

DOES OWNERSHIP TYPE MATTER FOR CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE: EVIDENCE FROM CHINA

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ABSTRACT

The evidence of the effect of ownership structure on corporate social responsibility (CSR) is relatively sparse especially in the emerging economies. This paper seeks to address this situation to comprehensively examine the link between different types of shareholders and CSR disclosure in the context of China. Our findings reveal that different owners have differential impact on the CSR. The firms controlled by the state are more likely to disclose CSR information and their CSR reports' quality is better compared with non-SOEs. Interestingly, firms with more shares held by mutual funds, foreign investors or other corporations are significantly better at CSR disclosure. The study also discloses that firm size, profitability, and leverage affect CSR in China. Overall the study contributes to the literature on CSR practices in emerging countries and point to some policy suggestions.

JEL: M4

KEYWORDS: CSR, China, Ownership Structure, Soes, Stakeholder Theory

INTRODUCTION

Corporate social responsibility (CSR) disclosure has attracted attention from both academic researchers and business practitioners over the past three decades, with a focus on its impact on corporate financial performance (Pava & Krausz, 1996; Margolis, Elfenbein & Walsh, 2007; Nakao, Amano, Matsumura, Genba, & Nakano, 2007; Orlitzky, Schmidt & Rynes, 2003). However, corporate scandals around the world posit whether firms should have social elements as part of their corporate goals (Margolis & Walsh, 2003). This in turn has increased growing concern about what governance structures can effectively influence social business behavior (Walls, Berrone & Phan, 2012: 885). Recent studies suggest that differences in corporate governance have an impact on CSR (Walls, Berrone & Phan, 2012; Aguilera, Williams, Conley & Rupp, 2006; Dam & Scholtens, 2012; Li, Luo, Wang & Wu, 2013; Li & Zhang, 2010).

Despite the progress that has been made in understanding how corporate governance might influence the decision to disclose social and environmental issues as well as quality of CSR disclosure, the opportunity exists to explore this dynamic more fully. Firstly, the evidence of the effect of corporate governance on CSR is relatively sparse in the emerging economies. Rather, most studies offer insight mainly from the perspective of developed economies (see Walls, Berrone & Phan, 2012). Secondly, the evidence is mixed. For example, Dam and Scholtens (2012), and Barnea and Rubin (2010) find no relationship between institutional ownership and CSR, while other researchers (Neubaum & Zahra, 2006; Aguilera *et al.*, 2006; Oh & Chang, 2011) identify a strong and positive relationship. This contradictory empirical evidence indicates that the time is right for us to re-examine this issue by returning to its facts to contribute to develop a dominant theoretical framework to inform the research (Walls, Berrone & Phan, 2012). Thirdly, the majority of prior studies have largely examined the relationship between CSR and institutional investors (Dam & Scholtens, 2012), which neglect the link between other types of investors and CSR disclosure.

This paper seeks to examine the effect of corporate ownership on CSR disclosure in China using stakeholder theory. We identify different types of owners and investigate how various types of shareholders influence the decision to undertake CSR disclosure and the quality of such disclosure. It can be argued that different types of investors will have differential impact on the corporate decision regarding disclosure of social and environmental information and the level of CSR disclosure (Oh & Chang, 2011). Insights into the decision and quality of CSR disclosure from the perspective of corporate ownership can help firms recognise how particular types of owners value their efforts regarding CSR engagement. This study will also assist policy makers in promoting the transparency of ownership information with investors.

We focus on Chinese companies for the following reasons. Firstly, whereas many studies have assessed the extent to which ownership structure explains firm's CSR engagement across developed nations (for an overview see Walls, Berrone & Phan, 2012), relatively little research has been undertaken in emerging markets (e.g. Li *et al.*, 2013; Li & Zhang, 2010; Oh & Chang, 2011; Khan, Muttakin & Siddiqui, 2013). Level of CSR disclosure can be explained by the country of origin (Gray, Javad, Power & Sinclair, 2001; Smith, Adhikari & Tondkar, 2005) due to the differences in institutional structure, such as national economy and legal and regulatory structure. Whether the relationship between CSR disclosure and ownership documented in the previous studies in the developed countries still apply in the emerging market setting, for example, China, is questionable.

