STRATEGIC MANAGEMENT JOURNAL

IS MANAGERIAL ENTRENCHMENT ALWAYS BAD AND CORPORATE SOCIAL RESPONSIBILITY ALWAYS GOOD? A CROSS-NATIONAL EXAMINATION OF THEIR COMBINED INFLUENCE ON SHAREHOLDER VALUE

Journal:	*Strategic Management Journal*
Manuscript ID	SMJ-18-19496.R2
Wiley - Manuscript type:	Research Article
Keywords:	comparative, governance, CSR, capitalisms, complementarities

Abstract:	Building on the comparative capitalism's notion of institutional complementarities, we examine whether firms' simultaneous adoption of managerial entrenchment provisions (MEPs) and corporate social responsibility (CSR) activities reinforces or undercuts one another in influencing firm financial performance. We propose that the financial impact of such configurations is contingent on the country's institutional setting. In countries where firms face strong pressures to achieve short-term goals, the increased managerial control over decision making provided by MEPs allows for longer-term orientation that fosters firms' engagement in profitable CSR projects. Conversely, in countries where institutions already curb short-term demands, the combination of MEPs and CSR benefits managers privately at a cost of reduced firm performance. Overall, our study enhances understanding about the institutional complementarity between corporate governance and CSR.

IS MANAGERIAL ENTRENCHMENT ALWAYS BAD AND CORPORATE SOCIAL RESPONSIBILITY ALWAYS GOOD? A CROSS-NATIONAL EXAMINATION OF THEIR COMBINED INFLUENCE ON SHAREHOLDER VALUE [†]

(Conditionally accepted at Strategic Management Journal)

RUTH V. AGUILERA
Northeastern University
International Business and Strategy Department
313 Hayden Hall
D'Amore-McKim School of Business
360 Huntington Avenue, Boston, MA 02115-5000
E-mail: r.aguilera@neu.edu

KURT DESENDER
Universidad Carlos III de Madrid
Department of Business Administration
Calle Madrid, 126; Getafe (Madrid), Spain, 28903
E-mail: kdesende@emp.uc3m.es

JORDI SURROCA
Universidad Carlos III de Madrid
Department of Business Administration
Calle Madrid, 126; Getafe (Madrid), Spain, 28903
E-mail: jsurroca@emp.uc3m.es

JOSEP A. TRIBÓ
Universidad Carlos III de Madrid
Department of Business Administration
Calle Madrid, 126; Getafe (Madrid), Spain, 28903
E-mail: joatribo@emp.uc3m.es

[†] The authors thank Andrés Almazán, Isabel Gutiérrez as well as participants at the SMS conference (Madrid, 2014), Academy of Management Conference (Montreal, 2010), 4th International CSR conference (Berlin, 2010) for their valuable comments and suggestions. Financial support of the Comunidad de Madrid (Grants # 2009/00138/001 and S2007/HUM-0413), and Ministry of Education and Science (Grants # ECO2012-36559, ECO2009-10796 and ECO2009-08308) is gratefully acknowledged. The usual disclaimers apply.

IS MANAGERIAL ENTRENCHMENT ALWAYS BAD AND CORPORATE SOCIAL RESPONSIBILITY ALWAYS GOOD? A CROSS-NATIONAL EXAMINATION OF THEIR COMBINED INFLUENCE ON SHAREHOLDER VALUE

Building on the comparative capitalism's notion of institutional complementarities, we examine whether firms' simultaneous adoption of managerial entrenchment provisions (MEPs) and corporate social responsibility (CSR) activities reinforces or undercuts one another in influencing firm financial performance. We propose that the financial impact of such configurations is contingent on the country's institutional setting. In countries where firms face strong pressures to achieve short-term goals, the increased managerial control over decision making provided by MEPs allows for longer-term orientation that fosters firms' engagement in profitable CSR projects. Conversely, in countries where institutions already curb short-term demands, the combination of MEPs and CSR benefits managers privately at a cost of reduced firm performance. Overall, our study enhances understanding about the institutional complementarity between corporate governance and CSR.

INTRODUCTION

Corporate governance is primarily concerned with defining a structure of rights and responsibilities among stakeholders such as shareholders, creditors, employees, managers, suppliers, and customers (Aguilera and Jackson, 2003). To assess the effectiveness of this structure of rights and responsibilities, scholars focus on the degree to which corporate governance provisions ensure, on the one hand, that senior management preserves stakeholders' incentives to invest their resources in the corporation and, on the other hand, guarantee that stakeholders act responsibly with respect to the creation and distribution of firm value (Aguilera *et al.*, 2008). Empirical evidence, however, has produced inconclusive findings on the effectiveness of individual governance provisions.

Distinct from governance provisions that allocate power between shareholders and managers, firms' corporate social responsibility (CSR) may also act as a corporate control arrangement (Filatotchev and Nakajima, 2014). Adding to the instrumental, relational, and moral motives studied in the literature to explain why firms embrace CSR (Aguilera *et al.*, 2007), there is also a control-based explanation of CSR. This view suggests that firms engage in CSR as a form of self-regulation that limits the set of acceptable actions that corporations can adopt when interacting with their stakeholders (Matten and Moon, 2008; Scherer and Palazzo, 2011). Under the constant pressure to satisfy the interests of a wide array of stakeholders, mangers' discretion in allocating and using firm resources for private purposes may become substantially limited. Stakeholders, in exchange for higher CSR, reciprocate corporations with increased loyalty and other forms of support that typically develop a strong "business case" for CSR (Harrison, Bosse, and Phillips, 2010). Yet, critical voices have also cautioned that, in certain contexts, CSR may actually be the outcome of poor governance, as managers may strategically use their discretion over CSR to avoid being disciplined by other corporate governance provisions (Prior, Surroca, and Tribó, 2008).

The inconclusive evidence regarding the influence of takeover threats, CSR, and other governance arrangements on firm value is due, according to some scholars, to the independent evaluation of the impact of each provision, neglecting the configurational relationship of these arrangements as well as where they are embedded (Aguilera *et al.*, 2008; Misangyi and Acharya, 2014; Rediker and Seth, 1995). The effectiveness of a corporate governance provision is therefore said to increase or decrease depending on what other corporate provisions are in place as well as on the institutional context. For Rediker and Seth (1995), Sundaramurthy, Mahoney, and Mahoney (1997), and others, the relevant organizational context for studying governance effectiveness is the combination of provisions, the so-called corporate governance bundle. Inspired by the governance bundle thesis, several studies have explored how multiple governance provisions work interactively to generate firm value (Bell, Filatotchev, and Aguilera, 2014; Lewellyn and Fainshmidt, 2017; Misangyi and Acharya, 2014; Oh, Chang, and Kim, 2018).

To date, however, this research has primarily focused on the study of complementarity or substitution among corporate governance arrangements at the firm level, paying less attention to how the governance bundles interact with the national institutional system to create or destroy firm value (Misangyi and Acharya, 2014). This neglect is noteworthy because, as argued by several comparative scholars, national institutional systems influence the effectiveness of each individual corporate governance provision, so a particular governance bundle that is effective in a given institutional setting, may have the opposite effects in other national settings (Aguilera, Desender, and de Castro, 2012; Aguilera *et al.*, 2008; Filatotchev and Allcock, 2010). Therefore, when extending the governance bundle thesis to a cross-national comparative perspective, there may not be "one best bundle," but there may exist, in each institutional setting, specific firm-level bundles of governance arrangements that contribute to create shareholder value. This analysis complements country-

level studies that suggest that the same outcome (i.e., governance effectiveness, economic wealth, or equitable wealth creation) can be reached through different configurations of institutions (Haxhi and Aguilera, 2017; Judge, Fainshmidt, and Brown III, 2014).

In this study, we explore the effectiveness of governance bundles by focusing on the complex interplay between arrangements that thwart corporate control (i.e., managerial entrenchment provisions or MEPs) and CSR activities. We argue that the combined effect of MEPs and CSR on firm value is explained by their complementarity (or lack thereof), which in turn depends on the governance rationale behind their adoption—rationales that may vary from country to country. When MEPs and CSR are adopted with the same rationale (i.e., they are coherent between them), they will work together as complements by mutually reinforcing each other to enhance firm value. Yet, as each national institutional system may possess a distinctive dominant governance logic (Aguilera, Judge, and Terjesen, 2018; Crossland and Hambrick, 2011), we expect this coherence between MEPs and CSR to be fundamentally different across countries, therefore affecting firms' ability to create value differently.

In developing our argument, we draw upon comparative capitalism scholars' observation that institutions vary across countries but that the variation is not as large as to preclude the formation of shared national institutional settings or "varieties of capitalism" (Amable, 2003; Fainshmidt *et al.*, 2018; Hall and Soskice, 2001; Jackson and Deeg, 2008; Whitley, 1999). Several competing typologies of varieties of capitalism have been proposed to explore the institutions that constrain and enable corporate behavior. Prominent among such typologies is Hall and Soskice's (2001) framework, consisting of two varieties of capitalism (VoC): *Liberal Market Economies* (LMEs) and *Coordinated Market Economies* (CMEs).[1] On the one hand, LMEs are characterized by a stock market-based financial

[1] In the VoC literature, a capitalist economy is defined as a country that meets the following characteristics (Hodgson, 2016): (1) legal system supporting private property; (2) transactions organized through markets that use money; (3) private ownership of the means of production by profit-oriented firms; (4) separation between

system, fluid labor markets, education and training systems offering general skills, a limited use of networks and alliances among firms, and a concentration of firms' decision-making power in top management. On the other hand, CMEs are characterized by a bank- or state-based financial system providing patient capital, strong internal labor markets based on employment protection, training systems that promote firm-specific skills, an extensive use of networks and alliances among firms that favors the internalization of three stakeholder groups' interests—top management, shareholders, and workers—in firm's decision making (Kang and Moon, 2012). Such internalization can be made by consensus or by the action of the state in state-controlled countries. Based on these institutional differences, we examine how MEPs and CSR coalesce to shape firm value in firms located in these two distinctive types of capitalisms—though our analyses will also study intermediate institutional settings and the dynamics of these two contrasting types over time.

To do so, we compare the coherence in the rationales with which firms adopt MEPs and CSR. We propose that, in LMEs, the adoption of MEPs shields managers from the threat of hostile takeovers or stringent shareholder demands for increased efficiency, relaxing short-term market pressures, which in turn empowers managers to embrace a long-term perspective in decision making. Relieved from short-term pressures, managers may engage in voluntary CSR activities directed to meet the expectations of their stakeholders and establish long-term relations with them, who in exchange may contribute with their resources to develop organizational capabilities. This coherence between MEPs and CSR is likely to generate positive firm value. In contrast, the financial system of CMEs, primarily led by banks or the state, relieves firms from short-term pressures to increase performance, while the non-market (negotiated) institutional arrangements govern firms' engagement in CSR (Jackson and

production and the home and family (5) labor contracts to define conditions and wages; and (6) developed financial system with banking institutions that may use property as collateral. Scholars have typically focused on OECD economies as these are countries more likely to meet these characteristics (Hall and Gingerich, 2009).

Apostolakou, 2010). In this context, we argue that discretionary increases in MEPs and CSR do not appear to target the creation of shareholder value. CSR activities exceeding the stakeholders' negotiated expectations are costly for minority shareholders and, thus, such expenditures accompanied with the adoption of MEPs can only be justified by the reputational rents and private benefits that CSR may grant to top managers and large shareholders (blockholders), typically at the expense of minority shareholders.

The type of CSR activities appears to be of particular importance for understanding the mechanism through which the combination of MEPs and CSR enhances shareholder value. To distinguish the dual role played by CSR in our framework, as either organizational capabilities generator or as private reputation enhancer, we adopted the internal/external classification of CSR actions (Hawn and Ioannou, 2016). Internal CSR defines the set of actions aimed to structurally change the organization for promoting the development of valuable organizational capabilities through the collaboration with stakeholders. External CSR refers to externally-focused actions that, by means of issuing claims and reports about CSR, seek to gain firm endorsement by external audiences. Based on this distinction, we refine our argument put forward for LMEs, by suggesting that MEPs and CSR mutually reinforce one another to create value particularly when the managers invest in internal CSR activities. In contrast, the rationale for the joint adoption of MEPs and CSR in CMEs is the accumulation of private benefits by corporate insiders. This rationale makes it more likely that an entrenched manager would focus on external CSR to appease external stakeholders and generate reputational rents for blockholders at the expense of minority shareholders.

We test our argument using a dataset that combines information on social, environmental, and governance dimensions with other firm- and macro-level variables of a sample of 3,187 publicly listed corporations from 37 countries. Consistent with existing US-centered research (i.e., Bebchuk, Cohen, and Wang, 2014), we show that, independently of

the type of capitalism, MEPs, on average, reduce firm value. For CSR, our findings conform to recent evidence showing that investors' valuation of sustainability around the world is, on average, positive (i.e., Hawn, Chatterji, and Mitchell, 2018). We also find support for our predictions about the interdependence between corporate governance and CSR. In LMEs, there is a positive effect of CSR on firm value when combined with MEPs and CSR is internally oriented. The opposite is the case for CMEs: the combination of MEPs and CSR, specifically for external CSR, reduces firm value.

Our theory and findings contribute to the configurational perspective on corporate governance and to comparative strategic management. First, our study enriches the configurational perspective by stretching its theoretical boundaries. We show that shareholder value does not automatically follow from a particular corporate governance bundle, but it is contingent on the country-level institutional framework. Our proposal of looking at the intersection between bundles of firm-level governance arrangements and country-level institutional factors also contributes to advance research on comparative capitalisms. Specifically, our study enriches the notion of institutional complementarities (Hall and Soskice, 2001) by examining the contextual conditions for the emergence of positive interdependencies between two corporate arrangements.

Second, we shed new light on corporate governance research on managerial entrenchment. While there is ample evidence across Anglo-Saxon countries on the economic effects of MEPs (Straska and Waller, 2014), empirical analysis is missing for firms in non-Anglo-Saxon countries. Our findings confirm that MEPs are indeed costly for shareholders all over the world. However, some scholars have recently proposed that the use of MEPs as an entrenchment strategy may have beneficial outcomes in specific cases (Wang, Zhao, and He, 2016). Our contribution to this debate speaks that entrenchment practices, when coupled with a strong organizational commitment towards substantive CSR in market-driven

institutional settings, may indeed enhance shareholder value. However, in CMEs, the adoption of MEPs favors the collusion of blockholders and managers, the so-called insiders, to expropriate minority shareholders by means of symbolic CSR activities.

Third, our results add to the instrumental stakeholder perspective of the CSR literature (e.g., Hawn *et al.*, 2018). According to this perspective, by conforming on a long-term basis to stakeholders' expectations, the corporation will secure their support and resources—which are key in developing intangibles such as the organizational reputation and legitimacy that enhance shareholder value. We refine this literature by testing the external validity of these findings across different institutional environments, and by uncovering several contingencies, at the institutional and firm governance level, that define when CSR has an overall positive impact on performance. We also explore the type of CSR actions that these firms undertake in combination with MEPs to unpack the theoretical mechanism at work.

THEORY AND HYPOTHESES

Scholars working in the field of comparative institutional analysis have long acknowledged that institutions matter for explaining firms' adoption of certain structures and practices, and that substantial variation exists across countries in terms of the institutions that matter most (Amable, 2003; Hall and Soskice, 2001; Whitley, 1999). Despite national diversity in institutions, countries tend to cluster into distinct institutional settings that define the "rules of the game" regarding how economic actors coordinate their actions in order to obtain competitive advantages and solve conflicts of interests among different stakeholder groups (Bell *et al.*, 2014; Hall and Soskice, 2001; Haxhi and Aguilera, 2017; Jackson and Deeg, 2008). Different typologies of institutional settings have been proposed in the literature (e.g., Amable, 2003; Whitley, 1999), yet the most influential is probably that of Hall and Soskice's (2001) "Varieties of Capitalism" (VOC) framework, which has been widely validated to cluster advanced industrialized countries (Fainshmidt *et al.*, 2018; Witt and Jackson, 2016).

Studies applying VOC show that this framework offers a powerful conceptual tool to capture the influence of institutions on firms' corporate governance (Fiss, 2008) and CSR (Kang and Moon, 2012). Despite its advantages in terms of parsimony and capacity to explain countries' economic organization, the VOC framework is subject to some criticism. In particular, the VOC framework has been criticized for overlooking the institutional variety within each type of capitalism; for its lack of attention to the developing world; and for its inability to cope with the changes that any model of capitalism may undergo over time (Fainshmidt *et al.*, 2018; Judge *et al.*, 2014). Our empirical analysis (see the Robustness Checks section) remedies these omissions by: using a more comprehensive mapping of countries based on several institutional dimensions, including non-developed countries; and accounting for institutional change. Our claim, supported by our findings, is that, even when there exists institutional variety within countries, across countries, and over time, the VOC framework is still a valid way to classify countries according to their institutions.

Hall and Soskice (2001) identified two different varieties of capitalism, the Liberal Market Economies (LMEs) and the Coordinated Market Economies (CMEs), whose characteristics are summarized in Table 1. Though all nations function with multiple logics, it is quite likely that one logic would dominate all others (Aguilera *et al.*, 2018). In the case of LMEs, the logic of the market is the dominant one. Firms hinge on competitive market relations to resolve coordination problems with their finance suppliers. In such economies, institutions seek to protect minority shareholder rights and ensure well-functioning stock markets. All these features make the governance of firms oriented toward shareholder value maximization where demands from other stakeholders are subordinated to shareholders' interests. Financing decisions in stock markets are usually based on short-term profitability (Flammer and Bansal, 2017), which could reduce the managerial interest on CSR activities (Kacperczyk, 2009), given CSR long-term payoffs (Eccles, Ioannou, and Serafeim, 2014).

