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When Responsibility Compensates for Ownership: Agency Theory, State Capitalism, and the Scale of Chinese OFDI

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ABSTRACT

This paper investigates how the ownership structures of Chinese enterprises shape their outward foreign direct investment (OFDI) outcomes, and whether corporate social responsibility (CSR) performance alters that relationship. Drawing on agency theory and a firm-level panel dataset of companies listed on China's Shenzhen and Shanghai Stock Exchanges covering 2008 to 2017, the study asks two related questions: does state ownership systematically disadvantage firms in international investment relative to their privately held counterparts, and does CSR performance function as a moderating force capable of offsetting whatever ownership-driven effects emerge? The empirical analysis indicates that state-owned enterprises (SOEs) tend to underperform private firms in OFDI, yet reveals that the degree of government intervention, whether a firm is controlled by the central government or by a provincial or municipal authority, does not itself produce a statistically distinguishable difference in OFDI outcomes within the SOE category. Crucially, the study finds that stronger CSR performance can partially offset the OFDI disadvantage associated with state ownership, but this moderating effect is not uniform across all SOEs: it operates specifically among locally governed SOEs, whose primary obstacle in foreign markets is a reputational deficit rather than the institutional pressure and risk aversion that constrain centrally governed counterparts.

KEYWORDS

Corporate social responsibility; Outward Foreign Direct Investment; ownership; state capitalism; agency theory

JEL

F21; F23; G32; L32; M14; F30

Introduction

With the advent and recent evolution of internationalization has come significant growth in outward foreign direct investment (OFDI) by emerging market firms, and this is now an important global phenomenon (Buckley et al. 2007; Kolstad and Wiig 2012; Tang et al. 2020; Wang et al. 2012). Within this phenomenon, China has emerged as the focal point of scholarly and policy debate, largely because of its distinctive pattern of strong state ownership among internationalizing firms (Christofi, Vrontis, and Makrides 2022; Hänle, Weil, and Cambré 2023; Kimiagari and Ghaffari 2023; Postma and Drogendijk 2026). Previously, mainstream thought in business studies suggested that firm-specific factors, such as the enterprise's particular ownership structure, size, and location constituted competitive advantages for firms when they engaged in OFDI activities (Buckley et al. 2007). However, the worldwide tendency toward deglobalization has amplified the effects of ownership structures on the OFDI activity of emerging market firms (Matveev and Mishura 2025). In particular, criticisms of OFDI activities by China's state-owned enterprises (SOEs) have substantially increased in recent years (Paul 2023; Rosefielde 2026; Woon and Sidaway 2025).

Against the backdrop of an increasingly well-mapped landscape of global OFDI activities (Panibratov and Klishevich 2023), these criticisms have mostly come from commentators with a fairly straightforward "cause and effect" mentality, who believe that firms' ownership structure and their OFDI engagement are closely entwined (Lu et al. 2014; Okhmatovskiy 2010). Thus, SOEs may enjoy various advantages, such as financial support, preferential treatment and backing in adverse circumstances (Cannizzaro and Weiner

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2018; Huang et al. 2017). At the same time, OFDI with heavy state ownership have generally shown poor post-OFDI performance (Liu and Manzoor 2020). However, many previous studies have claimed that there is an insignificant or even negative relationship between state ownership and a firm's OFDI engagement (Hu and Cui 2014; Y. Li and Rengifo 2018; Lu et al. 2014; Xia et al. 2014). That the evidence points in opposite directions is itself informative: it suggests the link between ownership structure and outward investment is contingent rather than direct.

Scholars have tried to address the inconsistency in their studies, often by taking a contingency perspective to investigate potential associations between ownership structure and a firm's OFDI performance (He, Eden, and Hitt 2016; Stone, Wang, and Yu 2022). Huang et al. (2017) suggested that institutional development and market competition moderate the relationships between SOEs and their OFDI performance. He, Eden, and Hitt (2016) found that shared governance with institutional investors moderates the link between SOEs and their OFDI performance. Aktaş, Gattai, and Natale (2024) find that in EU, the performance premia of OFDI are similar and positive regardless of whether the investment takes the form of a joint venture or a wholly owned enterprise. Boshnak (2025) discovered that government, institutional, insider and foreign ownership all positively affect both accounting and market-based performance measures in Saudi Arabia.

It is notable that, with this subject now garnering more attention from both business and scholars, studies concerning Corporate Social Responsibility (CSR) have begun to join the mainstream of International Business (IB) research (Kolk 2016; Kolk and van Tulder 2010; Zhao, Zhang, and Kwon 2018). For example, some studies extensively investigated the relationship between the CSR activities of businesses and their performance, and these have produced mixed results. Some empirical findings suggest the relationship is positive, since CSR enables firms to gain competitive advantage (Bernal-Conesa, de Nieves Nieto, and Juan Briones-Peñalver 2017; Farooq, Rupp, and Farooq 2017; Mishra and Modi 2016; Owusu et al. 2025). In contrast, others believe the relationship is negative, due to the associated financial cost (Di Giuli and Kostovetsky 2014; Ting and Yin 2018). Furthermore, consistent with the view expressed by Al-Shammari et al. (2022), recent studies have extended the scope of the CSR-related literature by taking into consideration moderating effects (Cheffi, Abdel-Maksoud, and Omer Farooq 2021; Ting and Yin 2018) and contingent effects (Mizik and Jacobson 2003) that may act upon the relationship between CSR and a firm's performance.

Nevertheless, the attention paid to the impact of CSR on enterprise OFDI engagement remains limited. Previous studies have tended to focus on the impact of institutions (Bailey 2007; Fortanier and van Wijk 2010; Wiig and Kolstad 2010), industry dynamics (Auger et al. 2010; Wiig and Kolstad 2010) and firm-specific resources (Feng et al. 2022; Pinkse, Kuss, and Hoffmann 2010) regarding the international business and CSR development of (primarily multinational) enterprises (Peng et al. 2016).

Currently, however, there is no explicit explanation of how, or indeed whether, the CSR performance of firms with different ownership structures may influence their OFDI engagement. Hence, it is helpful to extend the exploration of any association between CSR and OFDI, particularly if this involves perspectives new to this area that can extend the traditional views and approaches. To achieve this, and to fill this gap in the literature, this paper has introduced CSR as a moderator to explore the complex relationship between outward foreign direct investment (OFDI) and ownership structure of enterprises.

The extant literature shows that state-owned firms are highly motivated to participate in social responsibility activities, because social stability is generally what governments pursue (Lopatta, Jaeschke, and Chen 2017). Frequently subject to public monitoring, SOEs are expected to be sensitive to, and consciously act in accordance with, the public interest. This requires visibility, transparency and equality (Ghazali and Nazli 2007; Khan, Badrul Muttakin, and Siddiqui 2013). For all of these to occur successfully, managers within SOEs must make sure that sufficient and appropriate information is provided, to ensure that public expectations are fully satisfied.

In the context of China and other emerging economies, as referred to by Shahab and Ye (2018), the government is the protector of the country, and in that role has the responsibility and right to pass and implement legislation and policies. Since the Chinese SOEs are primarily owned by the government, they are expected to act as supportive pioneers implementing the laws and policies stipulated by the government. However, it is important to note that recognition of the transition made by some SOEs, from planned economic systems to the market-oriented economic model, is required when analyzing Chinese examples.

As L. Li et al. (2018) have pointed out, the results of different types of economic model highlight advantages of different types of ownerships. For example, some studies have found that enterprise performance in China is closely related to the degree of government intervention—this is referred to as “state capitalism” (L. Li et al. 2018; J. Zhang et al. 2024). In light of this, the current study considers the moderating effects of CSR on the link between SOEs, with varying degrees of government intervention, and their OFDI scale.

This study enriches the CSR literature theoretically and practically. First, it extends work on ownership structure and OFDI scale by introducing CSR as a moderator, and supplies explicit evidence that firms can build reputational capital through disclosure—a resource that inspires trust in foreign partners and, on our estimates, materially offsets the disadvantage of state ownership. Second, it disaggregates state ownership by degree of government intervention, comparing centrally and locally controlled SOEs, and thereby uses agency theory to address the inconsistent findings on ownership and internationalization reported in prior work.

China offers more than a convenient setting for this question: it provides an identification environment that a cross-country design cannot. Whether state ownership handicaps outward investment and whether legitimacy investments repair the handicap is confounded across countries by differences in institutions, disclosure infrastructures and home-country reputations. Within China, the degree of government intervention varies across central SOEs, local SOEs and private firms while these national factors are held fixed, so the state-capitalism gradient itself can be isolated (Cuervo-Cazurra et al. 2014; Musacchio, Lazzarini, and Aguilera 2015). The Chinese evidence therefore speaks to the broader emerging-markets question of how state-owned investors internationalize, not merely to the Chinese case.

The remainder of this paper proceeds as follows. In Theory and Hypothesis Development, this paper presents the theory framework and hypotheses development. Methodology discusses the methodology this paper employed, including sample setting, variables measurements and the empirical models. Results describes the empirical results with robustness check. Discussion presents the discussion, including theoretical and practical implications, limitations, and recommendations. Conclusion concludes the research.

