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Does CSR Moderate the Relationship between Corporate Governance and Chinese Firm's Financial Performance? Evidence from the Shanghai Stock Exchange (SSE) Firms

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Abstract: We have performed a focalized investigation to explore how corporate social responsibility (CSR) moderates the relationship between corporate governance and firms' financial performance. We applied a panel regression to examine this relationship from a sample of 3400 Shanghai Stock Exchange (SSE) listed firms, based on yearly observations from 2009 to 2018. Our results show that the presence of female directors on the board is associated with improved firms' performance and that corporate social responsibility (CSR) moderates this relation, thus indicating that sharing strategic decision-making with female board members revealed a better relationship between CSR and firms' financial performance. Our findings showed that foreign institutional investors positively influenced firms' financial performance and that CSR moderates the relation between foreign institutional shareholders and the firm's financial performance. Supported by corporate governance theories, such as resource dependence and stakeholder theory, our results help to better understand the nexus among corporate governance, firms' performance and corporate social responsibility. These findings are advantageous to government departments in emerging countries in terms of encouraging marketing practitioners and participants to implement CSR practices and change the attitude associated with CSR implications. This study highlighted the problems of the foreign institutional investors' scheme, which was the main contribution to the financial market reform of China after 2003. These findings offer significant implications to corporate affairs executives and managers, practitioners, academicians, state officials, and policy-makers, and might provide China with the opportunity to extend its market liberalization to the global markets. This research also contributes to the existing literature, which investigates how CSR moderates the relationship between corporate governance and firms' financial performance in the Chinese market context.

Keywords: corporate social responsibility (CSR); corporate governance; female directors; foreign institutional investors; Chinese firms' financial performance

1. Introduction

In recent years, several scholars have mainly emphasized corporate social responsibility based on business grounds and considered corporate social responsibility (CSR) as a useful research area for numerous businesses and academicians, managers, and practitioners. However, despite the importance of CSR and the large number of researches on this topic, there is no universal agreement on how CSR should be conceptualized [1]. Past literature has indicated that there are numerous theoretical viewpoints and debates explaining the concept of CSR [2].

Carroll (1991) proposed the primary definition of CSR among the prevailing viewpoint as a concept that incorporates ethical, economic, discretionary, business, and legal anticipation of human societies for business firms by viewing CSR perspectives as not only adding contributions for business purposes but also for the social welfare perspective at large. In the same way, Wood (1991) conceptualized CSR as a firm's confirmation to specific principles, procedures, and policies as they typically describe the organizations' responsibility to society [3]. Mohr, Webb, and Harris (2001) also regarded CSR as the commitment of organizations and business firms to reducing or removing any unsafe business practices and increasing their valuable contributions to society [4].

In this sense, the existence of CSR depends on an organization's responsibility when they consider the welfare and beneficial contribution of the society through ethical, economic, and supportive business application practices that might result in favor of the different stakeholders, such as business practitioners, consumers, workers, suppliers, shareholders, and various community groups, as well as the environment [4]. In short, CSR typically appears through the commitment of organizations and business firms to considering a beneficial contribution to society or any other person who could be affected by their social implements and activities [5,6]. Thus, it is imperative to consider being socially responsible for offering a contribution to society rather than just being profit-oriented, such as protecting the environment and making efforts to resolve social problems, as these are the critical indicators for organizations that are being socially responsible.

Organizations can express social responsibility through their different business stakeholders, retailers, suppliers, consumers, and employees by adhering to the policies and ethical standards. Past empirical and theoretical studies have revealed that consumers and other stakeholders are likely to perceive socially responsible firms in a positive light. Organizations can notice this either directly or indirectly from the influence of consumers' behavior, and corporate identification represents this. Some researchers have identified that CSR has a significant impact on customer satisfaction [7], including Luo and Bhattacharya (2006), who described that CSR directly affects customer satisfaction [8]. In addition, investing in corporate social responsibility is considered as the foundation of competitive benefits and a means of enhancing financial performance [9,10].

According to Hovey and Li [11], corporate governance emerged as a high-priority issue after the Asian financial crisis of 1997 as it was considered one of the major causes of the crisis. One of the landmark scandals that contributed to the emergence of corporate governance in China was the discovery of production facilities that never existed, which were falsely declared by the blue-chip company Ying Guang Xia [12]. Moreover, 2005 was also declared a crucial year for corporate governance because, in that year, company and security laws were significantly amended [12]. Although a system of corporate governance was developed in the form of standards, rules, and regulations, their enforcement was too weak, ultimately leading to an unfortunate corporate governance scenario in China, even though many laws, standards, etc. were considered adequate by the International Monetary Fund and the World Bank [13]. Furthermore, based on a research study in 2006, Canada's Centre for International Governance Innovation (CIGI) declared China as the first Asian nation to develop and adopt corporate governance principles. However, the same organization ranked China as ninth in Asian markets, considering the actual corporate governance work done. Thus, this shows that there is a significant difference between compliance and enforcement of the reforms in China.

