MANDATORY ESG DISCLOSURE AND CORPORATE

FOREIGN PHILANTHROPIC GIVING

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Mandatory ESG Disclosure

And Corporate Foreign Philanthropic Giving

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CERTIFICATE OF ORIGINALITY

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Mandatory ESG Disclosure and Corporate Foreign Philanthropic Giving

ABSTRACT

I examine how mandatory ESG disclosure regulation in a country affects foreign MNEs' ESG behaviours in that country. I conjecture that ESG disclosure mandate triggers local isomorphic behaviour of foreign MNEs so that they follow local firms' pro-social behaviour. Employing a staggered difference-in-differences (DiD) design, I find that foreign MNEs increase their ESG activities in a host country, as proxied by donations to that host country, after ESG disclosure mandate is enacted in that country. The treatment effect is robust to a dynamic DiD model for test of parallel trend assumption, to a balanced sample to mitigate differences in mandated versus non-mandated countries, to falsification tests that replace dependent variable with domestic donations and donations to elsewhere in the world, and to a stacked sample to mitigate heterogeneous treatment effect issue in staggered DiD. The increase in donations is more prevalent for countries that are more important to a firm's portfolio, for firms possessing higher liabilities of foreignness (LOF), with higher media coverage by local media outlets before the mandate, and for firms that rely more on governmental contracts from host country government. Moreover, foreign donations help MNEs maintain governmental contracts and local media sentiment after ESG disclosure mandate. Overall, my findings show that incentives to mitigate the LOF and to maintain relation with local governments and communities lead foreign MNEs to imitate local firms' pro-social behaviour after mandatory ESG disclosure regulation is enacted. The evidence is consistent with managers making donation decision out of profit-maximization.

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Chapter 1. Introduction

Environmental, social, and governance (ESG) considerations have become the center of debate among policy makers. ESG investing has grown increasingly vital to investors' decision making around the world. However, firms' disclosures on ESG-related issues have largely failed to meet investors' information demand. To bridge the gap between the demand for and the supply of ESG disclosure and to accelerate the change towards a sustainable economy, several countries have introduced mandatory ESG disclosure regulations to enhance firms' supply of ESG information. While a burgeoning literature have examined the real effects of mandatory ESG disclosure regulations on the firms that are legally subject to these mandates (Christensen, Floyd, Liu, and Maffett, 2017; Chen, Hung, and Wang, 2018; Fiechter, Hitz, and Lehmann, 2022; Krueger, Sautner, Tang, and Zhong 2023), little is known about whether and how foreign multinational enterprises (MNEs) that operate in these countries but are not *de jure* subject to the mandate respond to the ESG disclosure mandate, which could be an unintended consequence of ESG disclosure mandates. In fact, Christensen, Hail and Leuz (2021) call for more research on "whether mandated CSR reporting generates positive spillovers", which is one of the factors to justify a mandate.

MNEs account for a significant market share in the economy. United Nations Conference on Trade and Development (UNCTAD 2014) reports that the world's largest 100 MNEs have 70% of their total assets invested abroad, and foreign subsidiaries of MNEs contribute to about half of the world GDP. According to Bureau of Economic Analysis (BEA), by the end of 2018, more than 53% sales from U.S. MNEs come from their foreign affiliates, and more than 67% of their total assets are invested in foreign countries. Given the irreversible trend of globalization and the increasing importance of foreign operations of MNEs, it is vital to understand the MNEs' overseas activities under the ever-changing institutional

environments. In this study, I empirically examine how mandatory ESG disclosure regulation in a foreign host country shapes MNEs' ESG activities in that country.

Prior studies suggest that MNEs are subject to the liability of foreignness (LOF) that arises from transportation and coordination, from unfamiliarity with the local institutional environment, from lack of legitimacy and the prevalence of economic nationalism, and from home country restrictions (Zaheer 1995; Bell, Filatotchev, and Rasheed, 2012). To overcome LOF, MNEs attempt to mimic the advantages of successful local firms (i.e., local isomorphism) (Zaheer 1995). ESG disclosure mandate in a host country that requires more ESG related information pressures local firms to increase their commitment to ESG issues such as environmental performance, workplace safety, and corporate donations (Chen et al., 2018; Fiechter et al., 2022). It may trigger local mimetic isomorphic behavior for MNEs, where MNEs learn from the behavior of successful local firms and adopt similar ESG strategy after the mandate. Therefore, I conjecture that MNEs will increase their ESG activities in the foreign host country after the ESG disclosure mandate in that country[1].

One challenge to examine MNEs' ESG footprints outside borders is the measurement of them. Most ESG disclosure requirements are imposed on firms that are incorporated or listed on domestic exchanges, but not on MNEs that are from foreign countries. Therefore, it is difficult to track MNEs' ESG footprints outside their home countries. In this study, I propose to use corporate foreign philanthropic giving as proxy for MNEs' foreign activities, as all corporate foundations are required to disclose their donations all around the world. Moreover, I argue that while MNEs have incentives to increase their general ESG performance, they may choose to employ philanthropic giving in particular. First, compared to other ESG strategies, such as improving local environmental practice, corporate philanthropy is easier to implement

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[1] The effect can also be driven by product market competition as documented by Cao et al., (2019). Here I argue that the mimetic isomorphism to overcome LOF can be an additional channel even without or with minor market competition.

and mimic, and more visible to stakeholders (Hornstein and Zhao, 2018). Second, corporate donation is considered as 'output' variable and captures the eventual outcomes of firms' CSR investments (Grewal and Serafeim, 2020; Fiechter et al., 2022). Consequently, it is less prone to greenwashing.

To empirically examine the research question, I follow Krueger et al. (2023) and identify the year of mandatory ESG disclosure regulation in a country from various sources including Carrot & Sticks (C&S) project and the Sustainable Stock Exchange (SSE) Initiative. I collect donations by corporate-funded foundations from the Foundation Directory Online (FDO, formerly known as Foundation Center). Among all corporate charitable donation channels, I focus on donation through corporate foundations because charitable foundations are required to disclose details about every grant they make through Form 990 and therefore donations through corporate foundations are more visible and easier to track than the donations through other two channels (through direct giving, or through donor-advised funds). Employing a staggered difference-in-differences (DiD) design, I find that U.S. MNEs increase their propensity to donate by 3.6% and donation amount by 40.8% to a host country after mandatory ESG disclosure regulation come into force in the host country.

There are multiple explanations for the increase in donations after a host country adopts the mandatory ESG disclosure scheme, as the regulation is not completely exogenous. Regulatory authorities may establish ESG disclosure mandates in reaction to the increasing demand for ESG in the host country, thus the increase in pro-social activities may be merely a reaction of these underlying forces. To tease out these possibilities, I perform various analyses that examine the parallel trends assumption underlying the staggered DiD design. My results remain robust to a dynamic model, falsification tests using domestic donations and foreign elsewhere donations as alternative dependent variables and DiD regression using entropy balanced sample. Overall, these tests provide confidence that the positive treatment effect on

MNEs' philanthropic giving is driven by mandatory ESG disclosure regulation itself, but not by an increase in demand for ESG in host countries, by MNEs increasing their overall level of philanthropic giving, or by differences between treatment and control countries.

I conduct additional tests to further check the robustness of my results. The results remain similar if I use a stacked dataset to mitigate the heterogeneous treatment effect issue of staggered DiD approach, if I include domestic donations as additional control, and if I drop the two countries with most observations in my sample.

To further explore the underlying mechanisms of increase in foreign donations, I conduct a bunch of cross-sectional analyses. I examine five characteristics of MNEs that may affect their incentives to adapt to local ESG practice: (1) the importance of the host country to the firms' operating portfolio; (2) whether the firm operates in alcohol, gambling, tobacco, and other controversial businesses (sin firms); (3) the quality of a firm's social performance as part of its ESG metric; (4) the MNE's visibility to local stakeholders; (5) the extent to which the firm relies on foreign governmental contracts. I find that firms donate more to host countries where they hold more subsidiaries, since the incentives for overcoming the LOF are higher in those countries that are more important to MNEs' portfolio. Moreover, I find that firms that operate in sin businesses and with poor social performance increase their donations to the host countries more after mandatory ESG disclosure is implemented, as these firms possess less social capital and face higher LOF before ESG disclosure mandates, they react more proactively after the mandates. Furthermore, I find that MNEs that have higher local media coverage before the mandates increase their donations more after the mandates, consistent with MNEs increase their donations to the host country with a hope that their pro-social behaviour could be seen by local stakeholders. Finally, firms that rely more on governmental contracts react more after ESG mandates, which is consistent with donations helping MNEs maintain governmental contracts from host government after ESG disclosure mandate. Taken together,

these cross-sectional results tighten the link between LOF, an MNE's isomorphic strategy, and donation behavior, providing further support for the causal relation between host country ESG mandates and host country donation.

In additional tests, I further examine the consequences of donating to host countries to identify the specific stakeholders that the increased donations target, and to shed light on whether good ESG performance translates into firm value, a long-standing debate in literature. I find that after ESG mandate in a foreign host country, MNEs that donate to the country maintain more procurement contracts from local government compared with those who don't donate. Given that governmental contracts add to firm value (Goldman, 2020; Cohen and Li, 2020), my finding is consistent with MNEs are doing well by doing good in host countries. Moreover, I find that compared with those who do not donate after ESG mandate, firms who donate experience more positive change in local media sentiment, which is consistent with donating to the host country help MNEs maintain their relations with local community. This provides another channel through which donation after ESG mandate can add to firm value.

This study makes several contributions to literature. First, it extends prior studies on the real effects of mandatory ESG disclosure regulation. The real effects documented by prior studies are mainly on the firms that are legally subject to the mandates (Christensen et al., 2017; Chen et al., 2018; Fiechter et al., 2022; Krueger et al., 2021). I focus on a unique but important group of constituencies, that is, MNEs that operate in the mandate host countries but are not directly regulated by the mandate. My finding suggests that ESG disclosure mandates in a host country induce MNEs to increase their donation amount in that country, which is an unintended consequence of ESG disclosure mandates. It is particularly unique and interesting because in this case, local firms' change in ESG disclosure and performance is mandated by the regulation, whereas MNEs' change in ESG behavior is voluntary and adaptive.

Regulators and policy makers may also be interested in this study, as ESG disclosure regulation is a key policy issue of our time (Fiechter et al., 2022; Grewal and Serafeim, 2020; Christensen et al., 2021). The findings of this study inform regulators about the spillover effect of ESG mandates on MNEs that are not de jure subject to the mandate. Policymakers in countries where ESG disclosure mandates are not yet established should take into such policy externalities into account when they make the final scheme.

Second, it adds to our understanding of MNEs' ESG footprints outside their home country. Most of prior studies that examine ESG behavior of firms use firm-level ESG ratings from ESG rating agencies and look into overall ESG performance of a firm in its home country (Fiechter et al., 2022; Tsang et al., 2021; Lev, Petrovits, and Radhakrishnan, 2010). This study leverages on the cross-border donation data which is at firm-country level and the staggered adoption of mandatory ESG disclosure scheme in different countries.

Third, it identifies and empirically tests channels through which ESG activities can affect firm value. Prior studies find mixed evidence regarding with the relation between ESG performance and firm value (Manchiraju and Rajgopal, 2017; Servaes and Tamayo, 2013; Tsang et al., 2021). I find that MNEs that donate to the mandate host countries obtain more governmental contracts compared with MNEs that do not donate and governmental contracts are positively related with firm value. My findings are consistent with a value maximization view towards philanthropic giving in foreign countries.