Secondly, the quantity of CSR disclosure has dramatically increased since 2008 due to several initiatives launched to promote social responsibilities. For example, the 2006 Chinese Company Law first gave explicit recognition to CSR and required firms to undertake social responsibility in the course of business (Ip, 2008; Lin, 2010). In 2008, State-owned Assets Supervision and Administration Commission issued the Corporate Social Responsibilities Guideline for State-owned enterprises (SOEs) to encourage them to consider CSR in their reform process (Hu & Yusuf, 2015). As for listed companies, the China Securities Regulatory Commission (CSRC) issued the National Code of Conduct which required firms to act socially responsible (Kimber & Lipton, 2005). The two stock exchanges, the Shenzhen and Shanghai Stock Exchanges released a further guide on listed companies' social responsibility in 2006 and 2007 respectively (In 2006 the Shenzhen Stock Exchange released a Guide on Listed Companies' Social Responsibility, but has yet to issue mandatory requirements around Environmental, Social and Corporate Governance Disclosure. In 2008, the Shanghai Stock Exchange issued a Guide on Environmental Information Disclosure for Companies Listed on the Shanghai Stock Exchange). and encouraged listed companies to include CSR information in their annual reports in 2008 (Li *et al.*, 2013; Hu & Yusuf, 2015). Despite these efforts to institutionalise CSR in the Chinese legal system and capital market, the level of CSR disclosure varies and this difference may be reflected in the different types of ownership.

Thirdly, China's secondary privatization (the split-share structure reform) in 2005 was initiated to remove the dual share structure by converting non-tradable shares into tradable shares (Liao, Liu & Wang, 2014) (Before the split-share structure reform, shares of Chinese listed companies were divided into non tradable shares and tradable shares. The no-tradable shares, were mainly held by state (central or local governments), or legal person shareholders (i.e. affiliated to state-owned firms, manager, etc.). After almost a decade the beginning of the implementation of this reform, it is relevant to investigate how particular types of owners could have a specific impact on the firm's CSR disclosure. Prior CSR studies on ownership in China rely on the official classification scheme which ignores the nature of shareholders as well as obscure the controlling shareholder of a firm (Chen, Firth & Xu, 2009; Kang & Kim, 2012), leading to inconsistent empirical results (e.g. Li & Zhang, 2010; Li *et al.*, 2013). This study uses an alternative classification scheme for the ownership of SOEs that focuses on the ultimate owner of the firm instead of the owner disclosed by the firm to examine the link with CSR disclosure.

The study contributes to the literature in six ways. Firstly, most of the previous studies examined the relationship between CSR and the domestic institutional investors. The current study includes several non-

financial domestic investors, for example, state, corporation and foreign investors, which add richness of the literature of CSR and corporate governance. To the best of our knowledge, this study constitutes the first effort to include the foreign investors-CSR relationship. Secondly, prior research on CSR mainly focuses on Western Europe, and the U.S. This study aims to understand how the different types of shares motivate firms towards the CSR engagement in China. Our study reveals that the ownership-CSR relationship has a distinct implication in the context of China as compared to Western contexts. Firms controlled by the government are better at CSR disclosure and produce better CSR reports than firms controlled by private individuals or non-government related entities.

Thirdly, our study extends the understanding of the association between CSR and organizational factors, such as firm size, profitability, leverage etc. These findings confirm those of prior research conducted in the developed countries, suggesting CSR activities are largely driven by strategic motivations. Fourthly, our findings on the relationship between CSR and ownership type have implications in other countries where state ownership is prevalent, such as Singapore, Austria, and Finland (Faccio and Lang, 2002; Li & Zhang, 2010). Fifthly, various theoretical frameworks have been applied around CSR and corporate governance (Walls, Berrone & Phan, 2012) but this study, from a ‘facts’ perspective, contributes to the progress of building a dominant paradigm to inform the research in corporate governance and CSR. Finally, our study supplements the literature on transition economies by providing empirical evidence that state ownership motivates firms to undertake and influence the quality of CSR. The rest of the paper is organised as follows. The next section highlights the use of stakeholder theory as a basis for our study and formulates the study’s hypotheses, followed by the research method. The empirical evidence is then presented. The last section offers conclusions and possible policy recommendations.

