Creating Value through Corporate Social Responsibility: The Role of Foreign Institutional Investors in Chinese Listed Firms*

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* We thank Jeong Ho (John) Kim, Meziane Lasfer, Hongxia Wang, the seminar participants at Old Dominion University, the University of Texas Rio Grande Valley, the University of New Hampshire, and participants at the 2023 Eastern Finance Association Annual Meeting, the 2022 Southern Finance Association Annual Meeting, the 2022 Financial Markets and Corporate Governance conference, the 2022 Finance and Accounting Annual Research Symposium, and the 2022 Conference on the Role of Institutional Investors in International Corporate Governance: Contemporary Paradigms and Perspectives.
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Abstract

This study examines the interplay between two major global trends – the growing role of foreign institutional investors (FIIs) due to financial liberalization and the rise of corporate social responsibility (CSR) as an investment ethos. We choose the setting of China, the world's second-largest economy that has recently experienced substantial growth in foreign portfolio investment and increased its commitment to CSR. We document that CSR performance significantly influences the portfolio allocation decisions of certain types of FIIs. Crucially, our analysis reveals that firms with a higher level of ownership by FIIs are associated with a more positive relation between CSR performance and firm value. This finding is robust to endogeneity examinations, including quasi-natural experiments and instrumental variable estimations. The finding is stronger for non-state-owned enterprises, firms with higher customer awareness, firms with more foreign directors, and firms with more frequent corporate site visits from FIIs. Monitoring and advising are two likely channels through which FIIs enhance the CSR-value relation. Finally, we demonstrate that FIIs enhance firms' ability to harness the power of CSR as a driver of innovation.

JEL classification: F21; F39; G11; G15; G23; G32; G34; M14; O16; O31
Keywords: Foreign Institutional Investors; Corporate Social Responsibility (CSR); Environmental, Social, and Governance (ESG); Firm Performance; Innovation; China

1. Introduction

Whether there is a relation between corporate social responsibility (CSR)[1] and corporate financial performance or firm value has been one of the most controversial issues in social science research. After numerous empirical studies spanning decades, a consensus seems to be emerging around the notion that, given the issue's complexity, the more pertinent question is not whether a relation exists, but rather under what circumstances and through what mechanisms such a relation arises (Barnett, 2007; Miller, Qiu, Wang, and Yang, 2023). Although growing evidence indicates that foreign institutional investors (FIIs) drive CSR (see, e.g., Dyck, Lins, Roth, and Wagner, 2019; Li, Wang, and Wu, 2021; Zhao, Fang, and Zhang, 2022), the influence of FIIs on the relation between CSR and firm value is less well understood. This query is both timely and critical, given that global portfolio investment geared towards CSR is projected to exceed $53 trillion by 2025, which represents one in every three dollars under professional management being invested in CSR assets (Bloomberg, 2021). It's important to remember that professional asset managers bear a fiduciary responsibility to yield financial, rather than social, returns for their investors.

This article aims to fill the above-mentioned literature gap by examining the moderating role of FII in the CSR-value relation using Chinese listed firms. As the world's second-largest economy grappling with substantial social and environmental challenges, China plays an instrumental role in global economic growth and the international CSR movement. Therefore, China offers not only a distinctive setting for research insights on the question of what drives the CSR-value relation but also for crucial policy implications. More specifically, in line with many emerging economies, China has recently embarked on the implementation of a series of CSR strategies, intending to attract foreign capital, with a specific emphasis on foreign long-term

[1] For simplicity, we use CSR, Environmental, Social, and Governance (ESG), and sustainable investing interchangeably in this article.

portfolio investment (Melas, 2019; Poh and Ishikawa, 2019). However, it remains theoretically uncertain as to whether FIIs care about CSR strategies of Chinese firms in the first place and, if they do, whether and how FIIs play a role in the CSR-value relation.

On one hand, Chinese stock market is volatile and opaque. Therefore, FIIs may find CSR a particularly useful tool in identifying risky firms and managing portfolio risks.[2] Additionally, Chinese listed firms face acute agency problems due to highly concentrated ownership and an incomplete governance system, including the lack of an active takeover market, weak legal protection of investor rights, and domestic institutional investors being short-term speculators (Jiang, Jiang, and Kim, 2020). Further, CSR investment in China is still in its infancy, albeit growing rapidly. Therefore, given their independence and resources, FIIs, especially those with a long-term investment horizon and CSR expertise, may have a greater opportunity to play an important role in China (Huang and Zhu, 2015; Bena, Ferreira, Matos, and Pires, 2017). These arguments – the greater-opportunity hypothesis – suggest a positive relation between corporate CSR performance and foreign institutional ownership and a positive effect of FIIs on the relation between CSR and firm value.

On the other hand, several counter arguments – the limited-influence hypothesis – suggest that FIIs will not be interested in CSR strategies of Chinese listed firms and that FIIs lack the economic incentive and power to have any impact. First, unlike traditional CSR strategies that aim to serve diverse stakeholders such as employees, customers, suppliers, and communities, the most important audience of Chinese firms' CSR strategies is the government (Du, Bai, and Chen, 2019). In this context, FIIs may be constrained in influencing companies' CSR strategies, especially in

[2] Ample evidence shows that CSR mitigates crash risks by discouraging bad-news hoarding, building goodwill capital among stakeholders, and helping investors better identify risks (see, e.g., Godfrey, Merrill, and Hansen, 2009; Kim, Li, and Li, 2014; Shiu and Yang, 2017; Li, Wang, and Wang, 2017).

state-owned enterprises (SOEs). Second, compared to western firms that started sustainability reporting in the 1970s[3], CSR reporting started in China in the 1990s. It is, therefore, not surprising that the quality and quantity of Chinese CSR data are low compared to international standards (Qiu, 2017), resulting in higher costs in acquiring and processing this information for FIIs. Third, FIIs typically own a very small stake in Chinese-listed firms, potentially reducing their incentives and ability to influence firms' management. However, ample anecdotal evidence shows that FIIs actively engage Chinese investee firms to deliver financial returns and ESG outcomes. We provide two such examples in Section 4.7.

To test the above-mentioned competing hypotheses, we examine the following three research questions: 1) do Chinese listed firms with higher CSR scores attract larger FII investment? 2) do FIIs positively moderate the CSR-value relation? and 3) if so, what are the potential channels through which FIIs alter the strength of the CSR-value relation?

We begin our analysis by compiling a comprehensive sample of 3,518 Chinese-listed firms from 2010 to 2017 (17,894 firm-year observations). We document that, on average, FIIs do not have a marked preference for firms with higher CSR scores. However, we discover that CSR performance does factor into the portfolio allocation decisions of certain types of FIIs –those from Scandinavian countries. This finding is consistent with the notion that Scandinavian countries care more about CSR and their institutional investors are more likely to be CSR experts (Liang and Renneboog, 2017; Dyck et al., 2019; Semenova and Hassel, 2019).

Regarding the effect of FIIs on the CSR-value relation, we find that while CSR is, on average, positively related to firm value, this relation is significantly stronger in firms with a higher level of ownership by FIIs. This finding is robust to controlling for a wide range of relevant

[3] Sustainability reporting in the United States dates back to the first Earth Day held on April 22, 1970. Sustainability reporting in Europe started in the 1960s (Brockett and Rezaee, 2012).

variables, including domestic institutional ownership, and is further validated by endogeneity checks including a quasi-natural experiment approach and instrumental variables (IV) estimation.

To better understand the impact of FIIs on the CSR-value relation, we examine the types of firms for which this relation is more likely to be observed. Specifically, given the dominant role of the Chinese government in SOEs, we expect FIIs to have a bigger influence on CSR activities in non-SOEs (Lin and Fu, 2017; Chen, Hung, and Wang, 2018). We also hypothesize that the impact of FIIs on the CSR-value relation will be stronger in firms that can benefit from CSR in the first place. Prior literature suggests that these firms typically have high customer awareness (Servaes and Tamayo, 2013). Finally, we expect that firms with foreign directors will be more willing and able to engage with FIIs in value-creating ways (Giannetti, Liao, and Yu, 2015; Miletkov, Poulsen, and Wintoki, 2016). To test these hypotheses, we split our sample based on the above criteria (SOE status, customer awareness, and the percent of foreign directors). Consistent with our hypotheses, we find that FIIs enhance the CSR-value relation in non-SOEs, firms with higher customer awareness, and firms with more foreign directors.

We also examine the potential channels through which FIIs might facilitate a positive CSR-value relation. Specifically, we investigate the impact of FIIs' monitoring and advising roles in the context of CSR engagement. It is widely accepted that institutional investors play an important monitoring role in firms worldwide (Ferreira and Matos, 2008; Aggarwal, Erel, Ferreira, and Matos, 2011). As insider misappropriation and perquisite consumption represent some of the major potential costs associated with CSR investments (Masulis and Reza, 2015), we expect that monitoring is an important channel through which FIIs can enhance the CSR-value relation. We use free cash flow (*FCF*) to proxy for the agency conflict between controlling and non-controlling shareholders and use excess executive pay to proxy for the agency conflict between management

and shareholders. We also consider a direct measure of monitoring, the frequency of corporate-site visits during which FIIs meet face-to-face with the managers, and thereby collect important soft information about the firm's activities. This form of monitoring can be particularly important for Chinese firms because they carry a higher level of information asymmetry due to the incomplete governance system in China. Consistent with the CSR monitoring-channel argument, we find that FIIs exert a positive effect on the CSR-value relation in firms with higher agency costs and in firms with more frequent corporate site visits from FIIs.

To examine the potential advising role of FIIs, we propose the CSR expertise-channel. CSR frequently requires substantial initial investment and pays off only in the long run (Fu et al., 2019; Chen et al., 2020). Additionally, optimizing CSR investment requires specialized knowledge and dedicated resources. Therefore, we expect FIIs whose investment philosophy is more aligned with CSR and have greater CSR expertise to have a stronger positive impact. Consistent with this expectation, we find that long-term FIIs and those from Scandinavian countries have a stronger positive effect on the CSR-value relation when compared to their peers who are short-term oriented or from non-Scandinavian countries. These results are consistent with the extant literature that long-term institutional investors and investors from Scandinavian countries have a greater incentive to pursue CSR strategies and possess greater expertise in helping firms to find a win-win solution for simultaneously enhancing CSR and firm value (Liang and Renneboog, 2017; Dyck et al., 2019; Miller et al., 2023).

In the last part of our analyses, we examine the role of FIIs on the CSR-value relation using an alternative metric for assessing firm performance. Specifically, given the endogenous nature of Tobin's *Q* and the major shortcomings of accounting-based performance metrics such as return on assets (ROA) and return on equity (ROE) in capturing long-term value, we focus on the ability of

firms to innovate as a key driver of future growth and the ability to compete in the global marketplace effectively. To this end, we collect patent data for all firms in our sample and re-estimate our baseline performance regression. We find that CSR is positively related to the firm's ability to innovate. Most importantly for our context, we find that the positive relation between CSR and innovation is significantly stronger in firms with higher ownership by FIIs. Therefore, it appears that FIIs enhance the firms' ability to harness the power of CSR as a driver of innovation.

Our study makes several contributions to literature. First, we add to the fledging, but rapidly growing, literature on the impact of FIIs on CSR in emerging economies. The current literature focuses on the impact of FIIs on CSR performance (McGuinness, Vieito, and Wang, 2017; Dyck et al., 2019; Li et al., 2021; Zhao et al., 2022), yet no prior study has systematically investigated whether and how FIIs shape the CSR-value relation. We provide robust empirical evidence on this crucial topic for China – the second largest economy and one of the most polluting countries in the world. Importantly, we pinpoint the types of firms in which FIIs exert a greater positive influence on the CSR-value relation and document the channels through which FIIs' influence occurs. These findings respond to Barnett (2007)'s call for research focused on the "quest for deeper understanding of the underlying drivers of whether and when particular firms may earn positive financial returns from CSR" (p. 795).