Theory and Hypothesis Development

Agency Theory

Agency theory is concerned with issues that may appear in an agency relationship. According to Eisenhardt (1989), one of the primary agency problems occurs when managers’ goals conflict with the ambitions or interests of shareholders. This problem will induce a high level of agency conflict into a firm, and this may affect the shareholders’ investment interest (Fama and Jensen 1983; Shleifer and Vishny 1997). Barney (1991) argued that agency problems are heavily dependent upon the firm’s ownership structure. For instance, compared with SOEs, private firms are much more likely to encounter agency conflicts, due to their dispersed shareholders. Managers in private firms may be more likely to voluntarily disclose information, in order to mitigate agency problems and satisfy the demands of various shareholders (Barako, Hancock, and Izan 2006).

Firms that decide to involve themselves in OFDI activities can be seen as having made a strategic choice, since such involvement is not entirely driven by industry conditions and firm-specific factors (Barney 1991; Wang et al. 2012). Such decisions may be constrained by formal and informal agency problems that are embedded within a firm’s operation (Scott 1995). For instance, OFDI activities are usually high risk; some of the stakeholders in private firms may be risk seekers, whereas the rest may be risk averse. The agency conflicts caused by differing attitudes toward risk leads to high agency costs (Fama and Jensen 1983; Zaid, Abuhijleh, and Consuelo Pucheta-Martínez 2020). To mitigate these conflicts, managers tend to disclose more information and present themselves as acting in the best interests of the shareholders (Barako, Hancock, and Izan 2006). In contrast, SOE executives are politically appointed—therefore, agency problems can usually be efficiently dealt with (Zaid, Abuhijleh, and Consuelo Pucheta-Martínez 2020). The downside is that SOE managers’ decisions are more likely to be interventionist than those in non-SOEs, in the Chinese context. Thus, SOEs are highly motivated to pursue (even nonprofitable) targets associated with government policy, and only disclose additional information to satisfy public expectation (Adebayo and Ackers

2026; See 2009). The high level of CSR-led disclosure and nonprofitable works enable firms to alleviate their social and environmental behaviors, boost their reputation, and in turn, facilitate the firm's OFDI activities when interacting abroad. Within the agency framework, the causal relationship links ownership structure with a firm's CSR disclosure and its OFDI engagement. However, the current study argues that a firm's OFDI engagement can be determined by its ownership structure, and in particular, shows the moderating effect of corporate social responsibility performance on the OFDI engagement of SOEs.

State Ownership and OFDI Scale

Previous studies have extensively explored the effects of diverse controlling owners on firms' OFDI engagement, which vary due to their different interests (Hu and Cui 2014; Huang et al. 2017). Ramasamy, Yeung, and Laforet (2012) found that, compared with privately held firms, SOEs are more inclined to engage in resource-seeking OFDI, and they are more willing to invest in risky destinations. Among the incentives that drive SOEs to choose a distinctive OFDI strategy is the fact they receive both policy and financial support from the government. In the scenario of China, a few scholars have specified that support from the government includes but not limited to financial capital for the firm's overseas expansion, information regarding foreign markets, prior training to help managers understand international regulations, and more (Lv et al. 2026).

However, a study conducted by Huang et al. (2017) offered an alternative perspective in order to understand the relationship between state ownership and OFDI performance. The scholars claimed that, due to their heavy dependence on governments for vital resources, the competitive advantages of SOEs are more evident in domestic markets, and this may compromise their willingness to make risky investments overseas (Boubakri, Cosset, and Saffar 2013). Given the high risk embedded in OFDI activities, such risk aversion induces managers of SOEs to act conservatively with regard to OFDI activities. Prior studies have also found that, compared with private firms, SOEs tend to prioritize government demands rather than market needs, which may lead these firms to lack flexibility and efficiency in the global market (Child and Tse 2001; Lu et al. 2014). Also, the recipients of investment in foreign destinations may perceive SOEs to be political actors, rather than pure business entities, and this may impede such firms' outward expansion in practice (DeGhetto 2024; Globberman and Shapiro 2009).

Given the above, here the paper proposes the following hypothesis:

H1: State-controlled ownership is negatively related to firms' OFDI scale.

Moderating Effect of CSR Performance

The relationship between a firm's performance and the level of its CSR disclosure has been discussed in previous studies (Crifo, Diaye, and Pekovic 2016; Jang et al. 2019; Kang, Germann, and Grewal 2016). However, the results have been inconsistent and even offered contradictory evidence concerning the relationship. Brammer and Millington (2008) identify four possible shapes for the CSR-performance relationship: positive, negative, curvilinear, and none at all. However, despite the association between CSR and performance being well recognized, neither the CSR or the IB literature has paid much attention to the interaction of CSR and OFDI as part of a firm's overall performance. As shown by Zhao, Zhang, and Kwon (2018) and Kolk (2016), most of the CSR papers in IB research are related to diverse subjects such as cultural differences (Hofman and Newman 2014; Roy and Goll 2014), foreign market entry (Meyer et al. 2014), CSR in SMEs (Spence 2014), foreign investment decisions (Driffield, Jones, and Crotty 2013) and others. Very few studies have even mentioned that CSR might have a positive effect on the firm's OFDI decision and performance (Driffield, Jones, and Crotty 2013).

In fact, firms more specifically SOEs have particular requirements and responsibilities when they seek to invest abroad. As Sauviant and Nolan (2015) have pointed out, a firm's OFDI strategies have to be well planned, prepared and received, especially when the investment involves mergers, acquisitions and/or sensitive industries. Thus, a high level of CSR disclosure can help firms to build an image of trustworthiness and transparency that is highly valuable when they engage in OFDI activities. Once the OFDI has been

established, firms (especially SOEs) have to make extra effort to become “insiders” (Sauvant and Nolan 2015). This can be achieved by engaging in various CSR activities. Many SOEs have committed a certain percentage of their profits to CSR activities in their host countries. In the context of China, firms (especially SOEs) involved with OFDI activities usually commit to country-specific responsibilities such as support for the Group 77 (G77) and help with the development of less-developed states (Burnay and Li 2023). To ensure that both investors and host countries can benefit equally from the investment, it is necessary to maintain a high level of CSR disclosure (Sylvaire et al. 2022).

In fact, there are numerous types of Chinese firm (besides SOEs) that are actively engaged with OFDI activities, such as private firms and sole proprietorships. For many firms, CSR investment is a necessary step to forge and strengthen relationships with shareholders, who are ultimately the source of a firm’s financial profits (Bhattacharya, Korschun, and Sen 2009; Madden, McMillan, and Harris 2020). Thus, the reputational benefits accrued from CSR investment enable firms to tempt shareholders with socially beneficial investment and behaviors, and complete the investment cycle with higher financial performance and a better global reputation (Herremans, Akathaporn, and McInnes 1993). In such cases, the impact of CSR performance may have a more pronounced effect than ownership structure on the firm’s OFDI scale. Hence, this paper proposes a second hypothesis:

H2: The relationship between state ownership and a firm’s OFDI scale is moderated by its CSR performance.

State Capitalism and OFDI Scale

In the Chinese context, SOEs fall into two categories, which are SOEs controlled by the central government (referred to as “central SOEs”) and SOEs controlled by the local governments (referred to as “local SOEs”) (Chen, Firth, and Xu 2009).

What separates them is purpose. Central ownership is selective and policy-driven, concentrated in industries the state treats as strategic; local ownership is broad and pragmatic, reflecting provincial and municipal governments’ responsibility for jobs, tax revenue and regional economic performance (Chen, Firth, and Xu 2009). Consequently, different degrees of government intervention may be associated with different strategies and responsibilities of central and local governments. Consistent with the research of Huang et al. (2017), this paper here argues that in the current research setting, central SOEs may encounter a higher degree of government intervention than that of local SOEs.

Existing research has mainly focused on the advantages conveyed upon Chinese firms by state capitalism, especially in the areas related to financial performance. For instance, various studies suggest that a firm’s performance in China is closely associated with the feature of state capitalism in ownership structure and governance (Håpnes, Molden, and Kjærland 2026; Hu, Cui, and Aulakh 2019; J. Zhang, Zhou, and Ebbers 2011). Further, L. Li et al. (2018) claimed that due to differences in the percentage of state-owned shares, central SOEs outperformed SOEs controlled by local governments. In the studies relating to OFDI, the conclusions concerning local and central SOEs suggest inconsistent OFDI behaviors. Some studies suggest that the percentage of state-owned shares is negatively correlated with the SOE’s OFDI. Also, Huang et al. (2017) pointed out that among manufacturing firms, central SOEs are less likely to undertake OFDI activities than local SOEs. Another stream of studies suggests that SOEs with different degrees of government intervention may prefer different entry modes and paths in OFDI activities (Redding, Xie, and Tang 2018).

