

**THE EFFECTS OF TIME ON MANAGERS AND INVESTORS IN
CORPORATE SOCIAL RESPONSIBILITY**

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LIST OF ABBREVIATIONS

BP	British Petroleum
CATA	Computer-aided text analysis
CEO	Chief executive officer
CFP	Corporate financial performance
CRSP	Center for Research in Security Prices
CSI	Corporate social irresponsibility
CSMAR	China Stock Market and Accounting Research Database
CSP	Corporate social performance
CSR	Corporate social responsibility
CSRC	China Securities Regulatory Commission
ESG	Environmental, social, and corporate governance
GDP	Gross domestic product
GRI	Global Reporting Initiative
IBES	Institutional Brokers' Estimate System
KLD	Kinder, Lydenberg, and Domini
LIWC	Linguistic Inquiry and Word Count
MD&A	Management's discussion and analysis
NGO	Non-governmental organization
R&D	Research and development
RKS	Rankins
ROA	Return on assets
SEC	Securities and Exchange Commission
SG&A	Selling, general, and administrative
SME	Small- and medium-sized enterprise
SOE	State-owned enterprise
TMT	Top management team
UN	United Nations
U.S.	United States
VIF	Variance inflation factor

CHAPTER 1. INTRODUCTION

Both academics and practitioners have devoted growing attention to corporate social responsibility (CSR) in recent decades, suggesting that it is becoming increasingly risky for managers to dismiss CSR as being irrelevant to a firm's survival and performance (Campbell, 2007; McWilliams and Siegel, 2001, 2011; Shea and Hawn, 2019). Firms of all sizes face demands from employees, customers, communities, investors, non-governmental organizations (NGOs), and governments to be more actively involved not only in managing the negative externalities caused by firms' operations, but also in addressing the pressing social problems including climate change, poverty, racism, and sexism (Bansal and Song, 2017; Margolis and Walsh, 2003; Morgeson, Aguinis, Waldman, and Siegel, 2013; Wang, Tong, Takeuchi, and George, 2016). Over the years, influential articles with titles such as "The Link between Competitive Advantage and CSR" (Porter and Kramer, 2006), "The Environmental Awareness of Investors" (Flammer, 2013), and "The Social Responsibility of International Business" (Kolk, 2016) have been suggesting that firms' 'license to operate' goes beyond economic requirements to include ethical, environmental, and social dimensions as well. Those that perform well on CSR may hope to improve competitive advantage and financial performance as well (Barnett, 2007; Flammer, 2018; Surroca, Tribó, and Waddock, 2010).

Despite the increasing pressures, however, firms have adopted different approaches to CSR. For example, Southwest Airlines states its commitment to the natural environment and maintains long-term employee relationships (Bridoux and Stoelhorst, 2014; DesJardine, Bansal, and Yang, 2019). Microsoft has a policy of providing benefits to the same-sex partners of its employees and actively pursues strategies that aim to serve the economically underprivileged

people through investments designed specifically to alleviate poverty and improve access to education (Barnett, 2007). In contrast, other firms attract publicity because of what is seen as social and/or environmental irresponsibility. Apple's supplier Foxconn, for instance, keeps being criticized for the poor working conditions and the lack of transparency regarding the social and environmental impacts of its operations (Lin-Hi and Blumberg, 2018). Another prominent example is British Petroleum's (BP) oil spill incident in April 2010, which resulted in the deaths of 11 men, the injury of 17 others, and massive destruction to the United States (U.S.) Gulf of Mexico ecosystem (Liang and Renneboog, 2017). Several scholars have mentioned firms' approaches to CSR appear to be critical for the competitiveness of businesses and to have important implications for society at large (Bansal and Roth, 2000; Du, Bhattacharya, and Sen, 2011; Flammer, Hong, and Minor, 2019; Luo and Bhattacharya, 2006).

Extant studies have explored the antecedents and consequences of CSR. The literature examines a large variety of external drivers of CSR such as pressures from institutional investors (Dam and Scholtens, 2012; David, Bloom, and Hillman, 2007; Neubaum and Zahra, 2006), social activists (Briscoe, Gupta, and Anner, 2015; Luo, Zhang, and Marquis, 2016), local communities (Tilsik and Marquis, 2013), nearby firms (Husted, Jamali, and Saffar, 2016), foreign competitors (Duanmu, Bu, and Pittman, 2018; Flammer, 2015a), and the government (Marquis and Qian, 2014; Wang, Wijen, and Heugens, 2018). Scholars also look into various internal factors, including management commitment to ethics (Muller and Kolk, 2010; Weaver, Trevino, and Cochran, 1999), corporate diversification (Kang, 2013), financial resource availability (Julian and Ofori-dankwa, 2013), firms' working language (Liang, Marquis, Renneboog, and Sun, 2018), organizational ideology (Gupta, Briscoe, and Hambrick, 2017), ownership concentration (Dam and Scholtens, 2013), takeover protection (Kacperczyk, 2009),

and chief executive officer (CEO) pay structure (Deckop, Merriman, and Gupta, 2006; Flammer et al., 2019; Walls, Berrone, and Phan, 2012) as determinants of CSR.

Research on the consequences of CSR has long debated the existence of a positive, negative, or neutral association between CSR and financial performance. Several meta-studies and review papers have looked at the evidence over the years. A meta-analysis of 52 studies by Orlitzky and colleagues (2003) found that CSR was positively correlated with corporate financial performance (CFP). Subsequently, Margolis, Elfenbein, and Walsh (2007) conducted a meta-analysis of 167 studies and unveiled that the overall association between CSR and CFP was positive but small. Peloza (2009) reviewed 128 studies examining the association between CSR and CFP and uncovered that 59% of studies showed a positive relationship, 14% found a negative relationship, and 27% reported a mixed or neutral relationship. Most recently, and in the most comprehensive review thus far, Vishwanathan, Van Oosterhout, Heugens, Duran, and Van Essen (2019) carried out a meta-analysis of 344 studies and found that CSR positively affects CFP through four empirical mechanisms: (1) enhancing firm reputation, (2) increasing stakeholder reciprocation, (3) mitigating firm risk, and (4) strengthening innovation capacity. Because some CSR activities may be good for society but not for the firm, the “over-inclusive approach to conceptualizing CSR” results in these mixed findings on the relationship between CSR and CFP (Vishwanathan et al., 2019: 4).

The CSR literature has also been extended to the domain of strategic decision-making, stressing the role of managers, particularly CEOs and other top executives, in a firms’ CSR engagement (Hafenbrädl and Waeger, 2017; Petrenko, Aime, Ridge, and Hill, 2016; Tang, Mack, and Chen, 2018). Scholars have traditionally posited that a firm’s strategic choices are driven by managerial cognition – the process of identifying information cues, processing and

interpreting information, developing subjective representations of the environment, and making strategic decisions (Hambrick, 2007; Hambrick and Mason, 1984; Kaplan, 2011; Walsh, 1995). Following this line of thought, studies have explored how managers make decisions concerning CSR in accordance with their cognitive characteristics (Chin, Hambrick, and Treviño, 2013; Wong, Ormiston, and Tetlock, 2011). They suggest that the variance in managerial cognitions is closely related to the way in which firms engage in CSR (Basu and Palazzo, 2008; Maitland and Sammartino, 2015). These studies thus point to the need to try to understand the antecedents and consequences of CSR in coherence with different aspects of cognition.

Consistent with this view, an emerging body of literature examines the drivers of corporate strategy by considering the temporal aspects of managerial cognition (Kunisch, Bartunek, Mueller, Huy, 2017; Reilly, Souder, Ranucci, 2016). Time is “significant as a reference point for the strategic decision maker” (Marginson and McAulay, 2008: 273), and as such, subjective perspectives of time serve as “temporal filters that mold expectations and evaluations of decision situations and form the basis of choices related to resource allocations and prioritization as well as the recognition of the timing and urgency of strategic activities” (Nadkarni and Chen, 2014: 1810). Extant studies argue that managers’ time perspectives represent important foundations for CSR decision-making because socially responsible actions generally require a long period of time to pay off (e.g., Kang, 2016; Liang et al., 2018; Oh, Chang, and Cheng, 2016). However, although these scholars unpack how time-related considerations influence managers’ tendency to engage in different levels of CSR, they overlook the possibility that CSR comprises activities with different temporal characteristics, as pointed out by others (Bansal, Jiang, and Jung, 2015; DesJardine, Bansal, and Yang, 2019).

For example, some CSR activities, such as philanthropy, create value for both business and society in the short term, but do not necessarily sustain the competitive advantage in the longer term (Bansal and DesJardine, 2014; Lev, Petrovits, and Radhakrishnan, 2010). In contrast, some CSR activities, for instance, increasing employee diversity, adopting sound corporate governance, or improving human rights among suppliers, require ongoing and regular interactions with stakeholders on a long-term basis (DesJardine, Bansal, and Yang, 2019; Marquis, Glynn, and Davis, 2007). These activities do not guarantee an immediate profit-generation but may bring long-term benefits like sustainable competitive advantage and organizational resilience through improving stakeholder relationships (Ortiz-de-Mandojana and Bansal, 2016; Wang and Choi, 2013). Although the payoffs associated with different CSR activities vary over time, *we still know little about the cognitive mechanisms connecting managers' time perspectives and specific CSR activities.*

Moreover, research on the antecedents and consequences of CSR has been extended to the impacts of CSR on investors' cognitions and behaviors (Cohen, Holder-Webb, and Khalil, 2017; Durand, Paugam, and Stolowy, 2019; Hawn, Chatterji, and Mitchell, 2018). Identifying investors' behavioral reactions to CSR can help us better understand mechanisms through which firms undertake CSR (Naughton, Wang, and Yeung, 2019). Due to the societal pressure on firms to implement CSR, an increasing number of investors combines financial objectives with their concerns about environmental, social, and corporate governance issues in the investment process (Flammer, 2013; Ioannou and Serafeim, 2015). This trend manifests the integration of CSR into corporate governance, which has traditionally been focused on enhancing shareholder value (Kolk, 2010; Walls, Berrone, and Phan, 2012).

Given the relevance of time to CSR, scholars are interested in exploring how stakeholders and investors evaluate CSR based on its temporal characteristics (Wang and Bansal, 2012). For instance, Wang and Choi (2013) found that the temporal consistency of CSR positively influences a firm's financial performance; and Shiu and Yang (2017) suggested that engagement in CSR on a continuous, long-term basis could reduce the loss of shareholder value in the face of negative events. Besides this work, relatively limited attention has been paid to the differences in investors' time perspectives. As a result, *it is less clear what effects these different perspectives may have on investors' behavioral reactions to CSR.*

Related to these two research gaps, this dissertation seeks to shed light on the overall research question: *How do the time perspectives of managers and investors affect their actions with respect to CSR?*

In order to set the stage, Chapter 2 first reviews the relevant literature by presenting the extant theoretical perspectives on CSR, summarizing the corporate governance mechanisms related to CSR, and discussing the relationship between managerial cognition and CSR. Further, it identifies the crucial role of subjective time perspectives in understanding CSR, which have inspired the empirical studies presented in chapters 3, 4, and 5. In particular, these three empirical chapters address the following sub-questions respectively: (a) Do managers' integrative complexity and temporal orientation interact to shape their firms' CSR strategies? (b) Do the time horizons of top executives influence CSR disclosures? (c) Do the investment horizons of institutional investors affect their reactions to CSR? To help answer these questions, the empirical chapters draw on the cognition literature in the management field to demonstrate how the time perspectives of managers and investors influence their decision-making outcomes (Connelly, Tihanyi, Certo, and Hitt, 2010a; Mohammed and Nadkarni, 2014; Nadkarni, Chen,

and Chen, 2016). Taken together, this dissertation extends the current knowledge base by explaining the cognitive drivers and behavioral consequences of CSR from the temporal aspects of cognition. In what follows, I introduce the three empirical chapters in this dissertation (see Table 1.1 for an overview table with key characteristics).

Table 1.1: Overview of the empirical chapters

	Title	Theoretical perspectives	Constructs	Empirical methods	Sample
Chapter 3	Managerial cognition and CSR strategy	Managerial cognition, strategic decision making	Integrative complexity, temporal orientation, CSR strategy	In-depth interviews, abductive reasoning, cross-case analysis	Six Chinese small- and medium-sized enterprises
Chapter 4	The effects of executives' time horizons on CSR disclosures	Strategic decision making, impression management, resource dependence theory	Time horizons, CSR disclosures, market-based performance	Content analysis, Manual secondary data collection, panel data analysis	An unbalanced panel of 482 listed Chinese firms from 2010 to 2014
Chapter 5	The effects of corporate social (ir)responsibility on institutional ownership	The risk profile of CSR and CSI, impression management	CSR, CSI, temporal framing, institutional ownership	Content analysis, Manual secondary data collection, panel data analysis	An unbalanced panel of 670 listed U.S. firms over the period 2007-2014

The empirical chapters are based on quantitative and qualitative data from multiple primary and secondary sources that allow for a detailed analysis of the sub-questions listed in the previous section. I have written the empirical chapters as independent papers, and therefore each chapter can be read separately from the rest of the dissertation. Each chapter uses a different dataset, and two out of three are longitudinal in nature. I started to do this dissertation in the Chinese context given interest in and familiarity with China and opportunities to access firms and empirical data. However, it is difficult to properly evaluate the time perspectives of investors in China in general and considering data availability issues in particular. As there is very detailed information available regarding investors' trading behavior in the U.S., I turned to this context to measure the investment horizons of investors.

Chapter 3 explores how the interaction between a manager's integrative complexity and temporal orientation influences the CSR strategies of Chinese small- and medium-sized enterprises (SMEs). After decades of economic growth, China has become the world's largest greenhouse gas emitting and energy consuming country. A considerable number of Chinese firms has started to become engaged in CSR, broadly defined (Yang, Orzes, Jia, and Chen, 2019), stimulated by central and local government pressures (Van Rooij, Na, and Qiliang, 2018; Van Rooij, Zhu, Na, and Qiliang, 2017), and citizens' concerns about pollution in particular (Kolk, Van Dolen, and Ma, 2015; Pisani, Kolk, Oceli and Wu, 2019). Though studies investigating CSR in China have increased in recent years (e.g., Hofman, Moon, and Wu, 2017; Luo, Wang, and Zhang, 2017; Marquis and Qian, 2014; Zhang et al., 2019), there still remains limited knowledge regarding the role, responses, and perceptions of managers in shaping the CSR strategies of Chinese firms (Wang, Gao, Hodgkinson, Rousseau, and Flood, 2015).

To help shed light on this gap in our knowledge, the first empirical study relied on interviews with managers from six Chinese SMEs. SMEs are useful to inquire into how differences in managerial cognition underpin specific CSR strategies because managers in SMEs have direct impacts on strategic choices (Aragón, Narvaiza, and Altuna, 2016; Fassin, Van Rossem, and Buelens, 2011; Vitell, Dickerson, and Festervand, 2000). The interviews offer initial support for the idea that integrative complexity affects how managers deal with conflicting stakeholder demands, while temporal orientation influences whether managers pursue CSR strategies aimed at immediate or deferred payoffs. Moreover, this chapter discovers that integrative complexity and temporal orientation seem to work together to shape managers' strategic goals with respect to CSR, and may hence lead to different CSR strategies. These findings provide insights into interactions between cognitive antecedents of CSR. Based on this

exploratory work, a cognition-based framework of CSR strategy is suggested, including propositions that may serve to guide future research.

To further explore the cognitive mechanisms underlying how managers' time perspectives affect specific CSR activities, Chapter 4 subsequently examines the impact of executives' time horizons on the CSR disclosures of publicly-listed Chinese firms. In China, CSR disclosures have increased in parallel with government pressure for CSR and rising concerns about the social and environmental consequences of firms' production activities (Luo et al., 2017). In response, scholars are increasingly interested in why firms engage in CSR disclosures and how CSR disclosures influence financial outcomes (Lu and Abeysekera, 2017; Marquis and Qian, 2014; Situ, Tilt, and Seet, 2018; Yang et al., 2019). This chapter extends this research by focusing on executives' time horizons. Because executives emphasize explicit short-term value when their time horizons are shorter, they may use CSR disclosures as an impression management tactic to efficiently garner resources from stakeholders. Thus, executives' short-term horizons are positively related to a firm's CSR disclosures. Furthermore, it is hypothesized that the positive relationship between executives' short-term horizons and CSR disclosures is weakened when the firm depends less on stakeholders for resources, such as when its internal resource conditions are improved as indicated by firm slack and board political connections. Additionally, CSR disclosures have a positive effect on a firm's financial performance as the disclosure of CSR information conforms to stakeholder pressures and cultivates positive perceptions of the firm by stakeholders. I test and find support for these arguments using a longitudinal sample of 482 listed Chinese firms from 2010 to 2014.

Chapter 5 investigates the effects of time perspectives on investors' reactions to CSR by looking at institutional investors of listed U.S. firms. Moreover, it considers corporate social

irresponsibility (CSI) as a firm can engage in responsible behavior and irresponsible behavior simultaneously (Flammer, 2013; Muller and Kräussl, 2011; Tang et al., 2015). Institutional investors are very heterogeneous (Boyd and Solarino, 2016) and differ in their investment horizons (Bushee and Noe, 2000; Connelly et al., 2018). In particular, dedicated institutional investors are long-term focused and transient institutional investors are short-term focused (Connelly et al., 2010a). Building on the notion that CSR has a long-term risk-mitigating effect while CSI has a short-term risk-generating effect (Godfrey et al., 2009; Kölbel, Busch, and Jancso, 2017; Mena, Rintamäki, Fleming, and Spicer, 2016; Shiu and Yang, 2017), it is argued that firms experience an increase in dedicated institutional ownership in response to increasing CSR, whereas firms face a decrease in transient institutional ownership in response to increasing CSI. Because managers desire to maintain a balance of dedicated and transient institutional ownership (Connelly et al., 2018; Connelly, Tihanyi, Ketchen, Carnes, and Ferrier, 2017a), they will employ temporal framing as an impression management tactic to deflect transient investors' attention away from the short-term risk generated by CSI. Specifically, the CEO's use of language aimed at the long term attenuates the negative relationship between CSI and transient institutional ownership. Using a dataset comprising 11,280 quarterly observations from 670 listed U.S. firms over the period 2007-2014, I find support for these arguments. This chapter extends the behavioral understanding of investors' time perspectives.

Chapter 6 summarizes the main findings of the three empirical chapters. It also discusses the theoretical contributions to the CSR literature and provides insights into the effects of time on managers and investors. Furthermore, it reflects on the limitations of the dissertation and gives avenues for future research. Finally, this chapter offers implications for managers and policymakers to better understand how to engage in CSR and influence its outcomes.

CHAPTER 2. PERSPECTIVES ON CORPORATE SOCIAL RESPONSIBILITY, COGNITION AND TIME

2.1 INTRODUCTION

CSR reflects the extent to which a firm engages in a broad array of strategies and practices to deal with and create relationships with its numerous stakeholders (Surroca, Tribó, and Waddock, 2010; Waddock, 2004). Being central in the debate about whether firms have responsibilities beyond shareholder wealth maximization, it captures and addresses the tension between doing good for shareholders and doing good for (the other) stakeholders as well¹ (Carroll, 1999; Margolis and Walsh, 2003). As such, CSR has become a burgeoning field with considerable debates, theory building, and empirical studies (see e.g. review papers by Aguinis and Glavas, 2012; Carroll and Shabana, 2010; Frynas and Yamahaki, 2016; Mattingly, 2017; Pisani, Kourula, Kolk, and Meijer, 2017). This chapter does not aim to repeat this valuable body of work, but instead discusses three bodies of literature that are particularly relevant for the topic of this dissertation in order to set the stage for the empirical chapters.

First, the notion of CSR has evolved during the past decades. Nevertheless, there is no clear consensus of either the exact meaning or the scope of CSR (Kolk, 2010, 2016). Thus, section 2.2 aims to shed light on the conceptualizations of CSR by presenting extant theoretical perspectives. Second, since the turn of the twenty-first century, discussions on CSR have progressively become integrated with the field of corporate governance (Kolk and Pinkse, 2010; Walls, Berrone, and Phan, 2012). A certain convergence between CSR and corporate governance

¹ I note that shareholders can also be considered as stakeholders (e.g., Hillman and Keim, 2001; Ioannou and Serafeim, 2015). However, I contrast them here to show the tension between the interests of shareholders and stakeholders.

broadens the notion of corporate governance from maximizing shareholder value to reconciling the interests of shareholders, managers, and those dependent on the corporation (Kolk, 2010). Given the empirical settings of this dissertation, section 2.3 therefore discusses the relationship between corporate governance and CSR in the context of China and the U.S. Third, and as explained in the introductory chapter, growing attention is being paid to managerial cognition because corporate governance mechanisms do not fully explain individual-level antecedents and consequences of CSR (Gond, Akreml, Nishat, and Babu, 2017; Hafenbrädl and Waeger, 2017; Shea and Hawn, 2019). Accordingly, section 2.4 presents the current body of knowledge regarding managerial cognition and CSR. The final section concludes by identifying key gaps which will be explored further in Chapters 3, 4, and 5.

2.2 CORPORATE SOCIAL RESPONSIBILITY: PERSPECTIVES AND CATEGORIZATIONS

CSR is a concept with a long history. In the 1950s to 1960s, it was more often referred to as social responsibility, which indicated that the literature emphasized the societal-level discussion by inviting firms to fulfill the moral expectations of the public (Carroll, 1999). In the 1970s, some CSR scholars adopted a pragmatic perspective to reconcile the tension between the social and economic imperatives that confronts organization (Johnson, 1971; Wallich and McGowan, 1970). Subsequently, stakeholder theory was introduced in the 1980s and has had a large impact on the debate on CSR since then (Freeman, 1984). Over the years, the exact meaning of CSR has been complicated by the different interpretations of CSR (Carroll, 1999; Margolis and Walsh, 2003; Schwartz and Carroll, 2008), as illustrated by Votaw (1973): “The term [social responsibility] is a brilliant one: it means something, but not always the same thing, to

everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behavior in an ethical sense; to still others, the meaning transmitted is that of ‘responsible for’ in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for ‘legitimacy’, in the context of ‘belonging’ or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behavior on the businessmen than on citizens at large” (quoted in Carroll, 1999: 280). As a result, attempts to understand the complex nature of CSR have led to various conceptualizations (for reviews of CSR’s conceptualizations, see Carroll, 1999, 2008; Dahlsrud, 2008; Lee, 2008; Sheehy, 2015; Wood, 2010; for a detailed list of CSR definitions, see Appendix A of Bansal and Song, 2017).

Furthermore, scholars have used various theoretical perspectives to understand CSR, some of which venture to simplify the complex CSR construct into more easily understandable categories (Fiss, 2011; Mattingly and Berman, 2006). In Table 2.1, I present an overview of different CSR perspectives and categorizations. Most well-known and quoted has been Carroll’s (1979, 1991) four-part definition of CSR which describes the foundations of the expectations regarding CSR. By embracing a full range of responsibilities of business to society, Carroll (1979: 500) notes that “the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.” Carroll (1991) later changed the component of discretionary to philanthropic. The four components of CSR indicate that first, the firm has a responsibility to produce goods and services that society desires and to sell them at a profit; second, the firm is regulated to fulfill its economic mission within the society’s legal system; third, the firm is expected to follow the kinds of behaviors and ethical norms provided by society; and fourth, the firm can voluntarily

embrace corporate citizenship by engaging in social roles that are not mandated by law and beyond the ethical sense (Carroll, 1999).

Table 2.1: CSR: Perspectives and categorizations

Categories	Representative references
Economic – Legal – Ethical – Discretionary (philanthropic)	Carroll (1979, 1991)
Required – Expected	Kolk et al. (2015)
Technical – Institutional	Godfrey et al. (2009); Mattingly and Berman (2006)
Internal – External	Farooq et al. (2017); Hawn and Ioannou (2016)
Environmental performance – Community relations – Labor relations	Muller and Kolk (2010)
Symbolic – Substantive	Crilly et al. (2012)
Talk – Walk	Wickert et al. (2016)
Do-no-harm – Do-good	Crilly et al. (2016); Lin-Hi and Blumberg (2018); Muller (2018)
Instrumental – Relational – Moral	Aguilera et al. (2007)
Cognitive – Linguistic – Conative	Basu and Palazzo (2008)
Tactical – Strategic	Bansal et al. (2015); DesJardine et al. (2019)

Crilly, Zollo, and Hansen (2012) investigate how firms respond to issues beyond the economic and legal requirements to accomplish social benefits. They differentiate symbolic action from substantive action based on whether a firm decouples CSR policy from practice. Similar to Crilly et al. (2012), Wickert, Scherer, and Spence (2016: 1170) distinguish between CSR talk and walk, defining CSR talk as “the various outbound communication channels deployed by organizations to communicate with customers and other constituencies” and CSR walk as “substantive actions within the firm, such as changing methods of production to reduce environmental impacts or changing labor relationships both within the firm and across the firm’s value chain.”

A distinction can also be made between do-no-harm CSR and do-good CSR (Crilly, Ni, and Jiang, 2016b; Lin-Hi and Blumberg, 2018; Muller, 2018). Do-no-harm CSR attenuates negative externalities such as pollution. It “limits the social costs of business by ensuring that some minimum standards are maintained” (Muller, 2018: 3). In contrast, do-good CSR increases positive externalities such as the diffusion of environmentally friendly technologies. It creates social value by proactive engaging in activities that are not prescribed by law or social norms (Crilly et al., 2016b). It is noteworthy that this classification underlines the varying outcomes that result from different type of CSR activities. Thus, it facilitates the investigation of the financial and societal effects that CSR may have.

In addition, some scholars have categorized CSR from the stakeholder-based perspective. This perspective proposes that CSR includes various organizational practices that are intended to serve stakeholders beyond the firm’s shareholders (Chin et al., 2013). Hence, they use the concept of stakeholder to delineate the specific individuals or groups that business should consider in CSR. Stakeholders are “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984: 46; quoted in Mitchell, Agle, and Wood, 1997: 856). It is a description which broadly includes employees, suppliers, customers, shareholders, governments, communities, and the natural environment (Barney, 2018; Choi and Wang, 2009; Flammer and Kacperczyk, 2019). The stakeholder-based perspective argues that firms have an obligation to stakeholders (Clarkson, 1995; Parmar, Freeman, Harrison, Wicks, Purnell, and De Colle, 2010); it is widely applied in examining the strategic implications of CSR. For example, several studies argue that engagement in CSR on a continuous, long-term basis can foster trusting relationships with stakeholders and reduce overall contracting costs, thereby bringing about economic benefits and a sustainable competitive advantage (Barnett, 2007;

Barnett and Salomon, 2012; Choi and Wang, 2009; Godfrey, 2005; McWilliams and Siegel, 2011).

From the stakeholder-based perspective, the categorizations of CSR may range from employee safety, community welfare, to pollution and climate change (Kolk, 2016). For instance, the three domains of Muller and Kolk's (2010) categorization are (a) labor relations that include gender diversity and vocational training, (b) community relations that include philanthropy and community engagement, and (c) environmental performance that include issues such as climate change and emissions. Additionally, CSR can be categorized as internal or external by considering whether the stakeholder recipients of CSR activities are internal or external to the firm (Farooq, Rupp, and Farooq, 2017; Hawn and Ioannou, 2016). As proposed by Farooq et al. (2017: 956-957), internal CSR refers to "practices focused on stewardship toward the internal workforce (i.e., employees)," while external CSR refers to "practices focused on stewardship toward the local community, the natural environment, or consumers." Though both internal and external CSR can accumulate resources, internal CSR consists of inward-looking practices that aim at meeting the expectations of internal stakeholders. In contrast, external CSR involves outward-looking practices that seek to gain public endorsement by external stakeholders (Hawn and Ioannou, 2016). As a result, they have differential effects on the accumulation of resources.

Moreover, stakeholders are differentiated into primary and secondary stakeholders to obtain a nuanced explanation of the value of CSR (Godfrey, Merrill, and Hansen, 2009). Primary stakeholders are those "without whose continuing participation the corporation cannot survive as a going concern," and secondary stakeholders are "those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the

corporation and are not essential for its survival” (Clarkson, 1995: 106-107). Both primary and secondary stakeholders have legitimate claims on the firm, however, only primary stakeholders possess the urgency and power to enforce those claims (Mitchell et al., 1997; Wood, Mitchell, Agle, and Bryan, 2019). Further developing the CSR classification of Mattingly and Berman (2006), Godfrey and colleagues (2009) categorize CSR into technical activities targeting a firm’s primary stakeholder and institutional activities aiming at a firm’s secondary stakeholders. They find that compared to technical CSR, institutional CSR is better at mitigating the loss of shareholder value in the context of a negative event. The next section extends the shareholder perspective to discuss the literature that connects CSR and corporate governance.

2.3 CONNECTING CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

The field of corporate governance traditionally focuses on the control of executives’ self-interest and the protection of shareholders’ interests (Daily, Dalton, and Cannella, 2003). Agency theory posits that executives will pursue self-interest without considering the interests of shareholders, unless they are monitored or provided with incentives (Eisenhardt, 1989; Jensen and Meckling, 1976; Oh et al., 2018). Recently, however, attention has shifted to ensuring that “executives respect the rights and interests of company stakeholders” (Aguilera et al., 2015: 485). Some studies suggest that CSR is not entirely contrary to the interests of shareholders, and doing CSR is integral to a firm’s maximization of long-term shareholder value (Flammer, 2018; Kaul and Luo, 2018; Surroca et al., 2010). This broader perspective indicates that corporate governance is conceptually associated with CSR, as both of them deal with the relationship between firms and stakeholders broadly defined (Jamali, Safieddine, and Rabbath, 2008; Kolk, 2010).

Corporate governance refers to “the formal structures, informal structures, and processes that exist in oversight roles and responsibilities in the corporate context” (Hambrick, Werder, and Zajac, 2008: 381). On the one hand, corporate governance includes internal mechanisms such as monitoring by the board of directors (Boivie, Bednar, Aguilera and Andrus, 2016; Hillman and Dalziel, 2003; Tuggle, Sirmon, Reutzel, and Bierman, 2010; Westphal and Zajac, 2013) and incentivizing executives by stock ownership or pay contingent on firm performance (Connelly, Tihanyi, Ketchen, Carnes, and Ferrier, 2017a; Martin, Wiseman, and Gomez-Mejia, 2019). On the other hand, it involves external mechanisms such as monitoring by (external) shareholders (Connelly, Hoskisson, Tihanyi, and Certo, 2010b; Misangyi and Acharya, 2014; Shi, Connelly, and Hoskisson, 2017a), the market for corporate control (Aguilera, Desender, Bednar, and Lee, 2015; Dalton, Hitt, Certo, and Dalton, 2007), and legal and political systems (Aguilera and Jackson, 2010; Jamali and Karam, 2018). There is a growing interest in empirically examining the impact of internal and external governance mechanisms on the firms’ CSR engagement (e.g., Dam and Scholtens, 2012; Ferrell, Liang, and Renneboog, 2016; De Graaf and Stoelhorst, 2013; Oh, Chang, and Kim, 2018; Walls et al., 2012).

Given the substantial differences between the Chinese and Western contexts, it is important to take context specificity into consideration (Kolk, Hong, and van Dolen, 2010; Kolk and Tsang, 2017). Research emphasizing context specificity theoretically incorporates aspects of the national context such as culture (Katz, Swanson, and Nelson, 2001; Leung and Morris, 2015), national business systems (Ioannou and Serafeim, 2012; Matten and Moon, 2008), or varieties of institutional systems including corporate governance (Aguilera and Jackson, 2003; Fainshmidt, Judge, Aguilera, and Smith, 2018; Hooghiemstra, Hermes, and Emanuels, 2015). Among these different aspects, corporate governance pertains to the empirical chapters

particularly. Studies posit that firms' views of and strategic decisions about CSR are likely to vary according to national-level differences in corporate governance (Aguilera, Williams, Conley, and Rupp, 2006; Campbell, 2007; Matten and Moon, 2008). Therefore, I adopt a context-specific lens to review the link between corporate governance and CSR, with specific attention to China and the U.S. respectively.

2.3.1 Corporate governance and corporate social responsibility in China

Though CSR and corporate governance are originally Western constructs, they are applicable in China to some extent (Kolk, van Dolen, and Ma, 2015; Mutlu, Van Essen, Peng, Saleh, and Duran, 2018; Ramasamy and Yeung, 2009). For instance, as discovered by Kolk et al. (2015), Chinese consumers perceive that it is common for firms to engage in philanthropy. They also find that, although Carroll's four CSR components are generalizable in China, Chinese consumers perceive two rather than four components. They label these two components as "required CSR" that encompasses economic and legal responsibilities, and "expected CSR" that consists of ethical and philanthropic responsibilities. In addition, they reveal that Chinese consumers weigh "required CSR" greater than "expected CSR" because the high uncertainty avoidance of Chinese consumers leads them to focus on stability and legal compliance.

Traditionally, the Confucian doctrines in China have advocated that people should pursue their own self-development while also benefitting others in society (Li and Liang, 2015). Meanwhile, China is a collectivist country, in which individuals are expected to make concerted efforts to help each other and support the larger whole (Wang, Gao, Hodgkinson, Rousseau, and Flood, 2015). In recent decades, CSR was introduced into China by Western multinational enterprises, which placed requirements on their Chinese suppliers regarding labor rights, product quality, and environmental protection (Yin, 2017; Zuo, Schwartz, and Wu, 2017). Subsequently,

in order to balance China's social and environmental challenges with its economic growth, the government started to promote social responsibility amongst firms by initiating "The Construction of a Harmonious Society" in 2006 (See, 2009). Since then, CSR has become a salient notion in China. As mentioned by Yin (2017: 674), "business (in China), just like their Western counterparts, are under mounting pressure to be not only competitive but also socially accountable."

2.3.1.1 The role of government

The development of corporate governance in China is part of a gradual process of achieving a "socialist market economy" (Marquis and Qiao, 2018; Mutlu et al., 2018). Jiang and Kim (2015) outline three stages surrounding China's corporate governance development: the separation of government and enterprise from 1980 to 1989, the establishment of the modern enterprise structure from 1990 to 1999, and legislation to improve corporate governance and the convergence to international standards from 2000 to the present. The Chinese government has accordingly become increasingly concerned with the question as to how it can improve firms' corporate governance. It has introduced regulations regarding board independence, contingent forms of executive pay and other formal arrangements to improve firms' corporate governance (Chizema, Liu, Lu, and Gao, 2015; Conyon and He, 2011; Ma and Khanna, 2016). Furthermore, new regulations and guidelines were adopted with the aim of strengthening corporate governance and corporate commitment to CSR, such as through the company law, the recently renewed labor contract law, and central government guidelines on social responsibility implementation for SOEs (Hofman, Moon, and Wu, 2017).

However, although the government mandated listed firms to adopt modern governance practices, many firms avoided the corporate governance requirements imposed by the law due to

inadequate legal institutions (Cumming, Leung, and Rui, 2015; Li and Qian, 2013; Yiu, Wan, and Xu, 2018). Moreover, various levels of government are involved in the governance of firms (Tsang and Kolk, 2010). On the one hand, as the central government became aware of its environmental challenges, it has issued environmental protection laws and regulations (Marquis and Qian, 2014). On the other hand, local governments are incentivized to advance economic growth because they have to rely primarily on their own fiscal revenues for local development and local officials are assessed based on the economic performance of their region (Cull, Xu, Yang, Zhou, and Zhu, 2017). As a result, local governments tend to implement policies that give firms the autonomy to pursue economic goals. For instance, Wang, Wijen, and Heugens (2018) find that due to the dynamics of governmental pressure to engage in environmental practices and the corporate autonomy to pursue economic goals, corporate environmental actions follow an inverted U-shape pattern as a firm's distance from the central government increases.

Further, following the trend of CSR disclosures in the U.S. (Dhaliwal, Li, Tsang, and Yang, 2011), the Chinese government has launched several initiatives to encourage CSR disclosures among Chinese listed firms (Luo, Wang, and Zhang, 2017). Marquis and Qian (2014) integrate the institutional perspective with corporate political strategy to develop a political dependence model that answers how firms respond to government signals on CSR disclosures. They find that firms with CEO's membership in political councils are more likely to issue CSR reports and governmental monitoring improves the substantiveness of these reports. Moreover, the Chinese government commonly uses ad-hoc law enforcement campaigns as a governance technique (Liu, Lo, Zhan, and Wang, 2015). For example, when an environmental issue attracts widespread attention, environmental protection bureaus increase the number of inspections and impose more severe penalties (Marquis and Bird, 2018).