Insert Table 1 about here

In contrast, firms in CMEs address coordination problems between managers and suppliers of capital through non-market arrangements. In CMEs, stock markets are less developed and firms are: (1) generally owned by large shareholders (i.e., blockholders), (2) highly dependent on long-term debt financing, and (3) reliant on tightly interconnected relational networks with trading partners and financial institutions. Patient capital supplied by blockholders and banks reduces the pressure exerted on managers to increase short-term profitability and share value (Aguilera and Jackson, 2003; Schneper and Guillén, 2004). Thus, CME firms can afford to adopt a long-term orientation and invest in projects generating returns in the long run, such as long-term collaborative relationships with stakeholders.

Before we discuss the hypotheses tested, we examine the influence of each type of capitalism on firms' corporate governance and CSR. Then, we theorize about the importance of coherence between firms' corporate governance and CSR for exploiting their potential interdependencies. Lastly, we develop an argument to explain that the performance effects of the combination of corporate governance and CSR depend on the variety of capitalism in which the firm is embedded as well as on the type of CSR (internal versus external).

Varieties of capitalism and entrenchment provisions

Countries' bundle of institutions defines how power over decision making is distributed within firms, starting with the degree of discretion available to CEOs (Crossland and Hambrick, 2011) and followed by the rights and influence of employees and other stakeholders (Aguilera and Jackson, 2003). In LMEs, corporate structures characterized by dispersed ownership, normally concentrate authority in a single insider group, the top management team, which enjoys substantial freedom to allocate corporate resources. The market-driven financial system counterbalances the many risks associated with this insider power and facilitates the access to finance as well as the protection of investors' assets.

Capital markets control managers by exerting significant pressure to meet short-term goals. In turn, this pressure can lead insiders to adopt a myopic view and forgo projects with long-term payoffs (Gourevitch and Shinn, 2005), unless managers adopt MEPs, which grant them further insider power (e.g., Humphery-Jenner, 2014; Kacperczyk, 2009; Stein, 1988).

However, if managers use the protection granted by MEPs to allocate firm resources for their personal benefit, the long-run competitiveness of the firm can be compromised. This view, sometimes called "managerial welfare hypothesis" (Mahoney, Sundaramurthy, and Mahoney, 1997), has received substantial empirical support in the literature (see Straska and Waller, 2014). Yet, as some scholars point out, in firms exposed to takeover threats managerial entrenchment may lead to firm value enhancement, or at least to not destroy value. This result occurs when managers use the extra protection to invest in long-term projects, such as firm-specific investments in R&D and human capital (Mahoney *et al.*, 1997; Pugh, Page, and Jahera Jr, 1992; Sundaramurthy *et al.*, 1997; Wang *et al.*, 2016). Hence, given the interdependence among MEPs, other governance provisions, and resource-allocation decisions, some authors suggest the need to adopt a contingency approach to examine the conditions under which MEPs enhance firm value (Sundaramurthy, 2000).

In contrast to LMEs, hostile takeovers and the protection of minority shareholder rights are seen by CMEs' national governments as a threat to the coordinated, stakeholder-centered logic and, for this reason, takeovers have been largely discouraged by institutions and corporate governance arrangements (Goergen, Martynova, and Renneboog, 2005; Humphery-Jenner, 2012; Schneper and Guillén, 2004). For instance, national regulation and ownership concentration are aligned in repelling takeovers and strengthening blockholder rights, and consequently takeover activity is limited in CMEs; but, if the acquisitions occur, they are friendly rather than hostile (Schneper and Guillén, 2004). Even though institutions curtail the threat of takeovers, many leading corporations in CMEs complement such

institutional protections by adopting additional firm-level governance provisions to reinforce insiders' control, such as supermajority voting requirements (Goergen *et al.*, 2005; Humphery-Jenner, 2012). Crucial for a proper understanding of the motivations behind such adoption of MEPs is that they require the approval of the company's board, which typically represents the blockholders' interests (Goergen *et al.*, 2005). Therefore, any escalation in entrenchment might be interpreted as a strategy of managers and blockholders to retain or increase their insider power in the firm and potentially pursue their private benefits at the expense of the company's overall financial performance. Consistent with this idea, empirical evidence for CMEs (e.g., Cronqvist *et al.*, 2009) shows that entrenchment discourages investments in projects that lead to more shareholder value.

Varieties of capitalism and CSR

The governmental and legal institutions of each country define and protect the interests of societal stakeholders only imperfectly (Scherer and Palazzo, 2011). Under these circumstances, corporations may consider expanding their responsibilities beyond purely instrumental motives and demonstrate an increased awareness and involvement in the resolution of societal concerns through their engagement in CSR (Brammer, Jackson, and Matten, 2012; Matten and Moon, 2008; Scherer and Palazzo, 2011). From this perspective, CSR can be defined as a voluntary and explicit attempt of corporations to integrate social and environmental concerns in their long-lasting interactions with their stakeholders, through activities differentiated from those that reflect the social responsibilities of government (Matten and Moon, 2008). CSR is, thus, a voluntary form of self-regulation that reins in corporate behaviors that impose a burden to societal stakeholders.

In LMEs, where institutions to channel stakeholder demands are absent or minimal, CSR is an opportunity for firms to differentiate themselves from their peers (Aguilera *et al.*, 2007). CSR is thus conceived as deliberate, voluntary, and with the aim of satisfying key

stakeholders' interests (Matten and Moon, 2008). As these programs and strategies are not a reaction to institutionalized pressures, but a substitute for the lack of them, firms will mostly attend to stakeholders' expectations if there are instrumental reasons to do so. The stock market-based financial system also limits the magnitude and duration of CSR investments that do not add shareholder value. Thus, firms will establish and develop relationships with stakeholders, if through these relationships they expand their opportunities, beyond market-based transactions, for value-creating exchanges and generate intangible resources—such as corporate reputation, human capital, product and process innovation capabilities, and organizational culture (Hillman and Keim, 2001; Surroca, Tribó, and Waddock, 2010; Wang and Bansal, 2012)—that contribute to enhance long-term financial performance. Yet, for these opportunities to materialize, firms need to operate within a long-term horizon (Eccles *et al.*, 2014; Flammer and Bansal, 2017), which is possible if managers are relieved from the pressures to meet short-term performance goals and provided with appropriate incentives to engage in long-term relationships with stakeholders (Flammer, Hong, and Minor, 2019).

This value-enhancing view of CSR in LMEs has notwithstanding been criticized by agency-grounded corporate governance research. Rather than contributing to create value, firms' engagement in CSR is interpreted as part of a managerial strategy to leave legacies, enhance their personal reputations, pursue career opportunities, and enjoy private benefits associated with the control of the firm (Barnea and Rubin, 2010; Cespa and Cestone, 2007; Hemingway and Maclagan, 2004; Pagano and Volpin, 2005; Prior *et al.*, 2008).

In contrast to LMEs, CME firms' responsibilities toward stakeholders are normative and defined by norms, rules, and laws that are often subject to negotiation with the state or organizations representing stakeholders' interests, such as political parties, labor unions, industry associations or employers' associations (Matten and Moon, 2008). This institutionalization of stakeholder expectations has two important effects: (1) There is

pressure on firms to comply with the normative expectations for acquiring legitimacy in the eyes of stakeholders (Brammer *et al.*, 2012), and (2) there is little discretion for firms to engage in differentiated CSR activities (Jackson and Apostolakou, 2010). Once legitimacy is granted, value-maximizing firms should have little interest in expanding CSR further (Matten and Moon, 2008). Yet, firms and their insider groups may have conflicting interests. Research has shown that corporate insiders can use CSR programs as ceremonial acts to secure their personal reputations and get their stakeholders' approval for decisions that enlarge insiders' private benefits while hurting overall firms' financial performance (Barnea and Rubin, 2010; Surroca and Tribó, 2008). In this case, the adoption of CSR would destroy value if CSR is feeding the firms' internal power (Hawn and Ioannou, 2016).

Coherence between entrenchment provisions and CSR

The VOC framework suggests that, within each variety of capitalism, one logic may dominate all others and that corporate practices may operate as complements when they are both designed following this overarching institutional logic—a market or a non-market coordination logic. Complementarities, in this context, refer to the mutual enhancement of two or more practices in a particular institutional setting to generate greater positive returns (Aguilera *et al.*, 2008; Witt and Jackson, 2016). We take this argument further and stress that corporate arrangements such as MEPs and CSR (1) might deviate from the dominant logic within the variety but (2) they may still be designed following a coherent rationale: that is, both arrangements may follow a same logic, even when this logic is not dominant. When these conditions are present, then, the resulting configurational bundle may lead to positive firm outcomes, as well. This argument is in line with the notion of governance deviance as a competitive strategy (Aguilera *et al.*, 2018). Based on this notion, we propose that the coherence in the adoption rationale of both MEPs and CSR, in each variety of capitalism, will influence their firms' value. In other words, MEPs that grant higher insider protection may

offer higher returns when coupled with the implementation of CSR if both practices are designed under the same logic, even when that logic is not the country's dominant one.

As previously discussed, the market logic of LMEs limits the options for firms to engage in valuable long-term interactions with stakeholders. For this reason, we argue that the rationale behind the adoption of MEPs, which deviates from the dominant logic, shows great coherence with that of CSR, as both arrangements can reinforce each other to extend firms' decision time horizon and increase organizational performance and legitimacy. Specifically, to develop CSR projects with superior long-term payoffs, firms should cultivate deep and lasting relationships with their stakeholders. The logic of the market behind the takeover activity and its short-term orientation towards profit maximization is incoherent with the establishment and maintenance of these long-term CSR relationships (Waddock and Graves, 1997). For example, Graham, Harvey, and Rajgopal (2005) reported that three quarters of the executives they interviewed would sacrifice projects that could generate long-term economic value if their implementation would imply not meeting short-term earnings expectations. This myopia caused by the short-term orientation of capital markets could be alleviated by means of MEPs. In effect, a strong protection against the market-based discipline may shield managers from short-term pressures on performance and allow for the adoption of a long-term orientation in resource allocation decisions (Stein, 1988). This long-term horizon is important to develop, strengthen, and maintain ongoing relationships with firm stakeholders (Flammer and Bansal, 2017). Such long-term repeated interactions would allow firms to enlarge the range of value-enhancing exchanges with their stakeholders beyond what is available through market interactions (Hillman and Keim, 2001).

Along these lines, research has shown that with greater insider power (granted by MEPs), managers could assume more bidding and profitable investments toward their stakeholders. For example, Flammer and Bansal (2017) find that managers, when relieved

from short-term market pressures, are more likely to adopt a long-term perspective in their value creation decisions, which will lead them to invest more heavily in building strong and long-lasting relationships with their stakeholders.[2]

Given the foregoing arguments, we argue that the rationales with which MEPs and CSR programs are adopted in LMEs, though deviating from the dominant market logic, are coherent so that MEPs and CSR reinforce each other in a positive way by mutually generating greater financial performance. Hence, we expect:

> **Hypothesis 1 (H1)** *In firms operating within LME institutional systems, the interaction between the extent of managerial entrenchment provisions (MEPs) and corporate social responsibility (CSR) activities has a positive impact on corporate shareholder value.*

In contrast, we argue that, in CMEs, MEPs and CSR are adopted following incoherent rationales. Firms in this institutional setting are characterized by the presence of large shareholders that grant patient capital, releasing pressure on managers to focus on current performance (Aguilera and Jackson, 2003; Schneper and Guillén, 2004). Such blockholders' commitment opens opportunities to invest in projects that generate long-term returns, such as enduring collaborative relationships with stakeholders (Hall and Soskice, 2004). In this type of capitalism, incentives to engage in such long-run projects are preserved by corporate laws that make it difficult for a potential bidder to launch hostile takeovers and override the implicit social contracts with stakeholders (Schneper and Guillén, 2004). In short, the legal

[2] There is, however, a risk that, once relieved from the market pressure, managers may take advantage of their immunity to pursue their personal agenda and use CSR to promote their social image. Past research seems, however, to reject this possibility based on two arguments. First, the use of CSR for entrenchment purposes is not necessary, once the MEPs have been approved. Managers may have little incentive to share with stakeholders the private gains expropriated from shareholders if stakeholders' support is not needed to keep their power within the firm (Cespa and Cestone, 2007). And second, if the motivation for CSR were self-promotion, the CSR investment would be directed to highly visible and discretionary areas such as charitable giving, promotion of education, support of the arts, or initiatives to protect the natural environment (Cronqvist *et al.*, 2009; Surroca and Tribó, 2008), instead of developing stakeholder relationships that bind actors to long-term commitments (Witt and Jackson, 2016).

and ownership protection of insiders and the long-term collaboration with stakeholders are corporate arrangements that follow the dominant logic of non-market coordination.

Contrary to what we have argued in LMEs, adopting MEPs in a CME does not necessarily afford corporate insiders with greater incentives to invest in superior long-term projects (given the lack of short-term pressure on shareholder value). Instead, research shows that entrenchment is associated with a strengthening of insider power, which leads insiders to enjoy larger private benefits of controlling the firm, make less efficient investment decisions, and finally achieve lower corporate financial performance (Cronqvist *et al.*, 2009; Goergen *et al.*, 2005; Humphery-Jenner, 2014). This self-interested orientation of managers when adopting MEPs, represents a notable deviation from the dominant logic of corporate governance in CMEs, according to which the interests of all firm stakeholders should be balanced (Aguilera *et al.*, 2018). In terms of the model of Aguilera *et al.* (2018), MEPs would therefore represent a form of deviance that under-conforms with the norms and expectations set by the CME's institutional environment.

Moreover, according to the logic of non-market coordination of CMEs, firms should meet, not exceed, institutionally-based expectations when addressing stakeholders' interests (Matten and Moon, 2008). So, while matching the expectations of stakeholders gives firms the legitimacy required to operate, exceeding them over-conforms with the dominant logic (Aguilera *et al.*, 2018) and does not necessarily lead to positive organizational outcomes (Powell and DiMaggio, 1991), but to catering private benefit interests.

Hence, the rationales for the co-adoption of MEPs (under-conforming the dominant logic in CMEs) and CSR activities (over-conforming the dominant logic in CMEs) are not coherent nor aim to generate firm value. Instead, they are explained in terms of facilitating the accumulation of private benefits by corporate insiders. By reinforcing their power with additional MEPs, insiders may collect private benefits of reputation enhancement from CSR.

In particular, through an engagement in CSR that goes beyond societal expectations, insiders, differently to minority shareholders, can enhance their reputations as individuals who respect their communities, employees, suppliers and customers, and the natural environment (Barnea and Rubin, 2010). The visibility of these insiders contrasts to that of minority shareholders who cannot claim that they are responsible for their firm' CSR, but bear part of its cost. Hence, there is a reputational rents transfer from minority shareholders to insiders.

In sum, in a social value-maximizing setting such as the CMEs, the rationale of enhancing insider power through the adoption of MEPs is not coherent with the rationale of further engagement in CSR beyond what is implicit and embedded within national institutions (Matten and Moon, 2008). Hence, the joint adoption of both corporate arrangements is likely to damage the financial performance of CME firms. Hence, we expect:

> **Hypothesis 2 (H2)** *In firms operating within CME institutional systems, the interaction between the extent of managerial entrenchment provisions (MEPs) and corporate social responsibility (CSR) activities has a negative impact on corporate shareholder value.*

Type of CSR actions

To further unpack the theoretical mechanism at work in our hypotheses (i.e., coherence in the rationales behind the adoption of MEPs and CSR), we believe it is important to explore the type of CSR actions that firms undertake. In the argument leading to Hypothesis 1, the CSR activities that, when paired with MEPs, enhance shareholder value are those that aim to establish and maintain long-term relationships with their stakeholders. These relationships will facilitate the development of trust and mutual gain and with that the provision from stakeholders of valuable firm-specific resources. In contrast, in Hypothesis 2, CSR programs do not appear to target the creation of shareholder value: They seem to be ceremonial acts to secure/enhance the personal reputations of top managers and blockholders and get their

stakeholders' approval for decisions that may enlarge insiders' private benefits. So, in Hypothesis 1 (for LMEs) CSR activities involve substantive actions that pursue the development of organizational capabilities through the fulfillment of stakeholders' expectations. By contrast, in Hypothesis 2 (for CMEs) CSR activities may involve visible initiatives and communication activities that seek the public endorsement of the firm without further substantive content. This duality in CSR activities is addressed in the typology of Hawn and Ioannou (2016), which distinguishes between internal and external CSR.

According to these authors, internal CSR reflects an inward-looking perspective and involves substantive actions targeting those internal stakeholders upon which the firm relies on for developing intangible resources that are critical for business success. These actions often require significant resource commitments and dictate notable organizational changes in core practices, norms, structures, and routines. The adoption of internal actions is reflected in changes in corporate policies, such as policies to reduce emissions, improve energy efficiency, and ensure equal treatment of minorities, as well as in a wide variety of CSR implementation practices, such as the creation of a CSR committee and the increase in the number of women in the board of directors. In contrast, external CSR reflects communication patterns and highly visible public initiatives intended to influence external audiences to generate public endorsements of the firm, its management, and its practices. The category of external actions comprises both claims that firms make to show a commitment to socially desirable behaviors as well as reports and other disclosures through which the firm reviews its past CSR outcomes and explains its future goals, targets, and plans. In this sense, external CSR may include, for example, public claims about socially beneficial actions to employees, such as claims to provide pension fund, health care, or other insurance; daycare services; managerial training; and flexible work conditions for a work-life balance. It may also consist of reports about the existence of environmentally friendly facilities and initiatives to reduce,

reuse, recycle, substitute, phase out, or compensate CO2 equivalents in the production process, or initiatives to recycle, reduce, reuse, substitute, treat, or phase out total waste.