Stakeholder theory and Hypotheses

Ownership is often separated from control in large public companies because different stakeholders have different demands on firms causing conflicts of interest among stakeholder groups. This creates a big challenge for managers to control the diverse interests of multiple stakeholders. Management therefore prioritize their stakeholders according to their attributes of power, legitimacy and urgency (Agle, Mitchell, & Somenfiled, 1999). By disclosing CSR information, a firm addresses the information needs of stakeholders and CSR disclosure can be seen as a strategic tool to shape stakeholder perceptions of firms and justify the firms’ acceptance and approval of their operations from stakeholders (Deegan & Rankin, 1996). If the owner is predominantly motivated by financial performance, we assume that agency problems will be relatively high. In this case, CSR disclosure may be employed as a means of conflict resolution and is viewed as a means to neutralize agency problems from the perspective of stakeholder theory (Dam & Scholtens, 2012). Botosan (1997) find CSR disclosure leads to a reduction in information asymmetry between managers and investors, thus helps increase share liquidity, builds up a positive image, improves firms’ access to global capital markets, attracts investors more easily and improves operating performance (Hooghiemstra, 2000; Spence, 2007). Although the empirical evidence on the effect of CSR on financial performance is inconsistent, the majority of studies show a positive relation between CSR ratings and financial performance (Barnea & Rubin, 2010: 72).

However, when non-financial motives are included in the decision to disclose CSR information, transaction and agency costs are reduced and may become less important (Dam & Scholtens, 2012), CSR reporting may be used to seek preferred status and associated resources and meet particular expectations from the key stakeholders. If this argument holds, CSR disclosure can be used to secure the legitimacy from certain stakeholders thus enjoying positional advantage. It can be argued that different types of owners have divergent preference regarding various corporate decisions and investments (Oh & Change, 2011). Whether to disclose CSR information is decided by the corporate management under pressure from stakeholders. The main issue is how the decision to undertake CSR disclosure and the quality of such disclosure is affected by the holdings of a particular owner. We investigate four types of owner: the state, institutional

investors including, mutual funds, banks, insurance companies, security companies, finance companies, pension funds, and investment trusts, corporate investors and foreign investors. Regarding CSR disclosure, we look at two decisions made by the management, (i) whether to issue a CSR report and, (ii) how much information should be disclosed.

State Ownership

State ownership refers to investments by government and government-related institutions. China has unique cultural and institutional features with nearly 60% of listed companies being SOEs (Li *et al.*, 2013). Although the split-share structure reform programme converts non-tradable state owned shares into tradable shares, the government still maintains considerable ownership and control of SOEs (Marquis & Qian, 2014) through different types of controlling shareholders, ranging from solely state-owned agencies, for example, the state asset management bureaus, to the firms affiliated to the government. As a result, this study classifies Chinese firms into SOEs according to the ultimate owner of the firm instead of the legal classification of shares as done in previous studies.

The political connections with the government in SOEs have a critical effect on their operations (Hillman, Zardkoohi & Bierman, 1999). The objectives of SOEs include not only profit, but also social aims, for example, greater employment (Li *et al.*, 2013: 163), which helps to improve CSR. The inherent political interference enables SOEs to receive political and financial support from the government easily (Li *et al.*, 2013; Marquis & Qian, 2014), if they act in the government's communicated interests. For example, SOEs are provided with listing privileges based on political rather than economic objectives (Aharony, Lee & Wong, 2000) and government is more likely to bail out large SOEs when they are in financial distress (Wang, Wong & Xia, 2008; Li *et al.*, 2013). In exchange for governmental support, SOEs are subject to monitoring by the state to a greater extent than private controlled listed firms. The political legitimacy of SOEs lies in the eyes of the government. Their performance is more likely to be reviewed by government agencies (Li *et al.*, 2013). For example, in 2007 China's Ministry of Environmental Protection promulgated further Measures on Open Environmental Information (for Trial Implementation) to regulate the disclosure of environmental information by government environmental agencies and by firms. In early 2008, the State-owned Assets Supervision and Administration Commission issued the Corporate Social Responsibilities Guideline for SOEs. Therefore, we assume that SOEs are the firms most likely to issue CSR reports as a result of coercive pressure from their government owners. We then hypothesize:

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

Hypothesis 1b: If SOEs do issue CSR reports then they are of higher quality than the CSR reports issued by than non SOEs.

