

## Article

# Environmental, Social and Governance Performance of Chinese Multinationals: A Comparison of State- and Non-State-Owned Enterprises

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**Abstract:** The purpose of this research is to empirically investigate the effect of internationalization on the environmental, social, and governance (ESG) performance of Chinese state-owned enterprises (SOEs) and non-SOEs. The study employed an updated panel dataset (6238 firm-year observations) of Chinese multinationals from the period 2010–2019. The initial findings of the study reveal that Chinese multinationals perform better in terms of environmental and governance scores. It suggests that international market forces deal with enhancing ecological problems and concerns of stakeholders. However, results are insignificant when the social performance of multinationals is analyzed. On the other hand, multinational non-SOEs outperformed their counterparts in terms of environmental and governance performance. The findings of the paper are robust regarding the use of proxies of internationalization and endogeneities.

**Keywords:** internationalization; environmental; social and governance performance; sustainability; multinationals; SOEs and non-SOEs



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## 1. Introduction

International expansion has paved the way for organizations to grow and for new ventures into different countries [1]. All companies, including multinationals (MNCs), are choosing internationalization to explore new product, labor, and technology markets to enhance their profitability and their customer base and increase their market share. Moreover, internationalization helps companies reach new markets, obtain new capital sources, diversify risks, gain competitive advantages, and develop economies of scale. Internationalization has benefits, but it also has higher risks [2] because corporations must face new challenges to obtain legitimacy when they enter a host country. The challenges that corporations face may be due to a change of culture, different host-country laws, a competitive market environment, or scarce resources of the host country [3]. State-owned enterprises (SOEs) are completely different from non-SOEs regarding governance, risk behavior, and access to resources. SOEs play a vital role in the global market, but extensive research on the internationalization of SOEs is still needed. SOEs and non-SOEs must make different strategic choices during global expansion [4]. There is a general perception that non-SOEs are profit-oriented. They invest money in ventures in which long-run profits are expected. On the contrary, SOEs primarily follow a political plan and engage in activities that are beneficial for society as a whole [5]. Due to the different strategic choices of enterprises, SOEs and non-SOEs operate differently during the internationalization process.

Keeping in view the different strategies of SOEs and non-SOEs, the influence of internationalization regarding environmental, social, and governance (ESG) performance needs to be compared for both. As already discussed, SOEs and non-SOEs have different

strategies for internationalization, so the performance of firms changes with a change in strategy and the circumstances of firms during internationalization. International firms face pressures from different institutions prevailing in the market. Firms must try to achieve legitimacy to compete in the market [6]. Different practices are used by firms to attain moral legitimacy. These practices may consist of the reinforcement of environmental disclosures and proactivity in environmental practices [7].

Previous research, in which conflicting views have been presented, has been conducted to study the advantages and disadvantages of the state [8]. Some scholars propagate the advantages of a state, whereas some propagate the disadvantages [3,4,9,10]. Moreover, research has been conducted keeping in view the internationalization of SOEs, but no comparison has been made between the SOEs and non-SOEs in the context of China. This study discusses the relationships of SOEs, which consist of governments, political systems, and home and host government regulations. The comparison of SOEs and non-SOEs and their impact on ESG performance is missing in the literature. It is important to discuss their comparison. The SOE intention and strategy for expansion are purely in the interest of the home government, whereas non-SOEs expand to increase their profitability in the long run.

We used a sample of Chinese listed companies that went global between 2010 and 2019. The study was conducted in the context of China because it is an important emerging market. The inflows in emerging market economies are on the higher side because they offer ample opportunities. China is a major player in terms of cash inflow into the market. Its liquidity is enhanced and controlled by state-owned banks [11]. Most of the companies, including SOEs and non-SOEs, have gone international, moving their production facilities outside China [12]. Internationalization is one of the most important forms of outward foreign direct investment (FDI), and it is an important phenomenon to study in China, considering the rapid growth of China's FDI flows (Figure 1) and the improvement in FDI stocks (Figure 2). Keeping this in view, this study contributes to the theoretical and practical literature in China for internationalization.

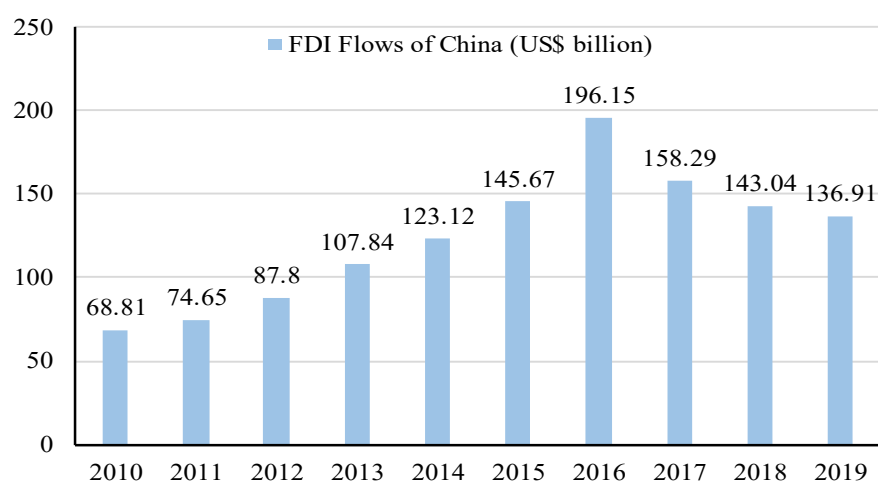
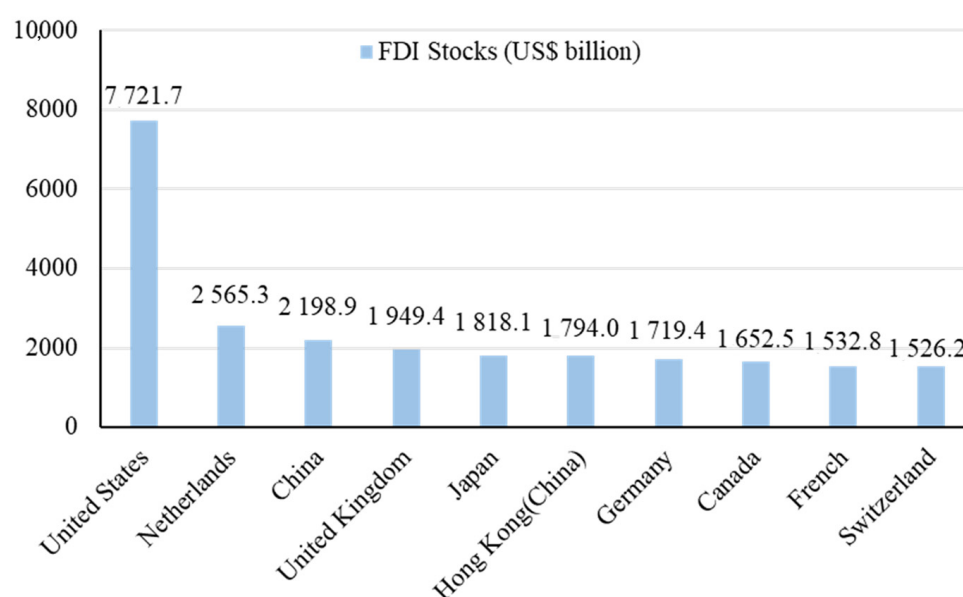


