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Citation

ZHANG, Yanlong; WANG, Heli; and ZHOU, Xiaoyu. Dare to be different? Conformity versus differentiation in corporate social activities of Chinese firms and market responses. (2019). *Academy of Management Journal*. 63, (3), 717-742.

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DARE TO BE DIFFERENT? CONFORMITY VERSUS DIFFERENTIATION IN CORPORATE SOCIAL ACTIVITIES OF CHINESE FIRMS AND MARKET RESPONSES

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Building on the literature on optimal distinctiveness, this study explores the effects of conformity versus differentiation in corporate social responsibility (CSR) practices on evaluations by security analysts and responses of the financial market in general. We develop the argument that while conformity in CSR scope enhances analyst coverage, differentiation in CSR emphasis leads to more-favorable analyst recommendations and higher market value. This suggests that firms may be able to simultaneously conform in CSR scope and differentiate in CSR emphasis to achieve optimal distinctiveness. To further enhance our understanding of the variation in the relationship between conformity and differentiation and the response of analysts and the market, we investigate how some firm- and analyst-level factors moderate this relationship. Using the case of corporate social activities of Chinese listed firms during the period from 2008 to 2014, we show that scope conformity has a stronger effect on analyst coverage for state-owned firms and firms with higher visibility; on the other hand, the relationship between emphasis differentiation, and analyst recommendation and market value strengthens for firms covered by high-status brokerage houses but weakens for those experiencing high earnings pressure.

Organization and management researchers have long been puzzled by a core paradox—how firms can strategically manage the dual pressures of conforming to the institutional pressure to gain basic legitimacy while forging unique or differentiated identities to achieve a competitive advantage (e.g., Aguilera, Rupp, Williams, & Ganapathi, 2007; Deephouse, 1999; Durand & Kremp, 2016; White, 2010). The notion of optimal distinctiveness provides a useful conceptual focal point to synthesize diverse literature on this common problem. Grounded in the strategic balance perspective, which views conformity and differentiation as

competing demands, much extant research on firm-level optimal distinctiveness has focused on one single, static convergence point where the legitimate distinctiveness of a firm is maximized (for a review, see Zhao, Fisher, Lounsbury, & Miller, 2017). This focus usefully captures a typical way in which firms balance the tension between conformity versus differentiation when dealing with fine-grained or well-recognized issues and practices (Brewer, 1991; Chen & Hambrick, 1995; Deephouse, 1999).

However, there are two important gaps in the optimal distinctiveness literature that have not been adequately addressed. The first reflects some recent developments in the field (e.g., Zhao et al., 2017) suggesting that a single balancing point between conformity and differentiation, while very useful, is ill-suited for capturing the variety of strategies firms could employ to achieve optimal distinctiveness. While existing studies have provided some implications for research to move beyond a single

We are deeply thankful to Associate Editor Pursey Heugens for his exceptional guidance during the review and revision process, and three anonymous reviewers whose comments greatly enhanced the quality of this article. This research was made possible by a grant from Guanghai-Cisco Leadership Institute and funding from the Beijing Seoul Tokyo (BEST) research alliance.

balancing point, they have often not been directly targeted toward the optimal distinctiveness field, and their discussions have often encompassed very broad strategy topics (Miller, Breton-Miller, & Lester, 2013; Zhao et al., 2017). For example, Bowen, Siehl, and Schneider (1989) suggested that firms with similar products (implying conformity in product offering) may differentiate through customer service. Miller, Breton-Miller, and Lester (2013) argued that family ownership as a differentiated governance form may be more accepted when the firm conforms in other strategic behaviors. The focus on orchestration across multiple strategies in broad categories (e.g., customer service vs. product offering; ownership vs. other strategic behaviors) has led researchers to omit the complexity within a single strategy dimension (practice) and thus overlook the possibility of orchestrating conformity and differentiation across multiple features within a single practice.

The second gap in the extant literature pertains to the fact that there is little understanding of variation across firms in their demands for conformity versus differentiation, and subsequently in the effectiveness of their conformity versus differentiation efforts in influencing market responses. While certain conformity versus differentiation choices may be optimal for some firms, they may be suboptimal for others due to differences across firms in organizational features or the industry or institutional contexts in which the firms operate (King, Clemens, & Fry, 2011). It is thus imperative to contextualize discussions of optimal distinctiveness by examining conditions under which demands for conformity or differentiation may vary, and conformity or differentiation may have differential impacts on firm outcomes.

This study aims to address both gaps. First, we recognize the possibility of orchestrating conformity and differentiation across multiple features within a single but complex practice. In particular, building on, but also extending, the recent developments in optimal distinctiveness literature (Brewer, 1991; Durand & Kremp, 2016; Zhao et al., 2017; Zuckerman, 2016), we explore a specific way in which conformity and differentiation can be achieved simultaneously along two different elements of a practice in the context of Chinese firms' corporate social practices. The two elements of CSR strategies are: (1) the scope dimension, which captures the number of different CSR fields covered by a focal firm; and (2) the emphasis dimension, which assesses how much effort has been allocated by a focal firm in each CSR field. We argue that the scope

dimension of CSR is associated with the legitimacy of a firm's social practice because the scope dimension represents a prototype with a material-like feature that audiences often find convenient to refer to when making judgments regarding legitimacy (Durrand, Granqvist, & Tyllström, 2017; Zhao, Ishihara, Jennings, & Lounsbury, 2018). On the other hand, the emphasis dimension of CSR is more abstract, allowing firms to choose different focuses that make a firm's CSR practice more unique compared to that of its peers. This contrast between the two CSR dimensions is often reinforced by regulatory agencies, which typically institutionalize CSR practices by designating the issue fields that need to be covered but leave the emphasis dimension unspecified. We thus posit that firms can potentially achieve optimal distinctiveness by conforming in CSR scope but differentiating in CSR emphasis. By linking firms' CSR strategies to organizational outcomes, as reflected in the response of important audiences, including security analysts and financial markets in general, we argue and hypothesize that CSR conformity in the scope dimension legitimizes firms among the community of analysts, positively influencing analyst coverage. In contrast, CSR differentiation in the emphasis dimension allows greater value-creation opportunities, leading to more-favorable analyst recommendations and superior firm market performance.

To address the second gap, we explore contingency factors that influence the effectiveness of firms' conformity and differentiation efforts. We argue that the relationship between CSR scope conformity and analyst coverage varies with the level of legitimacy pressures that firms face, which typically come from two sources: government or regulatory parties, and general stakeholders or the public. Accordingly, we examine the moderating roles of two critical firm-level factors, *state ownership* and *firm visibility*, which are likely to influence legitimacy pressure from the government or regulatory parties and the general public, respectively. On the other hand, the relationship between CSR emphasis differentiation and analyst recommendation (market value) is influenced more by the extent to which firms' differentiation efforts are appreciated and valued by market audiences. In particular, we argue that the effectiveness of firms' CSR differentiation can be conditioned by the extent to which analysts appreciate or have the ability to evaluate such efforts, as reflected in *high-status houses coverage* and firm *earnings pressure*, respectively.

These issues are examined using a sample of Chinese public listed firms from 2008 to 2014, a period during which many Chinese companies adopted the CSR concept. China's integration into the global economy has facilitated the diffusion of CSR practices, with consumers and investors increasingly using their purchasing power and capital to encourage socially responsible behaviors. CSR practices thus allow Chinese firms to better understand and address the concerns of their stakeholders and explore new ways to achieve sustainable development. Meanwhile, the role of government in promoting CSR has also been heightened. The Chinese government considers CSR to be consistent with the general political initiative of building a harmonious society. Like some of its counterparts in Canada, Europe, and South Africa (European Commission, 2014), government agencies in China provided broad CSR guidelines for firms that specified the scope of socially responsible corporate conduct but not the standards or priorities of different issue fields (Luo, Wang, & Zhang, 2017; Marquis & Qian, 2014). This pressures firms to conform but also offers the opportunity for firms to differentiate CSR activities based on their own unique features. Thus, the Chinese CSR context, with clear reporting guidelines emphasizing scope but leaving emphasis unregulated, makes the contrast between scope and emphasis more salient. The empirical context thus allows us to show more clearly how we can move beyond a single optimal balancing point for conformity and differentiation in the adoption of a complex practice.

BACKGROUND AND THEORY

Optimal Distinctiveness and the Complexity of Corporate Social Practices

The pursuit of optimal distinctiveness is a critical aspect of organizational life. The competing pressure to be legitimate and distinctive is important and persistent, exerting significant influence on firms' formulation of effective corporate strategies (Durand & Kremp, 2016; Zhao et al., 2017). While earlier studies in the area focused on finding one single, static convergence point in which the legitimate distinctiveness of a firm is maximized (Deephouse, 1999; Roberts & Amit, 2003; Stephan, Murmann, Boeker, & Goodstein, 2003), Zhao et al. (2017) pointed out that such an approach may not be appropriate because organizational environments are multiplex, fragmented, and dynamic. In order to

move beyond this single balancing-point solution, firms may adopt an orchestration strategy¹—i.e., to configure different responses across various aspects of strategies to achieve optimal distinctiveness (Zhao et al., 2017). However, research along this line has not been directly targeted toward the problem of optimal distinctiveness; moreover, the discussion of orchestration has mainly rested on the complex features of organizational environments (King et al., 2011). Building directly on, and extending, the optimal distinctiveness literature, we argue that firms may also be able to derive multiple strategic responses from the complexity of practice itself, instead of that of the environment. In other words, it is possible to simultaneously achieve conformity and differentiation within one specific practice or strategic dimension.

In the case of corporate social practices, recent discussions on how firms undertake their social responsibilities seem to have evolved into two streams of argument: the institutional perspective and the strategic perspective. Work in the institutional tradition has posited that firms engage in socially responsible activities to meet stakeholders' expectations and conform to socially constructed values and norms (Colyvas & Powell, 2006; Petersen & Vredenburg, 2009). Thus, firms may find it necessary to adopt and retain institutionalized CSR structures, procedures, or personnel to signal normativity, credibility, and legitimacy to outside audiences (Marquis & Qian, 2014; McWilliams, Siegel, & Wright, 2006; Zbaracki, 1998). As more countries realize the necessity of enhancing the awareness of social responsibility in the business communities, various standards and national action plans are formulated to integrate, disseminate, or shape the more generic global CSR approaches within their national policy framework (European Commission, 2014). Therefore, pressure from national governments to conform becomes increasingly relevant for firms operating in both emerging and developed economies.