Institutional Ownership

Institutional ownership refers to the stock market investments of institutional investors, such as, pension funds, insurance companies, mutual funds etc. Many studies have reported that institutional owners have significant influence on organizational decisions by exercising substantial voting rights (Neubaum & Zahra, 2006; Shleifer & Vishny, 1997), thus large holdings by institutional owners are likely to gain the attention of management informed by the stakeholder theory. In most cases, institutional investors invest a considerable part of their funds in stocks. Graves and Waddock (1994) suggest that institutional holders are likely to support CSR related actions. One of the reasons is institutional investors use CSR to show their potential clients reliability and responsibility, thereby differentiating their services (Siegel & Vitaliano, 2007). The other reason is institutional investors see the long-term benefits of a firm's participation in and spending in CSR (Turban & Greening, 1997). This argument has been documented in previous studies (Cox, Brammer & Millington, 2004; Sethi, 2005; Oh & Chang, 2011; Neubaum & Zahra, 2006). Thus, it appears for this type of shareholder disclosing CSR information reduces conflicts and may even mitigate

firm specific risk (Harjoto & Jo, 2011; Margolis *et al.*, 2007). We therefore posit there is a positive association between CSR and institutional ownership.

Hypothesis 2a: Institutional ownership is positively associated with the probability of disclosing CSR information.

Hypothesis 2b: Institutional ownership is positively associated with the quality of CSR report.

Foreign Ownership

It can be argued that firms can be influenced by foreign practices if the volume of foreign investors rises. Oh and Chang (2011) notes that current trends of CSR practice in Asia have been largely affected by Western-style management practices and globalization. In the context of China, a substantial proportion of foreign investment is received from North America and Europe where CSR disclosure is a must or desirable. According to KPMG (2005), CSR disclosure in China will be boosted as a result of external pressures, such as the expansion of foreign trade, local firms seeking overseas listings, and the supply chain requirements on local manufactures. Thus, foreign investors are assumed to have a positive impact on the promotion of CSR engagement. Further, investment in a foreign country is uncertain due to increased information asymmetries (Gehrig, 1993). Investing in socially responsible companies is a way to reduce risk for the foreign investors, particularly institutional investors, and it also shows their clients that they themselves are highly reputable (Siegel & Vitaliano, 2007). Gelb & Strawser (2001) consider a great amount of CSR disclosure itself is a form of socially responsible behavior. Given this reasoning, it is rational for foreign investors, especially institutional investors, to invest in socially responsible companies. We therefore hypothesize:

Hypothesis 3a: Foreign ownership is positively associated with the probability of disclosing CSR information.

Hypothesis 3b: Foreign ownership is positively associated with the quality of CSR report.

Corporate Ownership

Corporate ownership relates to shares held by firms. Firms do invest in other corporations for not only financial returns but for strategic reasons such as prospective mergers and branding (Dam & Scholtens, 2012; Hillier, Grinblatt & Titman, 2008). If financial benefits are the major motive in corporate portfolio investment, firms are less likely to invest in other companies that are substantially involved in CSR because CSR in their eyes is a cost and has limited benefits in the short-term. If the strategic objective dominates, for example, branding and reputation management, firms are more likely to invest in other corporations (Becker-Olsen, Cudmore & Hill, 2006; Klein & Dawar, 2004). By acquiring part and whole of another firm with a good reputation, the investor expects the good reputation improve its own reputation (Delgado-García, de Quevedo-Puente & de la Fuente-Sabaté, 2010; Dam & Scholtens, 2012). These strategic objectives are well documented in the previous studies (see Hendry & Kiel, 2004; Knapp, Dalziel & Lewis, 2011; Schmidt & Brauer, 2006). On the basis of these studies, we assume that the strategic ownership motives in most cases dominate the financial motives. Therefore, we hypothesize:

Hypothesis 4a: Corporate ownership is positively associated with the probability of disclosing CSR information.

Hypothesis 4b: Corporate ownership is positively associated with the quality of CSR report.

