

# Foreign Ownership and Corporate ESG Performance

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**Abstract.** Foreign shareholders are important participants in China's capital market. This article explores the relationship between foreign shareholders and corporate ESG performance, aiming to explore how to guide foreign shareholders to play a positive role in Chinese listed companies. The study reveals the following findings: There is a significant positive correlation between foreign shareholding and corporate ESG performance, indicating that foreign shareholders can promote the improvement of ESG performance. Foreign shareholding enhances ESG performance through two channels: constraining short-termism by managers and improving information transparency. Media attention significantly strengthens the positive relationship between foreign shareholding and corporate ESG performance. The research in this article provides empirical evidence for the government's gradual relaxation of the foreign shareholding ratio and encourages foreign shareholders to have a long-term investment perspective. It also helps listed companies formulate appropriate policies to effectively utilize foreign resources.

**Keywords:** Foreign shareholders; Corporate ESG Performance; Media attention; Managerial short-termism; Information transparency.

## 1. Introduction

China is one of the world's largest recipients of foreign direct investment (FDI). Despite a global decline of approximately 25% in total FDI inflows since 2016 amid the intensifying trend of deglobalization, China's FDI inflows have continued to grow against the trend, increasing by nearly 10%. According to statistics from the Ministry of Commerce, as of 2019, the cumulative number of foreign-funded enterprises in China has exceeded one million, involving a total foreign investment amount of \$2.29 trillion. China is actively promoting the construction of pilot free trade zones and free trade ports, as well as facilitating exchanges with international capital markets, in order to enhance the liberalization and facilitation of foreign investment and attract a large amount of foreign capital for high-quality economic development. Existing studies have begun to focus on the impact of foreign ownership on companies, and relevant literature has shown that foreign shareholders have significant effects on information environment (Xin et al., 2017), financial policies (Zhou et al., 2012), and employee compensation (Wang and Huang, 2017) of listed companies.

ESG stands for Environmental, Social, and Governance, which are three key factors used to evaluate a company's sustainability and ethical practices. It originated from the concepts of responsible investment and ethical investment. Since the 1960s, an increasing number of market participants have accepted and practiced the investment concept of green environmental protection, in which investors and consumers are willing to sacrifice some financial returns or even pay extra costs. The ESG concept extends and enriches the ideas of green investment and responsible investment, becoming an important indicator to measure a company's level of green sustainable development. China's "14th Five-Year Plan" and long-term goals for 2035 highlight the importance of green development in the country's economic and social transformation, which aligns with the ESG concept emphasizing environmental responsibility, social responsibility, and corporate governance. Existing literature has studied the influence of ESG on financial importance (Aboud and Diab, 2018; Lueg et al., 2019; Buallay, 2019; Chollet and Sandwidi, 2018; Grimaldi et al., 2020), company characteristics (Chevrollier et al., 2020), and corporate governance (Anazonwu et al., 2018; Cucari et al., 2018; Husted and Sousa-Filho, 2019; Velte, 2019; Romano et al., 2020; Baraibar-Diez and Odriozola, 2019; Sadiq et al., 2020).

Currently, there is limited research focusing on how foreign shareholders affect a company's ESG performance. In the context of China actively opening its market to effectively utilize foreign capital, it is important to understand how foreign investors, as an important type of heterogeneous shareholder, influence a company's ESG performance for the healthy development of the economy and capital market. This study uses data from non-financial listed companies in China from 2011 to 2020 to investigate the relationship between foreign ownership and company ESG performance. The empirical results show that: (1) Foreign ownership is significantly positively correlated with company ESG performance, which means that foreign ownership can promote companies to improve their ESG performance; (2) Foreign ownership enhances ESG performance through restraining managerial myopia and improving information transparency; (3) Media attention significantly strengthens the positive correlation between foreign ownership and company ESG performance.