¹ In the review paper by Zhao et al. (2017), the authors propose three ways in which future studies can go beyond one single balancing point: *orchestration* (across multiple strategic dimensions in a complex environment), *stakeholder multiplicity* (multiple demands of diverse stakeholders), and *managing temporality* (temporally shifting legitimacy and differentiation expectations in dynamic environments). In this paper we focus on *orchestration*, since the other two dimensions are not relevant to our discussion.

Work from the strategic perspective has stressed the value of adopting unique social practices, with the aim of ultimately achieving positive financial outcomes for the firm (Elsbach, 1994; Harjoto & Jo, 2011; Porter & Kramer, 2006; Zhang & Galletta, 2006). According to this perspective, instead of conforming to institutional pressure and becoming similar to their peers, firms benefit most by differentiating themselves from their peers through differentiating their social activities based on unique firm strategies and operations, and more effectively addressing the particular needs of its customers and other stakeholders (Bouwman, Frishkoff, & Frishkoff, 1987; Deephouse, 1999; Durand & Calori, 2006; Luo & Bhattacharya, 2006; White, 2010). Differentiated CSR activities may help firms obtain new resources and develop capabilities that are internally related to the know-how and organizational culture, and strengthen relationships with key stakeholders (Francis & Armstrong, 2003; Lys, Naughton, & Wang, 2015; Nicolai, Schulz, & Thomas, 2010). Therefore, differentiation in CSR enables firms to discover unique opportunities and strengthen their competitive position, thereby bringing benefits to both society and themselves (Barney, 1991; Porter & Kramer, 2006).

It appears that there is an apparent tension between conformity in CSR to meet the need for legitimacy and firms' search for uniqueness or differentiation in CSR in order to reap CSR-based competitive advantages. However, the literature has overlooked the fact that in managing complex practices such as CSR managers may be able to orchestrate across different dimensions of the practice so as to achieve synergy between conformity and differentiation. More specifically, CSR represents a more integrated management philosophy, rather than a clearly defined, standardized operating procedure or governance principle (Aguilera, Williams, Conley, & Rupp, 2006). It involves interactions with multiple groups of stakeholders and is thus multidimensional in nature and generally complex; it thereby creates room for firms to orchestrate their strategic responses along different dimensions and achieve optimal distinctiveness by conforming in one dimension (scope) but differentiating in another (emphasis).

The classification of the two dimensions—scope versus emphasis—is based on some recent communication and management studies proposing that firms' implementation of complex practices can be characterized along the two dimensions (Ansari, Fiss, & Zajac, 2010; Fiss, Kennedy, & Davis, 2012; Philippe & Durand, 2011; Yuan, Fulk, & Monge, 2007). The scope dimension captures variation in terms of scope,

or the number of elements adopted by a firm. This dimension indicates the extent to which a firm's implementation presents far-reaching or restricted efforts toward full adoption. In other words, it measures the dosage of the practice being adopted and is closer to the notion of a scale of implementation (Ansari et al., 2010; Durand & Kremp, 2016; Fiss et al., 2012). The emphasis dimension captures the extent to which a firm's practice appears to be unique compared to the commonly adopted practice, reflecting the efforts of an organization to differentiate its practice in specific fields (Ansari et al., 2010; Deephouse, 1999; Litov, Moreton, & Zenger, 2012; Yuan et al., 2007). Given the complexity of CSR in terms of both its multidimensional nature and variations in content or depth (Philippe & Durand, 2011), it is appropriate to describe firms' CSR practices along the scope and emphasis dimensions. The scope dimension captures the extent to which a firm covers a wide range of CSR issues, such as environmental protection, labor practices, product quality and safety, and fair operating practice. The emphasis dimension reflects the content of a firm's specific CSR activities, or the extent to which a firm's pattern of CSR emphasis deviates from the common patterns of other firms. It thus indicates the uniqueness of firms' CSR practice compared to those of their peer group.

The Role of Chinese Security Analysts and Financial Markets

A firm's optimal distinctiveness depends on a constant interaction between managerial agency and the evaluations of external audiences. We next examine how firms conforming or differentiating their CSR strategies affects certain important organizational outcomes, particularly in terms of the responses of security analysts and financial markets in general.

Security analysts are considered to be a representative audience whose evaluations of organizational practices have important implications for firm strategy and performance (Luo, Wang, Raithel, & Zheng, 2015; White, 2010). Beginning in the early 1990s, there has been growing interest in firms' social activities among the community of investors and analysts. In an early survey, 26% of U.S. investors said that a company's business practices and ethics were extremely important to their investment decisions, and 72% claimed to consider a company's ethics when deciding whether to invest in its stock (Paine, 2003). These data suggest that investors recognize that stakeholders' concerns can translate into financial

consequences for the companies in which they invest. As of 2018, more than 2,250 institutions with \$80 trillion in assets under management endorsed the United Nations Principles for Responsible Investment (UNPRI), and committed to six principles, including “to incorporate Environmental, Social, and Governance (ESG) issues into investment analysis and the decision making process; to promote acceptance and implementation of the principles within the investment industry.”² An increasing body of finance and accounting literature has suggested that CSR reporting is an important source of nonmarketing information disclosure (Cronqvist & Yu, 2017; Lins, Servaes, & Tamayo, 2017), and analysts have been learning to distinguish different types of CSR activities and establish criteria to evaluate whether firms’ CSR efforts can contribute to their future performance (Khan, Serafeim, & Yoon, 2016).

The CSR system was introduced in China during the late 1990s. China’s integration into the global economy through trade and institutional participation was accompanied by the importation of global social norms. A growing number of foreign buyers and multinational companies who demand labor rights protection, better product quality, and greener products have raised the awareness of Chinese suppliers about the balance between profit maximization and enhancement of social standards, best practices, and morality (Yin & Zhang, 2012). Similar to national governments in other continents, the Chinese government has been actively promoting CSR as a way to build a harmonious society. As part of the national-level action plan, in 2006 the Shenzhen Stock Exchange issued the first detailed CSR reporting guideline, which required its listed firms to engage in social practices according to a comprehensive framework. The Shanghai Stock Exchange and the nation’s top regulator of state-owned enterprises (SOEs) subsequently adopted similar regulatory guidelines (SASAC, 2008). Meanwhile, some third-party rating agencies, such as Runling, began publishing CSR ratings and systematically comparing firms’ CSR practices in a list of issue fields. Chinese firms have consequently experienced increasing pressure to meet institutional demands in CSR, and have thus become more active in responding to the CSR requirements.

The systematic introduction of the CSR system among Chinese firms has also had reverberations in China’s investment community. Like their counterparts

in developed economies, Chinese investors and analysts began to seriously consider the social practices of listed firms (Koh, Qian, & Wang, 2014). Some recent financial studies have indicated that Chinese investors are increasingly incorporating the social performance of a firm into their investment decisions (e.g., Hung, Shi, & Wang, 2013). Furthermore, interviews and survey data have shown that the majority of analysts monitor firms’ CSR activities and consider firms’ social performance in their reports (SynTao, 2009). Similarly, there has been increasing interaction between firms and analysts regarding corporate social activities. For instance, our field interviews suggest that Chinese firms often invite security analysts to attend so-called “be-in-touch meetings,” in which managers introduce and explain their new projects and CSR practices to attract analysts’ attention. CSR is increasingly becoming a critical precondition for meeting expectations of the Chinese government and public, resulting in analysts frequently taking the social performance of firms into consideration.

We suggested earlier that firms’ CSR practices can be described along the scope and emphasis dimensions. In the sections below, we develop the argument that due to its relatively more material and salient features, the scope dimension of CSR is likely to be closely associated with the judgment of the legitimacy of firms’ social practices. In contrast, due to its abstract nature, the emphasis dimension of CSR provides room for differentiation and is thus primarily associated with the value of such practices. In addition, previous studies in behavioral accounting and sociology have suggested that analysts’ decision-making processes are often characterized by two distinct yet interconnected goals (Bouwman et al., 1987; De Graaf & Slager, 2009; Zuckerman, 1999): evaluating the basic legitimacy of firms; and then estimating the distinctiveness of its strategy or product, which affects a firm’s future market value. Building on these premises, we argue that firms achieve optimal distinctiveness in CSR by conforming in the scope dimension, which attracts analyst coverage, but differentiating in the emphasis dimension, which leads to better analyst recommendation and higher market value.

CSR Scope Conformity and Analyst Coverage

In order to obtain basic legitimacy in the financial market, public firms often seek entry into relations with security analysts, and present the analysts with different “offers” in an attempt to win their favor.

² Detailed information about UNPRI can be found at <https://www.unpri.org/pri/about-the-pri>.

Due to the complexity associated with CSR practices, outside observers such as security analysts often have difficulty measuring and assessing the extent of firms' social activities (Aguilera et al., 2006).

Complex and multidimensional practices often have both material and abstract features. The material features, such as shape, size, product design, or social codes, induce a prototypical categorization (Durrand et al., 2017; Suarez, Grodal, & Gotsopoulos, 2015). When a prototype is available for characterizing a practice, audiences often refer to the prototype in evaluating the legitimacy of the practice. This is because prototypes offer a clearly identifiable attribute that enables audiences to easily observe and incorporate it into their evaluations. In contrast, activities deviating from the prototype likely induce cognitive ambiguity that leads to audiences being less able to understand the intended meaning (Zuckerman, 1999), and thus failing to recognize the activities as legitimate (Hannan, Pólos, & Carroll, 2012; Hsu & Hannan, 2005).