In China, the central government controls most critical resources, while local governments only control limited resources within their regions (Wang et al. 2012; J. Zhang et al. 2024). Thus, the central SOEs which are directly controlled by the central government can acquire more key resources in the domestic market. Due to the high risk embedded in overseas markets, it is rational for such firms to use their advantages at home, rather than expose their assets to risky foreign markets. In addition, central SOEs always face high institutional pressures when engaging with OFDI activities because they are perceived as representatives of the central government. In a sense, local SOEs which belong to provincial or municipal governments may be more motivated to enter foreign markets due to having less support from government and thus, reduced

institutional pressure. However, the disadvantage of this for local SOEs is that they have become associated with bureaucracy and inefficiency, along with lack of transparency and reliable accounting information. This image impedes the progress of local SOEs to foreign markets.

Given the advantages and disadvantages brought by different degrees of government intervention for SOEs, this paper here proposes a third hypothesis:

H3: There is no difference in OFDI between the SOEs with different degrees of government intervention.

The Moderating Effect of CSR on SOEs with Different State Capitalism

The relationship between a firm's ownership structure and its CSR performance has been widely discussed (Lopatta, Jaeschke, and Chen 2017; Wang et al. 2012; Zaid, Abuhijleh, and Consuelo Pucheta-Martínez 2020), and it is evident that differences in CSR exist between firms with different ownership structures. For instance, according to Zaid, Abuhijleh, and Consuelo Pucheta-Martínez (2020), there is a positive relationship between government ownership and CSR disclosure. Owners such as governments, institutions and foreign investors are motivated to exceed standard disclosure requirements as part of their strategic plans to systematically ensure environmental and social stability (Lopatta, Jaeschke, and Chen 2017; McWilliams and Siegel 2000).

In the setting of China, it is vital to take ownership types into consideration, due to the predominant position of SOEs (Ramasamy, Yeung, and Laforet 2012). From the agency theory perspective, agency problems can arise when shareholders' and senior managers' goals conflict; there are also issues associated with the expense of verifying the actions of senior managers (Eisenhardt 1989; Jensen and Meckling 1976). This is relevant for the Chinese context, since the politically appointed executives in central SOEs and local SOEs may have different managerial goals (Chukwuma et al. 2021; Fan, Wong, and Zhang 2007; L. Li et al. 2018) due to the different degrees of government intervention in their firms. Due to the political considerations of governments, central SOEs (with higher levels of government intervention) face higher institutional pressures than local SOEs (which have less intense intervention) when engaging in OFDI activities.

However, the focus of much existing literature falls upon the direct associations between CSR and companies' financial performances (SOEs), and there has not yet been extensive discussion of the moderating effect of CSR and the OFDI of SOEs with different degrees of government intervention. Contrasting with the OFDI of central SOEs, which is mainly hindered by a tendency toward risk avoidance and institutional pressures, the harm caused to the OFDI of local SOEs comes primarily from their poor public image, which can be repaired with helpful CSR activity. Hence, this paper proposes a fourth hypothesis:

H4: CSR performance positively moderates the OFDI scale of SOEs with a lower degree of government intervention.

Methodology

Sample and Setting

Since our goal is to examine the moderating effect of CSR in terms of a firm's ownership and OFDI scale, our sample comprises all the public firms listed on Shenzhen or Shanghai Stock Exchanges from 2008 to 2017. This paper collected firm-level information from the WIND Economic database and cross-checked the financial data with China Stock Market & Accounting Research (CSMAR) information. WIND and CSMAR are the leading financial databases of Chinese listed firms, and both are primary sources for accurate and complete data on Chinese stock markets including stocks, bonds, fund derivatives, indices and the macroeconomy (Jia 2020). Following prior research, this paper also obtained the CSR data from a database compiled by an independent rating agency (Runling, also known as RKS). This database is widely used to track firms' CSR activities (Luo, Wang, and Zhang 2017; Marquis and Qian 2014; Shahab

et al. 2020; Sun, Zhao, and Cho 2019). This paper then constructed a sample by matching the RKS data with other financial data this paper used. When this paper processed the original sample data, this paper deleted firms that (1) had never engaged in OFDI activities; (2) were missing key explanatory variables or had been delisted during the sample years; (3) were neither SOEs nor private firms. Based on this framework, this paper assembled a data set of 3203 firm-year observations, from 2008 to 2017, for this study. The window itself is dictated by the CSR measure at the core of the study. The year 2008 marks the effective beginning of China's CSR-disclosure infrastructure: the Shanghai and Shenzhen Stock Exchanges issued their CSR-disclosure guidelines in 2008, and the RKS rating series begins systematic, methodologically comparable coverage in that year; the RKS CSR-report rating provides such coverage through approximately 2018, after which RKS transitioned to a distinct ESG-rating methodology. The 2017 endpoint therefore preserves a fully matched panel measured with a single, consistent instrument, and keeps the sample within one coherent institutional regime that pre-dates the structural breaks of the post-2018 period including but not limited to the trade conflict, tightened investment screening, and the pandemic-era disruption to international trade and cross-market financial risk transmission (Aquino 2025; Narayan, Ping Chang, and Zhao 2024; Rizvi, Juhro, and Narayan 2021; Tan et al. 2022; P. Zhang, Yin, and Sha 2023).

Variable Measurements

Dependent Variable

OFDI refers to the equity-based investment outside of a focal firm's home country, typically reflected as the establishment of subsidiaries in foreign countries (Buckley et al. 2007; Håpnes, Molden, and Kjærland 2026; Y. A. Zhang, Yu, and Haiyang 2014). In the existing literature, a firm's OFDI scale can be quantified by their new foreign projects or the amount of total foreign investment by a firm in a given year (Huang et al. 2017; Wang et al. 2012). Additionally, there are various other measurements for OFDI, such as a firm's decision to invest in foreign destinations (Lu et al. 2014), the total number of investment projects in a particular foreign country (Ramasamy, Yeung, and Laforet 2012), and/or the number of new foreign subsidiaries established in each year (Huang et al. 2017; Xia et al. 2014). Following prior studies, this paper measures OFDI by the cumulative value (stock) of outward foreign direct investments made by firms (Elish 2022) and measured it with the logarithm of OFDI. All information about OFDI activities was obtained from CSMAR and cross-checked with the WIND database. Accordingly, our dependent variable, OFDI scale, is the natural logarithm of the cumulative value, in RMB, of a firm's outward foreign direct investments held in a given year; it measures the extent of a firm's outward investment, not the profitability or efficiency of that investment.

Independent Variables

The independent variables are ownership structure, CSR performance, and control variables.

Ownership Structure. Data on the ownership structure variable was extracted from annual reports of the sampled firms. Since this paper is mainly interested in exploring the difference between SOEs and private firms, this paper employed a set of dummy variables to measure the ownership structure (Luo, Wang, and Zhang 2017). For private firms, this paper set a dummy variable "private"; this was coded as 1 if the firm is privately held, and 0 otherwise. For SOEs, the dummy variable "SOEs" equaled 1 if the dominant shareholder of a firm was government (central or local) and its agencies, and 0 otherwise. In addition, to further our study by investigating the moderating effect of CSR on local and central SOE's OFDI scale separately, this paper employed dummy variable "central SOEs," which was 1 if the SOE was held by the central government, and 0 otherwise. The generation of dummy variable "local SOEs" follows the same route, in that it equals 1 if the SOE is held by local government, and 0 otherwise. All information about shareholders was obtained from the CSMAR database.

CSR Performance. This paper used CSR ratings from the RKS database to reflect the CSR performance of Chinese firms (Jia 2020; Luo, Wang, and Zhang 2017; Marquis and Qian 2014; Sun, Zhao, and Cho 2019). According to Marquis and Qian (2014), the rating system of the CSR report was created by RKS, based on the Global Reporting Initiative (3.0), which RKS adjusted to fit the Chinese context. The CSR rating ranges

from 0 to 100. This paper used the total scores of firms' CSR ratings to reflect their CSR performance more comprehensively. In addition to the overall rating, RKS publishes three sub-ratings—Macrocosm (the strategy and governance of a firm's CSR), Content (the substantive social and environmental content of disclosure), and Technique (reporting quality and credibility)—which constitute the finest disaggregation the instrument supports; we exploit them in Robustness Checks.

Control Variables. This paper controlled for additional factors to avoid model misspecification, and to capture other factors that may influence the OFDI scale of SOEs, and CSR performance. First, this paper controlled the firm size, measured by total assets and number of employees. This paper also controlled the firm age, measured by the existence period running from the year of founding to the observation year. Total assets and number of employees were log-transformed; firm age enters in years. Second, previous literature has shown that ROA and profit margins are the essential indicators of a firm's investment and growth capacity (Campbell 2007; Khan, Badrul Muttakin, and Siddiqui 2013); thus, this paper measured ROA as the ratio of total net return to total assets, and profit margin as the ratio of total operating return to total sales. Third, since an SOE's OFDI activities are always related to government interventions, it is evident that government aid is an important indicator that reflects the extent of government intervention in the SOE's OFDI activities. So, this paper also coded government aid in a logarithm transformation.