The research contribution of this study is mainly reflected in two aspects. First, in terms of theory, this study enriches the research on factors influencing ESG performance and the consequences of foreign ownership from the perspective of foreign shareholders. Second, in terms of defining foreign shareholders, most existing literature uses Qualified Foreign Institutional Investors (QFII) as the standard to study the influence of foreign ownership on companies (Wang et al., 2014; Yu et al., 2017; Lopatta et al., 2017). However, besides being foreign investors, QFIIs also have the important attribute of institutional investors. Therefore, this definition may introduce certain noise when depicting the characteristics of foreign shareholders' behaviors. This study examines the proportion of foreign shareholders among the top ten shareholders of companies to more accurately characterize the impact of foreign majority shareholders on a company's ESG performance.

## 2. Theoretical Foundation and Research Hypothesis

The Importance of Foreign Investors in China's Capital Market is not only reflected in their ability to bring ample capital elements but also in their ability to introduce more advanced and mature technology and governance concepts, and stimulate the operational and innovative vitality of local enterprises through competition. For example, Jiang and Xie(2018) pointed out that foreign investment can significantly improve the total factor productivity and labor productivity of invested firms. Bu and Tu (2017) found that companies with foreign ownership are more likely to receive standard audit opinions, indicating that foreign ownership can effectively improve the quality of information disclosure. Based on existing research, this article intends to analyze the impact of foreign ownership on corporate ESG performance from the following four aspects.

Firstly, foreign shareholders generally possess more advanced ESG ideas (Wang et al., 2014) and cleaner and more efficient production technologies (Letchumanan and Kodama, 2000) compared to domestic shareholders, which can have a demonstration effect and spillover effect on the ESG performance of invested firms. The demonstration effect refers to the fact that foreign ESG ideas started earlier than domestic ones. Therefore, foreign shareholders usually have more advanced ESG ideas and can integrate their own ESG preferences into the process of corporate governance, thereby promoting more favorable decisions for improving corporate ESG performance. The spillover effect means that the technology or equipment held by foreign shareholders usually has higher production efficiency (Keller, 2004), allowing companies to release more production capacity under the same resource constraints. This, in turn, upgrades the company's ESG performance by saving resources and reducing pollution emissions. Moreover, foreign shareholders from developed countries tend to use more environmentally friendly production technologies when investing in developing countries, helping invested firms achieve cleaner and greener production.

Secondly, foreign ownership to some extent increases the dispersion of corporate equity. According to the agency theory proposed by Jensen and Meckling (1976) and Fama and Jensen (1983), equity dispersion may lead to agency problems. At the same time, due to the geographical distance between foreign shareholders and management, it may strengthen the agency conflicts. Considering the supervision and control of management behavior, the demand for information disclosure from

foreign shareholders increases (Haniffa and Cooke, 2002). According to stakeholder theory, as one of the stakeholders in the company, foreign shareholders motivate companies to respond to their demands in order to obtain long-term resource investment from foreign shareholders. Companies actively maintain the related interests of foreign shareholders and improve the disclosure of ESG information, thereby enhancing corporate transparency and ESG performance.

Furthermore, overseas shareholders can directly influence the ESG performance of companies through the impact on management decision-making. Compared to domestic institutional investors, foreign institutional investors tend to have more stable shareholding and longer holding periods, with stronger long-term tendencies. For example, Bena et al. (2017) used data from 30 countries between 2001 and 2010 and found that foreign institutional investors can prompt companies to pay more attention to long-term development, increase long-term investments including tangible assets, intangible assets, and human capital, and significantly enhance the company's long-term operational performance. Luong et al. (2017) based on data from companies in 26 countries other than the United States found that foreign shareholders can significantly improve a company's innovation level, and they also verified that overseas shareholders have higher tolerance for management failure. Therefore, if foreign shareholders are long-term oriented, it is expected that foreign ownership will help constrain short-sightedness of management and increase the company's ESG investment.