The role of monitoring, performed by the board of directors, is an essential tool for control in the corporate governance system, specifically in countries where there are weak external controls.

The gender mix of a firm's board significantly affects the quality of monitoring and leads to better financial performance. The participation of females on boards is taken from part of a "business case", though related arguments may also be needed to frame this in the scope of ethical considerations. Moreover, the world is attracting more and more research in boardroom gender diversity, but most of the literature is related to the US context. Hence, we discuss the relationship of gender diversity and financial performance in China, which is a country that has almost no female participation in the senior managerial workforce.

In a broader light, we analyze the relationship of corporate governance, CSR and financial performance of listed companies of China. Considering that the globalization of capital markets also has played an essential role in addressing corporate governance regimes, as countries must create a balance between governance principles and the need to ensure gender diversity, aligned with the country's overall legal and cultural setting. Although Chinese corporations have standard features in corporate governance according to developed markets, they also have some unique features, such as the biggest owners having absolute controlling rights, and the system of two-tier structure of boards having a board of supervisors and board of directors, along with ineffectiveness of independent executive/non-executive directors. The research on boards of corporations in China and their role of voluntary activities may have broad implications for different corporate governance systems, which cannot be obtained merely from the study of advanced market settings [14].

Our study makes a number of contributions. First, the present study is the first one that examines the moderating role of CSR on corporate governance and firms' financial performance. It is not only relevant for Chinese companies but also relevant for foreign and potential investors who are planning investing in Chinese firms. Second, there is a huge volume of research investigating the impact of female directors on firms' performances with primary data, so papers utilizing secondary data in China are still limited. Third, since endogeneity is a severe issue in corporate governance studies, we utilize the two-stage least squares (2SLS) estimator to address the potential endogeneity problem in our analyses and provide a robustness check.

Our study is based on a 3400 firm sample of observations and covers a period from 2009–2018. Our results show that female directors on boards are improving firms' financial performance, measured through ROA and ROE, and that CSR moderates the relationship between female directors and firms' financial performance in the Chinese market context. Furthermore, we also found that foreign institutional shareholders have a positive impact on firms' financial performance and that CSR moderates the relationship between foreign institutional shareholders and firms' financial performance. The remaining paper is presented as follows: Section 2 shows the review of the literature, the theoretical basis, and develops our hypothesis; Section 3 explains our sample and research methods; Section 4 shows our empirical results; and the last section presents the final thoughts and future research.

2. Literature Review, Theoretical Basis, and Research Hypothesis

2.1. Female Directors and Firm Financial Performance

Gender diversity on boards of directors is commonly discussed in the literature. Three different reasons highlight the significance of women on board [15]. First, women are found to have a better business understanding than their male peers, which leads to an increase in the quality of decisions on board. Second, firms which have women on board have a good reputation in society, and hence this tends to increase the corporation's performance. Third and lastly, the overall understanding of the business scenario is comprehensively increased by appointing women directors [16].

There are mixed results of studies on the relationship between gender diversity and corporations' performances [17–19]. According to Carter, Simkins [20], Campbell and Mínguez-Vera [21], there is a significant positive relationship between female members on a board and its performance, whereas, some studies also found a negative association between women on board and firms' performances [22,23]. It is also important to mention that some researchers also did not find a clear

association between women on boards and firms' performances [24–26]. In this regard, these differences could also be the result of different methods and statistical techniques [18]. These mixed results are the reasons [17] for arguments about developing research on the same variables with different backgrounds and conditions to allow for a better understanding of the real effect of women directors on boards and respective firms' performances.

Previous studies also suggest that gender diversity, external shareholders, ethnicity and foreigners bring a healthy viewpoint on various issues that lead to correction of biases related to information in strategy formulation and solving problems [27]. Virtanen [28] also found that women board members play a more active role than their peers. Generally, female members at senior positions bring higher moral principles and ethics [29], are open to raising questions [30], show more top team working skills, have a participative leadership style, and discuss issues openly with key stakeholders [31]. Adler [32], with a sample size of 500 companies, found a significant relationship between women-friendliness and firms' performances. According to the author, the female capability to influence decision-making significantly increase if there are two or more female members present at boards of firms [33–35]. The public disclosure and earnings quality also increased due to the representation of females on the committee and superior supervision [36]. According to Pathan and Faff [37] and Adams and Ferreira [26], women are more prepared for board meetings and show higher attendance as compared to their male counterparts. Hence, we can say that more top-quality supervision leads to an increase in firms' performances.