Additionally, this paper controlled financial leverage ratio, which is calculated as total liabilities over total assets; tangible assets (measured as the ratio of fixed assets to total assets); and intangible assets (calculated as intangible assets divided by total assets). This paper here also measured operating costs as the ratio of the total cost to total sales. Finally, industry, region and year dummies were included in all equations.

All the variables used in this paper are listed in Table 1.

Empirical Models

The following empirical models were used to examine the effect of ownership structure on OFDI and the moderating effect of CSR. To mitigate endogeneity, this paper combines lagged regressors, panel estimators with firm-specific effects, and dynamic generalized-method-of-moments (GMM) models; the identification strategy and its limits are set out in Identification and Inference.

Mathematically, the basic regression equation was modeled as follows:

$$OFDI_{it} = \alpha + \beta SOE_{it-1} + \gamma CSR_{it-1} + \delta SOE_{it-1} \times CSR_{it-1} + \Phi Controls_{it-1} + \sum Industry + \sum Region + \sum Year + \mu_i + \varepsilon_{it} \quad (1)$$

Where the interaction between the ownership structure and CSR performance is shown in Model (1), that is, $SOEs \times CSR$; i represents firm, t represents time dimension (year); δ measures the moderating effect

Table 1. Variables and their definitions.

Variables	Definitions
Dependent Variable	
<i>lofdi</i>	the cumulative value (stock) of OFDI made by the firm, in logarithm form
Independent Variables	
<i>SOEs</i>	state-owned enterprises; a dummy variable equal to 1 if the firm was government (central or local) dominated, and 0 otherwise
<i>CSR</i>	total score of CSR ratings from the RKS database
Control Variables	
<i>lsize</i>	total assets, in logarithm form
<i>lev</i>	total liabilities over total assets
<i>TangAssets</i>	ratio of fixed assets to total assets
<i>IntaAssets</i>	intangible assets divided by total assets
<i>OpeCosts</i>	ratio of total cost to total sales
<i>Profitability</i>	ratio of total operating return to total sales
<i>Roa</i>	ratio of total net return to total assets
<i>lem</i>	number of employees, in logarithm form
<i>age</i>	existence period of each firm, in years
<i>lgvnaid</i>	government aid, in logarithm form

Notes: The sample comprises 3,203 firm-year observations of firms listed on the Shanghai and Shenzhen Stock Exchanges, 2008–2017. Dataset composition is described in Sample and Setting and estimation methods in Empirical Models and Identification and Inference.

of CSR on the association between SOEs and the OFDI scale, while β indicates the direct effect on the OFDI scale of SOEs. α is the constant, and ϕ is the regression coefficient. μ_i is the firm-specific effect, which controls the firm-specific characteristics and ε_{it} is the stochastic error term. And all the explanatory variables take lag forms because OFDI is usually considered as a prior investment decision (Richardson 2006).

This paper adopted two different approaches in order to estimate the moderating effect of CSR on the OFDI scale of SOEs. The first approach comprised static panel data, which is used to estimate random-effects model employed the FE model as shown in Equation (1). The second approach uses dynamic panel data, estimated with the Arellano–Bond difference GMM estimator. We initially considered the Blundell–Bond system GMM estimator, but its additional level-equation moment conditions are rejected by the Hansen test in our data ($p < .01$), whereas the difference-GMM instruments pass the full diagnostic battery; we therefore report difference GMM. Arellano–Bond AR tests are computed from the one-step estimator with robust standard errors and the Sargan test from the two-step estimator, and the instrument lag depth is restricted to avoid instrument proliferation. Because the model is estimated in first differences, time-invariant region and industry effects are eliminated by differencing, and year effects are retained. To test the dynamic effects, this paper included a lagged dependent variable into the regression model, to deal with the impact brought by the past period of OFDI on the present period. The dynamic panel data model is presented as follows:

$$OFDI_{it} = \alpha + \rho OFDI_{it-1} + \beta SOE_{it-1} + \gamma CSR_{it-1} + \delta SOE_{it-1} \times CSR_{it-1} + \Phi Controls_{it-1} + \sum Industry + \sum Region + \sum Year + \mu_i + \varepsilon_{it} \quad (2)$$

Where $OFDI_{it-1}$ is the lagged value of the dependent variable; μ_i represents unobservable firm heterogeneity, ε is the idiosyncratic error term, and the subscripts i and t indicate firm and year, respectively.

In addition, this paper employed the random-effects model to further explore how CSR moderates the OFDI scale of central SOEs and local SOEs; it is presented as follows:

$$OFDI_{it} = \alpha + \beta_1 CentralSOE_{it-1} + \beta_2 LocalSOE_{it-1} + \gamma CSR_{it-1} + \delta_1 CentralSOE_{it-1} \times CSR_{it-1} + \delta_2 LocalSOE_{it-1} \times CSR_{it-1} + \Phi Controls_{it-1} + \sum Industry + \sum Region + \sum Year + \mu_i + \varepsilon_{it} \quad (3)$$

Where the interaction between two dimensions of SOEs and CSR is shown in Equation (3), that is, (*Central SOEs* $\times$ *CSR*) and (*Local SOEs* $\times$ *CSR*); i represents firm, t represents time dimension (year). δ_1 and δ_2 measure the moderating effect of CSR on the OFDI scale of Central SOEs and local SOEs, while β_1 and β_2 are the direct effect on the OFDI scale of Central SOEs and local SOEs, respectively. α is the constant, and ϕ are the regression coefficients, and μ_i and ε_{it} are the firm-specific effect and stochastic error term, respectively. All the above three equations take private enterprises as the base group.

Identification and Inference

Because ownership status is nearly time-invariant—only 9 of 668 firms (1.3%) change SOE/private status within the sample window—the ownership main effects cannot be identified within a firm fixed-effects estimator; they are identified from between-firm variation and estimated by random effects and dynamic GMM. The random-effects specification is supported by a Hausman test, which does not reject the orthogonality assumption ($\chi^2(89) = 101.90$, $p = .165$). Under firm fixed effects, the time-invariant region and industry indicators are perfectly collinear with the firm effects and are absorbed; region, industry and year indicators operate in the random-effects columns. The CSR interaction, by contrast, retains within-firm variation (about 21% of the variance of CSR is within firm), and its point estimate is positive across all estimators (random effects 0.023; correlated-random-effects/Mundlak 0.019; dynamic GMM 0.012; within-firm fixed effects 0.013), with the estimators suited to this data structure statistically significant.

Standard errors in Tables 4–7 are conventional random-effects standard errors. Because firm-level serial correlation could understate them, the benchmark specification is re-estimated with standard errors

clustered at the firm level (557 clusters; Table 8, column 4: interaction $\delta = 0.023$, $p = .038$) and at the province level (31 clusters; $\delta = 0.0227$, $p = .058$; Appendix Table A1) (Cameron and Miller 2015; Petersen 2009); the moderating effect remains significant at conventional levels.

These devices, including the one-year lag on every explanatory variable, firm effects with industry, region and year indicators, internally instrumented dynamic models with a full diagnostic battery, and a correlated-random-effects (Mundlak) check that allows correlation between the firm effects and the covariates (interaction 0.019, $p = .073$, close to the baseline 0.023, see Appendix Table A2)—address simultaneity and time-invariant omitted factors. They cannot rule out time-varying unobservables correlated with both CSR and OFDI, and we therefore interpret the estimates as robust conditional associations; exogenous variation from China's staggered mandatory CSR-disclosure requirements is a promising external instrument for future work.

Results

Main Findings

Table 2 presents descriptive statistics for the variables of interest and the control variables used in this study. Among the final sample of firms, 70.24% of those observed had state-controlled ownership. Within the SOEs, 38.4% of observations had central government-controlled ownership, another 61.6% had local governments as their controlling shareholders. Table 3 shows the correlation matrix. Two-tailed tests of significance were used, and to avoid potential multicollinearity between variables, this paper computed variance inflation factors from auxiliary regressions of each explanatory variable on all others; the VIFs range from 1.05 to 4.05, below even the conservative threshold of 5 and well below the conventional cutoff of 10 (Ryan, O'Malley, and O'Dwyer 2010), indicating multicollinearity is not a major concern. Table 4 presents the empirical results from static models and dynamic models. For the static panel data, this paper reports findings from six random-effects models. Model 1 contains only the variable SOEs, to test the effects of ownership structure on OFDI. Model 2 additionally takes the impact of CSR into consideration. Model 3 examines the moderating effects of CSR. Models 4 and 5 examine the ownership structure and CSR with control variables separately. Model 6 includes all the independent variables, interactions among CSR and SOEs, and all of the control variables. The static columns are estimated by random effects with region, industry and year indicators, and the dynamic columns by difference GMM with year effects; identification of the ownership and interaction coefficients is discussed in Identification and Inference.