RESEARCH METHOD

To investigate the impact of ownership structure on CSR of firms, we construct the sample from two sources. The firm-specific accounting and ownership data are extracted from China Stock Market and

Accounting Research (CSMAR) database. After eliminating firms under special treatment (ST) (ST means special treatment. The Department of Security Administration will afford special treatment if a company is encountering a financial problem or crisis, for example; if the net profit in the last two financial years has been negative) or with missing observations, our sample comprises of 1872 listed Chinese firms with A-shares traded at the end of 2010. To identify firms that disclosed CSR information we use the 2011 White Paper on Chinese Firms' Corporate Social Responsibility published by the Research Centre for Corporate Social Responsibility Chinese Academy of Social Sciences (CASS-CSR) (2011). CASS-CSR aims to encourage Chinese firms' CSR disclosure and to improve the quality of CSR reports. For fiscal year 2010 CASS-CSR documented 523 CSR reports released by Chinese listed firms. After removing firms only listed overseas stock exchanges, we have 491 firms with CSR report, amounting to 26.23% of firms listed in domestic stock exchanges in China.

Multivariate Analysis

To examine the relationship between firm ownership structure and the likelihood and quality of CSR disclosure, we run Probit and Tobit regressions using the following models, respectively:

$$\Pr(dis_i) = \beta_0 + \beta_1 SOE_i + \beta_2 Institution_i + \beta_3 Foreign_i + \beta_4 Corporate_i + \beta_5 TotalAsset_i + \beta_6 ROA_i + \beta_7 Leverage_i + \beta_8 Top10_i + \sum_k \beta_k Industry_{k,i} + \varepsilon_i \quad (1)$$

$$Score_i = \beta_0 + \beta_1 SOE_i + \beta_2 Institution_i + \beta_3 Foreign_i + \beta_4 Corporate_i + \beta_5 TotalAsset_i + \beta_6 ROA_i + \beta_7 Leverage_i + \beta_8 Top10_i + \sum_k \beta_k Industry_{k,i} + \eta_i \quad (2)$$

where *dis* is a dummy variable for CSR disclosure, *score* is a measure of the quality of CSR disclosure, *SOE* is a dummy variable for the nature of the controlling shareholder, *Institution* is the proportion of shares held by domestic financial institutions; *Foreign* is the proportion of shares held by Qualified Foreign Institutional Investors (QFIIs); *Corporate* is the proportion of shares held by Chinese listed firms; *Total Asset* is the log form of total assets; *Return on assets (ROA)* is the net profits divided by total assets; *Leverage* is the ratio of total liabilities to total assets; *Top 10* is the proportion of shares held by the largest 10 shareholders; *Industry* is a range of dummy variables.

Variables

CSR Dummy and Score: CSR dummy and score variables are based on the scores assigned by CASS-CSR to CSR reports using CASS-CSR 2.0 guideline. If the firm issued a CSR report in 2010, then CSR dummy equals 1, and 0 otherwise. If the firm issued a CSR report, then CSR score variable equals the numerical score (ranging from 0 to 100) assigned to the CSR report by CASS-CSR on the basis of six indicators: completeness (25%), substantiality (30%), balance (10%), comparability (10%), readability (20%), and creativity (5%), and 0 otherwise.

Ownership Structure: We categorize ownership structure into state ownership, institutional ownership, foreign ownership and corporate ownership. The institutional background of Chinese listed firms leads to a high proportion of firms being controlled by government or government agencies. Following Chen, Firth, Xin and Xu (2009) we categorize Chinese firms according to the type of controlling shareholder instead of the type of share that followed the legal classification of shares. State ownership is measured by *SOE* dummy, which is based on the nature of the controlling shareholder. The ultimate controlling shareholder for each firm is identified by studying the equity control chain. If the ultimate controlling shareholder is government, then *SOE* equals 1, and 0 otherwise. Institutional ownership is measured by the proportion of shares held by domestic financial institutions. Furthermore, we distinguish between seven types of financial institution: (1) mutual funds, (2) pension funds, (3) insurance companies, (4) finance companies, (5)

security firms, (6) banks and (7) investment trusts. Foreign ownership is measured by the proportion of A-shares held by foreign institutions. Since 2003, China has allowed Qualified Foreign Institutional Investors (QFIIs) to buy domestic A-shares under a quota system. They are exclusively large internationally renowned funds and investment banks (Huang & Zhu, 2015) because QFIIs have been subject to stringent regulations. Corporate ownership is measured by the proportion of shares held by Chinese listed companies.