Figure 1. Outward FDI flows of China 2010–2019.



**Figure 2.** Top 10 countries based on FDI stocks by the end of year 2019.

Our paper adds to the internationalization literature and theory in various ways. As far as the theoretical contribution is concerned, our research extends to and provides a framework for legitimacy theory and stakeholder theory. Furthermore, a framework has been developed that outlines the role of foreign stakeholders' pressure to enhance the ESG performance of Chinese multinationals. In this regard, foreign stakeholders have been integrated into the study [13,14]. In addition, this research is among the primary studies to empirically investigate the effect of firm internationalization on each of the dimensions of corporate sustainability (environmental, social, and governance) in an emerging market context (China). There are studies that examined the association between internationalization and corporate ESG performance [15–17]. However, this study enhances the literature by introducing the dimension of corporate sustainability and studies the effects of internationalization with the dimensions of corporate sustainability. The study is important because it extends the previous literature to the extent that CSR dimensions are studied in the context of internationalization. A comparative study between SOEs and non-SOEs is conducted in terms of the effects of internationalization on CSR. In short, this study goes one step further from the literature of Attig et al. [15]. Symeou et al. [17] studied the effects of internationalization on CSR performance in the extractive industry, but our study extends that study in that our study considers three dimensions of CSR performance in the context of China, whereas their research considered only two: social and environmental performance. Keeping in view the previous literature, it is reiterated that this study is the first to investigate a comparison of SOEs and non-SOEs while studying the effects of internationalization on ESG performance.

In addition, this research clarifies how international firms respond to foreign stakeholders' pressures in dealing with sustainability concerns. Every firm has to face the legitimacy risk when going international because the laws of the host country demand that the firms take actions to follow the norms, rules, and regulations of that country [18]. Our research explains the ESG performance of international firms under the legitimacy risk. In this study, international firms are investigated for ESG performance under different stakeholders' pressures while covering for the legitimacy risk. Hence, our research will enhance the literature on stakeholder and legitimacy theory. Lastly, it is a longitudinal study that highlights the changes that occur in the short-term strategies of companies over time. Although many other studies previously conducted are cross-sectional [19–24], the data for this study are longitudinal. To test the hypothesis, the longitudinal data are

estimated using the least square dummy variable technique, and the effect of endogeneity is controlled.

The remainder of the paper is structured as follows. Section 2 highlights the theories used to support the research. Section 3 proposed hypotheses based on the prior literature. Section 4 explains the methodological approaches applied in the extant research. The empirical results are analyzed in Section 5, and the research concludes with the discussion section.

## 2. Theoretical Background

### 2.1. Legitimacy Perspective

“Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” [25] (p. 54). Most of the scholars that have based their research on social and environmental accounting cite legitimacy theory in their literature [26,27]. Similarly, the international business literature has also underpinned their research using a legitimacy framework [28]. Some scholars criticize the theory because it does not guide us on voluntary disclosures of social and environmental aspects by corporations [29]. Two aspects of legitimacy theory have been identified. One is the macro-theory of legitimacy and is also known as institutional legitimacy theory, and the other is organizational legitimacy [30]. Organizational legitimacy theorizes about achieving legitimacy through the disclosure of ESG factors. Guthrie et al. [31] have studied legitimacy theory and established that a high-profile organization has high CSR disclosure to obtain legitimacy, whereas a low-profile organization does not have to disclose much information about CSR activities to achieve legitimacy. With this in view, we can say that international organizations with a high profile have a high legitimacy risk. International organizations have to increase their activities and achieve ESG performance in order to be able to reduce the legitimacy risk in the host country.

### 2.2. Stakeholder Theory

Every organization has different stakeholders that can affect the company on different terms. They benefit the company and have certain rights and duties as well. Owners are the primary stakeholders of a company because they have a financial stake in the corporations in the form of shares/stocks for which they expect to earn some profit from those stocks [32]. Firms affect the livelihood of the owners because they have invested their money in the firm from which they want to earn income. The owners are the main decision-makers for the corporations, so they try to ensure that the corporations behave in a way that is favorable to the owners.

Moreover, employees are also the stakeholders of organizations because they have jobs in the organization and their livelihood is at stake [33]. Employees have specialized skills to manage and run corporations. Suppliers are one of the many stakeholders of the corporation and are very important for the success of the organization. The product quality and quantity depend on the suppliers because they provide raw materials for the production of the final product [34]. They also affect how the firm behaves so that they can obtain a price against supplies. Suppliers can benefit the firms even at a time of crisis because they can help the firm through price cuts, timely delivery, and extensions of the liability period.

In addition to owners and employees, customers are also stakeholders because they pay for the products and services that the company intends to offer in the market. Customers are the essence of the firm because they provide the organization with the most important element for long-term success: revenue. Customers pay for all the developments of the company. Customers are the main pillar of the organization because the life of the organization depends on them [35]. If the company cannot generate revenue from the customers, then there is no use in running the company. Peters and Waterman [36] are of the view that the success of a company depends on its customers. Companies that are very close to their customers are successful. Managers can easily address the needs of

other stakeholders such as shareholders, employees, and suppliers if they pay attention to the needs of the customers. The government and the local community are important stakeholders of the corporation because they allow the company to build its infrastructure and operate it. The corporation has to follow the norms and rules of the community and government for sustainability and operations in the long run.