Lastly, foreign ownership can influence a company's ESG performance through corporate governance channels. Existing research shows that compared to domestic investors, foreign investors have fewer other interests with the company and are more likely to implement fair and independent supervision over internal personnel, thereby influencing strategic decision-making of the company (Ferreira et al., 2010). Bena et al. (2017) pointed out that the disciplinary constraints brought by overseas shareholder supervision will prompt managers to seek long-term development through increased long-term investment. They verified that foreign institutional investors can increase a company's long-term investment through corporate governance channels. Therefore, the improvement of corporate governance brought by foreign ownership will make companies pay more attention to long-term development in their business decisions and tend to increase ESG investment.

Therefore, this article proposes the following hypothesis:

H1: There is a positive correlation between foreign ownership and corporate ESG performance.

### 3. Research Design

#### 3.1. Sample Selection and Data Sources

The research question of this study is the impact of foreign ownership on the ESG performance of listed companies. The overall sample for this study comes from A-share listed companies in the Shanghai and Shenzhen stock markets. Since Bloomberg's ESG ratings data is available from 2011 to 2020, the financial data and annual report inquiry letter data of the sample companies are limited to the period from 2011 to 2020. The sample selection process is as follows: (1) Exclude companies with missing variable data during the period from 2011 to 2020. (2) Exclude companies with abnormal data during the period from 2011 to 2020. (3) Exclude financial companies. (4) Exclude [unclear].

After the above processing, a final sample of 8428 companies was obtained. The ESG performance scores of the companies in this study are obtained from Bloomberg's ESG data, and the financial data is obtained from the CSMAR database. Data analysis is conducted using Excel and STATA. To avoid the influence of outliers on the empirical analysis results, this study truncates all variables except for ESG at the upper and lower 1% to eliminate the bias and impact of extreme values on the research results.

### 3.2. Variable Measurement

#### 3.2.1 Foreign Ownership

The explanatory variables in this study are whether there is foreign ownership (Foreign) and the foreign ownership ratio (Fs). Following Bu and Tu (2017), if a company has foreign ownership, Foreign is assigned a value of 1; otherwise, it is assigned a value of 0. Building on the approaches of Bu and Tu (2017) and Zhong et al. (2020), the sum of the ownership ratios of foreign shareholders among the top ten shareholders is used as a substitute variable for the foreign ownership ratio.

#### 3.2.2 ESG Performance

In this study, Bloomberg ESG rating data is utilized. In 2009, Bloomberg acquired New Energy Finance, a renewable energy and carbon market information provider, and subsequently launched Bloomberg ESG data services. Bloomberg ESG data is collected from various sources, including company social responsibility reports, annual reports, company websites, and direct inquiries to companies through Bloomberg proprietary surveys. The ESG rating data is also "tailor-made" for different industries. Bloomberg ESG data covers the entire investable universe and scores range from 0.1 (for companies with minimal ESG data disclosure) to 100 (for companies with full disclosure for every data point collected by Bloomberg). Each data point is weighted according to its importance, and the scores are adjusted based on each industry. As of July 2020, Bloomberg ESG data covered 11,700 companies in 102 countries worldwide, making it the most extensive coverage among all ESG rating agencies (as shown in Figure 3-1). The data covers 120 environmental, social, and governance indicators, including carbon emissions, climate change impact, pollution, waste management, renewable energy, resource depletion, supply chain, political contributions, discrimination, community relations, executive compensation, shareholder rights, board composition, and independent directors. In addition to the overall ESG score, Bloomberg ESG data provides separate scores for the E (environmental), S (social responsibility), and G (corporate governance) dimensions. Moreover, the Bloomberg database is widely used in the financial industry and academia, and many studies have utilized Bloomberg ESG data in their analyses.