According to the theory of resource dependency, women directors on boards bring more ideas, viewpoints, experience, and valuable and unique connections. Previous studies show that women have better and more diversified networks as compared to males [38,39]. Furthermore, female members have better knowledge and understanding of markets and their customers [40]. The greater the variety of perspectives and viewpoints women bring on board, the more innovation and novelty occurs towards approaches for problem-solving. In this sense, the theory of gender roles also explains how males and females possess prescribed manners about communication. For instance, women show more typical womanly characteristics, such as empathy and gentility [41].

On the other hand, males tend to show more self-confidence and aggression in terms of decision-making. Further, female members are more likely to show more flexibility and hence have a better capability to handle uncertain environments [42]. Thus, we expect a direct and positive relationship between female directorship and firms' performances. According to References [43–45], gender-diverse senior management has a strong effect on US firms' performances. Other studies have examined the relationship between women's positions in firms and their impact on financial performance. According to Shrader [46], firms with female management had higher ROE, ROI, and ROA, which shows higher financial performance. On the other hand, some authors argue that the association between gender diversity and firms' performance cannot be stated when the environment is at the top management or board level. The authors also argued that this might be due to a smaller sample of women at those posts when considered in research. Based on the discussion above, we formulate our first hypothesis. Carter and Simkins [20], when analyzing 638 Fortune 1000 companies, found a strong relationship between firms' performances and board gender diversity by using Tobin's Q approach.

H1. *The presence of women on boards of directors is positively associated with firms' financial performances.*

2.2. Foreign Institutional Shareholders and Firm Financial Performance

In view of different corporate governance theories, a lot of research has been conducted on the relationship between the ownership structure of a firm and its performance in developing markets. The modern Western firms' ownership structure has dispersed minority shareholders and made the firm control by individuals or small groups almost impossible [47]. In such a scenario, shareholders give their decision-making authority and rights to professionals, such as board members and managers,

who work for shareholders as their agents. The agents are strictly required to work in the best interests of the shareholders. This is called separation of management from ownership [48].

Smith [49] was the first researcher who discussed the problems associated with the separation of control and ownership. Further he explained that the status of the manager is equal to the status of the owner in a running corporation. But this situation also creates a conflict of interest between managers and owners and hence leads to the rise of agency costs related to this conflict, which in turn negatively affects firms' performances [50].

This separation of management and ownership is not an easy concept to understand in China because most of Chinese firms are state-owned entities (SOEs). Moreover, top management and key personnel of corporations usually have the background or currently serve in government or the CPC (Chinese Communist Party) [51]. The shareholders that control the corporation with their voting rights can also fire senior management with their simple majority at the board [52]. Further, the traditional view of agency theory in the Western context, based on the separation of ownership and management, could not be applicable to China. Therefore, the corporate governance approaches should focus on instances of conflict between owners of firms with highly-concentrated ownership (the Chinese state, for instance) and minority shareholders [53]. According to Porta, Lopez-de-Silanes [54], the weak protections for investors is the reason for the concentration of ownership.

Foreign institutional investors are a recent emerging issue in Chinese listed firms. Both performances and CSR of Chinese firms are becoming more internationalized in this context [55]. Trade, investment, and internationalization bring many benefits to emerging nations through the contribution of knowledge, skills, and increased employment. Shleifer and Vishny [56] found that institutional investors have a significant effect on firms' decisions by using their voting power. Hence, large shareholders, such as institutional investors, always get the attention of the management of firms, as also argued by the stakeholder theory. Furthermore, the institutional investors support activities and decisions related to CSR and firm's performances [57,58]. We have considered Chinese firms because many researches were conducted on developed markets which studied the structure of ownership and CSR performance [59], but very few studies were conducted focusing on developing markets [60]. Hence, there is a minimal number of studies that have analyzed the foreign institutional investors and corporate governance of companies listed in China.

In this regard, Beatson and Chen [61] state that Tobin's Q and ROA are affected by the investments made by foreign institutional investors. Huang [43] argued that in recent split-share reforms, foreign institutional investors promoted minorities' interests. Soliman, El Din [62] and Oh, Chang [63] analyzed Korean and Egyptian entities and found that foreign institutional investors promote a significant positive effect on CSR rating. On the other hand, the studies conducted in the US context either show a weak [64] or negative [65] impact of institutional ownership on firms. The European markets also showed a limited association between these variables [66]. According to Arouri, Hossain [67], after studying the sample of 58 banks of GCC background, there is a positive impact of foreign institutional investors on banks' performances. Wang and Chen [68] also found that foreign institutional ownership promotes a positive effect and increases the performance of Chinese companies in a social context. Therefore, the second hypothesis is stated below.