Meanwhile, considering the investment inertia and the potential endogeneity bias, this paper ran GMM estimations as an alternative approach by using dynamic panel data. According to Wooldridge (2020), the dynamic GMM panel estimation achieves superiority in terms of consistency in the presence of endogeneity by including lagged values of the prior OFDI scale. Thus, this paper included one lag in our dynamic models to capture the dynamic endogeneity of the ownership structure–OFDI relation. Model 7 contains lagged OFDI

Table 2. Descriptive statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>lofdi</i>	3203	19.987	2.456	8.319	29.037
<i>SOEs</i>	3203	0.702	0.457	0	1
<i>CSR</i>	3203	40.04	12.75	15.12	87.95
<i>lsize</i>	3203	23.316	1.512	19.198	28.623
<i>lev</i>	3203	0.514	0.202	0.016	1.343
<i>TangAssets</i>	3203	0.236	0.187	0	0.876
<i>IntaAssets</i>	3203	0.048	0.072	0	0.787
<i>OpeCosts</i>	3203	0.932	0.164	0.214	2.947
<i>Profitability</i>	3203	0.117	0.222	−1.315	3.565
<i>Roa</i>	3203	0.043	0.142	−0.683	7.445
<i>lem</i>	3203	8.536	1.418	3.09	13.207
<i>age</i>	3203	16.965	5.473	1	50
<i>lgvnaid</i>	3203	16.923	1.982	7.783	24.642

Notes: The sample comprises 3,203 firm-year observations of firms listed on the Shanghai and Shenzhen Stock Exchanges, 2008–2017. Dataset composition is described in Sample and Setting, variable definitions in Table 1, and estimation methods in Empirical Models and Identification and Inference. Ratio variables (*lev*, *TangAssets*, *IntaAssets*, *OpeCosts*, and *Profitability*) are reported here as decimal fractions and enter the regressions in percentage points ($\times 100$); *Roa* enters the regressions in decimal form.

Table 3. Correlation matrix.

	VIF	lofdi	SOEs	CSR	lsize	lev	TangAssets	IntaAssets	OpeCosts	Profitability	Roa	lem	age	lgyndaid
lofdi	—	1												
SOEs	1.16	-0.005	1											
CSR	1.40	0.268***	0.139***	1										
lsize	4.05	0.433***	0.311***	0.493***	1									
lev	1.85	0.048**	0.232***	0.153***	0.549***	1								
TangAssets	1.15	-0.150***	0.163***	0.068***	0.036*	0.038*	1							
IntaAssets	1.05	-0.056**	0.040*	0.064***	0.006	-0.061***	0.032	1						
OpeCosts	1.51	-0.092***	0.026	-0.036*	-0.031	0.276***	0.112***	-0.101***	1					
Profitability	1.76	0.227***	-0.024	0.010	0.092	-0.221***	-0.225***	0.009	-0.538***	1				
Roa	1.06	0.015	-0.062***	-0.013	-0.086***	-0.171***	-0.079***	-0.001	-0.133***	0.127***	1			
lem	2.74	0.217***	0.207***	0.428***	0.697***	0.331***	0.194***	0.073***	0.103***	-0.197***	-0.025	1		
age	1.08	0.128***	-0.018	0.046**	-0.021	-0.005	-0.122***	-0.009	0.020	0.100***	-0.003	-0.179***	1	
lgyndaid	1.66	0.208***	0.109***	0.320***	0.539***	0.247***	0.181***	-0.063***	0.065***	-0.118***	-0.028	0.569***	-0.104***	1

Notes: Significance: * $p < .05$, ** $p < .01$, *** $p < .001$. SOEs is the state-ownership dummy (1 = SOE, 0 = private); correlations therefore carry the dummy's sign convention. VIFs are computed from a regression of each explanatory variable on all other explanatory variables in this table (dependent variable excluded); all VIFs are below 5. The sample comprises 3,203 firm-year observations of firms listed on the Shanghai and Shenzhen Stock Exchanges, 2008–2017. Dataset composition is described in Sample and Setting, variable definitions in Table 1, and estimation methods in Empirical Models and Identification and Inference.

Table 4. Empirical findings from random-effects estimations and difference GMM estimations.

OFDI	Static Panel						Dynamic Panel		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>L.lofdi</i>							0.394*** (0.0585)	0.394*** (0.0585)	0.405*** (0.0593)
SOEs	−2.360*** (0.642)	−0.446** (0.197)	−1.108*** (0.406)	−2.596*** (0.641)	−0.742*** (0.189)	−1.584*** (0.395)	−1.416* (0.778)	−1.407* (0.779)	−1.461* (0.784)
CSR		0.0110** (0.00456)	−0.00333 (0.00896)		0.00248 (0.00455)	−0.0157 (0.0877)		−0.00167 (0.00668)	−0.00157 (0.00656)
SOEs × CSR			0.0180* (0.00963)			0.0227** (0.00936)			0.0115* (0.00674)
<i>lsize</i>				0.363*** (0.128)	0.617*** (0.0814)	0.624*** (0.0813)	−0.00318 (0.166)	−0.00265 (0.166)	−0.0126 (0.167)
<i>lev</i>				−0.0135*** (0.00428)	−0.0192*** (0.00350)	−0.0195*** (0.00350)	−0.00415 (0.00539)	−0.00413 (0.00540)	−0.00386 (0.00542)
<i>TangAssets</i>				−0.00823* (0.00482)	−0.0106*** (0.00390)	−0.0103*** (0.00389)	0.00281 (0.00594)	0.00280 (0.00594)	0.00292 (0.00597)
<i>IntaAssets</i>				−0.0156 (0.0113)	−0.00726 (0.00856)	−0.00774 (0.00855)	0.0180 (0.0142)	0.0181 (0.0142)	0.0184 (0.0143)
<i>OpeCosts</i>				0.00102 (0.00446)	0.00357 (0.00373)	0.00383 (0.00373)	−0.00273 (0.00525)	−0.00272 (0.00525)	−0.00271 (0.00527)
Profitability				0.00751*** (0.00267)	0.00670*** (0.00247)	0.00671*** (0.00247)	−0.00774** (0.00380)	−0.00772** (0.00380)	−0.00806** (0.00382)
Roa				−1.549 (1.099)	−0.775 (1.028)	−0.761 (1.027)	0.757 (1.216)	0.766 (1.216)	0.901 (1.224)
<i>lem</i>				0.154** (0.0732)	0.0922 (0.0595)	0.0950 (0.0595)	0.00105 (0.0959)	0.000561 (0.0959)	−0.00522 (0.0963)
<i>age</i>				0.0771*** (0.0295)	−0.0142 (0.0163)	−0.0148 (0.0163)	1.140*** (0.289)	0.950*** (0.292)	1.015*** (0.296)
<i>lgyvnaid</i>				−0.00624 (0.0313)	0.000433 (0.0287)	−0.00162 (0.0286)	−0.0128 (0.0346)	−0.0130 (0.0346)	−0.0131 (0.0347)
Constant	22.69*** (1.375)	18.53*** (1.534)	19.15*** (1.566)	13.60*** (2.917)	5.818*** (2.043)	6.481*** (2.057)	0 (6.707)	0 (6.707)	4.880 (6.707)
Region	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,431	2,431	2,431	2,431	2,431	2,431	1,844	1,844	1,844
Individuals	557	557	557	557	557	557	456	456	456
R-squared	0.2046	0.1829	0.1831	0.2225	0.1996	0.2004	0.2863	0.3829	0.3873

Notes: Standard errors in parentheses. * $p < .1$; ** $p < .05$; *** $p < .01$. Columns (1)–(6) are random-effects estimations with region, industry and year indicators; columns (7)–(9) are one-step Arellano–Bond difference GMM estimations with year indicators (region and industry effects are eliminated by differencing). Private firms are the base group. The sample comprises 3,203 firm-year observations of firms listed on the Shanghai and Shenzhen Stock Exchanges, 2008–2017. Dataset composition is described in Sample and Setting, variable definitions in Table 1, and estimation methods in Empirical Models and Identification and Inference.

and the ownership structure variable to test the effects of SOEs on OFDI. Model 8 adds the CSR variable. Model 9 examines the moderating effects of CSR, with all the independent variables and control variables.

H1 predicted that state-controlled ownership is negatively associated with a firm's OFDI scale. The results in both static models and dynamic models reveal a negative and significant coefficient of SOEs on their OFDI scale (Model 5: $\beta = -0.742$, $p < .01$; Model 8: $\beta = -1.407$, $p < .1$), indicating that, compared with private firms, state-owned firms have a lower level of OFDI. Thus, H1 is supported.

H2 argued that CSR performance moderates the relationship between SOEs and their OFDI. In Model 6, the coefficient of the interaction between CSR and SOEs is positive and significant (Model 6: $\delta = 0.0227$, $p < .05$). The coefficient of the interaction term in dynamic models also explicitly illustrated the moderating effect of CSR (Model 9: $\delta = 0.0115$, $p < .1$).