Finally, this study adds to the literature on MNEs' LOF and their strategies to tackle it. The isomorphic pro-social behavior by MNEs documented in this study is consistent with prior findings that MNEs imitate the behavior of their local competitors to mitigate LOF (Rosenzweig and Nobria, 1994; Zaheer, 1995). My study is distinct from prior studies as it introduces a major change in non-financial reporting environment, that is, mandatory ESG disclosure regulation, which triggers the local mimetic behavior of foreign MNEs. It provides

novel evidence on how MNEs react to the constantly changing institutions in their host countries.

The remainder of this paper is organized as follows. In Section II, I provide the background and develop my main hypotheses. A description of my data and sample selection process is provided in Section III. I detail my empirical results in Section IV before concluding in Section V.

Chapter 2. Background, Literature Review And Hypothesis Development

2.1 Mandatory ESG Disclosure Regulations

Recent years have seen a rise of mandatory ESG disclosure regulations around world (e.g., Krueger et al., 2023; Wang, 2023). The mandatory actions are primarily driven by public concerns for sustainability issues (Chen et al., 2018), the increasing importance of ESG considerations for investment (Krueger et al., 2023), and consequently the enhanced demand for ESG related information (Chen et al., 2018; Fiechter et al, 2022; Krueger et al., 2023). The major purpose of such mandate is to encourage corporations, especially public companies to increase their environmental and social engagement. For example, the EU non-financial reporting directive, Directive 2014/95, which requires large, listed companies to issue annual nonfinancial reports, explicitly states that "disclosure of non-financial information is vital for managing change towards a sustainable global economy".

Using various samples and settings, prior studies have documented the effects of mandatory ESG disclosure regulations on real activities and stock market consequences of firms that are directly subject to the mandate. Christensen, Floyd, Liu, and Maffett (2017) study the mine safety disclosure mandates in the mining industry and find that mandated information disclosure decreases mining-related citations and injuries and reduces labor productivity. She (2022) finds that supply chain due diligence and suppliers' human rights performance improve significantly after a disclosure regulation in California mandates firms to disclose their due

diligence efforts towards their suppliers' human rights practice. Chen, Hung, and Wang (2018) study how mandatory CSR disclosure in China affects firm profitability and find that firms experience a decrease in profitability and environmental pollution after the mandate. Focusing on the mandatory CSR directive in the EU, Fiechter et al. (2022) show that firms increase their CSR activities before the entry-into-force date of the directive, and that this effect is concentrated in firms with low levels of CSR reporting and CSR activities before the mandate. Krueger, Sautner, Tang, and Zhong (2023) examine the effects of mandatory ESG disclosure around the world on firm-level stock liquidity and find that mandatory ESG reporting significantly improves stock liquidity through improving the information environment. In a similar setting, Gibbons (2023) documents that the mandatory ESG reporting scheme induces firms to invest in more long-term, innovative projects, and to raise more equity capital, due to an institutional clientele effect and the informativeness of non-financial information.

Overall, the above studies suggest real effects of mandatory ESG disclosure to firms that are legally subject to the mandate[2]. Yet, little is known about whether and how MNEs that operate in the host country but are not *de jure* subject to the mandate respond to the ESG disclosure mandate. I conjecture that a host country's mandatory ESG disclosure regulation will motivate MNEs to increase their ESG activities in the host country as a means of overcoming their liability of foreignness.

2.2 MNEs and Liability of Foreignness

Multinational enterprises (MNEs) account for a significant share of the economy. Among all the Compustat U.S. firms by the end of 2018, only 2,273 out of 8,036 (28%) are MNEs according to the definition of Dyreng, Hanlon, Maydew and Thronock (2017), while they contribute to around 55% of total sales. In terms of the location of operations, foreign

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[2] An exception is Wang (2023), which studies whether the impact of ESG disclosure regulations that are imposed on banks transmit through the lending channel. She finds that ESG disclosure mandate induce banks to enhance their engagement and selection activities related to E & S factors in lending. Consequently, the borrowing firms' E & S performance increase.

affiliates are as important as domestic operations to U.S. parents. According to Bureau of Economic Analysis (BEA), by the end of 2018, more than 53% sales from U.S. MNEs come from foreign affiliates, and more than 67% of their total assets are in foreign countries. Globally, United Nations Conference on Trade and Development (UNCTAD 2014) reports that the world's largest 100 MNEs have 70% of their total assets invested abroad, and foreign subsidiaries of MNEs account for about half of the world GDP. Findings from existing literature also suggest the importance of MNEs' foreign operations. For example, Bodnar and Weintrop (1997) find that the stock market reacts more to foreign earnings than domestic earnings due to the higher growth opportunities of foreign operations. Li, Richardson, and Tuna (2014) find that incorporating foreign country exposures of MNEs into forecasting firm fundamentals generate superior forecasts.

Institutional theories in international business have long suggested that MNEs doing business overseas face additional costs relative to local firms. LOF can arise from four sources: (1) spatial costs, which include costs of transportation and coordination over distance and across time zones; (2) unfamiliarity with local environment, which is firm-specific; (3) lack of legitimacy in the eye of local stakeholders and economic nationalism; (4) home country regulations such as restrictions on high-tech exports. These additional costs incurred by MNEs result in competitive disadvantages for MNEs and are broadly defined as the liability of foreignness.

Empirical evidence also support the existence of LOF and that MNEs take various actions to overcome LOF. Zaheer (1995) examines the foreign exchange trading industry and finds that foreign trading rooms imitate the organizational practices of domestic trading rooms to overcome LOF and the higher the similarity between foreign and domestic trading rooms, the lower the LOF for the foreign trading rooms. Nachum (2003) finds that foreign financial service firms use firm-specific resources to maintain superior performance to local rivals.

Boubakri et al. (2016) and Del Bosco and Misani (2016) examine samples of cross-listing firms and find evidence consistent with better CSR performance helping reduce LOF for cross-listing firms. Mithani (2017) proposes that a natural disaster provides MNEs a valuable opportunity to establish strong local ties through corporate philanthropy and finds that MNEs increase their contributions more than domestic firms in the aftermath of an earthquake in India.

One specific strategy MNEs employ is to mimic the advantages of successful local firms (i.e., local isomorphism) (Zaheer 1995). DiMaggio and Powell (1983) identify three factors that drive local isomorphism, including the requirements of local regulations (coercive isomorphism), professionally imposed requirements (normative isomorphism), and the success of local exemplars (mimetic isomorphism). Mimetic isomorphism is especially important when the underlying behavior is unregulated and voluntary. Considerable empirical evidence supports the existence of local isomorphic behavior. For example, Rosenzweig and Nohria (1994) study the human resource management practices of U.S. MNEs and find that foreign affiliates' human resource practices closely follow local practices, and that the degree of similarity is shaped by the method of founding, the importance of local inputs, the presence of expatriates, and the level of communication with the parent. Zaheer (1995) examines the foreign exchange trading industry and finds that foreign trading rooms imitate the organizational practices of domestic trading rooms and the higher the similarity between foreign and domestic trading rooms, the lower the liability of foreignness for the foreign trading rooms.

In my setting, the existence of LOF together with local peer firms' increase in ESG performance induced by the mandatory ESG disclosure regulation may trigger the isomorphism behavior of foreign MNEs so that they mimic the pro-social behavior of their local peers and find ways to increase their ESG activities in the mandate host country.

2.3 Corporate Foreign Philanthropic Giving

In this paper, I propose to look into foreign MNEs' ESG activities in their host countries through the lens of corporate philanthropic giving because other ESG activities by foreign subsidiaries, such as carbon emissions and relation with foreign employees, are hard to measure due to data limitations. Moreover, even though prior studies find that local firms increase their ESG performance also in other dimensions such as pollutant emissions (Chen et al., 2018), workplace safety, and energy consumption (Fiechter et al., 2022), donations to local communities may be more visible to and easier for foreign MNEs to mimic and implement (Hornstein and Zhao, 2018). Moreover, one consideration for a valid measure for ESG performance is that it should capture firms' true commitment to ESG. Corporate donation is considered as 'output' variable and captures the eventual outcomes of firms' CSR investments (Grewal and Serafeim, 2020; Fiechter et al., 2022). Consequently, it is less prone to greenwashing.

2.3.1 Corporate Philanthropy as a part of Corporate ESG Investment

Prior studies hold two opposing views, the agency view and the profit maximization view towards motivations behind corporate philanthropy (Navarro 1988)[3]. The agency view proposes that managers engage in corporate giving to satisfy their own preferences at the cost of shareholders. Consistent with the agency view, Masulis and Reza (2015) find that shareholder valuation of cash holdings decreases as corporate giving increases. Brown, Helland, and Smith (2006) find that cash giving is positively related with proxies for agency problems. The profit maximization view regards corporate giving as a strategy that the manager employs to maximize firm value. Lev, Petrovits, and Radhakrishnan (2010) document a positive relation between corporate charitable contributions and revenue growth, consistent with philanthropic

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[3] The two views are not necessarily mutually exclusive, they are actually complementary to each other according to Navarro (1988).

giving improves a firm's reputation and reduce the price elasticity of demand by customers. Bertrand, Bombardini, Fisman, and Trebbi (2020) find evidence consistent with firms use corporate philanthropy in a way that is parallel to the use of political spending.

In the setting of foreign markets, prior research has shown that MNEs frequently use corporate philanthropy as a strategic tool for navigating local institutions and for earning legitimacy. For example, Hornstein and Zhao (2018) show that U.S. MNEs donate more to a foreign host country when the local institutions are ineffective and the importance of connecting to local constituents is high. Yu (2021) find that U.S. MNEs increase their donations to the host country after the initial FCPA enforcement case in the host country. Ballesteros and Magelssen (2018) show that MNEs use philanthropy to restore market factors after institutional disruptions such as epidemics, natural disasters, and terrorist attacks in host countries. Similarly, using data from India, Mithani (2017) finds that MNEs employ philanthropy after a national disaster to strengthen local ties.

2.3.2 Donation through Corporate Foundations

There are three ways for corporations to make charitable donations. They can either donate through 1) direct giving, 2) through donor-advised funds, and 3) through corporation-funded foundations. In this study, I focus on donations through corporate foundations mainly for the following three reasons.

First, any corporate foundation, which belongs to 501(c)(3) corporation and is exempt from paying federal income tax, is required by Internal Revenue Service to disclose every grant it makes through Form 990. Therefore, donations through corporate foundations are disclosed mandatorily and easier to track from Form 990. However, corporate donation through the first two channels above is hard to track as for-profit corporations are not required to disclose the details of their donations. Therefore, any related information is obtained mainly through voluntary disclosure by corporations and is subject to self-selection bias. Second, donation

through corporate foundations is an important part of a firm's philanthropy strategy. According to Committee Encouraging Corporate Philanthropy (CECP 2021), around 35% of a firm's cash giving goes through corporate foundations (CECP 2021)[4]. Corporate foundations play an even more active role when firms donate cross-border (Hornstein and Zhao, 2018). Third, corporate foundations are funded by its related corporations and normally share the same top executives with the firm (Brown, Helland, and Smith, 2006). Meanwhile, a corporate foundation normally bears the firm's name, which makes the firm's philanthropic efforts visible to its stakeholders[5]. For the reasons above, I follow prior studies (Petrovits 2006; Bertrand et al, 2020; Hornstein and Zhao, 2018) and focus on donations through corporate foundations.

