COMING BACK AND GIVING BACK:

RETURNEE DIRECTORS AND CORPORATE DONATIONS

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ABSTRACT

Literature on institutional change has studied such drivers for change as distributional conflicts, exogenous shocks, and external influences exerted by governments and firms. In this paper, we explore the role of mobile individuals as carriers and transmitters of initial impetus for change. We argue that these individuals return ingrained with new ideas from the outside and are sufficiently embedded in the original context to make change happen from the inside. We focus on one such type of individual, returnees, i.e., expatriates who have gained their education or early-career work experience abroad, who then return to their home countries, and we examine the thesis that returnees transmit the idea of corporate social responsibility (CSR) from abroad and then spark change at home. Using data on publicly listed Chinese companies from 2000 to 2012, and exploiting the introduction of provincial policies toward attracting returnees as an instrumental variable for firms' returnee levels, we find that having returnees on the corporate board significantly boosts firms' donations. This effect is robust to a battery of robustness tests. We further show that returnee directors donate more, not in pursuit of tax benefits or political access, but as a result of their imprinted state-of-mind on the institutional idea of CSR. We discuss implications for the literature on institutional change, return migration, and corporate social responsibility.

Keywords: corporate social responsibility, institutional change, corporate donation, return migration, upper echelon, emerging markets

Institutions endure. By structuring incentives in human exchange and interaction, institutions condition those decisions about investment, innovation and technological adaptation that are paramount to long-run economic performance. Ranging from public to private governance, and from formal to informal rules, all forms of institutions share a predominant feature in that they persist over long periods of time. This enduring nature has led to an emphasis on stability in existing analyses of institutions and the parts they play in governing economic actions, but it also begs the questions of when and how institutions are re-cast or tampered with, if at all (Clemens and Cook, 1999). Specifically, where does institutional change find its source or impetus for alternation?

The literature on institutional change offers a number of compelling answers to this question (Scott and Davis, 2007). One approach focuses on explaining which factors give rise to instability in the existing system, by highlighting impetuses for radical or gradual change such as crises (*e.g.*, Fligstein, 1996; Hoffman, 1999), technology shocks (*e.g.,* Barley, 1986; Tushman and Anderson, 1986), social movements (*e.g.,* Sine and David, 2003; Schneiberg and Loudsbury, 2008; Sine and Lee, 2009; King and Pearce, 2010; McDonnell and King, 2013; McDonnell, King, and Soule, 2015), and distributional conflicts (*e.g.,* Leblebici *et al.*, 1991; Clemens, 1997; Nee and Opper, 2012; Yue, Luo, and Ingram, 2013).

A distinct approach seeks to explain where replacement institutions come from, and suggests that an important source of influence comes from other institutions, be they formal or informal. The general conclusion is that openness helps change (Guillén, 2001). For instance, inter-governmental organizations may facilitate the transmission of institutions of states (*e.g.,* Torfason and Ingram, 2010; Guillen and Capro, 2015). Governments may put pressure on other governments as they form trade treaties (*e.g.,* Meyer *et al.*, 1997; Polillo and Guillén, 2005; Henisz, Zelner, and Guillén, 2005; Schofer and Meyer, 2005; Dobbin, Simmons and Garrett, 2007). Alternatively, firms competing in multiple markets may bring some of their home institutions with them (*e.g.,* Guler, Guillén, and Macpherson, 2002; Davis, Whitman, and Zald, 2006; Jeong and Weiner, 2012; Soule, Swaminathan, and Tihanyi, 2013; Vasudeva, 2013).

Despite this rich attention to external influences that may drive institutional change, and the understanding that the process hinges on linkages at the superstate-, state- and organization-levels, we know little about how individuals who move from place to place may effect alternate linkages through which one institutional environment influences another. This theoretical gap is surprising given the ubiquitousness of individuals spanning institutional contexts (*e.g.,* Saxenian, 2006; Rangan and Sengul, 2009; Filatotchev, *et al.*, 2011; Li, *et al.*, 2012; Obukhova, 2012; Hernandez, 2014; Wang, 2015). This current study explores the mechanisms through which mobile individuals serve as transmitters of initial impetus for change. We focus on the change of informal norms, rather than of formal institutions such as rules, regulations and laws (*e.g.,* Dobbin, 1994; Ingram and Rao, 2004; Soule and King, 2006; Funk and Hirschman, 2014), with the understanding that the former often paves ways for the latter (Durkheim, 1950).