Second, we extend the literature on whether CSR performance matters in attracting FIIs to emerging economies (Li et al., 2021, using Chinese listed firms and Marshall et al., 2022, using Indian listed firms). Notably, Li et al. (2021) perform a Granger causality test examining whether FIIs gravitate toward firms with better CSR scores and conclude that "it is the Qualified Foreign Institutional Investors (QFIIs) that drive firms' social performance, rather than the firms with high CSR performance that attract the investments of foreign institutional investors." Li et al. (2021)

study 752 Chinese listed firms and measure QFII as a dummy variable. Using 3,518 Chinese listed firms and measuring ownership by FIIs as a continuous variable, we find that while, on average, no significant relation can be detected between CSR scores and investment by FIIs, CSR performance *does* influence the portfolio allocation decisions of certain types of FIIs – those from Scandinavian countries who are recognized for having higher CSR standards and greater CSR expertise (Strand, Freeman, and Hockerts, 2015; Liang and Renneboog, 2017; Baselli, 2019; and Dyck et al., 2019).

Third, to the best of our knowledge, we are the first to document a significantly positive relation between CSR performance and firm innovation in China, as well as the positive effect of FIIs on this relation. Given the centrality of innovation as a driver of overall economic growth, these results should be of interest to managers and policymakers alike.

Finally, our paper relates to the literature streams on financial liberalization and FIIs by shedding additional light on the determinants and effects of the portfolio allocation decisions of FIIs. In a 2003 Congressional Testimony, Peter Blair Henry – one of the leading experts on the impact of foreign equity investments in emerging markets – summarizes the empirical evidence in the area as follows: "…all the evidence we have indicates that countries derive substantial economic benefits from opening their stock markets to foreign investors."[4] Our study supplements this perspective with evidence of an additional channel – CSR – through which FIIs may contribute to better firm performance and overall economic growth.[5]

[4] Capital Account Liberalization: Lessons for the Chile Singapore Trade Agreements. Prepared statement of Peter Blair Henry before the Committee on Financial Services, United States House of Representatives.

[5] A partial list of studies examining the effects of foreign equity investment on firm- and country-level outcomes includes Bekaert and Harvey (2000), Blair Henry (2000a,b, 2003b), Chari and Blair Henry (2004), Bekaert, Harvey and Lundblad (2005, 2006), Huang and Shiu (2009), Aggarwal et al (2011), and Chan and Kwok (2017), among others.

One potential criticism of our study is that given the small ownership stakes of FIIs in Chinese listed firms, it is unlikely that they will be in a position to influence companies' CSR policies or any other firm decisions. Our response to this criticism is twofold. First, the existing literature on institutional ownership clearly indicates that these investors do not necessarily require significant ownership and voting power to successfully engage with company management on a variety of issues, including ESG (Becht, Franks, Mayer, and Rossi, 2009; Dimson, Karakaş, and Li, 2015; McCahery, Sautner, and Starks, 2016; Levit, 2019). Furthermore, the study by Li et al. (2021) documents that despite their relatively small ownership stake in Chinese listed firms (mean=0.159%; max=3.270%), FIIs are able to influence the CSR scores of their investee firms. Second, as we have mentioned earlier and will discuss in more detail in Section 4.7, there is plenty of anecdotal evidence illustrating the influence of FIIs in driving CSR strategies in Chinese listed firms.

The remainder of the paper is organized as follows: Section 2 presents the institutional background on investment by FIIs in China and CSR development in China and reviews the related literature. Section 3 describes the sample selection process. Section 4 discusses the results and Section 5 concludes.

2. Institutional background and related literature

2.1.Foreign institutional investment in China

In recent decades, China has undertaken a series of reforms to liberalize its stock markets and encourage the development of institutional investors. The China Securities Regulatory Commission (CSRC) even included "continuously promoting the development of institutional investors" as one of the key development strategies for China's capital markets for the period of

2008–2020 (CSRC, 2008, p. 137). As a result, ownership by institutional investors in Chinese listed firms, including mutual funds, social security funds, insurance companies, private equity, and Qualified Foreign Institutional Investors (QFIIs), has surged from less than 5% in 2003 to around 50% of free-float shares in 2020[6], and institutional investors assume an increasingly important role in China. Below, we focus on the series of reforms that aim to promote investment by QFIIs.

Before 2002, no foreign investors were allowed to buy Chinese-listed companies' shares. In December 2002, China introduced the QFII program, which for the first time allowed the entry of foreign investors into Mainland China's securities markets (Li, Rhee, and Wang, 2017). QFII applicants need to have at least $5 billion in assets under management (AUM) in the latest accounting year and at least five years of operation if they are fund management institutions and insurance companies. A minimum AUM of $10 billion is required for securities companies and commercial banks. In addition, securities companies must have at least 30 years of operation history and paid-in capital of at least $1 billion. At the same time, commercial banks must rank among the top 100 in the world in terms of total assets. A fixed investment quota is allocated to the institution once the application is successful. The overall quotas have gradually increased over time, reaching $53.5 billion in 2014 (Chan and Kwok, 2017).

In 2011, the Renminbi Qualified Foreign Institutional Investor (RQFII) program was launched. It permitted FIIs to invest in Mainland China's securities via offshore Renminbi accounts. RQFII started in Hong Kong in December 2011 with an initial quota of RMB20 billion ($3.1 billion). Quotas were initially allocated to subsidiaries of mainland fund management companies. The RQFII program was later extended to financial institutions registered in

[6] Fidelity International and ZD Proxy Shareholder Services, Building Solid Foundations: Fidelity International China Stewardship Report 2020.

jurisdictions including Singapore, the United Kingdom, France, Germany, and the United States, among others. In February 2014, the outstanding quota issued to RQFII was RMB180.4 billion ($29.4 billion) (Chan and Kwok, 2017). In 2020, China merged the QFII and the RQFII programs and removed the quota limitation.

In 2014, the Shanghai Stock Exchange (SSE) and the Hong Kong Stock Exchange (HKEX) launched a program called the Shanghai-Hong Kong Stock Connect. Under this program, foreign investors can trade a subset of stocks listed on the SSE and the HKEX. In particular, international investors can directly enter the Shanghai securities market and purchase A-shares,[7] denominated in Renminbi, that have been restricted to Mainland Chinese investors except through QFIIs and RQFIIs. Unlike previous schemes, which were non-anonymous and highly restrictive in cross-border fund flows, under the new reform, investors can trade these stocks anonymously on a centralized trading platform set up by the SSE and the HKEX, subject to a daily quota of RMB10.5 billion ($1.68 billion) and an overall quota of RMB250 billion ($40 billion). Because there are no requirements related to asset scale and years of operation, smaller institutional and non-institutional investors from abroad can invest in the Shanghai stock market. In 2016, the Shenzhen Stock Exchange (SZSE) and the HKEX launched a similar program called the Shenzhen–Hong

[7] Before 2005, China had a complex scheme of shares and shareholders – a legacy of the privatization of over 1,000 large State-Owned Enterprises (SOEs) in the early 1990s. To maintain state control, stock ownership of the privatized firms was divided into three classes: 1) A-shares quoted in Chinese RMB for trading by domestic investors since 2003 when QFII can own A-shares; 2) B-shares quoted in U.S. dollars or Hong Kong dollars for trading by foreign investors until 2001 when local Chinese can also own B-share; and 3) H-shares quoted in Hong Kong dollars for firms cross-listed on the Hong Kong Stock Exchange. A-shares represented over 90% of the market and were split into tradable (about one-third) and non-tradable shares (about two-thirds). These share categories had identical cash flows and voting rights except for public trading. As non-tradable shares were directly and/or indirectly controlled by the central government, local governments, or SOEs, the participation of foreign investors in the Chinese stock market was extremely limited. In 2005, the CSRC required all listed firms to transform their non-tradable shares into tradable shares. The reform was largely completed by the end of 2007 (Campello, Ribas, and Wang, 2014; Liao, Liu, and Wang, 2014; Jiang, Jiang, and Kim, 2020). By the end of 2018, the fraction of non-tradable shares represented 24.0% of all outstanding shares, while the non-tradable, state-owned shares represented 2.6% of all outstanding shares or 11.2% of all non-tradable shares (Li, Yang and Zhu, 2022).

Kong Stock Connect. In December 2018, the Stock Connect program between the SZSE and the London Stock Exchange was launched.

The inclusion of China's A-share companies in major emerging markets and global indices (e.g., the inclusion of large-cap China A shares in the MSCI Emerging Markets Index in 2018) has also brought new international investors to the Chinese stock market. Since the establishment of the QFII program, over 400 institutional investors from 31 countries have used these channels to invest in China's financial markets.[8] Nonetheless, foreign investment remains low, representing only 3% of the stock market (Carpenter, Lu, and Whitelaw, 2021). It is worth noting that foreign institutional ownership in China is comparable to the level in other emerging countries. For example, Kacperczyk, Sundaresan, and Wang (2018) report a mean value of 4.39% (2.6%) for foreign (domestic) institutional ownership for a sample of 17 emerging market countries compared to a mean value of 3.18% (3.38%) for China and 4.7% (19.43%) for a sample of 23 developed countries.

2.2.CSR investment in China

Albeit with a late start compared to developed markets, ESG investing in China has developed rapidly in recent years. Similar to other emerging markets, a major driver has been ESG integration demand from international investors. Unique to China, the government has also been a major driver (CFA Institute, 2020).

In 2006, China issued the 11th Five-Year Plan, which stated that China should pursue a more "harmonious society." The Chinese government views that CSR can contribute to achieving this key objective (Chen et al., 2018). In 2006, China's Company Law required Chinese firms to

[8] https://www.lexology.com/library/detail.aspx?g=e714724c-cbdd-4a6a-a350-abc58aaebf17

consider social responsibility while conducting business. In 2008, the SSE and the SZSE, wholly owned by the government, began mandating CSR disclosure for a subset of firms listed on their respective exchanges. In 2016, the seven Chinese ministries and commissions, including the People's Bank of China – China's central bank – jointly released the Guidelines for Establishing the Green Financial System. In 2018, the Asset Management Association of China circulated China's first comprehensive and systematic self-regulation standards for the asset management sector on green investment with Green Investment Guidelines, which encourages fund managers to focus on sustainable, responsible investment. The regulator of China's securities market (CSRC) has announced that by 2020, it will require Chinese-listed companies to disclose critical environmental information in their annual or semi-annual reports.

2.3.Related literature

The prevailing evidence from most prior studies is consistent with the argument that given their expertise, resources, and independence, FIIs play a key role in Chinese listed firms. For example, Huang and Zhu (2015) and Lin and Fu (2017) find that QFIIs are less susceptible to political pressure than local institutional investors and play a more significant role in safeguarding minority shareholders' interests. Liu, Laing, Cao, and Zhang (2018) find that QFIIs improve corporate governance and accounting transparency, and Chen, Lin, Lu, and Ma (2021) find that the exogenous entry of FIIs caused by the implementation of the SSE-HKEX Stock Connect program significantly increases the quality of analysts' forecasts. Luong, Moshirian, Nguyen, Tian, and Zhang (2017) document that the effect of FIIs on innovation is both positive and causal using firm-level data from 26 countries. Using the Stock Connect program as a quasi-natural experiment,

Wang (2021) finds that foreign investors enhance corporate innovation by mitigating agency costs, information asymmetry, and financial constraints.