2.3.1.2 State ownership

A typical Chinese listed firm has three major categories of ownership (Zhang and Greve, 2018):

(a) state shares owned by the central, ministerial, provincial, and municipal government agencies, as well as state-owned enterprises (SOEs); (b) legal person shares owned by various domestic institutions comprising SOEs and private firms; and (c) ordinary shares owned by individual investors and state-owned institutional investors. Of these, state shares and legal person shares were partially nontradable before the split-share structure reform in 2005.

Nontradable shares gave the shareholders the same ownership rights as holders of tradeable shares, but the trading of these shares was prohibited unless approved by the regulatory authorities (Yiu et al., 2018). The non-transferability of shares creates incentive problems among government officials and executives, because shareholders can neither incentivize executives by stock ownership, nor sell the shares to buyers who potentially can run the firms more productively (Fan, Wong, and Zhang, 2007). Since 2005, the central government has legally mandated the conversion of nontradable shares into tradable shares (Greve and Zhang, 2017). This reform renders state ownership a market orientation and has been pivotal in implementing corporate governance mechanisms (Mutlu et al., 2018; Peng, Bruton, Stan, and Huang, 2016).

State ownership may serve as a double-edged sword in corporate governance. On the one hand, state ownership acts as a substitute for formal legal rules to protect the property rights of minority shareholders and monitor managers by exploiting political power and reputation (Wu, Xu, and Yuan, 2009; Yiu et al., 2018). Hou and Moore (2010) find that firms with higher level of state ownership are less likely to commit financial fraud. On the other hand, state ownership is used extensively to exert influence over firms, and raises the principal-principal problem because

the government may want to pursue aims that may not be in the best interests of the minority shareholders (Li et al., 2019; Li and Qian, 2013; Musacchio, Lazzarini, and Aguilera, 2015).

As state ownership guides a firm's decision-making to align with governmental policies such as environmental protection and being socially responsible, studies find that the percentage of state ownership in a firm has a positive relationship with the firm's CSR performance (Lau, Lu, and Liang, 2016) and the firm's decision about whether or not to disclose environmental information (Situ, Tilt, and Seet, 2018). Further, state-owned firms have a weaker incentive to engage in corporate philanthropy because they have already acquired a resource advantage from the inherent connection with the state owner (Xia and Walker, 2015); as a result, they donate less than non-state-owned firms (Li, Song, and Wu, 2015; Zhang, Rezaee, and Zhu, 2010). And last, the economic returns will be lower for state-owned firms than non-state-owned firms at the same level of corporate philanthropy (Wang and Qian, 2011).

2.3.1.3 Board of directors

The structure and function of the boards of Chinese listed firms were modeled on those in the U.S. through a series of governance reforms (Zhang and Greve, 2019). In 2001, the China Securities Regulatory Commission (CSRC) issued guidelines for corporate governance, stipulating that boards of directors are accountable to shareholders and are expected to protect minority shareholders from infringement by the controlling shareholder (CSRC, 2001).

However, these governance rules and regulations are criticized as being poorly enforced, and not protecting minority shareholder rights (Sun, Hu, and Hillman, 2016). In 2003, the CSRC required that at least one third of the board should consist of independent directors. Though most listed firms comply, executives and representatives from blockholders are still the majority of the board (Jiang and Kim, 2015). Furthermore, since blockholders have effective control over the

nomination of both executives and independent directors, it is unlikely that independent directors will exercise their fiduciary duties to protect the interests of minority shareholders (Ma and Khanna, 2016). As the culture in the relation-based Chinese society values conformity and compromise, these directors only passively monitor the behavior of insiders (Cumming et al., 2015; Li et al., 2018).

Chinese listed firms both with and without state ownership often have directors with experience working for state agencies (Chizema et al., 2015; Li, Wu, and Song, 2017). To gain support for government tenders, reduce the uncertainty arising from the dependency on the government, and enjoy privileged access to resources and information, firms appoint government bureaucrats to positions of power, such as board directorships (Okhmatovskiy, 2010; Sun, Mellahi, and Wright, 2012). For instance, Zhu and Yoshikawa (2016) find that politically connected directors' identification with the focal firm enhances their engagement in resource provision. Thus, directors with political connections not only allow executives to promote the economic objectives of their firms and gain competitive advantage over their rivals without such political connections, but also let executives have discretion to emphasize economic gains over social responsibility (Tihanyi et al., 2019). Wu, Johan, and Rui (2016) find that political connections reduce the incidence of regulatory enforcement action against corporate fraud. Moreover, politically well-connected firms are less economically motivated to donate because the positive relationship between corporate philanthropy and financial performance is weaker for firms with political connections than for those without political connections (Wang and Qian, 2011; Zhang, Marquis, and Qiao, 2016). In addition, Chen, Li, Su, and Sun (2011) argue that it is important to differentiate between state-owned and private firms when examining the effects of

political connections on corporate behavior. Li et al. (2017) find that in Chinese private firms, corporate donations are positively associated with political connections.

2.3.2 Corporate governance and corporate social responsibility in the U.S.

Corporate governance has a much longer history in the U.S., compared to China. According to Cheffins (2011), it gained particular prominence when doubts arose about management's ability to run large firms in the 1970s. This topic has been kept in the headlines since the scandals surrounding the Enron and WorldCom cases in the early 2000s. In 2002, the Sarbanes-Oxley Act was enacted to require more accountability from management and specifies civil and criminal liabilities for noncompliance; it prohibited corporate loans to executives, required CEO certification of financial statements, and bolstered regulation of audits and audit committees (Zhang and Wiersema, 2009). Subsequently, the financial crisis of 2008 prompted the passage of the Dodd-Frank Act in 2010, which intended to remedy the governance shortcomings in the financial services industry (Campbell, 2018; Su and Sauerwald, 2018). Though "the U.S. (corporate governance) system is designed around the normative notion of shareholder value" (Aguilera and Jackson, 2010: 495), attention to stakeholders has gradually emerged over time. It can be exemplified by the articles in the Dodd-Frank Act, which obligates U.S. listed firms to assess the issue of human rights when investing in the mining industry (Scherer et al., 2016). Below, I will review the governance mechanisms in the U.S. and the role of CSR.

2.3.2.1 Board of directors

The monitoring role of the board of directors stands out as an important corporate governance mechanism (Hillman and Dalziel, 2003). Monitoring by boards, especially those dominated by independent, outside directors, can reduce executives' opportunistic behavior (Jung and Shin, 2019; Semadeni and Krause, 2019). Yet, evidence suggests that outside directors sometimes are

associated with short-term behavior, such as reduced research and development (R&D) expenditure (Baysinger, Kosnik, and Turk, 1991; Hoskisson et al., 2002). In addition, the effective monitoring by the board is challenged by the variation in information-processing capacities at the director level (Boivie et al., 2016) and the symbolical conformance with regulatory pressure (Aguilera, Judge, and Terjesen, 2018; Shi and Connelly, 2018).

Management scholars have been interested in understanding the impact of board of directors on CSR by considering the independence, diversity, and size of the board (Walls et al., 2012). For instance, there are mixed results suggesting that independent directors can influence CSR positively or negatively (Arora and Dharwadkar, 2011). Some scholars argue that since independent directors tend to be more sensitive to society's needs and are more concerned with the ethical aspects of the firm, a greater number of independent directors is associated with increased CSR expenditures (Ibrahim, Howard, and Angelidis, 2003; Johnson and Greening, 1999). Others argue for a negative relationship between independent directors and CSR because independent directors are hired to protect shareholders' interests, and a vast majority of these directors are hired for their financial expertise (Coffey and Wang, 1998; Deutsch, 2005). Rao and Tilt (2016) review the literature on the relationship between board composition and CSR and propose that investigating boards' decision-making processes will provide insight into this relationship. Furthermore, some studies have been undertaken to examine the effects of board diversity, independence or size on CSR disclosures (García-Sánchez, Suárez-Fernández, and Martínez-Ferrero, 2019; Jizi, Salama, Dixon, and Stratling, 2014; Pham and Tran, 2019). Yet, as summarized by Rao and Tilt (2016), the empirical results are far from clear.

2.3.2.2 Executive compensation

The design of executive compensation can help to reduce agency costs by linking compensation with corporate performance (Eisenhardt, 1989; Makri, Lane, and Gomez-Mejia, 2006). However, it does not consistently lead to the alignment of interests between agent and principal (Martin, Wiseman, and Gomez-Mejia, 2016a; Martin et al., 2019). Research also finds that executives may manipulate the information to increase the level of their compensation (Shin and You, 2017), or the value of their stock options (Quigley, Hubbard, Ward, and Graffin, 2019). Studies on executive compensation and CSR find that short-term pay incentives such as bonuses are negatively associated with corporate social performance (CSP) and employee dimensions of CSR (Coombs and Gilley, 2005; Deckop, Merriman, and Gupta, 2006), while long-term pay incentives such as stock options are positively associated with CSP (Deckop et al., 2006) and subsequent environmental performance (Berrone and Gomez-Mejia, 2009), or negatively associated with fraudulent reporting (O'Connor, Priem, Coombs, and Gilley, 2006). A recent trend in corporate governance is the incorporation of CSR criteria in executive compensation, which provides executives with direct incentives for social and environmental performance (Hong, Li, and Minor, 2016). Flammer, Hong, and Minor (2019) find that the adoption of CSR criteria in executive compensation leads to an increase in social and environmental initiatives and a decrease in greenhouse gas emissions.

2.3.2.3 Institutional investors

As defined by the Securities and Exchange Commission (SEC) in Rule 13-F, institutional investors are a general class of equity holders such as mutual funds, hedge funds, pension funds, banks, insurance companies, foundations, and endowments that manage more than \$100 million in equity and must disclose all their holdings in excess of 10,000 shares or \$200,000 (Bushee,

1998). Institutional investors have grown in both power and size (Connelly, Lee, Tihanyi, Certo, and Johnson, 2019). In the early 1990s, the SEC regulations meant to deter institutional intervention were relaxed, making it easier for institutional investors to engage in monitoring and influence managerial decision-making (Daily et al., 2003). Moreover, they dominate the U.S. equity market and have controlled over 70 percent of equity by the end of 2006 (Connelly, Tihanyi, Certo, and Hitt, 2010a; Gillan and Starks, 2007). This significant presence makes institutional ownership a frequently studied ownership type (for reviews, see Boyd and Solarino, 2016; Connelly et al., 2010b; Goranova and Ryan, 2014), as it has implications for corporate strategies such as R&D investment (David, Hitt, and Gimeno, 2001; Hoskisson, Hitt, Johnson, and Grossman 2002), international diversification (Tihanyi, Johnson, Hoskisson, and Hitt, 2003), impression management (Westphal and Bednar, 2008), and competitive actions (Connelly et al., 2010a, 2019; Zhang and Gimeno, 2016).

It has been established in the literature that not all institutional investors are alike: they can be categorized in various ways. Examples include distinctions between pressure-resistant (e.g., pension, hedge, and mutual funds) and pressure-sensitive institutional investors (e.g., banks, and insurance companies) based on whether they have business relationships with the firm (Tihanyi et al., 2003; Zahra, Neubaum, and Huse, 2000); short-term (e.g., investment banks) and long-term institutional investors (e.g., pension funds) based on the length of investment horizons (Neubaum and Zahra, 2006); or transient, dedicated, and quasi-index institutional investors based on their trading behaviors (Bushee and Noe, 2000; Porter, 1992). While the first two categorizations seem to assume that institutional investors' interests are static, the last categorization supposes that the interests and behaviors of institutional investors change over time (Connelly et al., 2010a).

In addition, scholars have recently devoted renewed attention to the monitoring role of institutional investors in the external mechanisms of corporate governance (Shi et al., 2017a). The most fundamental monitoring tool employed by institutional investors is the threat of exit – liquidating their equity positions in firms (Connelly et al., 2010a). Institutional investors can discipline a firm for violating their preferences because their exit will reduce the firm’s stock price (Bushee, 2004). Moreover, institutional investors can employ “voice” to monitor the firm (Filatotchev and Toms, 2006) by undertaking shareholder resolutions, launching proxy contests, initiating media campaigns, or participating in direct negotiations with management (David et al., 2001).

Research on the relationship between institutional ownership and CSR finds that different institutional investors have different agendas and incentives for CSR (for a review specifically on this topic, see Faller and Zu Knyphausen-Aufseß, 2018). For example, equity holdings by pension funds are positively related to CSR (Johnson and Greening, 1999; Neubaum and Zahra, 2006), but holdings by mutual and investment bank are not related to CSR (Johnson and Greening, 1999). Similarly, Boubaker, Chourou, Himick, and Saadi (2017) find that ownership by institutional investors with long investment horizons is positively associated with CSR, while ownership by institutional investors with short investment horizons is either negatively or insignificantly associated with CSR. Lamb and Butler (2018), however, find that dedicated institutional ownership has no influence on CSR strengths but can increase CSR concerns, whereas transient institutional ownership can decrease CSR strengths. Finally, Kim, Wan, Wang, and Yang (2019) analyze the effect of ownership by local institutional investors on toxic chemical releases by the nearby facilities and find that local institutional ownership is negatively related to facility toxic releases.

To conclude, this section presented the corporate governance mechanisms that are relevant for the analysis of CSR in China and the U.S., as I will do in the empirical chapters that follow. However, even if operating in the same context, some firms choose to engage in CSR differently from others (Jiang, Zalan, Tse, and Shen, 2018; Wowak, Mannor, Arrfelt, and McNamara, 2016). A possible explanation for this variation can be found in the cognition of firms' top executives and their perceptions of time, which are also relevant to consider given the topic of this dissertation. In the next section I review the related literature drawing particular attention to how managerial cognition impacts firms' CSR engagement.

2.4 MANAGERIAL COGNITION AND CORPORATE SOCIAL RESPONSIBILITY

Managerial cognition broadly refers to cognitive structures such as cognitive frames (Hahn, Preuss, Pinkse, and Figge, 2014; Raffaelli, Glynn, and Tushman, 2019), mental models (Maitland and Sammartino, 2015), schemas (Nadkarni and Narayanan, 2007) and cognitive activities such as interpretation (Kuvaas, 2002; Sharma, 2000), sensemaking (Basu and Palazzo, 2008), and managerial attention (Ocasio, 2011). Cognition is key to understanding how top executives' information processing and decision-making mechanisms influence a firm's strategic behaviors (Buyl, Boone, and Matthyssens, 2011; Porac and Thomas, 2002). This perspective regards executives as "information workers" who "spend their time absorbing, processing, and disseminating information about issues, opportunities, and problems" (Walsh, 1995: 280). Confined by bounded rationality, executives face a fundamental challenge when they try to understand the complex information environment (Nadkarni and Barr, 2008). To address this challenge, they will employ individual-specific cognitive structures – subjective representations of the environment distilled from their prior experience – to process environmental information

into a highly personalized understanding of the strategic situation (Kaplan, 2008a). Thus, executives rely on cognitive structures to facilitate information processing which, in turn, help them to formulate their diverse strategic decisions and shape a firm's strategies (for reviews on the cognitive perspective in strategy, see Cornelissen and Werner, 2014; Eggers and Kaplan, 2013; Kaplan, 2011; Liu, Fisher, and Chen, 2018; Narayanan, Zane, and Kemmerer, 2011).

For instance, Wong, Ormiston, and Tetlock (2011) highlight the effects of executives on CSR by focusing on their decision-making processes. They argue that executives with higher integrative complexity are good at integrating and balancing the needs of multiple stakeholders, thereby improving the performance of CSR. Further, Muller and Kolk (2010) find that management commitment to ethics increases the intent to engage in CSR, and interacts with environmental pressures to positively affect CSP. Similarly, Wang et al. (2015) investigate decision makers' perceptions of stakeholder claims and find a positive effect of stakeholders' pressures on the decision to make a charitable donation. Moreover, Hafenbrädl and Waeger (2017) posit that the belief in the business case for CSR is predictive of executives' tendency to engage in CSR because such a belief motivates executives to pay more attention to information that supports the positive relationship between CSR and corporate financial performance.

Apart from these studies, the literature also explores the influence of CEOs' characteristics on a firm's CSR engagement. The CEO is the most influential individual decision maker of a firm (Chatterjee and Hambrick, 2007; Hayward, Rindova, and Pollock, 2004). Based on the upper echelons perspective (Hambrick, 2007; Hambrick and Mason, 1984), CEOs' characteristics (e.g., demographic characteristics, experiences, values, and personalities) are used as proxies of their underlying cognitive structures, which can filter certain bits of situational information into the interpretation processes and hence attach meaning to the strategic situation.

Such processes eventually yield a personalized construed reality – “an executive’s ultimate reading of the strategic situation” (Hambrick, 2005: 112) – to guide the CEO’s strategic decision-making and shape the following organizational action. A significant and growing stream of research has applied the upper echelons perspective to understand the firms’ strategic decisions in general (for reviews, see Bromiley and Rau, 2016; Wowak, Gomez-Mejia, and Steinbach, 2017).

In the field of CSR, some studies examine observable characteristics such as CEO tenure (Marquis and Lee, 2013) and CEO age (Oh, Chang, and Cheng, 2016), while others investigate unobservable characteristics such as CEO hubris (Tang, Qian, Chen and Shen, 2015) and CEO narcissism (Petrenko et al., 2016). In specific, Tang et al. (2015) contend that hubristic CEOs are more prone to underestimate the firms’ dependence on stakeholders for resources, resulting in less firm engagement in CSR. Petrenko et al. (2016) argue that narcissistic CEOs will engage their firms in more CSR as they are preoccupied with receiving attention and praise from others. Tang, Mack, and Chen (2018) delineate the differential effects of CEO hubris and narcissism on CSR based on how these two characteristics affect the social comparison with peer firms differently. Scholars also find that CEOs’ political ideology (Chin et al., 2013; Gupta, Nadkarni, and Mariam, 2018) and charisma (Wowak et al., 2016) influence CSR. In addition, Gupta and Misangyi (2018) find that peer firms’ CEO charisma (narcissism) enhances (diminishes) the focal firm’s imitation of peer firms’ behaviors such as CSR. This indicates that the differences in peer firms’ CEO characteristics contribute to variations in the focal firm’s CSR as well. Finally, there is a stream of research that emphasizes the importance of time in managerial cognition to explain drivers and behaviors (Lumpkin and Brigham, 2011; Nadkarni, Chen, and Chen, 2016; Wang and Bansal, 2012), a subject to which we pay specific attention next.

2.4.1 Conceptions of time and CSR

Strategy scholars have noted that the temporal element is indispensable in strategic choices (Kleinknecht, 2018; Mosakowski and Earley, 2000). Within resource allocation processes, executives make decisions based on the timing of costs and benefits (Slawinski and Bansal, 2015). However, they often face a tension between managing short-term earnings and investing for the long term (Crilly, 2017). For example, some executives tend to underestimate future benefits while overestimating present costs, which can lead to short-termism or, a preference for actions that are “best for the short term but suboptimal over the long run” (Lavery, 1996: 826), while others focus on the longer term knowing that it is not just the short term that counts (Marginson and McAulay, 2008). Extant studies have accordingly examined the role of time in resource allocation, organizational performance, and corporate strategy (for reviews, see Kooij, Kanfer, Betts, and Rudolph, 2018; Kunisch, Bartunek, Mueller, and Huy, 2017; Reilly, Souder, and Ranucci, 2016; Shipp, Edwards, and Lambert, 2009).

There are different temporal constructs such as temporal focus (Gamache and McNamara, 2019; Nadkarni and Chen, 2014), temporal depth (Nadkarni et al., 2016), temporal orientation (Lin, Shi, Prescott, and Yang, 2019; Wang and Bansal, 2012), time horizon (Lee, Park, and Folta, 2018; Matta and Beamish, 2008), and time urgency (Chen and Nadkarni, 2017). While these constructs capture different dimensions of time, they are often intermingled with each other in management research. When keeping them separate, temporal focus can be defined as “a temporal individual difference that captures the degree to which individuals characteristically devote their attention to the past, present, and future” (Nadkarni and Chen, 2014: 1810). It reflects executives’ general tendency to focus on the dimensions of past, present, and future. In contrast, temporal orientation is “the relative importance given in strategic choices

to investments with differing distributions of costs and benefits over time” (Souder and Bromiley, 2012: 551). It represents executives’ “preference for short- or long-term strategies” (Martin et al., 2016a: 2463). Both temporal orientation and time horizon pertain to the dimensions of short term and long term. A short-term horizon provides flexibility and quick adaptation but may give rise to short termism, whereas a long-term horizon lends foresight in management but may delay quick adaptation to dynamic environmental conditions (Nadkarni et al., 2016). The concepts of temporal orientation and time horizon play a crucial role in addressing the trade-off between maximizing short-term returns and achieving long-term value, of which CSR is a case in point.

On the organizational level, CSR may have a negative impact on short-term profit by diverting firm resources from other more practical uses (Kang, 2013). However, in the long term, CSR can improve firm-stakeholder relationship through a time-consuming process (Brammer and Millington, 2008). Thus, CSR is a long-term-oriented strategic investment that can bring about economic benefits typically only over time (Kang, 2016). Barnett and Salomon (2012) find a U-shaped relationship between CSR and corporate financial performance (CFP) and suggest that the initial downward slope of the CSR–CFP relationship is caused by the financial costs of CSR and weak capacity to influence stakeholders; with increasing CSR engagement, the accumulation of stakeholder influence capacity will offset the costs and switch the direction of the slope. Wang and Bansal (2012) find a negative CSR–CFP relationship among new ventures by arguing that new ventures suffer from a ‘liability of newness’, which amplifies the negative impacts of CSR by adding costs. They hypothesize that a firm’s long-term orientation mitigates the negative impacts of the liability of newness and, thus, can attenuate the negative CSR–CFP relationship.

In addition, some studies explore the temporal consistency of CSR and argue that the ability to deliver consistent social performance can build stronger firm-stakeholder relationships, which can contribute to a firm's competitive advantage (Choi and Wang, 2009; Wang and Choi, 2013). Furthermore, Bansal, Jiang, and Jung (2015) look more closely at the temporal aspects of CSR by discriminating between tactical and strategic CSR. Tactical CSR is defined as "corporate social activities oriented towards improving stakeholder relationships in the short term", while strategic CSR is "corporate social activities that require long time horizons, large resource commitments, and significant adjustments to organizational structures" (Bansal et al., 2015: 70). Specifically, tactical CSR can secure a temporary advantage by using charitable contributions to quickly remedy a negative business image. However, strategic CSR helps firms maintain superior long-term financial performance by improving labor relations or workforce diversity in the long run (DesJardine, Bansal, and Yang, 2019).

2.5 DISCUSSION

Following the perspectives and literature discussed in the chapter, I identify two directions for research that will be explored in the subsequent empirical chapters of this dissertation: (1) investigating the cognitive antecedents of CSR from executives' time perspectives, (2) examining the detail of investors' behavioral reactions to CSR.

First, although CSR is an organizational construct that encapsulates firm-level strategies and practices, it is individuals who shape the firm's CSR policies and actions (Aguinis and Glavas, 2019). As highlighted in Section 2.4, an emerging body of literature has examined the antecedents of CSR from the lens of managerial cognition. Although increasing attention has been paid to executives' time perspectives, the cognitive mechanism through which time

perspectives influence the decision-making of CSR has not been adequately addressed. Further, the interplay between temporal orientation and other cognitive characteristics is less well understood. In particular, there has been relatively little emphasis on how individual-level factors interact with temporal orientations to affect the trade-off between the short term and long term. Addressing this gap will contribute to our understanding of why executives make different decisions with regards to CSR. Moreover, future research can more accurately measure managerial cognition using big data (George, Osinga, Lavie, and Scott, 2016), machine-learning algorithms (Harrison, Thurgood, Boivie, and Pfarrer, 2019), and other technology-based approaches. As argued by the Whorf-Sapir hypothesis, the content and structure of the language individuals speak reflect the way individuals think about and view the real world (Cho and Hambrick, 2006; Liang, Marquis, Renneboog, and Sun, 2018). Thus, it is possible to obtain an unobtrusive measurement of executives' cognitions by analyzing their speeches and communications (for reviews on content analysis, see Lockwood, Giorgi, and Glynn, 2019; McKenny, Aguinis, Short, and Anglin, 2018; Short, McKenny, and Reid, 2018; Tausczik and Pennebaker, 2010). Such techniques have recently been applied effectively to capture managers' temporal orientations (Kleinknecht, 2018).

Second, considerable heterogeneity exists across investors (Flammer et al., 2019), which vary in their motivation and expertise to evaluate CSR (Crilly, Hansen, and Zollo, 2016a). For example, when evaluating CSR, a large investment fund may pay attention to general social issues and be confined to the information that firms choose to make public, whereas a socially responsible investor may particularly care about CSR and gather relevant data by itself (Chaigneau, 2018). Thus, differentiated reactions to CSR arise due to the multiplicity of investors. Research could address this question by identifying the behavioral foundations of

different investors. For instance, institutional investors differ in their tendencies to focus on the short term or long term. Due to their temporal preferences, it is plausible to argue that transient institutional investors may positively react to tactical CSR while dedicated institutional investors may welcome strategic CSR. By integrating the behavioral decision literature with stakeholder theory, studies can delineate investors' behavioral reactions to CSR. The following empirical chapters aim to shed light on the effects of time on managers and investors in CSR.

CHAPTER 3. MANAGERIAL COGNITION AND CSR STRATEGY²

3.1 INTRODUCTION

The antecedents of CSR continue to garner much attention from business practitioners and academics alike. Extant studies often explore the antecedents of CSR at the institutional and organizational levels of analysis (Aguinis and Glavas, 2012; Pisani, Kourula, Kolk, and Meijer, 2017). They have focused on antecedents such as stakeholder activism (David, Bloom, and Hillman, 2007), foreign competition (Flammer, 2015a), government influence (Wang, Wijen, and Heugens, 2018) and institutional forces more generally (Husted, Jamali, and Saffar, 2016; Marano and Kostova, 2016). There are also publications on the influence of financial resource availability (Julian and Ofori-dankwa, 2013), corporate diversification (Kang, 2013) and firm size (Wickert, Scherer, and Spence, 2016).

Another significant research stream examines the individual-level antecedents of CSR. For instance, scholars adopting an upper echelons lens have explored how decision makers' experiences, personalities, and values shape their choices with respect to CSR (Chin, Hambrick, and Treviño, 2013; Christensen, Mackey, and Whetten, 2014; Kang, 2016; Petrenko, Aime, Ridge, and Hill, 2016; Tang, Mack, and Chen, 2018; Tang, Qian, Chen, and Shen, 2015; Wowak, Mannor, Arrfelt, and McNamara, 2016). Others have taken a more cognitive lens, in which managers are seen as individuals in a complex and ambiguous environment who spend their time processing information and making decisions (Narayanan, Zane, and Kemmerer, 2011; Walsh, 1995). Thus, it ascribes causal importance to managerial cognition in the explanation of

² A previous version of this chapter has been presented in the Annual Conference of the Academy of Management in Chicago, August 2018. Alan Muller is the co-author of this chapter (for more details see the co-author statement included elsewhere in this dissertation).

CSR strategy. Scholars adopting this approach have investigated the process of CSR decision making (Basu and Palazzo, 2008; Eberhardt-Toth and Wasieleski, 2013), how managers make sense of CSR-related concepts (Fassin, van Rossem, and Buelens, 2011), and the effects of managerial cognition on overall social performance (Wang, Gao, Hodgkinson, Rousseau, and Flood, 2015; Wong, Ormiston, and Tetlock, 2011). While generating valuable insights into the effects of decision makers on CSR, such studies have thus far shed relatively little light on how differences in managerial cognition underpin specific CSR strategies.

To help fill this gap, this chapter explores the cognitive underpinnings of CSR strategy, where CSR strategy refers to the approach managers take to attend to stakeholder demands. CSR is a multidimensional construct which not only comprises short-term performance improving practices and long-term value creating activities, but also attends to the needs of various stakeholders (Bansal et al., 2015; DesJardine, Bansal, and Yang, 2017; McWilliams, Siegel, and Wright, 2006). Research suggests that managers' temporal orientation influences how they address the intertemporal trade-offs inherent to CSR (Slawinski and Bansal, 2012; Slawinski, Pinkse, Busch, and Banerjee, 2017; Wang and Bansal, 2012), whilst managers' integrative complexity affects how they consider multiple stakeholder concerns in CSR decision making (Crilly, Ni, and Jiang, 2016b; Wong et al., 2011). Setting up a CSR strategy requires managers simultaneously engaging in intertemporal trade-offs and managing the tensions created by potentially conflicting interests of different stakeholders. Thus, we theorize how managers' temporal orientation and integrative complexity jointly influence the CSR strategy managers pursue. Temporal orientation is a cognitive structure that captures the degree to which individuals devote their attention to the near versus distant future (Das, 1987; Reilly, Souder, and Ranucci, 2016), while integrative complexity is a cognitive style regulating the efforts

individuals spend on searching for information and the ability to integrate the information at hand (Kozhevnikov, 2007; Shao, Nijstad, and Täuber, 2019; Tadmor, Galinsky, and Maddux, 2012). In our conceptualization, temporal orientation and integrative complexity work together to steer managers' attention toward specific strategic goals.

To explore these ideas further, we conducted interviews with the managing directors (henceforth, managers) of six Chinese SMEs. Given that the strategic decision making in SMEs fully rests with their managers, SMEs form a useful context in which to examine the cognitive foundations of those decisions (Fassin et al., 2011).³ Considering the lack of empirical research on how different cognitive antecedents jointly influence CSR strategy, we used an abductive approach to investigate how different combinations of temporal orientation and integrative complexity underpin different CSR strategies. Abduction is the process of reasoning from existing theories and empirical data to explanatory propositions (Behfar and Okhuysen, 2018; Kolk, Vock, and Van Dolen, 2016; Secchi and Bui, 2018). Building on our analysis of the six cases, we propose that the cognitive underpinnings of CSR strategies are rooted in the different ways managers negotiate the temporal and stakeholder trade-offs inherent to CSR strategy.

This chapter's structure reflects the process of abductive reasoning (Alvesson and Kärreman, 2007; Mantere and Ketokivi, 2013). First, we present the literature on temporal orientation and integrative complexity. Second, we introduce the methodological approach and explain how we analyzed the data using a qualitative method corroborated by a quantitative content analysis. Third, we report the findings by comprehensively demonstrating how concepts emerge from the data. Fourth, following the abductive logic, we develop the best plausible explanation for the theoretical gap and therefore propose a framework that links managerial

³ For a further explanation of the selection of China for this study, see Chapter 1.

cognition to CSR strategy. At last, we discuss our discovery's contributions to CSR strategy and invite empirical tests to guide further developments and refinements.

3.2 THEORETICAL BACKGROUND

Research on the determinants of CSR primarily focuses on how institutional conditions and organizational factors affect firms' tendency to behave in socially responsible ways (for reviews, see Aguinis and Glavas, 2012; Mattingly, 2017). Other scholars have investigated the micro-foundations of CSR using the logic of upper echelons theory, which claims that decision makers inject their values, personalities, and experiences into strategic decisions (Chin et al., 2013; Hambrick, 2007; Petrenko et al., 2016; Tang et al., 2018, 2015). More recent studies have adopted a cognitive lens to open the black box of CSR decision making. For example, Hafenbrädl and Waeger (2017) and Wong et al. (2011) have examined how managers' cognitive factors such as ideologies and integrative complexity influence CSR strategy. Wang et al. (2015) have investigated the effects of stakeholder claims and decision context on charitable donation decisions. These studies either treat CSR as a generic practice or focus on a specific type of CSR, but pay less attention to the existence of different CSR strategies.

CSR strategies are complex and do not always lead to improved corporate financial performance (Wickert et al., 2016; Zhao and Murrell, 2016). Putting CSR into practice requires managers to rearrange value chains, change production processes, or spend resources on social issues. Typically, CSR strategies occur in a context of high ambiguity and complexity, where boundedly rational managers notice and interpret specific information and translate those perspectives into different strategic choices (Hahn, Preuss, Pinkse, and Figge, 2014; Kaplan, 2008b). Thus, due to the heterogeneity in managerial cognition, managers in the same

institutional context and facing similar external demands may not adopt an isomorphic CSR strategy (Wickert, Vaccaro, and Cornelissen, 2017). In this chapter, we heed recent calls to better understand the cognitive underpinnings of CSR (Wang, Tong, Takeuchi, and George, 2016) by theorizing on two dimensions of managerial cognition that we argue interact to influence the adoption of different CSR strategies: temporal orientation and integrative complexity.

3.2.1 Temporal orientation

Managers face tensions in CSR strategies because the costs and benefits of CSR are uncertain and unevenly distributed through time (Aguinis, 2011; Bansal et al., 2015; Ortiz-de-Mandojana and Bansal, 2016). For example, investments in CSR may undermine financial returns in the short term (Wang and Bansal, 2012), but may also build strategic resources such as corporate trustworthiness and better stakeholder relationships that contribute to financial gain in the long run (Barnett, 2007). At the same time, empirical findings are mixed, which suggests that the intertemporal trade-offs are not always so clear (Margolis and Walsh, 2003).

Temporal orientation is a cognitive structure that helps individuals notice informational cues, interpret situations, and reach conclusions without reconsidering each decision in depth (Lumpkin and Brigham, 2011). Specifically, because of limited information processing capacity, individuals employ temporal orientations as filters to deal with information overload and facilitate decision making. Temporal orientation indicates which part of time is important to individuals, shapes which stimuli individuals selectively perceive, and how they interpret the noticed stimuli (Das, 1987; Reilly et al., 2016). Temporal orientation thus directs managers' attention to the short- or long-term implications of their decisions (Bansal et al., 2015; Slawinski and Bansal, 2012). Given that attention is a finite resource, temporal orientation may prompt

individuals to omit possibly important information and limit their ability to understand an information domain (Cornelissen and Werner, 2014).

Accordingly, temporal orientation commonly describes individuals as having a predominant and relatively stable temporal focus, conceptualized as either a short-term orientation or a long-term orientation (Nadkarni et al., 2016; Shipp et al., 2009). A short-term orientation reflects “a concern with the more immediate consequences of decisions and actions involving near-term time horizons” (Lumpkin and Brigham, 2011: 1151), while a long-term orientation refers to a “tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period” (Brigham, Lumpkin, Payne, and Zachary, 2014: 74). Short-term oriented managers tend to underestimate future benefits while overestimating present costs, which can lead to economic short-termism (Slawinski et al., 2017); they are more likely to pursue an immediate economic payoff and less inclined to invest in employee development or environment conservation (Slawinski and Bansal, 2012). In contrast, long-term oriented managers embrace economic values in the long run (Lumpkin and Brigham, 2011); they tend to engage in activities that take time to build and maintain, such as increasing employee diversity, ensuring product safety, and implementing environmental management systems (Bansal et al., 2015). In sum, managers’ temporal orientations mold evaluations of decision situations and form an important basis of managers’ strategic goals (Nadkarni et al., 2016; Reilly et al., 2016).

3.2.2 Integrative complexity

Another tension with respect to CSR is that various stakeholders often do not share the same interests. That is, a CSR activity beneficial to one stakeholder may harm the interests of others (Crilly et al., 2016b). For instance, products that take care of the environment may be more

expensive than alternatives, thus forcing customers to incur higher costs. To resolve such tensions, managers must identify the issues faced by various stakeholders, consider the trade-offs associated with each possible solution, and implement a solution that meets the interests of multiple stakeholders. Integrative complexity reflects managers' cognitive ability to attend to and satisfy divergent interests of different stakeholders (Wong et al., 2011).

As a cognitive style, integrative complexity regulates how individuals organize and process information (Martinsen, Kaufmann, and Furnham, 2011; Shepherd, McMullen, and Ocasio, 2017). It can be disaggregated into analytical thinking and complex thinking (Wong et al., 2011). Specifically, analytical thinking is the capacity to tolerate and analyze different points of view, while complex thinking is the ability to seek a variety of information in decision making and satisfy multiple stakeholder demands simultaneously (Peterson, Owens, Tetlock, Fan, and Martorana, 1998; Tadmor, Tetlock, and Peng, 2009).

Managers with low integrative complexity tend to consider a smaller number of dimensions of a problem in their decision making. They ascribe to a rigid, dichotomous interpretation of the issue and may fail to comprehend the connections between different points of view (Suedfeld, 2010). As a result, they overlook important cues and their understanding of the situation may lack nuance. When engaging in CSR, managers with low integrative complexity will be hard-pressed to grapple with the trade-offs among stakeholders' demands and disregard the interests of some stakeholders (Wong et al., 2011). Hence, they are likely to adopt a one-way thinking in CSR strategy – for example, expropriating employee interests to achieve personal instrumental motives (Aguilera et al., 2007; Brickson, 2007).