This study zooms in on one type of mobile individual: return migrants, and argues that cross-border mobility is an alternate mechanism which propels new institutional models to emerge and change to occur. Recent studies of international migration flows suggest increasing presences of large numbers of returnees.[1] Defined as people who return home having studied or worked abroad, returnees are often both ingrained with new ideas (Campbell, 2004; Campbell and Pederson, 2014; also see North, 1986, 1990, 1994) from the outside, and are embedded enough to make changes happen from the inside. In other words, ideas come from outside which propel people to think about how we do things, while changes are geared by insiders who have influence within the current system. Mobile individuals are positioned to facilitate the undertaking of both processes; by virtue of

[1] Taking the case of the US, it is estimated that about 30 percent of the foreign-born persons in the United States leave the country within a decade or two after their arrival (Warren and Peck, 1980; Ahmed and Robinson, 1994).

their accumulated experiences, they are uniquely equipped to bridge distinct institutional environments.

We develop theoretical propositions and evaluate them in the context of Chinese public firms' corporate donation decisions between 2000 and 2012. This is an especially well-suited context to our theoretical aims for three reasons. First, as a type of corporate social responsibility (CSR) practice, corporate donation embodies an institutional arrangement between business-society-government (*e.g.,* Useem, 1984; Galaskiewicz, 1985; Galaskiewicz and Burt, 1991; Vogel, 2006; Marquis, Glynn, and Davis, 2007; Matten and Moon, 2008; Miller and Guthrie, 2007; Tilcsik and Marquis, 2013) that is fast changing globally and this is particularly so in China (Zhang and Luo, 2013; Marquis and Qian, 2014). The idea is such that one way for firms to create values in the long run is to share some of those values with the stakeholders and to provide for the society, a notion that was, until recently, foreign to a China where government has been the sole provider of public goods and social services for the past half century. We focus on the changing behaviors of domestic firms, which, as shown below, serve as the motors of change in this practice and the institutional understandings associated with the practice.

Second, unlike phenomena that are driven by large and complex institutional forces wherein actors find little or no capacity for exerting effective influence, the CSR literature has provided repeated evidence that key actors such as top management teams do have significant impact on firms' decisions in this area (Chin, Hambrick, and Trevino, 2013; Marquis and Lee, 2013; Briscoe, Chin, and Hambrick, 2014; Tang *et al.*, 2015). Third, the context provides a unique empirical opportunity in that we are able to exploit exogenous variation in the arrival rate of returnee migrants induced by a policy change (Giannetti, Liao, and Yu, 2015). We collect fine-grained data on these returnees, show that they have a causal effect on Chinese firms' corporate social behaviors and subsequently, explore mechanisms in greater details. The strength of our approach is that we are able to pinpoint the source and mechanism of change, which complements the rich understanding in the literature on the trajectory of change (*e.g.,* Van de Ven and Hargrave, 2004; Schneiberg and Clemens, 2006). Before elaborating on the research context and study design, we first present the mechanisms and conditions through which individuals who transcend institutional contexts carry ideas with them and instill institutional change.

THEORY DEVELOPMENT

The Role of Ideas in Institutional Change

Central to the process of institutional change is the role of individuals as institutional entrepreneurs (Lawrence and Suddaby, 2006; Battilana, Leca, and Boxenbaum, 2009; Fligstein and McAdam, 2012) who construct new models through a bricolage (Douglas, 1986) of "building blocks…that [are] littered around the societal landscape" (Meyer and Rowan, 1977: 375) as well as engage in a political-cultural institutional project in order to mobilize buy-ins for new sets of arrangements (*e.g.,* DiMaggio, 1988; Fligstein, 1996, 2001; Davis, Diekmann, and Tinsley. 1994; Haveman and Rao, 1997; Rao, 1998; Benford and Snow, 2000; Hargadon and Douglas, 2001; Rao, Morrill and Zald, 2000; Rao, Monin, and Duand, 2005; Schneiberg and Soule, 2005; Weber, Heinze and DeSoucey, 2008).