2.4 Mandatory ESG Disclosure, LOF, and Foreign Giving

In equilibrium, managers make donation decision based on cost-benefit trade-off. That is, firms donate until marginal benefit equals marginal cost. ESG disclosure mandate increases the marginal benefit of donation to MNEs by exerting peer pressure on them. This is because mandatory ESG disclosure increases transparency, consequently facilitates external monitoring (Chen et al., 2018) and benchmarking on firms' ESG footprints (Tomar 2023), which forces local firms to improve their ESG image by investing more in ESG related activities instead of doing 'greenwashing' disclosures (Chen et al., 2018; Fiechter et al., 2022; Christensen et al., 2017). Cao et al. (2019) suggest that firms follow their product market peers to adopt similar CSR practice due to competition concerns. Similarly, the increase in local peers' donations may impose additional pressure on MNEs. To alleviate competition threat from local competitors, MNEs adapt to the local ESG practice and increase their ESG performance in the host country.

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[4] U.S. corporates made $21.08 billion to charitable foundations in 2021 (Giving USA 2022 report).
[5] Many firms also disclose donations by their corporate foundations on their website. For example, ExxonMobil issues annual Worldwide Giving Report which can be easily accessible from their website. https://corporate.exxonmobil.com/news/reporting-and-publications/sustainability-report/social/social-contributions-and-philanthropy/worldwide-giving/worldwide-giving-report.

However, MNEs may increase their ESG performance even without or with low product market competition threat[6] in face of ESG disclosure mandate in a host country, as they confront an additional layer of challenge, i.e., LOF, in foreign markets. I hypothesize that ESG disclosure mandate in a host country may trigger local mimetic isomorphic behaviour for MNEs, where MNEs learn from the behaviour of local firms and adopt similar ESG strategy after the mandate. Faced with the benefits that local firms enjoy from increased corporate ESG activities and in competition with local firms for market shares, MNEs may also wish to improve their ESG performance even though they are not legally required to do so. This leads to my main hypothesis:

Hypothesis 1: MNEs operating in a foreign host country increase their ESG activities in the host country after the host country's mandatory ESG disclosure regulation.

I argue that while MNEs have incentives to increase their general ESG performance, they may prioritize to increase their philanthropic giving to the host country. First, compared to other ESG strategies, such as improving local environmental practice, corporate philanthropy is easier to implement and more visible to stakeholders (Hornstein and Zhao, 2018). Second, corporate donation is considered as 'output' variable and captures the eventual outcomes of firms' CSR investments (Grewal and Serafeim, 2020; Fiechter et al., 2022). Consequently, it is less prone to greenwashing. As a result, I use foreign donations to proxy for MNEs' ESG performance in the host country.

My hypothesis is consistent with MNEs resorting to local mimetic isomorphism to overcome the liability of foreignness when competing with local firms. My setting is particularly unique and interesting because in this case, local firms' change in ESG disclosure

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[6] In most of cases, local product market competition is an underlying factor that drives LOF. In other words, LOF always comes together with competition.

and performance is mandated by the regulation, whereas MNEs' change in ESG behavior is voluntary and adaptive.

2.5 Cross-sectional Predictions

I predict that MNEs' donations to foreign countries may vary with country and firm characteristics. First, with constrained resources for donation, MNEs should prioritize countries that are more important in their operation portfolio when making decisions regarding with where to donate. Accordingly, I have my first cross-sectional prediction regarding with the importance of the host country to the MNE:

Hypothesis 2a: MNEs increase their ESG activities more in the host country after host country's mandatory ESG disclosure regulation if the host country is more important.

Second, since I conjecture that LOF should be the major concern for MNEs to increase their donation after ESG disclosure mandate in the host country, MNEs that are endowed with higher level of LOF should have more incentives to increase their donations in the host country after ESG disclosure mandate. My second cross-sectional hypothesis is stated as follows:

Hypothesis 2b: MNEs with higher level of LOF increase their ESG activities more after host country's mandatory ESG disclosure regulation.

Third, I propose that MNEs donate after mandatory ESG disclosure regulation with a target to improve their relations with local stakeholders, and one particular group of local stakeholders I propose is governmental agencies (Masulis and Reza, 2015). Therefore, MNEs that rely more on their relations with local government tend to donate more after the mandate. My third hypothesis is as follows:

Hypothesis 2c: MNEs that rely more on local governments increase their ESG activities more after host country's mandatory ESG disclosure regulation.

Finally, firms that are more visible to local stakeholders are under greater scrutiny by local stakeholders. Therefore, these firms have more incentives to increase their donations to

local communities to maintain their legitimacy in the eye of local stakeholders. Accordingly, my final prediction is stated below:

Hypothesis 2d: MNEs with higher visibility to stakeholders increase their ESG activities more after host country's mandatory ESG disclosure regulation.

Chapter 3. Data, Sample, And Descriptive Statistics

To start with, I identify the year of mandatory ESG disclosure regulation following Online Appendix Table B1 of Krueger et al. (2023). I verify the year of ESG mandate using various sources including Carrot & Sticks (C&S) project and the Sustainable Stock Exchange (SSE) Initiative. The mandatory year of each sample country is listed in Appendix 2[7].

Next, I calculate U.S. MNEs' donations to sample host countries every year. I obtain data on corporate philanthropic giving by U.S. corporate foundations to foreign beneficiaries between 2002 and 2015 from the Foundation Center's (now FDO) grant database. This database records every donation of $10,000 or more made by a U.S.-based charitable organization. Several prior studies have used this database to study corporate philanthropic giving (Hornstein and Zhao, 2018; Marquis and Lee, 2013; Zolotoy, O'Sullivan, and Klein, 2019). Because I am interested in donations to individual foreign host countries, I extract grants that are made to beneficiaries in one single foreign (non-U.S.) country[8]. I aggregate donation amounts at the firm-country-year level and construct my main dependent variable *Foreign Donation Amount.* The variable is set to zero if the firm does not make any single beneficiary country grants to the host country. I also drop observations with missing control variables.

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[7] I treat Canada as a non-mandate country, which is different from Krueger et al. (2023). This is because unlike other countries, Canada does not require annual report on ESG but only to disclose material ESG-related information that could significantly affect the stock price of listed companies. Another difference is that I set the mandate year in India as 2012 when top 100 listed companies are mandated to issue an ESG report, which is earlier than in Krueger et al. (2023).

[8] Some grants can have multiple beneficiaries that are located in different countries. I drop these grants as I do not know how exactly the donations are divided among the countries. I also drop countries that receive less than five grants and firms that make less than five international grants.

Detailed definitions of variables that are used in regressions are listed in Appendix 1. A detailed description of sample selection procedure is presented in Panel A of Table 1. Finally, I drop firm-country observations for which the firm is cross-listed in the host country's stock exchange to make sure all the firms in my sample are not subject to ESG disclosure mandate. My final sample for studying ESG disclosure mandate and foreign donations comprises 17,031 firm-country-year observations from 111 firms and 56 host countries.

In Panel B of Table 1, I compare my sample with entire U.S. listed firms in Compustat and MNEs identified by the definition from Dyreng et al. (2017) by the end of 2015. The sample firms for foreign donation are much larger in terms of annual sales and assets, are older, and are more profitable, relative to firms belonging to the other two groups.

<center><Insert Table 1 Here></center>

Table 2 presents summary statistics of main variables in my analyses. Panel A suggests that a corporate foundation annually donates around $84,359 to a foreign country in my sample. Conditioning on the firm making at least one donation to the host country during the year, the average donation number increases to $303,896. Panel B lists U.S. MNEs' corporate philanthropic giving to foreign countries by industry and shows that firms in food, metal manufacturing and Rubber/Glass/Etc. manufacturing industries donate the highest amount on average to their host countries per year, followed by the financial industry. Panel C presents pairwise Pearson (below the diagonal) and Spearman rank (above the diagonal) correlations of main variables used in analysis. The ESG mandate indicator, *Host Mandatory ESG Disclosure,* is significantly positively correlated with key donation variable, *Ln(Foreign Donation Amount)*, which preliminarily support my Hypothesis 1 that predicts firms increase their ESG performance to the foreign country after the ESG mandates in the foreign country. I explore the associations further with multivariate analyses in the next section.

<center><Insert Table 2 Here></center>

Chapter 4. Empirical Design and Results

4.1 Host Country ESG Disclosure Mandates and Foreign Donations – Test of H1

I start with testing my main hypothesis H1, which proposes a positive relation between host ESG mandates and donations to the host country. I perform multivariate analyses to test H1. Because host countries experience ESG mandates in different years, I follow prior literature and use a staggered DiD design (Bertrand, Duflo, and Mullainathan 2004; Bertand and Mullainathan 2003; Krueger et al. 2021). For firm *i,* country *c,* and year *t,* I use two group of models to estimate the treatment effect*:*

$$Foreign\ Donation_{i,c,t} = \beta_0 + \beta_1 \times Host\ ESG\ Mandate_{i,c,t} + \sum Control\ Variables + \sum Fixed\ Effects + \varepsilon.\ (1)$$

I use two versions *Foreign Donation* Variable. *Foreign Donation Amount* is a continuous variable that equals to log transformations of total amount of donation by firm *i* to country *c* during year t. *Foreign Donate $_{i,c,t}$* is an indicator variable that equals to 1 if firm *i* make at least one grant to country *c* in year *t* and 0 otherwise. My primary variable of interest, *Host ESG Mandate* is a DiD estimator that is coded as an indicator variable that equals to 1 on or after the year that ESG mandate takes place in country *c*, and 0 otherwise. Since ESG mandates occur in different countries in different years, *Host ESG Mandate* is 1 for firms in different host countries in different years by construction.

Moreover, I use two model specifications. In the first model, I include firm and country fixed effects. It allows me to compare donations to host countries with and without ESG mandate by the same firm. This way, it mitigates the concern that variations in firm characteristics may drive the results. However, the results can still be driven by variations in donation allocation decisions within a firm. In column (2) and (4), I include firm-country pair effect to control for bilateral relationships between the firm and host country. Under these specifications, the coefficient for *Host ESG Mandate* (β_1) captures the average treatment effect for a U.S. firm, that is, the post-ESG-mandate shift in the firms' donation to countries with

ESG mandate relative to countries without the mandate, while controlling for country, firm, (or firm-country pair) and year factors. In addition to fixed effects, I include a comprehensive set of control variables. At the firm-country-year level, *Host Country Importance* captures the importance of a host country to a U.S. firm, as measured by the number of subsidiaries the MNEs operate in the country as reported in Exhibit 21 of most recent 10-K report. *Geographic Diversification* is the reported number of countries in which a firm operates. *Number of Foreign Subsidiaries* is the total number of a firm's subsidiaries outside of the United States. To control for a firm's general level of foreign giving, I include *Foreign Donation Elsewhere* which measures the total donations a firm makes to all other foreign countries each year. At the country-year level, I control for the economic distance between home (U.S.) and host country using *GDP Distance and* institutional distance between the two countries using *Rule of Law Distance.* I use foreign direct investment from the United States to the host country (*U.S. FDI to Host*) to capture the economic importance of the host country to the United States. To capture the fact that a country receives more donations when it has more natural disasters, I control for the number of natural disasters (*Natural Disaster*). At the firm-year level, I control for *Size,* firms' domestic ESG performance (*Corporate Governance* and *Corporate Social Responsibility*). Finally, I control for a linear time trend (*Trend*) in my regression. All continuous variables are winsorized at the 1st and 99th percentiles. For variables with missing values for certain years for a firm or country, I fill the missing years using the variable mean of the firm or the country. Robust standard errors are clustered at firm level.

