engage less in environmental practices. Taken together, our results suggest that endorsed firms selectively respond to government expectations by engaging more substantively in a domain that imposes fewer constraints on firm discretion.

Discussion and Conclusion

This paper attempts to understand how politically endorsed firms respond to government expectations of CSR. Using the empirical context of private firms in China's transitional economy, we found that politically endorsed firms engage more in corporate philanthropy. The positive effect of endorsement on philanthropy is even stronger for firms that depend on state-owned firms for supplies. This moderating effect supports our argument that endorsed firms respond to the state's expectations of philanthropy to maintain their legitimacy and the associated resource benefits. Moreover, endorsed firms engage less in environmental practices than in corporate philanthropy, two CSR domains that impose different constraints on firm discretion. This finding suggests that endorsed firms engage selectively in CSR, probably to balance their needs to maintain legitimacy and discretion.

However, as reported earlier, dependence on state-owned firms as customers does not moderate the positive effect of political endorsement. This finding is consistent with studies that suggest the continued dominance of government power over key resources for production, which is one of the main hurdles for private firms (Li et al. 2006). In contrast, due to market development, firms may be able to obtain downstream customers from the market, and hence dependence on the state sector for customers may not render private firms as vulnerable to the state as dependence on the state sector for supplies. In addition, our findings suggest that different forms of political endorsement can subject firms to different amounts of interference and discretionary constraint. Firms that had won government awards clearly engaged more in philanthropy than environmental practices, but firms with executives in political offices were likely to engage in both (though they were less likely to be dedicated to environmental practices). Political appointment may constrain firms' discretion to selectively engage in CSR. Although we did not systematically compare the two types of political endorsement in this study, this difference in results suggests fruitful future research opportunities.

Our study contributes to the research on CSR in transitional economies by suggesting a way to reconcile the conflicting results about politically connected firms' CSR engagement. Prior research has recognised the important role of the state in shaping CSR (Campbell 2007; Zhao 2012). However, due to previous studies' focus on one type of CSR at a time, political

linkage has been found to either channel government pressure, thus leading to more CSR engagement (e.g., Li et al. 2015), or provide protection against scrutiny and penalty, thus motivating weak CSR performance (Cheng et al. 2017; Maung et al. 2016). By simultaneously examining firms' engagement in different types of CSR, we uncover an important strategic response of selective engagement. Our theoretical framework adds the important insight that political endorsement can motivate firms to maintain legitimacy and discretion in their CSR engagement. Such motivation can lead them to engage selectively in CSR areas based on the constraints imposed over their discretion. Our study thus can help to systematically predict the types of CSR on which politically endorsed firms tend to focus and outperform, and those where they tend to fall short.

More broadly, our study extends the institutional theory of CSR through understanding how political forces in transitional markets shape firms' strategic engagement in CSR. The original insight from this perspective focuses on the role of institutional forces in pressuring firms to perform CSR (Campbell 2007). Recent studies in emerging markets suggest how the lack of such enabling institutional forces can lead local firms to use adaptive mechanisms and engage in voluntary CSR practices to reduce negative externalities and to increase positive externalities (Amaeshi et al. 2016). The institutional void (Khanna and Palepu 2010) in some African countries can influence the form of the CSR, described as doing institutional works (Amaeshi et al. 2016). Our study shows that in institutional contexts where the state plays an important role in economy and market institutions are weak, firms use selective engagement in CSR to align with the state objectives while maintaining their discretion. As the institutional pressures faced by firms reflect the national political environment (Adegbite et al. 2012), our research highlights how CSR can be used to manage political stakeholders' expectation and how the focus of CSR domains can be influenced by firms' political embeddedness.