Prior studies have also documented that FIIs can impact the CSR performance of the companies they invest in (Dyck et al., 2019; Li et al., 2021). Better CSR performance, however, does not necessarily translate into better firm performance. Some studies argue that CSR investments are associated with social externalities, agency problems, and greenwashing (Masulis and Reza, 2015; Chen et al., 2018), while others argue that CSR investments can provide product market differentiation, mitigate crash risk, build goodwill, increase investment efficiency and reduce the firm's cost of capital (Godfrey, Merrill, and Hansen, 2009; Servaes and Tamayo, 2013; Kim, Li, and Li, 2014; Flammer, 2015; Lins, Servaes, and Tamayo, 2017; El Ghoul, et al., 2018).

Can FIIs positively moderate the CSR-value relation? In which types of firms would this effect be stronger? What types of FIIs are more effective at enhancing the CSR-value relation? We seek to answer these research questions in the remainder of the paper.

3. Sample selection

3.1.CSR data

We manually collect the CSR data from the Hexun website.[9] Founded in 1996, Hexun provides the first vertical financial portal website in China (Liu, Xa, and Li, 2018). It is a leading financial investment platform that allows users to search for a wide range of Chinese and global financial information. In 2010, Hexun created the first comprehensive CSR assessment system for Chinese firms listed on the SSE and the SZSE. Hexun collects CSR information from corporate CSR reports and annual filings with the SSE and the SZSE and produces CSR ratings for every

[9] http://stockdata.stock.hexun.com/zrbg/Plate.aspx?date=2018-12-31#

Chinese-listed A-share firm that publishes an annual report. Therefore, Hexun provides the most comprehensive CSR rating database and the most widely used measure of corporate CSR performance for Chinese listed firms (Tang, Fu, and Yang, 2019; Yi, Zhang, and Yang, 2021).

Hexun evaluates CSR performance in five level 1 categories: 1) Shareholder Equity Responsibility (HXSH); 2) Employee Responsibility; 3) Supplier, Customer, and Consumer rights Responsibility; 4) Environmental Responsibility; and 5) Social Responsibility. A composite CSR score is computed as the weighted average of five level 1 category scores, with weights of 30%, 15%, 15%, 20%, and 20%, respectively, and a maximum score of 100. Therefore, Hexun's CSR scores differ from other popular CSR metrics, such as KLD's or Refinitiv's, which do not consider returns to shareholders and put significant weight on corporate governance. Each level 1 category has several level 2 and 3 subcategories. In total, there are 13 level-2 subcategories and 37 level-3 subcategories. We exclude the HXSH score from the overall CSR score because HXSH measures corporate financial performance rather than CSR. Specifically, HXSH is a weighted average of profitability (10%), solvency (3%), return based on three dividend measures (8%), the number of penalties imposed by stock exchanges (5%), and innovation (4%).

3.2.FIIs data

We gather data on foreign institutional ownership from the ORBIS database provided by Bureau van Dijk (BvD).[10] To gain a deeper understanding, we distinguish among different types of institutional investors because, due to their varying investment objectives and CSR expertise, they likely have other preferences for and impact on corporate CSR activities. Specifically, CSR strategies tend to require a substantial initial investment and pay off only in the long run. Therefore,

[10] Bureau van Dijk (BvD) is one of the leading global providers of company ownership data covering more than 400 million private and public firms, https://www.bvdinfo.com/en-gb/.

FIIs with a long-term, rather than a short-term, investment horizon likely value CSR strategies more and have a greater incentive and ability to influence the CSR-value relation (Fu, Tang, and Yan, 2019; Flammer, Toffel, and Viswanathan, 2021; Miller et al., 2023). Following Yan and Zhang (2009), we classify FIIs into short- and long-term investors based on their portfolio turnover during the past two six-month periods. We use semi-annual, instead of quarterly, frequency because quarterly turnover in the portfolio of China's FIIs is limited. Specifically, every six months, we first calculate the aggregate purchase and sale for each FII as follows:

$$CR\_buy_{kt} = \sum_{i=1}^{N_k} |S_{kit} * P_{it} - S_{kit-1} * P_{it-1} - S_{kit-1} * \Delta P_{it-1}| \quad \ldots.(1)$$

$$CR\_sell_{kt} = \sum_{i=1}^{N_k} |S_{kit} * P_{it} - S_{kit-1} * P_{it-1} - S_{kit-1} * \Delta P_{it-1}| \quad \ldots(2)$$

where P_{it-1} and P_{it} are the share prices for stock *i* at the end of six months *t-1* and *t*, and S_{kit-1} and S_{kit} are the number of shares for stock *i* held by FII *k* at the end of six months *t-1* and *t*, respectively. FII *k*'s churn rate for the six-month *t* is calculated as follows:

$$CR_{kt} = \frac{min(CR\_buy_{kt},\ CR\_sell_{kt})}{\sum_{i=1}^{N_k} \frac{S_{kit} * P_{it} + S_{kit-1} * P_{it-1}}{2}} \quad \ldots(3)$$

Next, we calculate the average churn rate for each FII over the past two six-month periods and classify an FII as long-term (short-term) if the investor ranked in the bottom (top) quartile. To obtain firm-level measures, we calculate the total long-term and short-term FIIs' stock holdings for a specific firm and scale the totals by the total shares outstanding for the firm.[11]

[11] To calculate the churn ratio, we match the Bureau van Dijk (BvD) ownership data with the QFII trading data from the Chinese Stock Market Trading Database (CSMAR).

We also distinguish FIIs from Scandinavian countries from other FIIs because Scandinavian investors are recognized for having higher CSR standards and greater CSR expertise (Liang and Renneboog, 2017; Dyck et al., 2019; Baselli, 2019).

3.3.Additional data

All control variables used in the subsequent empirical analyses are obtained from CSMAR. Following the literature (see, e.g., Mao, Ying, and Zhang, 2012; Liu et al., 2018), we exclude financial services firms and special treatment (ST) firms.[12] To mitigate selection bias, we exclude industries that have never received any investment from FIIs during our sample period. After meeting all necessary data requirements, the final sample has 3,518 unique firms or 17,894 firm-year observations from 2010 to 2017.

Table 1 reports the summary statistics for the key variables used in our analyses. To mitigate the concern of outliers, all continuous variables except those normalized by taking the natural logarithm are winsorized at the 1% level in both tails. The average value of Tobin's Q is 2.108, with a median of 1.685, and its maximum reaches 8.751.[13] The mean (median) value of foreign institutional ownership is 0.107% (0%), with a maximum value of 3.220%.[14] The mean (median) value of CSR, excluding the HXSH score, is 11.47 (6.2) with a maximum value of 67.82.[15] Therefore, to better realize a normal distribution, we use the natural logarithm of foreign institutional ownership and CSR in our regression analyses.

[12] A listed firm is designated as a ST firm if it reports net losses for two consecutive years and an *ST firm if it suffers net losses for three consecutive years. If an *ST firm suffers losses for one more year, it will be delisted (Liu et al., 2018).
[13] In our sample data, Tobin's Q for a few firms is omitted for these firms' specific IPO year. We assign a zero value to these observations.
[14] These summary statistics are similar to the ones in Li et al. (2021) who report mean, median, and maximum values for foreign institutional ownership of 0.159%, 0%, and 3.270%, respectively.
[15] The minimum CSR value, excluding the HXSH score, is zero. This is because several sample firms did not disclose any information related to the CSR rating system, and we assign a zero value to them.

4. Results

4.1. Do higher CSR scores attract foreign institutional investors?

In this section, we examine whether Chinese listed firms successfully deploy CSR strategies to attract FIIs. To achieve this objective, we estimate the following ordinary least squares (OLS) model:

$$FIO_{it} = \beta_0 + \beta_1 CSR_{it-1} + \gamma \boldsymbol{X}_{it-1} + d_j + d_t \quad \ldots (4)$$

where FIO_{it} denotes proxies for ownership by all FIIs at firm i in year t. *CSR* represents the composite Hexun CSR score, excluding the HXSH score. X represents the vector of control variables that potentially influence foreign institutional ownership. We lag all independent variables by one year to mitigate endogeneity concerns. d_j and d_t denote industry and year-fixed effects (FEs), respectively. We adjust standard errors for heteroscedasticity and firm-level clustering. The results are reported in Table 2.

Consistent with the recent findings by Li et al., (2021), in Column (1), we document that, on average, higher CSR scores do not lead to higher investment by FIIs in Chinese listed firms. This average effect, however, could mask important investor-level dynamics, which we investigate in Columns (2) through (5). We classify FIIs into long-term (*FIO_LT*) versus short-term (*FIO_ST*) and Scandinavian (*FIO_Scand*) versus non-Scandinavian (*FIO_nonScand*). Our findings indicate that Scandinavian FIIs – recognized for having higher CSR standards and greater CSR expertise (Liang and Renneboog, 2017, Baselli, 2019, Dyck et al., 2019) – do gravitate toward firms with higher CSR scores. Most of the control variables enter the regressions with expected signs. For example, FIIs gravitate toward larger firms and firms with less information asymmetry as measured by analyst coverage (*#Analysts*) and the use of a Big4 accounting firm.

To summarize, signaling via CSR strategies is noisy to FIIs. However, certain types of investors – those from countries with higher CSR standards – do seem to incorporate CSR performance into their portfolio allocation decisions.

4.2.Do FIIs affect the CSR-value relation?

To better understand the moderating role of FIIs in the CSR-value relation, we estimate several regressions and report the results in Table 3. In the first specification, we relate Tobin's *Q* to foreign institutional ownership (*FIO*) along with all the control variables. Notably, the control variables include ownership by domestic institutional investors (*DIO*). As Column (1) shows, Tobin's *Q* is significantly and positively related to *FIO*. Specifically, when *FIO* increases by 1%, Tobin's *Q* increases by 0.13% on average. *IO_DOM* also enters the regression with a significantly positive sign. A coefficient equality test fails to reject the null that the coefficient estimates of *FIO* and *IO_DOM* are equal (*p*-value=0.136). In the second specification, we relate Tobin's *Q* to *CSR* along with the controls. As Column (2) shows, *CSR* is significantly and positively related to Tobin's *Q*; a 1% increase in *CSR* is associated with a 0.05% increase in Tobin's *Q*. In the third specification—our baseline regression, we relate Tobin's *Q* to *CSR*, *FIO*, and the interaction term *CSR*FIO* along with the controls. As Column (3) shows, *CSR*FIO* is significantly and positively related to Tobin's *Q*. While *CSR* continues to be significantly positive, *FIO* is no longer significant, suggesting that the positive value impact of FIIs largely materializes through their influence on CSR.

We conduct two additional analyses to assess the stability of the results in Column (3). In the fourth specification, we exclude *IO_DOM*. As Column (4) shows, our baseline results remain qualitatively similar in this robustness test. In the fifth specification, we add the interaction

between CSR and domestic institutional ownership (*CSR*IO_DOM*). As Column (5) shows, *CSR*IO_DOM* is significantly and positively related to Tobin's *Q*. While *CSR*FIO* retains its significantly positive coefficient, *CSR* is no longer significant. Although the magnitude of *CSR*FIO* nearly doubles that of *CSR*IO_DOM*, a coefficient equality test fails to reject the null that these two coefficient estimates are equal (*p*-value=0.429).

To summarize, the results in Table 3 provide strong support for the greater-opportunity hypothesis that FIIs enhance the firm's ability to generate value by investing in CSR. Estimation results of the control variables remain relatively stable across the model specifications and are consistent with the prior literature. For example, we find that smaller firms and firms with a more independent board have higher Tobin's *Q* (Liu, Miletkov, Wei, and Yang, 2015).