The firm has to take care of the community in the form of environmental and social welfare. The firm has to dispose of the waste to avoid polluting the environment. Moreover, competitors, trade unions, and those directly or indirectly affected by the organization can affect the organization [32]. The government represents administrative machinery that exercises its powers for the implementation of rules and regulations. It is one of the most powerful stakeholders in a corporation [37]. Governments can influence the conduct of corporations using numerous apparatuses including regulations, incentives, and penalties [38] and the implementation of international standards [39]. Laws and regulations propagated by the legislative body of a country provide the basis for the implementation of a country's CSR policies, and businesses have to follow those policies to attain legitimacy and avoid punishment and penalty [39]. The results are different when the government is the stakeholder as well as the owner of the organization because, in the case of SOEs, the pressure of the government to follow the rules is different compared to non-SOEs. Thus, in simple words, the stakeholder theory states that the success of organizations depends on how much that organization values its stakeholders. To attain sustainability and profitability in the long run, corporations have to take care of the interests of the stakeholders, specifically when operating in international markets.

### 3. Literature and Hypothesis

#### 3.1. Internationalization and Corporate ESG Performance

International firms have to face institutional pressures internally and externally in the countries where they have a presence [24,40] along with international values and global legitimating factors [41]. Therefore, firms have to put up efforts in order to obtain legitimacy and to maintain a competitive advantage [6]. Firms may perform substitute practices to achieve legitimacy in an international market, such as disclosing their environmental information [7]. The corporations have to achieve moral legitimacy based on normative authorization in foreign markets [25] by increasing their environmental actions beforehand in their international processes [21,42,43].

Environmental management helps in reducing waste and emissions by applying the practices in the processes of firms in order to attain better environmental performance [44]. Developing this kind of environmental capability could also help the firms in reducing the cost and increasing the benefits by achieving environmental compliance. Berchicci et al. [45] contend that environment-related technologies, capabilities, and skills need to be developed to become more effective in reducing pollution, thereby allowing better environmental performance. Resultantly, such capabilities allow firms to strategically operate in other countries rather than taking advantage of the host country's lack of environmental regulations [46]. Kennelly and Lewis [47] find that the degree of internationalization is positively associated with corporate environmental performance. On the other hand, Christmann [14] investigated a plethora of studies concerning internationalization and concluded that firms operating in international markets are under pressure to respond to the diverse demands of stakeholders, including host-country regulations. The inability to respond to the host economy's policies will lead to litigation charges. Their research also suggests that firms with stringent compliance to host-country regulations achieve higher environmental performance. However, globalization puts multinationals under the stakeholders' vigilant evaluation of firms' environmental strategies and policies, where there is a probability of negative response [18], and upsurges the need for moral legitimacy [25].

It seems logical to determine the fact that globalization has led firms to a broad set of pressures from a variety of stakeholders, global values, and legitimating actors that oversee the firms' sustainable actions in an international market. Thus, to meet the demands

of stakeholders concerning environmental issues, firms should embrace environmental policies and practices to cope with the complexities of global markets and to attain moral legitimacy. Likewise, we assert that corporate environmental performance positively responds to the development of foreign subsidiaries. Hence, we posit the following:

**Hypothesis 1a (H1a).** *Internationalization has a positive impact on the environmental performance of Chinese multinationals.*

Multinational firms are expected to have increased pressures from economically, culturally, institutionally, and politically diverse stakeholders to initiate and process CSR activities and integrate the activities in their operations. Sanders and Carpenter [48] argue that the level of internationalization is accompanied by the challenges associated with the survival of multinationals in international markets, such as the cultural and institutional differences that firms have to embrace with the use of their geographically dispersed resources. In general, internationalized firms should consider the demands of a wide range of stakeholders, including non-governmental agencies [49].

Multinational firms have to adapt their strategy in response to the increased pressure and demands from the different stakeholders. Some argue that firms should invest in sustainable activities to mitigate the negative influence of their business decisions on the environment, which may enhance satisfaction among internal stakeholders (employees) [15]. Therefore, we can assume that higher social performance is a gauge of determining a firm's response to the demands of different stakeholder groups [50].

We contend that internationalized firms adopt various CSR activities in response to the increasing demands of stakeholders. For instance, Kang [51] noted that a global strategy reduces the managerial employment risk due to a firm's dependence on manager-centered policies and skills required to accomplish various tasks. Hence, it would be difficult and costly to replace present managers. Consequently, it will increase the probability that managers use ample firm resources to respond to stakeholder pressures [50]. In addition, when multinationals operate in an international market, they have to encounter various litigation risks if they violate any unfamiliar societal and/or regulatory requirements. Firms are exposed to legitimacy risk when entering into the foreign market, and this perceived risk can be decreased and their reputation can be strengthened in social responsibility by investing in sustainable actions. Feldman et al. [52] state that proactivity in respect to sustainability-related activities allows firms to minimize perceived risk. Similarly, Brammer et al. [20] also contend that stakeholder perceptions about corporate social behavior lead them to believe in a firm's affairs for a long time. Moreover, internationalized firms can depict their level of commitment to an international market by adopting sustainable operations that not only improve their CSR communication [53] but also reduce the adverse effects of psychic distance. Lastly, internationalization strengthens the managers' risk aversion ability. To mitigate a firm's risk, caused by regulators, activists, and product users, managers tend to abide by all the rules and laws of a host country [54] and enhance their CSR-related activities. The problems created by regulators, activists, and consumers not only tarnish the image but also increase litigation costs. Moreover, internationalized firms face immense media attention and stock market coverage [50], so managers have to deal with pressure from both local and global stakeholders.

Kang [51] presents evidence of a positive relationship between firm internationalization and the social performance of MNCs. They argue that, when a firm enters an international market, it encounters different social issues and stakeholder concerns due to the varied societal priorities of the host countries [55]. Zyglidopoulos [56] contends that internationalized firms face different sets of pressures relating to social and environmental responsibilities as compared to the companies that are in competition with them in the country in which they are operating. Thus, when a firm goes global, it should develop its CSR strategies and execute various sustainable practices. The reason behind increased CSR activities is the negative response from various stakeholders. Furthermore, globalization releases "managers from shareholder pressures" and enables them "to pay more attention

to the stakeholder and social issues” by diversifying geographic sources of income [53] (p. 99). In addition, internationalization enables corporations to benefit from economies of scale, as it allows firms to leverage their resources and enhance their CSR-related operations in foreign subsidiaries [51]. Lastly, we argue that as firms go global, many NGOs can make them targets for their campaigns in the international market [57]. CSR activities can become a shield for such threats. Therefore, we posit the following hypothesis:

**Hypothesis 1b (H1b).** *Internationalization has a positive impact on the social performance of Chinese multinationals.*

The performance of companies is also affected when they go global. Firms are affected by the performance at three levels during internationalization, as mentioned by Muliyanto and Marciano [58]. There is a negative association between internationalization and firm performance at the first level of internationalization. At the second level, firm performance increases as companies become more informed and able to manage the problems in the global market. At the third and highest level, firm performance is decreased again because of the increase in complexity due to internationalization. Firm performance is taken as a benchmark for companies, and they try to improve their performance using different governance methods [58]. Therefore, we can say that internationalization affects the corporate governance of companies.