H2. *The presence of foreign institutional shareholders is positively associated with firms' financial performances.*

2.3. *The Moderating Effect of Corporate Social Responsibility on Corporate Governance and Firm Financial Performance*

The debate on the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) has been ongoing [61]. Yet, empirical results concerning the nature of the relationship are mixed. Some studies detect a positive relationship, while others find negative, or even curvilinear (e.g., U-shaped) relationship. Despite this diversity, based on their meta-analyses, Reference [69] concludes that a positive relationship is more common than other types. In the past three

decades, CSR disclosures with a focus on firm financial performance have been a point of emphasis from the academic and business perspective [69–71]. The quantity and quality of CSR information are valuable to both internal and external stakeholders [72]. This also decreases information asymmetry between firms and external stakeholders [73]. Furthermore, according to Adams [74], it also helps in improving the reputation of the firm and the reliability of its relationship with society and stakeholders. The stakeholder theory perspective suggests that there are some other groups that are also affected by the firms' activities besides shareholders, such as local community, employees, and environment, and that these groups should be equally considered in management decision-making along with shareholders [75]. Thus, a good relationship with stakeholders always positively affects long-term corporate performance [76].

According to von Arx and Ziegler [77], and Kim, Amaeshi [78], the stakeholders have little information on CSR as compared with stock price and firm performance information, but this is increasing. Moreover, according to Kim, Li [79], and Godfrey, Merrill [80], firms that engage in CSR not only increase the value to shareholders, but also reduce firm risks. According to Menguc and Ozanne [81], the firms' overall performance (ROA, profit, sale growth, market share, etc.) is positively increased by CSR activities. According to Withisuphakorn and Jiraporn [82], the older firms focus more actively on participating in CSR actions, especially those related to the environment.

As we know that female directors have a positive impact on firms' financial performance [83–87], and also that CSR has a positive effect on firm financial performance [17,20,32,43–45], it would be reasonable to assume that the CSR moderates the relation between female directors and firms' financial performances.

According to Waddock [57], institutional shareholders always support the activities and policies which are related to CSR. One potential motivation to support CSR policies is that they show their awareness of responsibility and reliability to their overall clients by using CSR as an instrument [88]. Second, the foreign institutional shareholders are normally concerned about the benefits of the firm in the long term, which considers the firm's costs and participation in CSR [58]. Furthermore, prior studies also supported this argument [63,89,90].

The foreign institutional shareholder's role in deciding whether to execute CSR has received a lot of attention from researchers and scholars. The power of the foreign institutional shareholders on determining CSR practices is common in developed countries. According to Aguilera, Williams [91], foreign institutional shareholders in the developed market are more anxious about environmental and social concerns, but similar studies are almost nonexistent in developing countries.

Institutional investors have a significant effect on the direction or decision of a firm with voting rights [56]. Large institutional shareholders receive extensive attention from the board and management, which is emphasized by the stakeholder theory. In this sense, they tend more towards supporting CSR related actions [57,58].

Western-management practices, styles, and internationalization have a significant effect on the current trends of CSR in Asia [63]. In China, a lot of investment comes from the US and developed European countries, and the demand for CSR disclosures is common there. Pressure for CSR disclosures is generally increasing in the world, and foreign investors promote a positive impact on CSR. Furthermore, foreign investors prefer to invest in companies that are socially responsible for further reducing risk [51]. For this reason, we expected that CSR moderates the relationship between foreign institutional shareholders and firm financial performance. In this context, the third and fourth hypotheses are stated as follows:

H3. *CSR moderates the relation between the presence of women on boards and firms' performances.*

H4. *CSR moderates the relation between the foreign presence of institutional shareholders and firms' financial performances.*

3. Research Methods and Data

3.1. Study Data and Sample

The CSR data of Chinese corporations were collected from the RKS database. Overall, CSR ratings were gathered from annual reports of Rankins CSR Ratings (RKS). This independent agency measures CSR of corporations in China by calculating CSR disclosures. RKS considers three factors while measuring CSR activities, which are 30% for overall evaluation, 50% for content evaluation, and 20% for technical assessment, showing the full dynamics of corporations' reporting and the quality and reliability of their disclosures.