Endogeneity checks

We use difference-in-differences (DID) and 2SLS-IV approaches to address endogeneity concerns. Our DID approach uses China's Stock Connect programs as the quasi-natural experiment. The Stock Connect programs described in Section 2.1 represent an exogenous shock to foreign institutional ownership of Chinese listed firms (Ma, Rogers, and Zhou, 2020; Chen et al., 2021; Wang, 2021). Prior to the programs, only QFIIs were able to invest in the Chinese stock market. After the Stock Connect programs, any foreign investor can directly trade eligible Chinese stocks through the programs. We estimate the following specification:

$$Tobin's\ Q_{it} = \beta_0 + \beta_1 CSR_{it-1} * Connect_{it} + \beta_2 CSR_{it-1} + \beta_3 Connect_{it} + \gamma \boldsymbol{X} + d_j + d_t \quad \ldots (5)$$

where *Connect* is an indicator variable that equals one if the firm's stock can be traded by foreign investors through the Stock Connect programs (the treated firms) and zero otherwise. In other

words, other Chinese listed firms whose stocks cannot be traded through the Stock Connect programs are the control firms.

The main concern for the DID framework is that the treated and the control firms are not comparable before the treatment. To address this concern, we adopt the propensity score matching (PSM) method to control for the potential self-selection bias as well as test the parallel-trends assumption. The identifying assumption of PSM is that conditioning on the probability of becoming treated removes the confounding effect of self-selection. Following Ma et al. (2020), we first use a logistic regression to estimate the likelihood of a firm being included in the Stock Connect programs by including a set of firm-level controls (stock volatility, market capitalization, leverage, firm age, and dividend dummy) and industry, province, and exchange fixed effects. We then use the predicted values from the logistic regression (propensity scores) to construct a nearest-neighbor-matched sample without replacement. As Panel A of Table 4 shows, our results hold regardless of whether we use PSM to control for self-selection using observable firm heterogeneities. Notably, after PSM, *Connect* becomes marginally significant and the coefficient estimate of *CSR*Connect* grows larger.

To test the parallel-trends assumption, we compare the moderating effect of *Connect* pre-event (i.e., one year, two years, and three years before the implementation of the Stock Connect programs) to that post-event (i.e., the year of and one year, two years, and three years after the implementation of the Stock Connect programs). If the parallel-trends assumption holds, we should find significant effects for *Connect* only post-event (Luong et al., 2017; Ma et al., 2020). As Panel B of Table 4 illustrates, supporting the parallel-trends assumption, *CSR*Connect(-3)*, *CSR*Connect(-2)*, and *CSR*Connect(-1)* are insignificant, but *CSR*Connect(0)*, *CSR*Connect(1)*, *CSR*Connect(2),* and *CSR*Connect(3)* are significantly positive. We also visually examine the

trends in Figure 1, where the two lines representing the mean values of Tobin's *Q* for the treated and control firms (after PSM) move closely in parallel before the exogenous shock of the Stock Connect launch, corroborating the parallel-trends assumption. After the launch of the Stock Connect programs, the line representing the mean value of Tobin's *Q* for the treated firms trends upward, rising above the line representing the mean value of Tobin's *Q* for the control firms, in support of the parallel-trends assumption that after the exogenous shock, the treated firms with a higher level of foreign institutional ownership are associated with superior market performance.

Our second approach for mitigating the endogeneity concerns relies on 2SLS-IV estimation. Following the literature (see, e.g., Bonaimé, Hankins, and Harford, 2013; Ferrell, Liang, and Renneboog, 2016; Miller, Moussawi, Wang, and Yang, 2021), we use the industry average of foreign institutional ownership (*IV_INDU*) to instrument the endogenous variables *FIO* and *CSR*FIO*. *IV_INDU* satisfies the two criteria for a valid instrumental variable – relevance and orthogonality – because the averages should be highly correlated with the endogenous variables and orthogonal to factors that drive the response variable in individual firms. Supporting the IV being relevant, Column (1) of Table 5 shows that *IV_INDU* is significantly and positively related to *FIO*. Additionally, the Kleibergen-Paap rk *F* statistic rejects the null that the IV is unrelated to the endogenous variables. Because the equation is exactly identified, we are unable to perform an overidentification test. As Column (3) of Table 5 illustrates, the effect of FIIs on the CSR-value relation remains positive and significant in the 2SLS-IV estimation. Interestingly, instrumented *FIO* (*Predicted FIO*) is significantly and positively related to *Tobin's Q*.

4.3.The effect of FIIs on the CSR-value relation in different types of firms

The results in the previous section suggest that, on average, FIIs positively affect the CSR-value relation in Chinese listed firms. There are, however, crucial differences across firms that could impact the ability and incentives of FIIs to engage firms on CSR-related issues. For example, in SOEs, the government is the largest shareholder, and many company insiders are government employees appointed by the State-owned Assets Supervision and Administration Commission (SASAC). In these firms, investment decisions are primarily subordinate to the government's political objectives (Lin and Fu, 2017; Chen et al., 2018), and FIIs are unlikely to have much influence over company policies. Another important consideration is the potential benefit to the firm from engaging in CSR activities in the first place. According to Servaes and Tamayo (2013), firms that face high customer awareness (as measured by advertising expenditures) are most likely to benefit from CSR investments. Therefore, we conjecture that the effect of FIIs on the CSR-value relation will be stronger in these firms. Finally, FIIs and directors with foreign experience can act as complements in terms of transmitting knowledge about management practices and corporate governance (Giannetti, Liao, Yu, 2015; Miletkov et al., 2016). Therefore, the effect of FIIs on the CSR-value relation should be stronger in firms with more foreign directors (as measured by the percentage of directors with foreign education or overseas work experience).

In Table 6, we split our sample based on the firm characteristics discussed above and find that *CSR*FIO* is significantly positive in non-SOEs, firms with above-median advertising expenditures, and firms with above-median percent of foreign directors on the board. Additionally, the coefficient equality test rejects the null that the coefficient estimates of *CSR*FIO* are equal across the subsamples. Notably, these subsample tests also serve as another endogeneity test. Consistent with the principle of the Method of Concomitant Variations, these tests document that

the hypothesized effect is stronger when the hypothesized cause is stronger (Acharya and Ryan, 2016; Miller et al., 2021).

4.4.CSR monitoring and advising role of FIIs

In this section of the analysis, we turn to the potential channels through which FIIs influence the CSR-value relation. It is widely recognized that institutional investors in general and FIIs in particular play an important monitoring role in corporations worldwide (Ferreira and Matos, 2008; Aggarwal et al., 2011). As private benefits of control and insider self-dealing are major potential costs associated with CSR, we argue that monitoring is an important channel through which FIIs can influence the CSR-value relation. Following Firth, Gao, Shen, and Zhang (2016) and Huang, Shen, and Sun (2011), we use free cash flow (*FCF*) to proxy for the agency conflict between controlling shareholders and non-controlling shareholders. Following Fang, Hu, and Wang (2018), we use *Excess pay* to proxy for the agency conflict between the management and shareholders. *Excess pay* is the residual from estimating the following regression:

$$Ln(pay_{it}) = \beta_0 + \beta_1 * RET_{it-1} + \beta_2 * ROA_{it-1} + \beta_3 * Leverage_{it-1} + \beta_4 * Firm\ size_{it-1} + \beta_5 * BM_{it-1} + \beta_6 * East + \beta_7 * West + d_j + d_t, \quad \ldots (6)$$

where *Ln(pay)* is the natural logarithm of the total cash compensation (sum of base salaries, bonuses, stipends, and other cash-based compensation) of the top three managers, *RET* is the stock return of the previous year. *ROA* is the return on assets. *BM* is the book-to-market ratio. *East* is an indicator variable that equals one if a firm is headquartered in the east region of China, including Beijing, Tianjin, Hebei, Liaoning, Shandong, Shanghai, Jiangsu, Zhejiang, Fujian, Guangdong, and Hainan. *West* is an indicator variable that equals one if a firm is headquartered in the west region of China, including Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Ningxia, and Xinjiang. *Central* is the omitted category and corresponds to Shanxi, Neimenggu, Jilin,

Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan, and Guangxi. We control for the region dummies because the cost of living varies, and consequently, the average pay differs substantially across regions (Xin, Lin, and Wang, 2007). As Columns (1) through (4) in Table 7 illustrate, *CSR*FIO* is significantly and positively related to Tobin's *Q* only in firms with high agency costs as proxied by high levels of *FCF* and *Excess pay*. Additionally, the coefficient equality test rejects the null that the coefficient estimates of *CSR*FIO* are equal across the subsamples.

We also consider a direct measure of monitoring and engagement – corporate site visits during which FIIs get to meet face-to-face with company managers. Prior studies find that site visits are an important way to acquire information and monitor insiders (Cheng et al., 2016; Cao, Wang, and Zhou, 2020; Saci and Jasimuddin, 2021). This form of monitoring can be particularly important for FIIs in China because they face a higher level of information asymmetry due to the incomplete governance system of Chinese listed firms (Ding et al., 2020; Li et al., 2021). We obtain the onsite visits data from CSMAR. To identify site visits by FIIs, we manually checked the names of institutional investors that visited the sample firms against the names of QFIIs published by the State Administration of foreign Exchange (http://www.safe.gov.cn/). As documented in Columns (5) and (6) of Table 7, *CSR*FIO* is significantly and positively related to Tobin's *Q* in the subsample of firms that have received an above-median number of corporate site visits from FIIs. Additionally, the coefficient equality test rejects the null that the coefficient estimates of *CSR*FIO* are equal across the subsamples. These findings are consistent with the argument that monitoring is an important channel through which FIIs influence the CSR-value relation.

Regarding the CSR expertise and advising channel, the prior literature (see, e.g., Fu at al., 2019; Lins et al., 2019; Semenova and Hassel, 2019; Miller et al., 2023) establishes that long-term

institutional investors and investors from Scandinavian countries have greater incentives to pursue CSR strategies and possess greater expertise that can be leveraged to help firms use CSR as a tool for achieving shareholder wealth maximization along with other environmental and social objectives. Therefore, we expect that FIIs with long-term investment horizons and FIIs from Scandinavian countries will have a stronger positive effect on the CSR-value relation when compared to their counterparts (FIIs with short-term investment horizons and FIIs from non-Scandinavian countries). Consistent with the argument that CSR expertise and advising is an important channel through which FIIs influence the CSR-value relation, the results in Table 8 clearly document that *CSR*FIO_LT* and *CSR*FIO_Scand* are significantly and positively related to Tobin's *Q*, while *CSR*FIO_ST* and *CSR*FIO_nonScand* are insignificant.[16]

4.5.Do FIIs affect the relation between CSR and corporate innovation?

In the last part of our analyses, we replace the dependent variable (Tobin's *Q*) with an alternative metric for assessing overall firm performance. Tobin's *Q,* along with the other mainstream performance metrics such as ROA and ROE, exhibit significant shortcomings related to endogeneity concerns or the inability to capture long-term firm value. Therefore, we focus on corporate innovation as an alternative measure of firm performance because it is a key driver of future growth, long-term survival, and the firm's ability to compete effectively in the global marketplace. We replicate the analyses from Table 3 after replacing Tobin's *Q* with the natural logarithm of the number of invention patents (applications) plus one (*Ln Invention Patents*) as the

[16] These results are also consistent with the argument that FIIs with CSR expertise may play a role as an information intermediary. Specifically, since CSR investments are inherently difficult to value and CSR scores can be hard to interpret, the average investor may not fully appreciate the value implications of CSR engagement. A higher level of ownership by FIIs with CSR expertise may signal to other investors a vote of confidence in the management's ability to effectively manage the company's CSR initiatives, and therefore, increase firm value.

dependent variable.[17] As Table 9 illustrates, both *CSR* and *FIO* are significantly and positively related to the firm's ability to innovate. Furthermore, the CSR-innovation relation is significantly stronger in firms with higher ownership by FIIs. Interestingly, while domestic institutional ownership is significantly and positively related to Tobin's *Q*, it is insignificantly related to innovation, consistent with the view that Chinese domestic institutional investors are short-term oriented (Jiang et al., 2020).