Based on this distinction, we refine our argument put forward for LMEs, our Hypothesis 1, by suggesting that MEPs and CSR mutually reinforce one another to create value particularly when the managers take advantage of the absence of short-term market pressures to invest in internal CSR activities. In effect, when relieved from short-term market pressures, managers may invest in prosocial actions that contribute to the accumulation of intangible firm-specific resources but that often require significant organizational changes and, for this reason, take relatively longer to materialize in firm value improvements. We see these actions as instrumental CSR (Aguilera *et al.*, 2007). In contrast, the rationale for the joint adoption of MEPs and CSR in CMEs, our Hypothesis 2, is the accumulation of private (including reputational) benefits by corporate insiders. This rationale makes it more likely that an entrenched manager would focus on external CSR to appease external stakeholders. Hence, MEPs coupled with externally-oriented CSR actions end up primarily satisfying the interests of managers and blockholders at the expense of minority shareholders. These arguments are summarized in the following hypotheses:

> **Hypothesis 3a (H3a)** *The effect proposed in Hypothesis 1 will be stronger for Internal CSR than for External CSR.*
>
> **Hypothesis 3b (H3b)** *The effect proposed in Hypothesis 2 will be stronger for External CSR than for Internal CSR.*

METHODS

Data sources and sample

We construct our data set by combining three main archival data sources: Thomson Reuters' ASSET4, Datastream, and Worldscope. Data on MEPs and CSR were gathered from ASSET4. This database provides auditable and systematic information for publicly traded

global firms on their economics, environmental, social, and governance performance based on over 250 key performance indicators and over 750 individual data points. Specially trained research analysts collect this data from publicly available sources, which include stock exchange filings, sustainability and annual reports, nongovernmental organizations' websites, and news sites. Analysts are not allowed to contact firms, except to locate the data. According to ASSET4's guidelines, every data point question goes through a multi-step verification and process control, which includes a series of data entry checks, automated quality rules and historical comparisons to ensure a high level of accuracy, timeliness, and quality. The outcome is a set of performance scores for four pillars—economic, environmental, social, and governance—and an overall ESG performance score. These scores range between 0 and 100. Although this database is relatively new, it has already been validated in CSR research (e.g., Bettinazzi and Zollo, 2017; Eccles *et al.*, 2014; Flammer and Kacperczyk, 2019; Hawn *et al.*, 2018; Hawn and Ioannou, 2016; Ioannou and Serafeim, 2012; Luo *et al.*, 2015).

Stock market data were collected from Datastream and accounting information from Worldscope. To construct our sample, we depart from the ASSET4 universe of firms for which data on CSR and Entrenchment provisions were available during the ten-year period, 2002–2011 (13,215 observations). After excluding countries with only one observation and observations with missing data on our key variables, the final sample consists of an incomplete panel data of 10,588 firm-year observations for the 2002-2011 period, representing a total of 3,187 corporations, which are headquartered in 37 countries. To explore whether the reduction in the number of observations would result in a bias due to sample attrition, we examined the differences in size, profitability, Tobin's Q, leverage, CSR, MEPs, and industry representation between the corporations covered by ASSET4 that lacked full information (N = 14,677) and those included in the analyses (N = 10,588). This comparison showed no significant differences between both samples, suggesting that attrition

does not seem to be of great concern.

The countries represented in our sample account for the 87% of the World GDP in 2011. In accordance with our theoretical framework, countries were classified into LMEs and CMEs following the framework of Hall and Soskice (2001) and its subsequent refinements for assigning countries with ambiguous systems to the two types of capitalism (e.g., Ahrens, Schweickert, and Zenker, 2015; Mariotti and Marzano, 2019). This latter case refers to European state-led market economies such as France, Greece, Italy, Portugal, and Spain, which have been classified as CMEs because of their closeness to this configuration (Hall and Gingerich, 2009; Kang and Moon, 2012). In a robustness check (available in the Online Appendix), however, we examine the sensitivity of our findings to the classification of this group of countries to a third typology: the mixed economies. Moreover, in order to provide further robustness to the analysis, we also differentiate the 37 countries into developed countries and non-developed countries (which include new-developed, emerging, and developing economies), and distinguish between LMEs and CMEs in each group using the taxonomy of Fainshmidt *et al.* (2018). Chile, Hong Kong, Israel, Singapore, and South Africa are, thus, classified as non-developed LMEs; while those countries with high level of centralized coordination of the economic activity were categorized as non-developed CMEs. This latter group holds the countries that belong to the following institutional configurations: state-led (i.e., China, India, Indonesia, and Russia), family-led (i.e., Brazil and Mexico), collaborative agglomerations (i.e., Czech Republic and Poland), and hierarchically coordinated (i.e., Turkey). The final classification is shown in Table 1, where there are 6 developed LMEs, 17 developed CMEs, 5 non-developed LMEs, and 9 non-developed CMEs. We explore the sensitivity of our findings to alternative typologies, which we explain in detail in the Robustness checks section as well as in the Online Appendix.

Dependent variable

Shareholder value has been approached by means of Tobin's Q, which is obtained by dividing the sum of the company's market equity value plus book value of debt by the overall amount of assets (Hawn and Ioannou, 2016). In comparison to accounting measures, Tobin's Q has greater capacity to capture long-term value of investments such as intangible assets (Surroca *et al.*, 2010). For robustness (available in an Online Appendix), we also consider return on assets (ROA) and the return on equity (ROE), obtaining similar findings.

Independent variables

Managerial entrenchment provisions (MEPs)

We adapt our data to the entrenchment index developed by Bebchuk, Cohen, and Ferrell (2009). It is based on the provisions to set constitutional limits on shareholder voting power and deter undesired takeovers most recurrent in the literature (Straska and Waller, 2014): staggered boards; limits to shareholder amendments of the bylaws or the charter; supermajority requirements for mergers; golden parachutes; and poison pills. Our variable of MEPs is the sum of these five dummy variables, one for each of these provisions. Staggered boards is coded one if the corporation has a board in which directors are divided into separate classes (typically three) with each class being elected to overlapping terms. Limitations on amending bylaws or the charter are coded one if the corporation has a provision limiting shareholders' ability through majority vote to amend the corporate bylaws and/or the corporate charter. Supermajority to approve a merger is coded one if the corporation requires more than a majority of shareholders to approve a merger. Golden parachutes is coded one if the corporation has introduced a severance agreement that provides benefits to management/board members in the event of firing, demotion, or resignation following a change in control. Finally, poison pills is coded one when, in the event of an unauthorized change in control, the corporation gives to their common shareholders the right to buy

additional shares of the corporation or the acquirer or both at a bargain price when the acquirer accumulates a certain percentage of shares in the corporation. Following Bebchuk and colleagues (2009), our measure of MEPs gives an equal weight to each dummy.

Corporate social responsibility (CSR)

In line with previous research examining cross-national drivers and consequences of CSR (e.g., Cheng, Ioannou, and Serafeim, 2014), our CSR measure considers 13 categories grouped into the three pillars of social performance, environmental performance, and economic performance. For an overall measure of *CSR*, we aggregate these three pillars and give equal weight to each one (Cheng *et al.*, 2014). For robustness, however, we conduct a principal components analysis of the three dimensions, uncovering similar results.

To test Hypotheses 3a and 3b, we used Hawn and Ioannou' (2016) indexes of *internal* and *external CSR*. The authors' Online Appendix explains in detail the categorization of ASSET4 indicators into internal actions (21 items) and external actions (24 items). Adding to the authors' description, in our Online Appendix we provide a complete description of the items as well as their Datastream codes. We compute the scores by adding, using the same weights, the respective items and, then, standardizing the resulting two measures. The Cronbach's alphas are 83.04 for internal CSR and 88.04 for external CSR, which suggest a very good internal consistency and reliability of the measures.

Control variables

To control for potentially confounding effects on firm value, we include in our analyses variables to account for organizational characteristics. The first set of variables reflects corporate governance characteristics, which are collected from ASSET4. We include in our analyses measures of the quality of governance like board tenure, CEO duality, board size, blockholder ownership, and the existence of dual class shares. Though *board tenure*, measured as the mean tenure among the members of the board, is typically connected to

greater experience, commitment, and competence of directors; some research has shown that large tenures are detrimental for the value creation, because directors may be more likely to be friend and collude with the CEO, rather than monitor managers (Vafeas, 2003). *CEO duality* has been primarily shown to reduce the effectiveness of the board of directors as control mechanism (Rechner and Dalton, 1991), though some studies have also underlined the positive consequences of the duality (Donaldson and Davis, 1991). This variable is a dummy coded one when the CEO is also Chairman of the board, and zero otherwise. *Board size* is measured as the total number of board members. The problems of communication and coordination within the board are likely to increase with the number of board members, so a negative impact of this variable is expected on firm value (Yermack, 1996). Our variable *blockholdings* is computed as the difference between 100 percent and the percentage of free-float shares. There are different effects at work in this variable: On the one hand, blockholders' power increases with the stake they hold, which makes minority expropriation more likely and may ultimately hurt financial performance. This effect is more likely in CMEs countries. On the other hand, we expect that the concentration of stake in the hands of few blockholders will avoid free-riding monitoring problems, when ownership is diluted, which is more likely in LMEs countries. This latter effect is thus expected to positively impact firm value (Burkart, Gromb, and Panunzi, 1997). We measure *dual-class shares* as a dummy coded one if the corporation uses such type of shares, and zero otherwise. Empirical evidence has documented the negative consequences for firm value of dual-class shares (Gompers, Ishii, and Metrick, 2010).

Finally, we control for firm size, leverage, intangibles, R&D intensity and the Tobin's Q averaged by sector and year (Mean Tobin's Q). *Size*, which is measured by the log of total assets, is an important control variable because evidence suggests that larger firms are more visible and, thus, carefully scrutinized by external stakeholders, who may demand a higher

social involvement, sometimes at a cost for the firm in terms of financial performance (Waddock and Graves, 1997). *Leverage* is the log of the ratio of book value of debt to total assets. The net impact of leverage on firm value is an empirical question, as it depends on which effect dominates: the positive effect associated to the reduction of the free cash flows available for managerial discretion or the negative effect caused by the conflict between creditors and shareholders (Surroca *et al.*, 2010). As Hawn and Ioannou (2016), we control for intangibles that may positively affect firm value. The first measure of intangibles, *Asset intangibility*, is the log of the ratio of intangible assets to total assets. We take a log scale in order to reduce skewness. The second intangible variable is *R&D intensity*, which is measured as R&D expenses to total sales. We include *Mean Tobin's Q* as a way to control for the interaction of sector and year. Our regressions also include firm- fixed and time effects.

Empirical methodology

To test our hypotheses, we rely on panel data firm-level analyses with fixed effects, given that Hausman tests reveals the existence of possible correlations between explanatory variables and the error term (Wooldridge, 2010). The empirical model to examine the effects of MEPs and CSR on shareholder value is:

$$\begin{aligned}\text{Tobin's } Q_{it} = \\ &\beta_1 + \beta_2\,\text{CSR}_{it-1} + \beta_3\,\text{MEPs}_{it-1} + \beta_4\,\text{MEPs} \times \text{CSR}_{it-1} + \beta_5\,\text{Size}_{it} + \beta_6\,\text{Leverage}_{it} + \\ &\beta_7\,\text{Intangible assets}_{it} + \beta_8\,\text{R\&D intensity}_{it} + \beta_9\,\text{Board tenure}_{it} + \\ &\beta_{10}\,\text{CEO duality}_{it} + \beta_{11}\,\text{Board size}_{it} + \beta_{12}\,\text{Blockholdings}_{it} + \\ &\beta_{13}\,\text{Dual class shares}_{it} + \beta_{14}\,\text{Mean Tobin's Q}_{it} + \eta_i + \psi_t + \theta_{it} \qquad (1)\end{aligned}$$

Subscripts *i* and *t* index firm and time period, respectively. A firm-specific component of the error term (η_i) is included to eliminate the unobservable firm heterogeneity (e.g., managers' cognitions: Crilly and Sloan, 2012) that might be correlated with independent variables. A failure to control for this firm-specific term could lead the relationship of MEPs and CSR on financial performance to be spurious given their mutual connection to such unobservable component. Also, to tackle possible reverse causality problems, we measure the

explanatory variables and their interaction term in $t-1$. Apart from the firm-specific error component (η_i), endogeneity problems may be connected to the non-firm specific part of the error term (θ_{it}). We address this potential endogeneity problem by means of instrumental variables for MEPs and CSR in the Robustness analyses section. Finally, we included time dummies (ψ_t). To mitigate the influence of outliers, our dependent and independent explanatory variables have been winsorized at 5 percent (10% of total outliers considering both tails of the distribution have been winsorized), though results considering other cut-offs points or without that correction remained qualitatively similar to those shown in the tables.

RESULTS

The descriptive statistics presented in Table 2 show that corporations in LMEs engage in fewer CSR activities than their counterparts in CMEs (47.30 versus 53.37), which is as expected (Ioannou and Serafeim, 2012). However, this finding reverses for specific CSR dimensions: internal/substantive CSR is larger in LMEs in comparison to CMEs (42.80 versus 37.87), while the opposite is true for external/symbolic CSR (4.50 versus 15.50). Consistent with Aggarwal and colleagues (2010), we also observe that the magnitude of MEPs (1.54 versus 0.88) and the Tobin's Q (1.56 versus 1.40) are higher in LMEs than in CMEs. Pearson correlations show that CSR is positively related to Tobin's Q ($r = 0.04$), particularly when CSR is internal ($r = 0.07$), and to ROA ($r = 0.09$); whereas MEPs are negatively related to both Tobin's Q ($r = -0.05$) and ROA ($r = -0.06$).

Insert Table 2 about here

Table 3 displays the results for the empirical Specification (1). Model 1 presents the estimation results for the whole sample. Model 2 estimates the model for all firms in LMEs without distinguishing between non-developed and developed countries, while Model 3 does the same for firms in CMEs. Results in Model 2 show that MEPs have a negative impact on

Tobin's Q ($\beta = -0.040,\ p = .002$), while the coefficient of CSR is positive ($\beta = 0.044,\ p < .001$). We also observe that the effect of the interaction term between MEPs and CSR on the Tobin's Q is also positive ($\beta = 0.057,\ p < .001$). Moreover, the total marginal effect of MEPs on the Tobin's Q becomes positive for sufficiently high values of CSR. Note that the marginal effect of MEPs on the Tobin's Q is –0.040 + 0.057 × CSR, which means that for values of the standardized variable of CSR larger than 0.702 (0.040/0.057), the overall effect of increases in MEPs on shareholder value is positive. For firms in LMEs, the CSR standardized value of 0.702 is in the third quartile of the distribution. This result is graphically portrayed in Figure 1, Panel A, where there is a representation of Tobin's Q for LMEs countries in terms of MEPs (standardized values) and different cutoff levels of CSR (the ones that define each quartile of the distribution), fixing the value of the explanatory variables of Specification (1) in their means. We observe that for the third quartile cutoff of the CSR distribution (CSR_75), the connection between Tobin's Q and MEPs is not decreasing, while for larger CSR levels (CSR_90), which corresponds to the cutoff level of the last decile, the relationship between Tobin's Q and MEPs is positive.

The positive interaction effect of MEPs and CSR on Tobin's Q holds once we split LMEs into developed (Model 4) and non-developed countries (Model 6): the coefficient of the interaction is ($\beta = 0.042,\ p < .001$) for developed LMEs and ($\beta = 0.090,\ p = .029$) for non-developed LMEs. All these results support Hypothesis 1.

Insert Table 3 and Figure 1 about here

The analysis of CMEs' countries (Model 3) shows that MEPs have only a limited negative impact on Tobin's Q ($\beta = -0.007, p = .104$), while the impact of CSR is clearly positive ($\beta = 0.027,\ p = .001$). The interaction term of MEPs × CSR has a negative impact on Tobin's Q ($\beta = -0.009, p = .022$). In this case, the marginal impact of MEPs on Tobin's

Q is negative for any value of CSR, as shown in Figure 1, Panel B. Also, the negative value for the interaction term holds for developed ($\beta = -0.008,\ p = .062$, Model 5) and non-developed ($\beta = -0.019,\ p = .038$, Model 7) CMEs. These results support Hypothesis 2.

Concerning the economic significance: For LMEs, an increase of one standard deviation in MEPs (taking the mean value of CSR, which is 47.30) generates an increase in Tobin's Q of 0.45 percent.[3] If we take the median value of the last quartile of the CSR distribution (82.28), the increase would rise to 2.7 percent. For CMEs, an increase of one standard deviation in MEPs (taking the mean value of CSR, which is 53.37) generates a decrease in Tobin's Q of 1.0 percent.