In the static specification, the state-ownership coefficient falls from -2.596 without the interaction (Model 4, $p < .01$) to -1.584 once the interaction is included (Model 6, $p < .01$), where the latter is the association evaluated at a CSR rating of zero. The dynamic panel models reproduce this pattern. Because state ownership carries a negative coefficient, a positive interaction means the ownership penalty shrinks as CSR performance rises. H2 is therefore supported. In economic terms, a ten-point increase in the RKS rating narrows the state-ownership penalty by 0.227 log points, which is 14.3% of the gross penalty, equivalent to a 25.5% larger OFDI scale. At the sample mean of CSR (40.0), the net SOE effect is -0.675 log points, i.e. roughly 49% smaller OFDI scale than comparable private firms, against a gross penalty of approximately 79% at a rating of zero. Full neutralization requires a rating of 69.8 (delta-method 95% CI

Table 5. Random-effects regressions on the moderating effect of CSR on OFDI among central SOEs and local SOEs.

	Full sample—SOEs and private firms				Subsample—central SOEs and local SOEs			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Central SOEs</i>	−3.503*** (0.798)	−2.581*** (0.796)	−2.479*** (0.907)	−2.872*** (0.908)				
<i>Local SOEs</i>	−2.360*** (0.643)	−2.596*** (0.641)	−3.096*** (0.764)	−3.370*** (0.765)	0.508 (0.600)	0.346 (0.402)	−0.691 (0.617)	−0.404 (0.716)
<i>CSR</i>			−0.00445 (0.0107)	−0.00923 (0.0107)			−0.00675 (0.00787)	−0.00400 (0.00785)
<i>Central SOEs × CSR</i>			−0.000683 (0.0123)	0.00804 (0.0124)				
<i>Local SOEs × CSR</i>			0.0202* (0.0122)	0.0217* (0.0121)			0.0242** (0.00984)	0.0179* (0.00993)
<i>lsize</i>		0.363*** (0.128)		0.362*** (0.129)		0.238 (0.163)		0.200 (0.164)
<i>lev</i>		−0.0136*** (0.00428)		−0.0137*** (0.00429)		−0.0160*** (0.00526)		−0.0157*** (0.00527)
<i>TangAssets</i>		−0.00823* (0.00483)		−0.00757 (0.00483)		−0.00733 (0.00554)		−0.00660 (0.00555)
<i>IntaAssets</i>		−0.0156 (0.0113)		−0.0157 (0.0114)		−0.0133 (0.0130)		−0.0126 (0.0130)
<i>OpeCosts</i>		0.00102 (0.00446)		0.00282 (0.00446)		−0.00148 (0.00558)		−0.00187 (0.00558)
<i>Profitability</i>		0.00751*** (0.00267)		0.00731*** (0.00267)		0.00833*** (0.00301)		0.00814*** (0.00301)
<i>Roa</i>		−1.552 (1.104)		−1.551 (1.104)		−1.967 (1.374)		−1.964 (1.374)
<i>lem</i>		0.154** (0.0733)		0.151** (0.0733)		0.191* (0.0974)		0.177* (0.0976)
<i>age</i>		0.0771*** (0.0296)		0.0722** (0.0312)		0.113*** (0.0348)		0.109*** (0.0369)
<i>Igvnaid</i>		−0.00619 (0.0313)		−0.00982 (0.0314)		0.0219 (0.0371)		0.0194 (0.0372)
<i>Constant</i>	22.75*** (1.388)	13.59*** (2.940)	22.97*** (1.413)	14.10*** (2.961)	19.32*** (0.486)	11.81*** (3.444)	19.66*** (0.545)	13.12*** (3.507)
<i>Region</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Industry</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	2,431	2,431	2,431	2,431	1,756	1,756	1,756	1,756
<i>Individuals</i>	557	557	557	557	365	365	365	365
<i>R-squared</i>	0.205	0.223	0.207	0.224	0.193	0.213	0.197	0.215

Notes: Standard errors in parentheses. * $p < .1$; ** $p < .05$; *** $p < .01$. Private firms are the base group in the full-sample analyses (columns 1–4); central SOEs are the base group in the subsample analyses (columns 5–8). All models include region, industry and year indicators. The sample comprises 3,203 firm-year observations of firms listed on the Shanghai and Shenzhen Stock Exchanges, 2008–2017. Dataset composition is described in Sample and Setting, variable definitions in Table 1, and estimation methods in Empirical Models and Identification and Inference.

[31.4, 108.1]), attained by only 99 SOE firm-year observations (about the 96th percentile), so CSR mitigates rather than eliminates the ownership disadvantage; Figure 1 plots the marginal effect of state ownership across the CSR range, whose confidence band crosses zero at a rating of about 70 (the industry composition of the observations reaching this threshold is reported in Appendix Table A3). In the dynamic specification, the long-run multiplier $1/(1-\rho) = 1.68$ raises the ten-point offset to 0.193 log points.

Additional Analyses

To further explore the relationship between state capitalism and OFDI as this paper hypothesized in H3 and H4, this paper examined both the main effects of government intervention, and the moderating effect of CSR on OFDI among private firms, central SOEs and local SOEs. This paper also constructs a subsample, which contained central SOEs and local SOEs only. To do this, this paper followed the approach described by Liang, Ren, and Li Sun (2015). Then, this paper tested the moderating effect of CSR on the OFDI of SOEs in the full sample and subsample, using random-effects panel regressions with the same dependent and control variables. To address our hypotheses, this paper employed four random-effects models with full sample and subsamples separately. Table 5 presents the results.

This paper hypothesized (in H3) that there is no significant difference between the OFDI scale of SOEs with different degrees of government intervention. Across Models 1 to 4, both ownership coefficients are negative and

Table 6. Robustness test: random-effects estimations and difference GMM estimations with CSR in logarithm form.

OFDI	Static Panel						Dynamic Panel		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>L.lofdi</i>							0.394*** (0.0585)	0.394*** (0.0586)	0.401*** (0.0591)
SOEs	−2.360*** (0.642)	−0.441** (0.198)	−2.619** (1.276)	−2.596*** (0.641)	−0.740*** (0.189)	−3.426*** (1.246)	−1.416* (0.778)	−1.409* (0.780)	−1.463* (0.784)
<i>ICSR</i>		0.372** (0.183)	−0.0792 (0.320)		0.0450 (0.182)	−0.515 (0.314)		−0.0461 (0.253)	−0.0160 (0.250)
SOEs × <i>ICSR</i>			0.609* (0.352)			0.750** (0.344)			0.235 (0.172)
<i>Isize</i>				0.363*** (0.128)	0.621*** (0.0814)	0.626*** (0.0812)	−0.00318 (0.166)	−0.00331 (0.166)	−0.00415 (0.166)
<i>lev</i>				−0.0135*** (0.00428)	−0.0192*** (0.00350)	−0.0195*** (0.00350)	−0.00415 (0.00539)	−0.00412 (0.00540)	−0.00365 (0.00543)
<i>TangAssets</i>				−0.00823* (0.00482)	−0.0106*** (0.00390)	−0.0104*** (0.00390)	0.00281 (0.00594)	0.00281 (0.00594)	0.00290 (0.00596)
<i>IntaAssets</i>				−0.0156 (0.0113)	−0.00718 (0.00856)	−0.00767 (0.00855)	0.0180 (0.0142)	0.0181 (0.0142)	0.0182 (0.0142)
<i>OpeCosts</i>				0.00102 (0.00446)	0.00354 (0.00373)	0.00371 (0.00373)	−0.00273 (0.00525)	−0.00272 (0.00525)	−0.00272 (0.00526)
Profitability				0.00751*** (0.00267)	0.00669*** (0.00247)	0.00670*** (0.00247)	−0.00774** (0.00380)	−0.00772** (0.00380)	−0.00805** (0.00382)
<i>Roa</i>				−1.549 (1.099)	−0.776 (1.028)	−0.782 (1.028)	0.757 (1.216)	0.763 (1.216)	0.884 (1.224)
<i>lem</i>				0.154** (0.0732)	0.0924 (0.0595)	0.0949 (0.0595)	0.00105 (0.0959)	0.000671 (0.0959)	−0.0121 (0.0962)
<i>age</i>				0.0771*** (0.0295)	−0.0141 (0.0163)	−0.0144 (0.0162)	1.140*** (0.289)	0.679*** (0.201)	0.596*** (0.201)
<i>Igvnaid</i>				−0.00624 (0.0313)	0.00119 (0.0286)	−0.00122 (0.0286)	−0.0128 (0.0346)	−0.0130 (0.0346)	−0.0126 (0.0347)
Constant	22.69*** (1.375)	17.58*** (1.642)	19.29*** (1.915)	13.60*** (2.917)	5.643*** (2.062)	7.680*** (2.262)	0 (0)	0 (0)	0 (0)
Region	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,431	2,431	2,431	2,431	2,431	2,431	1,844	1,844	1,844
Individuals	557	557	557	557	557	557	456	456	456
R-squared	0.2046	0.1831	0.1827	0.2225	0.1995	0.1997	0.2863	0.3829	0.3874