In contrast, managers with high integrative complexity not only seek out more information and perspectives to inform their decision making, but also realize the critically

inherent link between multiple perspectives (Park and DeShon, 2018; Shao et al., 2019). In so doing, they will have a more accurate judgment of the situation through deliberate reasoning (Dane and Pratt, 2007). In other words, managers with high integrative complexity perceive the differentiated perspectives of an issue and are comfortable allowing for those differences. They are able to ascertain and attend to the interests of multiple stakeholders in their decisions, and thus embrace a relational perspective (Wong et al., 2011). In consequence managers with high integrative complexity may adopt a two-way thinking in CSR strategy – fulfilling stakeholders’ demands to achieve personal instrumental motives (Brickson, 2007).

In the preceding paragraphs we explained how temporal orientation affects whether managers pursue strategies with more immediate or more deferred payoffs (Slawinski and Bansal, 2012), while integrative complexity regulates whether managers adopt one-way thinking or two-way thinking in CSR strategy (Aguilera et al., 2007). There is evidence to suggest, however, that these two mechanisms do not work in isolation. For instance, individuals with the same temporal orientation will attend to environmental stimuli differently and, as a result, formulate different decisions (Walsh, 1995). Similarly, individuals with the same integrative complexity may choose different strategies reflecting either a short- or long-time horizon (Slawinski and Bansal, 2012). To account for these dynamics, we explore how temporal orientation and integrative complexity operate in tandem to bring about different CSR strategies.

3.3 METHODS

3.3.1 Research approach

We adopted an abductive approach to refine and extend knowledge regarding how managerial cognition influences CSR strategy. As an explanatory type of research, the abductive approach is

concerned with moving from existing theories and specific observations to a plausible explanation (Shepherd and Sutcliffe, 2011; Dubois and Gadde, 2002; Van Maanen, Sørensen, and Mitchell, 2007). Extant literature suggests that an abductive approach is appropriate to uncover the cognitive mechanisms underlying CSR strategy (Bansal and Corley, 2011; Edmondson and Mcmanus, 2007; Secchi and Bui, 2018). Thus, we conducted an abductive analysis with a strong focus on our empirical observation (Folger and Stein, 2017; Kovács and Spens, 2005).

3.3.2 Research context and data collection

The sample consisted of six SMEs with operations in the Daqing oil field, which is the largest oil field in China. SMEs are firms with less than 300 employees, as defined by the National Bureau of Statistics of China (2011). Given that SMEs' managers have a controlling influence over the firm, SMEs' strategies are disproportionately driven by the cognitive characteristics of managers (Fassin et al., 2011; Spence, 2007). In the realm of CSR strategy, the manager has strong and centralized discretionary authority (Hammann, Habisch, and Pechlaner, 2009). Therefore, managerial cognition plays a significant role in SMEs' CSR strategies (Battisti and Perry, 2011; Hemingway and Maclagan, 2004; Spence and Rutherford, 2001).

We chose the region of Daqing in China as the research context for three reasons. First, due to the severe nature of environmental and social problems and criticism from overseas, CSR has been taken seriously in China and there has been a growing awareness among different stakeholders including the government, customers, and communities (Kolk, Dolen, and Ma, 2015; Kolk and Tsang, 2017; Yang, Orzes, Jia, and Chen, 2019; Zhang, Wang, and Zhou, 2019). Second, the stakeholder pressures vary with firms' locations in China (Wang et al., 2018). As differences in stakeholder pressures lead to differences in CSR strategy (Yin, 2017), we focused

our research on Daqing to constrain this variation. Third, stakeholders pay much attention to CSR in the local context of Daqing. Oil extraction is a major environmental pollution source (Bowen, Bansal, and Slawinski, 2018), and has made local communities, employees and the local government increasingly aware of the importance of social issues such as employee health and safety, environmental protection. Hence, Daqing provides a suitable research context for this chapter.

As it is difficult to obtain access, we approached the managers of six SMEs through personal connections. The main qualitative input for this chapter is drawn from in-depth, on-site interviews with the managers of the sample firms, conducted in January of 2016. The interviews were structured to explore the constructs of interest. The interview protocol consists of seven sections addressing issues related to (1) the firm's background and manager's demographic characteristics, (2) the manager's understanding of stakeholder issues, (3) how the manager deals with stakeholder conflict, (4) how the manager makes strategic decisions, (5) the firm's mission and performance target, (6) the firm's practices related to stakeholders and environment, and (7) the manager's attitude towards CSR. Specifically, we used sections (2) and (3) to explore managers' integrative complexity, sections (4) and (5) to investigate managers' temporal orientation, and sections (6) and (7) to probe the CSR strategy.

To protect the identities of the firms, we use the following pseudonyms: Device, Drink, Flat, Property, Forage, and River. The key characteristics of the six firms and interviewees are summarized in Table 3.1. The length of each interview varied between 36 and 75 minutes and was 53 minutes on average. All the interviews were audio-recorded and transcribed. As the interviews were conducted in Mandarin, the authors translated the transcription into English. A random selection of one-tenth of the translated interview transcripts was then back-translated

into Chinese by an experienced researcher who is not an author of this chapter (Bhalla and Lin, 1987). No major discrepancies were found.

Table 3.1: An overview of the investigated firms and interviewees

Firm name	Industry	In operation since	Employees	Manager gender	Manager age (as of January 2016)	Manager tenure (years, till January 2016)	Ownership
Device	Manufacturing	2001	150	Male	52	5	State-owned
Drink	Manufacturing	1963	150	Female	44	4	State-owned
Flat	Real estate	1995	80	Male	45	3	State-owned
Property	Real estate	1997	30	Male	33	2	State-owned
Forge	Manufacturing	2010	35	Male	48	6	Private-owned
River	Services	1982	70	Female	53	3	State-owned

The key ingredients for our analysis were interview transcripts, field notes, and reflection notes. In order to mitigate problems of social desirability and managers' self-serving bias, we did not discuss the precise aims of our interviews with the interviewees. Instead, the interviewees were advised that the aims of the study were to investigate general aspects of business and management. More information on the cases and data collection is available upon request.

3.3.3 Data analysis

We organized and analyzed the interview data using Atlas.ti. Atlas.ti is a qualitative software analysis tool that allows for tagging, searching, and coding of large amounts of text, making the coding process more efficient and reliable (Banks et al., 2016; Fan and Zietsma, 2017). We identified first-order concepts from the analysis of the data using informant-centric terms, and

then grouped these concepts together into second-order themes using researcher-centric constructs and dimensions. This approach ensured that concepts emerged directly from the data.

Further, we checked the reliability of the coding results. First, the extent of differences between the statements identified by both authors was small (Grayson and Rust, 2001). Second, we asked an experienced researcher to analyze the transcripts. The researcher was provided with a general description of managerial cognition and CSR strategy, but was not provided with a detailed coding guide or coaching that could inflate estimates of validity (Westphal and Zhu, 2019). Her coding process yielded similar first-order concepts and second-order themes compared to ours.

Finally, we adopted quantitative content analysis to corroborate the second-order themes that had emerged from the qualitative analysis. Content analysis of management texts has been acknowledged as a meaningful way of capturing managerial cognition (Kaplan, 2008a; Nadkarni, Chen, and Chen, 2016). Based on Whorf-Sapir hypotheses, frequently mentioned words can reflect individual's cognition (Karhunen, Kankaanranta, Louhiala-Salminen, and Piekkari, 2018; Sapir, 1944). Thus, the more frequently used words can be taken as indicators of what categories are believed to be more important (Douriau, Reger, and Pfarrer, 2007). We used TextMind to analyze the transcripts. TextMind is a quantitative content analysis tool designed for the Chinese language. It first segments the Chinese words automatically, and then calculates the word frequency based on the categories compatible to the dictionary of Linguistic Inquiry and Word Count (LIWC). A list of word categories related to this study is reported in the Appendix.

3.4 OPENING THE BLACK BOX OF THE COGNITIVE UNDERPINNINGS OF CSR STRATEGY

Table 3.2 provides an overview of the first-order concepts and second-order themes from the qualitative analysis. We focused on four themes: temporal orientation, integrative complexity, instrumental motives, and CSR strategy. The first three themes relate to interviewees' conscious mental processes, while the last one relates to how interviewees engage in CSR. We intertwined the detailed description of each theme with empirical insights generated by interviews.

Table 3.2: Structure of data

First-order concepts	Second-order themes
Focusing on the short term <ul style="list-style-type: none"> • Preferring shorter planning horizons (Device and Drink) • Relying on the here and now (Flat and Property) Focusing on the long term <ul style="list-style-type: none"> • Planning for the future proactively (Forage and River) 	Temporal orientation
Analytical thinking <ul style="list-style-type: none"> • Neglecting different points of view (Drink and Forage) • Analyzing the conflicts in stakeholder demands (Property) Complex thinking <ul style="list-style-type: none"> • Did not actively seek information to solve the problem (Device) • Satisfying multiple stakeholder demands (River and Flat) 	Integrative complexity
Economic considerations in CSR strategy <ul style="list-style-type: none"> • Improving financial performance by controlling employees' behavior (Device and Drink) • Improving financial performance by increasing employee satisfaction (Flat and Property) • Gaining competitive advantage (Forage and River) 	Instrumental motives
Compliance with regulations <ul style="list-style-type: none"> • Protecting the environment by monitoring employees (Device and Drink) Building a better stakeholder relationship <ul style="list-style-type: none"> • Improving labor relations (Flat and Property) A competitive CSR position <ul style="list-style-type: none"> • A range of practices on labor relations, environmental performance, and community relations (Forage) Fulfilling intertemporal demands <ul style="list-style-type: none"> • Improving present labor relations and preventing future pollution incident (River) 	CSR strategy

3.4.1 Managers' temporal orientation

When answering questions about how managers make strategic decisions, they frequently mentioned temporal considerations. How temporal considerations function in decisions has been addressed in a wide range of studies already (Chen and Nadkarni, 2017; Reilly et al., 2016), also in relation to CSR more specifically (Slawinski and Bansal, 2015). Based on the interview transcripts, we provide illustrations of this topic in a context different from the traditional Western ones used in prior studies. Our qualitative analysis revealed that the managers of Device, Drink, Flat, and Property focused on the short term while the managers of Forage and River focused on the long term. Further, managers' attention to the short- or long-term implications of their decisions reflects their temporal orientations (Lumpkin and Brigham, 2011; Shipp, Edwards, and Lambert, 2009).

Individuals who focus on the short term emphasize the current time frame in decision making and rely on real-time information (Crossan, Cunha, Vera, and Cunha, 2005). Consistent with this notion, we found that the managers of Device and Drink exhibited a preference for shorter planning horizons. For example, the manager of Device said: *“By the end of the year, I’ll first summarize the achievement of the past year. Then I’ll plan the task of the following year, for example, the investment in projects and the training of certain staff. I do this every year.”* The manager of Drink mentioned: *“I set targets for each plant every quarter based on the sales of last quarter. I also compile the annual budget based on the sales beforehand and the projections of the following year.”*

Responses of the managers of Flat and Property showed they disproportionately relied on the here and now based on short-term information. For example, the manager of Flat did not contemplate the future of the firm, as he said, *“I seldom think about planning with long horizon;*

it's tough to do this.... I use real-time data on sales, revenue, and so on to draft a rough plan.”

The manager of Property explained, *“I plan for the operation and employee training at the beginning of the year. But as for a long-term plan, no, I rarely do this. I don't think about this very often. Long-term planning is cumbersome for seizing transient market opportunities.”* Thus, the managers of Device, Drink, Flat and Property can be characterized as having a short-term orientation.

Individuals who focus on the long term think about what the future holds and usually also plan for the future proactively (Yadav, Prabhu, and Chandy, 2007). The managers of Forage and River thought long-term planning was necessary and they were aware that the goals of these plans would be realized only after an appreciable period. For instance, the manager of Forage said: *“I'll set a goal which cannot be achieved easily... I have a strategy for the long run, like a five-year project, setting targets for firm size and sales in the future.”* The manager of River pointed out: *“I have a five-year plan describing the tasks in the long term. It's highly demanding to make this plan, I also need to go to a lot of effort to realize it, but such a plan is vital for the firm's growth.”* As evidenced by the support for a longer planning horizon, these two managers can be both characterized as having a long-term orientation.

Quantitative content analysis is widely applied to study the cognition of temporal orientation (Nadkarni et al., 2016; Reilly et al., 2016; Yadav et al., 2007). We used the sub-category of “present focus” and “future focus” under the category “time orientations” in LIWC to measure temporal orientation (see the Appendix). For each interview, we focused on interviewees' responses and counted the number of words referring to the short term based on “present focus” and the long term based on “future focus”. We then calculated a ratio of long-term words divided by the total number of all time-related words. Firms with a higher ratio of

long-term words are more likely to have a long-term orientation (Flammer and Bansal, 2017). As shown in Table 3.3, we found that the managers of Forage and River were more long-term oriented than their peers in Device, Drink, Flat and Property, which largely supported the qualitative evidence.

Table 3.3: Quantitative content analysis of interviews

Firm name	Device	Drink	Flat	Property	Forage	River
% of long-term words to total time related words	0	0	5.26	10.67	18.19	40
% of conjunctions to total words	3.54	4.04	4.39	4.93	3.92	4.28
% of prepositions to total words	5.21	5.13	5.97	5.69	5.67	5.86
% of tentative words to total words	2.21	1.82	2.26	2.58	1.79	2.63
% of money words to total words	3.88	3.50	4.57	2.24	3.02	1.48
Number of short-term words	4	40	41	28	51	12
Number of long-term words	0	0	2	3	11	8
Number of conjunctions	138	169	187	193	176	161
Number of prepositions	203	215	255	223	255	221
Number of tentative words	86	76	96	101	80	99
Money words	151	147	195	87	136	55
Total number of words	3903	4201	4278	3917	4498	3767

3.4.2 Managers' integrative complexity

We found that managers responded to conflicts in stakeholder demands in different ways. The responses of managers reflected different degrees of analytical and complex thinking. Because managers who are high on analytical or complex thinking generally have high integrative complexity (and vice versa), the findings suggest that the managers of Drink, Forage and Device exhibited low integrative complexity, while the managers of River, Flat and Property exhibited high integrative complexity.

Specifically, the managers of Drink and Forage were unable to deal with divergent opinions, choosing instead to intentionally neglect the conflict. For example, the manager of Drink said: *“I think considering different points of view during a group meeting is a waste of*

time. Normally, such discussion (i.e., a meeting with contradictory opinions) won't lead to any outcome." The response of Forage's manager was similar: *"Such things (i.e., lower-rank managers raise different demands and expectations during meetings) happen day after day. When you show your proposal during the meeting, various opinions come out... I must insist on my proposal to avoid the waste of time. I can't consider all opinions, or it's a wrangle."* The literature proposes that managers who are low on analytical thinking are less likely to discuss divergent or conflicting views during decision making (Tetlock, 2000; Tetlock, Peterson, and Berry, 1993). Thus, the managers of Drink and Forage showed evidence of low analytical thinking, which suggested they were low on integrative complexity.

In contrast, the manager of Property showed high analytical thinking in resolving the conflicts. Instead of interpreting the claims raised by the customer service and the engineering department as black and white, the interviewee considered the difficulties of the two departments together and attempted to de-escalate the conflict. For instance, the interviewee said: *"Customer service received complaints from the residents and gave orders to the engineering department based on the complaints. Conflicts break out easily between these two departments. Customer service thought the complaint emerged because the engineering department didn't maintain the quality of the facilities well enough. But the engineering department felt that the task assigned by customer service was so troublesome. My way to cope with this is to first be clear about what really happened. ... Then I would talk with managers from different departments, try to understand and analyze the conflict, and ease the tension between them."* Thus, the manager of Property demonstrated high integrative complexity.

In the case of Device, the employees asked for a higher salary, but lower-rank managers said the pay structure was fixed. The interviewee simply put employees' claim aside and said:

“The wage standard of Device is fixed No matter how good a job a worker does, I have no discretion to decide his earnings or grant him a bonus.” Being hard-pressed to understand the conflict, the interviewee did not actively seek a variety of information to solve the problem. The manager of Device exhibited low complex thinking, indicating he was low on integrative complexity.

However, the managers of River and Flat identified possible solutions to solve the conflicting demands between lower-rank managers and employees. They exhibited high complex thinking, which implied high integrative complexity. For example, the manager of River was also confronted with the tension between a fixed pay structure and employees’ demands for a higher salary. Acknowledging that River faces constraints with regards to salary increases, the interviewee indicated that she needs to *“abide by the rules.”* Meanwhile, she looked for alternative options to balance these demands: *“I consulted peer companies in this industry. They said that they used healthcare allowance as an extra payment in addition to the salary. This is a good idea. ... In the end, my appeal was approved by lower-rank managers and the employees received ‘higher salary’ through the healthcare allowance.”*

In the case of Flat, the interviewee said *“Lower-rank managers often complained that Flat didn’t hire enough employees to handle the task... It’s hard to recruit new employees because the incumbent employees don’t like newcomers; they think the newcomer will make them lose jobs. Following the example of other firms, I hired several interns instead.”* Thus, the manager of Flat not only solved the manpower shortage but also overcame the resistance from incumbent employees.

We again did a quantitative content analysis in relation to the findings reported above. Tentative language (e.g., maybe, perhaps, guess) is the form of language that underpins

analytical thinking (Slatcher, Chung, Pennebaker, and Stone, 2007). As tentative words appear when speakers express formal, logical, and hierarchical ways of thinking about problems, we argue that higher use of tentative words characterizes managers possessing higher analytical thinking. We paid attention to function words to measure complex thinking. Function words such as conjunctions and prepositions express grammatical relations between units of content (Loewenstein, Ocasio, and Jones, 2012; Pennebaker, Mehl, and Niederhoffer, 2003). When managers engage in complex thinking, they generate linkages between different perspectives to reconcile the demands of a diverse set of stakeholders. As function words recognize the interdependencies between stakeholders (Hauser, Toubia, Evgeniou, Befurt, and Dzyabura, 2010), we argued that higher use of conjunctions and prepositions represent managers possessing higher complex thinking. For each interview, we calculated a ratio of tentative words, conjunctions, and prepositions respectively by first counting the frequency of each word category, then dividing it by the total number of words in interviewee's responses (see Table 3.3). In general, we found the managers of Flat, Property and River used a higher ratio of tentative words, conjunctions, and prepositions than their counterparts in Device, Drink, and Forage.

3.4.3 Managers' instrumental motives in CSR strategy

Based on the qualitative analysis, we found that the six managers all mentioned economic considerations in CSR strategy. The prevalence of the economic perspective aligns with Zuo, Schwartz, and Wu (2017), who argued that Chinese managers hold a narrow normative version of CSR, which tends to focus on the economic and legal obligations of firms. To be specific, the managers of Device and Drink described CSR as useful to control employees' behavior and improve financial performance. The managers of Flat and Property engaged in CSR to motivate

employees, alleviate adverse behavior at the workplace, increase employee satisfaction, and improve financial performance. The managers of Forage and River, in contrast, conceived of CSR as a way to gain competitive advantage. The literature contends that instrumental motives are closely related to managerial beliefs that engaging in CSR can have a direct impact on profitability – improving financial performance or building competitive advantage (Aguilera, Rupp, Williams, and Ganapathi, 2007; Brønn and Vidaver-Cohen, 2009). Overall, though differing in their specific motives, managers' economic considerations can be subsumed under the theme of instrumental motives.

First, the managers of Device and Drink stated that monitoring emissions of toxic substances and avoiding workplace accidents were part of CSR strategy. They also indicated employees would be punished if they violated the rules such as “*minimum toxic emissions*” and “*zero accidents*”. For example, the manager of Device said: “*There will be punishment for work accidents. In addition, if the accident causes death or serious injury, the staff responsible for this will be severely punished.*” Similarly, the manager of Drink said: “*The government regularly checks whether we comply with the guidelines of environmental protection. We assign specific roles to every frontline unit, they should guarantee the operation has no harmful environmental consequences, or I'll reduce their bonus. Only by doing this, can we achieve the performance target.*” In the cases of Device and Drink, the managers used CSR to reduce risk, avoid the fines for firms with environmental violations and thus, improve short-term financial performance (Godfrey, Merrill, and Hansen, 2009; Morsing and Perrini, 2009).

Second, the managers of Flat said: “*When an employee falls seriously ill, I'll encourage other employees to donate for her (or him). Mutual help between employees is the basis of better economic results.*” The managers of Property clearly stated that “*the employees organize events*

to serve the community regularly, and that (during the events) employees interact with their counterpart from other departments. Such event is the lubricant for building good relationships between employees. More importantly, a harmonious work atmosphere is necessary for better financial performance.” Hence, it seems that the managers of Flat and Property regarded CSR as a tool to achieve employee satisfaction, which could result in better financial performance (Edmans, 2012).

Third, the managers of Forage and River did not tie CSR strategy directly to financial outcomes. As CSR can constitute a source of competitive advantage (McWilliams and Siegel, 2011; McWilliams et al., 2006), these managers were interested in gaining competitive advantage through CSR. For example, the manager of Forage said: *“From the perspective of ‘built to last’, I had to invest a lot in workplace safety and environmental protection to gain the edge in competition, then I can outperform the rivals.”* Also, the manager of River characterized CSR as *“an essential way to sustain competitive advantage.”*

The word category of “money” in LIWC can measure the strength of managers’ economic considerations (Pennebaker, Booth, Boyd, and Francis, 2007). We divided the frequency of money words by the total words in interviewee’s responses. As shown in Table 3.3, we found that the managers of Device, Drink, and Flat scored higher than the managers of Forage and Rivers. The explicit use of money words by the managers of Device, Drink, and Flat supports our qualitative finding that their instrumental motive was to improve financial performance, at least judging the limited amount of information disclosed to us through the interviews.

3.4.4 The domains of CSR strategies

We investigated the CSR strategies by asking interviewees to describe their firm's practices with respect to three commonly explored domains: labor relations, environmental performance, and community relations (Muller and Kolk, 2010). While analyzing the CSR strategies of the six firms, a number of first-order concepts emerged (see Table 3.2). Device and Drink, for example, explicitly mentioned compliance with regulations, whereas Flat and Property emphasized building better stakeholder relationships. Forage paid attention to building a competitive CSR position, River to fulfilling intertemporal demands.

For instance, the CSR strategy of Device and Drink focused on adhering to laws and governmental regulations. To guarantee compliance with regulations, the managers set up a system within the firm to monitor employee behavior and discipline misconduct. These two firms established strict rules to reduce energy consumption and monitor the emission of harmful gases. Device assessed whether employees behaved in accordance with regulations on environmental protection and would discipline misconduct by pecuniary punishment. To guarantee product quality and control water consumption, Drink established a protocol to monitor employees' production process and implemented sanctions in the case of violations.

The CSR strategy of Flat and Property emphasized improving labor relations in the interviews. For example, employees were endowed with more flexibility in Flat. Property provided bonuses to employees when they performed tasks above expectations. Further, Flat and Property established an organizational-level social security system which provided illness insurance for employees. The managers of both firms believed monetary incentives were an effective way to motivate employees. Such employees could also serve the customers better. As the manager of Flat said: *“Using bonuses to motivate employees is more efficient. We can get an*

immediate improvement in customer satisfaction and receive financial gains from customers faster.” It is noteworthy that the interviewees emphasized they could reap economic rewards through a better employee relationship. In addition, the manager of Flat mentioned he did not care about the dust pollution during the housing construction, because the short-term consequence was trivial. In sum, both Flat and Property stated to engage in CSR by strengthening stakeholder relationships.

The CSR strategy of Forage, the only private company, addressed a broader range of stakeholder concerns than those of the other five firms, at least based on the information from the interview. For instance, the interviewee noted the establishment of an environment, health and safety office specialized in protecting employees from harm. With the help from this office, machines’ airtightness was improved, and workers were provided with access to a respirator. Forage also upgraded manufacturing equipment to reduce dust and noise pollution. Moreover, it consistently made charitable contributions to support the local community. Forage’s CSR strategy comprised a range of practices, including labor relations, environmental performance, and community relations. Through large-scale investment in CSR related issues, the interviewee indicated he intended to seek a leading position in CSR performance comparing to the peers.

As an SME that tests residential tap water quality and monitors chemical plants contamination, River engaged in CSR aimed at two domains: labor relations and environmental performance. Based on the information from the interview, its employees enjoyed a comprehensive welfare system, such as a healthcare allowance, no forced overtime, and a flexible working environment. Additionally, River provided a service with notable social and environmental benefits in the form of monitoring tap water quality and industrial pollution. As recognized through a national laboratory accreditation, River undertook notable R&D activities.

The interviewee said strong technical capacity was critical to meet the pollution testing task in the future. By addressing present employee needs and future pollution incidents simultaneously, River’s CSR strategy can be seen as fulfilling stakeholders’ intertemporal demands.

3.4.5 Conclusions and caveats

We summarize our findings based on the self-reported information from the managers in our empirical study in Table 3.4. It is worth noting that these findings are subject to two caveats. First, we did not consider the effects of contextual factors on managerial cognition when we interpreted the interview transcripts. For instance, the answers of the interviewees may be influenced by the composition of the work force or the desired flexibility to run the firm in the complex competitive and social context. Second, interviewees may be different in their personalities. It is possible that some interviewees are more talkative, some are more sensitive to the interviewer questions, and some are more inclined to give socially acceptable responses. Nevertheless, the findings in this study shed light on the link between managerial cognition and CSR strategy.

Table 3.4: Summary of the findings

Firm name	Temporal orientation	Integrative complexity	Instrumental motive in CSR strategy	Domains of CSR strategy
Device	Short	Low	Improving financial performance	Environmental performance
Drink	Short	Low	Improving financial performance	Environmental performance
Flat	Short	High	Improving financial performance	Labor relations
Property	Short	High	Improving financial performance	Labor relations
Forge	Long	Low	Gaining competitive advantage	Labor relations, environmental performance, and community relations
River	Long	High	Gaining competitive advantage	Labor relations and environmental performance

While being aware of these caveats, our study seems to indicate that managers have different cognitive underpinnings engaged in CSR in different ways, which can be organized in a 2x2 matrix (Figure 3.1). To be specific, the CSR strategy of short-term oriented managers underlines immediate economic payoffs while the CSR strategy of long-term oriented managers focuses on gaining competitive advantage over a longer period of time. Meanwhile, managers with low integrative complexity construct CSR strategy as a one-way instrument to either ensure regulatory compliance (e.g., Device and Drink) or staying ahead of competitors (e.g., Forage), whereas managers of high integrative complexity employ CSR strategy as a two-way instrument to either reap economic reciprocity (e.g., Flat and Property) or connect intertemporal demands (e.g., River). In the next section, we “puzzle through” the relationship between managerial cognition and CSR strategy by proposing a cognition-based framework of CSR strategy.

Figure 3.1: Linking the cognitive underpinnings to the characteristics of CSR strategies

Temporal orientation	Long	Forage	River
	Short	Device and Drink	Flat and Property
		Low	High
		Integrative complexity	

3.5 A COGNITION-BASED FRAMEWORK OF CSR STRATEGY

During CSR engagement, managers accommodate different stakeholder interests and the costs and benefits incurred over time. As a result, we argue that the cognitive mechanism of CSR

strategy is that, first, integrative complexity and temporal orientation work together to steer managers’ attention toward specific strategic goals; and second, managers are motivated to act on the CSR strategies whose instrumental merits are aligned with their strategic goals. In what follows, we elaborate on how high and low levels of integrative complexity are associated with different strategic goals when combined with short- versus long-term orientation. Building on our analysis of the six cases, we propose a framework that links the four combinations of integrative complexity and temporal orientation to different CSR strategies (see Figure 3.2). We label these strategies *compliant CSR*, *reciprocal CSR*, *competitive CSR*, and *sustainable CSR*, and offer propositions for future testing.

Figure 3.2: A cognition-based framework of CSR strategy

		Long	Competitive CSR Seeking a competitive CSR position	Sustainable CSR Connecting intertemporal demands
			Short	Compliant CSR Regulatory compliance
Temporal orientation			Low	High
			Integrative complexity	

3.5.1 CSR by managers with short-term orientation and low integrative complexity

Because a short-term orientation directs managers’ attention to immediate payoffs, it gives rise to temporal myopia and economic short-termism (Nadkarni et al., 2016). Managers with low integrative complexity spend little cognitive effort on information searching and thus are not

well able to balance a range of stakeholders' demands. As a result, low integrative complexity makes managers uncomfortable with the uncertainty surrounding possible benefits of CSR and reinforces managers' bias for immediate economic payoff. For example, the manager of Drink preferred a CSR strategy with clear short-term financial returns, as she said, "*The rules in the protocol are useful to control the cost of electricity and water. They guarantee profit in addition to environmental protection.*"

A short-term orientation is associated with the use of financial control to standardize employee behavior (Brigham et al., 2014; Slawinski et al., 2017). Since low integrative complexity drives managers to analyze events in a dichotomous manner, categorizing them as either "good" or "bad" (Suedfeld, 2010), employees' misconduct is likely to be punished as "bad" behavior instead of, for example, looking for ways to incentivize good behavior. As such, managers with low integrative complexity and short-term orientation may rely on financial methods like punishing misconduct to ensure employees' compliance to CSR regulations. For instance, the manager of Drink indicated her preference for supervising employees very strictly. She said: "*The lower-rank managers should sign the contract to guarantee product safety, and know that s/he will receive a smaller bonus if s/he doesn't achieve the targets established in that contract.*"

Thus, short-term orientation and low integrative complexity in combination prioritize the mitigation of uncertainty in short-term financial returns, and focus managers' attention on regulatory compliance. In other words, managers engage in CSR to avoid the penalties associated with violating environmental laws and regulations. These managers adopt compliance-based control in CSR strategy to discipline employees' misbehavior. We label this

CSR strategy “compliant CSR” to reflect the goal of regulatory compliance. From these observations we derive our first proposition.

***Proposition 1:** Managers with a short-term orientation and low integrative complexity are more likely to pursue a strategy of compliant CSR.*

3.5.2 CSR by managers with short-term orientation and high integrative complexity

While managers with a short-term orientation and low integrative complexity focus on financial punishments to elicit compliance, managers with a short-term orientation and high integrative complexity use financial incentives to motivate employees. They describe the instrumental benefits of such CSR strategies, which suggests a different understanding of the trade-offs between managers’ interests and employees’ financial needs. For example, the manager of Property said: *“Besides the basic salary, the employee can earn more if he finishes the task before the deadline and ensures the product quality. In this way, everyone can get more money. Moreover, employees are motivated to provide excellent service to customers. Due to higher customer satisfaction, we receive financial gains faster.”*

Since high integrative complexity can enhance managers’ comprehension of the linkages between the interests of different parties (Peterson et al., 1998), the preference for immediate economic payoffs associated with short-term orientation will lead managers to appreciate the interdependencies between their own interests and those of their employees. But given that stakeholder demands and the impacts of organizational actions are viewed in the short term, such managers are especially focused on the economic interpretation of stakeholder demands and the anticipated economic benefits that may be derived from accommodating those demands (Porter and Kramer, 2011).

This helps to explain why managers of Flat and Property preferred to introduce monetary rewards instead of punishment, which may discourage employees. Managers build strong employee relations through cash incentives and, in the meanwhile, benefit from employees' increased motivation. Therefore, managers with a short-term orientation and high integrative complexity recognize the connections between accommodating stakeholder interests and generating economic benefits. Motivated by the strategic goal of reaping economic reciprocity, they pursue CSR strategies which can create economic value for both the managers and their stakeholders. We label this CSR strategy "reciprocal CSR" and summarize the preceding considerations in the following proposition.

***Proposition 2:** Managers with a short-term orientation and high integrative complexity are more likely to pursue a strategy of reciprocal CSR.*

3.5.3 CSR by managers with long-term orientation and low integrative complexity

The cognition of Forage's manager is characterized by a long-term orientation and low integrative complexity. With a far-sighted vision, he believed investment in CSR was necessary to acquire a long-lasting competitive advantage. Because long-term oriented managers emphasize the long-term implications, they encourage the development of strategic resources even if it comes at the expense of short-term value (Reilly et al., 2016; Wang and Bansal, 2012). At the same time, however, low integrative complexity leads these managers to focus on maximizing their own achievements relative to others' and behave in a competitive manner (Basu and Palazzo, 2008; Van Lange, Bruin, Otten, and Joireman, 1997).

The joint effect of long-term orientation and low integrative complexity is the sense of "time crunch", which means managers feel pressed for time when they overvalue long-run imperatives (Zimbardo and Boyd, 1999). Time crunch imposes strong pressure on managers to

meet the long-term goals such as building competitive advantage (Chen and Nadkarni, 2017). This sense obliges managers to obsess about the importance of CSR strategies and invest substantially in attaining a distinctive socially responsible posture. The manager of Forage said: *“Getting ahead of the competition is my priority.”* Thus, he engaged in a broad range of CSR activities and, in so doing, sought a competitive CSR position in comparison to the practices of Forage’s peers. Based on these analyses, we label this CSR strategy “competitive CSR” and formulate a third proposition as follows.

Proposition 3: Managers with a long-term orientation and low integrative complexity are more likely to pursue a strategy of competitive CSR.

3.5.4 CSR by managers with long-term orientation and high integrative complexity

In the case of long-term orientation in combination with high integrative complexity, managers try to realize the synergies between different time horizons by conceptualizing present and future as continuous temporal dimensions (Reinecke and Ansari, 2015; Smith, 2014). They foster a long-term perspective by perceiving the present over an extended duration, constituted by processes that are inseparable from one another (Kim, Bansal, and Haugh, 2019a). In addition, these managers refrain from bold investments which may compromise short-term financial liquidity. For example, the manager of River said: *“We need to be well equipped to cope with emergent water pollution incidents in the future, which requires a high technical capacity. But such capability is not developed overnight. We have accumulated it gradually, since the company’s founding. To maintain a high quality of water testing, we make progressive investments in environmentally-related R&D every year.”*

Managers with a long-term orientation and high integrative complexity tend to believe that “the long-term survival of a firm is determined by its ability to establish and maintain

relationships within its entire network of stakeholders” (Post, Preston, and Sachs, 2002: 7). They recognize that long-term economic value is achieved through connecting a range of present and future stakeholder demands. Besides meeting the demand for water testing capability in the future, River also made concerted efforts to attend to employees’ shorter-term demands. For instance, by providing a higher healthcare allowance to employees, the manager satisfied employees’ financial needs. Therefore, the manager of River was motivated by the goal of connecting intertemporal demands, and she engaged in CSR to balance demands from different stakeholders and with different time horizons. We label this CSR strategy “sustainable CSR” to reflect its instrumental merit of achieving sustainable competitive advantage (McWilliams and Siegel, 2011).

***Proposition 4:** Managers with a long-term orientation and high integrative complexity are more likely to pursue a strategy of sustainable CSR.*

3.6 DISCUSSION AND CONCLUSIONS

In this chapter, we theorized on the cognitive underpinnings of CSR strategy to argue that temporal orientation and integrative complexity work together to guide managers’ attention toward different strategic goals with respect to CSR strategy. We used an abductive approach to explore the link between managerial cognition and CSR strategy among the managers of six SMEs in China. In so doing, we provided a plausible explanation by developing a cognition-based framework of CSR, consisting of four forms of CSR strategies which we label compliant, reciprocal, competitive and sustainable. Overall, we make three primary contributions that advance theory on the cognitive foundations of CSR.

3.6.1 Theoretical contributions

First, we explain the cognitive foundations of CSR by analyzing the interaction between temporal orientation and integrative complexity. Previous research into CSR-related decision making has identified the cognitive foundations of managerial decisions to engage in CSR, but has largely overlooked how differences in cognition underpin specific CSR strategies (Basu and Palazzo, 2008; Fassin et al., 2011; Wang et al., 2015). Our analysis supports a conceptualization of CSR strategy as balancing the trade-offs between stakeholder interests and between the long and the short term. By explicating how temporal orientation and integrative complexity work together to focus managers' attention on certain strategic goals, our framework offers a cognitive understanding of CSR strategy.

Second, we further our understanding of how CSR's cognitive foundations can inform efforts to classify CSR strategies. Existing CSR typologies are typically based on outcomes, such as innovation versus integration (Halme and Laurila, 2009), or technical versus institutional (Mattingly and Berman, 2006). Others focus on basic descriptive elements such as proactive versus reactive (Groza, Pronschinske, and Walker, 2011) or global versus local (Jamali, 2010; Muller, 2006). In this chapter, we go beyond extant classifications to address differences in managers' strategic goals. Thus, the integrative theoretical framework we develop to link different CSR strategies contributes to our knowledge of the cognitive underpinnings of CSR.