This reasoning is in line with arguments and findings in the behavioral accounting literature on analysts' decision-making processes. Bouwman and colleagues (1987) empirically examined analysts' decision-making process using experimental methods. They determined that analysts usually use processes and strategies that are designed to extract the relevant activities with minimum effort when facing large amounts of data (Westphal & Zajac, 1998). The model of analysts' evaluation shows two distinct phases: familiarizing and reasoning. The goal of the first phase, which is closely related to analyst coverage decisions, is to determine the extent to which firms' practices in certain fields meet the established guidelines or conventions. This phase reflects the checklist or prototype used to develop a feel for the firm. These checklists are similar to the standard templates that help professionals categorize the problems at hand and evaluate the legitimacy of a given practice (Durand & Paolella, 2013; Durrand et al., 2017). In the case of CSR practices, the checklist or prototype is largely reflected in the scope of social practices—i.e., the extent to which a firm covers a wide range of social issues (e.g., environment, employee health and safety, product quality, and philanthropy). Indeed, the scope dimension in regard to whether a firm has covered a certain social issue field is easily identifiable, and much more overt compared to the emphasis dimension.

Moreover, as described earlier, in the context of China the state and other regulatory agencies have provided specific guidelines regarding the

appropriate structure of CSR practices. This further heightens the extent to which a firm conforms to the scope-based prototype as the basis for analysts to determine its legitimacy. We thus expect that, compared to the emphasis dimension, the CSR scope dimension is likely to play a dominant role in analysts' evaluation of conformity in firms' CSR practices. That said, we do not intend to argue that CSR is the only criterion for analysts' coverage decisions. Indeed, strategic and operational issues that have a direct effect on a firm's survival and economic performance are often the primary considerations in analysts' decisions to cover a firm (White, 2010). However, we contend that, in addition to key strategic and operational considerations, conformity in CSR practices is an important and essential criterion that analysts use when deciding whether to cover a firm. This is true in general across different economies, with mounting pressure from various parties, including investors, on corporate executives to make CSR an integral part of corporate strategy (Cronqvist & Yu, 2017; Lins et al., 2017). This pressure is felt not only by firms, but also by analysts in their decisions regarding on whether to cover particular firms. According to one analyst we interviewed, "The first thing that I check with the corporate activities is whether they are in line with the regulatory guidelines, including those associated with social practices." We thus hypothesize that:

Hypothesis 1. The scope conformity of firms' CSR practices to established reporting guidelines positively affects analyst coverage.

Although most Chinese firms face pressures regarding legitimacy and thus need to conform to standard CSR practices, the level of pressure they face can vary significantly. Thus, analysts' coverage evaluations are likely to be influenced by considering the variation in such pressures. For example, analysts may still cover a firm that faces less legitimacy pressure even if the firm shows a lower level of CSR conformity. Chinese firms' legitimacy pressures typically come from two sources: government or regulatory parties, and general stakeholders or the public. Accordingly, we discuss two critical firm-level factors—*state ownership* and *firm visibility*—that are likely to influence the amount of legitimacy pressure that firms face from the government or regulatory parties, and general stakeholders or the public, respectively.

In the context of the Chinese economy, the government and its associated regulatory parties are important sources of legitimacy (Wang & Qian,

2011). Historically, SOEs have typically been regarded as important providers of various social services. Besides economic profitability, the Chinese government has other interests in SOEs, such as supplying scarce inputs for other enterprises, maintaining a high level of employment, and providing various other social services to employees and communities. Although this relationship has been significantly weakened by governance reforms in the state sector in recent years, the Chinese government still has strong nonfinancial interests in SOEs compared to other forms of enterprise.

The Chinese government can exert both normative and regulative pressure to promote firms' adoption of certain practices. Compared to other firms, SOEs are more heavily influenced by the government: they receive support or institutional protection from the government agencies that either founded them or have considerable ownership in them, and the appointment of top management is tightly controlled by the government. SOEs are thus under the direct influence of the government, and consequently feel more pressure to respond to the call of its regulatory agencies (Marquis & Qian, 2014). In the case of CSR, although all Chinese companies are encouraged to enhance their social performance, listed SOEs are among the first wave of firms that are required to systematically adopt the CSR guidelines established by the government (Gao, 2011).

Therefore, compared to private firms SOEs face greater legitimacy pressures from the government and regulatory agencies regarding CSR practices. Such pressures are also likely to be reflected in analysts' coverage decisions. As suggested by previous studies, when evaluating SOEs analysts suffer from more serious information asymmetries since the performance of SOEs is much less predictable according to normal business cycles, owing to the government's influence (Cantor & Packer, 1997). They thus place greater focus on more observable conformity actions of SOEs but become cautious regarding any unusual practices, especially those that obviously deviate from government requirements. Accordingly, when deciding whether to cover an SOE compared to a private firm, analysts are likely to pay greater attention to CSR conformity. We thus propose:

Hypothesis 2a. State ownership moderates the relationship between CSR scope conformity and analyst coverage, such that the postulated relationship is stronger among SOEs than it is among non-SOEs.

Firms may experience legitimacy pressure not only from the government but also from other firm

stakeholders and the general public (Lu & Abeysekera, 2014). This is especially the case for firms with high visibility. Greater visibility is a double-edged sword for managers. On the one hand, high visibility is generally associated with more-positive responses from firms' stakeholders, including favorable evaluations from investors and the media, and customers' willingness to pay a price premium (Pollock & Gulati, 2007; Rindova, Williamson, Petkova, & Sever, 2005). In regard to CSR, high-visibility firms clearly have some advantage in making their social activities known to the public. Indeed, greater firm visibility has been found to increase the benefit that a firm can obtain from its social activities (Wang & Qian, 2011). On the other hand, a firm with high visibility is also likely to raise the expectations of stakeholders, resulting in heightened legitimacy pressure. Research has pointed out that stakeholders who are more informed about a firm's activities are also more likely to take action against the firm. As a consequence, more-visible organizations are subject to greater levels of scrutiny from the public and stakeholders (Brammer & Millington, 2006). Similarly, with high visibility the public and stakeholders have a higher level of scrutiny of the firm's CSR activities. When the firm is not able to meet legitimacy expectations—e.g., when it experiences a socially irresponsible event—it is more likely to attract negative attention from the media and the public (Godfrey, 2005).

Therefore, the downside of failing to meet stakeholder expectations increases with an increase in firm visibility, resulting in heightened legitimacy pressure regarding CSR practices. We expect that analysts also place greater weight on CSR conformity of such firms. First, being widely known, highly visible firms are also more likely than less-visible firms to attract greater attention from analysts. Second, due to the severe negative financial consequences for highly visible firms often associated with nonconformity (Godfrey, Merrill, & Hansen, 2009; Wang & Qian, 2011), analysts' assessment of such firms is more likely to be influenced by conformity considerations. We thus postulate that:

Hypothesis 2b. Firm visibility moderates the relationship between CSR scope conformity and analyst coverage, such that the postulated relationship is stronger among firms with greater visibility.

CSR Emphasis Differentiation and Analyst Recommendations

Although gaining legitimacy through conformity helps to obtain analyst coverage, winning favorable recommendations from analysts and other market

actors requires firms to adopt distinct strategies that allow firms to be differentiated from their peers (Womack, 1996). Unlike material features that induce a prototypical categorization, abstract features with ambiguous information evoke audiences' goal-based evaluation (Durand & Paoletta, 2013). In the goal-based evaluation process audiences favor practices that are unique or span existing fields, because these are considered more capable of handling the case in point. Hence, when being evaluated on dimensions with abstract features, firms with a greater degree of differentiation are better able to signal their competence and value to audiences. In the case of CSR practices, while the overt structure (CSR scope) represents the material feature of the practice, the abstract feature is reflected in the emphasis dimension, where audiences are likely to explore in greater depth how specific CSR activities can serve the firm's strategic purposes, perhaps through enhancing firm relationships with salient stakeholders in their particular environments. In this process, firm efforts that are intended to align CSR activities with idiosyncratic firm features are preferred.

This argument is again consistent with findings in behavioral accounting studies on the decision-making process of security analysts. It has been suggested that after the familiarizing phase, during which all items on the checklist are examined, analysts proceed to the next phase with the goal of looking for something extraordinary or unique. This is then integrated into the accumulated findings through the formulation of causal relations that explain variations in the key outcomes (Bouwman et al., 1987; Orlikowski, 2000). In line with our argument, previous research has suggested that professional investors may prefer varied and idiosyncratic practices in very specific fields to maximize judgment accuracy for the task at hand (Lys et al., 2015; Zhang & Galletta, 2006).

This point can be illustrated with an example of Chinese firms' environmental protection activities and how analysts evaluate them. In China, environmental protection has not been a central focus for firms in the financial sector. However, in 2003 the International Finance Corporation and a group of leading financial institutions proposed the Equator Principles, which provide a minimum standard of environmental and social risk management in project finance (Equator Principles, 2006). In 2008, the Industrial Bank of China became the first and only Chinese bank to adopt the Equator Principles. Compared to the conventional CSR issues addressed by

other Chinese banks, the Industrial Bank's unique CSR practice in a once-neglected CSR field was perceived as an important step forward in the industry, and was commended by both executives and analysts in the banking sector (China CSR, 2008).

The above example underscores the point that firms are evaluated based more on the extent to which they effectively differentiate their efforts to satisfy the specific needs of their salient stakeholders and the manner in which these differentiated practices fit firms' competitive positioning (Werbel & Wortman, 2000). As one Chinese analyst remarked, "When integrating CSR factors into an investment analysis, the key is to focus on unique factors that are likely to have a material impact on the sustainability of a firm's business model and its share price performance." In contrast, the scope dimension is less consequential when conducting such analyses. Just like the composite index developed by third-party rating agencies, such indexes only provide an appropriate and efficient initial view of how comprehensively a firm has covered various aspects of a CSR rating scale, but may not adequately reflect differences in the level of effort spent satisfying the demands of salient stakeholders in the firm's particular competitive context.

In sum, the emphasis dimension of firms' CSR practice provides crucial evidence for security analysts and the general market to arrive at their evaluations of a firm's market value. We thus posit:

Hypothesis 3. The emphasis differentiation of CSR practices is positively associated with analysts' investment recommendations and the firm's market value.

The benefits of emphasis differentiation in CSR may also vary across firms, depending on the extent to which audiences appreciate firms' differentiation efforts. In particular, we examine two factors that are believed to affect analysts' appreciation or capability in evaluating firm differentiation in CSR: *high-status houses coverage*, and the extent to which the firm faces *earnings pressure*.