Control Variables: We include several control variables to control industry and firm characteristics. Firm size is documented to be positively related to the level and quality of CSR disclosure (Stanwick & Stanwick, 1998; Orlitzky, 2001). This may occur because larger firms have greater visibility (Metcalf, 1980) and attract more attention from various stakeholder groups to whom they need to respond more attentively (Waddock & Graves, 1997). We use the logarithm of the total assets at the end of 2010 to measure firm size. Prior research also indicates a positive relationship between firm's financial performance and CSR (Orlitzky, 2001; Scholtens, 2008; Li *et al.*, 2013; Waddock & Graves, 1997). More profitable firms have more organizational slack, thus are more likely to invest in CSR (Waddock & Graves, 1997). Firm's financial performance is measured by the return on asset (ROA) of 2010.

Leverage is found to have a positive relationship with CSR by some researchers (Roberts, 1992) but a negative or no relationship by others (Branco & Rodrigues, 2008; Cormier *et al.*, 2005; Reverte, 2009). Leverage ratio measures the influence of creditor power (Roberts, 1992). Creditors could be supportive of CSR out of the concern for firm's irresponsible risk taking. Alternatively, they could be indifferent or even against CSR because they have private access to management information. The slack-resource theory (Waddock & Grave, 1997) also predicts a negative relationship between leverage ratio and CSR because firms with a high level of debt focus more on short-term goals such as profit maximization instead of long-term goals such as CSR engagement. We use the ratio of total liabilities to total assets at the end of 2010 to measure leverage.

Previous research suggests CSR is negatively related to ownership concentration and positively related to ownership dispersion (Cormier *et al.*, 2005; Reverte, 2009; Li *et al.*, 2013). Dispersed corporate ownership brings broader demand from various stakeholders including those concerned with CSR (Keim, 1978; Ullmann, 1985). Furthermore, the theory of type II agency problem argues that the largest shareholder may expropriate minority shareholders, impairing stakeholders' interest and declining CSR. More dispersed corporate ownership may mitigate the extent of type II agency problem and lead to better CSR engagement (Johnson & Greening, 1999; See, 2009). However, using Chinese data, Li and Zhang (2010) found a positive relationship between dispersion and CSR only among non-SOE firms but a negative relationship among SOE firms. This may be because the state has incentives to divert wealth to obtain social stability (Bai *et al.*, 2006), which helps to improve CSR. Ownership concentration is measured by the proportion of shares held by the largest ten shareholders at the end of 2010. Finally we include industry dummies to control for industry effects, which have been found by many researchers to be important in explaining CSR (Patten, 1991; Gray *et al.*, 1995; Cormier *et al.*, 2005). Eighteen industry dummies are created on the basis of the 2012 industry codes of the China Securities Regulatory Commission.

RESULTS

This Section Presents the Results of the Study

Descriptive Statistics

Table 1 presents the descriptive statistics of ownership variables and control variables and compares the differences between the characteristics of CSR sample firms and non-CSR sample firms. The results in panel A indicate that half of the firms in the whole sample are ultimately controlled by the state. The figure is higher for the CSR sample at 68.64% and lower for the non-CSR sample at 44.17%. Overall, institutional

investors hold 5.09% of all shares, among which mutual funds' holding is the largest at 3.27%. The holding of foreign investors is low at 0.16%. The holding of listed firms is 1.85%, making them the third biggest group of shareholders after the state and mutual funds. Among the firms with CSR reports the average score is 25.73. Considering the range of score is between 0 and 100, the average score is low and the quality of CSR reports is far from good. The t test statistics suggest that mutual funds, foreign investors and corporate investors hold significantly more shares of firms with CSR reports than those without them. In line with the prior literature, the results in Panel B suggest that CSR firms are larger and more profitable than non-CSR firms. However, contrary to the findings like Li et al. (2013), CSR firms tend to have more concentrated ownership structure and higher debt-to-asset ratio.