To summarize, Table 9 provides corroborating evidence for the results reported in Table 3 and offers additional support for the greater-opportunity hypothesis.

4.6.Additional tests

For our analysis, we choose HEXUN's CSR data over Rankins' (RKS) for two main reasons. First, although RKS is another popular Chinese CSR database, it only covers Chinese-listed firms that have published CSR reports. This self-selection implies that the RKS scores tend to be biased and cover mature firms, and are better suited for measuring corporate CSR disclosure quality rather than CSR performance (Luo, Wang, and Zhang, 2017; Cheng, Chu, Deng, and Huang, 2022). In contrast, HEXUN collects CSR information from corporate CSR reports and annual filings with the SSE and the SZSE stock exchanges, and produces CSR ratings for every Chinese-listed A-share firm that publishes an annual report. Second, as of September 2019, 945 Chinese firms published a CSR report, representing only about 26% of all Chinese A-share listed companies (China Sustainable Investment Review, 2019).

[17] In this analysis, we use the number of invention patent applications. The results remain qualitatively similar if we use the number of invention patents granted. Additionally, the results are qualitatively the same if we use the total number of patents instead of the number of invention patents. According to Chinese patent law, patents are classified into three categories: invention patents, utility model patents, and design patents, with invention patents being considered as the most innovative. We obtain the patent data from the Chinese Research Data Services Platform.

Nonetheless, for robustness, we estimate the baseline regression using RKS' CSR scores as the dependent variable. The results are reported in Column (1) of Appendix II. Our results remain qualitatively similar in this robustness check. We lose, however, 74% of the observations when using the RKS CSR scores.

Another potential channel for FIIs to influence the CSR-value relation is by helping Chinese listed firms secure international financing. Financing is a key driver of firm growth and value. Therefore, we estimate the baseline regression using the natural logarithm of total proceeds from foreign equity financing plus one. As Column (2) of Appendix II illustrates, *CSR*FIO* is positively related to foreign equity financing with marginal significance. When we partition the sample into SOEs and non-SOEs, we find that *CSR*FIO* is insignificant in the SOE subsample but is significantly positive in the non-SOE subsample. These patterns of results are consistent with the view that China's financial system is characterized by state-dominated banks that are inefficient in lending to non-SOEs (Degryse, Lu, and Ongena, 2016). These results are consistent with those in Table 6, that FIIs play a more significant moderating role in the CSR-value relation in non-SOEs. Additionally, *IO_DOM* enters the regressions without any significance, suggesting that domestic institutional investors do not help Chinese listed firms obtain foreign equity financing, which highlights the unique role of FIIs.

Additionally, we explored foreign debt financing but found no significant results.[18] We obtain the financing data from Refinitiv's SDC Platinum Mergers & Acquisitions database. Taken together, we find weak evidence for the channel of international financing.

In another robustness check, we estimate the baseline regression in Table 3 with each component of the HEXUN CSR score – except for the "*Shareholder Equity Responsibility*"

[18] Results are not reported for brevity but are available upon request.

category, which measures returns to shareholders and not a firm's social and environmental performance – instead of using the composite HEXUN CSR score. We find that the *CSR*FIO* interaction term is significantly and positively related to firm value for the "*Supplier, Customer, and Consumer Rights Responsibility*," "*Environmental Responsibility*," and "*Social Responsibility*" categories and is positively related to the "*Employee Responsibility*" category but without any statistical significance. Results are not tabulated to conserve space.

4.7.Anecdotal evidence

Prior literature has provided theoretical and empirical evidence that FIIs can positively impact companies' CSR performance (Dyck et al., 2019; Li et al., 2021). Nonetheless, given the limited ownership of FIIs in Chinese listed firms and the dominant influence of Chinese government concerning CSR strategies, it is reasonable to question the premise that FIIs care about CSR strategies of Chinese firms and, if they do, whether and how FIIs can influence the CSR-value relation. In this section, we present two real-world examples to illustrate the effect of FIIs on the CSR strategies of Chinese listed firms. Both examples come from the case studies prepared by the PRI for its report, entitled "Unlocking the Potential of Investor Stewardship in China: Towards a More Sustainable Economy."[19]

The first example involves BlackRock, a U.S. institutional investor, and its engagement with China National Coal Group Corporation (ChinaCoal). In 2020, ChinaCoal obtained an exploration license for a coal mine in Australia, allowing the company to explore an area with 90 square kilometers of agricultural land. This project sparked a public outcry because it would destroy a local Australian cultural site. BlackRock intervened in this project and warned ChinaCoal

[19] https://www.unpri.org/policy/china-policy/stewardship-in-china

that the project might bring significant governance and sustainability risks to the company. In April 2021, ChinaCoal withdrew from the exploration project.

The second example showcases the engagement by EOS at Federated Hermes, a U.K. institutional investor, with one of China's largest online retailers. Since the retailer's initial public offering, it had not issued a standalone ESG report or held an annual shareholder meeting. In response to public concerns about the risk of a "996" culture – whereby employees work 9am to 9pm six days a week – EOS recommended the retailer to provide an explanation of how human capital management, diversity, and inclusion are linked to its core values and culture. EOS was also concerned about the retailer's limited ESG disclosure and a lack of diversity on the board. EOS shared best-practice examples of disclosure focused on governance, culture, and employee wellbeing. The retailer published its first ESG report in 2021 and appointed its first female director to the board in 2022.

5. Conclusion

In this study, we examine the interplay between two major global trends – the growing role of FIIs and the embracement of CSR as an investment ethos – in the world's second-largest economy. Using a comprehensive sample of Chinese listed firms from 2010 to 2017, we find that the recent regulatory changes implemented by the Chinese government aimed at improving the CSR performance of domestic firms may have helped attract additional foreign equity capital, especially from FIIs with CSR expertise. The main contribution of our paper centers on investigating the ability of FIIs to influence the CSR-value relation. While prior studies have examined the impact of FIIs on CSR performance, no prior study has systematically investigated whether and how FIIs shape the CSR-value relation. We document that FIIs strengthen the positive

relation between CSR and firm value, especially in non-SOEs, in firms with higher customer awareness, and in firms with more foreign directors. We attribute this effect to the monitoring and advising role of FIIs. Finally, we examine the relation between CSR and corporate innovation and find that firms with higher CSR scores exhibit higher levels of corporate innovation as measured by the number of invention patents. This positive relation is significantly stronger in firms with higher ownership levels by FIIs, indicating that FIIs enhance the firm's ability to harness the power of CSR as a driver of innovation.

Given the size of the Chinese economy, its stock market, and its contribution to global pollution, our results have important policy implications. For example, while Europe has dominated global ESG investment, the United States experienced the fastest expansion during the COVID outbreak and may dominate this category starting in 2022 (Bloomberg, 2021). The next wave of ESG growth could come from emerging markets. Our results highlight the opportunity for FIIs to play an essential role in this CSR movement, and especially in helping firms achieve a "win-win" scenario whereby CSR initiatives allow companies to keep up with society's fast-changing expectations while simultaneously creating value for their shareholders.

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Appendix I: Variable definitions
This table provides the definitions for all the variables used in this analysis in ascending order.

Variable	Definition
AD/sales	Advertising expenditure divided by operating revenue
#Analysts	Natural logarithm of the number of analysts following a firm plus one
Big4	An indicator variable that equals one if a firm is audited by a Big Four accounting firm (i.e., Deloitte, Ernst & Young, KPMG, or PricewaterhouseCoopers), and zero otherwise
Board size	Natural logarithm of the number of directors on a board
Cross-listing	An indicator variable that equals one if a firm is listed on the stock exchanges both in Mainland China and overseas, and zero otherwise
CSR	Natural logarithm of the composite CSR score from Hexun, excluding the shareholder equity responsibility score
Excess pay	Residual from estimating the regression: $Ln(pay_{it}) = \beta_0 + \beta_1*Ret_{it-1} + \beta_2*ROA_{it-1} + \beta_3*Leverage_{it-1} + \beta_4*Firm\ size_{it-1} + \beta_5*BM_{it-1} + \beta_6*East + \beta_7*West + d_j + d_t$, where *Ln(pay)* is the natural logarithm of the total cash compensation (sum of base salaries, bonuses, stipends, and other cash-based compensation) of the top three managers, *Ret* is stock return the previous year, *ROA* is the return on assets, *BM* is the book-to-market ratio, and *East* (*West*) is an indicator variable that equals one if a firm is headquartered in the east (west) region of China. d_j and d_t denote industry and year-fixed effects (FE), respectively.
FCF	Free cash flow, which is operating cash flow minus capital expenditures divided by total assets (Firth et al., 2016)
Female director	The number of female directors divided by the total number of directors
FII visits	Natural logarithm of the number of times that all the FIIs visited a firm in a given year
FIO	Natural logarithm of stockholdings by FIIs divided by the total stockholdings of the firm plus one, then multiplied by one hundred
FIO_LT	Natural logarithm of stockholdings by long-term FIIs divided by total stockholdings plus one, then multiplied by one hundred
FIO_ST	Natural logarithm of stockholdings by short-term FIIs divided by total stockholdings plus one, then multiplied by one hundred
FIO_nonScand	Natural logarithm of stockholdings by institutional investors from non-Scandinavian countries (i.e., Norway, Sweden, Iceland, Finland, and Denmark) divided by the total stockholdings of the firm plus one, then multiplied by one hundred
FIO_Scand	Natural logarithm of stockholdings by institutional investors from the Scandinavian countries (i.e., Norway, Sweden, Iceland, Finland, and Denmark) divided by the total stockholdings of the firm plus one, then multiplied by one hundred
Firm size	Natural logarithm of total assets
Foreign directors (FD)	The number of directors on the board who have foreign education or have worked abroad
%INDEP	The number of independent directors divided by the total number of directors
IO_DOM	Natural logarithm of stockholdings by domestic institutional investors divided by the total stockholdings of the firm plus one, then multiplied by one hundred
Leverage	Total liabilities divided by total assets
Ln invention patents	Natural logarithm of the number of invention patents (applications) plus one
PPE	Net property, plant, and equipment divided by total assets
Profitability	Net profit divided by total sales
Political director	The number of politically connected directors divided by the total number of directors
Sales growth	This year's operating revenue over last year's minus one
SOE	An indicator variable that equals one if the firm's largest shareholder is the state and zero otherwise
Tobin *Q*	(A shares*A price + B shares*B price + (total shares - A shares - B shares) * (total equity/paid-in capital) + book value of total debt) / total assets

Appendix II: Additional tests

Column (1) reports the OLS estimation results from relating Rankins' CSR scores (*CSR_RKS*) and foreign institutional ownership (*FIO*) to Tobin's *Q*. Columns (2)–(4) report the OLS estimation results from relating *FIO* and our primary measure of CSR performance (*CSR*) to the natural logarithm of total proceeds from foreign equity financing plus one (*Foreign equity financing*). In brackets are standard errors computed based on heteroskedasticity-consistent standard errors clustered at the firm level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See Appendix I for the definitions and descriptions of all variables.