Previous studies have suggested that brokerage houses can be divided into two hemispheres, with high and low status. Compared to low-status houses, high-status ones often have more resources to enable their analysts to conduct independent research. Moreover, analysts serving in high-status houses often specialize in one or two industries and cover a limited number of firms, while low-status houses usually serve more clients on a smaller scale and with higher turnover. Thus, while analysts in low-

status houses may spend more time conferring with clients and have little time to conduct research, analysts in high-status houses are often able to develop in-depth knowledge and expertise about the industry and the firms that they cover (Ioannou & Serafeim, 2015). This enhances the ability of analysts in high-status houses to understand firm differentiation efforts.

In addition, high-status houses are less risk averse because they have established a reputation and strong legitimate base that buffers the potential negative consequences caused by their bold actions. In contrast, analysts in low-status houses are more likely to suffer reduced promotion opportunities or even job loss when they make bold forecasts that are not fulfilled. Thus, analysts in low-status houses tend to take fewer risks in their forecasts by being more conservative and closer to the consensus forecast when evaluating more innovative CSR activities. In comparison, analysts in high-status houses are more likely to dissent from the prevailing view and shift toward an alternative or emerging view without fearing the loss of status or being eliminated as players in the competition for business (Ioannou & Serafeim, 2015; Phillips & Zuckerman, 2001). For example, Ioannou and Serafeim (2015) documented that during a transition in the prevailing view from an agency logic to a stakeholder logic, high-status brokerage houses were the first to shift their perception of CSR from a pessimistic view to a more optimistic one, as indicated by their analysts' more positive recommendations of firms with better CSR performance. Similarly, we should also expect that, compared to houses with lower status, high-status houses are likely to be more appreciative of firms' efforts to strategically differentiate themselves in CSR.

We thus predict that, when firms are covered by analysts from high-status houses, these firms' efforts to differentiate their CSR practices are more likely to be recognized and appreciated, leading to better analyst recommendations and greater market value.

Hypothesis 4a. High-status houses coverage moderates the relationship between differentiation of CSR, and analysts' investment recommendations and the firm's market value, such that for firms covered by higher-status houses the postulated relationship is stronger.

While analysts have increasingly incorporated corporate social activities into their evaluations, as financial market intermediaries they still place strong emphasis on the financial prospects of the firms they cover. Indeed, the capacity of an organization to deliver a value proposition—i.e., its

pragmatic legitimacy—serves as the basis of organizational legitimacy and has been shown to have the greatest impact on an organization's success (Deephouse & Suchman, 2008; Ginzler, Kramer, & Sutton, 1992; Suchman, 1995). On the other hand, if a firm does not present itself as a viable profit-making business then efforts to engage in unique or innovative CSR may be ineffective, and stakeholders may perceive the firm negatively (Ginzler et al., 1992; Koh et al., 2014; Wang & Qian, 2011), leading to negative organizational outcomes. Thus, under circumstances of adverse firm economic performance it is unlikely that analysts will still appreciate firms' CSR differentiation efforts. Consequently, an effort to differentiate through manipulation of CSR emphasis may not result in positive analyst recommendations or favorable market reaction, but may instead signal shirking in pragmatic exchanges (Suchman, 1995).

Firm earnings are often considered the most important performance measure reported to outsiders, especially to analysts (Zhang & Gimeno, 2010). Meeting earnings benchmarks set by financial analysts helps to build credibility in the capital market and signal the firm's profit-making capability, while failure to meet the earning expectations often results in negative analyst perceptions of the firm in terms of its economic viability. Analysts are consequently likely to question such a firm's ability to use CSR to effectively differentiate itself from other firms and to gain competitive advantage (Kasznik & McNichols, 2002; Prior, Surroca, & Tribó, 2008). We thus hypothesize:

Hypothesis 4b. Earning pressure moderates the relationship between differentiation of CSR, and analysts' investment recommendations and the firm's market value, such that the postulated relationship is weaker among firms facing greater earnings pressure.

DATA AND METHOD

Data

The initial sample for this study was drawn from Chinese listed firms that reported CSR activities from 2008 to 2014. We used China's public listed firms because of the reliability and consistency of their information compared to that collected through other sources, given the difficulty of data collection in emerging economies (Xu & Wang, 1999). The information on Chinese firms' CSR was drawn from the China Listed Firm Corporate Social Responsibility Research Database maintained by the GTA Information Technology Co., Ltd. (www.gtarsc.com), a private firm that collects and categorizes CSR activities

reported by listed firms starting in 2008. International scholars have widely used the data offered by GTA. For instance, Wang and Qian (2011) used this data to study corporate philanthropy and corporate financial performance; Sun, Hu, and Hillman (2016) discussed the dark side of board political capital; and Luo et al. (2017) analyzed institutional complexity and firms' CSR reporting. The GTA CSR research database contains firms' social activities in 10 different CSR issue fields—shareholder protection, creditor protection, employee protection, supplier protection, customer protection, environment protection, public relations, CSR capacity building (system construction), work safety, and deficiency. Our analysis excludes the deficiency category because many reported activities in this field concern the overall deficiency of firms that is not directly related to social responsibility. The database collects information on specific social activities from each of these fields. The activity-level information includes project name, value, and unit. For instance, the real estate firm Vanke had 27 activities in the *environmental protection* field in 2014, including the reduction of carbon emissions, waste sorting in communities, and electricity generated from renewable energy.

The information on analyst coverage and recommendations was drawn from the China Listed Firm Financial Analyst Forecasting Research Database. Other information on basic firm-level characteristics was based primarily on the China Stock Market and Accounting Research (CSMAR) database (Marquis & Qian, 2014). The final sample totaled 3,230 firm-years observations.

Dependent Variables

Adjusted analysts coverage. Following previous studies (Fombrun, Gardberg, & Barnett, 2000; Mattingly & Berman, 2006; White, 2010), we considered an analyst to be covering a firm in year t if that analyst has issued an annual earnings forecast for that firm's fiscal period ending in year t . We calculated *adjusted analyst coverage* (White, 2010), which is the share of analysts covering an industry segment j that find it attractive to cover firm i . Formally, if there are A_j analysts covering industry segment j , and a count of these analysts, a_i , chooses to cover firm i in that industry segment, then the adjusted coverage equals a_i / A_j .

Analysts' recommendation. Consistent with past research (Luo et al., 2015; Watson, 2015), we used the mean investment recommendation for each firm i in year t as one of the dependent variables of our study.

The CSMAR database recorded analysts' investment recommendations on a 5-point scale, with 1 indicating a "strong buy" recommendation and 5 indicating a "sell" recommendation. The score was reversed when we constructed the variable so that higher recommendations took larger values. We assigned equal weight to each recommendation, and the dependent variable is the average of all investment recommendations published by the analysts that followed the firm.

Tobin's q . We used Tobin's q to measure each firm's market value, which was calculated as the sum of the market value of equity and book value of debt over the book value of total assets (Wernerfelt & Montgomery, 1988). Market value is usually based on expected cash flows and risks, which indicate future corporate performance.

Key Independent Variables: Conformity and Differentiation

Our independent variables were the degree of conformity and differentiation of firms' CSR activities. We defined scope conformity as the extent to which the focal firm's CSR portfolio resembled practices defined in the established guidelines; this mainly captured variation along the scope dimension of a firm's CSR practice. As discussed above, the CSR guideline has already established a standard CSR practice framework for all firms, which clearly identifies important CSR issues. Therefore, firms that follow the guideline and address more issues are considered to show higher conformity to the established norms.

When comparing the scope conformity between firms that covered the same number of (but not all) CSR issue fields, it is important to consider the relative importance of the issue fields being covered. In fact, as previous studies have acknowledged, the development of a weighting system for different CSR issue fields is an important methodological challenge that affects our capability to develop precise composite CSR measures (Watson, 2015). This study used the concept network method to develop weights for each CSR field (Kennedy & Fiss, 2013). We first created a two-mode affiliation matrix for each year, with nine CSR fields and the sample firms as the columns and rows, respectively. The numbers in this affiliation matrix represent the number of projects or activities in a given CSR field reported by a given firm. To determine which CSR field is most essential to the firm's CSR practice, we then transformed the two-mode affiliation networks (issue

fields by firms) to one-mode concept networks (issue fields only) that show how different CSR fields cooccur, and the strength of connections among them. In such networks, activities that are more tightly connected with others can be viewed as representing the most essential CSR issue in an industry and at a particular time. To evaluate the importance of each issue field we calculated the eigenvector centrality values, which measure the network centrality of each issue field.

Based on these weights, we followed previous studies (Ansari et al., 2010; Fiss et al., 2012; Yuan et al., 2007) and operationalized CSR *scope conformity* as the sum of the products of dummies for each of the nine issue fields, and the prior period's eigenvector centrality scores for each issue field. A higher score indicates greater scope conformity. More formally,

$$\text{Scope Conformity}_t = \sum_{i=1}^9 \text{CEN}_{i(t-1)} \text{CSR}_{it}$$

where CEN_{it} refers to the eigenvector centrality of issue field i at time t , and CSR_{it} refers to whether issue field i was included in the firm's report at time t (Yes = 1, No = 0). Thus, the value of *scope conformity* was determined by both the number of issue fields addressed and the importance (eigenvector centrality) of these fields. A firm that addresses a large number of CSR fields but misses a field of higher importance may have a lower *scope conformity* score compared to one that addresses a lower number of fields with higher importance.

The second measure, emphasis differentiation, was defined as the extent to which a firm's pattern of CSR emphasis deviates from the common patterns of other firms in the same industry. We adopted a more nuanced measure that quantifies the extent of efforts allocated to each issue field. It is a continuous measure calculated based on the percentage of firms' efforts devoted to each CSR issue field, rather than on a binary variable measuring whether a practice was adopted. In essence, our concept and measure of emphasis differentiation is closer to that of strategic deviation (Deephouse, 1999) and uniqueness (Litov et al., 2012) used in some other studies. Previous studies have argued that when comparing CSR practices it is important to normalize the measures by industry, such that a firm is compared with other firms in its own industry (Aguilera et al., 2006). Moreover, for complex and nascent practices, such as CSR, the content or the relative importance of its multiple constituents may change over time (Ansari

et al., 2010). To capture these nuances, we calculated the difference between a firm's emphasis and the industry average emphasis, and then weighted the absolute value of these differences using the eigenvector centrality of each field. The sum of the weighted differences across all nine CSR fields was used as an indicator of a firm's CSR *emphasis differentiation* from the common practice. Lower scores indicate greater similarity to commonly adopted practices, whereas higher scores indicate greater differentiation of a firm's CSR activities, making its CSR unique compared to others. More formally,

$$\text{Emphasis Differentiation}_t = \sum_{i=1}^9 |AE_{it} - FE_{it}| \text{CEN}_{i(t-1)}$$

where AE_{it} is the averaged emphasis in issue field i at time t , FE_{it} is the firm's emphasis in issue field i at time t , and CEN_{it} is the eigenvector centrality of issue field i at time t . Both conformity and differentiation measures are continuous variables. Standardized scores are used in subsequent analyses.