#### 3.2.3 Controlled Variables

According to Bu et al. (2021), the controlled variables in this study include (1) company size (Size); (2) return on equity (ROE) and leverage ratio (Lev); (3) short-term borrowings (Debt\_s); (4) institutional ownership ratio (Inst); (5) equity concentration (Top1); (6) state ownership (Soe); (7) net cash flows from operating activities (Ccr); and (8) company age (Age). The specific measurement methods for each variable can be found in Table 1.

**Table 1.** Variable Definitions

Variable	Variable Names	Variable Measurement
ESG	ESG Performance	Total ESG Performance Score
Foreign	Whether there is foreign ownership	If a company has foreign capital ownership, then the variable "Foreign" is assigned a value of 1; otherwise, it is assigned a value of 0.
Fs	Foreign Ownership Ratio	The sum of the percentage of shares held by foreign shareholders among the top ten shareholders.
Size	Company size	The natural logarithm of the ending total assets.
Roe	Return on equity	The ratio of net profit to average shareholders' equity.
Lev	Leverage ratio	The ratio of total liabilities to total assets.
Debt_s	Short-term borrowings	The ratio of short-term borrowings to total assets.
Inst	Institutional ownership ratio	The institutional ownership ratio refers to the percentage of a company's shares held by institutional investors.
Top1	Equity concentration	The percentage of shares held by the largest shareholder refers to the ownership proportion of the largest shareholder in a company.
Soe	State ownership	If the ownership nature of the actual controller of a company is state-owned, then the value is set as 1; otherwise, it is set as 0.
Ccr	Net cash flows from operating activities	The ratio of net cash flow from operating activities to current liabilities.
Age	Company age	The number of years since the company went public.
Year	Year	If it is a specific year, the value is set as 1; otherwise, it is set as 0.
Industry	Industry	If it is a specific industry, the value is set as 1; otherwise, it is set as 0.

### 3.3. Research Model

This study constructs and employs Model 1 and Model 2 to test Hypothesis 1. In the testing models, ESG represents the overall ESG performance score of companies, Foreign indicates whether a company has foreign ownership, and Fs represents the proportion of foreign ownership in a company. The study controls for year fixed effects (Year FE) and industry fixed effects (Industry FE), and employs cluster-level clustering to robustly estimate standard errors among companies. To mitigate the impact of outliers, the study applies truncation at the 1% level to all continuous variables.

$$ESG_{i,t} = a_0 + a_1 Foreign_{i,t} + a_2 Size_{i,t} + a_3 Roe_{i,t} + a_4 Lev_{i,t} + a_5 Debt\_s_{i,t} + a_6 Inst_{i,t} + a_7 Top1_{i,t} + a_8 Soe_{i,t} + a_9 Ccr_{i,t} + a_{10} Age_{i,t} + \sum Year + \sum Industry + \varepsilon \quad (1)$$

$$ESG_{i,t} = a_0 + a_1 Fs_{i,t} + a_2 Size_{i,t} + a_3 Roe_{i,t} + a_4 Lev_{i,t} + a_5 Debt\_s_{i,t} + a_6 Inst_{i,t} + a_7 Top1_{i,t} + a_8 Soe_{i,t} + a_9 Ccr_{i,t} + a_{10} Age_{i,t} + \sum Year + \sum Industry + \varepsilon \quad (2)$$

## 4. Empirical Analysis

### 4.1. Descriptive Statistics

Due to the sample period of this study being from 2011 to 2020 with a total sample size of 8428, the sample is large and may contain outliers that could affect the results of descriptive statistics and regression analysis. To mitigate this influence, this study conducted truncation at the 1st and 99th percentiles on all continuous variables. The descriptive results after truncation are as follows.