Table 4 tests Hypotheses 3a and 3b by distinguishing between internal and external CSR. Results show that, in LMEs, the coefficient MEPs × CSR is only positive for internal CSR ($\beta = 0.020, p = 0.040$). In CMEs, this coefficient is negative for MEPs × external CSR ($\beta = -0.016, p < 0.001$) and weakly positive for MEPs × internal CSR ($\beta = 0.013, p = 0.095$). These findings further support the mechanism linking MEPs and CSR with shareholder value. For LMEs, MEPs provide managers with long-term horizons for accumulating stakeholder-based intangibles (based on internal CSR), which, in turn, generate shareholder value. For CMEs, MEPs provide further insider corporate control, allowing managers and blockholders to extract private benefits related to an increased CSR external image (external CSR), at a cost for the firm, as shown by the value decrease. This result also holds when we separate the analysis between developed and non-developed countries. For LMEs, the interaction of MEPs with internal CSR generates positive effects on financial performance whether we consider developed ($\beta = 0.020, p = 0.042$, Model 4) or non-

[3] For LMEs, this is the result of –0.040 + (0.057 / 53.61) x 47.30 x 0.93 = 0.007, which is 0.45 percent of 1.56, where the mean value of Tobin's Q in LMEs is 1.56; SD (MEPs × CSR in LMEs) =53.61; SD (MEPs in LMEs) = 0.93 and mean CSR in LMEs is 47.32. For CMEs, the economic impact is the result of (–0.007 – (0.009 / 51.04) x 53.37 x 0.78 = 0.014, which is 1 percent of 1.40, where the mean value of Tobin's Q in CMEs is 1.40; SD (MEPs × CSR in CMEs) =51.04; SD (MEPs in CMEs) = 0.78 and mean CSR in CMEs is 53.37.

developed ($\beta = 0.026, p = 0.060$, Model 6) countries. For CMEs, the impact on the Tobin's Q of the interaction term is negative both in developed ($\beta = -0.014, p = 0.001$, Model 5) and non-developed ($\beta = -0.124, p = 0.060$, Model 7) countries. All these results support Hypotheses 3a and 3b.

Insert Table 4 about here

Robustness checks

Our results withstand a battery of robustness tests, including analyses examining a more comprehensive and dynamic VOC typology (Table 5) and the potential problem of endogeneity (Table 6). We also consider an additional test to highlight the mechanism at work, alternative empirical methods, alternative measures for the main model variables, and alternative typologies of institutional configurations (available in the Online Appendix)

Varieties of capitalism: institutional variety and change

The VOC framework has received some criticism for overlooking the institutional variety within each variety of capitalism and its inability to cope with the changes that countries can experience over time and that may lead them to shift between varieties (Fainshmidt *et al.*, 2018; Judge *et al.*, 2014). To address these criticisms, we have followed the approach of Fainshmidt *et al.* (2018) that consists in clustering, using a comprehensive set of institutional dimensions, the countries in categories at different points of time. The variables that describe five institutional dimensions of economic activity suggested by Fainshmidt *et al.* (2018) are the following: (1) the role of the state (Government expenditures / GDP, average of six pillars of the World Governance Indicators, Index of Economic Freedom); (2) Role of Financial Markets (Stock market capitalization /GDP, Credit to private sector / GDP); (3) Role of Human Capital (Hiring and firing regulations, Higher Education); (4) Role of Social Capital (Control of corruption index, Index of extra payments, bribes, and favoritism); (5) Role of

Corporate Governance (Reliance on professional management, Ownership concentration, Family ownership). The data were extracted from the World Bank, Heritage Foundation, Fraser Institute, World Economic Forum, and the World Value Survey.

We used a two-step cluster analysis in 2002 and 2011 to ascertain whether natural groupings (clusters) exist within our data set. This technique has notable advantages over hierarchical and iterative-process methods and its algorithm automatically determines the number of clusters based on a model-choice criterion. Based on the Akaike Information Criterion, we found a three-cluster solution both in 2002 and 2011, which were labeled as LMEs, Mixed, and CMEs given that the majority of countries in each cluster mirror our original theory-based classification. Remarkably, we observe few country shifts in the type of capitalism categories along this 10-year period. In particular, there are just six countries that shift capitalism variety, namely: Finland, Greece, Israel, New Zealand, Poland, and South Africa. The changes are generally towards LME-like categories (in 4 of the 6 cases).

We re-estimate Specification (1) using, first, the clusters found in 2002 and, then, those of 2011, in order to follow a more dynamic and comprehensive view of institutions. Results of Table 5 show that in LME-like variety of capitalism, the coefficient of the interaction term MEPs × CSR is positive using the cluster solutions for 2002 ($\beta = 0.042, p = .021$, Model 1) and 2011 ($\beta = 0.040, p = .025$, Model 4). Concerning to the CME-like variety, the coefficients are negative for the initial period configuration ($\beta = -0.008$, $p = 0.044$, Model 3) as well as for the final one ($\beta = -0.007, p = 0.073$, Model 6). Finally, for the mixed-like variety, the coefficients are not significant (Models 2 and 4). This set of results reduces concerns related to the dynamic evolution of countries across types of capitalisms. We observe that there is substantial institutional stability and that the changes of category by countries are rare events that do not substantially affect the results.

Accounting for endogeneity

A potential problem in interpreting our findings is the possible endogeneity of MEPs and CSR. To tackle this problem, we follow a two-stage procedure that consists of generating instruments that will replace the potential endogenous variables in our main tests (Wooldridge, 2010).[4] Instruments are constructed in Models 1 and 2 of Table 6, which present the first-stage of the procedure. Next, we re-estimate Specification (1) using 2-stage fixed-effect estimations for LMEs (Model 3) and CMEs (Model 4). As shown in Table 6, we find that MEPs, when combined with CSR, have a significant positive effect on shareholder value in LMEs ($\beta = 0.239, p < 0.001$, Model 3) and a negative impact in CMEs ($\beta = -0.015, p = 0.055$, Model 4). These results provide further support for Hypotheses 1 and 2.

Insert Tables 5 and 6 about here

Other robustness checks

Our results also withstand tests examining the mechanism at work, alternative empirical methods, alternative measures for the main model variables, and alternative typologies of institutional configurations (the details are presented in the Online Appendix).

In a first test, we offer further evidence on the theoretical mechanisms at work using the Guillén and Capron's (2016) index of countries' minority shareholder rights protection. The premise is that the stronger the minority shareholder protection, the larger the degree of development of the stock market, and the higher the pressures on managers for short-term profits. In contrast, if minority shareholder rights are weak, corporate insiders will have more leeway to expropriate minority shareholders by defining value-destroying strategies, such as

[4] See the Online Appendix for details in the construction and the validity of the instruments.

the combination of EPs and CSR. Our results show that, within LMEs, corporations benefit more from the joint adoption of EPs and CSR in countries with strong minority shareholder protection. Conversely, in CMEs, the negative effect on performance of combining EPs and CSR is larger in countries with weak minority shareholder rights.

We also tested our hypotheses using two methodological approaches: a general model that includes a three-way interaction among EPs, CSR, and the institutional setting and a non-parametric (distribution-free) estimation method that assesses the impact on shareholder value of a "shock" in CSR in a context of a high MPEs. Findings in both cases are in accordance with our expectations. Also, we employed ROA and ROE as alternative proxies of firm value. The results are consistent to those found for the Tobin's Q. Finally, we test the robustness of our findings to alternative classifications, such as the typologies of Hall and Gingerich (2009) and Dhaliwal *et al*. (2012), to the deletion of the countries with the largest number of observations, and to the reclassification of countries that are border line between LMEs and CMEs categories. Results are consistent to those shown in this article.

DISCUSSION AND CONCLUSION

In this study we seek to identify how corporations' governance and social responsibility influence, both separately and in combination, the creation of shareholder value. We examine these effects by relying on the literature on comparative capitalisms, which analyzes the institutional logics of countries and their relationship with economic activity. We argue that each variety of capitalism, or set of countries in an institutional setting, has its own bundle of interrelated corporate arrangements that reinforce one another by generating shareholder value if they are adopted with the same rationale (i.e., they are coherent). Hence, we propose that, although any component of the firm's bundle of arrangements influences shareholder value independently, they also interact with each other to create or destroy value. The financial performance outcome is, we argue, contingent on the coherence of the rationale

with which the different corporate arrangements have been adopted in the variety of capitalism where the firm is headquartered. In developing theory and testing it empirically, we focus on a key set of corporate governance practices, namely the entrenchment provisions (MEPs), and analyze the corporations' role in society by means of their corporate social responsibility (CSR). Under different conditions, our analyses produce unequivocal evidence in support for our configurational predictions.

Main findings and contributions

Our analysis adds to configurational work of corporate governance by testing its external validity across national institutional systems. Most research in the area has primarily focused on the study of complementarity or substitution among governance arrangements at the firm level, without acknowledging that national institutional systems may influence the effectiveness of a particular governance bundle (Aguilera *et al.*, 2012; Aguilera *et al.*, 2008; Filatotchev and Allcock, 2010). We showed how the bundle formed by the combination of MEPs and CSR is effective in certain systems, yet not in others, thus emphasizing the importance of the contingency conditions driving the bundles' effectiveness.

Another important contribution of our study lies in the exploration of the combined effect of MEPs and CSR on shareholder value under different varieties of capitalism. As advanced by Hall and Soskice (2001), for firms to create shareholder value, institutions and corporate arrangements and corporate arrangements among themselves need to be part of a coherent system. For example, firms that resolve the coordination problems they face in the sphere of corporate governance by being attentive to stock prices and current profitability require fluid resource markets and marketable skills. Firms that, in such a context, deviate from the logic of marketable skills to develop company-specific resources from stakeholder relationships require a form of coordination with their shareholders that would be less sensitive to stock prices and current profitability. Hence, in institutional frameworks

dominated by market mechanisms of coordination, actions that shield managers from short-term pressure, such as MEPs, allow the implementation of strategies directed to promote long-term investments and relationships, such as those identified by firms' CSR, needed for developing firm-specific resources. Corporate governance arrangements that relieve firms' dependence on market coordination mechanisms may foster, thus, valuable collaborative agreements with stakeholders. We therefore propose and find evidence that, for firms in liberal market economies (LMEs), the combination of MEPs and CSR create shareholder value, particularly when CSR is external. This result extends previous work on the interrelations between takeover protection and CSR (e.g., Kacperczyk, 2009) by examining the conditions for positive interdependencies between the two corporate arrangements.

Our comparative capitalisms framework also suggests that, where non-market mechanisms ensure coordination among actors in the spheres of corporate governance and stakeholder relationships, such as it is the case for coordinated market economies (CMEs), individual corporations (and managers) should leave to institutions the definition, in a collective manner, of the corporation's obligations toward shareholders and other stakeholders (Kang and Moon, 2012; Matten and Moon, 2008). When firms adopt individual initiatives related to their governance and social responsibility that deviate from non-market coordination, their dominant actors (managers and blockholders) are likely to increase their power to extract rents, such as reputational rents, at the expense of firms' minority shareholders (Barnea and Rubin, 2010; Cespa and Cestone, 2007). We consequently hypothesize, and demonstrate empirically, that in CMEs, where coordination takes place by means of non-market mechanisms, the combined adoption of MEPs and CSR initiatives is negatively related to shareholder value, particularly when this CSR is external.

Our findings comparing firms in LMEs and CMEs thus extend existing research on comparative capitalisms, by showing that corporate governance and CSR are related to each

other through the mechanism of coherence in the rationales with which they are adopted. Remarkably, our findings suggest that this thesis holds even when we consider less advanced economies and account for institutional change—two aspects somewhat understudied in past VOC research (Fainshmidt *et al.*, 2018). Specifically, the inclusion in our analyses of non-developed countries allows to test the external validity of the mechanism of coherence beyond the LME/CME dichotomy—these are settings where other actors such as states or families play a significant role, together with markets or collective bargaining, in helping firms to address their coordination problems. Our findings show that, even when there exists some institutional variety, when countries mainly rely on markets or collective bargaining as coordination logics, the effectiveness of the bundles of corporate arrangements is essentially the same as in developed countries. Moreover, we uncover that despite the institutional development that most countries experience along the period analyzed in this study, there are very few country cases where changes in institutions over time have been large enough for being classified in one variety at the beginning of the period (2002) and in another at the end (2011). This result updates previous findings for earlier periods (Hall and Gingerich, 2009) and shows that institutions, because of their path dependence, change very slowly and that such changes parallel similar reconfigurations in other countries within each variety of capitalism. At the end, except the border line countries, the rest of countries tend to continue clustering together over time in the same variety of capitalism.

Our study also adds to corporate governance literature on MEPs. First, we show that these governance provisions impose costs to shareholders irrespective of the institutional setting. And second, our study gives response to the call for more research investigating the conditions under which MEPs may interact with other corporate practices to create firm value (Wang *et al.*, 2016). One of these conditions, as we have shown in this study, is when MEPs are coupled with a strong firm commitment toward its stakeholders in institutional contexts

where the attention to stakeholders is voluntary and strategic (LMEs).

Managerial implications

Our analyses and results have significant implications for a myriad of institutional actors, including investors and regulators. As stated previously, in absence of the protection provided by MEPs, the market-based discipline of LMEs reduces the incentives for managers to invest in valuable long-term relationships with stakeholders. In this situation, managers will have more incentives to spend generous amounts of company resources in symbolic CSR activities to avoid being disciplined by firm investors (Prior *et al.*, 2008). The findings for LMEs suggest that managers immune to the short-term pressure of external markets because of the protection provided by MEPs, can credibly fulfill contracts with stakeholders, who in exchange will be more willing to acquire costly firm-specific skills that are necessary to create shareholder value. Hence, a clear recommendation for LMEs is not to hinder the adoption of MEPs if they are accompanied by the implementation of explicit and substantive CSR activities. Hindering managers to implement MEPs may lead these managers to use CSR as a substitute mechanism to be hedged against the short-term pressure from financial markets, rather than as instrument for generating value. In order to deter the risk that such attention to stakeholders would therefore be part of a managerial entrenchment strategy, managers' compensation should be designed to remunerate the generation of shareholder value together with the advances in CSR (Flammer and Bansal, 2017; Flammer *et al.*, 2019).

Our findings for CMEs reveal some managerial insights to reduce the negative consequences for firm value from combining MEPs and externally oriented CSR. It is worth noting that the negative financial outcome is particularly damaging in situations where minority shareholders' rights are weak. One possible solution to this problem would be limiting the possibility of raising MEPs in firms with highly concentrated ownership structures or to require the approbation of such modifications by a larger percentage of

owners. A second step in this direction would be to enforce financial reporting practices that require providing more detail about the CSR expenses in the company's public accounts. Another measure to prevent stakeholders' actions that, in the end, harm minority shareholders' interests would be to give stakeholders economic and political rights over the corporation to align their interests to those of shareholders.

Limitations and future research

Our study has several shortcomings that offer opportunities for future research. Our analyses are based on a sample of firms extracted from ASSET4. Although we have shown that our sample is representative of the ASSET4 population, and thus it shares the database's positive features in terms of international coverage and rigorous approach in measuring CSR, we acknowledge some limitations in our data. We focused on major listed corporations of primarily developed countries, so it would be of interest to expand our coverage in two dimensions: countries and types of firms. With the inclusion of new countries (and, possibly, geographical areas), we could apply recent developments of the comparative capitalisms framework that introduce new varieties of capitalism for non-developed economies. Also, within each country, it may be of interest to include privately-held firms in the sample. Such firms are likely to respond to institutional logics with the adoption of corporate arrangements (governance and social responsibility) that may differ substantially from those of public firms (Ioannou and Serafeim, 2012), so it would be of practical and theoretical relevance to test if our findings hold for them.

A possible criticism, using the analogy with VOC scholarship (Judge *et al.*, 2014), is that our study is focused on the creation of economic wealth (i.e., shareholder value) and does not address if this wealth is distributed equitably. It may therefore be of academic and practical interest to explore the extent to which the combination of CSR and MEPs can contribute to other outcomes that benefit society directly. Another possible extension would

consist in analyzing different stakeholders with the aim of determining which single stakeholder would be most relevant in order to reinforce the positive joint effects of combining MEPs and CSR (in LMEs) or the negative ones (in CMEs). The notion of institutional complementarities could also be explored in more depth by focusing on the interaction between CSR and other dimensions of corporate governance or considering other institutions, such as the culture. Finally, the inclusion in the analysis of ownership structure characteristics like the degree of heterogeneity among blockholders may affect the relationship between managers and stakeholders to create value in LMEs and between managers and blockholders to destroy value in CMEs. The investigation of these issues is left for future research.

Conclusion

Our study examines *how* two organizational practices, MEPs and CSR, which typically are studied independently, combine to create or destroy shareholder value. Our findings show that their joint effect is contingent on the institutional setting where corporations are headquartered. In institutional settings that promote market-based arrangements to deal with the coordination problems among economic actors, MEPs relax corporations' short-term focus. MEPs when paired with internally oriented CSR initiatives become coherent with each other and therefore promote the development of intangibles that ultimately create shareholder value. On the contrary, in institutional settings where coordination relies on non-market mechanisms, MEPs coupled with externally oriented CSR actions end up fulfilling mostly the interests of managers and blockholders at the expense of minority shareholders. We hope our research will inspire future studies on how the interrelations among corporations' institutional environment, their governance, and their role in society affect the corporation's ability to create value for all firm participants.

REFERENCES

Aggarwal R, Erel I, Stulz R, Williamson R. 2010. Differences in governance practices between US and foreign firms: Measurement, causes, and consequences. *Review of Financial Studies* **23**(3): 3131–3169.

Aguilera RV, Desender KA, de Castro LRK. 2012. A bundle perspective to comparative corporate governance. In *The SAGE Handbook of Corporate Governance.* Clarke T, Branson D (eds.), Sage Publications: London, UK.