Other Independent Variables

We constructed a dummy variable to indicate a firm's ownership type based on the status of the firm's ultimate controllers. Firms that are controlled by state asset-management agencies or other government agencies are regarded as *SOEs*; otherwise, they are regarded as nonstate owned.

Firm *visibility* was operationalized by a firm's advertising intensity. This variable was calculated as the ratio of selling and administrative expenses to sales (Wang & Qian, 2011). It captures a firm's willingness to spend on marketing and selling-related activities in an effort to differentiate itself from competitors.

High-status houses coverage is measured by the ratio of star houses to the total number of brokerage houses that cover a firm. Since 2003, Chinese analysts, often working in teams for brokerage houses, have been ranked annually according to their performance by *New Fortune* magazine. Highly ranked analyst teams are included in the New Fortune Best Analyst list (<http://www.xcf.cn>). If a brokerage house has analyst teams on the New Fortune Best Analyst list, we coded the brokerage house as a star house.

Earnings pressure is used to account for the extent to which firm performance meets analysts' expectations. This variable is measured as the difference

between analysts' consensus forecasts of a firm's earnings in year t and the firm's actual earnings for year t (Gentry & Shen, 2013; Washburn & Bromiley, 2014).

Control Variables

We controlled the factors that have been suggested in previous studies to influence our dependent variables. We included several variables to control the characteristics of CEOs and corporate governance, which tend to influence analysts' coverage and recommendations as well as firm value (Jiraporn, Liu, & Kim, 2014; Lang, Lins, & Miller, 2004). *CEO power* is a composite index (Briscoe, Chin, & Hambrick, 2014) calculated as a Cronbach's α value comprising: (1) CEO duality—that is, whether the CEO also serves as the chair of the board of directors; (2) whether the CEO was the founder of the firm; and (3) the equity share held by the CEO. The reliability score is 0.67. *CEO MBA* is a dummy variable indicating whether the CEO holds an MBA degree (Yes = 1, No = 0).

Two additional CEO-related variables are specific to the context of China: CEO returnee and CEO party member. *CEO returnee* is a dummy variable indicating whether a CEO has overseas work or education experience (Yes = 1, No = 0). *CEO party member* indicates whether the CEO is a member of the Communist Party (Yes = 1, No = 0). Moreover, the *percentage of independent directors* was included to measure the strength of the internal monitoring for effective corporate governance (Harjoto & Jo, 2011). *TMT equity holding*, operationalized as the percentage of firm equity held by a firm's top management team, was used to measure managerial incentives. We included a dummy variable (Yes = 1, No = 0) to indicate firms' membership in *socially contested industries*, such as alcoholic beverages, defense, and tobacco manufacturing (Kim & Skinner, 2012; Koh et al., 2014). We controlled for the influence of *ownership concentration*, calculated as the total equity shares held by the five largest shareholders, on the market value of firms (Bai, Liu, Lu, Song, & Zhang, 2004).

We also controlled for several typical firm-level variables. *List age* refers to the number of years that the firm was listed on China's stock exchanges as of 2014. *Firm size* is measured according to the number of firm employees. We used its natural logarithm to correct its skewed distribution. *Return on assets (ROA)* is an accounting measure of firm profitability, which calculates management's efficiency in using its assets to generate earnings. *Financial leverage* (i.e., the ratio of total debt to equity) serves as a proxy

for capital structure, which is significantly correlated with firm performance (Mishra & Modi, 2013). The *overall level of CSR* measures a firm's total number of CSR activities in each year. *Share price* is measured by the median of the monthly average of open price and close price in a single year.

To ensure that our results are not driven by outliers, we winsorized all variables generated from the accounting data at the 2.5 percentile in each tail (our results are also robust at other cutoff points, e.g., 0.5% or 1% in each tail). We also lagged these variables by one year. Table 1 summarizes the correlation matrix and descriptive statistics.

Methods

Taking advantage of our panel dataset, we used firm fixed-effects models to control for all time-invariant differences across firms. To determine whether the fixed-effects model was appropriate for this study, we additionally conducted a Hausman test in which the null hypothesis is that the unique errors are not correlated with the regressors. The test result rejects the null hypothesis, thereby supporting our choice of fixed-effects models. In addition to the firm fixed-effects models, we used three further estimation methods to check the robustness of our empirical findings, namely the instrumental variable approach, first-difference regression, and dose-response functions (DRFs). Details of these tests are described in the "Robustness Tests" section.

RESULTS

Our first analysis explored the effect of scope conformity on adjusted analysts' coverage. Hypothesis 1 states that the scope conformity of firms' CSR practices is positively associated with adjusted analysts' coverage. The results are reported in Table 2, in which Model 1 used *adjusted analyst coverage* as the outcome variable. Model 1 incorporated scope conformity and other control variables. The coefficient of the scope conformity is positive and statistically significant ($[M1]\beta_{scope\ conformity} = 0.073, p < 0.001$), which is consistent with our prediction. Models 2 and 3 test Hypothesis 3, which states that the emphasis differentiation of firms' CSR practices is positively associated with analysts' recommendation and firms' market value. We incorporated emphasis differentiation and control variables in both models. The positive and statistically significant coefficients ($[M2]\beta_{emphasis\ differentiation} = 0.036, p < 0.01$;

TABLE 1
Means, Standard Deviations, and Correlations

	1	2	3	4	5	6	7	8	9	10	11
1	1.00										
2	Adjusted analyst coverage	1.00									
3	Analyst recommendation	0.24	1.00								
4	Tobin's q	0.15	0.08	1.00							
5	Scope conformity	0.02	-0.01	-0.30	1.00						
6	Emphasis differentiation	-0.01	0.14	0.13	-0.08	1.00					
7	State-owned enterprises	0.03	-0.13	-0.04	-0.20	-0.01	1.00				
8	Earnings pressure	-0.09	-0.25	-0.11	0.01	0.01	0.01	1.00			
9	TMT equity holding	-0.01	0.09	0.21	0.13	-0.29	-0.03	0.03	1.00		
10	Socially contested industries	-0.07	0.03	0.20	0.18	-0.07	0.01	0.03	1.00		
11	CEO power	0.00	0.09	0.25	0.07	-0.23	-0.03	0.41	0.12	1.00	
12	CEO returnee	0.06	-0.01	0.00	0.02	-0.03	-0.01	0.05	0.01	0.09	1.00
13	CEO party member	0.03	-0.03	-0.09	0.03	0.09	-0.01	-0.08	-0.11	0.02	0.01
14	CEO MBA degree	0.07	0.04	0.04	0.05	-0.09	-0.04	0.13	0.02	0.15	0.14
15	% of independent directors	0.00	0.04	0.00	0.07	-0.04	0.04	0.03	0.02	0.08	-0.01
16	Ownership concentration	0.09	-0.02	0.00	-0.01	0.07	-0.03	0.05	-0.07	-0.02	0.10
17	Financial leverage	0.01	-0.06	-0.50	-0.04	-0.04	0.11	-0.26	-0.20	-0.21	-0.01
18	Visibility	0.01	-0.02	0.18	0.01	-0.17	0.05	0.07	0.19	0.13	0.07
19	List age	-0.01	0.01	-0.25	0.14	0.08	0.02	-0.41	0.07	-0.28	-0.08
20	Firm size	0.30	0.11	-0.34	0.09	0.11	-0.10	-0.24	0.01	-0.17	0.02
21	Firm ROA	0.27	0.27	0.44	-0.11	0.01	-0.50	0.05	0.15	0.08	-0.01
22	Share price	0.28	0.20	0.60	-0.20	0.08	-0.49	0.18	0.17	0.20	0.01
23	Overall level of CSR	0.06	0.02	-0.01	0.04	0.10	-0.06	-0.16	-0.03	-0.10	-0.01
24	High-status houses coverage	0.11	0.17	0.01	-0.10	0.17	-0.11	-0.03	0.01	0.01	0.01
	Social organization	0.01	-0.01	-0.01	0.06	-0.07	-0.01	-0.04	-0.07	-0.04	-0.11
	Mean	0.40	4.08	1.70	0.00	0.43	0.28	0.04	0.05	-0.01	0.18
	SD	0.33	0.55	1.38	1.00	0.49	0.45	0.12	0.21	0.80	0.38

TABLE 1
(Continued)

	12	13	14	15	16	17	18	19	20	21	22	23	24
1 Adjusted analyst coverage													
2 Analyst recommendation													
3 Tobin's <i>q</i>													
4 Scope conformity													
5 Emphasis differentiation													
6 State-owned enterprises													
7 Earnings pressure													
8 TMT equity holding													
9 Socially contested industries													
10 CEO power													
11 CEO returnee	1.00												
12 CEO party member	-0.04	1.00											
13 CEO MBA degree	0.06	0.03	1.00										
14 % of independent directors	0.06	0.06	0.08	1.00									
15 Ownership concentration	0.08	-0.03	0.00	0.01	1.00								
16 Financial leverage	0.00	0.01	-0.02	-0.08	-0.10	1.00							
17 Visibility	0.07	-0.10	0.00	-0.31	0.14	-0.11	1.00						
18 List age	0.08	0.01	0.07	0.25	0.35	-0.07	0.08	1.00					
19 Firm size	-0.03	0.00	-0.01	0.06	-0.44	-0.02	-0.02	-0.06	1.00				
20 Firm ROA	-0.05	0.05	-0.06	0.04	-0.20	0.11	0.46	-0.08	-0.23	1.00			
21 Share price	0.09	-0.02	0.01	0.11	0.12	-0.10	-0.04	0.36	0.12	-0.09	1.00		
22 Overall level of CSR	0.05	0.05	0.03	0.09	0.05	0.08	0.06	0.17	0.07	0.02	0.09	1.00	
23 High-status houses coverage	0.05	-0.07	-0.04	-0.15	-0.01	-0.02	-0.02	-0.11	0.00	0.10	-0.04	-0.16	1.00
24 Social organization	0.39	0.12	0.37	0.55	0.47	0.15	0.07	8.28	10.74	14.62	23.10	0.54	0.86
Mean	0.49	0.32	0.06	0.17	0.27	0.13	0.08	1.51	5.74	12.19	45.94	0.27	0.36
SD													

Notes: Correlations $\geq |0.08|$ are significant at $p < 0.001$; correlations $\geq |0.05|$ are significant at $p < 0.01$; correlations $\geq |0.04|$ are significant at $p < 0.05$.