Companies are faced with different problems during the internationalization process. They must implement effective governance practices for smooth internationalization. A good corporate governance structure helps in overcoming cultural differences, spatial distance, and communication problems. An effective governance structure can enable corporations to maintain their good image in the market and manage company personnel [59]. The effective governance score can be achieved with the help of the positive role of the board and its small size, engagement of the board, the absence of external members, good communication channels, and the absence of external member resources [59].

Al Mamun and Badir [60] studied the corporate governance of companies and found that competitive advantage can be gained if companies can magnify the corporate governance apparatus. He and Cui [61] studied the relationship between corporate governance and internationalization in China and found that companies that are better able to implement corporate governance practices gain high profitability and better performance in the international market. They found that there is a positive relationship between corporate governance and the performance of companies in the international market. When the companies have good corporate governance and have implemented straight rules, they feel safer and more confident in the internationalization process. Hence, we can say that companies that have well-implemented corporate governance can easily go into internationalization. Moreover, Felicio et al. [62] identified that corporate governance helps in the implementation of the global mindset, which ultimately affects the internationalization process. However, Kraus et al. [63] found that there is a negative correlation between corporate governance and internationalization. The research was conducted on German family-owned enterprises, and it was found that lower family participation in corporate structure leads to the better implementation of internationalization of German companies. Muliyanto and Marciano [58] investigated the interdependence of corporate governance, performance, and internationalization. They created three models to test the relationship and found different results for each model. In one of the three models, they found that performance and corporate governance are positively correlated and that corporate governance has a significant positive impact on the internationalization process. Shanmugashundaram [64] studied the relationship between the corporate governance of Indian firms and their intention for internationalization, and it was found that better governance practices help firms controlled by a family in the internationalization process. The family-controlled firms can go global through foreign direct investment, and the better the governance practice, the easier the internationalization process.

**Hypothesis 1c (H1c).** *Internationalization has a positive impact on the governance performance of Chinese multinationals.*

### 3.2. ESG Performance of Chinese SOEs and Non-SOEs in the International Markets

The holding of equity in a company is referred to as ownership. Ownership is the most important matter in enterprises because of decision-making rights and cash-flow rights. Moreover, different ownership entities have different priorities in terms of strategies and structures. There are ample studies that have explored the role of state ownership in promoting CSR activities among companies [9,65–69]. The results produced by the prior literature are inconclusive. For instance, Cheung et al. [9] claimed that SOEs in international markets are less active in terms of their CSR practices than non-SOEs. They supposed that, due to the continuous financial support from the Chinese government, SOEs are not under the influence of external stakeholders to adopt socially responsible actions. Similarly, Shahab et al. [67] found that CSR quality ratings have less influence on the distress level of SOEs. These results depict that SOEs are backed by governments to avoid any financial issues. On the contrary, Khan et al. [70] contend that state ownership has a positive impact on CSR performance. In addition, they found that reducing state ownership negatively affects the CSR performance of companies. In a similar vein, Guo et al. [71] found that the presence of state ownership enhances CSR disclosures. Furthermore, this relationship is stronger with increases in the proportion of state-owned shares. They argue that the shareholder state can participate in a company's decision-making and incorporate national social policy, which influences management's social strategies. Hence, companies increasingly undertake social actions.

It is evident from the above discussion that the impact of internationalization on corporate social actions is inconclusive. The heterogeneity in the findings may be due to a country's own policies and individual manager behavior. As such, each country has its own characteristics, and it is important to consider those characteristics in internationalization. International expansion has different influences for developing countries, as compared to developed countries because of changes in institutional complexities. The social needs of developing countries are different as compared to developed countries because social, environmental, and human rights issues are not of primary importance in developing countries. Non-SOEs can compromise on social and environmental issues, whereas SOEs with a different strategy of expansion may not be able to [72]. Non-SOEs have different goals for international expansion, and SOEs have different goals. Non-SOEs may internationalize to stay competitive, but SOEs tend to go to other countries that have unstable governments, both politically and institutionally, but have high natural resources [73]. In this way, privately owned companies have different social, environmental, and governance scores, and SOEs score differently because they have different goals and strategies for international expansion. Bolivar et al. [65] pointed out that managers are among the influencers of CSR in SOEs, but they do not perform as one would expect them to. Their research showed that a manager's personal background hinders or encourages them to conduct socially responsible operations while working in SOEs. In general, they argue that a manager's intentions have a strong impact on their behavior towards CSR issues.

However, it is argued that SOEs pursue social actions in line with the government or national policies. Their legitimacy is in the hands of the government and not pressured by external stakeholders. Non-SOEs adopt social and environmental activities to maintain their legitimacy in the eye of stakeholders, particularly when operating in international markets. Thus, the impact of internationalization on environmental social and governance performance will not be the same for SOEs and non-SOEs. Thus, we hypothesize that (Figure 3):

**Hypothesis (H2).** *The impact of internationalization on (a) environmental, (b) social, and (c) governance performance is heterogeneous among SOEs and non-SOEs.*

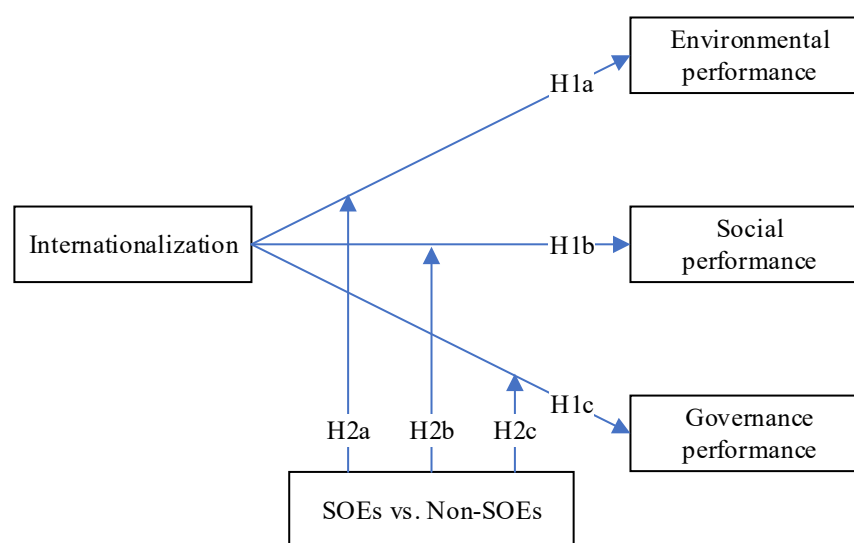


Figure 3. Research framework.