Dep. Var. =	Tobin's Q_t	Foreign equity financing		
		Full sample	SOEs	Non-SOEs
	(1)	(2)	(3)	(4)
CSR_RKS_{t-1} * FIO_{t-1}	0.163**			
	[0.079]			
CSR_RKS_{t-1}	-0.055			
	[0.043]			
CSR_{t-1} * FIO_{t-1}		0.0043*	-0.001	0.009**
		[0.0026]	[0.003]	[0.004]
CSR_{t-1}		-0.001	0.000	-0.001
		[0.001]	[0.002]	[0.002]
FIO_{t-1}	-0.178	-0.006	0.008	-0.019
	[0.120]	[0.006]	[0.009]	[0.012]
IO_DOM_{t-1}	0.136***	0.001	0.000	0.001
	[0.030]	[0.001]	[0.002]	[0.002]
Firm $size_{t-1}$	-1.019***	0.001	-0.002	0.005
	[0.071]	[0.002]	[0.004]	[0.003]
$Leverage_{t-1}$	-0.118	0.002	-0.002	0.003
	[0.210]	[0.003]	[0.006]	[0.003]
PPE_{t-1}	0.265	0.008	-0.005	0.018
	[0.243]	[0.016]	[0.020]	[0.025]
$Profitability_{t-1}$	2.421***	0.012	0.009	0.010
	[0.822]	[0.012]	[0.019]	[0.015]
Board $size_{t-1}$	-0.460*	-0.008	-0.002	-0.009
	[0.251]	[0.011]	[0.016]	[0.016]
$\%INDEP_{t-1}$	1.234***	-0.018	-0.022	-0.007
	[0.388]	[0.018]	[0.026]	[0.024]
Political $director_{t-1}$	0.054	0.003	0.004	0.002
	[0.102]	[0.006]	[0.009]	[0.008]
Female $director_{t-1}$	-0.152	0.002	0.023*	-0.007
	[0.182]	[0.008]	[0.013]	[0.009]
Cross-$listing_{t-1}$	0.260***	0.060***	0.036***	0.130***
	[0.078]	[0.006]	[0.007]	[0.012]
$Big4_{t-1}$	0.070	-0.008	-0.015**	0.009
	[0.061]	[0.005]	[0.006]	[0.009]
$\#Analysts_{t-1}$	0.137***	0.001	0.002	0.002
	[0.028]	[0.001]	[0.002]	[0.002]
Sales $growth_{t-1}$	-0.042	0.000	0.000	0.000
	[0.027]	[0.001]	[0.002]	[0.002]
SOE_{t-1}	0.137**	-0.002		
	[0.066]	[0.002]		
Constant	9.703***	-0.005	0.023	-0.043
	[0.803]	[0.034]	[0.040]	[0.046]
Industry FE	YES	Yes	Yes	Yes
Year FE	YES	Yes	Yes	Yes
N	4605	17894	6935	10959
Adj. R-sq	0.414	0.005	0.000	0.013

Figure 1: Trends in Tobin's *Q* surrounding the launch of the Stock Connect programs
This figure depicts the mean values of Tobin's *Q* for the treated and control firms over a seven-year period surrounding the launch of the Stock Connect programs. The event year is denoted as year 0.

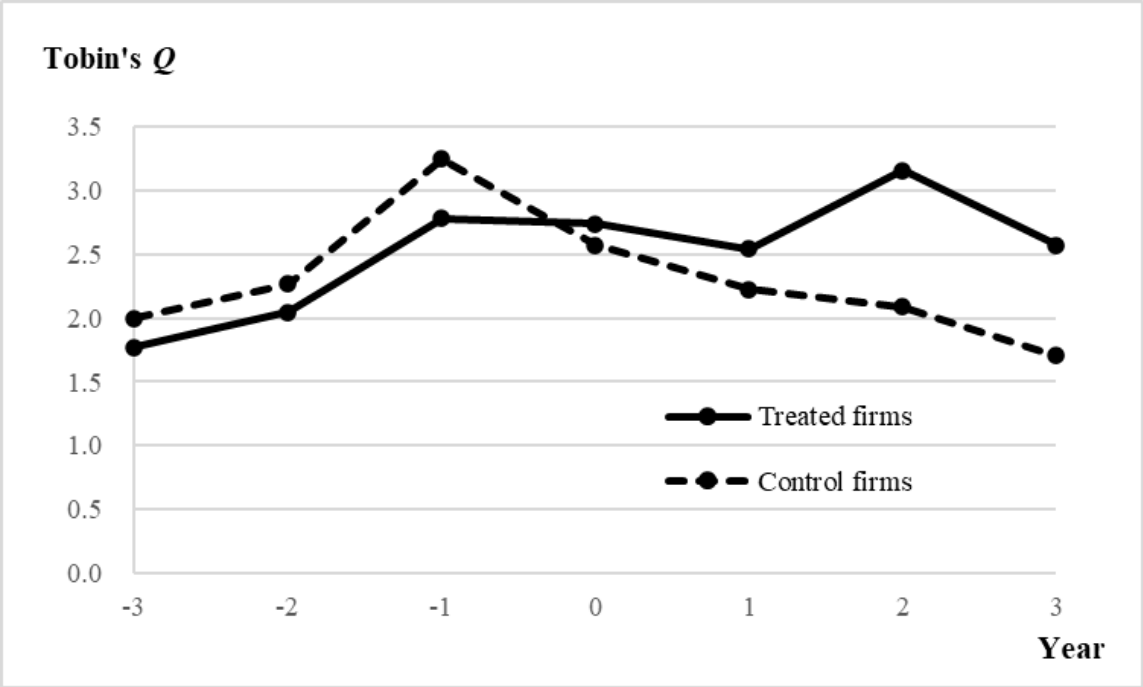

Table 1: Summary statistics
This table provides summary statistics for the key variables used in this analysis. To mitigate the concern of outliers, we winsorize all continuous variables except those in natural logarithm by 1% at both tails.

	N	Mean	S.D.	Median	Max	Min
Tobin *Q*	17894	2.108	1.493	1.685	8.751	0.000
CSR	17894	0.899	0.401	0.857	1.736	0.000
FIO	17894	0.107	0.314	0.000	3.220	0.000
FIO_LT	17894	0.057	0.238	0.000	3.220	0.000
FIO_ST	17894	0.060	0.215	0.000	1.893	0.000
FIO_Scand	17894	0.014	0.087	0.000	3.045	0.000
FIO_nonScand	17894	0.092	0.399	0.000	3.22	0.000
IO_DOM	17894	1.502	0.978	1.524	4.331	0.000
Firm size	17894	9.524	0.574	9.457	11.930	7.250
Leverage	17894	0.424	0.356	0.400	10.082	0.016
PPE	17894	0.951	0.063	0.965	1.000	0.243
Profitability	17894	0.045	0.076	0.041	0.920	-1.526
Board size	17894	0.979	0.077	1.000	1.279	0.602
%INDEP	17894	0.373	0.055	0.333	0.800	0.125
Political director	17894	0.211	0.183	0.182	0.778	0.000
Female director	17894	0.154	0.142	0.111	0.714	0.000
Cross-listing	17894	0.031	0.172	0.000	1.000	0.000
Big4	17894	0.051	0.220	0.000	1.000	0.000
#Analysts	17894	1.579	1.128	1.609	4.205	0.000
Sales growth	17894	0.231	0.748	0.101	7.800	-0.838
SOE	17894	0.388	0.481	0.000	1.000	0.000
AD/sales	17894	0.004	0.015	0.000	0.512	0.000
FD	17894	0.096	0.142	0.000	1.000	0.000
FCF	17894	-0.004	0.115	0.009	0.282	-0.525
Excess pay	17894	0.990	0.769	0.795	5.658	0.000
FII visits	17894	0.101	0.266	0.000	2.864	0.000
Ln Invention Patents	17894	1.084	1.329	0.693	8.477	0.000

Table 2: Do higher CSR scores attract FIIs?
This table reports the regression results from estimating an OLS model. In brackets are standard errors computed based on heteroskedasticity-consistent standard errors clustered at the firm level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See Appendix I for the definitions and descriptions of all variables.

Dep. Var. =	FIO_t	FIO_LT_t	FIO_ST_t	FIO_Scand_t	$FIO\_nonScand_t$
	(1)	(2)	(3)	(4)	(5)
CSR_{t-1}	0.003	0.003	0.001	0.001**	0.012
	[0.003]	[0.002]	[0.002]	[0.000]	[0.008]
IO_DOM_{t-1}	0.017***	0.005*	0.013***	0.005***	0.025***
	[0.004]	[0.003]	[0.003]	[0.002]	[0.005]
Firm $size_{t-1}$	0.024**	0.014*	0.018***	0.010**	0.072***
	[0.010]	[0.007]	[0.007]	[0.004]	[0.016]
$Leverage_{t-1}$	0.002	-0.001	0.004	0.005**	0.022
	[0.005]	[0.003]	[0.003]	[0.002]	[0.020]
PPE_{t-1}	-0.033	-0.027	-0.016	-0.001	0.125
	[0.076]	[0.053]	[0.046]	[0.024]	[0.100]
$Profitability_{t-1}$	0.001	0.002	0.001	0.006	0.005
	[0.030]	[0.020]	[0.002]	[0.007]	[0.009]
Board $size_{t-1}$	-0.035	0.000	-0.041*	0.001	-0.014
	[0.036]	[0.025]	[0.024]	[0.013]	[0.057]
$\%INDEP_{t-1}$	-0.024	0.006	-0.025	0.023	0.115
	[0.054]	[0.038]	[0.036]	[0.026]	[0.084]
Political $director_{t-1}$	-0.040**	-0.030**	-0.018	-0.008	-0.027
	[0.017]	[0.011]	[0.012]	[0.006]	[0.025]
Female $director_{t-1}$	0.024	0.013	0.017	-0.007	0.037
	[0.023]	[0.017]	[0.016]	[0.014]	[0.044]
Cross-$listing_{t-1}$	-0.017	-0.016	-0.013	0.038**	0.171*
	[0.034]	[0.023]	[0.023]	[0.016]	[0.094]
$Big4_{t-1}$	0.079***	0.062***	0.032*	-0.006	0.116*
	[0.028]	[0.021]	[0.019]	[0.009]	[0.062]
$\#Analysts_{t-1}$	0.046***	0.024***	0.029***	0.008***	0.040***
	[0.004]	[0.003]	[0.003]	[0.002]	[0.006]
Sales $growth_{t-1}$	-0.005*	-0.003	-0.003**	0.001	-0.003
	[0.003]	[0.002]	[0.002]	[0.002]	[0.004]
SOE_{t-1}	0.024***	0.013**	0.011*	-0.016**	-0.016
	[0.009]	[0.006]	[0.006]	[0.008]	[0.015]
Constant	-0.140	-0.095	-0.119	-0.134***	-0.940***
	[0.127]	[0.089]	[0.082]	[0.045]	[0.174]
Industry FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
N	17894	17894	17894	17894	17894
Adj. R-sq	0.074	0.041	0.060	0.035	0.080

Table 3: Do FIIs affect the CSR-value relation?
This table reports the regression results from estimating an OLS model. In brackets are standard errors computed based on heteroskedasticity-consistent standard errors clustered at the firm level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See Appendix I for the definitions and descriptions of all variables.