3.2. Variables

3.2.1. Financial Performance Measures

The market-based measures, like Tobin's Q, are widely used in current studies [92], but may not be a suitable measure for the financial performance of companies in China. Liu, Wei [93] further argued that these measures take stock market efficiency into consideration, which may not be reasonable in the Chinese context. Hence, the accounting-based measures are more consistent and stable, less subject to speculation, and less affected by market noise [94]. Therefore, we believe that accounting-based measures like ROA, one of the most used performance measures used in corporate governance-related research, would be more efficient. A similar approach was also used by Reference [95].

3.2.2. Independent and Moderator Variables

The proportion of female directors on the boards was taken as the independent variable, and the data were obtained from the profile section of directors list at CSMAR database. Hafsi and Turgut [96] calculated female director percentages on boards by dividing female directors by the total number of directors on board. We consider the presence of foreign ownership in companies listed in China as a dummy variable in this research study. The foreign institutional investor data were collected from the section of institutional investors at CSMAR database. CSR was considered as the moderating variable, and its data were collected from the RKS database.

3.2.3. Control Variables

Based on prior studies, we have included some firm-level characteristics as control variables, assuming that they provide significant support on the impact of firms' performances. These variables are board size [97,98], firm age (FA) [97,99], firm size (F.size) [9,99], state-owned enterprises (SOE), and leverage (LEV) [95].

3.3. The Study Models

To assess whether CSR moderates the relationship between corporate governance and firms' financial performances, the following regression model was established.

$$FFP_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 FIS_{it} + \beta_3 Bsize_{it} + \beta_4 FA_{it} + \beta_5 FS_{it} + \beta_6 SOE_{it} + \beta_7 Lev_{it} + \beta_8 YearDum_{it} + \beta_9 Industry Dum_{it} + \epsilon_{it} \quad (1)$$

$$FFP_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 FD*CSR_{it} + \beta_3 Bsize_{it} + \beta_4 FA_{it} + \beta_5 FS_{it} + \beta_6 SOE_{it} + \beta_7 Lev_{it} + \beta_8 YearDum_{it} + \beta_9 Industry Dum_{it} + \epsilon_{it} \quad (2)$$

$$FFP_{it} = \beta_0 + \beta_1 FIS_{it} + \beta_2 FIS*CSR_{it} + \beta_3 Bsize_{it} + \beta_4 FA_{it} + \beta_5 FS_{it} + \beta_6 SOE_{it} + \beta_7 Lev_{it} + \beta_8 YearDum_{it} + \beta_9 Industry Dum_{it} + \epsilon_{it} \quad (3)$$

FFP_{it} refers to one of the measures of firm financial performance (ROA or ROE) for the company i at time t ; FD as a proxy for the presence of female directors (calculated as female director's percentage

on boards by dividing the total number of female directors by the total number of directors on boards); FIS refers to foreign institutional shareholders (the presence of foreign ownership in companies listed in China and considered as a dummy variable); CSR as a corporate social responsibility proxy (the CSR data of Chinese corporations collected from RKS database); Bsize as a proxy for board size (calculated by the total number of director on the board); FA refers to firm age (calculated by the number of years that firms are operating, since inception); FS as a proxy for firm size (calculated by taking the logarithm of total assets); state-owned enterprises as a dummy variable equal to 1 if the firm is state-owned enterprises, otherwise 0; Lev refers to leverage (measured by the ratio of total debts to assets). The proportion of female directors on the boards was taken as the independent variable, and the data were obtained from the profile section of the directors list at the CSMAR database.

4. Empirical Results

4.1. Descriptive Statistics

Table 1 shows descriptive statistics. The ROA mean value is 0.54, and the mean value of FD and FIS are 0.12 and 0.15, respectively. The mean value of CSR is 38.34. Further, the mean values of firm age and firm size are 12.23 and 23.24 respectively, and almost 60% of companies in China are state-owned (63%). It is also important to mention that firm leverage is about 52% on average.

Table 1. Descriptive statistics.

Variable	Obs	Mean	Std. Dev
ROA	3481	0.0542415	0.01416
FD	3481	0.1246043	0.02004
FIS	3481	0.1459351	0.03530
CSR	3481	38.34504	2.1253
Bsize	3481	9.599828	2.3428
FA	3481	12.2324	5.3728
FS	3481	23.24123	1.7690
SOE	3481	0.631715	0.182408
Lev	3481	0.5209174	0.114047

Table 2 presents the variance inflation factor (VIF) analysis for each variable. Results suggest that multicollinearity is not a concern, since all VIF values are less than 10.

Table 2. Inflation factor statistics.

Variable	VIF	Tolerance
FD	1.06	0.947038
FIS	1.04	0.963887
CSR	1.06	0.945726
Bsize	1.27	0.790390
FA	1.19	0.841186
FS	1.93	0.517047
SOE	1.24	0.809709
Lev	1.62	0.616793

Mean VIF: 1.30.