Aguilera RV, Filatotchev I, Gospel H, Jackson G. 2008. An organizational approach to comparative corporate governance: Costs, contingencies, and complementarities. *Organization Science* **19**(3): 475–492.

Aguilera RV, Jackson G. 2003. The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review* **28**(3): 447–465.

Aguilera RV, Judge WQ, Terjesen SA. 2018. Corporate governance deviance. *Academy of Management Review* **43**(1): 87–109.

Aguilera RV, Rupp DE, Williams CA, Ganapathi J. 2007. Putting the S back in corporate social responsibility: A multilevel theory of social change in organizations. *Academy of Management Review* **32**(3): 836–863.

Ahrens J, Schweickert R, Zenker J. 2015. Varieties of capitalism and government spending in developed and developing countries. *Journal of Economic Development* **40**(1): 113–136.

Amable B. 2003. *The Diversity of Modern Capitalism*. Oxford University Press: Oxford

Barnea A, Rubin A. 2010. Corporate social responsibility as a conflict between shareholders. *Journal of Business Ethics* **97**(1): 71–86.

Bebchuk L, Cohen A, Ferrell A. 2009. What matters in corporate governance? *Review of Financial Studies* **22**(2): 783–827.

Bebchuk L, Cohen A, Wang CC. 2014. Golden parachutes and the wealth of shareholders. *Journal of Corporate Finance* **25**: 140–154.

Bell RG, Filatotchev I, Aguilera RV. 2014. Corporate governance and investors' perceptions of foreign IPO value: An institutional perspective. *Academy of Management Journal* **57**(1): 301–320.

Bettinazzi EL, Zollo M. 2017. Stakeholder orientation and acquisition performance. *Strategic Management Journal* **38**(12): 2465–2485.

Brammer S, Jackson G, Matten D. 2012. Corporate social responsibility and institutional theory: New perspectives on private governance. *Socio-Economic Review* **10**(1): 3–28.

Burkart M, Gromb D, Panunzi F. 1997. Large shareholders, monitoring, and the value of the firm. *The Quarterly Journal of Economics* **112**(3): 693–728.

Cespa G, Cestone G. 2007. Corporate social responsibility and managerial entrenchment. *Journal of Economics & Management Strategy* **16**(3): 741–771.

Cheng B, Ioannou I, Serafeim G. 2014. Corporate social responsibility and access to finance. *Strategic Management Journal* **35**(1): 1–23.

Crilly D, Sloan P. 2012. Enterprise logic: Explaining corporate attention to stakeholders from the 'inside-out'. *Strategic Management Journal* **33**(10): 1174–1193.

Cronqvist H, Heyman F, Nilsson M, Svaleryd H, Vlachos J. 2009. Do entrenched managers pay their workers more? *The Journal of Finance* **64**(1): 309–339.

Crossland C, Hambrick DC. 2011. Differences in managerial discretion across countries: How nation-level institutions affect the degree to which CEOs matter. *Strategic Management Journal* **32**(8): 797–819.

Dhaliwal DS, Radhakrishnan S, Tsang A, Yang YG. 2012. Nonfinancial disclosure and analyst forecast accuracy: International evidence on corporate social responsibility disclosure. *The Accounting Review* **87**(3): 723–759.
Donaldson L, Davis JH. 1991. Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of management* **16**(1): 49–64.
Eccles RG, Ioannou I, Serafeim G. 2014. The impact of corporate sustainability on organizational processes and performance. *Management Science* **60**(11): 2835–2857.
Fainshmidt S, Judge WQ, Aguilera RV, Smith A. 2018. Varieties of institutional systems: A contextual taxonomy of understudied countries. *Journal of World Business* **53**(3): 307–322.
Filatotchev I, Allcock D. 2010. Corporate governance and executive remuneration: A contingency framework. *Academy of Management Perspectives* **24**(1): 20–33.
Filatotchev I, Nakajima C. 2014. Corporate governance, responsible managerial behavior, and CSR: Organizational efficiency versus organizational legitimacy? *The Academy of Management Perspectives* **28**(3): 289–306.
Fiss PC. 2008. Institutions and corporate governance. In *The SAGE Handbook of Organizational Institutionalism.* Greenwood R, Oliver C, Suddaby R, Sahlin-Andersson K (eds.), SAGE: London.
Flammer C, Bansal P. 2017. Does a long-term orientation create value? Evidence from a regression discontinuity. *Strategic Management Journal* **38**(9): 1827–1847.
Flammer C, Hong B, Minor D. 2019. Corporate governance and the rise of integrating corporate social responsibility criteria in executive compensation: Effectiveness and implications for firm outcomes. *Strategic Management Journal*: forthcoming.
Flammer C, Kacperczyk A. 2019. Corporate social responsibility as a defense against knowledge spillovers: Evidence from the inevitable disclosure doctrine. *Strategic Management Journal*: forthcoming.
Goergen M, Martynova M, Renneboog L. 2005. Corporate governance convergence: Evidence from takeover regulation reforms in Europe. *Oxford Review of Economic Policy* **21**(2): 243–268.
Gompers PA, Ishii J, Metrick A. 2010. Extreme governance: An analysis of dual-class firms in the United States. *Review of Financial Studies* **23**(3): 1051–1088.
Gourevitch PA, Shinn J. 2005. *Political Power and Corporate Control: The New Global Politics of Corporate Governance*. Princeton University Press: Princeton, NJ.
Graham JR, Harvey CR, Rajgopal S. 2005. The economic implications of corporate financial reporting. *Journal of Accounting and Economics* **40**(1): 3–73.
Guillén MF, Capron L. 2016. State capacity, minority shareholder protections, and stock market development. *Administrative Science Quarterly* **61**(1): 125–160.
Hall PA, Gingerich DW. 2009. Varieties of capitalism and institutional complementarities in the political economy: An empirical analysis. *British Journal of Political Science* **39**(03): 449–482.
Hall PA, Soskice D. 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford University Press: Oxford.
Hall PA, Soskice D. 2004. Varieties of capitalism and institutional complementarities. In *Institutional Conflicts and Complementarities: Monetary Policy and Wage Bargaining Institutions in EMU.* Franzese R, Mooslechner P, Schürz M (eds.), Springer New York.
Harrison JS, Bosse DA, Phillips RA. 2010. Managing for stakeholders, stakeholder utility functions, and competitive advantage. *Strategic Management Journal* **31**(1): 58-74.
Hawn O, Chatterji AK, Mitchell W. 2018. Do investors actually value sustainability? New evidence from investor reactions to the Dow Jones Sustainability Index (DJSI). *Strategic Management Journal* **39**(4): 949–976.

Hawn O, Ioannou I. 2016. Mind the gap: The interplay between external and internal actions in the case of corporate social responsibility. *Strategic Management Journal* **37**(13): 2569–2588.
Haxhi I, Aguilera RV. 2017. An institutional configurational approach to cross-national diversity in corporate governance. *Journal of Management Studies* **54**(3): 261–303.
Hemingway CA, Maclagan PW. 2004. Managers' personal values as drivers of corporate social responsibility. *Journal of Business Ethics* **50**(1): 33–44.
Hillman AJ, Keim GD. 2001. Shareholder value, stakeholder management, and social issues: What's the bottom line? *Strategic Management Journal* **22**(2): 125–139.
Hodgson GM. 2016. Varieties of capitalism: Some philosophical and historical considerations. *Cambridge Journal of Economics* **40**(3): 941–960.
Humphery-Jenner M. 2012. The impact of the EU takeover directive on takeover performance and empire building. *Journal of Corporate Finance* **18**(2): 254–272.
Humphery-Jenner M. 2014. Takeover defenses, innovation, and value creation: Evidence from acquisition decisions. *Strategic Management Journal* **35**(5): 668–690.
Ioannou I, Serafeim G. 2012. What drives corporate social performance? The role of nation-level institutions. *Journal of International Business Studies* **43**(9): 834–864.
Jackson G, Apostolakou A. 2010. Corporate social responsibility in Western Europe: an institutional mirror or substitute? *Journal of Business Ethics* **94**(3): 371–394.
Jackson G, Deeg R. 2008. Comparing capitalisms: Understanding institutional diversity and its implications for international business. *Journal of International Business Studies* **39**(4): 540–561.
Judge WQ, Fainshmidt S, Brown III JL. 2014. Which model of capitalism best delivers both wealth and equality. *Journal of International Business Studies* **45**(4): 363–386.
Kacperczyk A. 2009. With greater power comes greater responsibility? Takeover protection and corporate attention to stakeholders. *Strategic Management Journal* **30**(3): 261–285.
Kang N, Moon J. 2012. Institutional complementarity between corporate governance and corporate social responsibility: A comparative institutional analysis of three capitalisms. *Socio-Economic Review* **10**: 85–108.
Lewellyn KB, Fainshmidt S. 2017. Effectiveness of CEO power bundles and discretion context: Unpacking the 'fuzziness' of the CEO duality puzzle. *Organization Studies* **38**(11): 1603–1624.
Luo X, Wang H, Raithel S, Zheng Q. 2015. Corporate social performance, analyst stock recommendations, and firm future returns. *Strategic Management Journal* **36**(1): 123–136.
Mahoney JM, Sundaramurthy C, Mahoney JT. 1997. The effects of corporate antitakeover provisions on long-term investment: Empirical evidence. *Managerial and Decision Economics* **18**(5): 349–365.
Mariotti S, Marzano R. 2019. Varieties of capitalism and the internationalization of state-owned enterprises. *Journal of International Business Studies*: forthcoming.
Matten D, Moon J. 2008. "Implicit" and "explicit" CSR: A conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review* **33**(2): 404–424.
Misangyi VF, Acharya AG. 2014. Substitutes or complements? A configurational examination of corporate governance mechanisms. *Academy of Management Journal* **57**(6): 1681–1705.
Oh W-Y, Chang YK, Kim T-Y. 2018. Complementary or Substitutive Effects? Corporate Governance Mechanisms and Corporate Social Responsibility. *Journal of Management* **44**(7): 2716–2739.

Pagano M, Volpin PF. 2005. Managers, workers, and corporate control. *The Journal of Finance* **60**(2): 841–868.
Powell WW, DiMaggio P. 1991. *The New Institutionalism in Organizational Analysis*. University of Chicago Press: Chicago, IL.
Prior D, Surroca J, Tribó JA. 2008. Are socially responsible managers really ethical? Exploring the relationship between earnings management and corporate social responsibility. *Corporate Governance* **16**(3): 160–177.
Pugh WN, Page DE, Jahera Jr JS. 1992. Antitakeover charter amendments: Effects on corporate decisions. *Journal of Financial Research* **15**(1): 57–67.
Rechner PL, Dalton DR. 1991. CEO duality and organizational performance: A longitudinal analysis. *Strategic Management Journal* **12**(2): 155–160.
Rediker KJ, Seth A. 1995. Boards of directors and substitution effects of alternative governance mechanisms. *Strategic Management Journal* **16**(2): 85–99.
Scherer AG, Palazzo G. 2011. The new political role of business in a globalized world: A review of a new perspective on CSR and its implications for the firm, governance, and democracy. *Journal of Management Studies* **48**(4): 899–931.
Schneper WD, Guillén MF. 2004. Stakeholder rights and corporate governance: A cross-national study of hostile takeovers. *Administrative Science Quarterly* **49**(2): 263–295.
Stein JC. 1988. Takeover threats and managerial myopia. *Journal of Political Economy* **96**(1): 61–80.
Straska M, Waller HG. 2014. Antitakeover provisions and shareholder wealth: A survey of the literature. *Journal of Financial and Quantitative Analysis* **49**(04): 933–956.
Sundaramurthy C. 2000. Antitakeover provisions and shareholder value implications: A review and a contingency framework. *Journal of Management* **26**(5): 1005–1030.
Sundaramurthy C, Mahoney JM, Mahoney JT. 1997. Board structure, antitakeover provisions, and stockholder wealth. *Strategic Management Journal* **18**(3): 231–245.
Surroca J, Tribó JA. 2008. Managerial entrenchment and corporate social performance. *Journal of Business Finance & Accounting* **35**(5-6): 748–789.
Surroca J, Tribó JA, Waddock S. 2010. Corporate responsibility and financial performance: The role of intangible resources. *Strategic Management Journal* **31**(5): 463–490.
Vafeas N. 2003. Length of board tenure and outside director independence. *Journal of Business Finance & Accounting* **30**(7-8): 1043–1064.
Vitols S. 2001. Varieties of corporate governance: Comparing Germany and the UK. In *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage.* Hall PA, Soskice D (eds.), Oxford University Press: Oxford.
Waddock SA, Graves SB. 1997. The corporate social performance–financial performance link. *Strategic Management Journal* **18**(4): 303–319.
Wang H, Zhao S, He J. 2016. Increase in takeover protection and firm knowledge accumulation strategy. *Strategic Management Journal* **37**(12): 2393–2412.
Wang T, Bansal P. 2012. Social responsibility in new ventures: Profiting from a long-term orientation. *Strategic Management Journal* **33**(10): 1135–1153.
Whitley R. 1999. *Divergent capitalisms: The social structuring and change of business systems*. Oxford University Press: Oxford.
Witt MA, Jackson G. 2016. Varieties of Capitalism and institutional comparative advantage: A test and reinterpretation. *Journal of International Business Studies* **47**(7): 778–806.
Wooldridge JM. 2010. *Econometric Analysis of Cross Section and Panel Data* (2nd ed.). MIT press: Cambridge, MA.
Yermack D. 1996. Higher market valuation of companies with a small board of directors. *Journal of Financial Economics* **40**(2): 185–211.

Table 1. Corporate governance and firm role in society in LMEs and CMEs [a]

	LMEs		CMEs	
	Developed	**Non-developed**	**Developed**	**Non-developed**
Representative countries in our sample (distribution in parenthesis) [b]	United States (38.4%), United Kingdom (13.7%), Canada (3.8%), Australia (3.2%), Ireland (0.6%), New Zealand (0.3%,)	Hong Kong (2.5%) Singapore (1.8%), South Africa (0.3%), Israel (0.2%), Chile (0.2%).	Japan (11.2%), France (3.1%), Germany (3%), Switzerland (2.1%), Sweden (2.1%), Spain (1.6%), Italy (1.6%), Netherlands (1.1%), Belgium (1%), Finland (0.9%), Denmark (0.9%), Norway (0.8%), Greece (0.8%), Austria (0.7%), Portugal (0.5%), South Korea (0.1%), Luxemburg (0.1%)	China (1.1%), India (0.6%), Russia (0.6%), Mexico (0.3%), Poland (0.3%), Turkey (0.3%), Brazil (0.2%), Indonesia (0.2%), Czech Republic (0.1%)
Dominant coordination model	Liquid markets with informative transparency		Non-market institutions (collective bargaining and political exchange)	
National corporate governance				
Orientation / Primary corporate goal	Shareholder value / Profitability		Stakeholder value / Multiple goals	
Financial system	Impatient capital (Stock market-based)		Patient capital (Bank-based)	
Key stakehold.	Top management and shareholders		Banks, top management, and labor	
Top management institutions	Single board dominated by the CEO		Dual boards (supervisory boards with employees, blockholders, and major suppliers and customers)	
Takeover activity	Important		Rare events	
Managerial incentives	Extrinsic (compensation linked to financial performance like stock options)		Intrinsic (reputation, compensation is basically fixed)	
National CSR				
Firm responsibilities toward society	Strong focus on shareholder interests (over other stakeholders)		Strong focus on the interest of a broad set of stakeholder	
Stakeholder representation	No formal voice in corporate decisions		Board-level representatives	
Labor relations	De-centralized, individual bargaining, flexible labor market		Centralized, collective bargaining, stable labor market	
Employee skills	General, marketable, transferable		Industry- or firm-specific	
Institutional complementarities	In fluid labor markets, the possibility of labor adjustments in economic downturns or upturns allows reducing costs, expanding production, or pursuing new market opportunities, which make easier the firm's access to profitability-dependent finance. General skills are complementary to highly fluid labor markets, and fluid labor markets render forms of technology transfer that rely on labor mobility more feasible.		Production strategies that depend on workers with specific skills and high levels of corporate commitment that are secured by offering them long employment tenures, industry-based wages, and protective works councils	
Competitive Strgy	Radical innovation		Incremental innovation	

[a] Own elaboration from Fainshmidt *et al.* (2018), Hall and Soskice (2001), Hall and Gingerich (2009), Kang and Moon (2012), Matten and Moon (2008), and Vitols (2001).
[b] Our sample includes 10588 observations, 6883 for LMEs and 3705 for CMEs.