**Table 2.** The descriptive statistics of the full sample

Variable	Sample size	Mean	Standard Deviation	Minimum Value	Maximum Value
ESG	8,428	20.890	6.814	9.091	44.630
Fs	8,428	0.028	0.082	0.000	0.501
Foreign	8,428	0.280	0.449	0.000	1.000
Ccr	8,428	0.223	0.341	-0.631	2.121
Lev	8,428	0.494	0.193	0.049	0.935
Debt_s	8,428	0.104	0.099	0.000	0.443
Size	8,428	23.170	1.291	19.650	26.150
Roe	8,428	0.080	0.118	-0.564	0.361
Age	8,428	2.540	0.552	0.693	3.296
Top1	8,428	37.500	15.76	9.000	75.260
Inst	8,428	53.660	22.41	0.088	91.980
Soe	8,428	0.546	0.498	0.000	1.000

According to Table 2, the research sample consists of a total of 8428 companies. The average ESG score for listed companies is relatively low, at 20.89. The mean value of "Foreign" is 0.28, indicating that around 28% of the sampled listed companies had foreign ownership during the period from 2011 to 2020. The maximum value of company size is 26.15, the minimum value is 19.65, and the standard deviation is 1.291. It can be observed that the selected sample of listed companies generally has large and diverse sizes. The distributions of other control variables are similar to those reported in the reference literature.

### 4.2. Regression Analysis

This study employs the Ordinary Least Squares (OLS) model to examine the impact of foreign ownership on corporate ESG performance, as shown in Models 1 and 2. The regression results can be found in Table 3. After controlling for firm characteristics, industry fixed effects, and year fixed effects, we find that the coefficient of the variable "Foreign" in the OLS model is 0.383, significant

at a 5% level of confidence. Similarly, the coefficient of the variable "Fs" (foreign ownership percentage) in the OLS model is 8.451, significant at a 1% level of confidence. The regression results in Table 3 indicate that an increase in foreign ownership percentage improves corporate ESG performance.

**Table 3.** Three Scheme comparing

VARIABLES	ESG	ESG
Fs	8.451*** (8.71)	
Foreign		0.383** (2.35)
Ccr	-0.413** (-2.01)	-0.336 (-1.64)
Lev	-2.991*** (-5.71)	-3.056*** (-5.78)
Debt_s	-1.726** (-2.13)	-1.615** (-1.98)
Size	2.099*** (27.55)	2.125*** (27.69)
Age	0.514*** (3.77)	0.492*** (3.62)
Roe	0.760 (1.32)	0.782 (1.36)
Inst	0.010*** (2.79)	0.016*** (4.33)
Soe	1.436*** (9.43)	1.281*** (8.37)
Constant	-30.783*** (-18.97)	-31.511*** (-19.23)
Observations	8,428	8,428
R-squared	0.285	0.276
F test	0	0
r2_a	0.282	0.273
F	79.60	76.26

### 4.3. Robustness Test

#### 4.3.1 Propensity Score Matching

In order to mitigate the influence of differences between companies with and without foreign ownership and address endogeneity issues, this study employs the Propensity Score Matching (PSM) method for examination. Variables such as company size, return on net assets, leverage ratio, short-term borrowing, institutional investor ownership, equity concentration, state ownership, operating cash flow, and years since listing are found to have an impact on foreign ownership presence. The regression model mentioned above may suffer from sample selection bias and unobservable time-invariant differences between groups. To address self-selection bias, control differences, and create comparable experimental and control groups, the mentioned variables are selected as covariates, with the presence of foreign ownership used as the criterion for grouping. Propensity values are estimated using a binary choice model, such as logistic regression, and one-to-one matching or one-to-two matching is performed based on nearest neighbor matching. Covariate balance tests are conducted on the matched samples, and finally, regression analysis is performed on the matched samples using the original model.