In addition, the underlying mechanism of maintaining legitimacy and discretion as driving selective engagement in CSR may be generalizable to firms that are exposed to high expectations of stakeholders other than the state. For instance, in recent decade, investors have exerted pressures on firms to adhere to the social impact of their businesses in different domains such as gender equality and environmental sustainability, among others. Some firms may be particularly vulnerable to such pressures, and exhibit selective engagement in the domain that constrains their discretion less. Our theory and findings thus provide a new lens to illuminate firms' strategic response in CSR, and call for future research to examine the potential selective engagement in CSR demanded by various types of stakeholders.

Our study also enriches the research on organisational responses to multiple institutional pressures by shedding light on a new response—selective engagement. Institutional theory has long been interested in how organisations

respond to institutional pressures (e.g., DiMaggio and Powell 1983; Greenwood et al. 2011; Meyer and Rowan 1977; Oliver 1991). By observing firms' selective compliance with institutional demands in seemingly unrelated domains and examining the antecedents to such a strategic response, our study broadens understanding about how organisations balance legitimacy and discretion. Prior research has focused on an important organisational response: decoupling the adoption of policies from actual implementation (e.g. Westphal and Zajac 2001). However, some researchers have noticed that decoupling is not always possible or acceptable, for instance, when organisations are exposed to higher monitoring (Bromley and Powell 2012). In our case, political endorsement leads to higher expectations for compliance and triggers selective engagement, as unendorsed firms are relatively immune to such demands. This organisational response would not have been observed if we had examined institutional pressures in isolation. Our study thus broadens our understanding of organisations' repertoire of strategic responses to institutional pressures (Greenwood et al. 2011).

Our study offers important policy and managerial implications. For policy makers, it is important to anticipate the unintended consequences of government guidelines on CSR. While politically endorsed firms may comply more with some types of CSR, such as philanthropy, they tend to underperform in the types of CSR that impose severe constraints on their discretion, such as environmental practices. Stronger monitoring of the CSR engagement of politically endorsed firms in costly CSR practices may be especially warranted. In addition, our study indicates that different forms of political endorsement may affect the extent to which firms resort to selective engagement differently. Compared with government award, political appointment may be less likely to foster such a strategic response. The government may coordinate among its own departments and agencies to shape a better strategy to motivate firm participation in CSR.

For managers, our study suggests that in transitional markets such as China private firms engage in CSR mainly as a way to maintain and improve their political legitimacy. In mature markets, in contrast, firms engage in CSR mainly to build a positive image and strong brand (Berman et al. 1999; McWilliams and Siegel 2000). Understanding the political driving forces for CSR can help foreign entrants better formulate their CSR strategies. In addition, our study suggests that despite the benefits of political endorsement, these firms need to be prepared for higher government expectations of CSR engagement.

Nevertheless, our study has some limitations that suggest future research directions. First, the strong power of the state in China may render our results particularly strong, and caution needs to be taken when generalising our findings to other institutional contexts. Comparative studies in other emerging and transitional economies are needed to

assess how firms selectively engage in different types of CSR where the state capacity varies. Second, although we have ensured the time precedence of government endorsement and have controlled for its endogeneity, a time series data set that tracked firms' political endorsement and CSR engagement over time would allow us to observe whether and how a firm's political endorsement changed its CSR engagement and thus provide a stronger test of our argument. Third, we have only examined two types of CSR that differ substantially in the constraints imposed on organisational discretion. Our argument can potentially be applied to other types of CSR that vary in such constraints. Within environmental practices, some may be more costly than others, but we did not differentiate them in this study. Future research that develops a more comprehensive scale for discretion and examines more types of CSR engagement that differ in the constraints imposed can further verify our argument concerning firms' strategic response of selective engagement.

In conclusion, by examining two unrelated CSR domains simultaneously, this study reveals that politically endorsed private firms in China engage selectively in less costly types

of CSR activities to maintain their legitimacy and discretion. This response of selective engagement helps to reconcile the inconsistent findings about politically connected firms' CSR behaviours in prior research, and underscores the limit to the effectiveness of government's initiatives in CSR. Our study contributes a new lens to assess firms' CSR participation demanded by powerful stakeholders.