Table 3 shows the results of DiD estimations in equation (1). Column (1) and (2) employ OLS model using a continuous dependent variable and column (3) and (4) use an indicator as dependent variable[9]. In support of H1, throughout column (1) to (4), I consistently

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[9] I use OLS here for ease of interpretation. The statistical and economic significance are similar if I use a logistic model.

find a statistically positive coefficient on *Host ESG Mandate.* These results suggest that both

the amount of and the propensity to donate to the host country increase after mandatory ESG

disclosure regulations come into force in the host country. Interestingly, the results are

consistent no matter if I use the firm- and country- fixed effect model or firm-country pair fixed

effect model. The economic magnitude is also significant. Fixating on a firm-country pair, the

coefficients from OLS regressions suggest a 40.8% increase in donation amount and a 3.6%

increase in propensity to donate from the firm to the host country after the adoption of ESG

mandates in the host country.

<Insert Table 3 Here>

4.2 Analyses to Assess Endogeneity and the Parallel Trends Assumption

The inference from my staggered DiD analysis is based on an underlying assumption

that U.S. MNEs' donations to countries with ESG mandates (treatment group) and to countries

without ESG mandates (control group) be similar in trends in the absence of ESG mandates.

Any confounding effects that comove with ESG mandates can violate the parallel assumption.

Therefore, I assess the validity of this assumption using three approaches in this section.

4.2.1 Foreign donation patterns around the ESG mandate year

Under parallel trend assumption, I should observe similar trends in foreign donations

for both treatment and control group before ESG mandates come into effect. To evaluate the

pre-ESG mandates trends in foreign donations, I analyze the foreign donation patterns around

the ESG mandate year by estimating a modified version of model (1), following Christensen,

Hail and Leuz (2016). Specifically, I replace the DiD indicator variable (*Host ESG Mandate*)

with a set of eight separate indicator variables, each denoting year from on or before T-5, to on

or after T+5. I use years on or before T-5 as the base line and therefore omit the indicator for

that year. Results are presented in Table 4 Panel A and Figure 1. I do not find significant

coefficients for periods before T, consistent with no significant difference in trends of

donations between treatment and control group before ESG mandate. Moreover, the coefficients on T, T+1 and T+2 are positive and significant, suggesting an increase in foreign donations one year after ESG mandate in the host country. Overall, these results suggest that the ESG mandate year provides reasonable identification. Moreover, the finding that the effect starts right on or after year T[10], but not before year T suggest that it is driven by the enactment of mandatory ESG disclosure in the host country, rather than by the general increase in demand for ESG activities around the ESG disclosure mandate.

4.2.2 Falsification tests using alternative dependent variables

In Panel B of Table 4, I perform falsification tests that replace the dependent variable with a firm's domestic donations and total donations to other foreign countries in the sample. If the positive and significant coefficient on *Host ESG Mandate* I obtained in Section 4.1 is due to a spurious trend in MNEs' donation behavior unrelated to ESG mandates but related to domestic or global confounding factors, then I should continue to observe positive and significant coefficients for *Host ESG Mandate* when switching the dependent variables to domestic donations and donations to other foreign countries except for the mandate country. In Column (1) and Column (3), I simply replace the dependent variable in Table 3 with donations to domestic recipients and donations to foreign countries other than the host country. In column (2) I aggregate the dataset to firm-year level since domestic donations are same for observations of the same firm-year. In all the models, however, the coefficients on *Host ESG Mandate* are insignificant, suggesting that the increase in donation is only targeted at countries of ESG disclosure mandate and that donations to home country and to other foreign host countries are not significantly affected by the ESG disclosure mandates.

4.2.3 Entropy-balanced sample analyses

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[10] The results are robust if I drop year T, which might be noisy, as mandate can be implemented anytime through out the year.

To mitigate the effect of systematic differences between countries with ESG mandates and countries without ESG mandates on the main results, I follow prior studies and use entropy balancing to balance the covariates between the covariates between the treatment and control observations (Hainmueller, 2012; Cannizzaro and Weiner, 2018; Kohlhase and Pierk, 2019; Lawson, Martin, Muriel, and Wilkins, 2019). The entropy-balancing method reweights each observation in the control sample so that the post-weighting means of covariates are virtually identical between the treatment and control samples. I include all control variables in equation (1) in the entropy-balancing process. I then re-estimate the regression model in equation (1) with the set of weights obtained through the entropy balancing process. Panel C and D of Table 4 show the results of my entropy-balanced sample analyses. In Panel C, I first show the covariate balance between the treatment and control samples after entropy balancing and find that all covariate differences become statistically insignificant after balancing. In regression analysis for the balanced sample in Panel D, I continue to find a positive and significant coefficient for *Host ESG Mandate*, consistent with my main results in Table 2.

<Insert Table 4 Here>

4.3 Additional Analysis

4.3.1 Cross-Sectional Analysis

In this section, I look into cross-sectional variations in the effect of host ESG mandates on foreign donations to shed light on underlying mechanisms for my main result. I conjecture that U.S. firms increase their ESG activities in the host country after the implementation of ESG mandates in the host country to resort to local isomorphism so that they can overcome the liability of foreignness (LOF) when competing with local firms. Therefore, I examine five characteristics of the donating firms that may affect the incentives to adapt to local ESG practice and to improve their relation with local stakeholders, and use them as partitioning variables: (1) the importance of the host country to the firms' operating portfolio; (2) whether

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the firm operates in alcohol, gambling, tobacco, and other controversial businesses (sin firms); (3) the quality of a firm's social performance as part of its ESG metric; (4) the extent to which the firm is scrutinized by local media; (5) the extent to which the firm relies on foreign governmental contracts.

First, the incentives for overcoming the LOF in a foreign host country should be higher if the country is more important in the MNE's operating portfolio. Consequently, MNEs are more likely to donate and tend to donate more to the countries that are more important in their operating portfolio after ESG mandate in the countries. Second, firms that involve in sin businesses face higher LOF due to the negative externality they bring to the local community (Hong and Kacperczyk, 2009), and therefore, they possess higher incentives to mitigate LOF in face of ESG mandate. Third, firms with strong social performance possess more social capital and are less subject to LOF before ESG disclosure mandates, consequently they tend to react less pro-actively to increase their social performance in response to ESG mandates. Fourth, I conjecture that firms increase ESG efforts by increasing their philanthropic giving because corporate philanthropy is more visible to local communities, therefore, I expect firms that receive more scrutiny from local communities react more by donating to local institutions. Finally, I conjecture that donating to foreign countries can help MNEs win procurement contracts from foreign governments, therefore firms that rely more on foreign contracts tend to donate more after ESG mandates.

To empirically explore the cross-sectional variations, I employ a model similar to equation (1), which is written as follows:

Foreign Donation $_{i, c, t}$ = β_0 + β_1×Host ESG Mandate $_{i, c, t}$ + β_2×Host ESG Mandate $_{i, c, t}$ × Partitioning Variable +∑Control Variables + ∑Fixed Effects + ε. (2)

Detailed definitions of partitioning variables are listed in Appendix 1.

Table 5 presents the results for cross-sectional analysis. The interaction term between *Host Country Importance* and *Host ESG Mandate* is positive and statistically significant,

suggesting that the impact of host country ESG mandates is more prominent if the host country is more important to the U.S. MNE. The coefficient on *Sin Industry×Host ESG Mandate* negative, which is consistent with my prediction that firms involve in sin businesses react more proactively to improve their host ESG performance after ESG mandates in host countries. Similarly, the coefficients on the interaction term between *High Social Performance* and *Host ESG Mandate* is negative and statistically significant, suggesting that firms with high social performance react in a more muted way compared with firms with low social performance after host ESG mandates. I use local media coverage to proxy for scrutiny by local community and find a significantly positive coefficient on its interaction with the treatment variable *Host ESG Mandate,* consistent with firms that receive more scrutiny from local community donate more after ESG mandates in the local host. Finally, the coefficient on *High Reliance on Foreign Contracts×Host ESG Mandate* is significantly positive, suggesting that firms that rely more on foreign governmental contracts increase their donations more to the host countries after ESG disclosure mandates.

<Insert Table 5 Here>

4.3.2. Robustness Checks

I perform three sets of robustness tests in this section. To test whether my results are driven by one single country, In Panel A of Table 6, I exclude observations from the two countries with largest donation amount, Canada and the United Kingdom, respectively, and the main results still hold. In Panel B, I construct donations to the domestic country (the United States) as additional control groups and find the results are robust, except if we use domestic as control only and add firm-country and year fixed effects.

Finally, the staggered DiD method can have potential biases due to treatment effect heterogeneity (Baker, Larker, and Wang, 2022). To tackle with the issue, I employ 'Stacked' regressions (Baker et al., 2022; Krueger et al., 2023) to further check the robustness of the

treatment effect. Specifically, for each treated cohort (i.e., each treatment event), I create a dataset consisting of countries that are subject to mandate (treatment) and countries that are either never treated or not yet treated (control). I then 'stack' these datasets together and run the DiD regression using the stacked dataset. The results are presented in Panel C of Table 6. Again, the estimates are positive and significant and of similar magnitude as in Table 3. This result lends me further confidence that the treatment results are not affected by the potential treatment heterogeneity issues of staggered DiD.

<Insert Table 6 Here>

4.4 Foreign Donations, Foreign Contracts, and Firm Value

Theoretically, ESG performance can affect firm value in two opposite directions. Following Milton Friedman's (1970) famous assertion that "the social responsibility of business is to increase its profits," the *shareholder expense* view considers ESG to be a drain on the firm's valuable resources that should be utilized for shareholder value maximization. Therefore, the extent of ESG engagement should be negatively correlated with firm value. While stakeholder theory views ESG activities as strategies that firms utilize to align their interests with different groups of stakeholders (Freeman, 1984). Such profitable ESG activities are termed as "doing well by doing good".

Current empirical evidence is mixed on the relation between ESG performance and firm value. Di Giuli and Kostovetsky (2014) conjecture that firms cater to the preferences of stakeholders in conducting ESG activities. They find that firms with Democratic-leaning stakeholders have higher ESG performance than firms with Republican-leaning stakeholders, and the political ideology of stakeholders is negatively related with firm value. Manchiraju and Rajgopal (2017) exploit mandatory ESG spending imposed on Indian firms. They find that firms that are required to spend on ESG experience negative returns, consistent with firms optimally choose their ESG level to maximize shareholder value before mandatory spending

regulation. Servaes and Tamayo (2013) document that the relation between ESG performance and firm value is positive for firms with high customer awareness, but negative or insignificant for firms with low customer awareness. Using five measures of ESG performance, Tsang et al. (2021) find that all the measures support a significant and positive relation between ESG performance and firm value.