4.2. Correlation Matrix

We performed a correlation analysis before running our regressions (Table 3). The results show that the variables are not highly correlated in the context of Chinese firms. But, there is an exception between FS and Lev, which has a value exceeding 0.5 in correlation coefficients. However, it is thought not to be problematic.

Table 3. The correlation matrix.

	FD	FIS	CSR	Bsize	FA	FS	SOE	LEV
FD	1							
FIS	−0.0135	1						
CSR	−0.0155	0.0901 ***	1					
Bsize	−0.0780 ***	0.1022 ***	0.3069 ***	1				
FA	0.0634 ***	0.0498 ***	−0.0120	0.0228	1			
FS	−0.0867 ***	0.1553 ***	0.5715 ***	0.4496 ***	0.1142 ***	1		
SOE	−0.1874	0.0896 ***	0.1304 ***	0.1762 ***	0.2717 ***	0.2641 ***	1	
Lev	−0.0729	0.0164	0.2365 ***	0.2612 ***	0.2154 **	0.5984 ***	0.1992 ***	1

Note: *** represents $p < 0.01$; ** represents $p < 0.05$; and * represents $p < 0.1$.

4.3. Multivariate Analysis and Discussion

In this topic, we discuss the research findings of four research hypotheses. First, we have examined whether female directors and foreign institutional shareholders at the board of Chinese firms are related to financial performance. Our results (Table 4, model 1) demonstrate that there is a strong and direct relationship between female directors and firms' financial performance ($\beta_1 = 0.016$, p -value = 0.000). The coefficients for female directors are significant and positive. Our results also show that foreign institutional shareholders have a positive relationship with firms' financial performance ($\beta_2 = 0.095$, p -value = 0.000). These findings are relevant to policymakers in developing markets, especially in China, when identifying significant drivers related to foreign investment. At the developing market level, there are signs of the sensitivity of foreign institutional shareholders to market cycles. In China, studies show that the Chinese structure of ownership is a significant attraction for foreign investors.

Table 4. CSR as a moderating effect on the relationship between corporate governance and firm financial performance.

Items	Model 1 (ROA)		Model 2 (ROA)		Model 3 (ROA)	
	Coefficient	p -Value	Coefficient	p -Value	Coefficient	p -Value
FD	0.0169 ***	0.006	0.0891 **	0.016	—	—
FIS	0.0951 ***	0.000	—	—	0.0634	0.001
CSR*FD	—	—	0.0566 *	0.048	—	—
CSR*FIS	—	—	—	—	0.0420	0.005
BSize	−0.0061	0.108	−0.0055	0.158	−0.0064	0.102
FA	0.0705 *	0.083	0.0868 *	0.057	0.0552 *	0.072
FS	0.0070 ***	0.000	0.0074 ***	0.000	0.0705	0.000
SOE	−0.0121 ***	0.000	0.0118	0.000	−0.0127 ***	0.000
Lev	−0.1094 ***	0.000	−0.111 ***	0.000	−0.1102 ***	0.000
Year&Ind	YES		YES		YES	
Adj-R ²	18.62		18.34		18.63	

Notes: n = 3400; *** represents $p < 0.01$; ** represents $p < 0.05$; and * represents $p < 0.1$.

The agency problem, related to disperse ownership which mostly prevails in developed markets, cannot be detected in China. The Chinese case is different; the conflict occurs between the state and minority shareholders. In such a scenario, the monitoring power of foreign institutional investors tends to protect the minority shareholders from external shareholders expropriation, leading to better economic efficiency and corporate governance mechanisms [50,56]. However, in China, foreign institutional investors hold a relatively smaller share and, hence they have limited capacity to influence the decision-making processes of the Chinese firms, except for exercising exit options. Generally, foreign investors use both online and informal meetings with management, rather than trying any other strategies. The monitoring of foreign institutional investors acts as an incentive for minority shareholders, and hence it improves the corporate governance of Chinese firms. Therefore, these

institutions not only reduce agency problems by effective governance, but also allow the firms to access the most-needed resources, such as capital.

Table 4, model 2, shows that CSR moderates the relation between female directors and firms' financial performances ($\beta_2 = 0.056$, p -value = 0.045); and in model 3 we show that CSR moderates the relation between foreign institutional shareholders and firms' financial performances ($\beta_2 = 0.042$, p -value = 0.005). As far as the control variables are concerned, we observe that board size (Bsize) has a negative influence on ROA.

Our results also show that firm age has a direct relationship with both performance measures. They also indicate that older firms are more profitable than younger firms. Since the older firms are more experienced, they tend to have a higher ability to take advantage of their wisdom and thus exhibit superior performance in comparison to their peers.