Given that individuals play critical roles in institutional projects, it is logical to expect that they may also serve as the mechanisms through which institutional models are transposed from one institutional context to another (Guillén, 2001). Specifically, individuals may bring ideas from the outside. The notion of idea has been long present in institutional theorizing. In an inquiry into consolidating various manifestations, Campbell (2004) provides a useful typology. Ideas may take shape as underlying and taken-for-granted assumptions, examples of which are norms (Selznick, 1948), constitutive expectations (DiMaggio and Powell, 1983), conception of controls (Fligstein, 1990), or national political cultures (Dobbin, 1994). They may also take shape as explicitly articulated concepts and theories (Blyth, 2002), or symbols and frames employed for persuasion (Rao, 1998; Rao, Monin, and Durand, 2005). While norms and assumptions constrain the range of options that decision makers may access when grappling with institutional change, concepts and frames are used more freely and directly to deal with these constraints. The question on order is: Who are those individuals who are poised to embrace, carry and enact different types of ideas?

It is useful to make two clarifications before we proceed. First, understanding the role of ideas in institutional change requires a discussion of interests (DiMaggio, 1988; North, 1990). Surely, efforts to effect institutional change may be motivated by a variety of factors, among which economic interest is only one. Changes can be motivated by political ideologies, even at substantial material expense (Simons and Ingram, 1997). In other instances, organizations seek to affect institutions for purely ideological purposes, but economic results occur as well (Wade, Swaminathan, and Saxon, 1998). More often than not, efforts to change institutions often reflect a mix of economic and noneconomic interests (Ingram, 1998). Therefore, interests and ideas co-exist, and analyses that ignore ideas while focusing on interests alone would "limit the understanding of long-run institutional change" (North, 1986: 234), as "incentives [are] embodied in belief systems as expressed in institutions" (North, 1994: 364).

Second to note is that we do not claim that all institutional changes come from wayfaring ideas; nor do we maintain that all wayfaring ideas are able to lend themselves to institutional change. In fact, the mere recognition that ideas are neither necessary nor sufficient conditions for change suggests that the critical project for theory is to cleanly identify the mechanisms through which one leads to another. Recognizing this point, Campbell (2004) highlights that "it is not always apparent who the carriers of ideas are…it is not always clear which actors are responsible for introducing, shaping or institutionalizing ideas in ways that produce these effects" (Campbell, 2004: 91-92). The lack of information on which features make actors sufficient to this role is precisely the gap we seek to address, by zooming in on one type of carriers: the returnees.

Returnees as Transmitters of Institutional Ideas

Our central argument is this: returnees may serve as agents of alternate mechanisms through which institutional ideas can be transmitted from one environment to another. Moreover, this capacity is based on two advantages returnees have, compared with other institutional entrepreneurs at risk: one is that returnees, by virtue of having spent years or even decades abroad – and often during early stages of their careers – may have accumulated in-depth exposures with the external environment, in contrast to institutional entrepreneurs who may watch, comprehend, and copy other institutions from afar. Precisely due to this reason, and especially when facing favorable conditions, return migrants are known to facilitate cross-border transfer of skills and knowledge. They often bring back skills that would have been hard to pick up had they never gone abroad, earning a premium wage compared with similar people who had stayed home (*e.g.*, Gibson and McKenzie, 2011). Moreover, they often act as cross-border intermediaries whose returns spur economic development (Saxenian, 2006). Their ties to overseas resources, in combination with their familiarity with their homeland institutions, enable them to bring innovative ideas and technologies to organizations in their countries-of-origin (Kuznetsov and Sabel, 2006; Jonkers and Tussen, 2008; Choudhury, 2010). And we argue that this logic extends to the transmission of institutional ideas, which returnees are well positioned to enact. These ideas include, but go beyond, technical knowledge, to "encompass ideology that expresses a set of values that are believed to lead to desirable outcomes but often embody particular weights assigned to tradeoffs, such as between efficiency and equity" (Kogut and Macpherson, 2011: 40).