Both directions are likely in the setting of foreign ESG activities. On the one hand, ESG activities outside borders are harder to evaluate for investors due to high information collection costs (Huang 2015). Therefore, managers are more likely to employ foreign ESG activities such as corporate donations to gain private benefits. On the other hand, LOF faced by MNEs when operating in foreign countries drive high demand for ESG activities to align interests with foreign stakeholders such as foreign governments. Empirically, it is uncertain whether foreign ESG activities lead to higher or lower firm value. In this section, I test the relation between corporate foreign donations and firm value in the setting of host country mandatory ESG disclosure regulation by proposing two potential channels through which donations can affect firm value, i.e., foreign governmental contracts and foreign media sentiment.

4.4.1. Foreign Governmental Contracts

The mimetic pro-social behavior of U.S. MNEs after ESG mandate maintains their LOF and legitimacy in the eye of local government. Therefore, MNEs who increase their foreign donations after the ESG disclosure mandates are likely to receive more government contracts compared with those who don't. Prior studies document that the benefits of contracting with governments include greater firm stability (Goldman, 2020), and higher profitability (Cohen and Li, 2020). Consequently, more government contracts can lead to higher firm value.

To examine whether foreign donations help MNEs maintain foreign governmental contracts, I obtained foreign governmental contracts information from Tender Alpha. Panel B of Appendix 2 lists out the sample distribution of government contracts across countries. The

sample size are significantly reduced in this analysis since I require 1) countries to be covered by Tender Alpha and 2) the sample period starts from 2010 which is the first year the governmental contracts are systematically covered by Tender Alpha. In total, I have 9,315 observations from 27 countries and 101 firms.

I employ the model below to examine whether donation help MNEs maintain foreign governmental contracts:

$$Number\ of\ Value\ of\ foreign\ Contracts = \beta_0 + \beta_1 \times Post\ Foreign\ Donation_{i,c,t} + \beta_3 \times Controls_{t-1} + Fixed\ Effects.\ (3)$$

Post Foreign Donation$_{i,c,t}$ is an indicator variable that equals to 1 if firm *i donates* to country *c* within 3 years after the ESG mandate in country *c* and if year *t is* post-donation, and equals to 0 otherwise. To parse out common trends in corporate donations across time, I include year fixed effects. Moreover, I include firm-country pair fixed effects. β_1 captures the post-donation shift in the firms' governmental contracts in countries with donation relative to countries without donation after ESG mandates or to countries that hasn't have a mandatory ESG disclosure scheme by year *t*, while controlling for firm-country pair and year factors. Control variables are the same as in equation (1).

Panel A of Table 7 presents the results for examining the relation between foreign donations and foreign governmental contracts. Column (1) and column (2) consistently find a significantly positive coefficient on *Post Foreign Donation*. This is consistent with MNEs that donate after ESG disclosure mandate experiencing lower decrease in foreign contracts, compared with MNEs that do not donate. The results hold if I use number or value of host country governmental contracts as dependent variable.

<Insert Table 7 Here>

4.4.2 Local Media Sentiment

I propose that apart from maintaining their relations with local government, another reason for MNEs to donate is to maintain their standing with local communities. Prior studies suggest that donation can help a firm enhance its customer loyalty and thereby reduce its price elasticity (Lev et al., 2010; Navarro 1988). Consequently, it will lead to enhanced firm value.

I use the sentiment of news articles released by host country media to proxy for MNEs' relations with local community. I extract news articles from Ravenpack and identify the location of media using the source file. The local media sentiment variable is calculated as average CSS score of news articles on firm i released by media in country c. I set CSS score to neutral (equals to 50) if the variable is missing. I utilize a model similar to equation (3) to examine how donation affect local news media sentiment:

$$Media\ Sentiment\ Change_{i,c,t} = \beta_0 + \beta_1 \times Post\ Foreign\ Donation_{i,c,t} + \beta_3 \times Controls_{t-1} + Fixed\ Effects.\ (4)$$

$Media\ Sentiment\ Change_{i,c,t}$ is a categorial variable that equals to -1 if average media sentiment on firm i in country c decreases from year t-1 to t, equals to 1 if it increases and 0 if it remains the same. All other variables are same defined as in equation (3). Since the dependent variable is ordinal, I use an ordered logit model to estimate the equation following Huang, Nekrasov, and Teoh (2018).

Panel B of Table 7 presents the regression results. The estimated coefficient on *Post Foreign Donation* is significantly positive, indicating that firms that donate after ESG disclosure mandate experience more positive changes in local media sentiment compared with firms that do not donate.

Overall, the results in Table 7 suggest that donating to the host country after ESG mandate help U.S. MNEs maintain governmental contracts and local media sentiment in the host country, compared with those who do not donate in the same host. It supports the value maximization view towards foreign donations.

Chapter 5. Conclusion

In this study, I examine the impact of mandatory ESG disclosure regulation in a country on foreign MNEs that operate in that country. I conjecture that the increase in local peer firms' ESG activities after ESG disclosure mandate can trigger the isomorphic behaviour of MNEs and they will mimic the pro-social behaviour of local firms. I find that foreign MNEs increase their donations to the host country after the ESG disclosure mandate, consistent with MNEs imitate local firms' ESG practice after ESG disclosure mandate to overcome liability of foreignness. My identification tests confirm the effect is driven by ESG disclosure mandate, not by other events or trends before the mandate; and the increase in donations is not driven by the increase in overall donations, but donations to mandate host countries. In cross-sectional tests, I find that MNEs increase their donations more to countries where they have more subsidiaries. Moreover, MNEs that operate in sin businesses, that with poor social performance, that rely more on governmental contracts, and with higher local media coverage react more by increasing their donations to the mandatory host after the ESG mandate. My findings suggest that mandatory ESG disclosure regulation in the host country creates externality to the society not only by increasing the ESG activities engagement by local firms, but also by increasing the pro-social activities of foreign MNEs. In additional tests, I find that donation to the mandate country help MNEs maintain more procurement contracts from local government and experience more positive change in local media sentiment, compared with who don't donate, consistent with MNEs are benefiting from their pro-social behaviors in host countries after mandatory ESG disclosure regulation.

This paper extends prior studies on the real effect of mandatory ESG disclosure regulation. The real effects documented by prior studies are mainly on the firms that are legally subject to the mandates (Christensen et al., 2017; Chen et al., 2018; Fiechter et al., 2022;

Krueger et al., 2021). My focus on foreign MNEs is distinct from prior studies as foreign MNEs only operate in the mandate host countries but are not directly regulated by the mandate. My findings suggest that ESG disclosure mandates in a host country induce MNEs to increase their donation amount in that country, which is an unintended consequence of ESG disclosure mandates. Moreover, prior findings are on local firms' change in ESG performance, which is mandated by regulation, whereas my findings are on foreign MNEs' ESG activities which are voluntary and adaptive.

The results also have policy implications. ESG disclosure regulation is a key policy issue of our time (Fiechter et al., 2022; Grewal and Serafeim, 2020), my study may interest regulators and policy makers, especially in those countries where ESG disclosure mandates are not yet established. My results indicate that regulators and policymakers should take into such policy externalities into account when they make the final scheme.

Moreover, this paper adds to our understanding of MNEs' ESG behavior in foreign host countries. Most of prior studies that examine ESG performance of firms use firm-level measures and look into overall ESG performance of a firm in its home country (Fiechter et al., 2022; Tsang et al., 2021; Lev, Petrovits, and Radhakrishnan, 2010). My study leverages on the cross-border donation data which is at firm-country level and the staggered adoption of mandatory ESG disclosure scheme in different countries. My findings suggest that MNEs strategically allocate their limited resources to countries where ESG investments are more likely to pay off.

Furthermore, this study identifies and empirically tests a channel through which ESG activities can affect firm value. Prior studies find mixed evidence regarding with the relation between ESG performance and firm value (Manchiraju and Rajgopal, 2017; Servaes and Tamayo, 2013; Tsang et al., 2021). My findings suggest that MNEs that donate to the mandate host countries are awarded with more governmental contracts compared with MNEs that do

not donate, and they also experience more positive media sentiment change among local media outlets. Consequently, strategic use of corporate philanthropic giving in foreign host countries can add to firm value.

Finally, this study adds to the literature on MNEs' LOF and their strategies to tackle it. It provides empirical evidence on how MNEs overcome potential increase in LOF by mimicking the behavior of local firms. It is consistent with prior findings that MNEs imitate the behavior of their local competitors to mitigate LOF (Rosenzweig and Nobria, 1994; Zaheer, 1995). My study is distinct from prior studies as it introduces a major change in non-financial reporting environment, that is, mandatory ESG disclosure regulation. Thus, it provides novel evidence on how MNEs react to the constantly changing institutions in their host countries.

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Appendix 1 Variable Descriptions

Name	Definitions	Sources
Dependent Variables		
Foreign Donation Amount	Total amount of donation to the foreign country. Log transformations (natural log of the exact value plus one) are used in regressions.	Foundation Center
Foreign Donate	A dummy that equals 1 if the company donates to the country, and 0 otherwise.	Foundation Center
Value of Contracts	Value of contracts awarded by the foreign country's government. Log transformations (natural log of the exact value plus one) are used in regressions.	Tender Alpha
Number of Contracts	Number of contracts awarded by the foreign country's government. Log transformations (natural log of the exact value plus one) are used in regressions.	Tender Alpha
Media Sentiment Change$_{i,c,t}$	A categorial variable that equals to 1 if media sentiment increases in country c for firm i from year $t\text{-}1$ to year t, equals to -1 if media sentiment decreases from year $t\text{-}1$ to year t, and equals to 0 if the media sentiment does not change. I use CSS score from the database to capture media sentiment. Media sentiment is set to missing.	Ravenpack
Mandatory ESG Disclosure Variable		
Host ESG Mandate	An indicator that equals one if mandatory ESG disclosure regulation has already been implemented in the host country, and zero otherwise.	Krueger et al. (2023)
Post Foreign Donation$_{i,c,t}$	An indicator that equals to 1 if the firm donate to the country within 3 years after ESG mandate in Country c	Foundation Center and Krueger et al. (2023)
Foreign Donation$_{i,c}$	An indicator that equals to 1 if the firm donate to the country within 3 years after ESG mandate in Country c	
Control and Other Variables		
Size	Natural logarithm of firms' total assets.	Compustat
Foreign Country Importance	Number of subsidiaries in the foreign country that has been disclosed in exhibit 21 of 10-K. Log transformations (natural log of the exact value plus one) of group numbers are used in regressions. (= 0 if none; =1 if has 1 subsidiary in the foreign country; =2 of 2 or 3; =3 if no larger than 10; = 4 if no larger than 20; = 5 if no larger than 100; = 6 if greater than 100).	WRDS
Geographic diversification	Number of countries that the firm operates as reported in exhibit 21 of 10-K. Log transformations (natural log of the exact value plus one)	WRDS
Number of foreign subsidiaries	Log transformation of the firm's total number of subsidiaries outside U.S as disclosed in exhibit 21 of 10-K.	WRDS
Foreign Donation Elsewhere	Total giving amount in other foreign countries in the past year. Log transformations (natural log of the exact value plus one) are used in regressions.	Foundation Center
Trend	Year minus 2001. Consecutive numbers start from 1 for the year 2002.	
Natural Disaster	A dummy variable that equals 1 if the host country has experienced at least one natural disaster during the year and 0 otherwise	Center for Research on the Epidemiology of Disasters
GDP Distance	Absolute difference between the GDP of the host country and the United States. Log transformations (natural log of the exact value plus one) are used in regressions.	World Bank
Rule of Law Distance	Absolute difference between the rule of law index of the host country and the United States. Rule of law index come from World Bank's Worldwide Governance Indicators (WGI). Log transformations (natural log of the exact value plus one) are used in regressions.	World Bank
Direct Investment to Foreign	Foreign direct investment from the United States to the host country, scaled by the host country's GDP.	U.S. Bureau of Economic Analysis (BEA)
Corporate Social Responsibility	Sum of strengths minus sum of concerns of environmental and social ratings in the database.	KLD
Corporate Governance	Sum of strengths minus sum of concerns of governance ratings in the database.	KLD