#### 4. Methodology

This section discusses the sampling technique, the nature of the data gathered, the proxies used for estimation of the variables involved in the study, and the econometric techniques used for testing the hypothesis.

##### 4.1. Sample and Data

The study is conducted in a Chinese context, which is considered to be an ideal “research laboratory” [74] among other emerging economies. China’s rapid pace of economic growth is complemented by increases in imports and exports. Many Chinese companies are providing various products to global customers. Since China’s transition to a market economy, the government has urged state- and non-state-owned corporate actors to act upon their social and environmental responsibility [75]. Similarly, in 2008, the China State-Owned Assets Supervision and Administration Commission took various steps to enforce SOEs to improve their CSR performance. Thus, we believe that China is an appropriate research context to examine the effect of internationalization on the environmental, social, and governance performance of multinationals from an emerging market.

The sample of the study comprises a longitudinal dataset (2010–2019) of A-share firms traded in Shanghai and Shenzhen stock exchanges in China. The data related to dependent and independent variables of the study were sourced from the two largest databases in China. First, we used the China Stock Market and Accounting Research (CSMAR) database developed by GTA to extract information relating to the financial variables of the study. GTA CSMAR is a unique and comprehensive database covering financial market information of all companies listed in China’s stock exchanges. This database has been widely used in prior studies [22,76,77]. Second, we used the HEXUN website to obtain Rankins Ratings (RKS) scores for the environmental, social, and governance performance of Chinese listed companies. RKS scores are based on 70 indicators used to determine the sustainable performance of Chinese listed companies. Experts assessed the sustainability reports of the companies to determine the composite score of their sustainable performance on an annual basis. The validity of the measures was already determined in prior literature [75,78]. RKS scores refine their assessments on an annual basis and publish companies’ sustainability ratings for the public.

To obtain the final sample of the study, we excluded (a) all financial companies due to the specific nature of their revenue structures and international exposure, (b) firms under special treatment (since 1998, both stock exchanges in China decided to place firms with an abnormal financial structure in a separate head (special treatment), which leads to a false understanding of the company’s financial strength), and (c) firms with missing values. We

combined the data from both databases and also excluded firms with missing observations to construct a final sample of 6234 firm-year observations.

## 4.2. Variables Measurement

### 4.2.1. Dependent Variable—ESG Performance

Following Shahab et al. [76], we used sustainability scores of Chinese listed companies from the HEXUN website. This site allowed us to extract the RKS scores for the environmental, social, and governance indicators of Chinese firms. The HEXUN database consists of all Chinese companies that issue sustainability reports and are rated by an independent agency on an annual basis. We measured the rating quality of environmental, social, and governance performance using HEXUN-RKS scores for each component of sustainability.

### 4.2.2. Independent Variable—Internationalization

Prior studies have used various proxies to measure a firm's level of internationalization, such as the proportion of foreign sales to total sales, the proportion of foreign assets to total assets [15,16], the number of countries in which a firm operates [17], and the number of subsidiaries that the firm owns [79,80]. However, this study measures internationalization by the number of subsidiaries that each firm owns in the global market. It determines the weight of a firm in the international markets [42]. This measure is appropriate in the case of emerging market firms because most of them are in the early stages of internationalization and are unable to generate consistent revenues in the global market.

### 4.2.3. Control Variables

To obtain true estimates regarding the primary relations of interest in the study, control variables are used to eliminate any confounding effects, given that large corporations have the resources and motivation for the implementation of sustainable policies in their business organization. Thus, it is only reasonable to assume that the size of a firm affects its sustainability and ESG performance [81]. Therefore, a natural log of the firm's total employees was used for controlling the effect of firm size during model estimation. Similar to firm size, firms with easy access to credit may be able to implement and maintain a high level of sustainability, as compared to firms that do not have access to low-cost credit. Thus, the ratio of total liabilities to total assets at the end of the year was used as a control variable in this investigation [82]. Mature companies have a lot more experience as compared to new firms. Furthermore, they also tend to be in a better position, as compared to new firms, to implement new business practices due to established linkages in the market, a loyal supplier and consumer base, the ability and resources for design, and the implementation of organizational change [83]. Thus, to control for the confounding effects of the firm's age, a natural log of the number of years since the inception of the firms was used.

The financial performance of firms is also responsible for the ability to manage organizational change properly. Thus, in light of the current literature, firm performance was used as a control variable [84]. The firm's return on equity (ROE), that is, the ratio of net profit to total shareholders' equity, was used as a proxy for firm performance. Similar to financial performance, market performance also affects a firm's ability to implement organizational change. In the case of poor market performance, fund providers, that is, investors and creditors, may pressure companies to pursue traditional objectives of wealth maximization rather than investing in corporate sustainability [51]. Thus, in order to control for the confounding effect of market performance of a firm's market-to-book ratio, that is, the ratio of the market-to-book value of equity, this ratio was introduced in the model as a control variable. The growth rate of firms can also have an effect on environmental, social, and governance scores. Therefore, a firm with a high rate of growth may be able to generate resources and motivate its shareholders to invest to increase the ESG performance score. Thus, in line with the extant literature, the ratio of change in the natural logarithm of business income to the natural logarithm of total business income was introduced to control the effects of firm growth. In the end, sector and time dummy variables were

presented in the process of estimation to control for time- and sector-specific effects [77]. Table 1 shows the specific definition of each variable.