Their other advantage is that returnees are embedded sufficiently to contribute to or enact changes from the inside (Chung and Luo, 2008). As noted earlier, any changes face profound resistance in the face of dominant norms and assumptions, and it takes deliberate and strategic actions from key actors to come up with legitimate concepts and to be able to frame the issue in ways that surpass the gatekeepers and obtain buy-ins. Unlike foreign expatriates residing in host countries, returnees who come back to their home countries are much better equipped to serve this role as they are well versed in both institutional environments. In addition, returnees are likely incentivized to bring into being new institutional ideas. New ideas are often introduced by marginal actors or new organizations that seek to disrupt the existing arrangements and form a new institutional order to receive better distributional benefits (Leblebici *et al.*, 1991; Clemens, 1997; Ingram, 1998; Ingram and Clay, 2000). Recent evidence shows that while equipped with technical knowledge, returnees could be marginalized compared with homegrowners (Obukhova, 2012; Li *et al.*, 2012; Wang, 2015) and this disadvantage might actually propel them towards figuring out new paths.

While returnees serve as a plausible alternative channel through which institutional ideas are transplanted, the argument that returnees would result in change is not *a priori* obvious. This is because return migrants are selective (Borjas and Bratsberg, 1996): individuals decide to return if they prefer consumption in the home country, if prices are lower there or if human capital acquired in the host country is more valuable in the home country (Dustmann, Bentolila, and Faini, 1996). In particular, research with US data has found that the rate of returning is highest for recent arrivals (Van Hook *et al.*, 2006). This suggests that returnees are on average less assimilated with the foreign environment than are their compatriots who have stayed abroad, and their transientness may render them less well suited to transmitting institutional ideas. In other words, whether our propositions actually bear out is ultimately subject to important contingencies. Below, we look at the institutional idea of CSR and explain why it is a plausible idea to be transmitted.

CSR as an Institutional Idea

An institutional account of CSR maintains that efficiency arguments for CSR (*e.g.,* Lev, Petrovits, and Radhakrishnan, 2010; Servaes and Tamayo, 2013; Flammer, 2015; Madsen and Rodgers, 2015) are situated at a higher-order cultural and normative understanding on how best to organize society towards the well-functioning capacity of each of its three sectors—government, business, and civil society (Moon and Vogel, 2008).

In particular, CSR practices signify patterns of the relationship between government-business (*e.g.,* Vogel, 2006; Matten and Moon, 2008) as well as business-society (*e.g.,* Useem, 1984; Galaskiewicz, 1985; Galaskiewicz and Burt, 1991; Marquis, Glynn, and Davis, 2007; Tilcsik and Marquis, 2013). Further, the acceptance of CSR activities is deeply rooted in the cultural, political, legal and economic systems where firms operate (*e.g.,* Aguilera *et al*., 2007; Campbell, 2007; Matten and Moon, 2008). Ultimately, the "right" level of social responsibility of businesses reflects varying levels of acceptance vis-a-vis the idea. Supportive of the institutional account of CSR are empirical studies that show heterogeneity in the levels of social responsibility practices for firms across institutional environments, and in studies that correlate informal institutions such as national cultures with CSR activities for firms in the country (Ioannou and Serafeim, 2012; Liang *et al*., 2014).