Sin Firms	A dummy variable equal to 1 if the company is operating in or related to controversial business according to KLD (alcohol, gambling, tobacco, firearms, military, nuclear power), 0 otherwise.	KLD
Media Coverage	Number of news articles about a firm during the year. Log transformations (natural log of the exact value plus one) are used in regressions. The number is set to 0 if missing.	RavenPack
High Reliance on Foreign Contracts	An indicator that equals to 1 if the firm belongs to the industry whose value of foreign government contracts to sales ratio is above the median.	Tender Alpha
High Social Performance	An indicator that equals to 1 if the firm's social performance is above the median. Social performance is calculated as sum of strengths minus sum of concerns of social ratings.	KLD
HHI	Herfindial index based on 2-digit SIC code. It is calculated as the sum of square of each company's market share in an industry.	Compustat
Control of Corruption	Control of correction index from the World Bank's Worldwide Governance Indicators (WGI).	World Bank
Return on Assets	Net income before extraordinary items scaled by book value of total assets.	Compustat
Leverage	Total long-term debt scaled by book value of total assets.	Compustat
Advertising Expense	Advertising expenses scaled by sales. The value is set to zero if the advertising expenses is missing.	Compustat
Sales Growth	Change of sales scaled by last year's sales.	Compustat
Size	Natural logarithm of book value of total assets.	Compustat
R&D Expense	Research and development expenses scaled by sales. The value is set to zero if the R&D expenses is missing.	Compustat
Capital Expenditure	Capital expenditure scaled by book value of total assets.	Compustat
Age	Natural logarithm of the number of years since the company appeared in Compustat.	Compustat
Cultural distance	The cultural distance between the host and home country. It is based on Hofstede's (2001) four cultural dimensions: power distance, uncertainty avoidance, individualism, and masculinity.	https://geerthofstede.com/research-and-vsm/dimension-data-matrix/
Regulation distance	Regulation distance between the host and home country. It is the absolute value of the differences in regulation, which measures administrative requirements, regulatory burden, starting a business, impartial public administration, licensing restrictions, and tax compliance in a country.	"Economic Freedom of the World" by Fraser Institute, at http://www.freetheworld.com/datasets_efw.html.
Geographic distance	The geographic distance between the host and home country. It is the natural logarithm of the geographical distance between the host country and U.S..	The Centre d'Études Prospectives et d'Informations Internationales (CEPII). http://cepii.fr/CEPII/en/welcome.asp

Appendix 2: Sample Distributions by Host Country

Panel A: Foreign Donation by Host Country

No.	Country	Year of Mandatory ESG	N	Average foreign donation amount	Average number of foreign grants
1	Canada		1005	63.90	1.48
2	United Kingdom	2013	871	278.71	2.47
3	China	2008	855	233.97	1.55
4	Mexico		750	82.04	1.03
5	Japan		735	92.44	0.53
6	India	2012	720	168.85	1.19
7	Brazil		540	105.31	1.04
8	Australia	2003	495	77.26	0.98
9	South Africa	2010	495	115.12	1.18
10	Philippines	2011	480	64.41	0.69
11	Chile	2015	420	59.34	0.73
12	Germany	2016	420	37.66	0.79
13	France	2001	406	96.23	1.29
14	Ireland	2016	405	58.45	0.98
15	Italy	2016	405	40.93	0.35
16	Pakistan	2009	379	17.26	0.46
17	Kenya		375	42.47	0.39
18	Indonesia	2012	345	113.48	0.76
19	Belgium	2009	330	36.62	0.56
20	Argentina	2008	300	34.95	0.82
21	Israel		300	39.05	0.81
22	Vietnam		300	36.18	0.44
23	Russian Federation		285	102.25	1.18
24	Netherlands	2016	270	21.21	0.56
25	Turkey	2014	270	66.25	0.57
26	Colombia		255	102.96	0.76
27	New Zealand		255	8.01	0.20
28	Poland	2016	255	64.77	0.75
29	Thailand		255	39.41	0.51
30	Spain	2012	240	90.60	1.41
31	Hungary	2016	240	46.49	1.21
32	Peru	2015	240	26.74	0.63
33	Switzerland		225	31.22	0.66
34	Austria	2016	210	19.97	0.19
35	Egypt		210	42.06	0.47
36	Korea (South)		195	97.69	0.94
37	Singapore	2016	195	90.64	1.02
38	Ukraine		180	20.41	0.44
39	Greece	2006	165	35.60	0.32
40	Malaysia	2007	165	42.34	0.88
41	Nigeria		165	83.75	0.65
42	Sri Lanka		150	11.90	0.20
43	Portugal	2010	150	7.24	0.25
44	Hong Kong	2015	135	94.22	0.75
45	Norway	2013	135	19.06	0.41
46	Sweden	2016	135	38.60	0.38
47	United Arab Emirates		120	22.76	0.39
48	Jordan		105	37.96	0.75
49	Denmark	2016	90	8.63	0.23
50	Finland	2016	90	10.13	0.27
51	Bulgaria		75	13.93	0.49
52	Morocco		75	13.04	0.33
53	Kazakhstan		60	34.53	0.48
54	Qatar		60	16.14	0.15
55	Bahrain		30	27.27	0.70
56	Tunisia		15	14.00	0.67
	Total		17,031	84.54	0.92

Panel B: Foreign Governmental Contracts by Host Country

No.	Country	Year of Mandatory ESG Disclosure	N	Average Number of Contracts	Average Value of Contracts (in $thousands)
1	Canada		1,005	1.16	3,882.55
2	United Kingdom	2013	885	0.34	1,617.36
3	India	2012	720	0.04	0.20
4	Brazil		540	0.07	409.24
5	Austria	2016	495	1.10	3,669.75
6	Philippines	2011	480	0.29	75.77
7	Chile	2015	435	8.30	218.79
8	Germany	2016	420	0.03	332.78
9	France	2001	420	1.51	1,299.53
10	Ireland	2016	420	0.00	30.69
11	Italy	2016	405	0.62	1,323.12
12	Belgium	2009	330	0.04	25.12
13	Russian Federation		285	0.01	0.02
14	Netherlands	2016	270	0.01	22.25
15	Poland	2016	255	0.40	202.71
16	Spain	2012	240	1.35	1,596.44
17	Hungary	2016	240	0.03	200.90
18	Switzerland		225	0.00	0.00
19	Australia	2003	210	0.00	2.09
20	Korea (South)		195	0.17	51.69
21	Greece	2006	165	0.01	0.06
22	Portugal	2010	150	0.91	261.08
23	Norway	2013	135	0.00	0.00
24	Sweden	2016	135	0.06	34.20
25	Denmark	2016	90	0.39	3,166.65
26	Finland	2016	90	0.04	72.41
27	Bulgaria		75	0.00	0.00
	Total		9,315	0.79	1,028.45

This table tabulates composition of sample countries. Sample countries and their years of mandatory ESG disclosure come from Krueger et al. (2023). Panel A presents country composition of foreign donation sample, and Panel B presents that of foreign contracts sample. Average amount and number of donations made and contracts obtained per company-country-year are also presented. Values of foreign donations and foreign contracts are in thousands of U.S. dollars.

Appendix 3: Figures and Tables

Figure 1: Donation Patterns Around ESG Disclosure Mandate
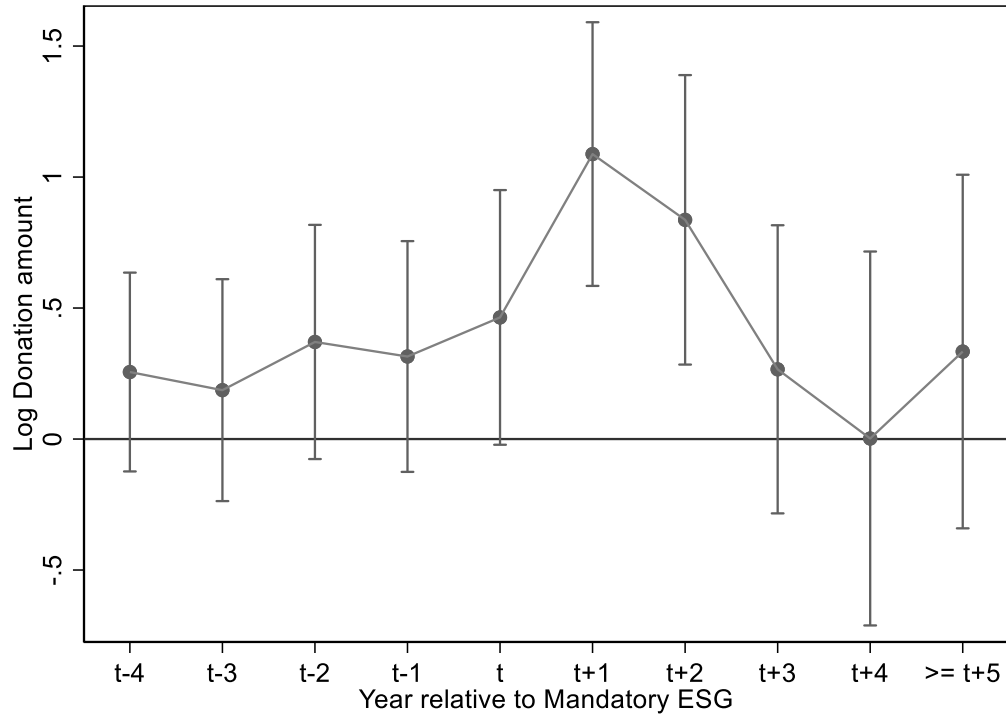
Table 1: Sample Selection Procedures

Panel A: Sample Selection Procedures

	Firm-country-year Obs	# of firms	# of countries	Firm country pairs
Compustat firms headquartered at USA during sample period 2002-2015		3,713		
Firms covered by the donatio database and made at least 5 grants		123		
Countries covered by Krueger et al. (2023) and received at least 5 grants			58	
The firm has made at least one grant in the country	17,520	111	58	1,168
Non-missing country characteristics	17,115	111	56	1,141
Firms are not listed in the host country	17,031	111	56	1,141

Panel B: Comparison with Compustat firms

Sample	N	ROA	Asset	Age	Sale
U.S. listed firms in Compustat	4,976	0.01	1,005.83	17.00	413.36
Compustat MNEs	2,060	0.03	1,598.67	20.00	1,180.09
Foreign Donation Firms (samples used in the paper)	123	0.05	46,577.00	54.00	20,904.00

Table 2: Descriptive Statistics and Correlations – Mandatory ESG Disclosure and Corporate Foreign Donations