**Table 4. Robustness Test**

VARIABLES	ESG	ESG	ESG	ESG	ESG	ESG
Foreign	0.669*** (2.61)		0.492** (2.32)			
Fs		8.318*** (5.24)		6.755*** (5.19)		
Foreign_L					0.862*** (4.66)	
Fs_L						8.810*** (8.68)
Control	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-35.712*** (-9.58)	-36.786*** (-10.20)	-35.159*** (-10.76)	-36.293*** (-11.32)	-30.947*** (-17.20)	-30.183*** (-17.45)
Observations	3,377	3,377	4,840	4,840	7,176	7,582
R-squared	0.277	0.291	0.273	0.283	0.277	0.282
F test	0	0	0	0	0	0
r2_a	0.269	0.284	0.268	0.278	0.274	0.279
F	23.78	25.88	30.06	32.09	68.55	75.61

The regression results are shown in Table 4. It can be observed that the coefficients of the variables "Foreign" (indicating whether there is foreign ownership) and "Fs" (indicating the proportion of foreign ownership) in columns 1 to 4 are positive and significant at a level of 1%. This indicates that even after mitigating sample self-selection and controlling for differences between the treatment and control groups, foreign ownership remains significantly positively correlated with corporate ESG performance. Therefore, the conclusion of this study still holds.

### 4.3.2 Lagged One Period Test

Due to the potential presence of time lag effects in the economic process, the current ESG performance of listed companies may be influenced by the previous period's foreign ownership. In other words, the impact of foreign ownership may exhibit a lagged effect. Therefore, to ensure more robust research results, this study applies a one-period lag to the ESG performance variable. The sample period for foreign ownership is limited to 2011-2019, and a lagged variable model is employed to conduct robustness tests, as illustrated in Model 3.

$$\begin{aligned}
 ESG_{i,t+1} = & a_0 + a_1 Foreign_{i,t} + a_2 Size_{i,t+1} + a_3 Roe_{i,t+1} + a_4 Lev_{i,t+1} + a_5 Debt\_S_{i,t+1} \\
 & + a_6 Inst_{i,t+1} + a_7 Top1_{i,t+1} + a_8 Soe_{i,t+1} + a_9 Ccr_{i,t+1} + a_{10} Age_{i,t+1} + \sum Year \\
 & + \sum Industry + \varepsilon
 \end{aligned}
 \tag{3}$$

The regression results for the one-period lag of ESG performance are shown in Table 4. By observing the coefficients and their significance in columns 5-6, it can be seen that after lagging the dependent variable (financing cost) and other control variables in the original model and conducting a multivariate regression again, the variable ESG performance remains significantly positively correlated with foreign ownership. This indicates that regardless of considering the lagged effect of foreign ownership on ESG performance, the relationship between the two variables remains significant and positive, demonstrating robust results.

## 5. Further analysis

### 5.1. Analysis of Influencing Mechanisms

#### 5.1.1 Constraining management's short-termism

The positive relationship between foreign ownership and corporate ESG performance has been validated in previous sections. According to our theoretical logic, if we consider a company's ESG

investment as a long-term investment, overseas shareholders with long-term orientations can directly influence the company's ESG performance by impacting management's decision-making perspective. In this section, we will examine whether foreign shareholders influence corporate ESG performance through constraining management's short-termism.

Following the approach of existing research (Lai et al., 2020), this study captures the decision-making perspective of companies through their real earnings management. Real earnings management refers to management's manipulation of the actual operational activities of the company and is an indication of management's short-termism. Following the method of Li et al. (2011), we first calculate abnormal operating cash flows (Ab\_CFO), abnormal production costs (Ab\_PROD), and abnormal discretionary expenses (Ab\_DISEXP). We then define the variable REM as  $REM = Ab\_PROD - Ab\_CFO - Ab\_DISEXP$ , where a higher REM value indicates a higher degree of real earnings management and shorter-term orientation of the company's managers.