Institutional ideas of CSR express their impacts on corporate behaviors through managers, shareholders and other key stakeholders who are embedded in the institution, accept the idea, and consequently, exercise considerable pressure on firms to engage in CSR activities. Particularly noteworthy is the role of top management teams. Research on upper echelon theory (Hambrick and Mason, 1984; Carpenter, Geletkanycz, and Sanders, 2004; Finkelstein, Hambrick, and Cannella,

2009) suggests that top managers process stimuli through filters comprised of values and cognition. They make strategic choices based on how they process these stimuli, and those choices affect important organizational outcomes. Top management's values and cognitive base are developed in numerous ways, such as through indigenous culture education and work experiences. Subsequently, the line of research focus mostly on stable individual and personality traits that serve as useful proxies for unobserved cognitive and psychological properties of top managers (Carpenter *et al.*, 2004). Applying the upper echelon theory on CSR decisions that are discretionary and primarily formulated at the top, studies have found that firms with politically liberal CEOs donate more and are more conducive to employee activism (Briscoe, Chin, and Hambrick, 2014); firms with female senior managers (Marquis and Lee, 2013) donate more; while hubristic CEOs are less keen on socially responsible activities (Tang *et al.*, 2014). In short, CSR as an institutional idea is manifested in the following way: institutional contexts (such as national culture) shape the cognition and motives of top management teams, which in turn further shape the way corporations conduct socially responsible activities.

All in all, our argument is the following: Returnees, having spent the early years of their careers studying and working abroad, have accumulated and thus are saliently stamped with the institutional ideas of CSR; upon returning home, they carry the ideas with them to a different environment. As returnees become corporate elites and under the influence of the foundational experiences they have had abroad, they make strategic decisions such as that of engaging their firms in CSR activities, and thus they act as transmitters and as motors of change. Thus, we propose:

Hypothesis 1 (H1): All else equal, firms engage in a higher level of CSR activities when a high percentage of its top management teams are returnees.

We further argue that H1 is stronger when the returnees come back from countries with cultural norms that are conducive to high levels of CSR. Extant literature has provided a number of ways of linking a country level cultural value with CSR activities. Ioannou and Serafeim (2012) show that in countries with higher levels of power distance, corporations will score lower on corporate social philanthropy and that in countries that are characterized by higher levels of individualism, corporations will score higher on the corporate social philanthropy. Besides cultural values, linguistic practices are also shown to manifest the cultural orientations where business practices such as CSR are situated. Drawing on recent evidence that speakers of future-time-reference (FTR) (such as English, French, and Spanish) exhibit less future-oriented behavior (Chen, 2013), Liang *et al.* (2014) argues that firms headquartered in countries with strong-FTR languages are also associated with less future-oriented activities such as CSR. Thus, we propose:

Hypothesis 2 (H2): All else equal, firms engage in a higher level of CSR activities when a high percentage of its top management teams are returnees from countries with more cultural orientations supporting CSR engagement.

METHODS

Empirical Setting and Sample

We use China as a research context to test our theories. Studies of international migration flows suggest the increasing presence of large numbers of returnees, and China is no exception. About 2.6 million Chinese have gone abroad to study during the period of 1978 to 2012, and this number has grown in recent years to about 400,000 per year. While the majority of them have stayed overseas, 1.1 million have come back (Statistics China, 2013). We focus on non-financial firms[2] in mainland China whose stocks are publicly traded in the A-share market from 2000 to 2012 and hand-collect information on foreign education, work experiences, and other demographic characteristics from the biographies of 51,915 executive and non-executive directors of 2,461 publicly listed companies for the period of 2000 to 2012.[3] After excluding firms with missing financial information, we have in the final sample 19,802 unique firm-year observations.

Variables

One of our primary variables of interest is *Donation-to-sales*, which is the firms' donation expenses divided by sales. Chinese public firms are required to disclose donation expenses according to China's accounting standards in the footnotes of the financial statement section of their annual reports. Firms that engage in philanthropy have strong tax reasons to accurately report their donation expenses (Wang and Qian, 2011). To obtain data on firms' donations, we combine three databases: the China Stock Market and Accounting Research Database (CSMAR), the RESSET database[4], and the iFind database[5], as each database covers a different time period of our sample. All these databases collect their data from the disclosure documents that Chinese public firms send to regulators.[6] To check the quality of the donation data, we randomly select 100 firms and compare

[2] We exclude financial firms because their financial variables (e.g., free cash flow and leverage) are not comparable with firms in other industries. Our results are robust to including financial firms.