Dep. Var. = Tobin's Q_t	(1)	(2)	(3) - baseline	(4)	(5)
CSR_{t-1} * FIO_{t-1}			0.085***	0.074***	0.062**
			[0.026]	[0.026]	[0.026]
CSR_{t-1}		0.053***	0.043***	0.045***	-0.01
		[0.014]	[0.014]	[0.014]	[0.021]
FIO_{t-1}	0.125***		-0.051	-0.005	-0.005
	[0.037]		[0.062]	[0.064]	[0.064]
IO_DOM_{t-1}	0.188***	0.190***	0.189***		0.123***
	[0.017]	[0.017]	[0.017]		[0.026]
CSR_{t-1} * IO_DOM_{t-1}					0.036***
					[0.010]
Firm $size_{t-1}$	-1.374***	-1.392***	-1.397***	-1.360***	-1.397***
	[0.055]	[0.057]	[0.056]	[0.056]	[0.056]
$Leverage_{t-1}$	0.097	0.097	0.094	0.105	0.09
	[0.076]	[0.077]	[0.077]	[0.077]	[0.077]
PPE_{t-1}	-0.475	-0.494	-0.475	-0.499	-0.478
	[0.300]	[0.301]	[0.302]	[0.305]	[0.300]
$Profitability_{t-1}$	0.205	0.152	0.144	0.135	0.152
	[0.297]	[0.299]	[0.299]	[0.301]	[0.299]
Board $size_{t-1}$	-0.095	-0.104	-0.097	-0.102	-0.092
	[0.159]	[0.159]	[0.159]	[0.159]	[0.158]
$\%INDEP_{t-1}$	0.917***	0.907***	0.907***	0.956***	0.905***
	[0.253]	[0.253]	[0.253]	[0.254]	[0.252]
Political $director_{t-1}$	-0.07	-0.069	-0.063	-0.08	-0.067
	[0.076]	[0.076]	[0.076]	[0.076]	[0.075]
Female $director_{t-1}$	0.033	0.042	0.037	0.019	0.031
	[0.123]	[0.123]	[0.123]	[0.124]	[0.123]
Cross-$listing_{t-1}$	0.464***	0.453***	0.456***	0.367***	0.468***
	[0.089]	[0.089]	[0.089]	[0.087]	[0.090]
$Big4_{t-1}$	0.392***	0.395***	0.381***	0.344***	0.377***
	[0.069]	[0.069]	[0.068]	[0.067]	[0.068]
$\#Analysts_{t-1}$	0.027*	0.028*	0.022	0.109***	0.021
	[0.016]	[0.016]	[0.016]	[0.014]	[0.016]
Sales $growth_{t-1}$	0.041**	0.040**	0.041**	0.049***	0.042**
	[0.018]	[0.018]	[0.018]	[0.017]	[0.018]
SOE_{t-1}	0.166***	0.164***	0.161***	0.189***	0.160***
	[0.041]	[0.041]	[0.040]	[0.041]	[0.040]
Constant	12.658***	12.865***	12.900***	12.785***	12.984***
	[0.631]	[0.639]	[0.638]	[0.634]	[0.639]
Industry FE	YES	YES	YES	YES	Yes
Year FE	YES	YES	YES	YES	Yes
N	17894	17894	17894	17894	17894
Adj. R-sq	0.310	0.311	0.312	0.302	0.312

Table 4: Endogeneity check – quasi-natural experiment
This table reports the regression results from employing the DID method. In brackets are standard errors computed based on heteroskedasticity-consistent standard errors clustered at the firm level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See Appendix I for the definitions and descriptions of all variables.

Panel A: DID results

Dep. Var. = Tobin's Q_t	Before PSM	After PSM
	(1)	(2)
CSR_{t-1} * Connect	0.055**	0.082**
	[0.027]	[0.034]
Connect	-0.08	0.131*
	[0.067]	[0.076]
CSR_{t-1}	0.044***	0.029**
	[0.012]	[0.014]
IO_DOM_{t-1}	0.190***	0.175***
	[0.012]	[0.015]
$Firm\ size_{t-1}$	-1.396***	-1.992***
	[0.024]	[0.036]
$Leverage_{t-1}$	0.096***	-0.029
	[0.025]	[0.028]
PPE_{t-1}	-0.492***	-1.091***
	[0.151]	[0.218]
$Profitability_{t-1}$	0.153	-0.609***
	[0.115]	[0.130]
$Board\ size_{t-1}$	-0.100	-0.048
	[0.110]	[0.144]
$\%INDEP_{t-1}$	0.912***	0.808***
	[0.169]	[0.225]
$Political\ director_{t-1}$	-0.071	-0.094
	[0.055]	[0.072]
$Female\ director_{t-1}$	0.041	-0.027
	[0.072]	[0.092]
$Cross\text{-}listing_{t-1}$	0.455***	0.001
	[0.062]	[0.001]
$Big4_{t-1}$	0.393***	0.203*
	[0.050]	[0.107]
$\#Analysts_{t-1}$	0.028**	-0.090***
	[0.011]	[0.015]
$Sales\ growth_{t-1}$	0.042***	0.086***
	[0.013]	[0.018]
SOE_{t-1}	0.164***	0.230***
	[0.023]	[0.029]
Constant	12.897***	19.082***
	[0.331]	[0.451]
Industry FE	YES	YES
Year FE	YES	YES
N	17894	11597
Adj. R-sq	0.311	0.348

Panel B: Testing the parallel-trends assumption

Dep. Var. = Tobin's *Q*	Before PSM	After PSM
	(1)	(2)
CSR* Connect (-3)	0.031	0.041
	[0.026]	[0.027]
CSR * Connect (-2)	-0.001	0.037
	[0.017]	[0.027]
CSR * Connect (-1)	0.018	0.049
	[0.016]	[0.037]
CSR * Connect (0)	0.126***	0.281***
	[0.030]	[0.046]
CSR * Connect (1)	0.058*	0.187***
	[0.033]	[0.050]
CSR * Connect (2)	0.003	0.124***
	[0.031]	[0.045]
CSR * Connect (3)	0.088**	0.133**
	[0.042]	[0.067]
CSR	0.111***	0.148***
	[0.013]	[0.016]
Connect	0.538***	0.524***
	[0.062]	[0.087]
Constant	0.420**	0.453**
	[0.197]	[0.217]
Industry FE	YES	YES
Year FE	YES	YES
N	17894	11597
Adj. R-sq	0.146	0.137

Table 5: Endogeneity check – 2SLS-IV

This table reports the regression results from using the 2SLS-IV method. In brackets are standard errors computed based on heteroskedasticity-consistent standard errors clustered at the firm level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See Appendix I for the definitions and descriptions of all variables.

Dep. Var. =	FIO_{t-1} First stage (1)	$CSR_{t-1} * FIO_{t-1}$ First stage (2)	Tobin's Q_t Second Stage (3)
IV_INDU_{t-1}	0.853***	0.220	
	[0.060]	[0.143]	
$CSR_{t-1} * IV\_INDU_{t-1}$	0.071***	1.132**	
	[0.019]	[0.066]	
$CSR_{t-1} *$ Predicted FIO_{t-1}			0.135*
			[0.082]
Predicted FIO_{t-1}			1.429***
			[0.318]
CSR_{t-1}	0.000	-0.008	0.044***
	[0.002]	[0.006]	[0.010]
IO_DOM_{t-1}	0.016***	0.036***	0.208***
	[0.003]	[0.006]	[0.015]
Firm $size_{t-1}$	0.029***	0.069***	-1.249***
	[0.006]	[0.015]	[0.034]
$Leverage_{t-1}$	0.011***	0.046***	0.030
	[0.003]	[0.009]	[0.070]
PPE_{t-1}	-0.063*	-0.248**	-0.467**
	[0.037]	[0.113]	[0.213]
$Profitability_{t-1}$	0.077***	0.320***	-0.084
	[0.017]	[0.049]	[0.288]
Board $size_{t-1}$	-0.015	-0.083	-0.268
	[0.023]	[0.058]	[0.131]
$\%INDEP_{t-1}$	0.000	-0.084	0.984***
	[0.039]	[0.095]	[0.198]
Political $director_{t-1}$	-0.044***	-0.094***	0.472***
	[0.012]	[0.030]	[0.060]
Female $director_{t-1}$	0.054***	0.055	0.384***
	[0.017]	[0.039]	[0.087]
Cross-$listing_{t-1}$	-0.029	-0.048	0.436***
	[0.019]	[0.051]	[0.058]
$Big4_{t-1}$	0.077***	0.229***	0.213***
	[0.017]	[0.047]	[0.050]
$\#Analysts_{t-1}$	0.045***	0.102***	-0.131***
	[0.002]	[0.006]	[0.017]
Sales $growth_{t-1}$	0.027	0.043***	0.009
	[0.005]	[0.013]	[0.019]
SOE_{t-1}	0.853***	0.220	0.065**
	[0.060]	[0.143]	[0.026]
Constant	-0.270***	-0.449**	11.459***
	[0.072]	[0.188]	[0.400]
Industry FE	YES	YES	YES
Year FE	YES	YES	YES
N	17894	17894	17894
Adj. R-sq	0.089	0.091	0.154
Kleibergen-Paap rk *F* statistic	233.81	116.03	

Table 6: The effect of FIIs on the CSR-value relation in different types of firms
This table reports the regression results from estimating an OLS model. *AD* is advertising expenditure divided by operating revenue. *FD* is the percentage of foreign directors on the board, defined as those who have foreign education or have worked abroad. In brackets are standard errors computed based on heteroskedasticity-consistent standard errors clustered at the firm level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See Appendix I for the definitions and descriptions of all variables.

Dep. Var. = Tobin's *Q*	Non-SOE	SOE	AD ≥ median	AD < median	FD ≥ median	FD < median
	(1)	(2)	(3)	(4)	(5)	(6)
CSR_{t-1} * FIO_{t-1}	0.096**	0.049	0.100***	0.054	0.070**	0.074
	[0.041]	[0.031]	[0.037]	[0.038]	[0.034]	[0.048]
CSR_{t-1}	0.02	0.059***	0.061***	0.034*	0.075***	0.018
	[0.020]	[0.018]	[0.020]	[0.018]	[0.022]	[0.015]
FIO_{t-1}	0.021	-0.040	-0.078	-0.03	-0.039	-0.036
	[0.093]	[0.085]	[0.088]	[0.087]	[0.085]	[0.090]
IO_DOM_{t-1}	0.179***	0.177***	0.209***	0.164***	0.195***	0.182***
	[0.018]	[0.058]	[0.023]	[0.024]	[0.025]	[0.021]
Firm $size_{t-1}$	-1.468***	-1.357***	-1.358***	-1.432***	-1.424***	-1.382***
	[0.071]	[0.090]	[0.074]	[0.076]	[0.071]	[0.075]
$Leverage_{t-1}$	0.117	-0.116	0.321***	-0.017	0.155**	0.032
	[0.086]	[0.123]	[0.117]	[0.083]	[0.074]	[0.116]
PPE_{t-1}	-0.952*	-0.111	-0.668	-0.327	-0.563	-0.402
	[0.505]	[0.295]	[0.408]	[0.344]	[0.408]	[0.353]
$Profitability_{t-1}$	0.551	-0.747*	0.707	-0.199	0.482	-0.097
	[0.365]	[0.451]	[0.486]	[0.362]	[0.403]	[0.373]
Board $size_{t-1}$	-0.500**	0.158	-0.227	-0.035	-0.01	-0.228
	[0.225]	[0.197]	[0.219]	[0.212]	[0.200]	[0.222]
$\%INDEP_{t-1}$	0.663*	1.341***	0.347	1.343***	0.831***	1.027***
	[0.342]	[0.340]	[0.298]	[0.365]	[0.307]	[0.349]
Political $director_{t-1}$	-0.104	-0.030	-0.109	0.032	-0.220**	0.058
	[0.100]	[0.108]	[0.094]	[0.110]	[0.102]	[0.098]
Female $director_{t-1}$	0.14	-0.08	-0.002	0.085	0.256	-0.089
	[0.144]	[0.222]	[0.146]	[0.188]	[0.177]	[0.150]
Cross-$listing_{t-1}$	0.339**	0.339***	0.385***	0.540***	0.442***	0.435***
	[0.156]	[0.107]	[0.148]	[0.104]	[0.109]	[0.100]
$Big4_{t-1}$	0.355***	0.257***	0.431***	0.299***	0.345***	0.404***
	[0.110]	[0.079]	[0.092]	[0.097]	[0.083]	[0.089]
$\#Analysts_{t-1}$	0.080***	0.139***	0.032	0.017	0.044**	-0.005
	[0.019]	[0.021]	[0.020]	[0.023]	[0.022]	[0.020]
Sales $growth_{t-1}$	0.040*	0.042	0.018	0.052**	0.041	0.043**
	[0.022]	[0.029]	[0.021]	[0.024]	[0.030]	[0.021]
SOE_{t-1}			0.106**	0.206***	0.197***	0.150***
			[0.049]	[0.059]	[0.058]	[0.047]
Constant	14.051***	13.991***	12.832***	13.003***	13.773***	12.561***
	[0.861]	[0.958]	[0.811]	[0.832]	[0.833]	[0.799]
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
N	10959	6935	8879	9015	8123	9771
Adj. R-sq	0.295	0.358	0.310	0.328	0.323	0.308
Coefficient equality test of CSR_{t-1} * FIO_{t-1} across the subsamples (*p*-value)		(0.085)		(0.013)		(0.002)

Table 7: CSR monitoring channel

This table reports the regression results from estimating an OLS model. In brackets are standard errors computed based on heteroskedasticity-consistent standard errors clustered at the firm level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See Appendix I for the definitions and descriptions of all variables.