Notes: Standard errors in parentheses. * $p < .1$; ** $p < .05$; *** $p < .01$. Columns (1)–(6) are random-effects estimations with region, industry and year indicators; columns (7)–(9) are one-step Arellano–Bond difference GMM estimations with year indicators (region and industry effects are eliminated by differencing). Private firms are the base group. *ICSR* is the natural logarithm of the RKS composite CSR rating. The sample comprises 3,203 firm-year observations of firms listed on the Shanghai and Shenzhen Stock Exchanges, 2008–2017. Dataset composition is described in Sample and Setting, variable definitions in Table 1, and estimation methods in Empirical Models and Identification and Inference.

significant against the private-firm base (Model 2: $\beta_1 = -2.581$ for central SOEs, $\beta_2 = -2.596$ for local SOEs, both $p < .01$), indicating lower OFDI scale for state-owned firms of either type. This indicated that, compared with private firms, both central SOEs and local SOEs have a lower level of OFDI. However, the results among Models 5–8 reveal non-significant coefficients of the local SOEs on OFDI (Model 6: $\beta_2 = 0.346$, $p > .1$); these models consider SOEs only and take central SOEs as base group. The non-significant results indicate that SOEs with different degrees of government intervention do not differ in their OFDI. In other words, the degree of government intervention does not affect an SOE's OFDI scale. This finding highlights the importance of this study, being inconsistent with the conclusions of prior studies (Huang et al. 2017; Redding, Xie, and Tang 2018), in that the association between the degree of government intervention and OFDI performance is unclear. It could be driven by the fact that the adverse effects brought by risk avoidance of central SOEs and the bad image of local SOEs are comparable on OFDI. Thus, H3 is supported.

In H4, this paper proposed that CSR positively moderates the relationship between SOEs with a lower degree of government intervention and their OFDI. Our results reveal that the interaction between CSR and local SOEs is positively significant (Model 4: $\delta_2 = 0.0217$, $p < .1$), whereas the central-SOE interaction is small and insignificant ($\delta_1 = 0.00804$); the local interaction remains positive in the SOE-only subsample (Model 8: $\delta_2 = 0.0179$, $p < .1$). It illustrates CSR can alleviate the poor image of SOEs when they engage with OFDI activities; hence, H4 is supported. In magnitude terms, a ten-point increase in the RKS rating buys back 6.4% of the (larger) local-SOE penalty, with full offset lying beyond the observed CSR range; for central SOEs the interaction is small and insignificant.

Table 7. Robustness test: random-effects regressions on the moderating effect of log(CSR) on OFDI among central SOEs and local SOEs.

	Full sample—SOEs and private firms				Subsample—central SOEs and local SOEs			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Central SOEs</i>	−2.503*** (0.798)	−2.581*** (0.796)	−2.014 (1.787)	−3.305* (1.798)				
<i>Local SOEs</i>	−2.360*** (0.643)	−2.596*** (0.641)	−4.169** (1.660)	−4.574*** (1.658)	0.408 (0.500)	0.246 (0.502)	−2.433 (1.489)	−1.643 (1.491)
<i>ICSR</i>		−0.0268 (0.371)	−0.223 (0.372)				−0.244 (0.327)	−0.141 (0.325)
<i>Central SOEs × ICSR</i>			−0.139 (0.452)	0.204 (0.455)				
<i>Local SOEs × ICSR</i>		0.502 (0.435)	0.556 (0.433)				0.791** (0.391)	0.529* (0.294)
<i>lsize</i>				0.363*** (0.130)		0.238 (0.163)		0.210 (0.165)
<i>lev</i>				−0.0136*** (0.00429)		−0.0160*** (0.00526)		−0.0156*** (0.00527)
<i>TangAssets</i>				−0.00787 (0.00483)		−0.00733 (0.00554)		−0.00688 (0.00555)
<i>IntaAssets</i>				−0.0156 (0.0114)		−0.0133 (0.0130)		−0.0126 (0.0130)
<i>OpeCosts</i>				0.000835 (0.00446)		−0.00148 (0.00558)		−0.00185 (0.00558)
<i>Profitability</i>				0.00737*** (0.00267)		0.00833*** (0.00301)		0.00815*** (0.00301)
<i>RoA</i>				−1.566 (1.105)		−1.967 (1.374)		−1.970 (1.375)
<i>lem</i>				0.153** (0.0734)		0.191* (0.0974)		0.181* (0.0976)
<i>age</i>				0.0771*** (0.0296)		0.113*** (0.0348)		0.110*** (0.0369)
<i>lgynaid</i>				−0.00619 (0.0313)		0.0219 (0.0371)		0.0220 (0.0372)
Constant	22.75*** (1.388)	13.59*** (2.940)	22.92*** (1.831)	14.47*** (3.067)	19.32*** (0.486)	11.81*** (3.444)	20.28*** (1.219)	13.15*** (3.678)
Region	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,431	2,431	2,431	2,431	1,756	1,756	1,756	1,756
Individuals	557	557	557	557	365	365	365	365
R-squared	0.205	0.223	0.206	0.223	0.193	0.213	0.196	0.214

Notes: Standard errors in parentheses. * $p < .1$; ** $p < .05$; *** $p < .01$. Private firms are the base group in the full-sample analyses (columns 1–4); central SOEs are the base group in the subsample analyses (columns 5–8). All models include region, industry and year indicators. ICSR is the natural logarithm of the RKS composite CSR rating. The sample comprises 3,203 firm-year observations of firms listed on the Shanghai and Shenzhen Stock Exchanges, 2008–2017. Dataset composition is described in Sample and Setting, variable definitions in Table 1, and estimation methods in Empirical Models and Identification and Inference. Control-variable coefficients in column (2) are suppressed for brevity.

Table 8. Moderating effect of the RKS sub-ratings on the relationship between state ownership and OFDI scale.

	(1) Macrocosm	(2) Content	(3) Technique	(4) Composite
SOE (t − 1)	−1.521*** (0.429)	−1.359*** (0.431)	−1.185*** (0.433)	−1.584*** (0.446)
CSR measure (t − 1)	−0.050** (0.024)	−0.021 (0.020)	−0.028 (0.048)	−0.016* (0.009)
SOE × CSR measure (t − 1)	0.058** (0.028)	0.036 (0.024)	0.063 (0.057)	0.023** (0.011)
Controls	Yes	Yes	Yes	Yes
Region / Industry / Year effects	Yes	Yes	Yes	Yes
Observations	2,320	2,319	2,320	2,431
Firms	550	550	550	557

Notes: Random-effects estimations with the same specification, lag structure and controls as Table 4; robust standard errors clustered at the firm level in parentheses. Columns (1)–(3) replace the composite CSR rating with the RKS sub-ratings Macrocosm (CSR strategy and governance), Content (substantive disclosure content), and Technique (reporting quality); column (4) re-estimates the composite benchmark (Table 4, Model 6) with firm-clustered standard errors, so point estimates are identical to Table 4 and standard errors differ. One observation with an implausible Content rating is excluded from column (2). The sample comprises firms listed on the Shanghai and Shenzhen Stock Exchanges, 2008–2017. Dataset composition is described in Sample and Setting, variable definitions in Table 1, and estimation methods in Empirical Models and Identification and Inference. Control-variable coefficients are suppressed for brevity; full estimates are available from the authors upon request. * $p < .1$; ** $p < .05$; *** $p < .01$.

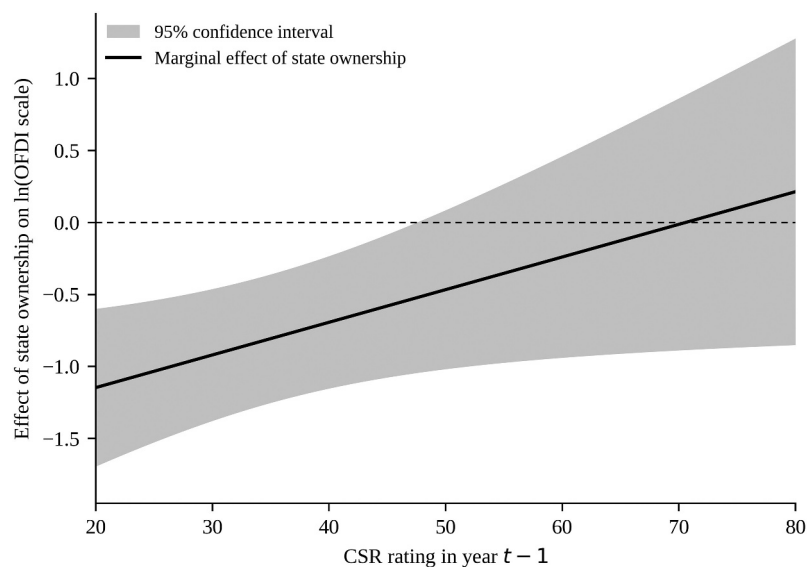


Figure 1. Marginal effect of state ownership across the CSR range.