[3] We consider the entire board rather than CEO by virtue that the board is ultimately responsible for firms' operations and are involved in internal decision-making, and because in Chinese companies top management is often not independent from the board (Kato and Long, 2006: 14-15; see also Firth, Fung and Rui, 2006: 1295; Liao *et al.*, 2009: 20). We also find similar positive relations between CEO foreign experience and donation.

[4] RESSET database is developed by Beijing Gildata RESSET Data Technology, and is one of the major databases for listed Chinese firms.

[5] iFind database started in 2010 and is managed by Zhengjiang RoyalFlush Network, which is one of the largest providers of the securities analysis software in China.

[6] Appendix Table 1 summarizes the data coverage by database and year.

the donation amounts from the databases with the donation amounts from the firms' public annual filings. We find that these data are the same.

We define *Foreign experience* for a firm as the number of directors that have foreign experience scaled by the total number of directors. A director has foreign experience if he or she has studied and/or worked outside mainland China. To obtain information about the directors' foreign experience, we search through their biographies in CSMAR by following the methods in Giannetti, Liao, and Yu (2015). We have a total of 51,915 unique directors, 11.05 percent of which possess foreign experience.

We include a number of board characteristics variables that may influence donation decisions. The female director fraction *Female director* is the ratio of the number of female directors divided by the number of all directors for each firm-year. We use this variable to control for the fact that female directors are more likely to take up philanthropic activities (Marquis and Lee, 2013). *Director age* is the board's average director age. *Director tenure* is the average difference between the observation year and the year when the individual joined the board. *Insider director* is the ratio of the number of directors who receive salary as employees of the firm divided by the number of directors. *Foreign director* is the ratio of the number of directors with foreign nationality divided by the number of directors.[7]

We consider a number of firm-level variables that may influence donation decisions. All the measures are obtained from CSMAR database. First, to account for the firm's ownership structure, we include a measure of *Foreign ownership* (the ratio of shares owned by all foreign legal persons divided by the firm's total shares), *Block* (the ratio of the largest shareholder's share divided by the firm's total shares), as well as *State* (a dummy variable that is 1 if the largest ultimate shareholders are marked in the CSMAR database with "State-owned" or "State-controlled"). Second, to account for

[7] Appendix Table 2 lists the variable definitions and sources. Appendix Table 3 lists the correlation tables.

the possibility that the firm's size, age, profitability, and valuation are associated with its donation and/or its board members' foreign experience, we include *Firm size* (the natural logarithm of the firm's total assets), *Firm age* (the natural logarithm of the number of days since the time when firm was founded), *ROA* (the firm's operating income divided by total assets), and *MB* (the ratio of market value of equity plus book value of total liabilities divided by book value of total assets). Third, because a firm's donation can be dependent upon the availability of cash resources, we construct measures for *Leverage* (the total liabilities divided by total assets) and *Free cash flow* (the sum of cash flow from operating, financing, and investing activities scaled by total assets). We winsorize all variables at the 1th and 99th percentiles except for discrete indicator variables.

Table 1 provides summary statistics for the above variables at firm level. The raw statistics suggests that corporate donation as a practice is still in its infancy in China: on average, Chinese firms spent 715.06 thousand RMB in *Donation expenses*, which is 0.0311 percent in *Donation-to-sales*. The standard deviation of *Donation-to-sales* is 0.0814 percent, which is more than twice of the mean. The distribution of donation is right skewed, with the median *Donation-to-sales* as 0.0020 percent, and the median *Donation expenses* as 21.63 thousand RMB.

Table 1 also shows that *Foreign experience* has a mean of 11.04 percent, a median of 9.09 percent, and a standard deviation of 13.43 percent. This means that in an average firm, one out of ten directors has foreign experience. We also report in Table 1 the statistics of board characteristics variables as well as firm characteristics variables. These variables include *Block*, *Foreign ownership*, *Firm size*, *Firm age*, *ROA*, *MB*, *Leverage*, and *Free cash flow*.