Table 2. Descriptive statistics and Pearson's correlations [a]

		LMEs		CMEs		All variants of capitalism			
	Variable:	Mean	s.d.	Mean	s.d.	Mean	s.d.	Min	Max
1	Tobin's Q	1.56	0.67	1.40	0.55	1.50	0.64	0.70	7.60
2	ROA	0.04	0.06	0.04	0.05	0.04	0.06	–0.48	0.14
3	CSR	47.30	23.23	53.37	24.86	49.43	23.99	4.98	87.83
4	External CSR	4.50	13.46	15.50	34.96	6.85	18.26	0	72.78
5	Internal CSR	42.80	25.32	37.87	60.13	42.58	36.21	0	97.65
6	MEPs	1.54	0.93	0.88	0.78	1.34	0.93	0.00	5.00
7	Size (13)	0.28	5.66	9.16	162.0	3.39	96.2	0.36 (-7)	44500
8	Leverage	0.60	0.22	0.62	0.21	0.61	0.22	5.4 (-7)	1.59
9	Intangible assets	0.19	0.21	0.11	0.16	0.16	0.19	0.00	0.94
10	R&D investment	0.02	0.06	0.02	0.06	0.02	0.06	0.00	1.90
11	Board tenure	2.23	0.96	2.42	1.35	2.30	1.11	1.00	12.00
12	CEO duality	0.40	0.49	0.25	0.43	0.35	0.48	0.00	1.00
13	Board size	10.37	2.73	11.82	4.81	10.88	3.66	1.00	37.00
14	Blockholdings	24.81	21.39	27.41	24.38	25.72	22.52	0.00	98.00
15	Dual class shares	0.07	0.26	0.12	0.33	0.09	0.29	0.00	1.00

Pearson's correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Tobin's Q														
ROA	0.49													
CSR	0.04	0.09												
Ext. CSR	–0.01	0.03	0.39											
Int. CSR	0.07	0.01	0.27	0.28										
MEPs	–0.05	–0.06	0.02	0.11	0.35									
Size	–0.25	–0.12	0.12	0.12	–0.12	–0.12								
Leverage	–0.23	–0.24	0.11	–0.05	0.02	–0.01	0.19							
Intan. assets	0.17	0.03	0.01	0.03	0.10	0.08	–0.28	–.13						
R&D	0.20	–0.02	0.03	0.02	0.03	0.01	–0.08	–0.22	0.11					
Board	–0.05	–0.02	0.08	0.03	0.03	0.21	–0.17	0.06	0.05	–.05				
CEO duality	0.03	–0.01	–0.06	–0.03	0.09	0.12	0.06	0.01	–0.01	0.01	0.14			
Board size	–0.15	–0.09	0.18	0.10	–0.02	–0.09	0.28	0.18	–0.08	–0.06	–0.05	0.04		
Blockhold.	0.05	0.04	–0.09	0.03	–0.09	–0.21	–0.01	–0.07	0.01	–0.04	0.17	–.06	0.03	
Dual class	0.02	0.01	–0.01	0.02	–0.03	–0.10	0.02	–0.00	0.09	–0.02	–.07	–0.05	0.03	0.04

[a] Number of observations: 10,588. The variable size is taken in logs in all the specifications estimated. However, for comparability purposes, the descriptive are provided without such transformation. The variables of Internal CSR and External have been rescaled for comparative purposes with respect to the overall value of CSR. The classification of countries as LMEs and CMEs is shown in Table 1.

Table 3. Fixed-effect regression results for Tobin's Q on MEPs and CSR across variants of capitalism [a]

Independent variables:	All Model 1	LMEs Model 2	CMEs Model 3	Devel. LMEs Model 4	Devel. CMEs Model 5	Non-dev. LMEs Model 6	Non-dev. CMEs Model 7
CSR ($t-1$)	0.029	0.044	0.027	0.041	0.035	0.087	0.012
	(0.011)	(0.010)	(0.008)	(0.009)	(0.009)	(0.052)	(0.077)
MEPs ($t-1$)	–0.034	–0.040	–0.007	–0.032	–0.008	–0.072	0.104
	(0.014)	(0.013)	(0.004)	(0.012)	(0.004)	(0.045)	(0.084)
MEPs × CSR ($t-1$)	0.045	0.057	–0.009	0.042	–0.008	0.090	–0.019
	(0.014)	(0.012)	(0.004)	(0.011)	(0.004)	(0.041)	(0.009)
Size	–1.118	–1.129	–0.303	–1.145	–0.660	–0.005	–0.096
	(0.051)	(0.055)	(0.038)	(0.052)	(0.067)	(0.072)	(0.078)
Leverage	–0.011	–0.002	–0.089	–0.008	–0.096	0.015	–0.016
	(0.016)	(0.016)	(0.048)	(0.030)	(0.047)	(0.017)	(0.030)
Intangible assets	–0.026	–0.027	–0.018	–0.021	–0.042	–0.056	–0.011
	(0.010)	(0.012)	(0.010)	(0.011)	(0.017)	(0.077)	(0.093)
R&D intensity	0.295	0.070	1.239	0.114	1.259	0.018	0.598
	(0.065)	(0.121)	(0.484)	(0.109)	(0.506)	(0.649)	(1.106)
Board tenure	0.027	0.049	–0.002	0.037	–0.002	0.186	–0.122
	(0.006)	(0.009)	(0.005)	(0.008)	(0.005)	(0.055)	(0.110)
CEO duality	0.012	0.019	0.010	0.016	0.018	0.025	–0.033
	(0.007)	(0.008)	(0.007)	(0.007)	(0.007)	(0.050)	(0.060)
Board size	0.007	0.007	0.006	0.021	0.008	–0.075	0.001
	(0.010)	(0.015)	(0.006)	(0.014)	(0.006)	(0.076)	(0.055)
Blockholdings	–0.011	–0.010	–0.016	–0.007	–0.016	–0.013	–0.027
	(0.009)	(0.010)	(0.009)	(0.010)	(0.009)	(0.033)	(0.050)
Dual class shares	–0.012	–0.026	0.011	–0.027	0.011	0.080	–0.003
	(0.008)	(0.011)	(0.006)	(0.010)	(0.006)	(0.087)	(0.142)
Mean Tobin's Q	0.292	0.293	0.199	0.295	0.184	0.208	0.707
	(0.023)	(0.027)	(0.023)	(0.025)	(0.023)	(0.145)	(0.331)
Constant	1.159	0.778	1.215	0.998	1.428	0.098	1.190
	(0.042)	(0.296)	(0.068)	(0.045)	(0.079)	(0.052)	(1.375)
Number of observations	10588	6883	3705	6355	3341	528	364
R-sq (%)	28.39	30.93	28.37	31.44	30.75	30.43	19.49

[a] The classification of countries as LMEs and CMEs as well as developed and non-developed is shown in Table 1. Standard errors are in parentheses. Time and firm dummies are included. All variables are standardized.

Table 4. Fixed-effect regression results for Tobin's Q on MEPs and CSR across variants of capitalism: Internal vs external CSR [a]

	All	LMEs	CMEs	Devel. LMEs	Devel. CMEs	Non-dev. LMEs	Non-dev. CMEs
Independent variables:	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**
CSR Ext ($t-1$)	–0.004	–0.004	–0.008	–0.004	–0.011	–0.019	–0.033
	(0.005)	(0.008)	(0.007)	(0.008)	(0.007)	(0.007)	(0.088)
CSR Int ($t-1$)	0.019	0.038	–0.002	0.039	0.000	0.038	–0.017
	(0.007)	(0.010)	(0.008)	(0.010)	(0.008)	(0.060)	(0.192)
MEPs ($t-1$)	–0.014	–0.020	–0.007	–0.018	–0.007	–0.021	–0.055
	(0.007)	(0.010)	(0.004)	(0.010)	(0.004)	(0.041)	(0.138)
MEPs × CSR Ext ($t-1$)	–0.006	0.002	–0.016	0.003	–0.014	–0.016	–0.124
	(0.005)	(0.007)	(0.004)	(0.007)	(0.004)	(0.005)	(0.064)
MEPs × CSR Int ($t-1$)	0.013	0.020	0.013	0.020	0.012	0.026	0.192
	(0.007)	(0.010)	(0.008)	(0.010)	(0.008)	(0.014)	(0.135)
Size	–0.675	–0.815	–0.303	–0.817	–0.686	–0.139	–0.123
	(0.035)	(0.050)	(0.040)	(0.050)	(0.064)	(0.093)	(0.173)
Leverage	0.028	0.067	–0.111	0.104	–0.070	–0.021	–0.159
	(0.012)	(0.017)	(0.038)	(0.028)	(0.038)	(0.034)	(0.043)
Intangible assets	–0.016	–0.010	–0.018	–0.011	–0.012	0.114	–0.096
	(0.008)	(0.011)	(0.010)	(0.011)	(0.010)	(0.104)	(0.210)
R&D intensity	0.228	0.226	0.960	0.345	1.040	0.036	–0.418
	(0.096)	(0.102)	(0.506)	(0.102)	(0.499)	(0.067)	(2.204)
Board tenure	0.008	0.014	–0.001	0.012	0.000	0.016	–0.020
	(0.005)	(0.008)	(0.005)	(0.008)	(0.005)	(0.008)	(0.006)
CEO duality	0.004	0.009	–0.000	0.008	–0.000	0.057	–0.122
	(0.006)	(0.007)	(0.007)	(0.007)	(0.007)	(0.056)	(0.155)
Board size	–0.008	–0.013	0.005	–0.013	0.005	–0.016	0.020
	(0.007)	(0.013)	(0.006)	(0.013)	(0.006)	(0.009)	(0.167)
Blockholdings	0.003	0.016	–0.012	0.018	–0.013	–0.017	0.090
	(0.006)	(0.010)	(0.009)	(0.010)	(0.009)	(0.040)	(0.174)
Dual class shares	–0.001	–0.001	–0.003	–0.001	–0.005	–0.033	–0.001
	(0.006)	(0.010)	(0.006)	(0.010)	(0.006)	(0.092)	(0.002)
Mean Tobin's Q	0.034	0.025	0.199	0.024	0.191	0.343	0.460
	(0.017)	(0.022)	(0.023)	(0.022)	(0.023)	(0.175)	(0.541)
Constant	1.236	1.219	1.239	1.300	1.465	1.147	1.131
	(0.028)	(0.039)	(0.073)	(0.039)	(0.078)	(0.355)	(2.587)
Number of observations	10588	6883	3705	6355	3341	528	364
R-sq (%)	29.15	29.51	28.86	29.06	30.53	36.95	28.73

[a] The classification of countries as LMEs and CMEs as well as developed and non-developed is shown in Table 1. We follow Hawn and Ioannou (2016) to measure internal and external CSR (see the Online Appendix for details). Standard errors are in parentheses. Time and firm dummies are included. All variables are standardized. All tests are two-tailed.

Table 5. Fixed-effect regression results for Tobin's Q on MEPs and CSR across variants of capitalism: Dynamic Cluster approach [a]

	LMEs 2002	Mixed 2002	CMEs 2002	LMEs 2011	Mixed 2011	CMEs 2011
Independent variables:	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
CSR ($t-1$)	0.032	0.014	0.044	0.032	0.011	0.039
	(0.015)	(0.008)	(0.008)	(0.015)	(0.005)	(0.009)
MEPs ($t-1$)	–0.028	–0.043	–0.003	–0.027	–0.039	–0.003
	(0.017)	(0.031)	(0.004)	(0.016)	(0.021)	(0.004)
MEPs × CSR ($t-1$)	0.042	0.050	–0.008	0.040	–0.035	–0.007
	(0.018)	(0.047)	(0.004)	(0.018)	(0.022)	(0.004)
Size	–1.333	–0.764	–0.693	–1.332	–1.708	–0.640
	(0.065)	(0.458)	(0.053)	(0.064)	(0.522)	(0.054)
Leverage	–0.051	0.165	–0.021	–0.048	0.198	–0.006
	(0.034)	(0.176)	(0.039)	(0.033)	(0.264)	(0.015)
Intangible assets	–0.034	–0.068	–0.013	–0.033	0.012	–0.012
	(0.014)	(0.195)	(0.010)	(0.014)	(0.086)	(0.010)
R&D intensity	0.284	0.744	0.171	0.284	0.353	0.190
	(0.069)	(0.153)	(0.049)	(0.069)	(0.408)	(0.049)
Board tenure	0.043	–0.053	0.002	0.043	–0.020	0.002
	(0.010)	(0.131)	(0.005)	(0.010)	(0.036)	(0.005)
CEO duality	0.029	–0.082	0.003	0.028	–0.008	–0.001
	(0.009)	(0.065)	(0.007)	(0.009)	(0.032)	(0.007)
Board size	–0.001	–0.132	0.009	–0.002	0.052	0.006
	(0.016)	(0.126)	(0.006)	(0.016)	(0.035)	(0.006)
Blockholdings	0.004	0.009	–0.016	0.006	0.007	–0.013
	(0.011)	(0.049)	(0.009)	(0.011)	(0.042)	(0.009)
Dual class shares	–0.021	–0.001	0.005	–0.020	–0.034	0.006
	(0.012)	(0.010)	(0.006)	(0.011)	(0.025)	(0.006)
Mean Tobin's Q	1.324	0.504	0.171	0.329	0.353	0.150
	(0.031)	(0.449)	(0.022)	(0.030)	(0.174)	(0.022)
Constant	1.333	1.147	1.449	0.936	0.581	1.518
	(0.065)	(0.178)	(0.072)	(0.055)	(0.597)	(0.074)
Number of Observations	6689	381	3518	6814	626	3148
R-sq (%)	30.62	12.31	29.98	30.66	15.27	28.74

[a] Standard errors are in parentheses. Time and firm dummies are included. All variables are standardized. All tests are two-tailed.

In 2002, CMEs are: Germany, Japan, Australia, Austria, Belgium, Chile, Finland, France, Greece, Ireland, Italy, Luxembourg, Netherlands, New Zealand, Norway, Portugal, South Africa, South Korea, Spain, and Sweden. Mixed countries are: Brazil, China, Czech Republic, India, Indonesia, Israel, Mexico, Poland, Russian Federation, and Turkey. LMEs are: United Kingdom, United States, Canada, Denmark, Hong Kong, Singapore, and Switzerland.

In 2011, CMEs are: Germany, Japan, Australia, Austria, Belgium, Chile, France, Ireland, Israel, Luxembourg, Netherlands, Norway, Poland, Portugal, South Korea, Spain, and Sweden. Mixed countries are: Brazil, China, Czech Republic, Greece, India, Indonesia, Italy, Mexico, Russian Federation, South Africa, and Turkey. LMEs are: United Kingdom, United States, Canada, Denmark, Finland, Hong Kong, New Zealand, Singapore, and Switzerland.

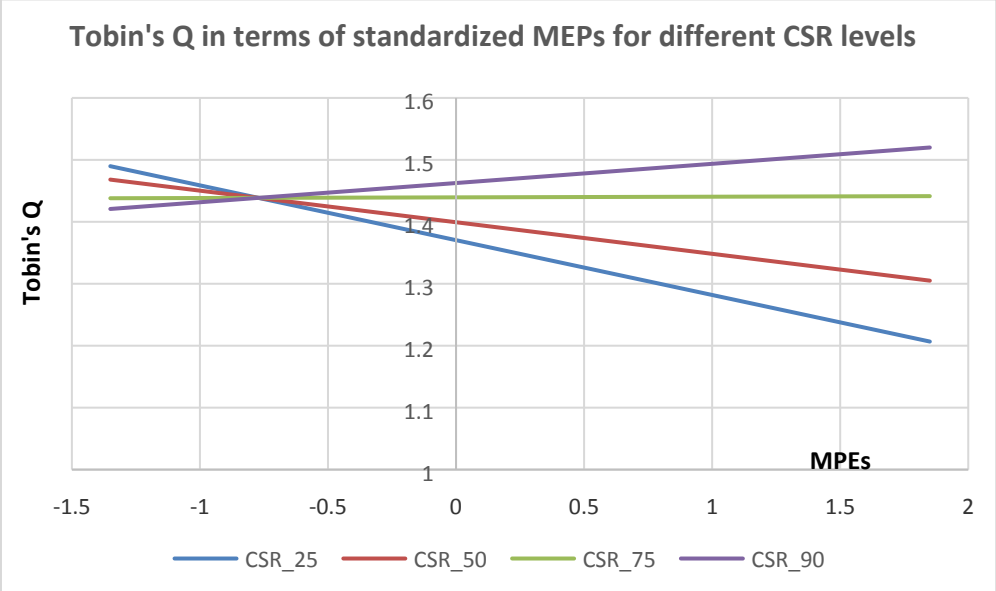
Table 6. Fixed-effect regression results for Tobin's Q on MEPs and CSR across variants of capitalism: Controlling for endogeneity [a]

	CSR		MEPs		LMEs		CMEs	
Independent variables	**Model 1 (1st stage)**		**Model 2 (1st stage)**		**Model 3 (IV-2nd stage)**		**Model 4 (IV-2nd stage)**	
Sector (CSR)	5.240	(0.324)						
Orthogonal CSR ($t-1$)	8.408	(0.237)						
Orthogonal MEPs	1.632	(0.218)						
Sector (MEPs)			0.393	(0.012)				
Orthogonal MEPs ($t-1$)			0.279	(0.007)				
Orthogonal CSR			0.065	(0.011)				
Country corporate governance	0.771	(0.740)	0.129	(0.035)				
Country's political color	0.483	(0.187)	0.017	(0.009)				
Instrument CSR					0.035	(0.013)	0.056	(0.016)
Instrument (MEPs)					–0.245	(0.054)	–0.013	(0.008)
Instrument (MEPs) × Instrument (CSR)					0.239	(0.044)	–0.015	(0.008)
Size	5.690	(1.415)	0.145	(0.061)	–1.187	(0.050)	–1.539	(0.116)
Leverage	–2.816	(0.774)	0.029	(0.032)	0.049	(0.036)	–0.121	(0.057)
Intangible assets	0.027	(0.312)	0.014	(0.013)	–0.058	(0.017)	–0.028	(0.017)
R&D intensity	4.286	(3.811)	0.085	(0.153)	1.139	(0.880)	8.159	(4.830)
Board tenure	–0.250	(0.204)	0.083	(0.008)	0.030	(0.010)	0.016	(0.011)
CEO duality	–0.018	(0.211)	0.001	(0.009)	0.021	(0.007)	0.026	(0.012)
Board size	0.622	(0.289)	–0.003	(0.012)	0.003	(0.013)	0.004	(0.012)
Blockholdings	–0.896	(0.213)	0.001	(0.010)	–0.004	(0.010)	–0.021	(0.019)
Dual class shares	0.217	(0.247)	0.014	(0.010)	–0.029	(0.010)	0.017	(0.012)
Mean Tobin's Q	1.036	(0.733)	0.009	(0.031)	0.225	(0.025)	0.234	(0.040)
Constant	55.848	(1.378)	1.169	(0.060)				
Number of observations	10588		10588		6883		3705	
R-sq (%)	26.57		53.53		30.23		27.62	
Anderson underidentification test (p value)					0.000		0.000	
Sargan overidentification test (p value)					0.668		0.267	

[a] The classification of countries as LMEs and CMEs is shown in Table 1. Standard errors are in parentheses. Time and firm dummies are included. Underidentification test has a null hypothesis that there is null correlation between the instrument and the endogenous variables. Overidentification test contrasts the null hypothesis of zero correlation between the instrument and the error term. All variables are standardized. All tests are two-tailed.