TABLE 2
Impacts of Firms' CSR Strategy on Analyst Coverage, Analyst Recommendation, and Tobin's q

	M1: Adjusted Analyst Coverage		M2: Analyst Recommendation		M3: Tobin's q	
	Coef.	SE	Coef.	SE	Coef.	SE
Scope conformity	0.073***	0.006	–	–	–	–
Emphasis differentiation	–	–	0.036**	0.012	0.172***	0.018
Adjusted analyst coverage	–	–	0.249***	0.047	0.113***	0.023
SOE	–0.008	0.012	0.016	0.029	–0.281***	0.049
Earnings pressure	–0.048***	0.012	–0.159***	0.028	–0.252***	0.047
TMT equity holding	–0.023	0.093	0.059	0.220	–0.469	0.373
Socially contested industries	–0.039	0.044	–0.180 [†]	0.099	–1.082***	0.152
CEO power	0.003	0.011	0.060*	0.027	0.059	0.046
CEO returnee	–0.005	0.017	0.022	0.041	–0.083	0.071
CEO party member	0.027	0.024	–0.059 [†]	0.033	–0.073	0.056
CEO MBA degree	–0.032	0.021	0.011	0.049	0.029	0.084
% of independent directors	0.262*	0.125	0.214	0.293	0.173	0.498
Ownership concentration	–0.294	0.267	–0.206	0.190	0.131	0.325
Financial leverage	0.078	0.132	0.062	0.094	–0.372*	0.161
Visibility	–0.304	0.353	–0.238	0.258	0.263	0.428
List age	–0.057***	0.011	0.040***	0.006	–0.198***	0.011
Firm size	0.111***	0.033	0.042 [†]	0.023	–0.155***	0.040
Firm ROA	2.563***	0.308	0.953***	0.221	3.364***	0.379
Share price	0.002	0.002	0.005***	0.001	0.036***	0.002
Overall level of CSR	0.002*	0.001	–0.001	0.001	–0.002*	0.001
High-status houses coverage			0.096*	0.041	0.249***	0.062
Constant	2.71***	0.555	2.528***	0.388	6.407***	0.663
No. of observations	3,230		3,203		3,224	
Adjusted R-Square	0.67		0.45		0.79	

[†] $p < 0.1$

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

($[M3]\beta_{\text{emphasis differentiation}} = 0.172, p < 0.001$) support our Hypothesis 3.

Our second analysis explored the alignment between firms' CSR strategies and macro-level, as well as firm-level, characteristics. Hypotheses 2a and 2b postulate that state ownership and firms' visibility moderate the relationship between CSR scope conformity and adjusted analyst coverage, such that the relationships are stronger among state firms or firms with higher visibility. Models 4 and 5 (Table 3) included both the explanatory variables and their interaction terms with the moderators. The interaction term between scope conformity and SOE is positive and significant ($[M4]\beta_{\text{scope conformity} \times \text{SOE}} = 0.021, p < 0.01$), indicating that the positive relationship between scope conformity and adjusted analyst coverage is stronger among SOEs than it is among non-SOEs. This supports our Hypothesis 2a. The interaction term between scope conformity and firms' visibility in Model 5 is also positive and statistically significant ($[M5]\beta_{\text{scope conformity} \times \text{visibility}} = 0.060,$

$p < 0.05$), suggesting that the positive relationship between scope conformity and adjusted analyst coverage is stronger for firms with higher visibility. Our Hypothesis 2b is thus supported.

Models 6 and 8 test our Hypothesis 4a, which suggests that the relationship between emphasis differentiation, and analyst recommendation and firms' market value is moderated by the characteristics of the key referent audience. The interaction term between emphasis differentiation and high-status houses coverage in Model 6 is positive and significant ($[M6]\beta_{\text{emphasis differentiation} \times \text{high-status houses coverage}} = 0.067, p < 0.1$), indicating that the emphasis differentiation of firms' CSR practice has a relatively more beneficial impact on analyst recommendation if firms are covered by a greater number of star brokerage houses. Similarly, when we changed the outcome variable to firms' Tobin's q in Model 8, the interaction term was also positive and significant ($[M8]\beta_{\text{emphasis differentiation} \times \text{high-status houses coverage}} = 0.135, p < 0.05$), indicating that a firm covered by a

TABLE 3
Impacts of Firms' CSR Strategy on Analyst Coverage, Analyst Recommendation, and Tobin's q

	M4: Adjusted Analyst Coverage		M5: Adjusted Analyst Coverage		M6: Analyst Recommendation		M7: Analyst Recommendation		M8: Tobin's q		M9: Tobin's q	
	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	SE
Scope conformity	0.059***	0.00	0.018***	0.005	-	-	-	-	-	-	-	-
Emphasis differentiation	-	-	-	-	0.034 [†]	0.020	0.080***	0.014	0.168***	0.032	0.314***	0.023
Scope conformity × SOE	0.021**	0.007	-	-	-	-	-	-	-	-	-	-
Scope conformity × Visibility	-	-	0.060*	0.029	-	-	-	-	-	-	-	-
Emphasis differentiation × high-status houses coverage	-	-	-	-	0.067 [†]	0.039	-	-	0.135*	0.064	-	-
Emphasis differentiation × earnings pressure	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted analyst coverage	-	-	-	-	-	-	-0.062*	0.026	-	-	-0.146***	0.045
SOE	-0.011	0.010	0.010	0.041	0.123***	0.014	0.249***	0.047	0.041 [†]	0.022	0.112	0.072
Earnings pressure	-0.164***	0.039	-0.299***	0.034	0.030	0.029	0.019	0.029	0.045	0.042	-0.271***	0.049
TMT equity holding	0.011	0.307	-0.042	0.309	-0.160***	0.028	-0.160***	0.028	-0.101*	0.046	-0.260***	0.047
Socially contested industries	0.113	0.072	0.148	0.070	-0.141	0.101	-0.116*	0.050	-0.426	0.354	-0.401	0.373
CEO power	0.012	0.038	0.009	0.037	0.056*	0.027	0.060*	0.027	-1.292***	0.163	-1.057***	0.385
CEO returnee	-0.048	0.058	-0.050	0.056	0.030	0.041	0.022	0.041	-0.004	0.044	0.062	0.046
CEO party member	0.018	0.046	0.017	0.043	-0.067*	0.033	-0.054 [†]	0.033	-0.049	0.067	-0.082	0.070
CEO MBA degree	-0.115 [†]	0.069	-0.092 [†]	0.067	0.015	0.049	0.011	0.049	-0.083	0.053	-0.067	0.055
% of independent directors	-0.422	0.410	-0.310	0.390	0.212	0.292	0.293	0.293	-0.043	0.471	0.296	0.499
Ownership concentration	-0.329	0.267	-0.234	0.254	-0.180	0.190	-0.227	0.193	-0.021	0.080	0.027	0.084
Financial leverage	-0.373**	0.132	-0.105**	0.116	0.057	0.094	0.058	0.094	0.772**	0.299	0.173	0.324
Visibility	-0.267	0.354	-0.596	0.331	-0.246	0.258	-0.250	0.258	-0.442**	0.153	-0.390*	0.161
List age	-0.056***	0.011	-0.057***	0.011	0.041**	0.007	0.043***	0.007	0.121	0.405	0.234	0.427
Firm size	0.112***	0.033	0.110***	0.033	0.041 [†]	0.024	0.042	0.023	-0.021*	0.010	-0.092***	0.011
Firm ROA	2.577***	0.309	2.552***	0.310	0.916***	0.221	0.947***	0.222	-0.278***	0.036	-0.153***	0.040
Share price	0.001	0.001	0.001	0.002	0.006***	0.001	0.004***	0.001	0.047***	0.002	0.036***	0.002
Overall level of CSR	0.001	0.001	0.002**	0.001	-0.001	0.001	-0.002*	0.001	-0.005***	0.001	-0.003***	0.001
High-status houses coverage	2.778***	0.556	2.718***	0.555	2.447***	0.390	2.460***	0.389	0.131*	0.066	0.248***	0.062
Constant	3.230		3.230		3.203		3.203		3.224		3.224	
No. of Observations	0.74		0.73		0.37		0.38		0.79		0.79	
Adjusted R-Square												

[†] $p < 0.1$
* $p < 0.05$
** $p < 0.01$
*** $p < 0.001$

greater number of high-status brokerage houses will benefit more from its emphasis differentiation of CSR practice compared to those covered by fewer high-status brokerage houses. These results lend support to our Hypothesis 4a.

Our Hypothesis 4b states that the relationship between the emphasis differentiation, and analyst recommendation and firms' market value is moderated by the earnings pressure that firms face. The interaction term between emphasis differentiation and earnings pressure in Model 7 is negative and significant ($[M7]\beta_{\text{emphasis differentiation} \times \text{earnings pressure}} = -0.062, p < 0.05$), indicating that the emphasis differentiation of firms' CSR practice will have a relatively less beneficial impact on analyst recommendation when firms face greater earnings pressure. When we changed the outcome variable to firms' Tobin's q in Model 9, the interaction term was negative and significant ($[M9]\beta_{\text{emphasis differentiation} \times \text{earnings pressure}} = -0.146, p < 0.001$), indicating that the positive impact of firms' emphasis differentiation has a less beneficial impact on firms' market value for those facing greater earnings pressure than for those with better financial performance. These results lend support to our Hypothesis 4b.