Compliance with Ethical Standards

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

Appendix

See Tables 6 and 7.

Table 6 Probit models predicting the probability of government endorsement

Variable	Model 1 Political appointment	Model 2 Government award
Control variable		
ISO 9001	0.17 ⁺ (0.09)	0.28* (0.11)
Advertising intensity (%)	0.02 (0.08)	0.03 (0.09)
Consumer industry	0.13 (0.11)	-0.05 (0.14)
SOEs as suppliers	0.06 (0.09)	0.11 (0.12)
SOEs as customers	0.13 (0.09)	0.04 (0.12)
Government inspection	0.02 (0.04)	-0.02 (0.05)
CEO has shares	0.11 (0.09)	0.02 (0.12)
Previous CSR plan	0.14 (0.18)	-0.01 (0.21)
Industrial association membership	0.44** (0.09)	0.31** (0.12)
Profitability	0.003 (0.004)	0.004 (0.004)
FDI	0.01 (0.14)	0.17 (0.16)
Export (%)	-0.17 (0.15)	-0.17 (0.20)
Coastal areas	-0.37** (0.11)	-0.14 (0.12)
Firm size (ln)	0.20** (0.04)	0.15** (0.05)
Firm age	0.01 ⁺ (0.003)	0.02** (0.004)
SOE origin	0.23* (0.10)	-0.06 (0.13)
Government working experience	0.40** (0.15)	0.23 (0.18)
Independent variable		
Number of private firms in sampled city	0.01 ⁺ (0.004)	
External auditing		0.27 ⁺ (0.14)
Constant	-2.45** (0.41)	-2.69** (0.35)
Observations	1142	1142
Log likelihood	-662.86	-365.96
Pseudo R-squared	0.12	0.13

Standard errors in parentheses. $N=1142$ firms. *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, ⁺ $p < 0.10$. Two-tailed tests of significance

Table 7 Regression analyses of private firms' environmental expenditure

Variable	Model 1	Model 2
Control variable		
ISO 9001	0.05 (0.19)	-0.10 (0.18)
Advertising intensity (%)	0.42** (0.12)	0.38** (0.12)
Consumer industry	-0.28 (0.17)	-0.04 (0.17)
Polluting industry	0.81** (0.13)	1.03** (0.13)
SOEs as suppliers	0.18 (0.14)	0.09 (0.13)
SOEs as customers	-0.20 (0.14)	-0.23 ⁺ (0.14)
Government inspection	0.17** (0.06)	0.15** (0.05)
CEO has shares	-0.07 (0.14)	-0.04 (0.14)
Previous CSR plan	0.14 (0.26)	-0.00 (0.25)
Industrial association membership	-0.12 (0.24)	-0.09 (0.23)
Profitability	-0.002 (0.006)	-0.00 (0.006)
FDI	0.41 ⁺ (0.21)	0.29 (0.21)
Export (%)	-0.16 (0.23)	-0.02 (0.22)
Coastal areas	0.58* (0.24)	0.78** (0.23)
Firm size (ln)	0.29** (0.11)	0.29** (0.11)
Firm age	-0.02* (0.01)	-0.02* (0.01)
Inverse Mills ratio for political appointment	-0.72 (0.54)	-0.85 (0.52)
Inverse Mills ratio for government award	-0.97 ⁺ (0.54)	-1.07* (0.52)
Independent variable		
Political appointment	0.07 (0.13)	0.11 (0.12)
Government award	-0.24 (0.19)	-0.24 (0.18)
Industry-level expenditure difference between environmental practices and donation		-0.47** (0.05)
Constant	2.23 (1.76)	2.59 (1.69)
Observations	1142	1142
R-squared	0.19	0.25

Standard errors in parentheses. $N=1142$ firms. *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, ⁺ $p < 0.10$. Two-tailed tests of significance

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