**Table 1.** Variable definitions.

Variables	Symbol	Definition
Internationalization	Int_Sub	the number of subsidiaries each parent firm owns.
Environmental Performance	Env_P	the reported data taking into account the resource use, emissions, and innovation for environmental concerns.
Social Performance	Soc_P	the reported data taking into account the human rights, workforce, community, and product responsibility.
Governance Performance	Gov_P	the reported data taking into account the management, shareholders, and CSR strategy.
SOE	SOE	the dummy variable which is equals “1” if the majority of the shares of the company are owned by the government or government-affiliated institutions or agencies and “0” otherwise.
Size	Size	the natural logarithm of the number of employees.
Leverage	Lev	the ratio of total liabilities to total assets at the end of the year.
Age	Age	the value obtained by the subtraction of the current year from the year of the company’s establishment.
Growth	Growth	the change in business income scaled by business income in $t-1$ .
Cashflows	Cash	the operating cashflow divided by the total assets.
ROE	ROE	the ratio of net profit to total shareholders’ equity.
Market to book ratio	MTB	the market value of equity divided by the book value of equity

#### 4.3. Empirical Models

We employed different models to empirically estimate the influence of internationalization on the environmental, social, and governance performance of Chinese multinationals. The data used in this study were longitudinal or panel data. Thus, the models were estimated using a panel data estimation technique, that is, the Least Square Dummy Variables (LSDV) model. The LSDV model was used because complicated models can be tested using this technique, whereas the OLS estimation technique has its own limitations. It can estimate the group-wise collection of cross-sectional data over time, which allows differentiating between intra-group and inter-group differences [85]. Hence, the following models were used:

$$Env\_P_{it} = Int\_Sub_{it} + Size_{it} + Lev_{it} + Age_{it} + Growth_{it} + Cashflow_{it} + ROE_{it} + MTB_{it} + Sector\ FE_t + Time\ FE_i \quad (1)$$

$$Soc\_P_{it} = Int\_Sub_{it} + Size_{it} + Lev_{it} + Age_{it} + Growth_{it} + Cashflow_{it} + ROE_{it} + MTB_{it} + Sector\ FE_t + Time\ FE_i \quad (2)$$

$$Gov\_P_{it} = Int\_Sub_{it} + Size_{it} + Lev_{it} + Age_{it} + Growth_{it} + Cashflow_{it} + ROE_{it} + MTB_{it} + Sector\ Fixed\ Effect_t + Time\ Fixed\ Effects_i \quad (3)$$

## 5. Results

In this section, we discuss the results of our data analysis. Table 2 shows the results of regression analysis using the LSDV and both of the internationalization proxies.

### 5.1. Descriptive Results

Table 2 presents descriptive details of the dependent and independent variables of the study. The results outline the low means of each of the three dimensions of ESG performance. It interprets the intent of Chinese multinationals’ sustainable strategies in the international market. The average value of internationalization (Int\_Sub) shows that each firm has more than five foreign subsidiaries in the international markets.

The correlation matrix (see Table A1 in Appendix A) depicts the association between various variables of the research. The internationalization depth and breadth are positively associated with the environmental, social, and governance performance. Overall, we did not find any issue of multicollinearity among the predictors where the VIF (variance inflation factor) was below the prescribed limit [86].

**Table 2.** Descriptive statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
Env_P	6234	2.061	5.535	0.000	23.000
Soc_P	6234	4.131	3.659	−6.870	15.000
Gov_P	6234	6.413	3.592	−0.433	17.007
Int_Sub	6234	4.348	5.746	1.000	37.000
SOE	6234	0.291	0.454	0.000	1.000
Size	6234	8.053	1.228	5.464	11.387
Lev	6234	0.434	0.198	0.061	0.868
Age	6234	16.090	5.756	2.000	51.000
Growth	6234	0.204	0.351	−0.399	2.079
Cashflows	6234	0.044	0.062	−0.130	0.215
ROE	6234	0.073	0.107	−0.470	0.345
MTB	6234	4.473	2.592	1.400	16.022

Note: For variable definitions, see Table 1.

## 5.2. Regression Results

Table 3 presents the main findings of the study. Model 1 indicates that internationalization has a positive (coefficient = 0.0399) and significant ( $p$ -value < 1%) effect on the environmental performance of Chinese multinationals (H1a supported). These results accord with the findings of Xu et al. [77] and are inconsistent with those of Gómez-Bolaños et al. [23]. We did not find any positive and significant coefficient (−0.0103) for social performance. (H1b not supported). These findings partially support the results of Brammer et al. [20] and are consistent with those of Duque-Grisales and Aguilera-Caracuel [87]. However, we did find a positive (coefficient = 0.0390) and significant ( $p$ -value < 1%) impact of internationalization on governance performance (H1c supported). Overall, these findings suggest that Chinese multinationals prefer to develop an environmental strategy when operating in global markets and consider the host country's various laws to guide their business operations. However, sometimes firms strategically develop short-term profit goals that divert them from investing in social issues for long-term improvement, thereby affecting the social performance of multinationals [51].

Table 4 presents the results regarding the effect of internationalization on the ESG performance of Chinese SOEs and non-SOEs. Model 1 shows the positive (coefficient = 0.0417) and significant ( $p$ -value < 5%) effect of internationalization on the environmental performance of SOEs. Similarly, Model 4 presents the positive (coefficient = 0.0513) and significant ( $p$ -value < 1%) coefficient of the same variable for non-SOEs. In comparison, these results provide evidence that SOEs are less active in the international markets with regard to their environmentally responsible actions than non-SOEs. On the other hand, Model 2 presents an insignificant positive (coefficient = 0.0170) value for social performance in the case of SOEs, and Model 5 provides a negatively (coefficient = −0.0244) significant ( $p$ -value < 5%) value for non-SOEs. These results show that the internationalization of Chinese SOEs and non-SOEs has no impact on social performance. This may be due to the heavy burden of domestic social responsibility for SOEs and short-term profit-making objectives of non-SOEs. Lastly, Model 3 (coefficient = 0.0529) and Model 6 (coefficient = 0.0381) present a positive significant ( $p$ -value < 1%) impact of internationalization on governance performance for both SOEs and non-SOEs. However, in the case of governance performance, SOEs outperform their counterparts. As a whole, these results can be compared with the findings of Cheung et al. [9].