Panel A: Variable Descriptive Statistics

	N	Mean	STD	P25	P50	P75	Max
Foreign donation Amount (in $thousands)	17,031	84.542	387.756	0.000	0.000	20.000	10,159.000
Foreign donation Amount (non-zero, in $thousands)	4,736	304.019	688.498	35.000	100.859	293.568	10,159.000
Ln(Foreign Donation Total)	17,031	3.222	5.239	0.000	0.000	9.904	14.177
Host ESG Mandate	17,031	0.180	0.384	0.000	0.000	0.000	1.000
Size	17,031	11.160	1.696	10.018	10.787	12.144	14.671
Foreign Country Importance	17,031	0.664	0.571	0.000	0.693	1.099	1.946
Geographic diversification	17,031	2.249	1.794	0.000	3.091	3.807	4.466
Number of foreign subsidiaries	17,031	2.884	2.376	0.000	3.638	4.844	7.047
Ln(Foreign Donation Elsewhere)	17,031	11.058	6.712	0.000	14.481	15.911	17.766
Natural Disaster	17,031	0.867	0.340	1.000	1.000	1.000	1.000
GDP Level (in $billions)	17,031	1,294.464	1,568.224	221.584	658.129	1,774.800	8,326.945
GDP Distance	17,031	30.199	0.149	30.145	30.228	30.310	30.406
Rule of Law Level	17,031	0.580	0.999	-0.410	0.533	1.650	2.100
Rule of Law Distance	17,031	1.109	0.882	0.221	1.022	1.999	2.690
Corporate Social Responsibility	17,031	2.695	4.293	0.000	2.000	6.000	18.000
Corporate Governance	17,031	-1.053	1.835	-2.000	0.000	0.000	4.000
Sin Industry	17,031	0.058	0.235	0.000	0.000	0.000	1.000

Panel B: Average Donations by Industry

No.	Industry	Obs	Average foreign donation amount	Average number of foreign grants
1	Financial	4,216	135.54	1.63
2	Pharmaceuticals	2,761	61.20	0.41
3	Food	1,399	195.15	0.66
4	Computers	1,328	58.91	0.82
5	Transportation	1,160	37.70	0.98
6	Manf: Instruments	872	41.69	0.77
7	Manf: Electrical Equipment	811	29.62	0.59
8	Manf: Machinery	690	42.73	0.59
9	Manf: Misc.	570	4.03	0.12
10	Other	469	89.77	0.81
11	Manf: Metal	456	173.77	4.07
12	Textiles/Print/Publish	390	28.99	0.19
13	Extractive	390	74.85	0.39
14	Manf: Transport Equipment	326	8.58	0.15
15	Chemicals	270	6.79	0.10
16	Retail: Misc	241	12.65	0.15
17	Utilities	210	46.22	0.70
18	Manf: Rubber/Glass/Etc.	150	187.79	0.71
19	Retail: Wholesale	90	20.51	0.18
20	Mining/Construction	75	27.57	0.35
21	Retail: Restaurant	72	8.89	0.11
22	Insurance/Real Estate	60	3.25	0.17
23	Services	25	6.64	0.24
	Total	17,031	84.54	0.92

Panel C: Correlation Matrix

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1)	Ln(Foreign Donation Amount)		0.061	0.167	0.120	0.084	0.105	0.458	0.102	0.008	0.002	-0.021	0.111	-0.043
(2)	Host ESG Mandate	0.059		0.041	0.102	0.104	0.111	0.069	0.361	0.133	0.105	0.009	0.127	0.132
(3)	Size	0.191	0.037		0.074	0.077	0.162	0.423	0.150	-0.063	0.134	0.037	0.044	-0.246
(4)	Foreign Country Importance	0.118	0.103	0.070		0.833	0.863	0.095	0.127	0.050	-0.114	-0.253	0.057	-0.024
(5)	Geographic Diversification	0.089	0.108	0.042	0.881		0.962	0.175	0.129	0.039	0.013	-0.103	0.092	-0.023
(6)	Number of foreign subsidiaries	0.105	0.110	0.127	0.894	0.981		0.198	0.141	0.041	0.013	-0.109	0.078	-0.049
(7)	Ln(Foreign Donation Elsewhere)	0.407	0.049	0.385	0.096	0.124	0.156		0.270	-0.099	0.286	0.071	0.157	-0.093
(8)	Trend	0.098	0.361	0.138	0.127	0.134	0.143	0.204		-0.045	0.604	0.021	0.353	0.309
(9)	Natural Disaster	0.006	0.133	-0.066	0.050	0.041	0.040	-0.077	-0.045		-0.216	0.176	-0.040	0.021
(10)	GDP Distance	0.000	0.016	0.108	-0.108	-0.012	-0.004	0.178	0.432	-0.201		0.206	0.236	0.144
(11)	Rule of Law Distance	-0.014	0.020	0.040	-0.237	-0.144	-0.133	0.042	0.022	0.207	0.143		0.032	-0.012
(12)	Corporate Social Responsibility	0.107	0.117	0.007	0.040	0.074	0.062	0.100	0.333	-0.034	0.169	0.023		0.179
(13)	Corporate Governance	-0.048	0.116	-0.300	-0.026	-0.032	-0.048	-0.085	0.262	0.022	0.069	-0.007	0.212	

Table 3: Host Country Mandatory ESG Disclosure and U.S. Corporate Foreign Donations

Dependent Variable:	(1)	(2)	(3)	(4)
	Ln(Foreign Donation Amount)		Foreign Donate	
Host ESG Mandate	0.394**	0.401**	0.034**	0.034**
	(2.34)	(2.33)	(2.32)	(2.30)
Size	0.627	0.627	0.050	0.050
	(1.04)	(1.03)	(1.02)	(1.01)
Foreign Country Importance	1.321***	0.641	0.105***	0.056
	(4.36)	(1.43)	(4.18)	(1.49)
Geographic diversification	-0.653	-1.099	-0.044	-0.078
	(-1.26)	(-1.55)	(-1.09)	(-1.36)
Number of foreign subsidiaries	0.335	0.667	0.021	0.045
	(0.74)	(1.22)	(0.58)	(1.03)
Ln(Foreign Donation Elsewhere)	0.287***	0.292***	0.025***	0.025***
	(17.41)	(17.87)	(17.60)	(17.89)
Trend	-0.123**	-0.107**	-0.012***	-0.010**
	(-2.98)	(-2.62)	(-3.38)	(-3.04)
Natural Disaster	-0.026	-0.028	-0.003	-0.003
	(-0.22)	(-0.23)	(-0.23)	(-0.24)
GDP Distance	0.569	-0.009	0.075	0.033
	(0.41)	(-0.01)	(0.65)	(0.30)
Rule of Law Distance	-0.080	-0.063	-0.005	-0.004
	(-0.25)	(-0.19)	(-0.20)	(-0.15)
Direct investment to Foreign	-0.468	-0.376	-0.040	-0.034
	(-0.42)	(-0.33)	(-0.42)	(-0.34)
Corporate Social Responsibility	0.035	0.034	0.003	0.003
	(0.85)	(0.79)	(0.85)	(0.80)
Corporate Governance	0.037	0.033	0.003	0.003
	(0.37)	(0.32)	(0.41)	(0.37)
Firm Fixed-Effects	Yes	No	Yes	No
Country Fixed-Effects	Yes	No	Yes	No
Firm-Country Pair Fixed-Effects	No	Yes	No	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	17,031	17,031	17,031	17,031
Adjusted R-squared	0.288	0.380	0.306	0.414

This table presents results for analyses on the effect of mandatory ESG disclosure regulation in a foreign country on U.S. firms' corporate giving to that country using a staggered DiD approach:
$Foreign\ Donation_{i,c,t} = \beta_0 + \beta_1 \times Mandatory\ ESG\ Disclosure_{c,t} + \beta_2 \times Controls_{t-1} + Fixed\ Effects.$
Column (1)-(2) employs an OLS model and uses natural logarithm of donation amount as the dependent variable. Column (3)-(4) employs a logistic model which uses an indicator as the dependent variable. Column (1) and (3) uses company-, country-, and year- fixed effects, while Column (2) and (4) replace company fixed effects and country fixed effects with company country pair fixed effects. Regression constants are not presented. All continuous variables are winsorized at the 1st and 99th percentiles of their pooled distributions. Robust t standard errors are clustered at firm level. The t-statistics are reported in parentheses. ***, **, and * indicate significance at the of 1%, 5%, and 10% levels, respectively. Detailed definitions of all variables are listed in Appendix 1.

Table 4: Analyses to Assess Endogeneity and the Parallel Trends Assumption

Panel A: Foreign Donation Patterns Around the Mandatory ESG Year

Dependent Variable:	(1) Ln(Foreign Donation Amount)
<= T-5	0 by construction
T-4	0.256
	(1.34)
T-3	0.187
	(0.87)
T-2	0.370
	(1.64)
T-1	0.315
	(1.42)
T	0.464*
	(1.89)
T+1	1.088***
	(4.28)
T+2	0.837**
	(3.00)
T+3	0.266
	(0.96)
T+4	0.002
	(0.01)
>= T+5	0.334
	(0.98)
Size	0.625
	(1.02)
Foreign Country Importance	0.615
	(1.37)
Geographic diversification	-1.124
	(-1.58)
Number of foreign subsidiaries	0.684
	(1.25)
Ln(Foreign Elsewhere)	0.292***
	(17.79)
Trend	-0.099**
	(-2.14)
Natural Disaster	-0.048
	(-0.38)
GDP Distance	-0.665
	(-0.50)
Rule of Law Distance	-0.191
	(-0.60)
Direct investment to Foreign	-0.748
	(-0.63)
Corporate Social Responsibility	0.040
	(0.93)
Corporate Governance	0.035
	(0.32)
Controls, Firm-Country F.E. and Year F.E.	Yes
Observations	17,031
Adjusted R-squared	0.415

Panel B: Falsification Tests Using Alternative Donation Variables

Dependent Variable:	(1)	(2)	(3)
	Ln(Domestic Donation)		Ln(Foreign Donation Elsewhere)
Host ESG Mandate	0.056	-0.743	0.184
	(0.79)	(-1.10)	(1.48)
Size	0.227	0.506*	3.042***
	(1.04)	(1.98)	(5.31)
Foreign Country Importance	-0.053		-0.480
	(-0.29)		(-1.23)
Geographic diversification	0.147	-0.141	-0.589
	(0.57)	(-0.83)	(-0.68)
Number of foreign subsidiaries	-0.107	0.111	0.669
	(-0.59)	(0.80)	(1.15)
Ln(Foreign Elsewhere)	0.937***	0.956***	
	(28.84)	(31.34)	
Trend	0.152***	0.131***	0.667***
	(4.13)	(3.82)	(8.22)
Natural Disaster	0.001		-0.217*
	(0.02)		(-1.95)
GDP Distance	-0.909		0.918
	(-1.32)		(0.75)
Rule of Law Distance	-0.174		-0.038
	(-1.31)		(-0.16)
Direct investment to Foreign	0.773*		-0.762
	(1.78)		(-0.86)
Corporate Social Responsibility	-0.059**	-0.031	-0.050
	(-2.34)	(-0.93)	(-0.82)
Corporate Governance	-0.099*	-0.019	-0.033
	(-1.77)	(-0.28)	(-0.23)
Controls, Firm-Country, and Year F.E.	Yes	Yes	Yes
Observations	17,031	5,574	17,031
Adjusted R-squared	0.906	0.861	0.581