Third, this chapter also carries implications for research on resource allocation. Resource allocation decisions are the most critical choices managers make (Gupta, Briscoe, and Hambrick, 2018). On the one hand, managers have to allocate resources for activities such as international expansion, R&D investment and corporate political activity, thereby attending to different stakeholder demands. On the other hand, they also face both long-run imperatives (e.g., building

competencies and capabilities, remaining competitive) and short-term necessities (e.g., ensuring the firm's survival, convincing capital markets that the firm is being managed for maximum value). Using CSR strategies as the outcomes, our cognitive framework potentially sheds light on the cognitive foundations of resource allocation. Future research may draw from our theorizing to investigate the mechanisms by which managers allocate resources more generally (Narayanan et al., 2011).

3.6.2 Limitations and future research

Given the small sample size of this chapter, more research is needed to prove the reliability of our study. First, this chapter is not meant to be a systematic and comprehensive analysis of the cognitive determinants of CSR in SMEs. Our analysis is based on data from only six firms; therefore, future studies can examine our theoretical framework with larger samples. Second, since we focus on the context of SMEs in China, some of the findings may not be applicable in countries where stakeholder pressures are high (Surroca, Tribó, and Zahra, 2013), and societal dynamics related to CSR may be different as a result. Third, given the recognizable differences between SMEs and large firms, follow-up studies can examine the generalizability of our findings in larger firms. By accounting for the organizational context in which managers make decisions, future research may attend to the potential interactions between managerial cognition and organizational features (e.g., financial resource availability, corporate diversification) to determine CSR strategy (Bromiley and Rau, 2016).

Finally, confined by the cross-sectional nature of the interviews, this chapter does not investigate the potential that the CSR strategy adopted by a specific manager may change over time. Future research could explore the cyclical or iterative nature of managerial cognition and CSR strategy. For instance, although some scholars assume cognitive features like integrative

complexity are stable over time (Wong et al., 2011), others argue that integrative complexity can be affected by the situation or context in which the manager operates (Suedfeld, 2010; Tadmor et al., 2009). Thus, stakeholder responses to a given CSR strategy may influence a manager's integrative complexity and the following cognitive interpretation of the situation, causing a shift in strategic goals that can alter CSR strategy. Additional research in this direction may help shed light on the dynamics of CSR strategy over time (Hofman, Moon, and Wu, 2017; Hunoldt, Oertel, and Galander, 2018). Managerial cognition represents an important and as yet underemphasized complement to the extant picture in the CSR literature. We believe our exploration has value for scholars seeking to understand the cognitive foundations of CSR, as well as managerial cognition more generally.

Appendix A / Table 3.5: Summary of LIWC word categories ^a

Category	Examples in English	Examples in Chinese
Short-term words	Short-run, short-term, day	短期, 短时间, 天, 日, 每天, 每日
Long-term words	Long-run, long-term, years	长期, 长时间, 多年
Conjunctions	And, but, whereas	和, 并, 且, 与, 但, 但是, 却, 然而
Prepositions	To, with, above	至, 于, 同, 将, 关于, 以上, 之上
Tentative words	Maybe, perhaps, guess	也许, 说不定, 或许, 恐怕, 猜测
Money words	Money, cash, economic	钱, 金钱, 现金, 经济的

.a We use words in Chinese to conduct our content analysis.

CHAPTER 4. THE EFFECTS OF EXECUTIVES' TIME HORIZONS ON CSR DISCLOSURES⁴

4.1 INTRODUCTION

Recently, scholars have expressed concerns about top executives' preferences for the short term (Benton and Cobb, 2019; Lee, Park, and Folta, 2018). According to a global survey by McKinsey (2013), nearly half of executives said their time horizons for reviewing strategy was no longer than two years. As such, an interesting and practical focus for research on managerial cognition is to investigate the consequences of executives' time horizons. The time horizon of executives varies not only across firms but also within one firm at different moments (Lee et al., 2018; Nadkarni, Chen, and Chen, 2016). It influences innovation activities (Chen and Nadkarni, 2017; Chrisman and Patel, 2012; Flammer and Bansal, 2017), competitive behavior (Nadkarni and Chen, 2014; Zhang and Gimeno, 2016), and resource allocation (for reviews see Kunisch, Bartunek, Mueller, and Huy, 2017; Reilly, Souder, and Ranucci, 2016; Shipp, Edwards, and Lambert, 2009). In general, extant literature considers how time horizons shape the strategies that firms undertake in the pursuit of resources.

Research suggests that firms frequently engage in impression management to manipulate the perceptions of stakeholders (Bansal and Clelland, 2004; Schnackenberg, Bundy, Coen, and Westphal, 2019; Westphal and Graebner, 2010). In order to survive in an uncertain business environment, firms rely on stakeholder approval and support to obtain resources (Lungeanu, Paruchuri, and Tsai, 2018; Suddaby, Bitektine, and Haack, 2017). As a result, executives are

⁴ I would like to thank Shouming Chen for his help with access to the China Stock Market and Accounting Research (CSMAR) database.

concerned with how their firms are perceived by stakeholders (Zavyalova, Pfarrer, Reger, and Shapiro, 2012). This is particularly the case for executives with short-term horizons because they have a strong desire to improve access to resources in the current time frame (Miller, 2002). A short-term horizon refers to the extent to which executives emphasize the short term over the long term (Lavery, 1996; Marginson and McAulay, 2008; Nadkarni et al., 2016). Building on the upper echelons perspective (Hambrick, 2007), a short-term horizon limits the vision of executives by filtering out long-term information. It prompts executives to focus on the “here and now” (Nadkarni et al., 2016), prefer less risky choices (Chrisman and Patel, 2012; Matta and Beamish, 2008), and enhance short-term results (Marginson and McAulay, 2008). Despite the prevalence of executives’ short-term horizons, it is unclear how short-term horizons might influence the impression management tactics aiming to manage stakeholders’ perceptions.

To address this issue, I examine the role of executives’ short-term horizons in driving CSR disclosures, which refer to the strategic communication with stakeholders about a firm’s approach to economic, social, and environmental issues (Christensen, 2015; GRI, 2013; Lu and Abeysekera, 2017; Tata and Prasad, 2015). CSR disclosures can induce positive impressions about the firm by communicating socially valued practices to stakeholders (Bansal and Clelland, 2004; García-Sánchez, Suárez-Fernández, and Martínez-Ferrero, 2019; Hooghiemstra, 2000). By associating organizational activities with societal expectations, CSR disclosures develop organizational legitimacy, which is essential for acquiring resources from stakeholders (Carlos and Lewis, 2018; McDonnell and King, 2013; Tashman, Marano, and Kostova, 2019). Unlike substantive CSR activities, which require considerable time and commitments (Kang, 2016), CSR disclosures are “a firm’s self-reported CSR information without confirming real CSR activities” (Wang and Bansal, 2012: 1142). In the absence of external auditing and third-party

verification, the implementation of CSR disclosures can be relatively quick (Luo, Wang, and Zhang, 2017; Wickert, Scherer, and Spence, 2016). Due to their preference for immediate economic payoffs, executives with short-term horizons tend to increase access to resources in a manner that consumes less time. Hence, I expect executives with shorter time horizons to engage in more CSR disclosures.

Moreover, I examine the contingent factors attenuating the relationship between executives' short-term horizons and CSR disclosures. According to the resource dependence perspective, firms are constrained by powerful stakeholders with whom resources are exchanged (Pfeffer and Salancik, 1978; Xia, Ma, Lu, and Yiu, 2014). When a firm's resource dependence on stakeholders lessens, executives may feel less pressed to engage in CSR disclosures. Thus, I posit that the association between executives' short-term horizons and CSR disclosures will depend on firm slack and board political connections. These two important contingencies facilitate a firm's access to resources, especially in China, which is the empirical context of this study (Shi, Connelly, and Cirik, 2018; Sun, Hu, and Hillman, 2016; Tang, Qian, Chen, and Shen, 2015; Tihanyi et al., 2019). Since better internal resource conditions make a firm less reliant on resource inputs from stakeholders, I contend that more firm slack and board political connections weaken the positive relationship between executives' short-term horizons and CSR disclosures.

Finally, since the short-term horizon is an observable executive characteristic, I explore how it affects the evaluation of CSR disclosures by a key stakeholder in the capital markets, namely shareholders. CSR disclosures are generally regarded as a tactic adopted by firms to meet the expectations of stakeholders (Luo et al., 2017; Marquis and Qian, 2014; Marquis, Toffel, and Zhou, 2016). It generates organizational legitimacy through the positive perceptions and endorsement of stakeholders, favorably affecting corporate growth opportunities (Crane and

Glozer, 2016; Hawn and Ioannou, 2016; Zimmerman and Zeitz, 2002). Thus, CSR disclosures will enhance a firm's market-based performance (Li, Gong, Zhang, and Koh, 2018). However, shareholders may interpret the CSR disclosures driven by executives' short-term horizons as less valuable. When shareholders have a long-term outlook, executives' short-term horizons lead to time-based agency problem, i.e., executives' temporal preferences are misaligned with those of the shareholders (Flammer and Bansal, 2017; Martin, Wiseman, and Gomez-Mejia, 2016a, 2019). Shareholders are concerned that CSR disclosures by myopic executives can merely improve stakeholders' impressions about the firm in the short term, while increasing the risk of being detected by stakeholders and losing organizational legitimacy in the long term (Kim and Lyon, 2015; Marquis et al., 2016). Therefore, executives' short-term horizons weaken the relationship between CSR disclosures and the firm's market-based performance.

I test these hypotheses using 2,341 observations for 482 publicly listed Chinese firms from 2010 to 2014. This context is ideal to study the issues of interest because there is significant variation across Chinese firms in the amount of information released through CSR disclosures (Marquis and Qian, 2014). In addition, although the Chinese government has been actively signaling to listed firms that CSR disclosures are important, it does not impose specific laws or mandates for the content or amount of the disclosures (Luo et al., 2017). For instance, Situ, Tilt, and Seet (2018: 1) find that "the Chinese government appears to mainly influence the decision whether to disclose or not, but has limited influence on how much firms disclose." Furthermore, in a country with a weak civil society, CSR disclosures draw less stakeholder scrutiny but help obtain more resources from powerful stakeholders, making it an attractive impression management tactic (Surroca, Tribo, and Zahra, 2013; Wang, Wijen, and Heugens, 2018).

Controlling for a firm's relationship with the government and a variety of firm, industry, and year effects, I find support for my hypotheses.

This chapter contributes to the existing literature in three ways. First, it advances research on the subjective perspective of time by investigating the role of executives' short-term horizons in shaping impression management tactics (Chen and Nadkarni, 2017; Gamache and McNamara, 2019). Second, approaching boundary conditions from the resource dependence mechanism fleshes out how executives' short-term horizons can influence strategic decision making with regard to CSR disclosures. It thus contributes to the CSR literature by presenting the motives behind CSR disclosures (McDonnell and King, 2013; Shea and Hawn, 2019; Wang, Tong, Takeuchi, and George, 2016). Third, it explicates the performance implications of a short-term horizon by examining how it moderates the effect of CSR disclosures on a firm's market-based performance. The remainder of the chapter is structured as follows. Section 4.2 summarizes the relevant literature and develops the hypotheses. Section 4.3 describes the sample and method. Section 4.4 presents the empirical results, while the contributions and limitations of my findings are discussed in Section 4.5.

4.2 EXECUTIVES' TIME HORIZONS

The role of time – and how it shapes strategic decisions – has spurred a profound interest among management scholars (Flammer and Bansal, 2017; Gamache and McNamara, 2019; Lee et al., 2018; Nadkarni et al., 2016). Understanding how executives' temporal considerations impact organizational outcomes is at the very core of corporate strategy (Kunisch et al., 2017; Reilly et al., 2016). According to agency theory, executives are inclined toward some common tendencies – including empire building (Jensen, 1986), shirking (Holmstrom, 1979), and short-termism

(Souder and Bromiley, 2012; Thaler and Shefrin, 1981) – which serve their own but not shareholders' interests. Yet the upper echelons perspective relaxes the assumption of universal and static tendencies to argue that executives vary in their personal orientations. Such variance leads to personalized interpretations of the context and heterogeneity in firms' strategic choices (Chin, Hambrick, and Treviño, 2013; Hambrick and Mason, 1984; Wowak, Gomez-Mejia, and Steinbach, 2017).

Executives' time horizons capture the relative cognitive dominance of the near versus distant future and thus motivate executives to take actions directed toward the short term or the long term (Das, 1987). Empirical and anecdotal evidence has shown that contextual factors such as economic uncertainty (McKinsey, 2013), quarterly earnings expectations (Zhang and Gimeno, 2016), and stock option incentives (Martin et al., 2016a) can affect executives' time horizons. Others focus on more intrinsic drivers such as career concerns (Lee et al., 2018; Matta and Beamish, 2008). Research on the subjective perspective of time posits that executives' time horizons mold evaluations and interpretations of decision situations; in turn, the individualized construal shapes decisions related to resource allocation and the timing of strategic activities (Ancona, Okhuysen, and Perlow, 2001; Chen and Nadkarni, 2017; Slawinski and Bansal, 2015).

In this chapter, I pay attention to executives' short-term horizons, which has both pros and cons for decision-making. On the one hand, short-term horizons give rise to temporal myopia and economic short-termism (Barton and Wiseman, 2014; Marginson and McAulay, 2008), including short-term results (Lumpkin and Brigham, 2011; Souder, Bromiley, Mitchell, and Reilly, 2017). A focus on the immediate payoffs often comes at the expense of long-run value. As the evaluation period for decisions shortens, risk aversion increases (Chrisman and Patel, 2012). Hence, myopic executives exhibit risk aversion toward investments with long

payoff horizons. They prefer strategic choices that ensure short-run income streams and economic returns (Krause and Semadeni, 2014; Matta and Beamish, 2008).

On the other hand, short-term horizons provide flexibility and quick adaptation to the current environment (Nadkarni et al., 2016). Executives with short-term horizons understand the current technological and market context but value efficiency and planning for the moment (Gamache and McNamara, 2019; Lin, Shi, Prescott, and Yang, 2019). By primarily focusing on the present, executives are motivated to take incremental actions to ease resource shortages in financial capital (Kim, Bansal, and Haugh, 2019a). As such, executives' short-term horizons could have implications for impression management, which involves short-term tactics to influence the perception of stakeholders (Sanders and Carpenter, 2003). In the following subsections, I discuss the relation between short-term horizons and CSR disclosures, and the impact of CSR disclosures on a firm's market-based performance.

4.2.1 Executives' short-term horizons and CSR disclosures

Impression management is a communication process through which executives can improve stakeholders' perceptions of the firm and increase organizational legitimacy (Busenbark, Lange, and Certo, 2017; Graffin, Haleblian, and Kiley, 2016; Pan, McNamara, Lee, Haleblian, and Devers, 2018). Legitimacy refers to the generalized perception that "the organization, its form, its processes, its outcomes, or its other features are socially acceptable" (Bitektine, 2011: 157). As powerful stakeholders including the government increasingly emphasize social responsibility, accountability and transparency, CSR disclosures have become a legitimate part of corporate strategy (Ioannou and Serafeim, 2015; Li and Liang, 2015). By visibly demonstrating conformity to stakeholder expectations, CSR disclosures form positive impressions about the firm, resulting in enhanced legitimacy (Basu and Palazzo, 2008; Philippe and Durand, 2011). Consequently,

executives often attempt to manage stakeholders' impressions of their firm by engaging in communications that show social responsibility and awareness (e.g., Bansal and Clelland, 2004; Carlos and Lewis, 2018; Crilly, Hansen, and Zollo, 2016; McDonnell and King, 2013; Weaver, Trevino, and Cochran, 1999).

Research suggests that executives' characteristics are closely related to the extent to which firms engage in CSR disclosures (Lewis, Walls, and Dowell, 2014). When executives' time horizons are shorter, they tend to overestimate the present costs of substantive CSR activities as they perceive them as requiring large resource commitments (Kang, 2016). Meanwhile, they will prefer CSR disclosures as they are less costly. By exploiting the information asymmetry between internal practices and externally projected images (Crilly, Zollo, and Hansen, 2012), CSR disclosures are relatively "cheap and easy" to implement (Wickert et al., 2016: 1170). Executives with short-term horizons are in pressing need of resources to ensure the firm's survival and grab performance benefits in the short run. They may use CSR disclosures as an impression management tactic to satisfy stakeholders (Bose, Khan, Rashid, and Islam, 2018; García-Sánchez et al., 2019; Yang, Orzes, Jia, and Chen, 2019), generate legitimacy (Hawn and Ioannou, 2016; Neu, Warsame, and Pedwell, 1998; Schreck and Raithel, 2018), and acquire resources such as financial capital and government support (Li, Xia, and Lin, 2017; Zavyalova et al., 2012). In sum, executives with short-term horizons may see CSR disclosures as an efficient way to improve access to resources. These executives tend to disclose more CSR information to manage the impression of stakeholders. CSR disclosures would therefore be expected to increase as executives' short-term horizons increase. I hypothesize as follows:

Hypothesis 1: Executives' short-term horizons positively affect CSR disclosures.

4.2.2 The role of slack

Drawing from the resource dependence perspective, the firm's survival hinges on the ability to procure resources from stakeholders (Casciaro and Piskorski, 2005). Because shorter time horizons motivate executives to promote CSR disclosures for obtaining resources, the effect of short-term horizons on CSR disclosures likely depends on the extent to which a firm relies on stakeholders for resources. Hence, I examine the moderating effect of internal resource conditions including firm slack and board political connections.

A key factor in determining a firm's reliance on stakeholders for resources could be firm slack, which represents financial resources that are in excess of that required by the firm to operate efficiently (Shi et al., 2018; Tang et al., 2015). Slack can reduce the firm's vulnerability to external resource conditions by providing a liquidity buffer (Martin et al., 2016a). Thus, it insulates the firm from pressures for short-term survival. When a firm has more slack, executives are less pressed to acquire resources from stakeholders. They may feel less urgency to increase CSR disclosures. In addition, the presence of slack provides executives with flexibility to fund other strategic initiatives that also satisfy short-term performance demands (Haleblian, McNamara, Kolev, and Dykes, 2012; Martin et al., 2016a). Accordingly, a high level of slack attenuates executives' assumption that the firm is subject to resource constraints. As such, the positive relationship between executives' short-term horizons and CSR disclosures is expected to be weaker. I therefore hypothesize the following:

***Hypothesis 2:** Firm slack weakens the positive relationship between executives' short-term horizons and CSR disclosures.*

4.2.3 The role of political connections

The dominant perspective adopted by resource dependence scholars views the board as an important provider of resources (Daily and Dalton, 1994; Haynes and Hillman, 2010; Hillman, Withers, and Collins, 2009; Pfeffer, 1972). The board's resource provision function is enabled by relational capital, which can be derived from directors' connections to powerful stakeholders (Hillman and Dalziel, 2003). Thus, a board with more connections is more capable of providing resources to the firm. I focus on a common form of connection in China: board political connections (Sun et al., 2016).

Defined as "the presence of politicians on the board of directors" (Tihanyi et al., 2019: 3), board political connections are ubiquitous in the global economy (Zhu and Yoshikawa, 2016). Firms appoint government bureaucrats and politicians to board directorships to gain support for government tenders (Okhmatovskiy, 2010), influence the legislative process (Pan et al., 2014), and enjoy preferential access to information and resources (Haveman, Jia, Shi, and Wang, 2017). I argue that the positive effect of executives' short-term horizons on CSR disclosures will be weaker for firms with more board political connections. This partly stems from the provision of resources. A good relationship with the government is instrumental for gaining resources and may substitute for other means of seeking resources, for example, CSR disclosures (Wang and Qian, 2011; Zheng, Singh, and Mitchell, 2015). In addition, board political connections may expose the firm to greater government monitoring, which increases the cost of using CSR disclosures as an impression management tactic (Kim and Lyon, 2015; Marquis and Qian, 2014). Thus, board political connections make CSR disclosures less appealing to executives with short-term horizons. Based on the above discussion, I propose the third hypothesis:

Hypothesis 3: Board political connections weaken the positive relationship between executives' short-term horizons and CSR disclosures.

4.2.4 CSR disclosures and market-based performance

Considerable research has explored the economic benefits of CSR (Aguinis and Glavas, 2012). In general, firms engage in two types of activities to meet societal expectations: substantive CSR activities, aimed at achieving structural change – for example, the integration of CSR into operating processes – and symbolic CSR activities, aimed at influencing stakeholders' perceptions, such as disclosing information about social initiatives (Basu and Palazzo, 2008; Crilly et al., 2012; Marquis et al., 2016). Both activities can generate legitimacy and economic returns (Hawn and Ioannou, 2016). By undertaking substantive CSR activities over time, firms can establish good stakeholder relations that contribute to persistent performance advantage (Choi and Wang, 2009; Luo, Wang, Raithel, and Zheng, 2015). However, in the short term, the implementation of substantive changes may not receive as much performance advantage as CSR disclosures (Delmas, Etzion, and Nairn-Birch, 2013). Evidence suggests that CSR disclosures are rewarded in the short term as, for example, listed firms use CSR disclosures to achieve financial benefits such as lower cost of equity capital (Dhaliwal, Li, Tsang, and Yang, 2011; for a recent review, see Brooks and Oikonomou, 2018).

CSR disclosures satisfy shareholders' demands for three reasons. First, CSR disclosures do not per se require significant changes in organizational structures (Luo et al., 2017). Being externally oriented, CSR disclosures communicate well with stakeholders at relatively less cost (Wickert et al., 2016). Second, in addition to financial disclosures, shareholders also demand information about the firm's CSR engagement (Ioannou and Serafeim, 2015). Though CSR disclosures may merely communicate favorable information, this reduces informational

asymmetry regarding the social and environmental impacts of the firm (Cheng, Ioannou, and Serafeim, 2014). Hence, the extended availability of CSR information fulfills shareholders' demands. Third, CSR disclosures reflect a firm's support for social responsibility, and the better it meets societal expectations, the more it will cultivate positive perceptions of the firm by stakeholders. The resulting organizational legitimacy brings continued resource benefits that are crucial to the firm's growth. Taken together, shareholders view CSR disclosures as an efficient way to improve future business opportunities. When a firm provides more CSR disclosures, it will raise shareholders' current expectations of the firm's prospects and boost the market's projection of the firm's potential profitability, thus resulting in better market-based performance. I therefore propose:

Hypothesis 4: *CSR disclosures positively affect the firm's market-based performance.*

If CSR disclosures are driven in part by executives' characteristics, or more specifically to satisfy executives' needs for better short-term results, this may not be the first-best option from the perspective of shareholders. Shareholders often look to the behaviors and language of executives for cues about their time horizons (Bilgili, Tochman Campbell, Ellstrand, and Johnson, 2017). When executives have a stronger preference for the short term relative to shareholders, a time-based agency problem emerges (Flammer and Bansal, 2017; Lee et al., 2018). As a result, these executives do not act in shareholders' best interests. For example, myopic executives may disclose CSR information to complement short-term priorities. On the other side, they may not implement substantive CSR activities, which can undermine long-term performance advantage. Moreover, the gap between CSR disclosures and CSR implementation increases the risk of losing organizational legitimacy when detected by stakeholders (Surroca et al., 2013; Hawn and Ioannou, 2016). Consequently, when executives' time horizons are shorter,

shareholders are more likely to regard CSR disclosures as a tool that can improve stakeholders' impressions and organizational legitimacy only in the short term. I argue that executives' short-term horizons increase the likelihood of agency costs in the form of short-termism (Antia, Pantzalis, and Park, 2010) and thereby weaken shareholders' positive evaluations of CSR disclosures. Integrating the above arguments leads to the following hypothesis:

***Hypothesis 5:** Executives' short-term horizons weaken the positive relationship between CSR disclosures and the firm's market-based performance.*

4.3 DATA AND METHODS

The initial sample for this chapter consisted of all the manufacturing firms listed on the Shanghai Stock Exchange in the period from 2010 to 2014. Three overarching issues guided the sample selection. First, China has become important globally because of the size of its economy and its growing international influence (Li, Li, and Wang, 2019). On the one hand, being aware of the environmental challenges, the Chinese government has issued various guidelines and recommendations to promote CSR as an appropriate and desired activity (Marquis and Qian, 2014; Zeng, Xu, Yin, and Tam, 2012). On the other hand, stakeholder scrutiny of CSR disclosures is less stringent in China because civil society remains heavily tempered and the audit of CSR disclosures is not mandated by law (Marquis et al., 2016; Situ et al., 2018; Wang et al., 2018). Altogether, executives thus have great discretion, and an ability to 'manipulate' CSR disclosures to obtain legitimacy and resources (Luo et al., 2017). Second, manufacturing firms listed in the Shanghai Stock Exchange hold a dominant position in the manufacturing industry. These firms face similar external environments, are usually resource-constrained, and may cause more social and environmental problems, which make them suitable for examining executives'

influence on CSR disclosures (Duanmu, Bu, and Pittman, 2018; Flammer, 2015a). Third, the Shanghai Stock Exchange issued a “Guideline for the preparation of the report on performance of CSR” in 2009, which was a salient signal to executives that CSR disclosures are legitimate and important. Hence, I chose 2010 as the starting year of my sample. In addition, according to prior research (e.g., Nadkarni and Chen, 2014; Yadav, Prabhu, and Chandy, 2007), a five-year time frame is long enough to identify the consequences of executives’ temporal perspective. As a result, the sample period was from 2010 to 2014.

I employed multiple sources to construct the data set. I obtained CSR disclosure ratings from Hexun, which provides financial information services for more than 100 million individual and institutional users. By cooperating with Thomson Reuters and the Shanghai Stock Exchange, Hexun is one of the primary sources for statistical information of publicly listed firms and is independent of the firms it rates (Li and Liang, 2015). I collected firms’ annual reports from the CNINF website⁵, which is the official information disclosure website for publicly listed firms appointed by the CSRC. Other information mainly came from the China Stock Market and Accounting Research (CSMAR) database, which has been widely used in management studies (e.g., Luo et al., 2017; Marquis and Qian, 2014; Schuler, Shi, Hoskisson, Chen, 2017). After merging these databases and removing observations with missing information (about 17%), the final full sample consisted of 2,341 firm-year observations, pertaining to 482 unique firms.

4.3.1 Dependent variables

I measured CSR disclosures with data from Hexun. Launched in 2010, the Hexun CSR disclosure ratings cover the vast majority (93%) of listed firms on the Shanghai Stock Exchange. The research analysts of Hexun rate the extent of CSR disclosures using publicly available

⁵ <http://www.cninfo.com.cn>

information from corporate communications such as CSR reports, corporate websites, and press releases. The evaluative framework of Hexun is based on the classical view of CSR (Carroll, 1979; Clarkson, 1995), which comprises the “economic responsibility to investors and consumers, legal responsibility to the government or the law, ethical responsibilities to society, and discretionary responsibility to the community” (Hillman and Keim, 2001: 126). Therefore, the Hexun ratings contain 37 separate items along five dimensions (profitability and innovation, product quality and services, employee relations, environmental performance, and social performance)⁶. Each item uses a 0-100 scale, with a firm scoring 0 for the absence of relevant information on a certain item, and 100 for the most adequate information. Further, the rating agency aggregates these items based on their respective weights, and provides a composite score ranging from 0 to 100 for each firm in each year.

The use of Hexun CSR disclosure ratings has two advantages. First, Hexun ratings cover more firms than Rankins (RKS) CSR ratings, which have been used in previous studies (e.g., Luo et al., 2017; Marquis and Qian, 2014). According to its methodology⁷, RKS focuses on the listed firms who issue a CSR report and only publishes ratings for firms that score higher than 40, resulting in a limited coverage of firms. For example, RKS only evaluates 197 firms out of the 482 firms of the final sample. Second, RKS only pays attention to the quantitative information in CSR reports. It measures “the quality of CSR reports” (Luo et al., 2017: 329), or “CSR reporting substantiveness” (Marquis and Qian, 2014: 135). In contrast, Hexun treats quantitative and qualitative information in an undifferentiated way. Regardless of the quality and substantiveness of CSR disclosures, it comprehensively measures the amount of information provided by the firm in the form of CSR disclosures. The correlation between the RKS’ score

⁶ For more details, see <http://stock.hexun.com/2013-09-10/157898839.html>

⁷ For more details, see <http://www.rksratings.cn/index.php/Index/Report/detail/id/73>

and Hexun's score is -0.10 ($p = 0.005$), which gives us further evidence that while they do overlap, they do not fully capture the same construct. I measured *CSR disclosures* with the composite score of Hexun CSR disclosure ratings. It is noteworthy that I reran the analyses excluding the profitability and innovation dimension in my CSR disclosure measure and found substantively similar results. In testing my model, I rescaled CSR disclosures by multiplying 0.1 to provide meaningful parameter estimates. This gave us a measure that ranges from 0 to 10.

I used *Tobin's Q* to measure the firm's market-based performance. This is the ratio of the market value of total assets (computed as the book value of total assets plus the market value of common stock minus the sum of the book value of common stock and balance sheet deferred taxes) to the book value of total assets (Flammer and Bansal, 2017; Flammer, Hong, and Minor, 2019; Shan, Fu, and Zheng, 2017). Tobin's Q is frequently used to capture the expected value of future business opportunities (Choi and Wang, 2009; Jia, Shi, and Wang, 2018; Wang, Choi, and Li, 2008). It reflects shareholders' evaluations of a firm's prospects, which may or may not come to fruition (Gupta, Briscoe, and Hambrick, 2018). Thus, a higher Tobin's Q indicates higher current expectations of a firm's total future cash flow relative to its current asset base. Following the literature (Flammer and Bansal, 2017; Shan et al., 2017), I winsorized Tobin's Q at the 1 and 99 percent levels to mitigate the impact of outliers. My results remain robust when winsorizing at the 5 and 95 percent levels.

4.3.2 Independent variables

I used two sets of independent variables to test the hypotheses predicting the two dependent variables. For the analysis of CSR disclosures, executives' short-term horizons were measured using a content analysis of Management's Discussion and Analysis (MD&A) in the annual report (Nadkarni et al., 2016). Measuring the temporal aspects of managerial cognition has always been

a challenge. Some studies have used investment in long-term assets as a proxy (e.g., Souder, Reilly, Brimiley, and Mitchell, 2016; Souder and Bromiley, 2012; Souder and Shaver, 2010), while others have relied on surveys (e.g., Marginson and McAulay, 2008; Wang and Bansal, 2012). Meanwhile, researchers are increasingly using archival sources such as MD&A, letters to shareholders, and earnings conference call transcripts to capture the temporal aspects of cognition (DesJardine and Bansal, 2019; Flammer and Bansal, 2017; Flammer et al., 2019; Nadkarni and Chen, 2014; Nadkarni et al., 2016). Due to their consistent format comparable across time periods, these documents provide a non-intrusive measure that is not available in executives' interviews and avoids the retrospective bias found in surveys (Eggers and Kaplan, 2009). Quantitative content analysis reliably deduces executives' psychological processes from the type of words they use in a body of text (Harrison, Thurgood, Boivie, and Pfarrer, 2019). Building on a rich tradition of related research on cognition more generally, it has proven to be a powerful instrument for uncovering information that executives may not be willing to provide otherwise (Cho and Hambrick, 2006; Gamache and McNamara, 2019; Kaplan, 2008a).

I chose to focus on MD&A rather than other archival sources for two reasons. First, the MD&A is an important part of the annual report that includes executives' commentary about "a firm's current state and future prospects" (Muslu, Radhakrishnan, Subramanyam, and Lim, 2015: 931). Though there are concerns that MD&A may have been written by someone (e.g., public relations staff) other than the executives, significant evidence suggests that executives are deeply involved with composing the MD&A (Dورياu, Reger, and Pfarrer, 2007). Being opinion-based, MD&A is where executives convey strategic plans and discuss their interpretation of numerous aspects of the company (Guo, Yu, and Gimeno, 2017). For example, it contains executives' discussion of corporate operations, business strategies, market competition, resource utilization,

and cost management. Second, shareholders regularly review the annual reports of firms of interest and use MD&A as the source of information to inform their decisions (Guo et al., 2017). Overall, MD&A is not only a place reflecting the time horizon of executives, but also salient to shareholders. It facilitates the analysis of how executives' short-term horizons change shareholders' evaluations of CSR disclosures.

Thus, I first retrieved MD&A from the firms' annual reports and then employed computer-aided content analysis to assess executives' short-term horizons. I used the dictionary of Chinese LIWC developed by Huang, Chung, and Pennebaker (2012), which translates the English LIWC dictionary (Pennebaker, Booth, and Francis, 2007) and establishes its validity and reliability in Chinese. The English LIWC has been extensively applied in capturing the temporal dimension of cognition (Crilly et al., 2016; Gamache and McNamara, 2019; Nadkarni and Chen, 2014). Based on the contextualization of English LIWC, Chinese LIWC specifies 18 words associated with the short term and 17 words associated with the long term (see Appendix A of this chapter). For each MD&A, I counted the number of keywords referring to the short term and long term, respectively. Following prior research (Brochet, Loumiotis, and Serafeim, 2015; Flammer and Bansal, 2017; Flammer et al., 2019), I calculated my measure of *short-term horizon* as the ratio of the number of short-term keywords to the sum of short- and long-term keywords. Constructed in this way, the higher the value, the shorter the executives' horizons.

Though computer-aided content analysis is valuable in its ability to measure large volumes of texts by using a predefined dictionary, its dictionary-based algorithm may not capture context or rhetorical nuance (Short, McKenny, and Reid, 2018). Therefore, I validated the measure of executives' short-term horizons by correlating the results from computer-aided analysis with the results from manual coding. Following the suggestion of McKenny, Aguinis,

Short, and Anglin (2018), I randomly selected 10% (234 firm-year observations) of the sampled texts and assigned them to two expert raters, who were blind to the hypotheses in this chapter. I asked them to rate the time horizon of each MD&A on a five-point Likert scale ranging from “much more long term than short term (1)” to “much more short term than long term (5)”. In the protocol I noted that short term is conceptualized as “one year or less” while long term is conceptualized as “longer than one year”, and provided keywords from the dictionary along with sample quotes for both short- and long-term horizons from MD&A.

Inter-rater agreement is 97.41 percent, with a Cohen’s (weighted) Kappa of 0.86, which indicates strong agreement (Banerjee, Capozzoli, McSweeney, and Sinha, 1999; Hayes and Krippendorff, 2007; Kim and Youm, 2017). I then averaged their ratings for time horizon and checked the correlation between the rating average and my measure of executives’ short-term horizons. The correlation coefficient is 0.48 ($p = 0.000$), which is aligned with previous content analysis studies (e.g., Davis, Piger, and Sedor, 2012; Shin and You, 2017). Taken together, these results demonstrate the convergent validity of my measure of executives’ short-term horizons.

The two moderators representing the internal resource conditions are firm slack and board political connections. Firms with higher cash flow have more available resources for discretionary purposes, which suggest that they are less limited by resources (Tang et al., 2015). Thus, I calculated *slack* as the sum of cash flow from a firm’s operating, financing, and investing activities scaled by total assets (Marquis and Qian, 2014). Following prior studies (Sun et al., 2016), a director is deemed to have political connection if s/he is or has been an officer of the central or regional governments, or a member in legislative bodies (i.e., the National People’s Congress and the Chinese People’s Political Consultative Conference). I measured board

political connections by the percentage of all directors on the board who have political connections (*board PC ratio*).

For the analysis of firm's market-based performance, I used CSR disclosures as the independent variable and executives' short-term horizons as the moderator.

4.3.3 Control variables

I controlled for factors that can potentially affect CSR disclosures. *Firm age* was the number of years since the firm was listed on the stock market (Luo et al., 2017). I included *firm size*, calculated by taking the natural logarithm of total number of employees (Surroca, Tribó, and Waddock, 2010). I did not use total assets or total sales as a measure of firm size because this might cause ratio error correlation with control variables such as return on assets (ROA) or R&D intensity (Shi, Zhang, and Hoskisson, 2017b). *ROA* was calculated as net income over total assets (Marquis and Qian, 2014). *Leverage* was the ratio of debt in current liabilities and long-term debt to total assets (Flammer and Bansal, 2017). As marketing intensity and R&D intensity affect executives' decision to engage in CSR (McWilliams and Siegel, 2000), I controlled for *Selling, General, and Administrative (SG&A) intensity*, calculated as total expenditures on advertising and other sales-related activities divided by total assets (Hawn and Ioannou, 2016), and *R&D intensity*, measured as the R&D expenses divided by total sales (Tang, Mack, and Chen, 2018). To alleviate the concern that longer texts may have higher frequency of temporal keywords, I included *lengths of MD&A*, measured as the natural logarithm of the number of words in the MD&A (Short et al., 2018).