The older firms also take advantage of reputation, which is also reflected in their profits and market values. The firm size variable showed a significant positive relationship with firms' financial performances. This suggests that larger firms are more profitable than smaller firms.

We also found that the coefficient of SOE is negative and significant in all dimensions of our specifications. Moreover, our results also suggest that leverage harms and creates an adverse effect on the performances of Chinese firms. The negative relationship also implies that firms have to rely upon debt to finance their operations. It also causes a bankruptcy risk that negatively influences firms' performances.

4.4. Robustness Tests

4.4.1. An Alternative Measure of Corporate Financial Performance

To ensure the robustness of study findings, we used ROE as an alternative measure of firms' performances (Table 5). The coefficients of FD and FIS are positive and significant in model 1 ($\beta_1 = 0.041$, $\beta_2 = 0.012$, $p < 0.05$ and $p < 0.01$, respectively). The coefficient of the moderator variable (CSR*FD) in model 2 is significant at the 5 percent level ($\beta_2 = 0.100$) and moderator variable (CSR*FIS) in model 3 is also significant at the 5 percent level ($\beta_3 = 0.049$, $p < 0.05$), indicating that CSR moderates the relationship between corporate governance and firms' financial performances. These results are also consistent with the main findings presented in Table 4 above.

Table 5. An alternative measure of corporate financial performance.

Items	Model 1 (ROE)		Model 2 (ROE)		Model 3 (ROE)	
	Coefficient	<i>p</i> -Value	Coefficient	<i>p</i> -Value	Coefficient	<i>p</i> -Value
FD	0.0418 **	0.037	0.1691 **	0.015	—	—
FIS	0.0122 ***	0.000	—	—	0.0752 **	0.022
CSR*FD	—	—	0.1001 **	0.027	0.0493 **	0.045
CSR*FIS	—	—	—	—	0.0490 **	0.022
BSize	−0.0026 ***	0.041	−0.0016	0.899	−0.0318	0.801
FA	0.0056 **	0.026	0.0049 **	0.000	−0.0502 **	0.031
FS	0.0271 ***	0.000	0.0276 ***	0.000	0.0270 ***	0.000
SOE	−0.0320 ***	0.000	−0.0315 ***	0.000	−0.0335 ***	0.000
Lev	−0.2123 ***	0.000	−0.2144 ****	0.000	−0.2139 ***	0.000
Year&Ind	YES		YES		YES	
Adj-R ²	9.44		9.45		9.37	

Notes: n = 3400; *** represents $p < 0.01$; ** represents $p < 0.05$; and * represents $p < 0.1$.

4.4.2. Controlling the Endogeneity Problem Using Two-Stage Least Square (2SLS)

Additionally, to deal with the possibility of endogeneity problems, we use the 2SLS regression model [100]. Thus, we used lagged values of corporate governance proxies as instrumental variables, which is likely to meet the restriction (i.e., not being correlated with firms' performances but correlated

with the decision to have female directors on the board). Two-stage least-square regression also has validated our main findings, according to the following Table 6.

Table 6. Robustness: Two-stage least square (2SLS) regression.

Variables	Model 1 (ROA)		Model 2 (ROA)		Model 3 (ROA)	
	Coefficients	p-Value	Coefficients	p-Value	Coefficients	p-Value
FD	0.0208 **	0.044	0.1549 **	0.047	—	—
FIS	0.0245 ***	0.001	—	—	0.3115 ***	0.000
CSR*FD	—	—	0.1062	0.083	—	—
CSR*FIS	—	—	—	—	0.2199 ***	0.000
BSize	−0.0072 *	0.068	−0.0538	0.170	−0.0681 *	0.092
FA	0.0048 *	0.076	0.0089 *	0.057	0.0064 *	0.069
FS	0.0644 ***	0.000	0.0746 ***	0.000	0.0664 ***	0.000
SOE	−0.0123 ***	0.000	−0.0116 ***	0.000	−0.0129 ***	0.000
Lev	−0.1063 ***	0.000	−0.1109 ***	0.000	−0.1073 ***	0.000
Year&Ind	YES		YES		YES	
R ²	18.31		18.66		14.87	
Wald Ch ²	988.81		987.50		955.86	

Notes 1; n = 3400, Notes 2; represents $p < 0.01$ ***, $p < 0.05$ ** , $p < 0.1$ *.