Panel C: Covariate Balance for Entropy-Balanced Sample

Dependent Variable	Treatment Sample: Mandate Countries (n=)	Balanced Control Sample: non-Mandate countries (n=9,492)	P Value for the difference between the treatment and control samples
Size	11.120	11.120	0.991
Host Country Importance	0.684	0.684	0.999
Geographic Diversification	2.328	2.327	0.995
Number of Foreign Subsidiaries	2.992	2.992	0.994
Foreign Donation Elsewhere	10.950	10.950	0.989
Trend	6.000	6.002	0.980
Natural Disaster	0.932	0.931	0.798
GDP Distance	30.200	30.200	0.959
Rule of Law Distance	1.229	1.228	0.943
U.S. FDI to Host	0.052	0.052	0.698
Corporate Social Responsibility	2.661	2.662	0.992
Corporate Governance	-1.030	-1.030	0.999

Panel D: Entropy Balanced Sample Analyses

	(1)
Dependent Variable:	Ln(Foreign Donation Amount)
Host ESG Mandate	0.378**
	(2.24)
Size	0.606
	(0.99)
Foreign Country Importance	0.502
	(1.00)
Geographic diversification	-1.142
	(-1.50)
Number of foreign subsidiaries	0.732
	(1.24)
Ln(Foreign Elsewhere)	0.295***
	(17.83)
Trend	-0.104**
	(-2.52)
Natural Disaster	-0.064
	(-0.41)
GDP Distance	-0.061
	(-0.05)
Rule of Law Distance	0.085
	(0.27)
Direct investment to Foreign	-1.096
	(-0.67)
Corporate Social Responsibility	0.030
	(0.69)
Corporate Governance	0.034
	(0.34)
Control, Firm-Country, and Year Fixed Effects	Yes
Observations	17,031
Adjusted R-squared	0.423

This table presents analyses to assess endogeneity and the parallel trends assumption for the staggered DiD analysis conducted in Table 3.

Table 5: Cross-sectional Analysis

	(1)	(2)	(3)	(4)	(5)
Dependent Variable:			Ln(Foreign Donation Amount)		
Host ESG Mandate	-0.260	0.138	0.586**	-0.265	0.063
	(-1.37)	(0.75)	(2.66)	(-0.78)	(0.12)
Foreign Country Importance*Host ESG Mandate	0.820**				
	(3.12)				
Foreign Country Importance	-0.130	0.071	0.666	0.086	0.774
	(-0.36)	(0.19)	(1.51)	(0.24)	(0.79)
Sin Industry*Host ESG Mandate		2.444**			
		(2.06)			
Sin Industry		0.240			
		(1.10)			
Social Performance*Host ESG Mandate			-0.113*		
			(-1.89)		
Social Performance			0.131*		
			(1.71)		
Media Coverage*Host ESG Mandate				0.057*	
				(1.67)	
Media Coverage				-0.041	
				(-1.12)	
High Reliance on Foreign Contracts*Host ESG Mandate					
					(2.56)
High Reliance on Tender					-0.240
					(-0.39)
Size	0.809*	0.752*	0.633	0.730*	-0.326
	(1.97)	(1.97)	(1.07)	(1.94)	(-0.19)
Geographic diversification	-0.768	-0.805	-1.025	-0.866	-0.581
	(-1.46)	(-1.59)	(-1.45)	(-1.61)	(-0.42)
Number of foreign subsidiaries	0.537	0.547	0.616	0.587	0.341
	(1.13)	(1.21)	(1.14)	(1.23)	(0.38)
Ln(Foreign Elsewhere)	0.252***	0.249***	0.295***	0.254***	0.207***
	(14.88)	(15.14)	(17.30)	(14.41)	(6.72)
Trend	-0.120***	-0.109***	-0.112**	-0.083**	-0.940**
	(-4.19)	(-4.09)	(-2.85)	(-2.46)	(-2.03)
Natural Disaster	0.017	0.047	-0.032	0.032	-0.143
	(0.16)	(0.43)	(-0.25)	(0.31)	(-0.69)
GDP Distance	0.180	-0.208	0.038	-0.334	0.173
	(0.15)	(-0.19)	(0.03)	(-0.28)	(0.04)
Rule of Law Distance	-0.011	-0.051	-0.069	-0.059	-0.307
	(-0.04)	(-0.17)	(-0.21)	(-0.21)	(-0.26)
Direct investment to Foreign	0.129	0.150	-0.402	0.214	-3.348
	(0.13)	(0.16)	(-0.35)	(0.21)	(-0.66)
Corporate Social Responsibility	0.055*	0.051*	0.008	0.059**	0.141
	(1.91)	(1.68)	(0.18)	(2.04)	(1.52)
Corporate Governance	0.088	0.084	0.037	0.092	-0.256
	(1.04)	(1.02)	(0.37)	(1.06)	(-1.07)
Firm-Country F.E.	Yes	Yes	Yes	Yes	Yes
Year F.E.	Yes	Yes	Yes	Yes	Yes
Observations	17,031	17,031	17,031	17,031	3,744
Adjusted R-squared	0.414	0.416	0.416	0.414	0.524

This table explores cross-sectional variations in the effects of mandatory ESG disclosure regualtion on foreign donations that examined in Table 2. Company-country and year fixed effects are included. Robust *t* standard errors are clustered at firm level. All continuous variables are winsorized at the 1st and 99th percentiles of their pooled distributions. The t-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. Definitions of all the variables are listed in Appendix 1

Table 6: Robustness Tests

Panel A: Drop Largest Donation Hosts

	Drop Canada				Drop U.K.			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Foreign Donate		Ln(Foreign Donation Amount)		Foreign Donate		Ln(Foreign Donation Amount)	
Dependent Variable:								
Host ESG Mandate	0.029*	0.029*	0.346**	0.352*	0.034**	0.035**	0.394**	0.399**
	(1.91)	(1.90)	(1.98)	(1.97)	(2.33)	(2.29)	(2.29)	(2.25)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed-Effects	Yes	No	Yes	No	Yes	No	Yes	No
Country Fixed-Effects	Yes	No	Yes	No	Yes	No	Yes	No
Firm-Country Pair Fixed-Effects	No	Yes	No	Yes	No	Yes	No	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	16,026	16,026	16,026	16,026	16,160	16,160	16,160	16,160
Adjusted R-squared	0.288	0.379	0.306	0.412	0.284	0.373	0.301	0.405

Panel B: Use Domestic Donation as Alternative Control

	Add Domestic as Control				Domestic as Control Only			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Foreign Donate		Ln(Foreign Donation Amount)		Foreign Donate		Ln(Foreign Donation Amount)	
Dependent Variable:								
Host ESG Mandate	0.046**	0.042**	0.488**	0.446**	0.051**	0.034	0.483*	0.281
	(2.95)	(2.66)	(2.48)	(2.28)	(2.43)	(1.58)	(1.94)	(1.11)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed-Effects	Yes	No	Yes	No	Yes	No	Yes	No
Country Fixed-Effects	Yes	No	Yes	No	Yes	No	Yes	No
Firm-Country Pair Fixed-Effects	No	Yes	No	Yes	No	Yes	No	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	18,775	18,775	18,775	18,775	8,177	8,177	8,177	8,177
Adjusted R-squared	0.417	0.507	0.577	0.656	0.528	0.617	0.702	0.768

Panel C: Stacked DiD

Dependent Variable:	Ln(Foreign Total)
Host ESG Mandate	0.398**
	(2.55)
Controls	Yes
Firm, Country, Year Fixed Effects	Yes
Observations	130,515
Adjusted R-squared	0.393

This table provides results for robustness checks of regression in Table 3. Panel A drop drops countries with largest observations one by one. Panel B use domestic donations as additional control. Panel C utilizes a stacked dataset to re-do the DiD. Robust t standard errors are clustered at firm level. All continuous variables are winsorized at the 1st and 99th percentiles of their pooled distributions. The t-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. Definitions of all the variables are listed in Appendix 1

Table 7: Consequence Analysis

Panel A: Host Mandatory ESG Disclosure, U.S. Corporate Foreign Donations, and Foreign Government Procurement Contracts

	(1)	(2)
	Ln(Value of Contracts)	Ln(Number of Contracts)
Post Foreign Donation	0.535*	0.066*
	(1.71)	(1.96)
Size	0.535*	0.050
	(1.71)	(1.50)
Foreign Country Importance	-0.050	-0.019
	(-0.15)	(-0.56)
Geographic diversification	-0.686	-0.120
	(-1.15)	(-1.60)
Number of foreign subsidiaries	0.431	0.081
	(0.97)	(1.48)
Ln(Foreign Donation Elsewhere)	-0.029*	-0.004*
	(-1.84)	(-1.69)
Trend	-0.183	-0.029
	(-1.53)	(-1.53)
Natural Disaster	-0.058	-0.002
	(-1.03)	(-0.43)
GDP Distance	17.321*	2.499*
	(1.89)	(1.75)
Rule of Law Distance	-0.154	-0.021
	(-0.49)	(-0.64)
Direct investment to Foreign	-2.096**	-0.332**
	(-2.21)	(-2.18)
Corporate Social Responsibility	-0.016	-0.001
	(-0.66)	(-0.19)
Corporate Governance	-0.030	-0.005
	(-0.69)	(-0.74)
Firm-Country F.E.	Yes	Yes
Year F.E.	Yes	Yes
Observations	9,315	9,315
Adjusted R-squared	0.332	0.320

Panel B: Host Mandatory ESG Disclosure, U.S. Corporate Foreign Donations, and Foreign Media Sentiment

	(1)
Model:	Ordered Logit
Dependent Variable:	*Media Sentiment Change*
Post Foreign Donation	0.219**
	(2.40)
Size	0.033
	(0.32)
Foreign Country Importance	-0.026
	(-0.47)
Geographic diversification	0.150
	(1.15)
Number of foreign subsidiaries	0.163
	(1.57)
Ln(Foreign Donation Elsewhere)	-0.143*
	(-1.94)
Trend	-0.003
	(-0.51)
Natural Disaster	-0.034**
	(-2.57)
GDP Distance	-0.058
	(-0.71)
Rule of Law Distance	0.346
	(0.76)
Direct investment to Foreign	0.046
	(0.47)
Corporate Social Responsibility	0.664**
	(1.97)
Corporate Governance	-0.005
	(-0.76)
Firm-Country F.E.	Yes
Year F.E.	Yes
Observations	17,031
Pseudo R-squared	0.055

This table examines whether foreign donations help U.S. firms increase their legitimacy in the eye of host government and community after ESG mandate in the host country. The regression model is as follows:

$Consequence\ Variable_{i,c,t} = \beta_0 + \beta_1 \times Post\ Foreign\ Donation_{i,c,t} + \beta_2 \times Foreign\ Donation_{i,c} + \beta_3 \times Controls_{t-1} + Fixed\ Effects.$ (3)

$Consequence\ Variable_{i,c,t}$ is either *Ln(Value of Contracts), Ln(Number of Contracts)* or *Media Sentiment Change. Post Foreign Donation$_{i,c,t}$* is an indicator that equals to 1 if the firm donate to the country after donation in Country c, and if year t is within three years after the ESG mandate in Country c. *Foreign Donation$_{i,c}$* is an indicator that equals to 1 if the firm donate to the country within 3 years after ESG mandate in Country c.