I also controlled for a set of external forces. As ownership profiles can influence executives' CSR decisions, I included *institutional ownership* and *state ownership*, measured as the percentage of shares owned by institutional owners and the government, respectively

(Flammer and Bansal, 2017; Marquis and Qian, 2014). I used *foreign sales*, measured as the ratio of foreign sales to total sales, to control for the extent to which international pressure drives a firm's CSR disclosures (Marquis and Qian, 2014). In addition, I controlled for firm visibility by *analyst coverage*, measured as the number of analysts that cover a focal firm in each year (Tang et al., 2015). With respect to industry conditions, I regressed industry sales over the five years preceding the focal year (including the focal year) against the year variable. *Market munificence* was measured as the regression coefficient divided by the average industry sales over the five-year period, while *market dynamism* was measured as the standard error of the regression coefficient divided by the average industry sales (Gamache and McNamara, 2019; Nadkarni and Chen, 2014). To account for the level of regional economic development, I used *gross domestic product (GDP) per capita* on the provincial level (Luo et al., 2017).

Following research on the relationship between CSR and market-based performance (Choi and Wang, 2009; Hawn and Ioannou, 2016; Surroca *et al.*, 2010), I included firm age, size, leverage, slack, SG&A intensity, R&D intensity, lengths of MD&A, state ownership, analyst coverage, market munificence, market dynamism, and GDP per capita as control variables for the analysis of firm's market-based performance.

To account for the possibility that CSR disclosures or market-based performance might be subject to previous trends idiosyncratic to a firm, I included lagged dependent variable in all the models (Gupta and Misangyi, 2018; Petrenko et al., 2016). I note that excluding lagged dependent variables does not change my findings. In addition, all independent and control variables that vary by year are lagged by one year to predict CSR disclosures and Tobin's Q. Finally, I controlled for the time trend by year dummies and the possible differences across

industries by industry dummies representing the 13 industry categories identified by the CSRC (Luo et al., 2017; Marquis and Qian, 2014).

4.3.4 Estimation method

In order to examine how within-firm changes in executives' short-term horizons (CSR disclosures) influence CSR disclosures (the firm's market-based performance), I used panel data models that incorporated firm-fixed effects to exploit the variation occurring within firms over time (Certo, Withers, and Semadeni, 2017). I also applied a Hausman test and it returned statistically significant Chi-score for models using CSR disclosures ($\chi^2 = 640.30$, $p = 0.0000$) and Tobin's Q ($\chi^2 = 367.14$, $p = 0.0000$) as dependent variable, indicating fixed effects were preferable over random effects (Hausman, 1978). Moreover, during the sampling process, I eliminated all firms that exhibited zero variance in executives' short-term horizons and CSR disclosures across the available firm-year observations to guarantee within-firm variation in these two variables. However, my results are robust to fixed-effects specifications based on the initial sample. For all specifications, I used lagged independent variables, and ran panel regressions with fixed effects to mitigate potential endogeneity issues to some extent (Hawn and Ioannou, 2016).

4.4 RESULTS

Table 4.1 presents the descriptive statistics and correlations for the variables. Table 4.2 shows the results on CSR disclosures. Table 4.3 presents the results on the firm's market-based performance. Two-tailed tests of significance are used. I compute variance inflation factors (VIFs) to investigate whether there is potential multicollinearity problem. The maximum VIF is 1.84 (firm size), the minimum VIF is 1.04 (slack), and the mean VIF is 1.26, all below the rule-of-thumb cutoff of 10 (Cohen, Cohen, West, and Aiken, 2003).

Table 4.1: Descriptive statistics and correlations

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. CSR disclosures, $t+1$	2.71	2.16															
2. CSR disclosures, t	2.90	2.19	0.69														
3. Tobin's Q, $t+1$	2.65	3.30	-0.14	-0.17													
4. Tobin's Q, t	2.48	2.28	-0.08	-0.15	0.75												
5. Short-term horizon	0.35	0.18	-0.02	-0.02	0.07	0.01											
6. Slack	0.01	0.10	0.07	0.07	-0.11	-0.07	-0.06										
7. Board PC ratio	0.07	0.10	0.12	0.14	-0.09	-0.06	-0.01	0.04									
8. Firm age	15.36	4.19	-0.12	-0.10	0.15	0.07	0.01	-0.05	-0.06								
9. Firm size ^a	8.02	1.25	0.29	0.35	-0.41	-0.46	0.03	0.04	0.16	-0.09							
10. ROA	0.01	1.01	0.04	0.06	-0.01	-0.26	-0.02	0.05	0.02	-0.01	0.03						
11. Leverage	0.56	1.37	-0.05	-0.07	0.03	0.29	0.02	-0.02	-0.02	0.02	-0.03	-0.95					
12. SG&A intensity	0.10	0.11	0.03	0.01	0.32	0.37	-0.04	0.04	0.02	0.11	-0.06	-0.10	0.15				
13. R&D intensity	0.01	0.02	0.16	0.16	-0.02	-0.06	0.03	0.04	0.05	-0.07	0.14	0.03	-0.06	0.16			
14. Institutional ownership	0.05	0.05	0.14	0.14	-0.01	0.05	0.02	0.09	0.08	-0.02	0.07	0.03	-0.04	0.14	0.16		
15. State ownership	0.23	0.22	0.15	0.18	-0.15	-0.15	0.04	-0.01	-0.01	-0.14	0.26	0.02	-0.02	-0.05	-0.01	-0.02	
16. Foreign sales	0.13	0.20	0.01	0.00	0.00	-0.02	0.02	-0.03	-0.05	-0.01	0.05	-0.09	0.06	-0.05	0.12	-0.03	-0.12
17. Analyst coverage	7.51	10.01	0.43	0.44	-0.11	-0.04	0.01	0.13	0.24	-0.16	0.44	0.04	-0.04	0.14	0.21	0.32	0.11
18. Market munificence	-0.02	0.16	-0.03	-0.01	0.02	0.02	0.04	0.00	-0.03	0.01	0.03	0.00	0.01	0.03	0.02	0.01	0.06
19. Market dynamism	0.01	0.13	-0.01	-0.03	-0.01	0.00	-0.01	0.01	0.00	0.00	-0.02	0.00	-0.01	-0.02	-0.05	-0.02	-0.04
20. GDP per capita ^a	10.77	0.46	0.05	0.08	0.05	-0.01	0.03	0.00	0.04	0.12	0.01	0.01	-0.03	0.05	0.20	-0.07	0.01
21. Lengths of MD&A ^a	8.82	0.38	0.16	0.22	-0.14	-0.19	0.14	0.02	0.11	-0.09	0.34	0.04	-0.06	-0.05	0.15	0.06	0.05

Variables	16	17	18	19	20
16. Foreign sales					
17. Analyst coverage	-0.03				
18. Market munificence	-0.07	0.04			
19. Market dynamism	0.03	-0.04	-0.37		
20. GDP per capita ^a	0.16	0.00	0.01	-0.06	
21. Lengths of MD&A ^a	0.04	0.21	-0.03	-0.01	0.16

^a natural logarithm

The absolute values of correlations equal or greater than 0.04 are significant at $p < 0.05$

In Table 4.2, Model 1 includes all the control variables and moderating variables. In Model 2, I add the main independent variable – executives’ short-term horizons. Hypothesis 1 predicts that short-term horizon will be positively related to subsequent CSR disclosures. Supporting this hypothesis, the coefficient for short-term horizon is positive and significant ($b = 0.477, p = 0.032$). It suggests that within the firm, the increase of short-term horizon leads to the increase of CSR disclosures. In terms of effect size, I find that when short-term horizon increases from the mean to one standard deviation above the mean, ceteris paribus, CSR disclosures increase 3.17% compared to its mean. This effect size is in line with research about the impact of present focus on strategic activities (Nadkarni and Chen, 2014).

I test the moderating effects of slack and board political connections in succession (models 3-4) before the fully specified model (Model 5). In Model 5, the interaction between slack and short-term horizon is negative and significant ($b = -4.018, p = 0.017$). This suggests that, when a firm has more slack, the effect of short-term horizon on CSR disclosures weakens, consistent with Hypothesis 2. This relationship is represented visually in Figure 4.1. As a further test of the moderating effect, I conduct a simple slope analysis following the steps outlined by

Figure 4.1: The moderating role of firm slack

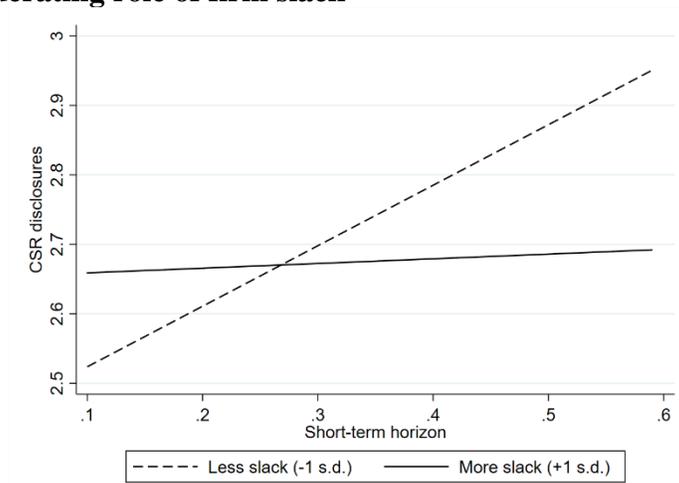


Table 4.2: Effects of executives' short-term horizons on CSR disclosures

DV: CSR disclosures	Model 1			Model 2		
Variables	B	SE	<i>p</i>	B	SE	<i>p</i>
Lagged DV	0.123	0.027	0.000	0.125	0.027	0.000
Firm age	0.268	0.496	0.590	0.232	0.496	0.641
Firm size	-0.053	0.082	0.523	-0.043	0.082	0.605
ROA	-0.363	0.143	0.011	-0.369	0.143	0.010
Leverage	-0.260	0.109	0.017	-0.263	0.109	0.016
SG&A intensity	1.106	0.466	0.018	1.110	0.465	0.017
R&D intensity	7.837	4.186	0.061	8.117	4.184	0.053
Institutional ownership	0.641	0.896	0.475	0.640	0.895	0.475
State ownership	0.809	0.670	0.228	0.851	0.670	0.204
Foreign sales	0.132	0.435	0.761	0.142	0.434	0.745
Analyst coverage	0.037	0.007	0.000	0.037	0.007	0.000
Market munificence	-0.574	0.261	0.028	-0.583	0.260	0.025
Market dynamism	0.020	0.325	0.952	-0.017	0.325	0.959
GDP per capita	0.500	0.782	0.523	0.530	0.782	0.498
Lengths of MD&A	0.035	0.146	0.812	0.014	0.146	0.926
Slack	-0.418	0.310	0.178	-0.383	0.310	0.217
Board PC ratio	-0.270	0.645	0.676	-0.304	0.644	0.637
Short-term horizon				0.477	0.222	0.032
Short-term horizon x Slack						
Short-term horizon x Board PC ratio						
Constant	-6.358	10.298	0.537	-6.265	10.288	0.543
Firm-fixed effects	Yes			Yes		
Year- and industry-fixed effects	Yes			Yes		
Firm-year observations	2,341			2,341		
Firms	482			482		
R ² (within)	0.291			0.293		
F-statistic	12.76			12.65		

Notes: In this table, all independent variables and control variables are lagged by one year. Coefficients and standard errors have been rounded to three decimal places. To facilitate readability, all *p*-values < 0.100 are in boldface type.

Table 4.2: Continued

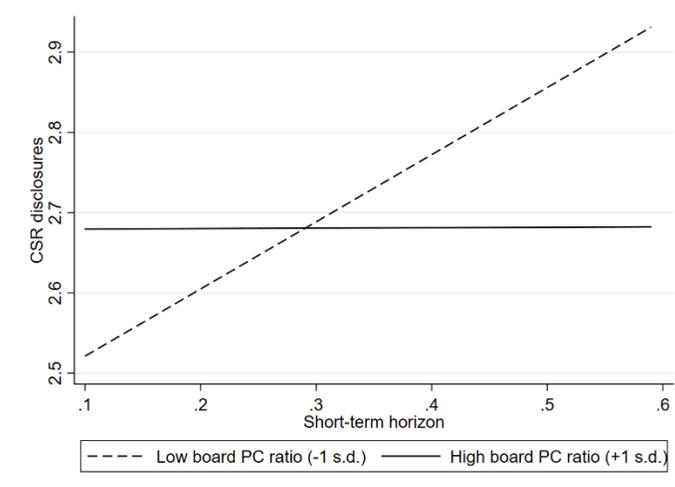
DV: CSR disclosures	Model 3			Model 4			Model 5		
Variables	B	SE	<i>p</i>	B	SE	<i>p</i>	B	SE	<i>p</i>
Lagged DV	0.126	0.027	0.000	0.123	0.027	0.000	0.124	0.027	0.000
Firm age	0.190	0.496	0.701	0.191	0.496	0.700	0.151	0.496	0.760
Firm size	-0.009	0.084	0.915	-0.036	0.082	0.664	-0.003	0.083	0.973
ROA	-0.375	0.143	0.009	-0.368	0.143	0.010	-0.374	0.143	0.009
Leverage	-0.269	0.109	0.013	-0.260	0.109	0.017	-0.266	0.109	0.014
SG&A intensity	1.353	0.475	0.004	1.088	0.465	0.019	1.327	0.475	0.005
R&D intensity	8.029	4.178	0.055	8.037	4.179	0.055	7.952	4.173	0.057
Institutional ownership	0.636	0.894	0.477	0.619	0.894	0.489	0.616	0.893	0.491
State ownership	0.889	0.669	0.184	0.904	0.669	0.177	0.941	0.669	0.160
Foreign sales	0.121	0.434	0.780	0.158	0.434	0.715	0.138	0.433	0.751
Analyst coverage	0.036	0.007	0.000	0.037	0.007	0.000	0.036	0.007	0.000
Market munificence	-0.587	0.260	0.024	-0.586	0.260	0.024	-0.590	0.260	0.023
Market dynamism	-0.030	0.324	0.926	-0.013	0.324	0.969	-0.026	0.324	0.936
GDP per capita	0.490	0.781	0.530	0.414	0.782	0.597	0.377	0.781	0.630
Lengths of MD&A	0.020	0.146	0.889	0.005	0.146	0.971	0.012	0.146	0.934
Slack	1.081	0.679	0.111	-0.360	0.310	0.245	1.077	0.678	0.112
Board PC ratio	-0.221	0.644	0.731	1.380	0.964	0.152	1.430	0.963	0.138
Short-term horizon	0.510	0.222	0.022	0.843	0.271	0.002	0.868	0.271	0.001
Short-term horizon x Slack	-4.090	1.688	0.016				-4.018	1.687	0.017
Short-term horizon x Board PC ratio				-5.014	2.136	0.019	-4.920	2.134	0.021
Constant	-5.658	10.277	0.582	-4.506	10.302	0.662	-3.943	10.292	0.702
Firm-fixed effects	Yes			Yes			Yes		
Year- and industry-fixed effects	Yes			Yes			Yes		
Firm-year observations	2,341			2,341			2,341		
Firms	482			482			482		
R ² (within)	0.295			0.295			0.297		
F-statistic	12.57			12.56			12.48		

Notes: In this table, all independent variables and control variables are lagged by one year. Coefficients and standard errors have been rounded to three decimal places. To facilitate readability, all *p*-values < 0.100 are in boldface type.

Aiken and West (1991). In support of my prediction, when a firm has less slack, the relationship between short-term horizon and CSR disclosures is positive and significant (slope = 0.872, $t = 3.135$, $p = 0.002$). When a firm has more slack, the relationship between short-term horizon and CSR disclosures is less positive and not significant (slope = 0.068, $t = 0.245$, $p = 0.807$). Thus, there is no significant difference in CSR disclosures between high and low short-term horizons for firms high in slack.

Consistent with Hypothesis 3, the coefficient for the interaction between board political connections and short-term horizon is negative and significant ($b = -4.920$, $p = 0.021$), indicating that board political connections will weaken the positive relationship between short-term horizon and CSR disclosures. Figure 4.2 illustrates this interaction. A simple slope analysis for Figure 4.2 shows that the relationship between short-term horizon and CSR disclosures is positive when the board has fewer political connections (slope = 0.836, $t = 3.094$, $p = 0.002$), whereas the relationship becomes less positive when the board has more political connections (slope = 0.000, $t = -0.001$, $p = 0.999$). This evidence suggests that the positive effect of short-term horizon on

Figure 4.2: The moderating role of board political connections



CSR disclosures disappears for firms with high board political connections. It statistically supports Hypothesis 3.

Table 4.3 presents results for models analyzing the firms' market-based performance. Hypothesis 4 argues that as CSR disclosures increase, firms will have a better market-based performance. In Model 7, the coefficient of CSR disclosures is positive and significant ($b = 0.127, p = 0.001$), supporting Hypothesis 4. It is also practically significant in terms of the magnitude. Ceteris paribus, the firm's market-based performance will become 10.50% higher when CSR disclosures increase one standard deviation above the mean in the sample. In Model 8, the interaction between executives' short-term horizons and CSR disclosures is negative and significant ($b = -0.272, p = 0.035$). It indicates that short-term horizon negatively moderates the relationship between CSR disclosures and the firm's market-based performance, lending support to Hypothesis 5. I illustrate this interaction effect in Figure 4.3. I also perform a simple slope analysis to corroborate the finding. The simple slopes of the regression lines decrease from 0.177 ($t = 4.600, p = 0.000$) to 0.078 ($t = 2.081, p = 0.038$) for low and high levels of short-term horizon. It reveals that the increasing short-term horizon weakens the positive effect of CSR disclosures on the firm's market-based performance.

Figure 4.3: The moderating role of executives' short-term horizons

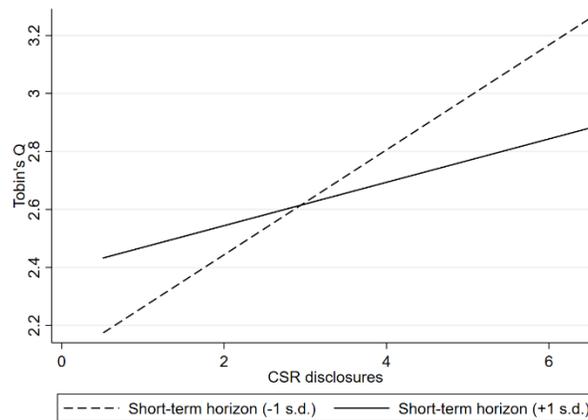


Table 4.3: Effects of CSR disclosures on the firm's market-based performance

DV: Tobin's Q Variables	Model 6			Model 7			Model 8		
	B	SE	<i>p</i>	B	SE	<i>p</i>	B	SE	<i>p</i>
Lagged DV	0.752	0.036	0.000	0.747	0.036	0.000	0.747	0.036	0.000
Firm age	0.786	0.668	0.240	0.796	0.666	0.232	0.753	0.666	0.258
Firm size	-0.466	0.123	0.000	-0.480	0.122	0.000	-0.464	0.122	0.000
Leverage	-0.544	0.035	0.000	-0.542	0.035	0.000	-0.544	0.035	0.000
Slack	-1.818	0.449	0.000	-1.838	0.447	0.000	-1.819	0.447	0.000
SG&A intensity	3.692	0.616	0.000	3.691	0.614	0.000	3.692	0.613	0.000
R&D intensity	13.242	5.714	0.021	13.672	5.697	0.017	14.243	5.698	0.013
State ownership	0.283	0.924	0.760	0.110	0.923	0.905	0.116	0.922	0.900
Analyst coverage	0.016	0.010	0.103	0.010	0.010	0.322	0.009	0.010	0.344
Market munificence	0.128	0.356	0.720	0.156	0.355	0.661	0.147	0.355	0.678
Market dynamism	0.127	0.438	0.773	0.133	0.437	0.761	0.111	0.437	0.800
GDP per capita	1.835	1.085	0.091	1.817	1.082	0.093	1.752	1.081	0.105
Lengths of MD&A	0.033	0.205	0.874	0.001	0.205	0.996	0.004	0.205	0.985
Short-term horizon	0.056	0.307	0.856	0.088	0.306	0.774	0.802	0.456	0.079
CSR disclosures				0.127	0.037	0.001	0.222	0.058	0.000
CSR disclosures x Short-term horizon							-0.272	0.129	0.035
Constant	-26.845	14.085	0.057	-26.676	14.041	0.058	-25.786	14.033	0.066
Firm-fixed effects	Yes			Yes			Yes		
Year- and industry-fixed effects	Yes			Yes			Yes		
Firm-year observations	2,216			2,216			2,216		
Firms	482			482			482		
R ² (within)	0.414			0.418			0.420		
F-statistic	21.98			21.93			21.66		

Notes: In this table, all independent variables and control variables are lagged by one year. Coefficients and standard errors have been rounded to three decimal places. To facilitate readability, all *p*-values < 0.100 are in boldface type.

4.4.1 Robustness checks

I conduct extensive checks to confirm the robustness of my results. First, I adopt the hybrid approach to parse out within-firm and between-firm effects (Certo et al., 2017). This approach separates each independent variable into two variables, with one representing the mean value per firm (\bar{x}_i), and the other representing the variation within the firm ($x_{it} - \bar{x}_i$). Random-effects models are then used to estimate the coefficients of each independent variable. I report the effects of variables of interest in Table 4.4. Model 9 to 12 show that the hypothesized effects are distinctly within-firm effects. Therefore, the hybrid approach offers strong support of my within-firm theorizing.

Second, I check the robustness of my results against alternative measures. Similar results are found when using the ratio of cash holding to market capitalization (Tang et al., 2015) or the ratio of cash and short-term investments to total assets (Shi, Zhang, and Hoskisson, 2019) as proxy for slack (see Appendix B). Third, the results remain the same when measuring board political connections as the number of directors who have political connections and controlling for board size (see Appendix C). In China, bureaucratic connections confer greater access to resources than do the more symbolic connections to legislative bodies (Marquis and Qian, 2014). Thus, I propose that the moderating effect of bureaucratic connections will be stronger than that of legislative connections. In line with my proposition, the coefficient of the interaction between legislative connections and short-term horizon is insignificant ($b = -4.380$, $p = 0.135$). Fourth, I use market-to-book ratio as proxy for Tobin's Q (Wang and Choi, 2013; Wang et al., 2008), and find consistent results (see Appendix D).

Fifth, running regression without control variables offers information about the utility of independent variables to explain uncontrolled variance in the dependent variable (Benischke,

Table 4.4: The hybrid approach: Parsing out between-firm versus within-firm effects

Panel A. DV: CSR disclosures	Model 9			Model 10		
	B	SE	<i>p</i>	B	SE	<i>p</i>
<i>Control variables (b)</i>						
Slack (b)	2.052	0.930	0.027	0.732	1.719	0.670
Board PC ratio (b)	-0.225	0.325	0.490	-1.333	0.873	0.127
Short-term horizon (b)	-0.000	0.223	0.999	-0.273	0.291	0.349
Short-term horizon (b) x Slack (b)				3.506	4.083	0.391
Short-term horizon (b) x Board PC ratio (b)				3.217	2.371	0.175
<i>Control variables (w)</i>						
Slack (w)	-0.403	0.288	0.162	1.029	0.631	0.103
Board PC ratio (w)	-0.240	0.598	0.688	1.554	0.895	0.083
Short-term horizon (w)	0.503	0.206	0.014	0.908	0.251	0.000
Short-term horizon (w) x Slack (w)				-3.921	1.566	0.012
Short-term horizon (w) x Board PC ratio (w)				-5.102	1.983	0.010
Constant	1.036	1.458	0.477	1.290	1.460	0.377
Random effects	Yes			Yes		
Year x industry controls	Yes			Yes		
Firm-year observations	2,341			2,341		
Firms	482			482		
R ² (between)	0.953			0.954		
Wald X ²	4797.77			4839.84		
<hr/>						
Panel B. DV: Tobin's Q	Model 11			Model 12		
	B	SE	<i>p</i>	B	SE	<i>p</i>
<i>Control variables (b)</i>						
Short-term horizon (b)	0.125	0.333	0.708	0.035	0.589	0.953
CSR disclosures (b)	-0.006	0.027	0.810	-0.016	0.060	0.786
CSR disclosures (b) x Short-term horizon (b)				0.030	0.156	0.847
<i>Control variables (w)</i>						
Short-term horizon (w)	0.118	0.303	0.696	0.784	0.452	0.083
CSR disclosures (w)	0.132	0.037	0.000	0.220	0.058	0.000
CSR disclosures (w) x Short-term horizon (w)				-0.254	0.128	0.047
Constant	0.645	2.148	0.764	0.710	2.155	0.742
Random effects	Yes			Yes		
Year x industry controls	Yes			Yes		
Firm-year observations	2,216			2,216		
Firms	482			482		
R ² (between)	0.905			0.905		
Wald X ²	5298.62			5307.48		

Notes: (b) and (w) refer to between and within firm effects, respectively. In order to save space, control variables are not reported. In this table, all independent variables and control variables are lagged by one year. Coefficients and standard errors have been rounded to three decimal places. To facilitate readability, all *p*-values < 0.100 are in boldface type.

Martin, and Glaser, 2019). I estimate models without all the controls and receive consistent results (see Appendix E). Sixth, it is possible that executives' short-term horizons are the result of firm attributes or top management team (TMT) characteristics (Martin et al., 2016a; Souder and Shaver, 2010). In addition, firm performance may itself be an antecedent to CSR (Surroca et al., 2010; Zhao and Murrell, 2016). Thus, I test for potential endogeneity using endogeneity controls (the predicted value of short-term horizon and CSR disclosures) in Appendix F. The inclusion of these endogeneity controls does not alter the hypothesized results. I therefore omit these endogeneity controls from the main analyses in order to save degrees of freedom (Chin et al., 2013).

Seventh, I report standard errors in the main analyses because Stata is unable to return an F-statistic when including firm-clustered errors in conjunction with firm-, industry-, and year-fixed effects. To control for any potential heteroskedasticity, I rerun all the models by including robust standard errors clustered per firm but omitting industry-fixed effects (Marquis and Qian, 2014). The results remain consistent. At last, I winsorize the key independent variables and the moderators at the 95th and 99th percentiles to mitigate the impact of outliers. Results are robust to different levels of winsorization.

4.5 DISCUSSION AND CONCLUSIONS

Drawing upon the upper echelons research on executives' subjective perspective of time (Chen and Nadkarni, 2017; Gamache and McNamara, 2019; Nadkarni et al., 2016), I proposed a framework for the strategic implications of executives' short-term horizons. An increasing number of firms engages in CSR disclosures to promote positive perceptions and garner organizational legitimacy (Luo et al., 2017). As a result, executives can align their economic

goals with societal expectations where CSR disclosures are used as an impression management tactic to obtain resource and performance benefits in the short term. Thus, I argued that the increase of executives' short-term horizons leads to more CSR disclosures. Consistent with the resource dependence perspective (Hillman et al., 2009), I also theorized that firms with more slack and political connections have better internal resource conditions, which in turn mitigate the dependence on stakeholders for resources and weaken the positive relationship between executives' short-term horizons and CSR disclosures. Finally, I showed that the positive relationship between CSR disclosures and the firm's market-based performance is weaker for executives with short-term horizons, possibly indicating the temporal misalignment between the executives' short-term focus and shareholders' long-term orientation (Flammer and Bansal, 2017). Using a longitudinal dataset of listed Chinese firms from 2010 to 2014, I found empirical evidence for these arguments.

4.5.1 Contributions

My findings contribute to the literature on executive characteristics and CSR in three ways. First, I presented the effect of executives' short-term horizons on strategic decision making. As mentioned earlier, an emerging stream of literature has recognized that executives' temporal characteristics influence how firms approach the external environment and internal resource decisions. I extended this line of literature by highlighting the role of executives' short-term horizons in driving impression management activities. Executives actively engage in various modes of information disclosures to influence stakeholders (Busenbark et al., 2017; McDonnell and King, 2013; Washburn and Bromiley, 2014). I proposed that short-term horizons motivate executives to leverage the power of information by strategically increasing CSR disclosures. In

this way, this chapter sheds light on how executives' time horizons manifest themselves in impression management.

Second, this chapter contributes to the literature on antecedents of CSR disclosures. By illustrating the short-term benefits of CSR disclosures in resource provision, I demonstrated that short-term horizons motivate executives to promote CSR disclosures, and more importantly, better internal resource conditions mitigate this positive effect. Conversely, when the firm is heavily constrained by resources, executives with short-term horizons are more likely to take advantage of CSR disclosures in managing the perception of stakeholders. Moreover, this chapter contributes to the view that the communication of social practices is a strategic tool to manipulate stakeholders' perceptions (García-Sánchez et al., 2019; Hooghiemstra, 2000; Tata and Prasad, 2015). For example, a United Nations (UN) study (2016) conducted among more than 1000 CEOs around the world shows that 80% of the CEOs believe that presenting a commitment towards societal purposes is a differentiator among their industry members. This chapter focuses on CSR disclosures and interprets it as an impression management tactic (Bansal and Clelland, 2004). The empirical results reveal that firms can improve market-based performance by disclosing more CSR information, suggesting that CSR disclosures are an effective impression management tactic, at least in the short term. It hints at the potential of using CSR disclosures to build at least temporary performance advantage.

Third, I argued that executives' short-term horizons are salient to shareholders, and represent an additional cueing mechanism for shareholders' evaluation of CSR disclosures. Due to time-based agency problem, executives' short-term horizons reduce the strategic value of CSR disclosures, as reflected in the firm's market-based performance. It implies that certain strategic behavior does not result in the same performance outcomes when performed by firms in which

the decision may be motivated by executives' short-term horizons. Consequently, this chapter supports the view that "antecedents may not only result in varying strategic decisions but also in varying effects on performance" (Petrenko et al., 2016: 275), and opens an avenue to explore the complex relationship among executives' temporal characteristics, strategic decision making, and performance. In sum, these findings have implications both for why firms disclose CSR information and for how shareholders evaluate firms' efforts in CSR disclosures.

4.5.2 Limitations and future research

This chapter is subject to a number of limitations, but also provides opportunities for future research. First, despite the validity of my content analysis, I cannot rule out the biases associated with using a limited dictionary and MD&A in measuring psychological constructs such as executives' short-term horizons. Based on machine-learning algorithms, future research could use the open-language approach to obtain a more comprehensive measure of short-term horizons (Harrison et al., 2019). Second, as focusing on the short term may also foster sustainable development (Kim et al., 2019a), future studies could avoid the normative connotation associated with short-termism. A neutral stance toward executives' short-term horizons would facilitate the exploration of how to balance strategic actions for creating long-term value and tactical initiatives for securing short-term results (Marginson and McAulay, 2008).

Third, firms often disclose CSR information without changing their business practices accordingly (Crilly et al., 2016; Marquis and Qian, 2014). This chapter merely pays attention to the amount of CSR information disclosed by the firm without inquiring into the substantiveness of this information. Future research could investigate whether executives' short-term horizons drive the decoupling of CSR communication from substantive CSR activities. Lastly, this chapter focuses only on Chinese firms. In China, firms experience less scrutiny from activists because of

the weak civil society (Marquis et al., 2016; Wang et al., 2018). While this strengthens the analysis by excluding the role of institutional factors that increase the scrutiny of CSR disclosures, it also limits the generalizability of my results. Future research, therefore, could explore this topic in settings with a stronger civil society and also, where applicable, a weaker government. Nonetheless, my findings have uncovered effects of executives' short-term horizons on strategic decision making and firm performance. I hope that these findings will spur additional research exploring the implications of time horizons for firms and society more broadly.

Appendix A / Table 4.5: Dictionary capturing time horizons ^a

Short-term keywords		Long-term keywords	
当前, 当下	current	将来, 未来, 今后, 往后	future
目前, 如今	present	持续, 可持续	sustain
临时	temporary	维持	maintain
现在	now	前景	prospect
立刻	immediate	将要	will
此刻, 此时	at this moment	展望	out look
今日, 今天	day	永远	permanent
每天	daily	明年	next year
周	week	多年	years
月	month	十年	decade
季度	quarterly	世纪	century
年中	mid-year	远期, 长期	long term
近期, 短期	short term		

^a I use words in Chinese to conduct the content analysis.

Appendix B / Table 4.6: Alternative operationalization of slack

Variables	Model 1			Model 2		
	Slack = Cash holding / Market capitalization			Slack = (Cash and short-term investments) / Total assets		
	B	SE	<i>p</i>	B	SE	<i>p</i>
Lagged DV	0.134	0.027	0.000	0.124	0.027	0.000
Firm age	0.191	0.493	0.698	0.260	0.496	0.600
Firm size	-0.048	0.080	0.543	-0.051	0.082	0.532
ROA	-0.368	0.142	0.010	-0.382	0.142	0.007
Leverage	-0.260	0.109	0.017	-0.274	0.108	0.011
SG&A intensity	1.008	0.462	0.029	1.184	0.470	0.012
R&D intensity	8.111	4.150	0.051	8.006	4.177	0.055
Institutional ownership	0.540	0.887	0.543	0.575	0.894	0.520
State ownership	0.917	0.665	0.168	0.914	0.669	0.172
Foreign sales	0.261	0.436	0.549	0.168	0.433	0.699
Analyst coverage	0.040	0.007	0.000	0.037	0.007	0.000
Market munificence	-0.526	0.260	0.043	-0.601	0.260	0.021
Market dynamism	-0.091	0.323	0.779	-0.027	0.324	0.933
GDP per capita	0.320	0.782	0.682	0.368	0.781	0.638
Lengths of MD&A	0.025	0.147	0.865	0.015	0.146	0.916
Slack	1.319	0.570	0.021	0.910	0.699	0.193
Board PC ratio	1.041	0.966	0.281	1.413	0.963	0.143
Short-term horizon	1.451	0.321	0.000	1.521	0.386	0.000
Short-term horizon x Slack	-4.320	1.214	0.000	-3.891	1.626	0.017
Short-term horizon x Board PC ratio	-4.097	2.139	0.056	-5.076	2.133	0.017
Constant	-3.910	10.281	0.704	-5.086	10.294	0.621
Firm-fixed effects	Yes			Yes		
Year- and industry-fixed effects	Yes			Yes		
Firm-year observations	2,325			2,341		
Firms	482			482		
R ² (within)	0.306			0.297		
F-statistic	12.86			12.46		

Notes: In this table, all independent variables and control variables are lagged by one year. Coefficients and standard errors have been rounded to three decimal places. To facilitate readability, all *p*-values < 0.100 are in boldface type.

Appendix C / Table 4.7: Alternative operationalization of board political connections

DV: CSR disclosures	Model 1 Board PC = Number of political connections			Model 2 Board PC = Number of government officials / Board size			Model 3 Board PC = NPC and CPPCC membership/ Board size		
Variables	B	SE	<i>p</i>	B	SE	<i>p</i>	B	SE	<i>p</i>
Lagged DV	0.126	0.027	0.000	0.124	0.027	0.000	0.125	0.027	0.000
Firm age	0.120	0.497	0.810	0.163	0.496	0.743	0.162	0.496	0.744
Firm size	-0.009	0.084	0.915	-0.004	0.083	0.958	-0.004	0.084	0.963
ROA	-0.368	0.143	0.010	-0.374	0.143	0.009	-0.375	0.143	0.009
Leverage	-0.262	0.109	0.016	-0.267	0.109	0.014	-0.268	0.109	0.014
SG&A intensity	1.278	0.479	0.008	1.344	0.475	0.005	1.349	0.475	0.005
R&D intensity	7.891	4.177	0.059	7.828	4.176	0.061	8.157	4.179	0.051
Institutional ownership	0.647	0.895	0.470	0.624	0.893	0.485	0.616	0.894	0.491
State ownership	0.954	0.670	0.154	0.914	0.669	0.172	0.883	0.668	0.186
Foreign sales	0.138	0.434	0.751	0.116	0.434	0.789	0.112	0.434	0.797
Analyst coverage	0.037	0.007	0.000	0.036	0.007	0.000	0.036	0.007	0.000
Market munificence	-0.590	0.260	0.023	-0.590	0.260	0.023	-0.588	0.260	0.024
Market dynamism	-0.020	0.324	0.951	-0.022	0.324	0.947	-0.028	0.324	0.932
GDP per capita	0.447	0.783	0.568	0.399	0.781	0.610	0.428	0.781	0.584
Lengths of MD&A	0.010	0.146	0.948	0.022	0.146	0.882	0.014	0.146	0.924
Board size	0.016	0.018	0.381						
Slack	1.065	0.679	0.117	1.084	0.678	0.110	1.096	0.679	0.107
Board PC ratio	0.113	0.088	0.201	2.056	1.274	0.107	1.101	1.266	0.385
Short-term horizon	0.811	0.268	0.002	0.781	0.260	0.003	0.671	0.247	0.007
Short-term horizon x Slack	-4.044	1.687	0.017	-4.074	1.686	0.016	-4.116	1.687	0.015
Short-term horizon x Board PC ratio	-0.373	0.188	0.047	-5.936	2.922	0.042	-4.380	2.932	0.135
Constant	-4.345	10.293	0.673	-4.421	10.283	0.667	-4.560	10.293	0.658
Firm-fixed effects	Yes			Yes			Yes		
Year- and industry-fixed effects	Yes			Yes			Yes		
Firm-year observations	2,341			2,341			2,341		
Firms	482			482			482		
R ² (within)	0.297			0.297			0.296		
F-statistic	12.25			12.45			12.40		

Notes: In this table, all independent variables and control variables are lagged by one year. Coefficients and standard errors have been rounded to three decimal places. To facilitate readability, all *p*-values < 0.100 are in boldface type.