Robustness Tests

We employed several model specifications as alternatives to the fixed-effects models to test the robustness of our main results: the instrumental

variable approach, first-difference regressions, and the DRF. We first adopted the instrumental variable approach to address endogeneity concerns. The ideal instrumental variable should have an influence on CSR scope conformity and CSR emphasis differentiation but be exogenous to adjusted analysts' coverage, recommendation, or market value. Using this principle, we included an instrumental variable—i.e., the number of *social organizations* in Chinese provinces normalized by regional gross domestic product. The data were drawn from the China Statistical Yearbook, which has information about various types of social organizations, including charity organizations, environmental protection organizations, and other types of nongovernmental or voluntary organizations. Previous literature has suggested that social organizations' activism exerts a strong impact on CSR activities (Cantor & Packer, 1997), and we thus argue that regions with a greater number of social organizations tend to represent a wide variety of stakeholder interests and may thus press firms to address a wide range of issues. This may positively affect CSR scope conformity. Moreover, heterogeneous social organizations may provide diverse collaborative opportunities for firms to differentiate their CSR practices to address their unique challenges, and are thus positively associated with firms' emphasis differentiation. However, the number of social organizations in a province is less likely to have an impact on analyst coverage, recommendation decisions, or firms' market value.

TABLE 4
Two-Stage Least Squares Regressions with the Instruments of Regional Social Organizations

	First stage regression		Second stage regression		
	(1) Scope conformity	(2) Emphasis differentiation	(3) Adjusted analyst coverage	(4) Analyst recommendation	(5) Tobin's q
Social organizations	0.122* (0.051)	0.972*** (0.148)	—	—	—
Scope conformity (Instrumented)	—	—	1.289** (0.499)	—	—
Emphasis differentiation (Instrumented)	—	—	—	0.266*** (0.047)	1.021*** (0.232)
Control variables?	Yes	Yes	Yes	Yes	Yes
Firm fixed effects?	Yes	Yes	Yes	Yes	Yes
Year fixed effects?	Yes	Yes	Yes	Yes	Yes
Number of observations	2,725	2,725	2,719	2,719	2,719

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$. Standard errors are in parentheses.

Columns 1 and 2 in Table 4 show the first-stage regression results, with scope conformity and emphasis differentiation as the dependent variables. The main variables of interest are the coefficients on the instrumental variable—number of *social organizations* in a region, which is positive and significant. Columns 3 to 5 report the results from the second-stage regressions with the main variable of interest replaced by the fitted values of scope conformity and emphasis differentiation from the first-stage regressions. The coefficient estimates of these models are again highly consistent with the baseline results.

We also used the first-difference regressions (see Table 5) to examine whether year-to-year changes in the degree of scope conformity are associated with corresponding changes in the level of adjusted analyst coverage. Compared to the fixed-effects models, the first-difference models are more efficient and robust when serial correlations are present. We regressed the dependent variables on the same independent and control variables in the first-difference format, including year and firm fixed effects (White, 2010). The *t*-statistics are based on cluster-adjusted standard errors at the firm level. The results indicate that the year-to-year increases in scope conformity are associated with higher adjusted analyst coverage. Moreover, conditional on adjusted analyst coverage, the year-to-year increase in emphasis differentiation enhances the analyst recommendations that firms received, as well as the firms' Tobin's *q*. These results are highly consistent with our main findings.

The third specification employed a newly developed method called the DRF, which helps estimate the causal effects of CSR practices on analyst and market reactions. The approach is in line with the

more commonly used matching methods, but with a major difference: while matching methods deal with selection issues associated with binary treatments, in many observational studies the treatment may not be binary or even categorical. In such a case, one may be interested in estimating the DRF where the treatment might take on continuous values. A similar method has been used in related fields. For instance, Fryges (2009) employed the DRF method to estimate the relationship between individual firms' export behavior and firm performance. Instead of distinguishing firms' export status as exporting and nonexporting, the study introduced continuous treatment and estimated the impact of different levels of firms' export activities. Moreover, in the accounting field Core (2010) used a similar method to study whether CEO equity incentives cause accounting irregularities.

This method is also applicable to the context of this paper, since firms' CSR scope conformity and emphasis differentiation are not binary treatment variables. DRF is generally used together with the generalized propensity score (GPS) methodology. It is important to note that the observational data we used are different from experimental data because the selection in the treatment versus nontreatment group is not randomized, which may undermine our causal inference. Implementation of the GPS method consists of three steps (Bia & Mattei, 2008). In the first step we estimated the conditional distribution of the treatment given the covariates. In the second step we estimated the conditional expectation of the outcome as a function of two scalar variables, the treatment level and the GPS. In the third step we used a DRF to estimate the average treatment effects of the treatment variables, which helps us understand how the degree of scope conformity and emphasis

TABLE 5
First Difference Regressions Predicting the Effects of CSR Strategies

	Δ Adjusted analyst coverage			Δ Analyst recommendation			Δ Tobin's <i>q</i>		
	Coef.	SE		Coef.	SE		Coef.	SE	
Δ Scope conformity	0.073	0.009	***	—	—		—	—	
Δ Emphasis differentiation	—	—		0.036	0.013	**	0.283	0.019	***
Control variables?	Yes			Yes			Yes		
No. of Observations	2057			2037			2050		
<i>R</i> -squared	0.38			0.25			0.38		

Note: All models include year and firm fixed effects, and control variables as in Table 3 (which, for brevity, are not shown).

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

differentiation affect the amount of outcomes. We used the Stata *gpscore* procedure to estimate the model (Bia & Mattei, 2008). Results from the DRF model (see Table 6) show that the effect of scope conformity on adjusted analyst coverage, and the effects of emphasis differentiation on analyst recommendation and Tobin’s *q* are positive and significant, which lend support to our causal inference. While the GPS-based DRF approach uses observable measures to construct a weight based on selection, the instrumental variable (IV) method relies on an instrumental variable created from unmeasured or unobserved factors. Thus, an advantage of the IV method is that it accounts for unmeasured factors correlated with the outcome. This is especially helpful in analyzing datasets that were not created for the purpose of a particular research question.

In regard to operationalizing the emphasis dimension, we used the multidimensional scaling method, a dimension-reduction and visualization technique, to construct an alternative measure (Kennedy & Fiss, 2013). Dissimilarities (for instance, Euclidean distances) among observations in a high-dimensional space are represented in a lower-dimensional space (typically two dimensions) so that the Euclidean distance in the lower-dimensional space approximates the dissimilarities in the higher-dimensional space. The Euclidean distance from the centroid is used as an indicator of emphasis differentiation. The results obtained using this measure are substantively similar to those using the above indicator.

In addition, we estimated the relative influence of both independent variables on the outcome variables. The results are reported in Table 7. Model 1 of Table 7 shows the effects of both independent

variables on adjusted analyst coverage. The coefficient of scope conformity is positive and significant, while the coefficient of emphasis is not statistically significant. Similarly, Model 2 shows that scope conformity has no significant impact on analyst recommendations, while emphasis differentiation is significantly and positively related to analyst recommendations. Model 3 shows that emphasis differentiation again has a significant impact on Tobin’s *q*, while the scope conformity’s coefficient is negative and only marginally significant at the 0.1 level. These results are in line with our arguments for the dominance of conformity in scope and differentiation in emphasis.

DISCUSSION

The complexity of CSR presents new challenges for businesses regarding how to effectively engage in social practices. Building on and extending the optimal distinctiveness perspective, we argue that firms may be able to simultaneously conform in CSR scope and differentiate in CSR emphasis to achieve optimal distinctiveness. We evaluated the effectiveness of firms’ CSR practices through exploring how firms’ conformity and differentiation efforts can affect the way their CSR practices are assessed or interpreted by key constituents, such as security analysts and other market actors (Marquis & Qian, 2014; Watson, 2015). We demonstrated that as CSR becomes an institutionalized practice among Chinese firms, conforming to basic principles of CSR in terms of scope makes firms appear legitimate in the analyst community, and efforts to differentiate a CSR portfolio in the emphasis dimension lead to more-favorable analyst recommendations and higher

TABLE 6
Dose-Response Models Predicting the Average Treatment Effects of CSR Strategies

	Adjusted analyst Coverage		Analyst recommendation		Tobin’s <i>q</i>	
	Coef.	SE	Coef.	SE	Coef.	SE
Continuous treatment variable						
<i>Scope conformity</i>	0.886***	0.111	–	–	–	–
<i>Emphasis differentiation</i>	–	–	0.061*	0.029	0.565***	0.079
Control variables?	Yes		Yes		Yes	
No. of Observations	3230		3203		3224	
R-squared	0.39		0.13		0.60	

Note: All models include year and firm fixed effects, and control variables as in Table 3 (which, for brevity, are not shown).

* *p* < 0.05

** *p* < 0.01

*** *p* < 0.001

TABLE 7
Models Estimating the Effects of Scope Conformity and Emphasis Differentiation on Analyst Coverage, Recommendation, and Tobin's q

	M1: Adjusted Analyst Coverage		M2: Analyst Recommendation		M3: Tobin's q	
	Coef.	SE	Coef.	SE	Coef.	SE
Scope conformity	0.035*	0.015	-0.021	0.036	-0.113 [†]	0.060
Emphasis differentiation	0.021	0.014	0.071*	0.033	0.484***	0.054
Adjusted Analyst Coverage	-	-	0.142***	0.019	0.164***	0.030
SOE	-0.012	0.017	0.006	0.035	-0.138*	0.065
Earnings pressure	-0.049***	0.014	-0.139***	0.034	-0.056	0.054
TMT equity holding	0.085	0.109	-0.221	0.267	-0.524	0.415
Socially contested industries	-0.011	0.069	-0.227	0.167	-0.974***	0.263
CEO power	-0.007	0.012	0.065*	0.031	0.015	0.049
CEO returnee	-0.020	0.025	0.025	0.060	0.028	0.095
CEO party member	0.011	0.018	-0.073 [†]	0.044	-0.028	0.069
CEO MBA degree	-0.051 [†]	0.026	-0.004	0.064	0.019	0.101
% of independent directors	-0.158	0.165	0.598	0.403	-0.176	0.627
Ownership concentration	-0.134	0.110	-0.189	0.277	-0.206	0.418
Financial leverage	0.100 [†]	0.053	0.024	0.128	-0.398*	0.202
Visibility	-0.010	0.154	-0.877*	0.398	0.611	0.585
List age	-0.029***	0.013	0.270***	0.051	-0.092***	0.019
Firm size	0.027*	0.013	0.060 [†]	0.031	-0.185***	0.051
Firm ROA	0.529***	0.121	0.078	0.297	1.770***	0.465
Share price	0.003***	0.001	0.008***	0.002	0.038***	0.003
Overall level of CSR	0.001	0.001	0.000	0.001	-0.002 [†]	0.001
High-status houses coverage			0.078	0.055	0.134	0.087
Constant	0.423**	0.150	2.468***	0.377	3.369***	0.575
No. of Observations	3,230		3,203		3,224	
Adjusted R -Square	0.66		0.54		0.79	

[†] $p < 0.1$

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$.

market value. Furthermore, to enhance our understanding of the variation in the relationship between conformity or differentiation and the response of analysts and the market, we investigated how this relationship is conditioned by some firm- and analyst-level factors.