**Table 3.** Impact of internationalization on ESG performance.

Variables	Model 1	Model 2	Model 3
	Env_P	Soc_P	Gov_P
Int_Sub	0.0399 *** (0.0134)	−0.0103 (0.0084)	0.0390 *** (0.0074)
Size	0.906 *** (0.0752)	0.499 *** (0.0476)	0.653 *** (0.0400)
Lev	1.942 *** (0.4400)	−0.823 *** (0.2960)	−1.795 *** (0.2460)
Age	0.0401 *** (0.0118)	0.0413 *** (0.0082)	0.0182 *** (0.0066)
Growth	−0.2200 (0.1650)	0.1210 (0.1370)	−0.227 ** (0.0948)
Cashflows	2.066 * (1.1140)	(0.8920) (0.7530)	3.492 *** (0.6480)
ROE	2.050 *** (0.6620)	7.413 ** (0.4170)	15.32 *** (0.4320)
MTB	−0.0700 ** (0.0275)	−0.0420 ** (0.0205)	−0.0423 ** (0.0175)
Constant	−10.60 *** (0.6760)	0.5440 (0.8440)	−1.887 *** (0.4470)
Industry FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes
Observations	6234	6234	6234
R-squared	0.230	0.191	0.417

Note: Robust standard errors in parentheses \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . For variable definitions, see Table 1.

**Table 4.** Impact of internationalization on ESG performance of SOEs and non-SOEs.

Variables	SOE			Non-SOE		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Env_P	Soc_P	Gov_P	Env_P	Soc_P	Gov_P
Int_Sub	0.0417 ** (0.0210)	0.0170 (0.0141)	0.0529 *** (0.0117)	0.0513 *** (0.0169)	−0.0244 ** (0.0106)	0.0381 *** (0.0093)
Size	0.978 *** (0.1420)	0.732 *** (0.0856)	0.785 *** (0.0727)	0.693 *** (0.0872)	0.350 *** (0.0597)	0.484 *** (0.0483)
Lev	−1.1520 (1.0380)	−1.290 ** (0.5890)	−3.877 *** (0.5520)	1.969 *** (0.4540)	−0.729 ** (0.3520)	−1.660 *** (0.2640)
Age	0.0177 (0.0297)	0.0397 ** (0.0157)	0.0077 (0.0156)	0.0406 *** (0.0113)	0.0375 *** (0.0099)	0.0194 *** (0.0069)
Growth	−0.1830 (0.3850)	0.545 * (0.2900)	0.0214 (0.2140)	−0.1010 (0.1710)	−0.0573 (0.1530)	−0.236 ** (0.1010)
Cashflows	1.9830 (2.6800)	−1.7510 (1.4960)	3.055 ** (1.4670)	1.989 * (1.0830)	−0.4800 (0.8650)	3.563 *** (0.6880)
ROE	1.4860 (1.5660)	6.667 *** (0.7750)	14.18 *** (0.8950)	2.453 *** (0.5790)	7.726 *** (0.4910)	15.99 *** (0.4640)
MTB	−0.1100 (0.0712)	0.0074 (0.0414)	−0.0274 (0.0428)	−0.0441 (0.0278)	−0.0557 ** (0.0244)	−0.0338 * (0.0182)
Constant	−7.565 *** (1.4550)	0.7020 (1.7230)	−0.0595 (1.3690)	−8.922 *** (0.7270)	1.2740 (0.9410)	−0.869 ** (0.4150)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1814	1814	1814	4420	4420	4420
R-squared	0.321	0.254	0.442	0.16	0.172	0.439

Note: Robust standard errors in parentheses \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . For variable definitions, see Table 1.

### 5.3. Robustness and Endogeneity

Table 5 presents the effect of internationalization on ESG performance using generalized methods of moments (GMMs) and two-stage least square (2SLS) techniques of controlling endogeneity. These techniques were used to control for endogeneity issues [88]. Longitudinal data suffer from endogeneity, which arises from the omitted variable bias, the

correlation between the error terms of explanatory variables, or the misspecification of the model. Endogeneity results in inconsistent regression estimates, which causes appropriate inferences [89]. Thus, we implemented a statistical analysis that was free from the assumption of the endogeneity of regressors. Overall, we did not find any change in our main results. Internationalization has a positively significant relationship with environmental and governance performance. Consistent with earlier findings, social performance did not have significant support. Hence, our results are robust to any endogeneities.

**Table 5.** Impact of internationalization on ESG performance based on generalized methods of moments (GMMs) and two-stage least square (2SLS) techniques.

Variables	GMM			2sls		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Env_P	Soc_P	Gov_P	Env_P	Soc_P	Gov_P
Int_Sub	0.0606 *** (0.0167)	−0.0052 (0.0101)	0.0471 *** (0.0091)	0.0606 *** (0.0167)	−0.0052 (0.0101)	0.0471 *** (0.0091)
Size	0.827 *** (0.0861)	0.520 *** (0.0567)	0.666 *** (0.0468)	0.827 *** (0.0861)	0.520 *** (0.0567)	0.666 *** (0.0468)
Lev	1.615 *** (0.5090)	−1.001 *** (0.3580)	−1.825 *** (0.2940)	1.615 *** (0.5090)	−1.001 *** (0.3580)	−1.825 *** (0.2940)
Age	0.0448 *** (0.0140)	0.0377 *** (0.0097)	0.0223 *** (0.0079)	0.0448 *** (0.0140)	0.0377 *** (0.0097)	0.0223 *** (0.0079)
Growth	−0.2020 (0.2280)	0.0101 (0.1760)	−0.1610 (0.1290)	−0.2020 (0.2280)	0.0101 (0.1760)	−0.1610 (0.1290)
Cashflows	1.4690 (1.3690)	−1.1770 (0.9040)	3.527 *** (0.7930)	1.4690 (1.3690)	−1.1770 (0.9040)	3.527 *** (0.7930)
ROE	1.422 * (0.7530)	7.369 *** (0.4580)	14.73 *** (0.4860)	1.422 * (0.7530)	7.369 *** (0.4580)	14.73 *** (0.4860)
MTB	−0.0971 *** (0.0343)	−0.0323 (0.0243)	−0.0560 *** (0.0216)	−0.0971 *** (0.0343)	−0.0323 (0.0243)	−0.0560 *** (0.0216)
Constant	−10.38 *** (0.8110)	0.5360 (1.1140)	−2.631 *** (0.4760)	−10.38 *** (0.8110)	0.5360 (1.1140)	−2.631 *** (0.4760)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4537	4537	4537	4537	4537	4537
R-squared	0.248	0.195	0.436	0.248	0.195	0.436

Note: Robust standard errors in parentheses \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . For variable definitions, see Table 1.