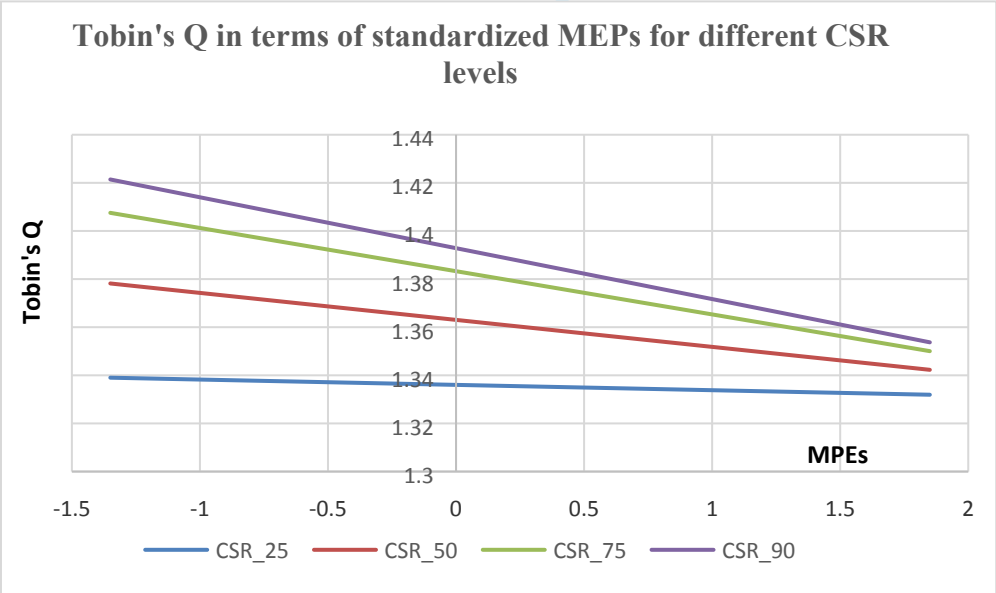
Figure 1. Effect of CSR on the relationship between MEPs and Tobin's Q in LMEs and CMEs

Panel A: LMEs



Note: This figure represents a simulation of Model 2 in Table 3 (LMEs), taking the mean values of the standardized variables with significant coefficients in the estimation and changing the values of MEPs for different cutoff values of CSR: First quartile cutoff (CSR_25), second quartile cutoff (CSR_50) the third quartile cutoff (CSR_75) and the last decile cutoff (CSR_90).

Panel B: CMEs



Note: This figure represents a simulation of Model 3 in Table 3 (CMEs), taking the mean values of the standardized variables with significant coefficients in the estimation and changing the values of MEPs for different cutoff values of CSR: First quartile cutoff (CSR_25), second quartile cutoff (CSR_50) the third quartile cutoff (CSR_75) and the last decile cutoff (CSR_90).

ONLINE APPENDIX

Construction of the variables Internal CSR and External CSR

Following Hawn and Ioannou' (2016), we compute *Internal CSR* and *External CSR* as the sum of the following equally-weighted items (21 for Internal CSR, and 24 for External CSR). The variables of percentage has been normalized between 0 and 1. To test whether these items measure a common underlying concept, we conducted the Cronbach's alpha test. The alphas are 83.04 for internal CSR and 88.04 for external CSR, which suggest a very good internal consistency and reliability of the measures. In the estimation of the manuscript (not in the descriptive statistics), these variables has been standardized.

Internal CSR						
N	Datastream Code (Mnemnic)	ASSET4 DP Code	Pillar	Hierarchy	Name	Description
1	CGBSO17V	CG_BD_BS_O17	Corporate Governance	INDICATOR VALUE	Value - Board Structure/Board Gender Diversity	Percentage of women on the board of directors.
2	CGBFDP019	CG_BD_BF_DP019	Corporate Governance	DATAPOINT	Audit Committee Non-Executive Member	Percentage of non-executive board members on the audit committee as stipulated by the company.
3	CGBFDP023	CG_BD_BF_DP023	Corporate Governance	DATAPOINT	Nomination Committee Non-Executive Member	Percentage of non-executive board members on the nomination committee as stipulated by the company.
4	CGBFO01V	CG_BD_BF_O01	Corporate Governance	INDICATOR VALUE	Value - Board Functions/Audit Committee Independence	Percentage of independent board members on the audit committee as stipulated by the company.
5	SOTDD01V	So_Wo_TD_D01	Social	INDICATOR VALUE	Value - Training and Development/Policy	Does the company have a policy to support the skills training or career development of its employees?
6	SOHSD01V	So_Wo_HS_D01	Social	INDICATOR VALUE	Value - Health & Safety /Policy	Does the company have a policy to improve employee health & safety within the company and its supply chain?
7	ENRRDP058	En_En_RR_DP058	Environmental	DATAPOINT	Environmental Supply Chain Management	Does the company use environmental criteria (ISO 14000, energy consumption, etc.) in the selection process of its suppliers or sourcing partners?
8	ENRRDP046	En_En_RR_DP046	Environmental	DATAPOINT	Renewable Energy Use	Does the company make use of renewable energy?
9	ENRRDP0012	En_En_RR_DP001_2	Environmental	DATAPOINT ELEMENT	Resource Efficiency Policy Elements/Energy Efficiency	Does the company have a policy to improve its energy efficiency?

10	ENRRDP0011	En_En_RR_DP001_1	Environmental	DATAPOINT ELEMENT	Resource Efficiency Policy Elements/Water Efficiency	Does the company have a policy to improve its water efficiency?
11	ENPIDP067	En_En_PI_DP067	Environmental	DATAPOINT	Water Technologies	Does the company develop products or technologies that are used for water treatment, purification or that improve water use efficiency?
12	ENERDP0011	En_En_ER_DP001_1	Environmental	DATAPOINT ELEMENT	Emission Reduction Policy Elements/Emissions	Does the company have a policy to reduce emissions?
13	CGSRD01V	CG_SH_SR_D01	Corporate Governance	INDICATOR VALUE	Value - Shareholder Rights/Policy	Does the company have a policy for ensuring equal treatment of minority shareholders, facilitating shareholder engagement or limiting the use of anti-takeover devices?
14	CGCPO05V	CG_BD_CP_O05	Corporate Governance	INDICATOR VALUE	Value - Compensation Policy/Stock Option Program	Does the company's statutes or by-laws require that stock-options are only granted with a vote at a shareholder meeting?
15	CGCPD01V	CG_BD_CP_D01	Corporate Governance	INDICATOR VALUE	Value - Compensation Policy/Policy	Does the company have a policy for performance-oriented compensation that attracts and retain the senior executives and board members?
16	CGBSD01V	CG_BD_BS_D01	Corporate Governance	INDICATOR VALUE	Value - Board Structure/Policy	Does the company have a policy for maintaining a well-balanced membership of the board?
17	CGBFO03V	CG_BD_BF_O03	Corporate Governance	INDICATOR VALUE	Value - Board Functions/Audit Committee Expertise	Does the company have an audit committee with at least three members and at least one "financial expert" within the meaning of Sarbanes-Oxley?
18	CGVSDP005	CG_In_VS_DP005	Corporate Governance	DATAPOINT	CSR Sustainability Committee	Does the company have a CSR committee or team?
19	SOHRD01V	So_So_HR_D01	Social	INDICATOR VALUE	Value - Human Rights/Policy	Does the company have a policy to guarantee the freedom of association universally applied independent of local laws? AND Does the company have a policy for the exclusion of child, forced or compulsory labour?
20	SOEQD01V	So_Wo_EQ_D01	Social	INDICATOR VALUE	Value - Employment Quality/Policy	Does the company have a competitive employee benefits policy or ensuring good employee relations within its supply chain? AND Does the company have a policy for maintaining long term employment growth and stability?
21	SODOD01V	So_Wo_DO_D01	Social	INDICATOR VALUE	Value - Diversity and Opportunity/Policy	Does the company have a work-life balance policy? AND Does the company have a diversity and equal opportunity policy?

External CSR						
N	Datastream Code (Mnemnic)	ASSET4 DP Code	Pillar	Hierarchy	Name	Description
1	SOPRDP029	So_Cu_PR_DP029	Social	DATAPOINT	Healthy Food or Products	Does the company reportedly develop or market products and services that foster specific health and safety benefits for the consumers (healthy, organic or nutritional food, safe cars, etc.)?
2	SOTDDP023	So_Wo_TD_DP023	Social	DATAPOINT	Internal Promotion	Does the company claim to favour promotion from within?
3	SOHSDP039	So_Wo_HS_DP039	Social	DATAPOINT	HIV-AIDS Programme	Does the company report on policies or programmes on HIV/AIDS for the workplace or beyond?
4	SOCODP053	So_So_Co_DP053	Social	DATAPOINT	Crisis Management Systems	Does the company report on crisis management systems or reputation disaster recovery plans to reduce or minimize the effects of reputation disasters?
5	ENRRDP052	En_En_RR_DP052	Environmental	DATAPOINT	Green Buildings	Does the company report about environmentally friendly or green sites or offices?
6	ENRRO03V	En_En_RR_O03	Environmental	INDICATOR VALUE	Value - Resource Reduction/Toxic Chemicals	Does the company report on initiatives to reduce, reuse, substitute or phase out toxic chemicals or substances?
7	ENERDP081	En_En_ER_DP081	Environmental	DATAPOINT	Staff Transportation Impact Reduction	Does the company report on initiatives to reduce the environmental impact of transportation used for its staff?
8	ENERO05V	En_En_ER_O05	Environmental	INDICATOR VALUE	Value - Emission Reduction/CO2 Reduction	Does the company show an initiative to reduce, reuse, recycle, substitute, phased out or compensate CO2 equivalents in the production process?
9	ENERO14V	En_En_ER_O14	Environmental	INDICATOR VALUE	Value - Emission Reduction/Waste Reduction	Does the company report on initiatives to recycle, reduce, reuse, substitute, treat or phase out total waste, hazardous waste or wastewater?
10	ENERDP036	En_En_ER_DP036	Environmental	DATAPOINT	VOC Emissions Reduction	Does the company report on initiatives to reduce, substitute, or phase out volatile organic compounds (VOC)?
11	ENERDP033	En_En_ER_DP033	Environmental	DATAPOINT	NOx and SOx Emissions Reduction	Does the company report on initiatives to reduce, reuse, recycle, substitute, or phase out SOx (sulphur oxides) or NOx (nitrogen oxides) emissions?
12	ENERDP031	En_En_ER_DP031	Environmental	DATAPOINT	Ozone-Depleting Substances Reduction	Does the company report on initiatives to recycle, reduce, reuse or substitute ozone-depleting (CFC-11 equivalents, chlorofluorocarbon) substances?
13	CGVSDP028	CG_In_VS_DP028	Corporate Governance	DATAPOINT	GRI Report Guidelines	Is the company's CSR report published in accordance with the GRI guidelines?

14	CGVSDP016	CG_In_VS_DP016	Corporate Governance	DATAPOINT	Integrated Vision and Strategy Challenges and Opportunities	Is the company openly reporting about the challenges or opportunities of integrating financial and extra-financial issues, and the dilemmas and trade-offs it faces?
15	CGVSDP029	CG_In_VS_DP029	Corporate Governance	DATAPOINT	CSR Sustainability Report Global Activities	Does the company's extra-financial report take into account the global activities of the company?
16	SOHRDP029	So_So_HR_DP029	Social	DATAPOINT	Human Rights Breaches Contractor	Does the company report or show to be ready to end a partnership with a sourcing partner if human rights criteria are not met?
17	SOHRDP026	So_So_HR_DP026	Social	DATAPOINT	Human Rights Contractor	Does the company report or show to use human rights criteria in the selection or monitoring process of its suppliers or sourcing partners?
18	SOEQDP025	So_Wo_EQ_DP025	Social	DATAPOINT	Generous Fringe Benefits	Does the company claim to provide its employees with a pension fund, health care or other insurances?
19	SOEQDP0201	So_Wo_EQ_DP020_1	Social	DATAPOINT ELEMENT	Bonus Plan for Employees/Employees	Does the company claim to provide a bonus plan to most employees?
20	SODODP027	So_Wo_DO_DP027	Social	DATAPOINT	Day Care Services	Does the company claim to provide day care services for its employees?
21	SOCOD01V	So_So_Co_D01	Social	INDICATOR VALUE	Value - Community/Policy	Does the company have a policy to strive to be a good corporate citizen or endorse the Global Sullivan Principles? AND Does the company have a policy to respect business ethics or has the company signed the UN Global Compact or follow the OECD guidelines?
22	CGVSDP030	CG_In_VS_DP030	Corporate Governance	DATAPOINT	CSR Sustainability External Audit	Does the company have an external auditor of its CSR/H&S/Sustainability report?
23	SODODP026	So_Wo_DO_DP026	Social	DATAPOINT	Flexible Working Hours	Does the company claim to provide flexible working hours or working hours that promote a work-life balance?
24	SOTDDP024	So_Wo_TD_DP024	Social	DATAPOINT	Management Training	Does the company claim to provide regular staff and business management training for its managers?

Construction of the instruments to account for endogeneity

For instrumenting CSR, we adopt a procedure similar to that of Cheng and colleagues (2014). In particular, we compute the prediction of CSR from a specification that includes all our controls and five additional regressors: average level of CSR (excluding the focal firm) for each country-industry-year combination, CSR in the previous period (orthogonalized with respect to Tobin's Q), MEPs (orthogonalized with respect to Tobin's Q), country-year mean value of the corporate governance score (as provided by ASSET4), and the political color of the government in charge of the country (as provided by the World Bank's Database of Political Institutions). This latter variable is coded 0 for conservative governments, 1 for centrist governments, and 2 for left-wing governments. Di Giuli and Kostovetsky (2014) have shown that governments' political affiliation of the state in which a firm is incorporated is an important determinant of firms' preferences for CSR. We generalize this idea, originally confined to U.S. states, to national governments.

We follow a similar logic for instrumenting MEPs. We compute a prediction of MEPs from a regression with the following independent variables: the controls used in Specification (1) of the manuscript; the average level of MEPs (excluding the focal firm) for each country-industry-year; previous-period realization of such provisions orthogonalized with respect to Tobin's Q, which takes advantage of the persistence of the MEPs variable; CSR orthogonalized with respect to Tobin's Q; country-year mean value of the corporate governance score as provided by ASSET4; and the political color of the government in charge in the corresponding country. Finally, we compute the interaction term between both instruments to tackle, jointly with the previous two instruments, endogeneity problems connected to CSR, MEPs, and the interaction of these two variables.

The overidentification test confirms the absence of correlation between the error term of Specification (1) and the instruments we constructed. As shown in Models 3 and 4 of Table 6 in the manuscript, we find empirical support for the overidentification restriction (*p*-value is 0.668 in Model 3 and 0.267 in Model 4). In addition to the overidentification restriction, a valid instrument should be correlated with its potential endogenous variable. The underidentification test contrasts that correlation. Results of Table 6 provide evidence on the appropriateness of the instruments: Models 1 and 2, which present the first-stage estimates to construct both instruments, have significant R-squared values (26.57% and 53.53%, respectively), and the Anderson underidentification tests of Models 3 and 4 reject the null hypothesis of no correlation between endogenous variables and instruments.

Additional robustness checks

Mechanism at work: market pressure and minority expropriation

To offer further evidence on the theoretical mechanisms at work, we conduct an additional analysis based on the Guillén and Capron's (2016) index of minority shareholder rights protection. This index assesses the degree to which a given country's institutional framework promotes the development of its stock market (i.e., a market that allocates capital more efficiently and avoids value-destroying behaviors of corporate insiders). The underlying premise is that the stronger the minority shareholder protection, the larger the degree of development of the stock market, and the higher the pressures on managers for short-term profits. In contrast, if minority shareholder rights are weak, corporate insiders will have more leeway to expropriate minority shareholders by defining value-destroying strategies, such as the combination of MEPs and CSR, that allow transferring rents from minority shareholders

to managers and blockholders. Thus, we expect that, within LMEs, corporations could benefit more from the joint adoption of MEPs and CSR in contexts of high pressures to deliver short-term profits (i.e., countries with strong minority shareholder protection). Conversely, in CMEs, we expect the negative effect on performance of combining MEPs and CSR to be exacerbated in countries with weak minority shareholder rights. Table A1 analyzes the previous contention and replicates the results of Table 3 in the manuscript once we split both LMEs and CMEs into countries with weak and strong minority shareholder rights. We use the mean value of the Guillén and Capron's (2016) minority expropriation index as cutoff point.