Table 1: Descriptive Statistics

Variable	Whole sample (n = 1872)		CSR sample (n = 491)		Non CSR sample (n = 1381)		t test for the difference
	Mean	Variance	Mean	Variance	Mean	Variance	
Panel A: Explanatory variables							
SOE	50.59		68.64		44.17		
Institution	5.09	33.15	5.82	41.80	4.81	29.83	3.07***
Institution_Mutual funds	3.27	17.71	3.73	16.60	3.11	18.01	2.87***
Institution_Security firms	0.48	3.84	0.54	10.18	0.45	1.60	0.55
Institution_Insurance	0.46	4.29	0.67	12.46	0.38	1.37	1.78*
Institution_Pension funds	0.35	0.77	0.35	0.71	0.35	0.79	-0.07
Institution_Investment trusts	0.45	5.12	0.45	3.88	0.44	5.56	0.06
Institution_Finance companies	0.03	0.05	0.04	0.06	0.02	0.05	1.18
Institution_Banks	0.05	0.47	0.04	0.23	0.05	0.55	-0.26
Foreign	0.16	1.04	0.38	3.46	0.09	0.16	3.38***
Corporate	1.85	65.55	3.58	136.58	1.24	38.93	4.24***
Score			25.73	202.79			
Panel B: Control variables							
Total Asset	21.86	1.98	22.99	3.16	21.46	0.95	18.13***
ROA	5.00	21.64	5.75	22.47	4.73	21.08	4.14***
Leverage	43.93	518.87	51.42	442.92	41.27	519.16	8.98***
Top 10	58.95	281.53	60.19	299.87	58.50	274.48	1.87*

Note: SOE is the state-ownership dummy variable. It equals 1 if the state is the ultimate controller of the firm at the end of 2010 and 0 otherwise. Institution is the proportion of shares held by domestic financial institutions at end of 2010. Foreign is the proportion of shares held by Qualified Foreign Institutional Investors (QFIIs) at the end of 2010; Corporate is the proportion of shares held by Chinese non-financial listed firms at the end of 2010; Total Asset is the log form of total assets at the end of 2010; ROA is the net profits divided by total assets of 2010; Leverage is the ratio of total liabilities to total assets at the end of 2010; Top 10 is the proportion of shares held by the largest 10 shareholders at the end of 2010
*** significant at 1% level; ** significant at 5% level; * significant at 10% level

REGRESSION RESULTS

Table 2 presents the regression results. Model 1 is the Probit regression of the effect of state, aggregate domestic financial institutional, foreign and corporate ownership on the likelihood of CSR disclosure. Model 2 is the Probit regression of the effect of all the above type of ownership except the aggregate domestic financial institutional holding replaced with its seven individual components. In Model 1 (2) the coefficient for SOE is 0.174 (0.194) and significant at 5% level, indicating firms controlled by the state are more likely to disclose CSR information. This result supports hypothesis 1a. In Model 1 the coefficient for the aggregate institutional holding is insignificant. However, in Model 2 the coefficient for mutual funds holding is 0.022 and significant at 1% level. This suggests that mutual funds tend to hold more shares of firms that disclose CSR information, in contrast to the other types of financial institutions. These results lend partial support to hypothesis 2a. Furthermore, in Model 1 (2) the coefficient for foreign ownership is 0.131 (0.125) and significant at 10% level, suggesting foreign investors tend to prefer to hold shares issued by firms that disclose CSR information. This provides some support for hypothesis 3a. Finally, the coefficient for corporate holding is 0.011 (0.010) and significant at 1% level in Model 1 (2), indicating listed firms prefer to hold shares issued by fellow listed firms that disclose CSR information. This result supports hypothesis 4a.

Model 3 is the Tobit regression of the effect of state, aggregate domestic financial institutional, foreign and corporate ownership on the quality of CSR report. Model 4 presents the results on the effects of all the above owner type except the aggregate financial institution replaced with its seven individual components on the quality of firm's CSR report. The results of Model 3 (4) are similar to those in Model 1 (2). Firms controlled by the state tend to produce better quality CSR report, supporting hypothesis 1b. Although the coefficient of aggregate institutional holding is insignificant in Model 3, the coefficient of mutual funds is 0.530 and significant at 1% level in Model 4, indicating that mutual funds hold more shares issued by firms with better CSR report. Together the results provide partial support to hypothesis 2b. Furthermore, the coefficient of corporation's holding is 0.298 (0.280) in Model 3 (4), suggesting listed firms tend to hold shares of firms with better quality CSR reports. This supports hypothesis 4b. However, Model 3 and 4 indicate no significant relationship between foreign ownership and CSR report quality, invalidating hypothesis 3b.