The regression results, as shown in Table 5, follow the method proposed by Wen et al. (2014) to examine the mediating effect using the sequential testing approach. In the first step, we test whether foreign ownership has a significant impact on ESG performance. This step essentially replicates the main regression model and confirms that the coefficient of foreign ownership is significant and positive. In the second step, we examine whether foreign ownership has a significant effect on the potential mediating variable, real earnings management. The regression coefficients of foreign ownership are significantly negative, indicating that foreign ownership reduces real earnings management. In the third step, we test whether foreign ownership and the potential mediating variable, real earnings management, have a significant impact on ESG performance. The results in columns (3) and (4) show that the regression coefficient of foreign ownership is significant and positive, while the regression coefficient of the potential mediating variable is significant and negative. These results indicate that real earnings management plays a partial mediating role, suggesting that foreign ownership improves ESG performance by constraining management's short-termism.

**Table 5.** Analysis of Influencing Mechanisms

VARIABLES	Rem	Rem	ESG	ESG	TRANS	TRANS	ESG	ESG
Fs	-0.096*** (-4.09)		8.348*** (8.53)		0.177*** (8.02)		7.349*** (7.73)	
Foreign		-0.027*** (-6.20)		0.340** (2.08)		6.046*** (13.35)		0.132 (0.82)
Rem			-0.766** (-2.15)	-0.881** (-2.46)				
TRANS							6.046*** (13.35)	6.360*** (13.92)
Control	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.389*** (-9.01)	-0.404*** (-9.34)	-31.050*** (-18.94)	-31.654*** (-19.12)	-0.985*** (-24.72)	-0.970*** (-24.26)	-24.794*** (-15.31)	-25.127*** (-15.45)
Observations	8,428	8,428	8,428	8,428	8,428	8,428	8,428	8,428
R-squared	0.272	0.274	0.285	0.276	0.392	0.393	0.302	0.295
F test	0	0	0	0	0	0	0	0
r2_a	0.269	0.271	0.282	0.273	0.389	0.390	0.299	0.292
F	52.69	53.70	75.15	72.18	157.7	159.6	80.10	77.51

### 5.1.2 Enhancing information transparency

According to theoretical logic, in order to reduce agency conflicts, companies actively maintain the interests associated with foreign shareholders by enhancing the disclosure of ESG information. This, in turn, improves corporate information transparency and subsequently enhances ESG performance. In this section, we will examine whether foreign shareholders influence corporate ESG performance through improving information transparency.

This study uses the transparency index (Trans) as a measure of information transparency. The sample percentile rank average of five variables is used: earnings quality (DD), the information disclosure evaluation score of Shenzhen Stock Exchange listed companies (DS CORE), analyst

coverage, analyst earnings forecast accuracy, and whether the company hires one of the Big Four international auditing firms as its annual report auditor. The sample percentile rank represents the percentage of scores that are lower than a given percentile in an ordered sequence.

The regression results, as shown in Table 5, follow the method proposed by Wen et al. (2014) to examine the mediating effect using the sequential testing approach. In the first step, we test whether foreign ownership has a significant impact on ESG performance. This step essentially replicates the main regression model, and the regression coefficient of foreign ownership is significant and positive. In the second step, we examine whether foreign ownership has a significant effect on the potential mediating variable, information transparency. The regression coefficients of foreign ownership are significantly positive, indicating that foreign ownership increases information transparency. In the third step, we test whether foreign ownership and the potential mediating variable, information transparency, have a significant impact on ESG performance. The results in columns (5) to (8) show that the regression coefficient of foreign ownership is significant and positive, and the regression coefficients of the potential mediating variable are also significant and positive. These results indicate that information transparency plays a partial mediating role, suggesting that foreign ownership improves ESG performance by enhancing information transparency.

## 5.2. Analysis of Moderating Effects

In the context of China's institutional background, the media serves as an effective external governance mechanism that enhances corporate governance and disseminates company information. Firstly, media intervention ensures transparency in the information environment for foreign investors when selecting investment companies and participating in the corporate governance process, reducing information asymmetry within and outside the company. Secondly, based on agency theory and the separation of ownership and control, foreign shareholders entering host-country companies face more agency problems, and the supervisory role of the media helps reduce the agency conflicts faced by foreign shareholders. Thirdly, based on signal transmission theory, from the perspective of media's information dissemination function, overseas shareholders' investment in a company will convey positive signals about the company's operational performance to the outside world, guiding other investors to invest in the company (Deng and Sun, 2014).