Appendix D / Table 4.8: Alternative operationalization of Tobin's Q

DV: Tobin's Q	Model 1 Tobin's Q = (Market value of common stock + book value of preferred stock and debt) / Total assets			Model 2 Tobin's Q = Market value / Total assets		
Variables	B	SE	<i>p</i>	B	SE	<i>p</i>
Lagged DV	0.758	0.039	0.000	0.749	0.038	0.000
Firm age	0.668	0.627	0.287	0.695	0.630	0.270
Firm size	-0.519	0.115	0.000	-0.586	0.112	0.000
Leverage	-0.432	0.033	0.000	-0.376	0.032	0.000
Slack	-2.331	0.418	0.000	-2.417	0.409	0.000
SG&A intensity	2.782	0.579	0.000	1.814	0.584	0.002
R&D intensity	7.960	5.364	0.138	9.019	5.328	0.091
State ownership	0.070	0.868	0.936	-0.008	0.844	0.993
Analyst coverage	0.008	0.009	0.367	0.009	0.009	0.330
Market munificence	0.157	0.334	0.638	0.182	0.332	0.584
Market dynamism	0.169	0.411	0.682	0.176	0.413	0.670
GDP per capita	1.755	1.018	0.085	1.582	0.998	0.113
Lengths of MD&A	0.140	0.193	0.468	0.018	0.187	0.924
Short-term horizon	0.620	0.429	0.149	0.800	0.419	0.057
CSR disclosures	0.207	0.055	0.000	0.209	0.054	0.000
CSR disclosures x Short-term horizon	-0.233	0.121	0.055	-0.252	0.119	0.034
Constant	-25.368	13.213	0.055	-22.375	13.088	0.088
Firm-fixed effects	Yes			Yes		
Year- and industry-fixed effects	Yes			Yes		
Firm-year observations	2,216			2,324		
Firms	482			482		
R ² (within)	0.398			0.397		
F-statistic	19.78			20.61		

Notes: In this table, all independent variables and control variables are lagged by one year. Coefficients and standard errors have been rounded to three decimal places. To facilitate readability, all *p*-values < 0.100 are in boldface type.

Appendix E / Table 4.9: Estimating models without the controls

Panel A. DV: CSR disclosures	Model 1			Model 2		
	B	SE	<i>p</i>	B	SE	<i>p</i>
Slack				1.013	0.677	0.135
Board PC ratio				1.787	0.980	0.068
Short-term horizon	0.462	0.225	0.040	0.861	0.274	0.002
Short-term horizon x Slack				-3.431	1.668	0.040
Short-term horizon x Board PC ratio				-5.296	2.169	0.015
Constant	2.983	1.136	0.009	2.950	1.134	0.009
Firm-fixed effects	Yes			Yes		
Year- and industry-fixed effects	Yes			Yes		
Firm-year observations	2,342			2,341		
Firms	482			482		
R ² (within)	0.256			0.261		
F-statistic	14.56			13.61		
<hr/>						
Panel B. DV: Tobin's Q	Model 3			Model 4		
	B	SE	<i>p</i>	B	SE	<i>p</i>
Short-term horizon				1.848	0.558	0.001
CSR disclosures	0.161	0.045	0.000	0.299	0.070	0.000
CSR disclosures x Short-term horizon				-0.393	0.158	0.013
Constant	1.955	1.871	0.296	1.201	1.880	0.523
Firm-fixed effects	Yes			Yes		
Year- and industry-fixed effects	Yes			Yes		
Firm-year observations	2,270			2,270		
Firms	482			482		
R ² (within)	0.120			0.126		
F-statistic	5.67			5.69		

Notes: In this table, all independent variables and control variables are lagged by one year. Coefficients and standard errors have been rounded to three decimal places. To facilitate readability, all *p*-values < 0.100 are in boldface type.

Appendix F: Endogeneity control of executives' short-term horizons and CSR disclosures

I first regressed short-term horizon in year t against plausible antecedents measured in year $t-1$. They included firm attributes (*firm size, ROA, leverage, slack, institutional ownership, analyst coverage, R&D intensity, state ownership, lengths of MD&A, and CSR disclosures*), TMT characteristics (*TMT size, tenure diversity, age diversity, educational diversity and functional diversity*), and industry and year dummies. Of these, *ROA, state ownership, and TMT tenure diversity* predicated time horizon. Various industry and year dummies were also significant. As a next step, I used these significant antecedents to estimate predicted short-term horizon, which I then included as an endogeneity control in all the analyses (Chatterjee and Hambrick, 2007; Martin, Gomez-Mejia, and Wiseman, 2013).

In addition, I controlled for endogeneity of CSR disclosures, given the possibility that firm performance may itself be an antecedent to CSR (Surroca et al., 2010; Zhao and Murrell, 2016). I regressed CSR disclosures in t on a set of firm attributes in $t-1$, and on industry and year dummies. I retained the significant predictors for the CSR disclosures that included *ROA, leverage, SG&A intensity, R&D intensity, analyst coverage, market munificence, and short-term horizon*. Using this regression, I estimated the predicted CSR disclosures that I included as another endogeneity control in the performance models. As indicated by Table 4.10, including these controls did not alter my results.

Table 4.10: Fixed-effects estimation with endogeneity control

Panel A. DV: CSR disclosures	Model 1			Model 2		
	B	SE	<i>p</i>	B	SE	<i>p</i>
Lagged DV	0.124	0.027	0.000	0.124	0.027	0.000
Firm age	0.241	0.497	0.628	0.161	0.496	0.746
Firm size	-0.041	0.083	0.619	-0.001	0.084	0.991
ROA	-0.326	0.194	0.093	-0.328	0.194	0.091
Leverage	-0.263	0.109	0.016	-0.266	0.109	0.014
SG&A intensity	1.113	0.465	0.017	1.331	0.475	0.005
R&D intensity	8.060	4.188	0.054	7.890	4.178	0.059
Institutional ownership	0.628	0.896	0.484	0.602	0.894	0.501
State ownership	0.007	0.008	0.422	0.008	0.008	0.371
Foreign sales	0.134	0.435	0.758	0.129	0.434	0.766
Analyst coverage	0.037	0.007	0.000	0.036	0.007	0.000
Market munificence	-0.585	0.261	0.025	-0.592	0.260	0.023
Market dynamism	-0.017	0.325	0.959	-0.026	0.324	0.936
GDP per capita	0.522	0.782	0.505	0.368	0.782	0.638
Lengths of MD&A	0.014	0.146	0.923	0.013	0.146	0.932
Slack	-0.382	0.310	0.218	1.084	0.679	0.110
Board PC ratio	-0.307	0.645	0.634	1.422	0.963	0.140
Short-term horizon	0.476	0.222	0.032	0.867	0.271	0.001
Short-term horizon x Slack				-4.035	1.688	0.017
Short-term horizon x Board PC ratio				-4.906	2.135	0.022
Short-term horizon endogeneity control	-1.063	3.248	0.743	-1.147	3.242	0.724
Constant	-5.868	10.362	0.571	-3.516	10.364	0.734
Firm-fixed effects	Yes			Yes		
Year- and industry-fixed effects	Yes			Yes		
Firm-year observations	2,341			2,341		
Firms	482			482		
R ² (within)	0.293			0.298		
F-statistic	12.43			12.27		

Panel B. DV: Tobin's Q	Model 3			Model 4		
	B	SE	<i>p</i>	B	SE	<i>p</i>
Lagged DV	0.688	0.036	0.000	0.688	0.036	0.000
Firm age	-0.459	0.696	0.510	-0.508	0.695	0.465
Firm size	-0.419	0.120	0.000	-0.404	0.120	0.001
Leverage	-0.841	0.132	0.000	-0.838	0.132	0.000
Slack	-1.053	0.445	0.018	-1.034	0.445	0.020
SG&A intensity	0.637	0.908	0.483	0.618	0.907	0.495
R&D intensity	-16.360	7.402	0.027	-15.908	7.397	0.032
State ownership	-0.017	0.011	0.140	-0.016	0.011	0.147

Analyst coverage	-0.184	0.033	0.000	-0.185	0.033	0.000
Market munificence	2.903	0.572	0.000	2.905	0.571	0.000
Market dynamism	0.063	0.427	0.883	0.041	0.427	0.924
GDP per capita	1.604	1.058	0.129	1.540	1.057	0.145
Lengths of MD&A	-0.074	0.200	0.714	-0.071	0.200	0.724
Short-term horizon	-1.904	0.445	0.000	-1.200	0.552	0.030
CSR disclosures	0.131	0.037	0.000	0.226	0.057	0.000
CSR disclosures x Short-term horizon				-0.272	0.126	0.031
Short-term horizon endogeneity control	-8.128	4.401	0.065	-7.980	4.397	0.070
CSR disclosures endogeneity control	4.445	0.728	0.000	4.462	0.727	0.000
Constant	-15.635	13.791	0.257	-14.774	13.782	0.284
Firm-fixed effects	Yes			Yes		
Year- and industry-fixed effects	Yes			Yes		
Firm-year observations	2,216			2216		
Firms	482			482		
R ² (within)	0.445			0.447		
F-statistic	23.60			23.33		

Notes: In this table, all independent variables and control variables are lagged by one year. Coefficients and standard errors have been rounded to three decimal places. To facilitate readability, all p -values < 0.100 are in boldface type.

CHAPTER 5. THE EFFECTS OF CORPORATE SOCIAL (IR)RESPONSIBILITY ON INSTITUTIONAL INVESTORS⁸

5.1 INTRODUCTION

CSR is often assumed to help earn stakeholder trust through repeated interactions with stakeholders over a long period of time (Barnett, 2007; Brammer and Millington, 2008; Wang and Choi, 2013), and build “moral capital” (Godfrey, 2005). This means that when negative events occur, CSR may provide insurance-like effects on the stock price of a firm by tempering stakeholders’ negative judgement and sanctions (Godfrey, Merrill, and Hansen, 2009; Koh, Qian, and Wang, 2014; Lins, Servaes, and Tamayo, 2017). Thus, CSR engagement on a long-term basis can serve as a risk management tool for the preservation of corporate stock wealth (Albuquerque, Koskinen, and Zhang, 2019; Shiu and Yang, 2017).

Scholars have also examined the risk-generating effect of corporate social irresponsibility (CSI) (Kim, Kim, and Qian, 2018; Kölbel, Busch, and Jancso, 2017; Lange and Washburn, 2012; Tang, Qian, Chen, and Shen, 2015), which can be defined as “the set of corporate actions that negatively affects an identifiable social stakeholder’s legitimate claims” (Strike, Gao, and Bansal, 2006: 852). Over recent decades, the increase of external pressure to be socially responsible has exacerbated the punishment for CSI (Flammer, 2013). For example, CSI undermines stakeholder trust and incurs stakeholder sanctions such as badmouthing, boycotts, and even sabotage (Kölbel et al., 2017). These punitive sanctions create expectations of lower

⁸ I would like to thank Robert Kleinknecht for sharing the data of the content analysis of quarterly earnings conference calls and seminar participants at the University of Amsterdam, University of Groningen, Nanjing University, Tongji University, Shanghai University of Finance and Economics, Sun Yat-sen University, and the 2019 Annual Conference of the Academy of Management, for valuable feedback.

earnings and bring about a downward volatility of stock prices, resulting in uncertainty about financial outcomes (Flammer, 2013; Kölbel et al., 2017; Muller and Kräussl, 2011; Orlitzky and Benjamin, 2001). Such uncertainty would raise firm's risk levels, especially in the eyes of investors.

While CSR has been characterized as “a core strategic issue” (Ioannou and Serafeim, 2015: 1058), based on evidence from the US context, we lack a good understanding of how it causes shifts in investors' risk perceptions. Given the growing economic power of institutional investors in the Anglo-Saxon model (Aguilera, Rupp, Williams, and Ganapathi, 2007; Connelly, Lee, Tihanyi, Certo, and Johnson, 2018a), this chapter extends existing theories and tests hypotheses on how institutional investors assess the risk profile of CSR and CSI. Specifically, I examine how firms' engagements in socially (ir)responsible activities influence the investment decisions of institutional investors.

Considering the heterogeneity among institutional investors (Connelly, Tihanyi, Certo, and Hitt, 2010a; Connelly, Tihanyi, Ketchen, Carnes, and Ferrier, 2017a; Hoskisson, Hitt, Johnson, and Grossman, 2002), I argue that institutional investors' responses to CSR and CSI depend on their investment horizons. In particular, fundamental differences exist between dedicated and transient institutional investors (Connelly, Shi, Hoskisson, and Koka, 2018). Dedicated institutional investors acquire concentrated equity positions in a small number of firms and have long investment horizons (Bushee and Noe, 2000; Shi and Connelly, 2018). They are less sensitive to short-term financial results and instead are concerned with a firm's ability to compete over time. As a long-term-oriented strategic investment, CSR may buffer against risk and generate a sustained competitive advantage (Jones, Harrison, and Felps, 2018; Kang, 2016; Shiu and Yang, 2017). I propose that dedicated investors will increase their ownership when a

firm engages in more socially responsible activities. In contrast, transient institutional investors hold small stakes in numerous firms and are highly sensitive to short-term results (Bushee, 1998; Connelly et al., 2010a). As CSI heightens risk in the short term, transient investors can be expected to decrease their ownership when a firm engages in more socially irresponsible activities.

The capital constraints resulting from transient investors' "voting with their feet" tend to further intensify the downward trends of firms' stock prices, which threatens CEOs' job security (Cheng, Ioannou, and Serafeim, 2014; Finkelstein, Hambrick, and Cannella, 2009; Lamont, Polk, and Saaá-Requejo, 2001). Thus, CEOs are motivated to influence transient investors' reactions to CSI. Research on impression management suggests that CEOs actively manage corporate communications to favorably affect the impressions of investors (Washburn and Bromiley, 2014; Westphal and Bednar, 2008; Whittington, Yakis-Douglas, and Ahn, 2016), and recent studies have investigated the language attributes managers use in interactions with investors (Busenbark, Lange, and Certo, 2017; Emmett, 2019; McDonnell and King, 2013; Pan, McNamara, Lee, Haleblian, and Devers, 2018). I propose that CEOs may use temporal framing in corporate communications to alleviate the decrease in transient institutional ownership.

Framing is an impression management tactic by which CEOs deliberately assemble words to selectively present a situation (Fiss and Zajac, 2006; Giorgi and Weber, 2015). Temporal framing is reflected in the types and frequencies of time-related words in communications (Nadkarni, Pan, and Chen, 2019). According to the behavioral perspective, investors' preferences are not static; instead, they are subject to the temporal contexts of decision making (Chrisman and Patel, 2012; Kotlar, Signori, De Massis, and Vismara, 2018; Martin, Wiseman, and Gomez-Mejia, 2016a; Thaler, Tversky, Kahneman, and Schwartz, 1997). When

transient investors evaluate focal firms' actions, differences in the temporal contexts can change how they construe decision situations and lead to variability in their responses. Temporal framing acts as a filter that delimits attention to a particular temporal context, and thus guides audiences' interpretation of corporate actions.

As temporal framing discloses both short-term and long-term information, I examine long-term framing, which captures the extent to which temporal framing is oriented more towards the long term than the short term. In the case of CSI, CEOs apply long-term framing to deemphasize the present situation and look into the future. On the one hand, long-term framing deflects transient investors' attention away from the current situation, making the detrimental consequences of CSI less salient and reducing the severity of financial risk in investors' perceptions. On the other hand, long-term framing diverts transient investors' attention to future prospects. With the expectation of future gain, transient investors will hold losing stocks to avoid loss realization (Kotlar et al., 2018; Thaler and Johnson, 1990). Therefore, I posit that long-term framing mitigates transient investors' negative reactions to CSI.

I tested the hypotheses with a dataset comprising 11,280 quarterly observations from 670 publicly listed, nonfinancial U.S. companies for the years 2007-2014. Consistent with my hypotheses, I find that CSR has a positive effect on dedicated institutional ownership, while CSI has a negative effect on transient institutional ownership. Moreover, CEOs' long-term framing attenuates the negative relationship between CSI and transient institutional ownership.

This chapter makes three contributions. First, it extends ongoing research on how CSR and CSI are perceived by stakeholders (Kölbel et al., 2017; Madsen and Rodgers, 2014; Shea and Hawn, 2019). By demonstrating how socially (ir)responsible activities can influence firms' relationship with institutional investors, it further explicates investors' subjective assessments of

social issues (Hawn, Chatterji, and Mitchell, 2018; Ioannou and Serafeim, 2015; Kölbel et al., 2017; Lange and Washburn, 2012). Second, it contributes to the nascent literature that has examined shareholder decision making from a behavioral perspective (Connelly, Shi, and Zyung, 2017b; Krause, Whitley, and Semadeni, 2014). Lastly, this chapter adds to the impression management literature (König, Mammen, Luger, Fehn, and Enders, 2018; Nadkarni et al., 2019; Pan et al., 2018) by showing how the temporal information embedded in CEOs' communication influences transient institutional investors' reactions to CSI.

The next section provides arguments to explicate the effects of CSR and CSI on institutional ownership and the moderating role of CEOs' temporal framing. In section 5.3, I describe the data and methods. Sections 5.4 and 5.5 contain the results and conclusions, respectively.

5.2 THE INFLUENCE OF CORPORATE SOCIAL (IR)RESPONSIBILITY ON INSTITUTIONAL INVESTORS

The literature has explored the strategic value of CSR from the risk management perspective (Cheng et al., 2014; Godfrey, 2005; Godfrey et al., 2009; Koh et al., 2014; Shiu and Yang, 2017). As a central concern in corporate strategy, financial risk measures the uncertainty about financial performance (Amit and Wernerfelt, 1990; Andersen and Bettis, 2015; Orlitzky and Benjamin, 2001). Firms with a long-term commitment to CSR can earn the trust of stakeholders and accumulate sufficient moral capital; when negative events occur, moral capital can provide insurance-like protection for a firm's relationship-based assets by mitigating stakeholder sanctions, and thus, preserves shareholder wealth. Besides offering *ex post* insurance benefits, CSR can also provide *ex ante* insurance value by buffering against potential negative event such

as litigation (Koh et al., 2014). Overall, engagement in CSR on a continuous, long-term basis can serve as a risk management strategy capable of creating value for stakeholders (Shiu and Yang, 2017).

As a distinct theoretical construct from CSR, CSI generates financial risk by increasing the potential for stakeholder sanctions (Kölbel et al., 2017; Lange and Washburn, 2012; Strike et al., 2006). Due to ‘negativity bias’, negative information is of higher salience in stakeholders’ interpretations of firm behavior (Muller and Kräussl, 2011). As CSI imposes harm on internal and external stakeholders, it has greater capacity to attract stakeholders’ attention. Stakeholders will judge whether corporate actions transgress their legitimate claims based on the cognitive processes of perception and interpretation (Greve, Palmer, and Pozner, 2010; Kölbel et al., 2017; Skilton and Purdy, 2017). They make more extreme judgments with respect to CSI and withdraw their trust in organizations, resulting in stakeholder sanctions such as negative media coverage, consumer boycotts, and protests by activist groups (Barnett and Salomon, 2006; Kim et al., 2018; Lange and Washburn, 2012). The punitive sanctions damage firm’s relationship-based assets and may lead to decreased sales and increased production costs (Hawn and Ioannou, 2016). Consequently, CSI has negative financial implications for organizations, including lower earnings, negative stock price reactions, and increased financial risks (Bansal and Clelland, 2004; Greve et al., 2010; Kölbel et al., 2017; Muller and Kräussl, 2011).

However, the acts of corporate irresponsibility can be forgotten by stakeholders over time (Mena, Rintamäki, Fleming, Spicer, 2016). Stakeholders allocate a high level of attention to CSI when it is disclosed because the collective attention of stakeholders is largely focused on an immediate time horizon (Barnett, 2014). Over time, stakeholders reduce attention to CSI and, instead, allocate attention to other stimuli competing for attention. Thus, although stakeholders

punish firms for doing bad things in the short term, the severity of their punishment will decline over the long term, and hence lead to the recovery of financial performance. One example is the BP-Deepwater Horizon oil spill that began on April 20, 2010. From April 19 to June 25, 2010, BP's share price came down by 55% – from \$59 to \$27 a share. At the time, speculations over BP's future had ranged from filing for bankruptcy protection to a possible takeover by its giant rivals, Exxon Mobil or Chevron. Yet, after one year, share prices started to recover steadily. Though they never returned to pre-crisis levels, shares averaged \$44 a share between April 2011 and April 2015. Therefore, the risk-generating effects of CSI are most severe in the short term but less severe in the long term.

5.2.1 Differences among institutional investors' reactions

In recent years, a growing proportion of institutional investors incorporates social and environmental issues into their decision-making process (Chen, Dong, and Lin, 2019; Connelly, Hoskisson, Tihanyi, and Certo, 2010b; Dyck, Lins, Roth, and Wagner, 2019; Ioannou and Serafeim, 2015). Institutional investors are a general class of equity holders that manage more than \$100 million in equity. They are required to file 13-F SEC reports listing all holdings greater than 10,000 shares or \$200,000 in market value (Tihanyi, Johnson, Hoskisson, and Hitt, 2003). As the firm's most influential shareholders, institutional investors are directly and financially linked to the successes and failures of public companies in the U.S. (Johnson, Schnatterly, Johnson, and Chiu, 2010).

Extant studies examining the influence of firm's socially (ir)responsible activities on institutional ownership largely treat institutional investors as a homogeneous group in their theoretical development (e.g., Chava, 2014; Harjoto, Jo, and Kim, 2017). However, empirical evidence suggests that institutional investors exhibit heterogeneity in investment preferences

(Connelly et al., 2018; Hoskisson et al., 2002). Overlooking the divergence in investors' preferences prevents a deeper understanding of CSR and CSI's implications for institutional investors. Among the various investment preferences, investment horizon is one of the main dimensions on which institutional investors differ. It shapes investors' interpretations and perspectives of firm outcomes including corporate innovation (Hoskisson et al., 2002), international diversification (Tihanyi et al., 2003), corporate social performance (Neubaum and Zahra, 2006), and competitive actions (Connelly et al., 2010a, 2017a).

Institutional investors can be categorized as “dedicated” when they have a long investment horizon, or as “transient” when they have a short investment horizon⁹ (Bushee and Noe, 2000; Connelly et al., 2017a; Porter, 1992). Dedicated institutional investors focus on a firm's long-term competitive position, hold narrower portfolios, trade less frequently, and monitor more actively (Connelly et al., 2010a). Engaging in CSR does not guarantee an immediate profit generation, rather, CSR is a long-term-oriented strategic investment (Kang, 2016). Firms that spend resources on social issues tend to be more committed to the long run (Flammer, 2018; Flammer and Bansal, 2017). On the one hand, the improved firm-stakeholder relationship enables a firm to sustain its competitive advantage over a longer period of time (Choi and Wang, 2009). Due to extended investment horizons, dedicated investors can appropriate value from the long-term benefits of CSR. On the other hand, moral capital is an asset that can only be built slowly. When it is adequately accrued, moral capital helps insure against financial risk (Shiu and Yang, 2017). As such, the extent to which a firm engages in CSR is indicative of the firm's risk profile in the eyes of dedicated investors. Taken together, these

⁹ Though quasi-indexers are the largest class of institutional investors, they follow longer-term buy-and-hold strategies and hardly adjust their stakes based on CSR or CSI (Bushee, 1998). Consistent with prior research (e.g., Connelly et al., 2010a, 2017a), I do not hypothesize for quasi-indexers.

arguments suggest that when a firm engages in more socially responsible activities, it will attract more dedicated investors. This leads to the following hypothesis:

Hypothesis 1: As CSR increases, dedicated institutional ownership increases.

Dedicated investors have access to the specific knowledge about firms in which they invest (Higgins and Gulati, 2006; Shi and Connelly, 2018). They will tolerate temporary financial disappointments associated with CSI as long as they are satisfied with long-term prospects. Moreover, it is costly for dedicated investors to move out of firms because selling large blocks of stock reduces the share price (Aguilera et al., 2007; Hoskisson et al., 2002). They are thus less likely to use “exit” to discipline the firm, instead, they employ “voice” to monitor firm actions. In sum, dedicated ownership is not likely to be influenced by the increase of CSI within the firm.

In contrast to dedicated investors, transient investors hold diverse portfolios, monitor little, and trade in and out of stocks frequently (Connelly et al., 2017a; Zhang and Gimeno, 2016). By framing investment decisions in reference to short-term financial indicators, they are a quickly growing group of traders representing the trend of “short-termism” (Marginson and McAulay, 2008). Engaging in CSI tends to destroy trust quickly and induce stakeholder sanctions, resulting in substantial financial risk (Barnett, 2007; Kölbel et al., 2017). Since transient investors pay more attention to the current situation, they are highly concerned about the severity of risk in the short term. Though institutional investors can either exercise “voice” or “exit” to discipline a firm for lack of compliance with their preferences, transient investors lack the motivation and power to use “voice” because they invest smaller amounts of resources in a larger number of firms; rather, they use the tool of “exit” by selling a firm’s stock (Connelly et al., 2010a; Neubaum and Zahra, 2006). As people are in general risk averse (Chrisman and Patel,

2012), transient investors will reduce their ownership in response to increasing CSI to avoid risk. I thus offer the following hypothesis:

Hypothesis 2: As CSI increases, transient institutional ownership decreases.

The combination of short-term horizons and diversified holdings makes it difficult for transient investors to value the long-term benefits of CSR. In the short term, CSR may have a negative impact on profit by diverting limited firm resources from other uses (Kang, 2016). However, some socially responsible activities such as philanthropic donations may create financial value in the short term (Bansal, Jiang, and Jung, 2015; DesJardine, Bansal, and Yang, 2019). Accordingly, the short-term implication of CSR is ambiguous when transient investors consider these countervailing forces together. Therefore, transient investors are less likely to change their ownership in response to an increase in CSR.

5.2.2 Appeasing transient institutional investors: The moderating effects of temporal framing

The exit of transient institutional investors results in higher cost of capital and lower stock returns, which reduce the value of the firm (Cheng et al., 2014; Connelly et al., 2010a; Lamont et al., 2001; Sharfman and Fernando, 2008). As corporate financial performance is often employed as a proxy of CEO performance, the downward trend of a firm's stock returns jeopardizes CEOs' job security and compensation (Finkelstein et al., 2009; Hubbard, Christensen, and Graffin, 2017). Thus, CEOs seek to influence transient institutional investors' reactions intentionally. For instance, studies in impression management find that CEOs often attempt to influence external perceptions by engaging in ingratiation and persuasion behavior (Westphal and Bednar, 2008), releasing confounding information (Graffin, Carpenter, and Boivie, 2011), making prosocial

claims (McDonnell and King, 2013), or reframing events in positive terms (Washburn and Bromiley, 2014).

Because transient investors have only financial relationship with a firm, they do not have good access to firm-specific information (Johnson et al., 2010; Neubaum and Zahra, 2006). The information asymmetry between less-informed investors and well-informed managers leads to evaluative uncertainty when making investment decisions (Sanders and Carpenter, 2003). Transient investors are therefore motivated to take corporate communications seriously, which provide information about the firm and its prospects. For example, Pan et al. (2018) found that top managers' use of concrete language in communication can reduce information asymmetry and assuage investors' concerns about a firm's market positions and performance, thus encouraging investors to assess the firm favorably. In addition, given CEOs' significance in investors' perceptions, CEOs' talk is significant to investors (Quigley, Crossland, and Campbell, 2017; Whittington et al., 2016). Accordingly, CEOs may use framing to manage the firm's informational environment and hence influence transient investors.

Framing highlights certain aspects of the company to make them more salient, and thus creates a discursive context influencing the interpretation of incoming information (Cornelissen and Werner, 2014; Giorgi and Weber, 2015). Research has highlighted that the language attributes in communications affect audiences' behaviors through cognitive mechanisms such as diverting attention and altering the interpretation of strategic issues (Gao, Yu, and Cannella, 2016; Guo, Yu, and Gimeno, 2017; Ocasio, Laamanen, and Vaara, 2018). As CEOs usually disclose corporate strategy and performance based on their timelines (Emett, 2019; Hales, Kuang, and Venkataraman, 2011), this chapter pays attention to temporal language, which is featuring prominently in corporate communications (Crilly, 2017).

CEOs can use temporal framing to selectively present the information by focusing on certain time periods to varying degrees. The temporal cues (e.g., soon, immediately, outlook, future) entailed in the temporal framing have an impact on audiences' attention (Nadkarni et al., 2019). As transient investors are not the only audience of a communication event, the divergent interests of the different audiences create potential trade-offs for CEOs in framing their communications. For example, investors demand information about short-term results while analysts value the information about future strategic activity (Busenbark et al., 2017; Sanders and Carpenter, 2003). CEOs can be assumed to carefully weigh the pros and cons in choosing a temporal framing strategy to balance audiences' interests. Therefore, the variation in the time horizons of temporal framing will influence transient investors' reactions to CSI.

Recognizing the importance of the timeline over which decisions are framed (Chrisman and Patel, 2012), the behavioral literature suggests that people's preferences depend on the temporal context of decision making (Kotlar et al., 2018; Martin et al., 2016a). For example, though transient investors use short temporal frames as the primary metric for decision making, the temporal context can bias their attention to certain time horizons and affect the interpretation of decision situations, thus influencing their preferences (Knight and Paroutis, 2017; Nadkarni et al., 2019). I propose transient investors adopt CEOs' temporal framing as the temporal context for decision making, and temporal framing moderates the negative relationship between CSI and transient institutional ownership.

CEOs' temporal framing subsumes both short-term and long-term information. I focus on the role of long-term framing, which conveys information about prospective performance by looking into the future. As transient investors prefer short-term information (Bushee, 2004; Bushee and Noe, 2000), CEOs' long-term framing does not ingratiate these investors' demand

obviously. Transient investors will regard CEOs as less deliberate in persuading them about firms' downside, they tend to devote less cognitive scrutiny to CEOs' message, and consequently give more weight to CEOs' long-term framing (Westphal, Park, McDonald, and Hayward, 2012). As a result, long-term framing influences transient investors' reactions to CSI through two mechanisms. First, long-term framing serves as a temporal context that deflects investors' attention away from firms' current situation. Investors cannot attend to all the stimuli competing for their limited attention (Barnett, 2014; Ocasio, 1997). When transient investors allocate attention to the long term, the risk-generating profile of CSI is less salient and concrete in their perceptions, in turn reducing their negative reactions.

Second, the aversion to loss realization logic suggests that investors tend to hold underperforming assets to avoid realizing "paper" losses when they have positive expectations of future outcomes (Kotlar et al., 2018; Thaler and Johnson, 1990). As long-term framing steers transient investors' attention to the future, they will recognize that the negative consequences of CSI are unevenly distributed across time – the financial risk is most severe in the present but will decline over time. I argue that although transient investors value near-term results by definition, they are motivated to hold underperforming stocks when they have positive information about a firm's prospects. Thus, long-term framing not only tempers transient investors' risk perception, but also activates aversion to loss realization. CEOs' long-term framing therefore mitigates the negative effect of CSI on transient institutional ownership. Accordingly, I hypothesize that:

Hypothesis 3: The negative effect of CSI on transient institutional ownership is weaker when temporal framing is more oriented towards the long term.

5.3 DATA AND METHODS

5.3.1 Sample

I built the sample by combining several databases. I obtained institutional investor ownership data from the Thomson-Reuters Institutional Holdings (13F) database (Shi, Connelly, and Hoskisson, 2017a; Zhang and Gimeno, 2016). I excluded observations for which reported institutional ownership exceeds 100% of shares outstanding (about 1% of observations) following DeVault, Sias, and Starks (2019). Data from the Kinder, Lydenberg, and Domini (KLD) database were used to quantify a firm's CSR and CSI (Ioannou and Serafeim, 2015; Kim et al., 2018; Muller and Kräussl, 2011; Strike et al., 2006; Tang et al., 2015).

I measured CEOs' temporal framing by analyzing the transcripts of quarterly earnings conference calls. I retrieved all conference call transcripts from nonfinancial companies made available by Seeking Alpha, a content service provider whose in-house team generates a transcript within a few hours after every conference call (König et al., 2018; Mannor, Wowak, Bartkus, and Gomez-Mejia, 2016; Pan et al., 2018). This database extends back to 2004 (Allee and Deangelis, 2015), but transcripts only became available for a wider sample of firms from 2007 onwards (Pan et al., 2018). I eliminated the transcripts if company tickers, dates, or participant information were missing and in the (rare) case when more than one transcript per quarter was available per company. Further, I validated the company tickers mentioned in the calls by matching them with the Compustat database and manually checking the company name. Data on control variables came from the Compustat, the Center for Research in Security Prices (CRSP), and the Thomson Reuters' Institutional Brokers' Estimate System (IBES). I excluded firms for which certain information required for my analysis was missing. After merging the data, the initial sample comprised an unbalanced panel of 1,060 nonfinancial publicly-listed U.S.

companies containing 14,791 firm-quarterly observations, starting from the first quarter of 2007 and ending with the last quarter of 2014.

5.3.2 Dependent variable: Institutional ownership

I identified institutional investors using Bushee's (1998) classification, which has been widely used in the management literature (Connelly et al., 2010a, 2017a; Higgins and Gulati, 2006; Washburn and Bromiley, 2014; Zhang and Gimeno, 2016). I adopted the approach taken by Zhang and Gimeno (2016), using the categories of transient and dedicated institutional investors provided on Brian Bushee's website¹⁰, and matching the resulting categories with the institutional investor ownership data. Thus, the measure of *dedicated (transient) institutional ownership* was the percentage yielded by dividing the count of the number of shares owned by dedicated (transient) institutional investors in a given firm-quarter by the total number of shares outstanding for the same firm-quarter.

5.3.3 Independent variables: CSR and CSI

I measured the independent variables using data from the KLD database, which is the most popular source of time-series data on firms' CSR and CSI profiles (Godfrey et al., 2009; Mattingly, 2017). Researchers at KLD review the company's public documents, including its financial and nonfinancial reporting and the company website for a given year. The KLD ratings represent a snapshot of the firm's social profile at calendar year end, and the ratings of year t are typically available in spreadsheets for distribution around the first half of year $t+1$ (Godfrey et al., 2009; Ioannou and Serafeim, 2015). I lagged the measures of CSR and CSI by one year to ensure that the ratings for each firm were public knowledge at the time of investors making decisions. This matching specification assumes that investors react based on the most recently

¹⁰ <http://acct.wharton.upenn.edu/faculty/bushee/IIclass.html>

available ratings. In addition, using lagged-year matching mitigates concerns about reverse-causality and creates temporal separation between the independent variables and institutional ownership (Kenny, 1979).

Following prior research (Choi and Wang, 2009; David, Bloom, and Hillman, 2007; Gupta, Nadkarni, and Mariam, 2018; Hubbard et al., 2017; Tang et al., 2015), I constructed the measure by focusing on the five KLD categories most closely corresponding to the stakeholder-related issues discussed in the CSR literature: employee relations; diversity issues, product issues, community relations, and environmental issues. Within each of these categories are individual items related to strengths and concerns (Kotchen and Moon, 2012). Strengths are consistent with acting socially responsible while concerns are consistent with acting socially irresponsible (Tang et al., 2015). KLD annually assesses the presence or absence of strengths and concerns, indicated in binary terms.