We uncover that the coefficient of MEPs × CSR only influences shareholder value positively in LME countries when minority shareholder protection is strong ($\beta = 0.042,\ p = .006$, Model 2). This result supports the idea that, in institutional contexts where minority shareholders are well-protected against expropriation and where stock markets exert strong pressure on firms to deliver short-term profits, the isolation of managers from these short-term pressures through MEPs allows the adoption of practices with a long-term orientation, such as CSR. These practices, in turn, have a positive impact on shareholder value. In sharp contrast, in CMEs, the coefficient of the interaction between MEPs and CSR is only negative ($\beta = -0.015,\ p = .004$, Model 3) for the subsample of weak minority shareholder rights, indicating that when corporate insiders have ample autonomy, the combination of MEPs and CSR destroys value because this strategy allows insiders to reap private benefits at the expense of minority shareholders. Both sets of results are in line with our expectations from the mechanism proposed at work.

Alternative estimation methods

In Table A2 we apply a non-parametric (distribution-free) procedure to examine the robustness of the interaction effect of MEPs and CSR on shareholder value under different institutional configurations. Non-parametric estimation methods allow us to evaluate, without assumptions about the underlying distribution, the impact on shareholder value of a "shock" in CSR in a context of a high protection against takeovers (MPEs above the mean for the industry and year). The comparison is made between firms that are similar in terms of the control variables defined in Specification (1) of the manuscript. The "shock" we apply is an increase in CSR from below to above the industry-year mean in two different scenarios: LMEs versus CMEs. In accordance with our theory, we find a positive marginal differential effect when MEPs are high, and CSR increases from below to above the mean once we compare similar firms in LMEs and CMEs. The coefficient is positive in LMEs ($\beta = 0.050, p = 0.016$) and negative in CMEs ($\beta = -0.042, p = 0.042$), with the marginal difference between the two variants of capitalism being significantly positive.

In an additional robustness check, we tested our hypotheses with a general model that includes a three-way interaction among MEPs, CSR, and the institutional setting (in addition to the other related two-way interactions as controls). The results of this model (see Table A3) show that the interaction term MEPs × CSR × LME is positive and significant ($\beta = 0.013, p = 0.011$). This result also holds when we separate the sample between developed ($\beta = 0.012, p = 0.020$) and non-developed ($\beta = 0.019, p = 0.058$) countries. These findings conform to those depicted in Table 3.

Alternative measures

In another set of robustness checks (see Table A4), we employ alternative proxies for the dependent variable to replicate the analyses reported in Table 3. In particular, we use accounting measures of performance (ROA and ROE), instead of the Tobin's Q, and find similar results. For example, the impact of the interaction term of MEPs and CSR on ROA is positive in LMEs ($\beta = 0.004, p = 0.001$) and negative for CMEs ($\beta = -0.006, p = 0.017$). The results for ROE are consistent to those for ROA ($\beta = 0.019$ with $p = 0.050$ for LMEs and $\beta = -0.010$ with $p = 0.065$ for CMEs).

Alternative typologies of institutional configurations

We perform a number of additional analyses to test the robustness of our findings to alternative classifications, such as the typologies of Dhaliwal *et al*. (2012) and Hall and Gingerich (2009).

Dhaliwal et al. (2012), who classify countries based on four measures: (1) a country's legal environment in protecting labor rights and corporate benefits, (2) the existence of CSR-related disclosure laws, (3) the level of public awareness of CSR issues in individual countries, and (4) the views of CEOs on CSR activities. The results uncovered using this alternative classification for the 29 of the 37 countries for which data is available (97.8% of the observations) are consistent with those shown in the manuscript (see Models 1 and 2 in Table A5): The impact of the interaction term of MEPs and CSR on shareholder value is positive in LMEs ($\beta = 0.056, p < 0.001$) and negative for CMEs ($\beta = -0.011, p = 0.007$).

Although Hall and Soskice's (2001) framework for classifying countries into LMEs and CMEs has proved useful in empirical research, such classification also admits ambiguous positions. In addition to LMEs and CMEs, Hall and Gingerich (2009) also suggested the possible existence of a third type, labeled 'mixed market economies', combining features of CMEs and LMEs. South European countries such as France, Greece, Italy, Portugal, and Spain fall within this category. Together with these five countries, other economies also show patterns of coordination that do differ from the two "pure" categories. This is the case for newly-developed, emerging, and transition economies such as Brazil, India, South Korea, and Singapore, which have experienced notable recent variations in their institutions. Given this dispersion, in Models 3, 4 and 5 in Table A5 we re-estimate Table 3 after classifying corporations in three groups of countries: pure LMEs, pure CMEs, and a mixed type of capitalism integrated by these nine countries. Results show that the interaction between MEPs and CSR is positive ($\beta = 0.051,\ p = .001$) in pure LMEs, negative in pure CMEs ($\beta = -0.014,\ p = .062$), and neutral in the mixed market economies ($\beta = 0.001,\ p = .968$), providing support for our main hypotheses. An additional analysis (available upon request) for the South European countries (a "mixed-type" category) also shows that the coefficient of the interaction APs × CSR is not significantly different from zero ($\beta = -0.003,\ p = .619$).

Finally, we have also checked the consistency of our results (available upon request) to the deletion of the countries with the largest number of observation in LME (US) and CME (Japan), and find similar results. Also, our results do not change once we reclassify countries that are border line between LMEs and CMEs categories (i.e., India, South Africa, Ireland, Brazil).

Table A1. Fixed-effect regression results for Tobin's Q on MEPs and CSR across variants of capitalism: Differences in minority shareholder rights [a]

	LMEs (Weak Minority Shareholder Rights)	LMEs (Strong Minority Shareholder Rights)	CMEs (Weak Minority Shareholder Rights)	CMEs (Strong Minority Shareholder Rights)
Independent variables:	**Model 1**	**Model 2**	**Model 3**	**Model 4**
CSR ($t-1$)	0.075	0.025	0.026	0.041
	(0.033)	(0.013)	(0.010)	(0.018)
MEPs ($t-1$)	–0.058	–0.029	–0.013	–0.005
	(0.031)	(0.014)	(0.005)	(0.009)
MEPs × CSR ($t-1$)	0.043	0.042	–0.015	0.002
	(0.037)	(0.016)	(0.005)	(0.009)
Size	–1.462	–1.119	–0.705	–0.112
	(0.178)	(0.053)	(0.075)	(0.043)
Leverage	0.076	–0.005	–0.078	0.108
	(0.097)	(0.014)	(0.041)	(0.107)
Intangible assets	–0.040	–0.025	–0.014	–0.033
	(0.042)	(0.011)	(0.010)	(0.041)
R&D intensity	–0.359	0.080	2.775	–2.754
	(0.628)	(0.101)	(0.783)	(6.218)
Board tenure	0.050	0.034	0.005	–0.009
	(0.036)	(0.008)	(0.006)	(0.010)
CEO duality	0.056	0.017	0.021	–0.016
	(0.044)	(0.007)	(0.009)	(0.013)
Board size	–0.095	0.018	0.005	0.032
	(0.050)	(0.013)	(0.007)	(0.015)
Blockholdings	–0.045	0.017	–0.012	–0.035
	(0.032)	(0.009)	(0.009)	(0.018)
Dual class shares	–0.030	–0.022	–0.003	–0.001
	(0.044)	(0.010)	(0.008)	(0.009)
Mean Tobin's Q	0.114	0.295	0.197	0.341
	(0.088)	(0.025)	(0.022)	(0.047)
Constant	0.771	1.080	1.496	0.565
	(0.772)	(0.044)	(0.106)	(0.117)
Number of Observations	1002	5881	2909	796
R-sq (%)	36.61	34.31	26.74	38.35

[a] The classification of countries as LMEs and CMEs is shown in Table 1. The country classification according to minority shareholder rights follows the proposal of Guillén and Capron (2016). The Guillén and Capron's Minority Shareholder Protection Index ranges between 0 and 10, depending on the strength of ten different legal provisions. We define countries with strong (weak) minority shareholder rights as those where the index is larger (lower) than the mean of the distribution. Standard errors are in parentheses. Time and firm dummies are included. All variables are standardized. All tests are two-tailed.

Table A2. Nonparametric estimations

Nonparametric estimation.

	(1) Change in CSR & High MEPs (LMEs)		(2) Change in CSR & High MEPs (CMEs)	
Tobin's q	0.050	(0.021)	–0.042	(0.020)

The table reports the results of conducting a nonparametric estimation of changes in the Tobin's q, when there is a change in CSR from below to above the mean of the industry-year distribution and when this change happens in the event that MEPs are above the mean of the industry-year distribution. In column 1 (column 2), we show the results for LMEs (CMEs). The procedure used is the Propensity Score Matching (PSM) estimator (Hirano and Imbens, 2004). We match the observation using all the variables that appear in specification (1) of the main text. Standard errors inside the parentheses. Standard errors in parentheses.

Table A3. Fixed-effect regression results for Tobin's Q on MEPs and CSR across variants of capitalism. Three-interaction approach [a]

Independent variables:	All Model 1	Developed Model 2	Non-developed Model 3
CSR ($t-1$)	0.020	0.046	0.009
	(0.010)	(0.009)	(0.006)
CSR x LME ($t-1$)	-0.019	-0.025	0.015
	(0.016)	(0.013)	(0.029)
MEPs ($t-1$)	–0.012	–0.016	0.133
	(0.004)	(0.004)	(0.090)
MEPs x LME ($t-1$)	–0.008	–0.009	–0.018
	(0.005)	(0.006)	(0.012)
MEPs × CSR ($t-1$)	–0.007	–0.010	–0.006
	(0.004)	(0.004)	(0.002)
MEPs × CSR × LME ($t-1$)	0.013	0.012	0.019
	(0.005)	(0.005)	(0.009)
Size	–0.620	–0.721	–0.118
	(0.450)	(0.036)	(0.052)
Leverage	–0.021	–0.043	0.008
	(0.015)	(0.025)	(0.011)
Intangible assets	–0.021	–0.024	–0.069
	(0.009)	(0.012)	(0.049)
R&D intensity	0.166	0.059	0.417
	(0.013)	(0.050)	(0.551)
Board tenure	–0.009	–0.011	0.004
	(0.007)	(0.007)	(0.039)
CEO duality	0.003	0.009	–0.006
	(0.006)	(0.005)	(0.032)
Board size	0.003	0.016	0.006
	(0.006)	(0.006)	(0.038)
Blockholdings	–0.005	–0.001	–0.007
	(0.007)	(0.005)	(0.023)
Dual class shares	0.004	–0.001	0.064
	(0.005)	(0.005)	(0.063)
Mean Tobin q	0.305	0.291	0.343
	(0.019)	(0.013)	(0.110)
Constant	0.997	1.210	0.964
	(0.035)	(0.025)	(0.212)
Number of observations	10588	9696	892
R-sq (%)	29.81	31.61	23.66

[a] LME is a dummy that is equal to 1 for LMEs. The classification of countries as LMEs and CMEs as well as developed and non-developed is shown in Table 1. Standard errors are in parentheses. Time and firm dummies are included. All variables are standardized.

Table A4. Fixed-effect regression results for ROA and ROE on CSR and MEPs

Independent variables:	ROA		ROE	
	Model 1 (LMEs)	Model 2 (CMEs)	Model 3 (LMEs)	Model 4 (CMEs)
CSR ($t-1$)	0.003	0.002	0.015	0.035
	(0.002)	(0.002)	(0.008)	(0.008)
MEPs ($t-1$)	–0.005	0.001	–0.017	–0.013
	(0.001)	(0.003)	(0.008)	(0.006)
EPs × CSR ($t-1$)	0.004	–0.006	0.019	–0.010
	(0.001)	(0.003)	(0.009)	(0.005)
Size	–0.039	–0.029	–0.065	0.002
	(0.008)	(0.006)	(0.031)	(0.036)
Leverage	0.013	0.022	0.037	0.137
	(0.002)	(0.006)	(0.008)	(0.028)
Intangible assets	0.007	–0.000	0.014	–0.006
	(0.002)	(0.002)	(0.007)	(0.009)
R&D intensity	0.001	0.000	0.001	0.055
	(0.001)	(0.001)	(0.005)	(0.269)
Board tenure	0.002	0.001	0.004	0.005
	(0.001)	(0.001)	(0.005)	(0.004)
CEO duality	–0.001	0.001	0.004	0.003
	(0.001)	(0.001)	(0.004)	(0.006)
Board size	–0.001	0.001	0.009	–0.002
	(0.002)	(0.001)	(0.008)	(0.006)
Blockholdings	0.001	0.002	–0.011	0.005
	(0.001)	(0.001)	(0.006)	(0.008)
Dual class shares	0.001	–0.001	0.005	–0.007
	(0.002)	(0.001)	(0.006)	(0.005)
Mean DV	0.190	0.649	0.024	0.013
	(0.046)	(0.089)	(0.004)	(0.005)
Constant	0.058	0.008	0.105	0.074
	(0.003)	(0.007)	(0.009)	(0.020)
Number of observations	6883	3705	6883	3705
R-sq (%)	10.41	12.02	8.11	5.21

[a] The classification of countries as LMEs and CMEs is shown in Table 1 of the manuscript. All variables are standardized. Standard errors are in parentheses. Time and firm dummies are included. All tests are two–tailed. Time and firm dummies are included. .

Table A5. Fixed-effect regression results for Tobin's Q on CSR and MEPS under different classifications of varieties of capitalism [a]

	Tobin's Q				
	Dhaliwal et al.'s (2012) classification		Hall and Gingerich's (2009) 3-group classification		
	LMEs	CMEs	LMEs	Mixed economies	CMEs
Independent variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**
CSR ($t-1$)	0.048	0.039	0.026	0.054	0.049
	(0.010)	(0.008)	(0.013)	(0.017)	(0.014)
MEPs ($t-1$)	–0.034	–0.009	–0.031	–0.016	–0.013
	(0.012)	(0.004)	(0.014)	(0.010)	(0.007)
MEPs×CSR ($t-1$)	0.056	–0.011	0.051	0.001	–0.014
	(0.012)	(0.004)	(0.016)	(0.010)	(0.007)
Size	–1.122	–0.760	–1.099	–1.179	–0.499
	(0.057)	(0.059)	(0.053)	(0.118)	(0.126)
Leverage	–0.009	–0.040	–0.002	0.095	–0.097
	(0.030)	(0.042)	(0.029)	(0.092)	(0.064)
Intangible Assets	–0.067	–0.034	–0.065	–0.059	0.010
	(0.018)	(0.015)	(0.018)	(0.031)	(0.023)
R&D Investments	–0.052	1.288	–0.026	5.107	0.424
	(0.103)	(0.511)	(0.103)	(5.857)	(0.099)
Board tenure	0.024	0.003	0.032	–0.013	0.011
	(0.009)	(0.005)	(0.008)	(0.009)	(0.009)
CEO duality	0.024	0.000	0.024	0.002	0.007
	(0.008)	(0.007)	(0.008)	(0.014)	(0.011)
Board size	0.016	0.009	0.009	0.027	0.006
	(0.014)	(0.006)	(0.014)	(0.015)	(0.009)
Blockholdings	–0.029	–0.012	–0.004	–0.013	–0.011
	(0.013)	(0.008)	(0.010)	(0.013)	(0.018)
Dual class shares	–0.026	0.008	–0.027	–0.000	0.002
	(0.010)	(0.006)	(0.010)	(0.010)	(0.013)
Mean Tobin's Q	0.220	0.178	0.210	0.020	0.129
	(0.027)	(0.022)	(0.026)	(0.046)	(0.043)
Constant	1.072	1.446	1.096	1.330	1.958
	(0.050)	(0.074)	(0.047)	(0.101)	(0.165)
Number of observations	5851	4511	6697	1079	2812
R-sq	34.37	30.04	33.51	33.13	32.24

[a] All Standard errors are in parentheses. Time and firm dummies are included. All tests are two-tailed. All variables are standardized. Dhaliwal *et al* (2012) does not cover all the countries of our sample

References

Cheng B, Ioannou I, Serafeim G. 2014. Corporate social responsibility and access to finance. *Strategic Management Journal* **35**(1): 1–23.

Dhaliwal DS, Radhakrishnan S, Tsang A, Yang YG. 2012. Nonfinancial disclosure and analyst forecast accuracy: International evidence on corporate social responsibility disclosure. *The Accounting Review* **87**(3): 723–759.

Di Giuli A, Kostovetsky L. 2014. Are red or blue companies more likely to go green? Politics and corporate social responsibility. *Journal of Financial Economics* **111**(1): 158–180.

Hall PA, Gingerich DW. 2009. Varieties of capitalism and institutional complementarities in the political economy: An empirical analysis. *British Journal of Political Science* **39**(03): 449–482.

Hawn O, Ioannou I. 2016. Mind the gap: The interplay between external and internal actions in the case of corporate social responsibility. *Strategic Management Journal* **37**(13): 2569–2588.

Hirano K, Imbens G W. 2004. The Propensity Score with Continuous Treatments. Book Editor(s): Andrew Gelman, Xiao-Li Meng. Wiley Series in Probability and Statistics (https://doi.org/10.1002/0470090456.ch7)