## 6. Discussion

Multinational firms have to adapt their strategy in response to the increased pressure and demands from different stakeholders. Moreover, SOEs and non-SOEs have different strategies for international expansions. Private companies internationalize to stay competitive and to increase their long-term profits, but SOEs tend to go to other countries with high natural resources and weak political governments [73]. The aftereffects of internationalization on SOEs and non-SOEs are different. In light of the extant studies, we empirically explored how Chinese multinationals deal with stakeholder pressures to deal with their environmental, social, and governance-related actions—in particular, how SOEs and non-SOEs respond to such pressures.

The empirical results of the research are based on the unique dataset of Chinese multinationals. The study employed LSDV, GMM, and 2SLS techniques to test the hypotheses of this study. The findings of the research evidently support that internationalization drives the corporate environmental and governance performance of Chinese multinationals. These findings imply that pressure from external stakeholders to meet standards and environmental compliance [47] leads emerging market multinationals to become environmentally friendly global businesses. Furthermore, these two concerns (environmental and governance) can be easily monitored and penalized by external stakeholders, which keeps multinationals upright in terms of these issues.

Interestingly, we found that internationalization does not impact corporate social performance. This can be explained using the concept of “tax havens”. Over recent decades, for example, more than 40 countries and regions (e.g., Lichtenstein, Bermuda, Luxemburg, the British Virgin Islands, the Caymans, and Guernsey) have become internationally recognized as tax havens. Many multinational companies set up overseas subsidiaries (e.g., shell companies and intermediate holding companies) in these tax havens to make overall business arrangements for the purposes of tax avoidance. Some literature shows that corporate tax avoidance is negatively correlated with CSR. For instance, Lanis and Richardson [26] found that a higher level of CSR disclosure decreases the level of tax aggressiveness. Hoi et al. [90] found that irresponsible CSR activities have a higher likelihood of engaging in tax sheltering activities. In brief, internationalization for the purposes of tax avoidance could reflect that the managers are more prone to acting in their self-interest. Hence, they will prefer to engage in social activities to a lesser extent.

In the comparative analysis, we found that the internationalization of non-SOEs, compared with their state-owned counterparts, strongly impacts environmental and governance performance. This is in line with the analysis of Cheung et al. [9]. It is evident that the Chinese government is financially supporting SOEs due to their multiple roles. This helps SOEs in developing and maintaining relationships with global customers, which releases them from any external pressure. On the other hand, non-SOEs have to maintain their legitimacy and build a good reputation for their survival in the international market.

Lastly, we did not find any impact of internationalization on the social performance of SOEs and non-SOEs. This finding is not different from our main results about the social performance of Chinese multinationals. However, we will elaborate on this for SOEs and non-SOEs, respectively. First, SOEs in China carry the burden of domestic social responsibility. For example, SOEs mainly contribute to the country’s tax revenue, carry the burden of domestic employment, and maintain a stable market supply for local businesses. It is evident that SOEs have already implemented CSR in many aspects of local operations and may not need further social investments in the international market. Second, it is evident that non-SOEs are more profitable than their counterparts and that their financial strength is based on equity rather than debt [91]. Thus, when they internationalize, they prefer large markets and low-risk-profile locations, where it is easy to generate higher economic returns [92]. The aim of maximizing short-term profits often discourages companies to respond to stakeholder demands and invest in social issues [51]. Consequently, the internationalization of such firms positively influences corporate social irresponsibility [42].

Aside from valuable contributions, this study suffers from some limitations that yield suggestions for future research. First, it is suggested that researchers replicate our research framework in a developed country context, as the influence of government ownership and control may differ in other countries due to the political structure of the developed world. Second, it would be interesting to explore other moderators that may enhance or hamper the existing relationship between internationalization and ESG performance. Third, we recommend examining the influence of a host and home country’s sustainable policies on the ESG performance of multinationals [15]. In the end, future research should examine the depth and breadth of internationalization effects on sustainability performance. These two variants of internationalization have separate influences on the strategies of multinationals [42].

## 7. Conclusions

Multinational firms are expected to face increased pressures to initiate and process CSR activities and integrate those activities into their operations from economically, culturally, institutionally, and politically diverse stakeholders. Whether internationalization increases the survival of a firm highly depends on its ability to handle the increased levels of complexity that originate from mixed cultural, competitive, and institutional environments and whether the firms can manage, integrate, and coordinate their geographically dispersed resources [48]. This is particularly important for SOEs and non-SOEs when they

enter international markets to pursue their divergent goals. Firms going international must specifically take into consideration the interests, demands, and expectations of a broader set of communities, investors, customers, employees, creditors, regulators, and non-government organizations, among other parties [49]. Thus, our research adds to the international business literature by identifying the extent to which SOEs and non-SOEs differ in terms of their sustainable performance in international markets—in particular, how they deal with external stakeholder pressure and maintain their legitimacy in global markets.

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## Appendix A

Table A1. Pearson's correlation matrix.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) Env_P	1											
(2) Soc_P	0.127 *	1										
(3) Gov_P	0.753 *	0.299 *	1									
(4) Int_Sub	0.075 *	0.045 *	0.102 *	1								
(5) SOE	0.224 *	0.106 *	0.136 *	0.071 *	1							
(6) Size	0.275 *	0.172 *	0.281 *	0.288 *	0.361 *	1						
(7) Age	−0.047 *	0.077 *	−0.043 *	0.078 *	0.193 *	0.111 *	1					
(8) Lev	0.168 *	0.035 *	−0.041 *	0.204 *	0.360 *	0.454 *	0.188 *	1				
(9) Growth	−0.024	0.046 *	0.072 *	0.043 *	−0.093 *	−0.029	−0.035 *	−0.001	1			
(10) Cashflows	0.053 *	0.077 *	0.246 *	−0.012	−0.025	0.150 *	0.008	−0.154 *	−0.017	1		
(11) ROE	0.076 *	0.254 *	0.525 *	0.043 *	−0.035 *	0.144 *	−0.003	−0.133 *	0.254 *	0.317 *	1	
(12) MTB	−0.02	−0.056 *	−0.055 *	−0.016	−0.034 *	−0.122 *	−0.039 *	0.246 *	0.108 *	0.018	0.046 *	1

Note: \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . For variable definitions, see Table 1.

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