I distinguished between strengths and concerns, because CSR and CSI are two theoretically separate and distinct constructs and should be treated as such empirically (Flammer, 2018; Ioannou and Serafeim, 2015; Kacperczyk, 2009; Strike et al., 2006). Though some studies have constructed a net CSR score by taking the difference between the total number of strengths and concerns (e.g., Chin, Hambrick, and Treviño, 2013; Kang, 2016; Tang, Mack, and Chen, 2018), I did not adopt this approach because the theoretical rationale of this chapter pertains to how engaging in CSR and CSI is interpreted and evaluated by institutional investors. *CSR (CSI)* is measured by summing the number of strengths (concerns) across the five categories indicated above¹¹ (Flammer, 2018; Godfrey et al., 2009; Tang et al., 2015). This aggregate measure not

¹¹ For robustness, I reran the analyses including all KLD categories to measure CSR and CSI; the results are substantively similar. In addition, because not all categories are comprised of the same number of items, and because KLD has changed the numbers of items under the same category over the years (Chin et al., 2013; Shiu and

only reveals the extent of a firm's participation in socially (ir)responsible activities in a given year, but also aligns with the use of KLD data by investors who rely on the composite measure to assess firms' social profile (Chatterji, Durand, Levine, and Touboul, 2016; Koh et al., 2014; Strike et al., 2006).

5.3.4 Moderating variable: CEOs' temporal framing

CEOs' temporal framing was measured by quantitative content analysis of quarterly earnings conference calls. Earnings conference calls are amongst the most important corporate communication events of publicly-listed companies (Allee and Deangelis, 2015; Heinrichs, Park, and Soltes, 2019), and are widely applied in recent research to measure CEOs' language features such as metaphorical communication (König et al., 2018), language concreteness (Pan et al., 2018), and language style matching (Shi, Zhang, and Hoskisson, 2019). The routine and ubiquitous conference calls are a main channel of communications between companies and investors (Chen, Demers, and Lev, 2018). Transient investors focus specifically on conference calls because the calls are information events that present opportunities for speculative trading (Bushee, 2004). Thus, conference calls are an ideal context to examine how CEOs' temporal framing influences transient investors' reactions to CSI.

Earnings conference calls consist of an uninterrupted managerial presentation followed by a question-and-answer ("Q&A") session with analysts and investors. During the presentation segment of the call, the CEO provides his/her interpretation of the firm's performance and its short- and long-term strategies, which is informative to investors because of the information

Yang, 2017), I standardized the number of strengths and concerns respectively for each category to make the scores comparable across categories and across time, then averaged them to create the score of CSR and CSI (Choi and Wang, 2009; Ioannou and Serafeim, 2015; Koh et al., 2014), and found consistent results.

content of verbal cues (Matsumoto, Pronk, and Roelofsen, 2011). During the Q&A session, the CEO addresses questions raised by investors and security analysts. Due to the conversational nature of Q&A, the temporal framing in the CEO's answers is influenced by the underlying temporal orientation of the questions. For example, when analyst raises a short-term oriented question, the CEO is likely to answer from a short-term perspective. Thus, I employed the presentation segment to obtain an unobtrusive measure of CEOs' language use (Lee, 2016; Pan et al., 2018).

I used computer-aided text analysis (CATA) to measure CEOs' temporal framing. First, I counted the number of words relating to the short and long term used by CEOs in the presentation segment of conference calls. I applied the dictionary developed by DesJardine and Bansal (2019), who inductively generated a comprehensive set of keywords reflecting managerial time horizons through an extensive search among a variety of corporate documents and established dictionaries. Each of these keywords was validated in context to ensure that the word was being used as expected. The final dictionary, consisting of 38 words associated with the short term and 54 words associated with the long term, is reported in Appendix A of this chapter.

Second, I followed the following rules for counting the number of occurrences of each keyword (DesJardine and Bansal, 2019; Loughran and McDonald, 2011). To be specific, I did not count "long term" and "short term" when immediately followed by the words "assets", "liabilities", "debt", "interest", "cash", "sales", "instruments", "contract(s)", or "lease(s)". I did not count words when negation words (no, not, none, neither, never, nobody) preceded the keyword. In addition, a keyword that was repeated within two words of itself was counted only once (e.g., "year by year" is counted as a single occurrence of "year").

Third, after counting the occurrence of the words per call, I computed *CEOs' temporal framing* as the ratio of the number of long-term keywords to the sum of long- and short-term keywords (DesJardine and Bansal, 2019; Flammer and Bansal, 2017). This ratio represents the relative significance of long-term framing over short-term framing, with a higher ratio indicating that a CEO's temporal framing is more oriented towards the long term.

Further, to check the validity of this measure, I gave a random sample of 100 conference call transcripts to two raters, one of whom was blind to the objectives of this chapter, and asked them to qualify a CEO's temporal framing per transcript on a five-point Likert scale ranging from "much more short term than long term" to "much more long term than short term." The inter-coder agreement was 94.8 percent, with a Cohen's (weighted) Kappa of 0.77, which indicates strong agreement (Westphal and Bednar, 2008). Because inter-coder agreement was excellent, I averaged the coders' ratings for a CEO's temporal framing (Neuendorf, 2016) and then checked the correlation between that rating average and the dictionary-based word count measure. The Pearson's correlation coefficient was 0.32 (p -value < 0.01), which is in line with existing research (Shin and You, 2017). While dictionary-based CATA may not as good as manual coding in capturing context or rhetorical nuance, it is valuable in its ability to measure large volumes of text quickly (McKenny, Aguinis, Short, and Anglin, 2018; Short, McKenny, and Reid, 2018). The fact that CATA and manual coding generate co-varying measures supports the notion that the word-count measure contains meaningful information about CEOs' temporal framing.

5.3.5 Control variables

I controlled for additional factors that could influence the dependent variable. Firms with better financial performance are more likely to attract institutional investors (Bushee, 2004). I included

ROA, measured by the ratio of net income to total assets (Flammer, 2013), and *Tobin's Q*, measured by the ratio of the sum of total market value and liabilities to total assets (Hawn and Ioannou, 2016), to control for firm performance. As research finds that institutional investors prefer larger firms and firms with a large number of shares outstanding, I controlled for *market value*, measured by the natural logarithm of market value of common equity, and *shares outstanding*, measured by the logarithm of common shares outstanding (Bushee, 2001; Harjoto et al., 2017). Furthermore, *trading volume*, measured by average monthly trading volume relative to total shares outstanding over a quarter's period, was included to control for institutional investors' preference for liquidity (Bushee, 2004). In addition, Gompers and Metrick (2001) find institutional investors generally prefer firms with lower risk. I therefore introduced *leverage*, measured by the ratio of total debt divided by total assets, as the proxy for firm risk (Bansal and Clelland, 2004; Martin, Wiseman, and Gomez-Mejia, 2016b).

Also, I controlled for other mechanisms that could affect institutional ownership. Because the extent of analyst attention is associated with firm value and investor reactions (Hawn et al., 2018; Ioannou and Serafeim, 2015), I included *number of analysts*, measured by the total number of analysts that attended the conference call. Research suggests that firms' performance that deviates from market expectations is important information for investors as such deviations require them to reassess the firm (König et al., 2018; Pan et al., 2018). I thus controlled for *earnings surprise*, measured as actual earnings per share minus the analyst consensus (i.e., the median outstanding earnings forecast from the IBES database). As shorter CEO horizon is associated with lower firm valuation and higher levels of information risk, it increases institutional investors' risk of holding the stock (Antia, Pantzalis, and Park, 2010; Lee, Park, and Folta, 2018). Hence, I controlled for *CEOs' decision horizon*, which captures the time period a

CEO is expected to remain in office. It is measured by the sum of industry-adjusted age and industry-adjusted tenure in a specific year.

Institutional investors are often aware of who else owns shares of companies in which they are invested (Connelly et al., 2018). Adopting the categories of quasi-indexers provided by Bushee's website, I also included *quasi-indexers ownership* and transient (dedicated) institutional ownership to control for the influence of other institutional investor groups. It is noteworthy that excluding the control of ownership does not change the results. Lastly, I included fixed effects for calendar quarters and Fama-French 12 industries to control for other unobserved macro-environmental influences (Barnett and Salomon, 2012; Fama and French, 1997; Gupta and Misangyi, 2018).

5.3.6 Estimation method

I used panel data models that incorporate firm-fixed effects exploiting within-firm variation ("xtreg" in Stata). A fixed-effects model is appropriate for testing the hypotheses because this chapter examines whether changes in CSR and CSI within a firm lead to changes in dedicated (transient) institutional ownership (Certo, Withers, and Semadeni, 2017). In addition, the Hausman test (Hausman, 1978) returned statistically significant Chi-score for models using dedicated ($\chi^2=227.61$, $p=0.0000$) and transient institutional ownership ($\chi^2=638.11$, $p=0.0000$) as dependent variable, indicating fixed effects are preferable over random effects. Moreover, to guarantee within-firm variation in the variable of interest, I eliminated all firms that exhibited zero variance in CSR and CSI across the available firm-quarter observations. This reduced the sample from 1,060 firms (14,791 firm-quarter observations) to 670 firms (11,280 firm-quarter observations). However, I note that the results are robust to fixed- or random-effects specifications based on the initial sample.

5.4 RESULTS

Table 5.1 provides descriptive statistics and correlations for the variables in the models. In my sample, the average dedicated, transient, and quasi-indexers ownership is 0.03, 0.15, and 0.56, respectively, consistent with findings from other recent studies (e.g., Connelly et al., 2017a; Shi and Connelly, 2018). Considerable variation exists in CSR and CSI since the standard deviation is 3.22 and 1.92, respectively. The mean value of CEOs' temporal framing is 0.19 (i.e., only 19 percent of the time-related words that CEOs used referred to the long term) and the standard deviation is 0.13, indicating that CEOs in general frame their talk more towards the short term than towards the long term. The bivariate correlations among the independent variables are not particularly high. A further check of the VIF of the variables (including the interaction terms) reveals no serious multicollinearity problem, with a maximum VIF of 4.84 and a mean VIF of 2.08 (Cohen, Cohen, West, and Aiken, 2003).

Table 5.2 reports the results of fixed-effects regressions using dedicated institutional ownership as dependent variable. Model 1 presents the results based on inclusion of the controls, while Model 2 includes both CSR and CEOs' temporal framing, and Model 3 presents the full model with the interaction term. In Model 2, CSR is positively related to dedicated institutional ownership ($\beta = 0.001$, $p=0.001$), supporting Hypothesis 1. The effect is also economically significant: for example, when CSR changes from 0 to 6 (from less responsible to more responsible), dedicated institutional ownership increases 0.6%. As the sample mean (median) of common shares outstanding per firm is 288,709,400 (107,182,000), it translates into buying 1,732,256 (643,092) shares. Consistent with my arguments, CSI has no effect on dedicated ownership ($\beta = 0.000$, $p=0.469$). In Model 3, the coefficient for the interaction term ($\beta = 0.001$) returned a p-value of 0.117, showing CEOs' temporal framing does not moderate the relationship

Table 5.1: Descriptive statistics and correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Dedicated institutional ownership	0.03	0.05	1														
2 Transient institutional ownership	0.15	0.08	-0.22	1													
			0.00														
3 ROA	0.01	0.04	-0.00	0.01	1												
			0.88	0.39													
4 Tobin's Q	1.92	1.16	0.04	-0.01	0.29	1											
			0.00	0.49	0.00												
5 Market value ^a	8.57	1.36	-0.00	-0.25	0.18	0.20	1										
			0.62	0.00	0.00	0.00											
6 Shares outstanding ^b	5.67	1.16	-0.08	-0.20	0.03	-0.03	0.83	1									
			0.00	0.00	0.00	0.00	0.00	0.00									
7 Trading volume	2.48	2.03	-0.11	0.40	-0.09	-0.02	-0.14	-0.04	1								
			0.00	0.00	0.00	0.01	0.00	0.00									
8 Leverage	0.23	0.19	0.10	-0.05	-0.07	-0.09	0.04	0.08	0.05	1							
			0.00														
9 Number of analysts	8.70	3.84	-0.06	0.03	0.08	0.18	0.43	0.37	0.16	0.02	1						
			0.00	0.01													
10 Earnings surprise	-0.01	0.27	-0.01	0.03	0.19	0.09	0.09	0.03	-0.15	-0.02	0.01	1					
			0.42	0.00	0.05	0.51											
11 CEOs' decision horizon	0.35	10.25	0.01	0.07	-0.02	0.02	-0.02	0.03	0.05	-0.01	0.02	-0.00	1				
			0.33	0.00	0.03	0.02	0.02	0.01	0.00	0.18	0.01	0.79					
12 Quasi-indexers ownership	0.56	0.13	-0.33	0.00	-0.02	0.01	-0.09	-0.13	0.05	-0.03	0.07	-0.04	-0.01	1			
			0.00	0.88	0.06	0.13	0.00	0.26									
13 CSR	2.98	3.22	-0.05	-0.20	0.04	0.01	0.55	0.58	-0.08	-0.03	0.23	0.02	0.03	-0.12	1		
			0.00	0.00	0.00	0.49	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.00		
14 CSI	1.89	1.92	-0.21	-0.00	-0.01	-0.15	0.35	0.41	0.06	0.04	0.07	-0.01	-0.03	-0.03	0.30	1	
			0.00	0.86	0.15	0.00	0.00	0.00	0.00	0.00	0.00	0.18	0.00	0.01	0.00		
15 CEOs' temporal framing	0.19	0.13	0.02	-0.02	-0.02	-0.02	0.03	0.03	0.00	0.04	0.02	0.01	0.04	-0.01	0.03	0.02	1
			0.05	0.09	0.09	0.01	0.00	0.00	0.83	0.00	0.01	0.60	0.00	0.12	0.00	0.07	

^a. Natural logarithm of Market value in millions;

^b. Natural logarithm of Shares outstanding in millions;

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

Table 5.2: Firm fixed-effects regressions of dedicated institutional ownership

	Model 1			Model 2			Model 3		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.106	0.010	0.000	0.104	0.010	0.000	0.105	0.010	0.000
ROA	0.001	0.007	0.865	0.002	0.007	0.825	0.002	0.007	0.826
Tobin's Q	-0.003	0.001	0.000	-0.003	0.001	0.000	-0.003	0.001	0.000
Market value	0.004	0.001	0.000	0.005	0.001	0.000	0.005	0.001	0.000
Shares outstanding	0.001	0.002	0.657	0.001	0.002	0.673	0.001	0.002	0.694
Trading volume	0.000	0.000	0.800	0.000	0.000	0.848	0.000	0.000	0.861
Leverage	0.018	0.004	0.000	0.018	0.004	0.000	0.018	0.004	0.000
Number of analysts	-0.000	0.000	0.093	-0.000	0.000	0.072	-0.000	0.000	0.071
Earnings surprise	-0.002	0.001	0.044	-0.002	0.001	0.040	-0.002	0.001	0.039
CEOs' decision horizon	0.000	0.000	0.174	0.000	0.000	0.174	0.000	0.000	0.180
Quasi-indexers ownership	-0.107	0.004	0.000	-0.107	0.004	0.000	-0.107	0.004	0.000
Transient institutional ownership	-0.129	0.006	0.000	-0.129	0.006	0.000	-0.129	0.006	0.000
CSI	0.000	0.000	0.382	0.000	0.000	0.469	0.000	0.000	0.439
CSR				0.001	0.000	0.001	0.000	0.000	0.076
CEOs' temporal framing				0.000	0.002	0.944	-0.003	0.003	0.328
CSR x CEOs' temporal framing							0.001	0.001	0.117
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	Yes			Yes			Yes		
Firm-quarter observations	11,280			11,280			11,280		
Firms	670			670			670		
R ² (within)	0.650			0.651			0.651		
R ² (between)	0.084			0.073			0.074		
R ² (overall)	0.337			0.327			0.328		
F-stat	51.08			50.89			50.76		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

between CSR and dedicated ownership. Thus, dedicated investors are inattentive to CEOs' temporal framing during the conference call, which aligns with the information advantage of dedicated investors (cf. Shi et al., 2017a).

Table 5.3 shows the results of fixed-effects regressions for transient institutional ownership. In Model 5, the coefficient of the main effect of CSI on transient ownership is statistically significant ($\beta = -0.001$, $p=0.001$), supporting Hypothesis 2. The results suggest that when CSI increases from 0 to 4, transient ownership decreases 0.4%. According to the sample mean (median) of common shares outstanding per firm, it translates into selling 1,154,838 (428,728) shares. Moreover, the effect of CSR is statistically insignificant ($\beta = -0.000$, $p=0.828$).

I tested the moderating effects of CEOs' temporal framing using Model 6. The coefficient on the interaction term between CSI and CEOs' temporal framing is positive and significant ($\beta = 0.005$, $p=0.001$). It is consistent with Hypothesis 3 that, for temporal framing more oriented towards the long term, the negative effect of CSI on transient institutional ownership is weaker. I illustrated these effects in Figure 5.1, which shows that the moderating effect occurs within the range of my data, with the fulcrum of the interaction close to the mean value for CSI. Furthermore, the marginal effects of the predictors on transient institutional ownership generate values that center around the sample mean for the dependent variable (0.15), indicating that the effects are not only statistically significant but also practically meaningful.

5.4.1 Robustness checks

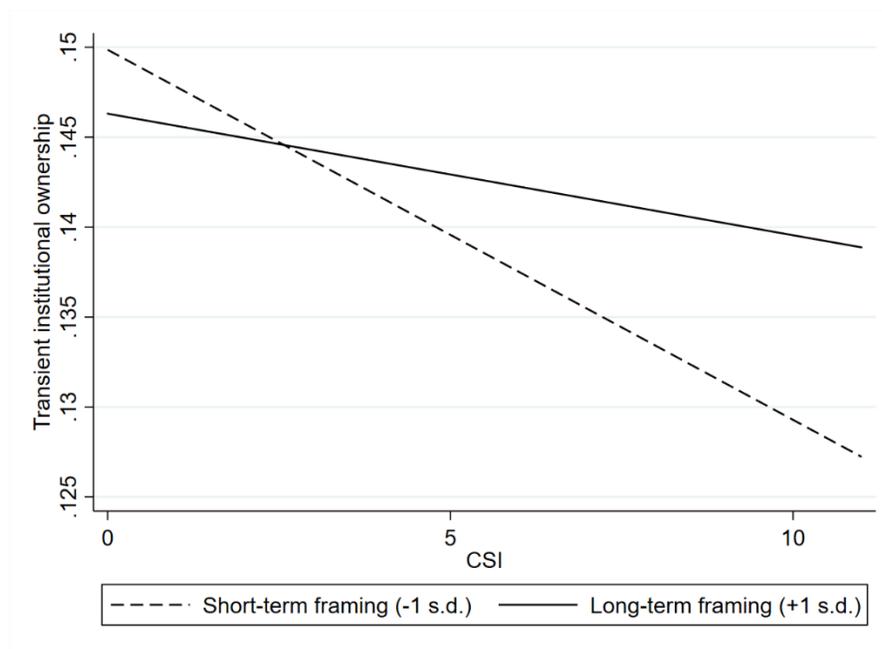
I conducted extensive robustness checks to account for the biases of endogeneity, heteroskedasticity, and serial correlation. First, Sustainalytics and Thomson Reuters ASSET4 are widely applied in management research to measure CSR (e.g., Cheng et al., 2014; Luo, Wang, Raithel, and Zheng, 2015; Orlitzky, Louche, Gond, and Chapple, 2017; Surroca, Tribó, and

Table 5.3: Firm fixed-effects regressions of transient institutional ownership

	Model 4			Model 5			Model 6		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.239	0.017	0.000	0.238	0.017	0.000	0.240	0.017	0.000
ROA	0.030	0.011	0.006	0.030	0.011	0.007	0.030	0.011	0.007
Tobin's Q	0.002	0.001	0.011	0.002	0.001	0.013	0.002	0.001	0.013
Market value	0.021	0.002	0.000	0.020	0.002	0.000	0.020	0.002	0.000
Shares outstanding	-0.033	0.002	0.000	-0.032	0.003	0.000	-0.032	0.002	0.000
Trading volume	0.007	0.000	0.000	0.007	0.000	0.000	0.007	0.000	0.000
Leverage	-0.006	0.006	0.289	-0.006	0.006	0.322	-0.006	0.006	0.321
Number of analysts	0.000	0.000	0.809	0.000	0.000	0.907	0.000	0.000	0.928
Earnings surprise	0.007	0.001	0.000	0.007	0.001	0.000	0.007	0.001	0.000
CEOs' decision horizon	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Quasi-indexers ownership	-0.313	0.006	0.000	-0.313	0.006	0.000	-0.313	0.006	0.000
Dedicated institutional ownership	-0.332	0.015	0.000	-0.331	0.015	0.000	-0.331	0.015	0.000
CSR	-0.000	0.000	0.717	-0.000	0.000	0.828	-0.000	0.000	0.815
CSI				-0.001	0.000	0.001	-0.002	0.001	0.000
CEOs' temporal framing				-0.003	0.003	0.381	-0.014	0.005	0.004
CSI x CEOs' temporal framing							0.005	0.002	0.001
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	Yes			Yes			Yes		
Firm-quarter observations	11,280			11,280			11,280		
Firms	670			670			670		
R ² (within)	0.566			0.567			0.567		
R ² (between)	0.069			0.069			0.070		
R ² (overall)	0.262			0.263			0.263		
F-stat	35.85			35.73			35.70		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

Figure 5.1: The moderating effect of temporal framing on the relationship between CSI and transient institutional ownership



Waddock, 2010; Surroca, Tribo, and Zahra, 2013). I constructed alternative measures of CSR and CSI based on these two databases separately. As the Sustainalytics' company-level environmental, social, and corporate governance (ESG) scores are updated in the beginning of every month, I matched the ratings of Sustainalytics in March, June, September, and December with institutional ownership data at the end of corresponding month. In Models 7 to 9, I used the Sustainalytics historical weighted scores of social and environmental dimensions to measure CSR, and the controversy scores of the same dimensions to measure CSI. In Models 10 to 12, I used data on the environmental and social pillars collected from ASSET4 to measure CSR and CSI (Luo et al., 2015). In addition, since Sustainalytics and ASSET4 use controversy scores in the derivation of a weighted CSR score, I did not include CSR and CSI simultaneously in the analyses. I excluded firms whose CSR and CSI did not change over the sample period. The

Table 5.4: Results for institutional ownership: Evidence from Sustainalytics

	Model 7			Model 8			Model 9		
	DV: Dedicated ownership			DV: Transient ownership			DV: Transient ownership		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.137	0.017	0.000	0.233	0.026	0.000	0.247	0.027	0.000
ROA	0.027	0.014	0.050	0.020	0.019	0.295	0.020	0.019	0.295
Tobin's Q	-0.002	0.001	0.006	-0.001	0.001	0.497	-0.001	0.001	0.455
Market value	-0.002	0.002	0.357	0.023	0.002	0.000	0.023	0.002	0.000
Shares outstanding	0.006	0.002	0.004	-0.022	0.003	0.000	-0.022	0.003	0.000
Trading volume	-0.002	0.000	0.000	0.007	0.000	0.000	0.007	0.000	0.000
Leverage	0.027	0.006	0.000	-0.018	0.008	0.033	-0.018	0.008	0.033
Number of analysts	-0.000	0.000	0.108	-0.000	0.000	0.214	-0.000	0.000	0.210
Earnings surprise	-0.003	0.001	0.043	0.003	0.002	0.132	0.003	0.002	0.138
CEOs' decision horizon	0.000	0.000	0.072	0.000	0.000	0.129	0.000	0.000	0.126
Quasi-indexers ownership	-0.148	0.006	0.000	-0.318	0.008	0.000	-0.318	0.008	0.000
Transient institutional ownership	-0.152	0.009	0.000						
Dedicated institutional ownership				-0.307	0.017	0.000	-0.307	0.017	0.000
CSR measured by Sustainalytics	0.002	0.001	0.003						
CSI measured by Sustainalytics				-0.006	0.001	0.000	-0.008	0.001	0.000
CEOs' temporal framing	0.006	0.003	0.023	0.004	0.004	0.272	-0.057	0.036	0.117
CSI x CEOs' temporal framing							0.006	0.004	0.091
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	Yes			Yes			Yes		
Firm-quarter observations	7,245			7,184			7,184		
Firms	501			487			487		
R ² (within)	0.705			0.609			0.609		
R ² (between)	0.081			0.006			0.006		
R ² (overall)	0.314			0.143			0.143		
F-stat	58.54			37.82			37.69		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

Table 5.5: Results for institutional ownership: Evidence from Thomson Reuters ASSET4

	Model 10			Model 11			Model 12		
	DV: Dedicated ownership			DV: Transient ownership			DV: Transient ownership		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.163	0.013	0.000	0.260	0.023	0.000	0.260	0.023	0.000
ROA	-0.003	0.001	0.000	0.023	0.016	0.150	0.023	0.016	0.151
Tobin's Q	-0.003	0.001	0.041	0.003	0.001	0.018	0.003	0.001	0.018
Market value	0.002	0.002	0.270	0.013	0.002	0.000	0.013	0.002	0.000
Shares outstanding	-0.001	0.000	0.000	-0.027	0.003	0.000	-0.027	0.003	0.000
Trading volume	0.017	0.004	0.000	0.004	0.000	0.000	0.004	0.000	0.000
Leverage	-0.000	0.000	0.070	-0.028	0.009	0.002	-0.028	0.009	0.002
Number of analysts	-0.002	0.001	0.073	0.000	0.000	0.627	0.000	0.000	0.629
Earnings surprise	0.000	0.000	0.059	0.007	0.002	0.000	0.007	0.002	0.000
CEOs' decision horizon	-0.111	0.005	0.000	0.000	0.000	0.152	0.000	0.000	0.151
Quasi-indexers ownership	-0.123	0.007	0.000	-0.285	0.008	0.000	-0.285	0.008	0.000
Transient institutional ownership	0.009	0.010	0.331						
Dedicated institutional ownership				-0.272	0.018	0.000	-0.272	0.018	0.000
CSR measured by ASSET4	0.009	0.003	0.001						
CSI measured by ASSET4				-0.001	0.001	0.049	-0.001	0.001	0.080
CEOs' temporal framing	0.002	0.002	0.294	-0.000	0.004	0.945	-0.002	0.005	0.747
CSI x CEOs' temporal framing							0.001	0.003	0.608
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	Yes			Yes			Yes		
Firm-quarter observations	9,808			6,010			6,010		
Firms	545			294			294		
R ² (within)	0.643			0.577			0.577		
R ² (between)	0.082			0.031			0.031		
R ² (overall)	0.315			0.240			0.240		
F-stat	42.69			19.42			19.37		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

results are consistent to the main findings based on KLD, except for the moderating role of CEOs' temporal framing when using ASSET4 to measure CSI.

Second, I employed the hybrid approach to parse out within-firm versus between-firm effects, and thus to identify if the effects hypothesized here are truly within-firm or not (Certo et al., 2017; Muller, 2018). Specifically, the hybrid approach splits each independent variable into two variables: a variable representing the group mean which allows for between-firm comparisons and a group-centered variable which allows for within-firm changes over time. It uses random-effects models to estimate coefficients representing both the between- and within-firm effects of each independent variable. Table 5.6 reports the results of the hybrid model. The coefficients of key independent variables and the interaction term in Models 13-15 show that the hypotheses are distinct within-firm effects. Therefore, the hybrid approach offers strong evidence supporting the within-firm theorization.

Third, I found consistent results when I (1) specified robust standard errors by clustering at the firm level to control for potential heteroscedasticity and serial correlation (Hawn et al., 2018; Rogers, 1994); (2) matched independent and control variables in quarter t with dependent variables in quarter $t+1$ to partially address the concern of reverse causality (Shan et al., 2017); (3) reran the same set of analyses without controls to rule out the influence of control variables (Benischke, Martin, and Glaser, 2019; Flammer, 2018); (4) winsorized the independent variables and the moderator at the 95th and 99th percentiles to mitigate the impact of outliers (Cheng et al., 2014; Flammer and Bansal, 2017); (5) transformed quarter-level observations to year-level observations by constructing yearly measures of each variable for each firm (Nadkarni, Chen, and Chen, 2016); and (6) excluded all observations from the third quarter of 2007 through the

Table 5.6: The hybrid approach: Parsing out between-firm versus within-firm effects

	Model 13			Model 14			Model 15		
	DV: Dedicated ownership			DV: Transient ownership			DV: Transient ownership		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
Constant	0.101	0.011	0.000	0.119	0.016	0.000	0.120	0.016	0.000
ROA (b)	-0.062	0.058	0.283	0.075	0.083	0.362	0.076	0.083	0.360
Tobin's Q (b)	0.001	0.001	0.317	-0.005	0.002	0.002	-0.005	0.002	0.002
Market value (b)	-0.000	0.002	0.894	0.006	0.003	0.020	0.006	0.003	0.020
Shares outstanding (b)	-0.001	0.002	0.583	-0.020	0.003	0.000	-0.020	0.003	0.000
Trading volume (b)	0.001	0.001	0.408	0.018	0.001	0.000	0.018	0.001	0.000
Leverage (b)	0.016	0.006	0.012	0.027	0.009	0.003	0.027	0.009	0.003
Number of analysts (b)	0.000	0.000	0.885	0.001	0.001	0.059	0.001	0.001	0.060
Earnings surprise (b)	-0.005	0.007	0.490	0.059	0.010	0.000	0.059	0.010	0.000
CEOs' decision horizon (b)	0.000	0.000	0.160	0.000	0.000	0.001	0.000	0.000	0.001
Quasi-indexers ownership (b)	-0.049	0.010	0.000	-0.063	0.014	0.000	-0.064	0.014	0.000
Transient ownership (b)	-0.078	0.021	0.000						
Dedicated ownership (b)				-0.058	0.039	0.135	-0.059	0.039	0.133
CSR (b)	-0.001	0.001	0.396	-0.004	0.001	0.000	-0.004	0.001	0.000
CSI (b)	-0.001	0.001	0.246	-0.001	0.001	0.683	-0.001	0.003	0.720
CEOs' temporal framing (b)	0.009	0.014	0.493	0.005	0.019	0.775	0.002	0.027	0.948
CSI (b) x temporal framing (b)							0.003	0.013	0.849
ROA (w)	0.002	0.006	0.802	0.026	0.010	0.010	0.026	0.010	0.011
Tobin's Q (w)	-0.002	0.001	0.001	0.003	0.001	0.002	0.003	0.001	0.002
Market value (w)	0.002	0.001	0.012	0.021	0.001	0.000	0.021	0.001	0.000
Shares outstanding (w)	0.005	0.001	0.002	-0.030	0.002	0.000	-0.030	0.002	0.000
Trading volume (w)	0.000	0.000	0.323	0.008	0.000	0.000	0.008	0.000	0.000
Leverage (w)	0.007	0.003	0.029	-0.017	0.005	0.002	-0.017	0.005	0.002
Number of analysts (w)	-0.000	0.000	0.108	0.000	0.000	0.496	0.000	0.000	0.512
Earnings surprise (w)	-0.002	0.001	0.039	0.007	0.001	0.000	0.007	0.001	0.000
CEOs' decision horizon (w)	0.000	0.000	0.039	0.000	0.000	0.000	0.000	0.000	0.000
Quasi-indexers ownership (w)	-0.103	0.004	0.000	-0.306	0.005	0.000	-0.306	0.005	0.000
Transient ownership (w)	-0.119	0.005	0.000						
Dedicated ownership (w)				-0.320	0.014	0.000	-0.320	0.014	0.000
CSR (w)	0.001	0.000	0.000	0.000	0.000	0.831	0.000	0.000	0.848
CSI (w)	-0.000	0.000	0.937	-0.001	0.000	0.002	-0.002	0.000	0.000
CEOs' temporal framing (w)	0.000	0.002	0.953	-0.005	0.003	0.144	-0.015	0.004	0.000
CSI (w) x temporal framing (w)							0.006	0.002	0.000
Firm-fixed effects	No			No			No		
Time x industry controls	Yes			Yes			Yes		
Firm-quarter observations	14,791			14,791			14,791		
Firms	1,060			1,060			1,060		
R ² (between)	0.284			0.440			0.440		
R ² (within)	0.631			0.555			0.555		
R ² (overall)	0.434			0.484			0.484		
Wald X ² statistic	23020.55			17408.70			17436.38		

Notes: (b) and (w) refer to between and within firm effects, respectively. I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

fourth quarter of 2008 because the financial crisis had a major impact on credit risk (Kölbel et al., 2017). These robustness checks are included in Appendices B–G at the end of this chapter.

5.5 DISCUSSION AND CONCLUSIONS

In this chapter, I sought to explain how the investment decisions of institutional investors are related to CSR and CSI. I argued that due to the risk-mitigating effect of CSR, dedicated institutional investors increase their ownership in response to increasing CSR. On the other hand, given the risk-generating effect of CSI, transient institutional investors decrease their ownership in response to increasing CSI. To better understand the contingency around transient investors' responses to CSI, I considered the influence of CEOs' temporal framing on investors' cognitive processing. Frames can be especially influential on transient investors' interpretation of CSI when high information asymmetry exists between transient investors and the firm. By delimiting transient investors' attention, long-term framing makes the detrimental consequences of CSI less concrete and salient. Thus, I suggested that long-term framing moderates the negative relationship between CSI and transient institutional ownership. Using a longitudinal dataset of publicly-listed U.S. companies from 2007 to 2014, I found strong empirical evidence that CSR is positively related to dedicated ownership, while CSI is negatively related to transient ownership, and that this negative relationship is mitigated when temporal framing is more towards the long term. Based on these findings, this chapter makes three theoretical contributions.

First, it extends the research on how CSR and CSI are perceived by stakeholders (Groening and Kanuri, 2018; Shea and Hawn, 2019). By integrating the evaluation of social (ir)responsibility into institutional investors' decision-making process, I heed the call to investigate how the perceptions of investors are formed in regard to social issues (Hawn et al.,

2018). Prior research largely focused on the financial consequences of CSR and CSI such as stock market reaction (Flammer, 2013; Godfrey et al., 2009; Muller and Kräussl, 2011) and the volatility of a firm's earnings (Kölbel et al., 2017). This chapter demonstrates how (ir)responsible behaviors toward stakeholders can translate into investors' behavior and finds that the interests of stakeholders and investors are aligned in terms of "doing good" and "avoiding bad". It accounts for the temporal nature of CSR and CSI, and finds institutional investors' reactions depend on their investment horizons.

Second, it provides a behavioral understanding of shareholder decision making. Institutional investors are the dominant class of shareholders. Among the typical shareholders in publicly traded firms, trading by large institutional investors has the largest impact (Coyne and Witter, 2002). Based on the behavioral perspective, I theorized how dedicated and transient investors react to social issues, thus providing an integrative framework of how investors engage with an organization. Interestingly, it is found that dedicated investors will not quit socially irresponsible firms immediately. Due to dedicated investors' preferences, they may exercise voice-based governance by undertaking shareholder resolutions, launching proxy contests, or initiating media campaigns to monitor the firm (Shi et al., 2017).

Third, this chapter contributes to the literature on impression management. Temporal framing in corporate communications is an important cueing mechanism for external audiences to evaluate focal firms' actions (Nadkarni et al., 2019). I explored the strategic implications of language by taking the perspective of the audience that is attentive to temporal framing. It is argued that CEOs' temporal framing embeds transient investors in a temporal context, and thereby affecting these investors' cognitive process of decision-making. Contrary to the prescription that CEOs need to align their talk with transient investors' interests (Bushee, 2004;

Yan and Zhang, 2009), I found long-term framing appeases these investors when a firm engages in more CSI. This changes in preferences among transient investors aligns with the notion of context-dependent preferences implied in the behavioral perspective (Hubbard et al., 2017; Krause et al., 2014; Martin et al., 2016b). In addition, identifying the moderating effect of temporal framing allows us to further test the core logic behind the main hypothesis, which is developed based on transient investors' perception of CSI's risk-generating profile.

This chapter also has practical implications for managers who seek to use framing to manage investors. The presence of transient investors may benefit firms by positively influencing firms' long-term performance trend (Connelly et al., 2017a; Yan and Zhang, 2009). CEOs could resort to temporal framing – the use of temporal language in communication to affect the interpretation of firm behavior – to highlight certain time periods and attenuate investors' unfavorable responses to CSI. Moreover, the CEOs of public companies today have many categories of investors, each of which has different interests (Connelly et al., 2010a). CEOs face not only short-term necessities to convince capital markets that the firm is being managed for maximum value, but also long-run imperatives to invest in strategic competitive actions. To some extent, temporal framing can be a symbolic strategy to alleviate the CEOs from investors' demands.