4.5. Discussion of Results

This research aimed to investigate how CSR moderates the relationship between corporate governance and firms' financial performance using a sample of 3400 Chinese SSE listed firms. Our findings suggest that females working as directors on the board committees is associated with enhanced performance, and CSR moderates the relations between the presence of female directors on the board and firm financial performance. Furthermore, we have shown that womens' participation in the decision-making process indicates a sound and improved relationship with firm financial performance. Our findings are similar to the findings obtained by Reference [101] and Carter, Simkins [20] in the US context.

Our findings also have shown that foreign institutional investors positively and significantly affected firms' performance and that CSR moderates the relationship between foreign institutional shareholders and firms' financial performance. To develop sustainably, China must work to improve economic, environmental, and social aspects of production and performance. The findings of this study will help in promoting CSR actions and encourage socially responsible efforts in developing markets. These empirical results have also supported the theories of corporate governance, such as Resource Dependence and Stakeholder theories, and our results have provided relationships that assist with the understanding of corporate governance, firms' performances, and the corporate social responsibility CSR nexus. This study clearly shows that female directors on boards are improving corporate performance. This means that the share of women in decision-making processes has a good relationship with financial performance. The findings are similar to the results obtained by Carter, Simkins [20] in the US context. Furthermore, our research also found that foreign institutional investors have a positive impact on corporations' performances, and that CSR moderates the positive relationship between foreign institutional shareholders and firms' performances. These research findings are also of immense importance to policymakers in developing markets, especially in China, while identifying significant drivers related to foreign investment. At the developing market level, there are signs of the sensitivity of foreign institutional ownership to market cycles. In China, study results show that the Chinese structure of ownership is a significant attraction for foreign investors.

5. Final Thoughts and Future Research

In this research study, we contributed to the literature on corporate governance, CSR, and financial performance. In particular, many other studies have only focused on a few economies. Accordingly,

this paper suggested exercising caution while generalizing the results. Hence, this study offers new insights into corporate governance, CSR and financial performance by using data from listed firms in China. The research finding also shows that the presence of females on boards has a significant positive effect on firms' financial performances, and that CSR moderates the relationship between female directors and firms' financial performances. This further means that Chinese companies should focus on the balance between male and female members on the board, rather than only males. This research also implies that greater gender diversity is beneficial, and investors will value the contributions made by women directors. The research findings also show that foreign institutional investors have a significant direct relationship with firm performance and that CSR moderates the relationship between foreign institutional shareholders and firm performance.

It also encouraged foreign investors to forward more of their resources to the firms already possessing some investments. CSR fully moderate the relation between corporate governance and firm financial performance. The presence of females on boards of limited companies in China is always a hot topic and point of discussion between academic researchers and policymakers, as historically there has been a low percentage of women on boards. Women generally do better than men academically and make crucial household decisions. Hence, their small representation at boards of Chinese companies is surprising.

Additionally, the EU Parliament approved a bill which will require the large companies of the EU to fill 40% of the non-executive director's posts with women by 2020. Our findings are valuable to policymakers in emerging markets, especially in China, for evaluating and identifying essential drivers of foreign institutional investors. In the case of emerging markets, our findings also have demonstrated the sensitivity of foreign institutional investors to business cycles. In addition, the research also shows the sensitive nature of foreign investment in the Chinese market. The ownership structure is also a critical attraction factor for foreign investors. Eventually, the increasing significance of foreign capital and uneven attraction of foreign capital by some firms is making it essential for corporations to fully understand the factors that shape the decisions of foreign investors. Hence, it is also found that stocks with higher foreign ownership perform better than ones with low foreign ownership [102]. The effect of CSR on corporation performance in developed market contexts is studied extensively. However, the studies show mixed findings on the relationship between corporate performance and CSR. This research study adds new insights into the role of CSR by shedding light on variables in the Chinese background setting. The results show that the more consistent and appropriate the corporations' social actions, the more it will have a positive impact on performance.

These findings are advantageous for government departments in emerging countries to encourage CSR practices, and for marketing practitioners and participants to change the attitude towards CSR implications. This study highlighted the problems of the foreign institutional investors' scheme, which was the main contribution to the financial market reform of China after 2003. In addition to scientific knowledge, these findings offer significant implications to corporate affairs executives and managers, practitioners, academicians, state officials and policymakers, and might help China to extend its market liberalization to global markets. This research also contributes to the existing body of literature, which has investigated the moderated effect of CSR on the relationship between corporate governance and firm financial performance in the Chinese market.

Our study has some limitations. First, we cannot control all variables that may affect the analysis. Second, a limited period sample may restrict the generalizability of the results. CSR actions usually take time before they have some results in the market. Then, future studies will determine whether this study may generalize to other contexts. Third, one of the important topics for future research would be the relationship of corporate performance, female members' ties to the owners, and qualifications of female board members.

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