Table 2: Regression Results

Variable	Model 1	Model 2	Model 3	Model 4
SOE	0.174** (2.130)	0.194** (2.355)	4.943*** (2.532)	5.207*** (2.665)
Institution	0.006 (0.908)		0.130 (0.908)	
Institution_Mutual funds		0.022*** (2.483)		0.530*** (2.472)
Institution_Security firms		0.001 (0.048)		0.260 (0.746)
Institution_Insurance		-0.040* (-1.833)		-0.499 (-1.494)
Institution_Pension funds		-0.048 (-1.140)		-0.864 (-0.876)
Institution_Investment trusts		-0.008 (-0.476)		-0.093 (-0.253)
Institution_Finance companies		-0.060 (-0.342)		-2.231 (-0.600)
Institution_Banks		-0.068 (-0.812)		-2.700 (-1.287)
Foreign	0.131* (1.716)	0.125* (1.639)	-0.077 (-0.111)	-0.272 (-0.389)
Corporate	0.011*** (2.605)	0.010*** (2.500)	0.298*** (3.462)	0.280*** (3.254)
Total Asset	0.561*** (13.802)	0.572*** (13.855)	13.634*** (15.935)	13.877*** (15.994)
ROA	3.879*** (4.148)	3.492*** (3.682)	103.123*** (4.715)	91.360*** (4.125)
Leverage	-0.339 (-1.422)	-0.410* (-1.706)	-6.658 (-1.180)	-8.401 (-1.486)
Top 10	-0.005*** (-2.244)	-0.005** (-1.987)	-0.083 (-1.540)	-0.068 (-1.251)
Intercept	-12.973*** (-15.243)	-13.202*** (-15.291)	-320.463*** (-17.402)	-325.840*** (-17.453)
R squared	0.242	0.246		
Log likelihood			-2804.972	-2799.534

Note: ***Significant at the 1% level; **significant at the 5% level; *significant at the 10% level. The numbers in bracket are z-statistics based on standard errors with White's (1980) correction.

Table 2 also presents the estimation results for control variables. Similar to Stanwick & Stanwick (1998), Orlitzky (2001), Scholtens (2008), Li et al. (2013) and Waddock and Graves (1997), we find both firm size and financial performance are positively related to CSR. Furthermore, similar to the existing literature (Ullmann, 1985; Graves and Waddock, 1994; Cormier et al., 2005; Reverte, 2009; Li et al., 2013) we find ownership concentration is negatively related to the likelihood of CSR disclosure, as indicated by the negative and significant coefficient for Top 10 in Model 1 and 2. However, the relationship between ownership concentration and the quality of CSR report is insignificant. Finally, the coefficient for leverage is negative but insignificant in Model 1, 3 and 4 and only marginally significant in Model 2, suggesting either negative or zero relationship between leverage and CSR (Branco & Rodrigues, 2008; Cormier et al., 2005; Reverte, 2009).

CONCLUSION

This paper comprehensively examines the link between different types of shareholders and CSR in the context of China. Our findings reveal that different owners have differential impact on the CSR. The SOEs are the best at CSR disclosure and their CSR reports' quality is the best compared with others. Among the institutional investors, firms with more shares held by mutual fund are significantly better at CSR disclosure and their CSR reports are of significantly better quality. We also found foreign investors played a significant role in the decision process to adopt CSR disclosure; however, the quality of company CSR reports is not significantly different from others. In addition Chinese public listed firms prefer to invest in fellow listed companies that disclose CSR information. This paper enriches our understanding of the development of CSR disclosure in different institutional environment. It provides managers insight into the process of how different types of ownership affect the decision to disclose CSR information as well as the quality of such disclosure. Our findings have practical implications as firms can recognise how particular types of owners value their efforts regarding CSR. Policy makers should promote the transparency of ownership information with both investors and listed firms. From a theoretical perspective, this study suggests the importance of accounting for the heterogeneity among shareholders in relation to CSR due to their differences in role, position and size within society.

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