Dep. Var. = Tobin's *Q*	FCF ≥ Median	FCF < Median	Excess pay ≥ Median	Excess pay < Median	Site visits ≥ Median	Site visits < Median
	(1)	(2)	(3)	(4)	(5)	(6)
CSR_{t-1} * FIO_{t-1}	0.080**	0.069	0.084***	-0.003	0.209***	0.092
	[0.033]	[0.046]	[0.026]	[0.054]	[0.072]	[0.100]
CSR_{t-1}	0.048***	0.039**	0.046***	0.03	0.069*	0.042
	[0.017]	[0.018]	[0.017]	[0.020]	[0.039]	[0.037]
FIO_{t-1}	-0.061	-0.037	-0.094	0.105	-0.272	-0.270
	[0.083]	[0.089]	[0.065]	[0.129]	[0.201]	[0.252]
IO_DOM_{t-1}	0.192***	0.184***	0.173***	0.184***	0.236***	0.222***
	[0.021]	[0.022]	[0.022]	[0.023]	[0.046]	[0.038]
Firm $size_{t-1}$	-1.299***	-1.473***	-1.079***	-1.771***	-0.936***	-1.136***
	[0.060]	[0.075]	[0.065]	[0.084]	[0.120]	[0.114]
$Leverage_{t-1}$	0.165*	-0.014	0.142	-0.035	-0.975***	-0.584***
	[0.100]	[0.122]	[0.132]	[0.096]	[0.242]	[0.218]
PPE_{t-1}	-0.220	-0.755*	-0.164	-0.966**	-1.296*	-0.644
	[0.265]	[0.450]	[0.337]	[0.420]	[0.702]	[0.679]
$Profitability_{t-1}$	1.489***	-0.616	1.643**	-0.403	3.729***	2.704***
	[0.502]	[0.375]	[0.648]	[0.322]	[0.952]	[0.702]
Board $size_{t-1}$	0.098	-0.325	-0.111	-0.04	-1.440**	-0.876*
	[0.168]	[0.226]	[0.143]	[0.266]	[0.637]	[0.458]
$\%INDEP_{t-1}$	0.652**	1.131***	0.564**	1.071***	-0.358	0.151
	[0.262]	[0.353]	[0.250]	[0.400]	[0.688]	[0.565]
Political $director_{t-1}$	-0.103	0.011	-0.118	-0.074	-0.090	0.049
	[0.084]	[0.105]	[0.086]	[0.113]	[0.215]	[0.156]
Female $director_{t-1}$	0.170	-0.089	0.100	-0.032	-0.531**	-0.249
	[0.136]	[0.172]	[0.156]	[0.160]	[0.256]	[0.250]
Cross-$listing_{t-1}$	0.351***	0.599***	0.307***	-0.032	0.132	0.001
	[0.092]	[0.118]	[0.088]	[0.145]	[0.178]	[0.162]
$Big4_{t-1}$	0.349***	0.383***	0.204***	0.605***	0.115	0.236
	[0.074]	[0.083]	[0.065]	[0.162]	[0.138]	[0.177]
$\#Analysts_{t-1}$	0.017	0.001	0.048**	-0.035	0.033	0.004
	[0.018]	[0.023]	[0.020]	[0.023]	[0.050]	[0.040]
Sales $growth_{t-1}$	0.005	0.075***	-0.003	0.073***	0.063	-0.045
	[0.019]	[0.028]	[0.022]	[0.025]	[0.065]	[0.031]
SOE_{t-1}	0.123***	0.201***	0.094**	0.219***	0.064	0.397***
	[0.042]	[0.052]	[0.044]	[0.058]	[0.097]	[0.098]
Constant	12.128***	13.568***	10.156***	16.484***	10.464***	9.358***
	[0.620]	[0.870]	[0.695]	[0.967]	[1.415]	[1.245]
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
N	9801	8093	9052	8842	1430	1745
Adj. R-sq	0.317	0.319	0.324	0.333	0.400	0.326
Coefficient equality test of CSR_{t-1} * FIO_{t-1} across the subsamples (*p*-value)		(0.021)		(0.009)		(0.052)

Table 8: CSR expertise and advising channel
This table reports the regression results from estimating an OLS model. In brackets are standard errors computed based on heteroskedasticity-consistent standard errors clustered at the firm level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See Appendix I for the definitions and descriptions of all variables.

Dep. Var. = Tobin's *Q*	(1)	(2)	(3)	(4)
CSR_{t-1} * FIO_LT_{t-1}	0.086***			
	[0.032]			
CSR_{t-1} * FIO_ST_{t-1}		0.082		
		[0.051]		
CSR_{t-1} * FIO_Scand_{t-1}			0.217**	
			[0.098]	
CSR_{t-1} * $FIO\_nonScand_{t-1}$				0.041
				[0.025]
FIO_LT_{t-1}	-0.101			
	[0.074]			
FIO_ST_{t-1}		0.076		
		[0.102]		
FIO_Scand_{t-1}			-0.083	
			[0.205]	
$FIO\_nonScand_{t-1}$				0.006
				[0.059]
CSR_{t-1}	0.047***	0.046**	0.050***	0.048***
	[0.014]	[0.023]	[0.014]	[0.014]
IO_DOM_{t-1}	0.183***	0.181***	0.187***	0.189***
	[0.017]	[0.017]	[0.017]	[0.017]
Firm $size_{t-1}$	-1.416***	-1.419***	-1.396***	-1.399***
	[0.057]	[0.057]	[0.057]	[0.056]
$Leverage_{t-1}$	0.079	0.077	0.094	0.094
	[0.078]	[0.078]	[0.077]	[0.077]
PPE_{t-1}	-0.48	-0.476	-0.499*	-0.504*
	[0.302]	[0.302]	[0.300]	[0.299]
$Profitability_{t-1}$	0.086	0.076	0.144	0.149
	[0.298]	[0.298]	[0.299]	[0.299]
Board $size_{t-1}$	-0.166	-0.159	-0.102	-0.103
	[0.158]	[0.157]	[0.158]	[0.159]
$\%INDEP_{t-1}$	1.119***	1.119***	0.896***	0.891***
	[0.252]	[0.251]	[0.253]	[0.253]
Political $director_{t-1}$	-0.086	-0.084	-0.066	-0.064
	[0.076]	[0.076]	[0.076]	[0.076]
Female $director_{t-1}$	0.060	0.052	0.044	0.039
	[0.122]	[0.122]	[0.123]	[0.123]
Cross-$listing_{t-1}$	0.345***	0.350***	0.430***	0.427***
	[0.090]	[0.090]	[0.091]	[0.091]
$Big4_{t-1}$	0.338***	0.335***	0.395***	0.383***
	[0.068]	[0.067]	[0.069]	[0.069]
$\#Analysts_{t-1}$	0.108***	0.102***	0.026	0.025
	[0.014]	[0.014]	[0.016]	[0.016]
Sales $growth_{t-1}$	0.041**	0.041**	0.041**	0.041**
	[0.017]	[0.017]	[0.018]	[0.018]
SOE_{t-1}	0.111***	0.109***	0.169***	0.165***
	[0.041]	[0.041]	[0.040]	[0.040]
Constant	12.628***	12.667***	12.921***	12.965***
	[0.632]	[0.632]	[0.639]	[0.638]

Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
N	17894	17894	17894	17894
Adj. R-sq	0.310	0.311	0.311	0.311

Table 9: Do FIIs affect the relation between CSR and corporate innovation?
This table reports the regression results from estimating an OLS model. In brackets are standard errors computed based on heteroskedasticity-consistent standard errors clustered at the firm level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See Appendix I for the definitions and descriptions of all variables.

Dep. Var. = Ln Invention Patents $_t$	(1)	(2)	(3)	(4) - baseline
CSR $_{t-1}$ * FIO $_{t-1}$			0.092**	0.092**
			[0.043]	[0.043]
CSR $_{t-1}$		0.063***	0.053***	0.052***
		[0.015]	[0.015]	[0.015]
FIO $_{t-1}$	0.160***		-0.031	-0.031
	[0.061]		[0.072]	[0.072]
IO_DOM $_{t-1}$	0.001	0.003		0.002
	[0.015]	[0.015]		[0.015]
Firm size $_{t-1}$	0.378***	0.357***	0.352***	0.351***
	[0.052]	[0.053]	[0.052]	[0.052]
Leverage $_{t-1}$	0.061**	0.061**	0.058**	0.058**
	[0.027]	[0.027]	[0.027]	[0.027]
PPE $_{t-1}$	0.428*	0.405	0.427*	0.427*
	[0.251]	[0.250]	[0.253]	[0.253]
Profitability $_{t-1}$	0.730***	0.669***	0.658***	0.658***
	[0.114]	[0.112]	[0.111]	[0.111]
Board size $_{t-1}$	0.392**	0.382**	0.389**	0.389**
	[0.180]	[0.179]	[0.179]	[0.179]
%INDEP $_{t-1}$	-0.277	-0.289	-0.289	-0.289
	[0.272]	[0.271]	[0.271]	[0.271]
Political director $_{t-1}$	0.051	0.052	0.06	0.06
	[0.083]	[0.082]	[0.082]	[0.082]
Female director $_{t-1}$	-0.313***	-0.302***	-0.309***	-0.309***
	[0.106]	[0.107]	[0.106]	[0.106]
Cross-listing $_{t-1}$	0.363*	0.349*	0.353*	0.354*
	[0.198]	[0.197]	[0.198]	[0.197]
Big4 $_{t-1}$	0.351**	0.356**	0.338**	0.339**
	[0.142]	[0.142]	[0.142]	[0.142]
#Analysts $_{t-1}$	0.209***	0.211***	0.204***	0.204***
	[0.016]	[0.016]	[0.015]	[0.016]
Sales growth $_{t-1}$	-0.066***	-0.067***	-0.065***	-0.066***
	[0.010]	[0.010]	[0.010]	[0.010]
SOE $_{t-1}$	-0.005	-0.006	-0.01	-0.01
	[0.046]	[0.046]	[0.046]	[0.046]
Constant	-3.989***	-3.745***	-3.704***	-3.703***
	[0.575]	[0.583]	[0.577]	[0.579]
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
N	17894	17894	17894	17894
Adj. R-sq	0.304	0.304	0.306	0.306