The limitations of this chapter suggest promising opportunities for future research. First, confined by the empirical context, I do not examine how dedicated investors respond to CSI in other ways such as activism. Future studies could explore how CSI motivates dedicated investors to engage in voice-based governance and the role of CEOs' temporal framing in this mechanism. Second, I focused only on institutional investors in the United States. As social constructions attributed to a firm by its observers, CSR and CSI may receive heterogeneous assessments from

institutional investors in different countries (Kölbel et al., 2017; Lange and Washburn, 2012; Skilton and Purdy, 2017). Future research could examine the differences in investors' responses to CSR and CSI from the perspective of comparative corporate governance (Aguilera, Marano, and Haxhi, 2019; Haxhi and Aguilera, 2017). Finally, since time is central to corporate strategy (Kunisch, Bartunek, Mueller, and Huy, 2017), embracing a temporal lens will reveal new lines of inquiry regarding impression management. I hope this chapter spurs more research on the behavioral consequences of corporate social (ir)responsibility and further investigation of the cognitive mechanisms of temporal framing.

Appendix A / Table 5.7: Dictionary capturing CEOs' temporal framing, including descriptive statistics

Short-term keywords			Long-term keywords					
	mean	s.d.		mean	s.d.		mean	s.d.
current	3.31	3.30	and beyond	0.38	0.77	remained	0.58	0.99
currently	1.58	2.04	centuries	0.00	0.01	remaining	0.83	1.21
daily	0.26	0.90	century	0.03	0.31	permanent	0.15	0.77
day	2.99	5.04	commit	0.06	0.28	permanently	0.02	0.18
days	1.76	2.42	commits	0.00	0.04	preserve	0.06	0.31
immediate future	0.01	0.08	committed	0.72	1.18	preserved	0.01	0.09
instant	0.04	0.51	committing	0.02	0.16	preserves	0.00	0.07
instantaneous	0.00	0.08	commitment	0.57	1.02	preservation	0.02	0.16
instantly	0.01	0.14	commitments	0.30	0.88	preserving	0.03	0.20
mid-year	0.05	0.30	decade	0.18	0.62	years	6.43	5.09
midyear	0.05	0.32	decades	0.08	0.33	lifespan	0.00	0.04
moment	0.60	1.07	distant future	0.01	0.11	enduring	0.02	0.17
moments	0.07	0.30	eternal	0.00	0.06	perpetual	0.03	0.38
momentarily	0.01	0.10	eternally	0.00	0.02	perpetually	0.00	0.04
month	1.80	2.20	endless	0.01	0.16	perpetuity	0.00	0.07
monthly	0.18	0.64	endlessly	0.00	0.02	unending	0.00	0.01
months	3.51	3.62	endlessness	0.00	0.00			
near term	0.30	0.77	forever	0.05	0.27			
quarter	49.39	24.85	history	0.56	0.96			
quarterly	1.26	1.55	lasting	0.02	0.19			
quarters	2.75	2.82	lifetime	0.04	0.34			
shorter life	0.00	0.04	longer life	0.00	0.06			
shorter period	0.01	0.08	longer period	0.04	0.22			
shorter run	0.00	0.03	longer run	0.01	0.08			
shorter term	0.02	0.17	longer term	0.32	0.79			
shorter time	0.00	0.06	long life	0.01	0.09			
short life	0.00	0.03	long period	0.07	0.33			
short period	0.06	0.26	long run	0.08	0.36			
short run	0.02	0.18	long term	0.66	1.42			
short term	0.24	0.68	long time	0.27	0.62			
short time	0.02	0.15	maintain	0.78	1.17			
temporary	0.21	0.77	maintained	0.19	0.50			
temporarily	0.05	0.25	maintains	0.02	0.15			
today	6.49	4.53	maintaining	0.44	0.80			
week	1.27	2.23	outlook	1.97	3.06			
weekly	0.10	0.61	over time	0.94	1.66			
weeks	0.98	1.76	remain	2.17	2.20			
year	42.36	22.50	remains	1.38	1.60			

Appendix B / Table 5.8: Estimating models with robust standard errors

	Model 1 DV: Dedicated ownership			Model 2 DV: Transient ownership			Model 3 DV: Transient ownership		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.063	0.032	0.051	0.302	0.046	0.000	0.305	0.046	0.000
ROA	0.002	0.008	0.769	0.028	0.011	0.015	0.028	0.011	0.015
Tobin's Q	-0.003	0.001	0.010	0.002	0.002	0.337	0.002	0.002	0.334
Market value	0.004	0.003	0.130	0.020	0.004	0.000	0.020	0.004	0.000
Shares outstanding	0.005	0.005	0.239	-0.030	0.006	0.000	-0.030	0.006	0.000
Trading volume	-0.000	0.000	0.898	0.007	0.002	0.000	0.007	0.002	0.000
Leverage	0.012	0.010	0.226	-0.010	0.015	0.481	-0.010	0.015	0.480
Number of analysts	-0.000	0.000	0.252	0.000	0.000	0.676	0.000	0.000	0.701
Earnings surprise	-0.002	0.001	0.163	0.008	0.002	0.000	0.008	0.002	0.000
CEOs' decision horizon	0.000	0.000	0.538	0.000	0.000	0.054	0.000	0.000	0.055
Quasi-indexers ownership	-0.114	0.017	0.000	-0.313	0.017	0.000	-0.313	0.017	0.000
Transient institutional ownership	-0.131	0.020	0.000						
Dedicated institutional ownership				-0.324	0.042	0.000	-0.323	0.042	0.000
CSR	0.001	0.000	0.000	-0.000	0.000	0.705	-0.000	0.000	0.704
CSI	0.000	0.000	0.666	-0.002	0.001	0.011	-0.003	0.001	0.000
CEOs' temporal framing	0.001	0.003	0.736	-0.002	0.004	0.547	-0.014	0.006	0.020
CSI x CEOs' temporal framing							0.006	0.002	0.003
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	No			No			No		
Firm-quarter observations	11,280			11,280			11,280		
Firms	670			670			670		
R ² (within)	0.615			0.539			0.540		
R ² (between)	0.048			0.050			0.050		
R ² (overall)	0.283			0.227			0.227		
F-stat	98.15			92.98			90.82		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

Appendix C / Table 5.9: Estimating models based on lagged independent and control variables

	Model 1 DV: Dedicated ownership			Model 2 DV: Transient ownership			Model 3 DV: Transient ownership		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.095	0.011	0.000	0.270	0.020	0.000	0.272	0.020	0.000
ROA	-0.011	0.007	0.121	0.054	0.013	0.000	0.054	0.013	0.000
Tobin's Q	-0.003	0.001	0.000	0.004	0.001	0.000	0.004	0.001	0.000
Market value	0.004	0.001	0.002	0.011	0.002	0.000	0.010	0.002	0.000
Shares outstanding	0.001	0.002	0.445	-0.029	0.003	0.000	-0.029	0.003	0.000
Trading volume	0.000	0.000	0.827	0.004	0.000	0.000	0.004	0.000	0.000
Leverage	0.015	0.004	0.000	-0.013	0.007	0.083	-0.013	0.007	0.084
Number of analysts	-0.000	0.000	0.145	-0.000	0.000	0.151	-0.000	0.000	0.150
Earnings surprise	-0.000	0.001	0.734	0.005	0.001	0.000	0.005	0.001	0.000
CEOs' decision horizon	0.000	0.000	0.716	0.000	0.000	0.004	0.000	0.000	0.004
Quasi-indexers ownership	-0.078	0.004	0.000	-0.215	0.007	0.000	-0.215	0.007	0.000
Transient institutional ownership	-0.101	0.006	0.000						
Dedicated institutional ownership				-0.241	0.018	0.000	-0.241	0.018	0.000
CSR	0.001	0.000	0.000	0.000	0.000	0.409	0.000	0.000	0.417
CSI	0.000	0.000	0.317	-0.001	0.000	0.034	-0.002	0.001	0.001
CEOs' temporal framing	-0.001	0.002	0.560	-0.005	0.004	0.227	-0.015	0.005	0.007
CSI x CEOs' temporal framing							0.005	0.002	0.007
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	Yes			Yes			Yes		
Firm-quarter observations	9,529			9,529			9,529		
Firms	645			645			645		
R ² (within)	0.671			0.515			0.515		
R ² (between)	0.129			0.125			0.125		
R ² (overall)	0.355			0.294			0.294		
F-stat	47.90			24.89			24.86		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

Appendix D / Table 5.10: Estimating models without the controls

	Model 1 DV: Dedicated ownership			Model 2 DV: Transient ownership			Model 3 DV: Transient ownership		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.083	0.001	0.000	0.108	0.002	0.000	0.110	0.003	0.000
CSR	0.001	0.000	0.001						
CSI				-0.002	0.000	0.000	-0.003	0.001	0.000
CEOs' temporal framing							-0.010	0.005	0.069
CSI x CEOs' temporal framing							0.006	0.002	0.003
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	Yes			Yes			Yes		
Firm-quarter observations	11,369			11,369			11,369		
Firms	673			673			673		
R ² (within)	0.618			0.407			0.408		
R ² (between)	0.100			0.030			0.031		
R ² (overall)	0.334			0.223			0.223		
F-stat	46.25			19.61			19.55		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

Appendix E / Table 5.11: Estimating models by winsorizing the independent and moderating variables at top and bottom five percent

	Model 1 DV: Dedicated ownership			Model 2 DV: Transient ownership			Model 3 DV: Transient ownership		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.104	0.010	0.000	0.237	0.017	0.000	0.240	0.017	0.000
ROA	0.001	0.007	0.830	0.029	0.011	0.007	0.029	0.011	0.007
Tobin's Q	-0.003	0.001	0.000	0.002	0.001	0.014	0.002	0.001	0.014
Market value	0.005	0.001	0.000	0.021	0.002	0.000	0.020	0.002	0.000
Shares outstanding	0.001	0.002	0.638	-0.032	0.002	0.000	-0.032	0.002	0.000
Trading volume	0.000	0.000	0.855	0.007	0.000	0.000	0.007	0.000	0.000
Leverage	0.018	0.004	0.000	-0.006	0.006	0.328	-0.006	0.006	0.321
Number of analysts	-0.000	0.000	0.067	0.000	0.000	0.938	0.000	0.000	0.957
Earnings surprise	-0.002	0.001	0.041	0.007	0.001	0.000	0.007	0.001	0.000
CEOs' decision horizon	0.000	0.000	0.168	0.000	0.000	0.000	0.000	0.000	0.000
Quasi-indexers ownership	-0.107	0.004	0.000	-0.312	0.006	0.000	-0.312	0.006	0.000
Transient institutional ownership	-0.129	0.006	0.000						
Dedicated institutional ownership				-0.331	0.015	0.000	-0.331	0.015	0.000
CSR	0.001	0.000	0.002	-0.000	0.000	0.582	-0.000	0.000	0.608
CSI	-0.000	0.000	0.981	-0.002	0.000	0.000	-0.003	0.001	0.000
CEOs' temporal framing	-0.000	0.002	0.968	-0.001	0.004	0.738	-0.015	0.006	0.006
CSI x CEOs' temporal framing							0.007	0.002	0.000
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	Yes			Yes			Yes		
Firm-quarter observations	11,280			11,280			11,280		
Firms	670			670			670		
R ² (within)	0.651			0.567			0.568		
R ² (between)	0.075			0.069			0.070		
R ² (overall)	0.329			0.263			0.263		
F-stat	50.86			35.76			35.75		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

Appendix F / Table 5.12: Estimating models with year-level observations

	Model 1 DV: Dedicated ownership			Model 2 DV: Transient ownership			Model 3 DV: Transient ownership		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.091	0.017	0.000	0.273	0.029	0.000	0.277	0.029	0.000
ROA	0.011	0.014	0.419	0.051	0.023	0.025	0.051	0.023	0.024
Tobin's Q	-0.003	0.001	0.006	0.002	0.002	0.384	0.001	0.002	0.422
Market value	0.005	0.002	0.003	0.022	0.003	0.000	0.022	0.003	0.000
Shares outstanding	0.005	0.003	0.093	-0.035	0.005	0.000	-0.035	0.005	0.000
Trading volume	0.001	0.000	0.041	0.009	0.001	0.000	0.009	0.001	0.000
Leverage	0.013	0.007	0.052	-0.009	0.011	0.425	-0.009	0.011	0.422
Number of analysts	-0.000	0.000	0.482	0.000	0.000	0.608	0.000	0.000	0.659
Earnings surprise	-0.003	0.002	0.177	0.009	0.003	0.003	0.009	0.003	0.004
CEOs' decision horizon	0.000	0.000	0.030	0.000	0.000	0.167	0.000	0.000	0.162
Quasi-indexers ownership	-0.126	0.007	0.000	-0.331	0.011	0.000	-0.331	0.011	0.000
Transient institutional ownership	-0.150	0.010	0.000						
Dedicated institutional ownership				-0.378	0.028	0.000	-0.377	0.028	0.000
CSR	0.001	0.000	0.059	-0.000	0.000	0.725	-0.000	0.000	0.715
CSI	-0.000	0.000	0.650	-0.002	0.001	0.010	-0.005	0.001	0.000
CEOs' temporal framing	-0.002	0.006	0.706	-0.007	0.010	0.493	-0.033	0.014	0.017
CSI x CEOs' temporal framing							0.013	0.005	0.005
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	Yes			Yes			Yes		
Firm-year observations	3,741			3,741			3,741		
Firms	670			670			670		
R ² (within)	0.634			0.598			0.599		
R ² (between)	0.066			0.082			0.082		
R ² (overall)	0.242			0.228			0.228		
F-stat	66.59			44.14			43.87		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

Appendix G / Table 5.13: Estimating models by excluding observations during the financial crisis

	Model 1 DV: Dedicated ownership			Model 2 DV: Transient ownership			Model 3 DV: Transient ownership		
	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values	β	SE	<i>p</i> -values
constant	0.103	0.013	0.000	0.242	0.019	0.000	0.244	0.019	0.000
ROA	0.011	0.012	0.348	0.022	0.018	0.211	0.023	0.018	0.200
Tobin's Q	-0.003	0.001	0.000	0.003	0.001	0.006	0.003	0.001	0.005
Market value	0.006	0.001	0.000	0.019	0.002	0.000	0.019	0.002	0.000
Shares outstanding	0.001	0.002	0.462	-	0.003	0.000	-	0.003	0.000
				0.029			0.029		
Trading volume	-0.000	0.000	0.114	0.007	0.000	0.000	0.007	0.000	0.000
Leverage	0.015	0.005	0.001	-	0.007	0.115	-	0.007	0.118
				0.011			0.011		
Number of analysts	-0.000	0.000	0.059	-	0.000	0.332	-	0.000	0.317
				0.000			0.000		
Earnings surprise	-0.002	0.001	0.105	0.005	0.002	0.002	0.005	0.002	0.002
CEOs' decision horizon	0.000	0.000	0.016	0.000	0.000	0.001	0.000	0.000	0.001
Quasi-indexers ownership	-0.130	0.005	0.000	-	0.007	0.000	-	0.007	0.000
				0.333			0.333		
Transient institutional ownership	-0.139	0.007	0.000						
Dedicated institutional ownership				-	0.017	0.000	-	0.017	0.000
				0.328			0.328		
CSR	0.001	0.000	0.001	-	0.000	0.071	-	0.000	0.071
				0.000			0.000		
CSI	0.000	0.000	0.294	-	0.000	0.000	-	0.001	0.000
				0.001			0.003		
CEOs' temporal framing	0.001	0.002	0.703	0.002	0.004	0.596	-	0.005	0.097
							0.008		
CSI x CEOs' temporal framing							0.005	0.002	0.002
Firm-fixed effects	Yes			Yes			Yes		
Quarter-fixed effects	Yes			Yes			Yes		
Industry-fixed effects	Yes			Yes			Yes		
Firm-quarter observations	9,034			9,034			9,034		
Firms	661			661			661		
R ² (within)	0.691			0.592			0.593		
R ² (between)	0.081			0.072			0.073		
R ² (overall)	0.331			0.253			0.253		
F-stat	59.58			38.66			38.61		

Notes: I report actual *p*-values instead of significance cutoff levels. To facilitate readability, all *p*-values < 0.10 are in boldface type.

CHAPTER 6. CONCLUSIONS AND IMPLICATIONS

CSR has long been of interest in management and strategy research. In particular, the antecedents and consequences of CSR have received the attention of theoretical and empirical studies. Recently, a growing body of literature draws on the cognitive perspective to explicate the link between cognitions, CSR, and stakeholders' behaviors towards the firm (Gupta, Briscoe, and Hambrick, 2017; Hafenbrädl and Waeger, 2017; Shea and Hawn, 2019; Wong, Ormiston, and Tetlock, 2011). This dissertation has its foundation in a view that cognition underpins strategic decision-making (Daft and Weick, 1984; Eggers and Kaplan, 2013; Hambrick, 2007; Walsh, 1995). Because managers notice and interpret the environmental context and translate those perspectives into strategic choice, it is important to understand the underlying mechanisms and conditions under which cognitions lead to specific outcomes.

Overall, this dissertation explored how the time perspectives of managers and investors affect their decisions with respect to CSR, inspired by a growing interest in the temporal aspects of cognition (Chen and Nadkarni, 2017; Flammer and Bansal, 2017; Kunisch, Bartunek, Mueller, Huy, 2017; Nadkarni, Pan, and Chen, 2019). In Chapter 2, I reviewed the literature that is particularly relevant for the topic of this thesis by briefly presenting the theoretical perspectives on CSR, summarizing the relationship between corporate governance and CSR in China and the U.S., and discussing the link between managerial cognition and CSR. Besides introducing extant studies on CSR, I identified two gaps which were further investigated in the empirical chapters. First, although intertemporal tensions play an important role in the CSR decision-making, there is limited research on the relationship between managers' time perspectives and CSR. Second, given the heterogeneity of investors' preferences, there is a need to examine the details of

investors' behavioral reactions to CSR. Chapter 3 and 4 subsequently addressed the first research gap, while Chapter 5 dealt with the second research gap.

In what follows, section 6.1 summarizes the main findings of three empirical chapters. Subsequently, section 6.2 discusses the contributions of this dissertation, acknowledges its limitations, and proposes directions for future research. Finally, section 6.3 provides practical suggestions for managers and policymakers.

6.1 MAIN FINDINGS OF THE EMPIRICAL STUDIES

The three empirical chapters of this dissertation consisted of a qualitative study (Chapter 3) and two quantitative studies (Chapters 4 and 5). The motivation of Chapter 3 was twofold. First, previous studies have suggested that managers differ in their cognitions, and such individual-level differences are a likely source of heterogeneity in firm-level strategic decisions such as CSR (Basu and Palazzo, 2008; Gupta and Misangyi, 2018). Yet, to date, we still know little about how differences in cognition underpin specific CSR strategies. Second, in the decision-making of CSR, managers not only attend to different stakeholder needs, but also make intertemporal trade-offs (Kang, 2016; Wang and Bansal, 2012; Wong et al., 2011). However, we have limited knowledge about how the interaction between different aspects of cognition influences the CSR strategy. Hence, the research question of Chapter 3 was: Do managers' integrative complexity and temporal orientation interact to shape their firms' CSR strategies?

Chapter 3 relied on interviews with the managers of six Chinese SMEs to explore the cognitive underpinnings of CSR strategy. Based on an abductive approach, it suggested that integrative complexity affects how managers solve the tension between different stakeholder demands in their CSR strategies, while temporal orientation seems to determine whether

managers pursue CSR strategies with more immediate or more deferred payoffs. Moreover, integrative complexity and temporal orientation appear to jointly create the strategic goals managers pursued in CSR strategies. Therefore, Chapter 3 moved the discussion of the cognitive antecedents of CSR forward by clarifying how and why two aspects of cognition interplay in strategic decision-making. Though the qualitative approach taken in Chapter 3 was valuable for exploring managerial cognition directly, it was subject to sample restrictions and did not consider the characteristics of the decision-making context (e.g., firm size, firm slack, market uncertainty). These limitations motivated me to perform a longitudinal study to quantitatively investigate managers' time perspectives, resulting in the research presented in Chapter 4.

Time horizons play an important role in strategic decision-making by focusing executives' attention on different temporal frames (Nadkarni and Chen, 2014). Extant studies have explored how time horizons affect strategic behaviors. Nonetheless, little is known about the association between executives' time horizons and CSR disclosures. In Chapter 4, I collected 2,341 firm-year observations of 482 listed Chinese firms spanning the period of 2010 to 2014, and analyzed the content of management's discussion and analysis (MD&A) in the annual report to capture executives' time horizons. Using panel data analysis, it was shown that as executives' time horizons shorten, a firm discloses more CSR information. Furthermore, the relationship between executives' short-term horizons and CSR disclosures is weakened when the firm depends less on stakeholders for resources, as indicated by a higher level of firm slack and more board political connections. Additionally, I found that executives' short-term horizons reduce the positive effect of CSR disclosures on the market-based performance. This study thus helped to shed light on how top executives' time horizons influence CSR disclosures.

Chapter 5 examined how investors evaluate CSR by investigating the impacts of CSR and CSI on institutional ownership. Corporate governance research suggests that investors have different preferences for corporate strategies such as innovation (Hoskisson et al., 2002), international diversification (Tihanyi et al., 2003), competitive actions (Connelly et al., 2010a) and CSR (Dam and Scholtens, 2012). Despite the empirical evidence on how institutional, government, family, and board ownership affect a variety of firm outcomes, the question of how investors evaluate corporate strategies based on their time perspectives is not clearly understood. The study thus focused on obtaining more insight into how institutional investors' time horizons affect their reactions to CSR. By analyzing a sample of 11,280 quarterly observations from 670 listed U.S. firms during the period 2007-2014, this chapter found that the increase of CSR within a firm leads to the increase of dedicated institutional ownership, while the increase of CSI within a firm results in the decrease of transient institutional ownership. In addition, the negative effect of CSI on transient institutional ownership is weakened when the CEO's temporal framing is oriented more towards the long term.

6.2 CONTRIBUTIONS, LIMITATIONS AND FUTURE RESEARCH

This dissertation extended the knowledge on the cognitive antecedents and behavioral consequences of CSR. Besides the distinct theoretical implications discussed at the end of each chapter, the empirical studies within this dissertation jointly contributed to answering the overall research question: *How do the time perspectives of managers and investors affect their actions with respect to CSR?*

Specifically, the findings showed that the notion of time plays a significant role in decision-making related to CSR. Existing research on how managers influence CSR has

investigated factors including demographic backgrounds, personal values, and cognitive characteristics (Petrenko, Aime, Ridge, and Hill, 2016; Tang, Mack, and Chen, 2018; Wong, Ormiston, and Tetlock, 2011). I shed light on this stream of literature by examining the cognitive mechanisms connecting managers' time perspectives and CSR activities. Chapter 3 illustrated that high and low levels of integrative complexity are associated with different CSR strategies when combined with short versus long-term orientation. Chapter 4 explored executives' inherent motive for CSR disclosures by demonstrating that CSR disclosures can be an outcome that satisfies the needs for immediate payoffs in the case of short-term focused executives. Further, Chapter 5 showed that the time perspectives of institutional investors affect their reactions to CSR and CSI. It offered novel insights into investors' subjective evaluations of CSR (Durand, Paugam, and Stolowy, 2019; Nason, Bacq, and Gras, 2018).

By highlighting managers' and investors' time perspectives, this dissertation added to the emerging research that explores the micro-foundations of CSR – foundations that are based on individual actions (Aguinis and Glavas, 2012; Hafenbrädl and Waeger, 2017; Shea and Hawn, 2019). Scholars have increasingly stressed that investigating the micro-foundations of strategic issues is “a key platform in moving the management field forward” (Devinney, 2013: 84) and critical to “linking individuals' cognitions to organizations' actions” (Felin, Foss, and Ployhart, 2015: 581). As shown in empirical chapters, the temporal aspects of cognition influenced the decision-making and evaluation of CSR. These findings advanced our knowledge about CSR by looking into its micro-foundations.

Moreover, this dissertation contributed to the literature by showing that the association between cognition and CSR is a common phenomenon across different settings. Extant studies generally explore the effects of executives on corporate strategies in the U.S. (Chin, Zyung,

Hiller, and Hambrick, 2013; Crossland et al., 2014; Wowak et al., 2016). However, research has suggested that managerial cognition is an essential issue to be considered in other national contexts (Narayanan et al., 2011; Wang et al., 2015). The empirical findings of chapters 3 and 4 supported this view by analyzing the cognitive antecedents of CSR in the Chinese context. The contextual differences between China and the U.S. may result in different effects of managerial cognition on CSR. Using Chinese SMEs, listed Chinese firms, and listed U.S. firms as the empirical contexts, this dissertation helps scholars obtain a richer understanding of the effects of time on managers and investors in CSR.

This dissertation also contributes to recent work that studies the temporal dimensions of corporate governance (Connelly, Shi, Hoskisson, and Koka, 2018; Flammer and Bansal, 2017). The findings derived from Chinese data indicate that managers with a short-term orientation (Chapter 3) or executives with short-term horizons (Chapter 4) may also engage in CSR. However, CSR strategies by short-term oriented managers may have little influence in the long run, thereby decreasing long-term shareholder value. It suggests that managers need to balance the short term and long term in order to make appropriate CSR strategies. In addition, Chapter 5 emphasizes the importance of considering the short- and long-term governance preferences of heterogeneous investors in the U.S. Taken together, these findings have implications for the link between corporate governance and CSR in the national contexts of China and the U.S.

Despite the theoretical contributions mentioned above and in the chapters, this dissertation is subject to several limitations that point to opportunities for future research. First, the empirical contexts limit the extent to which my findings can be generalized. For example, Chapter 3 was based on cross-sectional data obtained from interviews with managers from Chinese SMEs. On one hand, it restricts the exploration of the changes in managerial cognition

over time, which may lead to the potential that a manager could employ different CSR strategies depending on the dynamics of her or his cognition. On the other hand, it neglects the changes in environmental context over time. It is possible that managers will prefer some CSR strategies to others in different situations. Future research can collect longitudinal qualitative data by multiple rounds of interviews to substantiate the framework proposed in Chapter 3. Moreover, since the data analyzed in this dissertation are drawn from firms in China and the U.S., the findings may not hold in other countries. For instance, the regulatory system of a country may confine the effects of managerial cognition on CSR. Future research could examine these relationships in other national contexts to assess the generalizability of our findings.

Second, the content analysis of MD&A in Chapter 4 only indirectly measured the time horizons of top executives. Studies conducted in the upper echelon tradition have been criticized for the reliance on proxies when investigating the underlying mechanisms between managerial cognitions and strategic choices. I suggest that a deep qualitative exploration of managerial cognitions may yield interesting insights. Despite the low anticipated response rates at the level of top executives, future research may use surveys or in-depth interviews to more directly test the hypotheses raised in Chapter 4 (Aguinis and Solarino, 2019). In addition, further studies could also assess managerial cognition using experiments (Hafenbrädl and Waeger, 2017; Li et al., 2018). Examining the hypothesized relationships with alternate methods would help triangulate the findings of this dissertation as well as continue to delve into the “black box” of strategic decision-making.

Third, the dissertation only explicated the behavioral consequences of CSR from the investors’ perspective in Chapter 5. Given that managing relationships with various stakeholders is important for a firm’s survival, another area for future research is to investigate how other

stakeholders, such as suppliers, consumers, and the government, perceive and evaluate CSR depending on its risks and benefits. Further, I used social ratings from the KLD database to measure the CSR and CSI of a firm in the main analyses of Chapter 5. While this measure is commonly used, KLD is limited in that it merely contains the number of strengths or concerns in each CSR field but not specific information for each activity. Future research can better appreciate the differences of specific social activities through the quantitative content analysis of CSR reports (Wang, Wijen, and Heugens, 2018), corporate communications in social media (Kim and Youm, 2017), and media coverage (Kölbel et al., 2017). Though the current dissertation is limited by its empirical contexts and theoretical scope, I hope it can stimulate more research on managerial cognition and CSR in the coming years.

6.3 IMPLICATIONS FOR MANAGEMENT PRACTICE AND POLICY

Several managerial implications can be drawn from the findings of the empirical chapters in this dissertation. First, within the context of today's business environment, a deeper understanding of individual-level determinants of CSR strategies has important implications for practice.

Managers in China have to consider multiple issues such as labor relations, customer satisfactions, and environmental conditions. Yet, there is little cognitive-based guidance to help managers navigate this decision-making process. Managers may use the typology introduced in Chapter 3 to better comprehend the strategic goals embedded in different CSR strategies and assess the effectiveness of a firm's current CSR strategy. Second, this dissertation demonstrates the role of managers in shaping the CSR strategies and disclosures of Chinese firms. Hence, the results of chapters 3 and 4 have implications for the recruitment and promotion of managers in both private and state-owned firms. For example, the committees for the hiring of top executives

may consider individuals' cognitive characteristics to ensure a fit between executives' personal preferences and organizational goals. Third, the findings of Chapter 5 indicate that the way in which CEOs communicate affects investors' reactions to CSI. Communication is central to maintaining and managing a firm's relationship with various stakeholders (König et al., 2018). To manage the trade-offs between disclosing past performance and future plans, CEOs may need to consider which group of stakeholders is most important at a given time and context and tailor their rhetoric to the preferences of that audience.

This dissertation also has implications for policymakers. First, some managers of Chinese SMEs still have an incomplete and biased understanding of CSR. Therefore, it is important to improve the knowledge of CSR among Chinese management practitioners. I suggest that the Chinese government can actively present the social and economic benefits of CSR to managers. Moreover, it can use monetary incentives, such as subsidies and tax breaks for socially responsible firms, to motivate the managerial awareness of social issues and encourage substantive CSR engagement. Second, though executives with short-term horizons disclose more CSR information, they may only engage in CSR symbolically. Policy makers in China and the U.S. can adopt an information-based regulation to monitor the ESG practices of listed firms by establishing a comprehensive rating system. A reliable rating system can also facilitate stakeholders' evaluation of a firm's CSR profile and motivate firms to engage in CSR substantively. Third, as firms may simultaneously engage in socially responsible and irresponsible activities, it is advisable that both the Chinese and U.S. government should not weaken the monitoring of firms that perform well in CSR. In addition, given the Chinese public's awareness of labor rights and environmental protection (Marquis and Bird, 2018), citizens can effectively detect firms' social and environmental violations. As a result, policy

makers in China can partner with the public to monitor the firm by allowing citizens to complain firms' socially irresponsible activities via various media platforms.

To conclude, this dissertation extends current knowledge on the cognitive antecedents and behavioral consequences of CSR by focusing on the temporal aspects of cognition. The work embodied in this dissertation can benefit researchers who seek to understand the micro-foundations of CSR. At the same time, this dissertation can be helpful to managers who strive to determine how they could add value to their firms through CSR engagement. It is also informative to policy makers who attempt to design policy tools that can support and monitor a firm's CSR engagement. In sum, the findings of this dissertation provide a basis for future research to systematically investigate the effects of time on managers and investors in CSR.

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CO-AUTHOR STATEMENT

Statement of co-authorship regarding Chapter 3, by Prof. dr. Alan Muller

This chapter, co-authored by Binqi Tang, builds entirely on ideas that Binqi developed on his own during his first years as PhD student. The idea arose from his thoughts on managerial cognition and CSR, and how different patterns of cognition could lead to different ideas about CSR, and thus the strategic choices managers make with respect to, CSR. The idea for the interviews, as well as their execution, was entirely Binqi's own. My role as second author was simply to push him harder in terms of conceptual clarity; to help with the crafting and writing of the chapter.

ENGLISH SUMMARY

Both academics and practitioners have devoted growing attention to corporate social responsibility (CSR) in the past few decades. Recently, an emerging body of literature has started to examine the cognitive drivers and financial outcomes of CSR. This Ph.D. research aims to shed light on the overall research question: How do the time perspectives of managers and investors affect their actions with respect to CSR? The dissertation consists of three empirical studies (in addition to introductory, literature review and concluding chapters).

Specifically, the first empirical study explores how managerial cognition influences the CSR strategies of Chinese small and medium enterprises (SMEs). An analysis of qualitative data obtained through interviews showed that integrative complexity and temporal orientation work together to shape managers' strategic goals with respect to CSR, and hence lead to differences in CSR strategies.

The second empirical study examines the impact of top executives' time horizons on the CSR disclosures of publicly listed Chinese firms. The analysis of a sample of 2,341 firm-year observations from 482 listed Chinese firms during the period of 2010 to 2014 showed that as executives' time horizons shorten, a firm discloses more CSR information. Furthermore, I investigated how this relationship is moderated by resource dependence mechanisms.

The third empirical study examines the responses of institutional investors to the corporate social responsibility and irresponsibility of listed U.S. firms. Institutional investors differ in their investment horizons. In particular, dedicated institutional investors are long-term focused and transient institutional investors are short-term focused. The analysis of a dataset comprising 11,280 quarterly observations from 670 listed U.S. firms over the period 2007-2014

showed that firms that behave responsibly experience an increase in dedicated institutional ownership, whereas firms that behave irresponsibly face a decrease in transient institutional ownership.

Jointly, these three empirical studies indicate that the temporal aspects of cognition affect decision-making related to CSR. Besides having implications for management practice, this dissertation is relevant to researchers who are interested in the cognitive drivers of CSR in China.

NEDERLANDSE SAMENVATTING

De Effecten van Tijd op Managers en Investeerders in

Maatschappelijk Verantwoord Ondernemen

Zowel academici als beleidsbepalers en managers zijn de afgelopen decennia meer steeds meer aandacht gaan besteden aan maatschappelijk verantwoord ondernemen (MVO). Hoewel er al heel lang veel onderzoek plaatsvindt naar dit onderwerp, zijn de cognitieve drijfveren van MVO pas recentelijk opgekomen als wetenschappelijk interessegebied. Dit proefschrift sluit hierbij aan en als doel inzicht te geven in de algemene onderzoeksvraag: Hoe beïnvloeden de tijdperspectieven van managers en beleggers hun acties met betrekking tot MVO? De dissertatie bestaat uit drie empirische studies (naast een inleidend en concluderend hoofdstuk, alsmede een overzicht van relevante literatuurstudies).

In de eerste empirische studie onderzoek ik hoe de cognitie van leidinggevenden de MVO-strategieën van Chinese kleine en middelgrote ondernemingen beïnvloedt. Een analyse van kwalitatieve data verkregen via interviews toonde aan dat integratieve complexiteit en temporele oriëntatie gezamenlijk de strategische MVO-doelen van managers vormgeven, en daarmee leiden tot verschillen in MVO-strategieën.

De tweede empirische studie onderzoekt de impact van de tijdshorizon van topmanagers op de openbaarmaking van MVO beleid door beursgenoteerde Chinese bedrijven. De analyse, die gebaseerd is op 2.341 bedrijf-jaarobservaties van 482 beursgenoteerde Chinese bedrijven in de periode van 2010 tot 2014, toonde aan dat naarmate de tijdshorizon van leidinggevenden korter wordt, een bedrijf meer MVO-informatie verschaft. Verder heb ik onderzocht hoe deze relatie wordt gemodereerd door zogenaamde ‘resource dependency’ mechanismen.

De derde empirische studie onderzoekt de reacties van institutionele beleggers op de maatschappelijke verantwoordelijkheid en onverantwoordelijkheid van beursgenoteerde Amerikaanse bedrijven. Institutionele beleggers verschillen in hun beleggingshorizon. Terwijl toegewijde institutionele beleggers met name gericht zijn op de lange termijn, zijn tijdelijke institutionele beleggers vooral gericht op de korte termijn. De analyse van een dataset met 11.280 kwartaalobservaties van 670 beursgenoteerde Amerikaanse bedrijven over de periode 2007-2014 toonde aan dat bedrijven die zich verantwoordelijk gedragen een toename van het toegewijd institutionele eigendom tonen, terwijl bedrijven die zich onverantwoordelijk gedragen gekenmerkt worden door een afname van tijdelijk institutioneel eigendom.

Gezamenlijk geven deze drie empirische studies aan dat de temporele aspecten van cognitie invloed hebben op besluitvorming met betrekking tot MVO. Dit proefschrift is relevant voor onderzoekers die geïnteresseerd zijn in de cognitieve antecedenten van MVO in diverse contexten, en biedt ook inzichten voor de praktijk en beleid.

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CURRICULUM VITAE

Binqi Tang was born on 11 June 1989, in Mishan, Heilongjiang, China. He received his BSc in Materials Science and Engineering from Tongji University in 2011 and his MSc in Business (cum laude) from Tongji University in 2014. Binqi moved to Amsterdam in August 2014 when he started his PhD at the International Strategy & Marketing section, Amsterdam Business School, University of Amsterdam. His doctoral research was supervised by Prof. Dr. Ans Kolk and Prof. Dr. Alan Muller. His general research interests center around corporate social responsibility and managerial cognition. Since 2019, he has been working as an Assistant Professor at Nanjing University, China.