Our study contributes to the emerging optimal distinctiveness literature by theoretically articulating and empirically testing the orchestration mechanisms that firms adopt within a single complex practice, and examining the way in which such orchestration helps firms gain recognition and favorable evaluation by sophisticated audiences. In particular, what we examine is a form of *compensatory orchestration*, reflecting the idea that deviation in one strategic dimension can be compensated by legitimacy in a different strategic dimension. The current understanding of compensatory orchestration, summarized by Zhao et al. (2017), rests on the availability of multiple strategies in the market space and features of

organizational environments that are multiple, fragmented, and dynamic. This study shifts the research focus from multiple strategies and dynamisms in the environment to complexity in the practice itself. By doing so, our study points to the possibility of simultaneously achieving conformity and differentiation in one specific practice or strategy dimension.

In the context of analysts' evaluations of firms' CSR practices, our findings suggest that firms can strategically configure their responses across different dimensions of CSR practices to secure analysts' preferences and enhanced performance evaluations. Specifically, firms are positively received by analysts when firms make efforts to cover more important CSR fields that are congruent with normative and regulative expectations, and when the deployment of attention across different CSR fields reflects the idiosyncratic needs or positioning of these firms. Through such compensatory orchestration, idiosyncratic differentiation decisions are coupled with

supportive and congruent actions that help firms overcome the liability of distinctiveness. In other words, the seemingly contradictory operation—i.e., conformity versus differentiation—can be mutually reinforcing, which jointly helps firms to gain basic legitimacy and to stake out a competitive position.

Another key contribution of this study is that it contextualizes optimal distinctiveness discussions and enhances our understanding of the conditions under which orchestration along different dimensions of firms' social responsibility practices leads to differential impacts on firms' performance and their perceived value among key audiences. We argue that the extent of conformity pressure varies across firms. In our case, state ownership and firms' visibility lead to variations in firms' legitimacy pressure, which in turn conditions the effectiveness of firms' conforming actions. Our results indicate that firms that depend on the state for critical resources and legitimacy may feel a greater imperative to conform to regulatory pressure; similarly, firms that attract more market attention are expected to conform to the expectations of the general public. Thus, firm decisions on CSR conformity need to take the influences of various stakeholders into account.

On the other hand, the effectiveness of emphasis differentiation in CSR practices largely varies with the extent to which audiences appreciate the firm's differentiation efforts. Previous studies have postulated that different stakeholders often have heterogeneous expectations because they may have been socialized to value or ignore certain dimensions of a practice during evaluation processes (Ioannou & Serafeim, 2015; Zhao et al., 2017). Our study further argues that even in the same stakeholder or audience group the status heterogeneity of group members can lead to variations in their preferences or expectations. We found evidence suggesting that the higher reputation and stronger legitimacy base enjoyed by high-status brokerage houses allow analysts associated with such houses to show greater flexibility and make bolder forecasts when facing ambiguous classifications and innovative offerings. Our study also highlights the fact that the extent to which audiences appreciate a firm's differentiation effort can be affected by whether the firm has gained fundamental, pragmatic legitimacy in terms of financial performance. Our findings indicate that market valuations of unique CSR practices are discounted if firms experience legitimacy challenges in terms of poor financial performance (as reflected in high earnings pressure).

Moreover, our key arguments for scope conformity and emphasis differentiation can potentially be

generalized to CSR strategies in a broad range of contexts, or to analysis of the adoptions of other management innovations. The particular context in which our study's empirical analysis is situated—i.e., CSR practices among Chinese firms—provides a good opportunity to examine a salient contrast between scope conformity and emphasis differentiation, and the effectiveness of a firm's orchestration efforts and its contingencies in a dynamic context with emerging-market categories. As national governments play an increasingly important role in promoting CSR practices in many countries, including those in Africa, Europe, and North America, the pressure from regulatory institutions becomes increasingly potent in shaping firms' CSR strategies (European Commission, 2014). While the Chinese context has some distinctive features, we expect that our key arguments can also help us understand firms' CSR strategies in other economies. That said, nuanced variations may still occur due to differences in specific organizational environments, where even with complex practices the dominance of conformity in scope (vs. conformity in emphasis) and differentiation in emphasis (vs. differentiation in scope) may not always be as obvious.

Our analytical framework can also be applied to investigate the impacts of firms' adoption of other management practices that are complex and multidimensional. For instance, previous studies have examined the adoption of total quality management (TQM) practices (Douglas & Judge, 2001; Westphal, Gulati, & Shortell, 1997). However, much research has only focused on the adoption of different core elements supporting the TQM philosophy and tried to understand how this degree of adoption affects firms' performance (Douglas & Judge, 2001). Similar to CSR, TQM has multiple elements, with specific operational items within each element. Thus, our framework enables researchers to parse firms' adoption of TQM along the scope and emphasis dimensions, and accordingly examine their implications for achieving legitimacy and performance advantages. In addition to TQM, the voluntary adoption of diversity programs—i.e., practices that assess and develop the diversity of the workforce and its equal treatment—could be another focus. As such practices gradually disperse from the United States to Europe and other nations, firms face increasing social pressure to address various forms of workplace discrimination (Ferner, Almond, & Colling, 2005). Diversity policies often encompass a wide range of individual differences, not just gender and race but other visible or less visible differences that

could lead to discrimination in the workplace. Firms may comply with the all-encompassing initiatives, or address particular subjects that are pertinent to their industry or sociocultural environment (Kalev, Dobbin, & Kelly, 2006), or simultaneously achieve both. Again, our framework would help better capture these nuanced variations and their implications for various management and even financial outcomes.

Methodologically, we experimented with a new method to quantify the relative importance of different CSR issue fields. Previous studies have acknowledged that an important methodological difficulty faced by scholars is how to develop a weighting system for different CSR subjects. This issue affected our capability to develop precise composite CSR measures (Watson, 2015). Unlike studies that have relied on either subjective academic opinions about category importance or the assignment of equal importance to issue areas, our study borrows insights from concept network analysis and views the different issue areas as an interconnected system that reflects the pattern of association of these abstract concepts for specific actors (Fiss et al., 2012). The aggregation of these individual networks generates structural patterns that help us better understand how practices are put together, and to quantitatively grasp the temporal and sectoral variations of complex CSR practices.

In addition to contributions to the academic literature, our findings have practical implications for corporate executives who are responsible for designing firms' social programs. Our results indicate that investment communities not only care about the financial metrics of organizations but also consider nonfinancial metrics, such as environmental and social issues. With a greater number of investors incorporating firms' social performance in their investment decisions, it is time for corporate leaders to reexamine their strategies in coping with pressures during the institutionalization of CSR. However, when considering their strategic options many managers still focus on rankings in various sustainability or corporate philanthropy indices, and try to achieve higher rankings by investing much time and effort in tailoring their social program according to the reporting frameworks specified by the rating agencies (Aguilera et al., 2006). Although such practices may help firms obtain basic legitimacy from the investment community, they fall short in convincing the audience that firms' social practices are well aligned with firms' competitive positioning and the industrial or market contexts in which they operate. Executives are thus advised to fully

appreciate the complexity of CSR practices and to more effectively orchestrate their efforts in the overt versus substantive dimensions of the practice.

When interpreting our current findings, it is important to consider the limitations associated with this study. First, ideally the level of CSR differentiation should incorporate not only the number of social activities in different fields but also the uniqueness in each activity. However, our data are limited in that they only contain the number of activities in each field, and not specific information for each activity. This limitation has also been observed in the previous studies, such as those by Litov et al. (2012) and Deephouse (1999), neither of which directly measure uniqueness in specific strategic action, but proxy it by looking at deviation of effort allocation from the norm in terms of sales and assets, respectively. Future studies are encouraged to develop more comprehensive measures that can fully appreciate the qualitative differences of specific activities in each CSR field.

Second, as CSR becomes an increasingly important issue in today's business world, it may require a learning process from both the firm and analyst perspectives. It is possible that firms gain experience over time in balancing and orchestrating between conformity and differentiation. Similarly, it may take time for security analysts to explore methods that effectively incorporate CSR information into their valuation model. In a supplementary analysis, we incorporate time as a moderator and do find some scant evidence for a learning process. However, limited by the data availability and the theoretical scope of the current study, we are not able to fully explore this issue here. Future studies could thus examine whether the impact of CSR conformity and differentiation is potentiated as firms and financial analysts learn about CSR practices over time.

CONCLUSION

This paper borrows insights from the optimal distinctiveness literature, and advances this line of inquiry by investigating the way in which firms orchestrate different dimensions of CSR practices to simultaneously cope with conformity pressure and seek differentiation advantages. We find that conformity along the more salient CSR scope dimension helps firms gain legitimacy and thus leads to more analyst coverage, while differentiation efforts along the more substantive emphasis dimension create strategic value for firms and lead to more-favorable evaluations by analysts, and higher market value.

Moreover, we find that the effectiveness of these orchestration efforts is influenced by firm- and analyst-level factors. Because firm stakeholders, the general public, and many national governments increasingly view CSR as an essential component of corporate activities, our study provides a new perspective for understanding how firms cope with such complex forces to get ahead in the new environment.

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