Robustness Checks

This paper conducted additional tests to check the robustness of the results. First, this paper measured CSR by taking logarithm form and reran our main models separately for each additional independent variable. Our results (see [Tables 6 and 7](#)) concerning the moderating effect of CSR are in line with findings in previous models, and the hypotheses regarding the performance of SOEs are supported. Second, this paper adopted static models and dynamic models to test our hypotheses; the results in both models are consistent with our findings (see [Table 4](#)). Third, this paper removed observations with private ownership, then reran main models with the subsample. The findings in all models revealed that the effects of all variables remained unchanged (see [Table 5](#)).

Fourth, we re-estimated the moderation models replacing the composite CSR score with each RKS sub-rating, holding the specification, lag structure, controls and firm-level clustering identical to the main models ([Table 8](#)). The interaction with state ownership is positive for all three sub-dimensions and statistically significant for Macrocosm ($SOE \times Macrocosm = 0.058$, $p = .038$; $SOE \times Content = 0.036$, $p = .125$; $SOE \times Technique = 0.063$, $p = .269$; composite benchmark = 0.023 , $p = .038$; estimation samples of 2,319–2,320 observations across 550 firms). The moderating role of CSR is thus concentrated in the credibility of CSR governance rather than in the technical detail of reporting, which is consistent with the agency-theoretic view that governance arrangements are the costliest component of disclosure to imitate and hence the most credible signal to foreign stakeholders. Because the three sub-ratings are correlated components of the composite score, this comparison is indicative rather than a strict decomposition.

Discussion

Drawing on agency theory, this study examined how ownership structure relates to OFDI scale and how CSR performance conditions that relationship. State ownership is negatively associated with OFDI scale relative to private ownership, and CSR performance mitigates that penalty. The degree of government intervention does not itself differentiate SOEs, yet the mitigating effect of CSR operates only among local SOEs, whose disadvantage abroad is reputational and therefore repairable.

Overall, three main contributions emerged from the study. First, to our knowledge, this is the first study to use CSR performance as a moderator in the association between ownership structure and OFDI scale. Although many extant studies have examined and confirmed that state ownership indeed inhibits a firm's OFDI ([DeGhetto 2024](#); [Huang et al. 2017](#)), and the positive association between state ownership and CSR performance has been widely explored ([Lopatta, Jaeschke, and Chen 2017](#); [Zaid, Abuhijleh, and Consuelo Pucheta-Martínez 2020](#)), little attention has been given to the contribution of CSR to an SOE's OFDI scale.

Our study assessed and tested the moderating effect of CSR on OFDI scale by SOEs, and has shown that the negative impact of state ownership on an SOE's OFDI could be moderated with a high level of CSR. Unlike private firms, the performance of SOEs is usually linked with strong government intervention. The SOEs with government intervention may induce doubt in other parties and stakeholders on issues related to politics, bureaucracy and lack of transparency, and this may be particularly problematic when investing abroad. The study presented here makes a theoretical case for the amelioration/buffer effects of CSR on an SOE's OFDI, because it indicates that a high level of CSR can reduce the extent of the doubts generated by these problems, when entering a foreign market. Second, this study extends the research concerned with the impact of the features of state capitalism upon OFDI conducted by SOEs. Given the different affiliations of central SOEs and local SOEs, this paper sought to determine whether there was any difference in OFDI between them. Although the previous literature contains inconsistent findings concerning the OFDI behavior of SOEs (Huang et al. 2017; Redding, Xie, and Tang 2018), our study identified no difference in OFDI between central SOEs and local SOEs, and this is inconsistent with the conclusion reached by Huang et al. (2017). A possible reason for this finding is that, for both central SOEs and local SOEs, there are inherent vulnerabilities when they engage in OFDI practice. Third, the research analyses indicate that the results here are in alignment with agency theory arguments and explanations of the logic behind the negative relationship between state ownership and OFDI, and how OFDI scale can be enhanced. Previous research has mostly emphasized the positive effect of state ownership on their firms' OFDI (Tavares-Lehmann and Lehmann 2017). Our study reasons that having a government as the main shareholder is associated with reduced managerial independence, which may intrude upon its progress in foreign markets. Specifically, this paper found that CSR may operate as a moderation mechanism, and decrease the adverse effects caused by government control.

Several implications follow for managers and for policymakers. First, since the results here indicate that state ownership is negatively related with their OFDI engagement, managers in SOEs need to pay greater attention to balancing the benefits and drawbacks that government intervention brings, when planning their OFDI endeavors. While there are divergent reasons for the negative association between state ownership and OFDI, no significant differences have been found between central SOEs and local SOEs, and findings are in line with our hypotheses; the outcome (a reduced level of OFDI engagement) is consistent for both forms of SOEs and not distinguished between each other. Accordingly, it cautions managers (especially in central SOEs) that, although they have better government support, with reduced willingness and increased institutional pressure to expand internationally, they may not have any advantage over local SOEs in foreign markets. Also, the moderating effect of CSR on SOE's OFDI that was identified in this study highlights the importance of CSR for SOEs, especially local SOEs. For SOE managers, this points to a lever they can act on directly: disclosure quality is one of the few internationalization constraints that is repairable from inside the firm. For policymakers, the evidence indicates that state ownership does not by itself advantage firms abroad. They also suggest a lever: local governments can raise the international standing of the SOEs they control by pushing them toward stronger CSR disclosure.

Although the sample ends in 2017, the mechanism documented here is structural rather than period-specific, and post-2017 developments have sharpened rather than dated it. Since 2018 the major host jurisdictions have built investment-screening regimes that treat state ownership as a risk factor: the US Foreign Investment Risk Review Modernization Act of 2018 attaches mandatory filing obligations to acquisitions in which a foreign government holds a substantial interest (Blakey 2020); the EU screening framework directs member states to consider whether an investor is controlled by a third-country government (de Jong and Zwartkruis 2020; Zonta 2025); and comparable provisions appear in the UK National Security and Investment Act 2021 (Vishnoi 2026) and modification of the Foreign Acquisitions and Takeovers Act 1975 (Cth) in Australia (Nixon 2026; Voon and Merriman 2022). The reputational and political liability that our estimates attribute to state ownership has thus been converted from an informal perception into a formal regulatory threshold, while the value of credible, verifiable disclosure as a counterweight has risen correspondingly. Our estimates are therefore best read as a conservative lower bound on the contemporary importance of the CSR channel.

Beyond China, the mechanism documented here travels because both of its elements operate at the level of the investing firm and host-country stakeholders: a legitimacy discount attaches to state-owned investors abroad, and credible CSR disclosure partially offsets it. State-owned multinationals from Brazil and India,

sovereign-linked investors from the Gulf, and government-linked corporations in Southeast Asia face the same two forces (Cuervo-Cazurra et al. 2014). What varies across home countries is the intensity of the discount and the credibility of the disclosure infrastructure, which yields testable comparative statics: the CSR offset identified here should be stronger where the state-ownership discount is deeper and where disclosure verification is more developed (Musacchio, Lazzarini, and Aguilera 2015). The central–local contrast likewise exports a framework rather than a fact: state capitalism is not monolithic, and a firm’s proximity to political power determines which internationalization frictions bind and which of them are reputational and hence repairable.

There are some limitations that should and could be addressed in future research. One of the most critical limitations arises from the novelty of this study: previous literature on the moderating effects of CSR is limited, and the effect of CSR on the OFDI of SOEs has not been explicitly investigated, so there is little existing work against which to benchmark our findings. Also, CSR performance is measured throughout by a single rating instrument. Although we exploit the three RKS sub-ratings in Robustness Checks, they are correlated components of one provider’s composite; since CSR is multi-faceted and rating agencies diverge in what they capture, replication against an independent instrument would strengthen confidence in the moderating effect. Relatedly, our outcome measure captures the scale of outward investment rather than its profitability; whether the same moderation holds for returns is an open question that CSR’s access-based logic gives reason to doubt, and one that awaits firm-level data on overseas returns that Chinese listed firms are not obliged to disclose. Moreover, this study was restricted to a single institutional context (China mainland), and the results may not be generalizable to other settings.

Conclusion

Our findings here suggest that state ownership is negatively associated with OFDI activity by SOEs, and that a high level of CSR performance of SOEs can moderate that negative relationship. This paper further investigated the strengthening effect of CSR, with the emphasis on the degree of government intervention. The results show that there is no significant difference between the OFDI engagement of central SOEs and local SOEs, while the moderating effect of CSR only exists for local SOEs. Using data from China-listed companies, this paper offers insights into the link between state ownership and OFDI scale, and suggests that managers and policymakers should recognize the importance of CSR in the leverage of both the positives and the negatives arising from government intervention.

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Author Contributions

CRedit: **Qianying She**: Formal analysis, Funding acquisition, Investigation, Methodology, Resources, Validation, Visualization; **Ying Yu**: Conceptualization, Data curation, Formal analysis, Investigation, Resources, Software, Validation, Writing – original draft; **Kai Wu**: Conceptualization, Software, Validation, Visualization, Writing – review & editing.

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