Media supervision refers to the way Chinese mass media, including newspapers, magazines, the internet, radio, and television programs, report various types of information about listed companies. It has the advantages of fast dissemination, wide coverage, and significant impact. As news media is the main subject of public opinion, and social public opinion mainly relies on the supervisory power of news media, the news media supervision mechanism has become a major force in strengthening judicial supervision and promoting judicial fairness. With the increasing popularity of the internet, online news has penetrated into our daily lives. The role of domestic online media in China has been growing, and the internet has become an important channel for ordinary people to obtain information. Therefore, this study mainly focuses on the internet as the data collection object. Since it is difficult to directly measure the strength of media supervision, this study adopts the idea proposed by Liang et al. (2012), which suggests that the more frequent media reports indicate stronger media supervision. The specific variable design for media supervision (Media) is as follows: this study collects data from CNRDS China Data Service Platform on the quantified statistics of online news for listed companies in China. It counts the number of online news articles about a company on a daily basis, organizes the statistical data into "company-year" data, and then takes the logarithm of the data as a proxy variable for media supervision. Table 6 presents the regression analysis results, which show that the coefficients of the interaction terms  $FsxMedia$  and  $ForeignxMedia$  are significantly positive at the 1% level, indicating a stronger positive correlation between foreign ownership and ESG performance under high media attention.

**Table 6.** Analysis of Moderating Effects

VARIABLES	ESG	ESG
Fs	-15.226*** (-3.08)	
Media	0.472*** (6.03)	0.341*** (3.99)
FsxMedia	3.912*** (4.70)	
Foreign		-5.073*** (-6.18)
ForeignxMedia		0.939*** (6.36)
Control	Yes	Yes
Constant	-26.166*** (-15.97)	-26.098*** (-16.01)
Observations	8,416	8,416
R-squared	0.294	0.287
F test	0	0
r2_a	0.291	0.284
F	76.13	72.24

## 6. Summary

Against the backdrop of China's strong efforts to attract foreign investment and promote economic development through efficient utilization of foreign capital resources, the influence of foreign shareholders, as new participants in the capital market, on the decision-making of invested companies and the importance of leveraging foreign capital resources are of great significance to China. ESG performance of a company serves as an emerging and important basis for evaluating the company, as well as a strategic long-term investment that is crucial for accessing stakeholder resources and long-term development. Based on this, this study takes the influence of foreign shareholders on corporate ESG performance as the research scenario, aiming to explore how to guide foreign shareholders to play a positive role in Chinese listed companies by studying the relationship between foreign shareholders and corporate ESG performance.

The findings of this study are as follows: (1) There is a significant positive correlation between foreign ownership and corporate ESG performance, indicating that foreign ownership can promote the improvement of ESG performance; (2) Foreign ownership enhances ESG performance through two channels: constraining managerial myopia and improving information transparency; (3) Media attention significantly strengthens the positive correlation between foreign ownership and corporate ESG performance.

The research in this study provides the following implications: Government departments, especially when formulating policies related to foreign investment, should encourage foreign investors to "invest more and invest for the long term" to establish a closer relationship between foreign capital and invested companies, thereby enabling foreign shareholders to play a more positive role. For invested companies, they can send signals to foreign shareholders through measures such as constraining managerial short-sightedness and improving information disclosure quality, in order to alleviate information asymmetry and reduce their profit-seeking motives, thus achieving more effective utilization of foreign capital. For the media, they should maintain their unique advantages and fully leverage their corporate governance function. The internal governance structure of Chinese companies is still not perfect and develops relatively slowly. The media can regulate companies during and after events, improve internal governance levels, and thereby enhance the utility of foreign shareholders in corporate ESG performance.

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