****Insert Table 1 about here****

Identification strategy

In an ideal experiment, one would randomly assign directors with foreign experience to a group of firms and observe how their donation behavior changes relative to that of firms that are not assigned such directors. However, the decision to hire directors with foreign experience is an endogenous one that may be influenced by unobserved firm-specific factors correlated with changes in donation behaviors. In particular, firms that experience certain challenges or opportunities might react by selecting and/or attracting board members with foreign experiences, as well as donating for obtaining societal goodwill. Alternatively, firms that hope to donate might also want to hire directors with foreign experiences. Ordinary least squares estimates thus may not identify the causal impact of board foreign experience on donations.

To address the potential issue, we follow Giannetti, Liao, and Yu (2015) to construct an instrument variable for the proportion of directors with foreign experience using the introduction of provincial policies to attract returnees in China. Starting in the late 1990s, at different points in time, mainland China's provincial governments adopted policies to attract the return of highly skilled emigrants (Zweig and Wang, 2013). The policies' main objective was increasing the quality of academic and industrial research and fostering entrepreneurial activity. With the policies, the provinces tried to attract the most distinguished Chinese expatriates by offering them preferential and generous benefits that included tax incentives, opportunities for start-up business loans, new laboratories and research grants, subsidized housing, tax-free imports of automobiles and computers, schooling for the children of the returnees, medical benefits, jobs for spouses, and long-term residence permits.

The returnees lured back by these policies are mostly scientists and academics who are trained and established abroad. Once back in China they may become available to join corporate boards as dependent or independent directors. Because the labor market for board directors is local in both the US (Knyazeva, Knyazeva and Masulis, 2013) and in China (Giannetti, Liao, and Yu, 2015), the provincial policy change leads to a high probability that local firms will be able to fill the shortage of talents with returnees, especially at the most senior levels. Thus, these policies led to arguably exogenous increases in the supply of potential directors with foreign experience in different provinces at different times. Accordingly, we construct *Provincial policy*, a dummy that takes a value of one in years following the implementation of the policy for each province and use it as an instrumental variable for the proportion of directors with foreign experience.

In addition, we instrument the proportion of directors with foreign experience by interacting the policy dummy with ex ante ownership characteristics that may shift firms' demand for directors with foreign experience. These pre-existing ownership characteristics are the values of *State*, *Foreign ownership*, and *Block* at the beginning of sample period, and we control for these contemporaneous firm ownership characteristics in the second-stage estimation. In combining the policy dummy and interactions terms to construct the instrument, we leverage both time- and cross-sectional variations and expect the instrument to be strong predictors of whether firms are able to attract returnee directors (inclusion restriction).

Moreover, an appealing feature of our approach is that the instrument is unlikely to be systematically related to companies' donation decisions through channels other than the directors with foreign experience (exclusion restriction). We carefully consider and establish the validity of our instrument in the following ways: first, as long as these ex-ante ownership characteristics do not predict future changes in firm's donation after controlling in the second stage estimation for the contemporaneous firm ownership characteristics (along with other firm characteristics, province fixed effects and in some models firm fixed effects), the identifying assumption is satisfied.

Second, the provincial policies of attracting returnees are not explicitly targeted at listed companies and their boards. It is been evidenced repeatedly that Chinese provincial leaders who implement provincial policies are often guided by career concerns (Li and Zhou, 2005; Chen, Li and Zhou, 2005; see also Maskin, Qian, and Xu, 2000; Wu *et al.*, 2014). These provincial leaders are largely concerned about pleasing the (factions of) central government leaders closest to themselves for promotion prospects, and thus implement policies which may or may not be related to the real needs and demands of the province they govern (or, of the firms located in that province). Table 2 provides detailed information on the timing of the policies' adoption. Earlier adaptors for the policies include provinces that are economically more developed, as well as the ones that are less developed, suggesting that the adoption of such policies was unlikely to be related to actual development/CSR need.

****Insert Table 2 about here****

Third, it is unlikely that the firms in the province experiencing the policy change are affected by shocks that independently affect their donation activities and at the same time are related to a change in the firms' demand for directors with foreign experience. To alleviate any remaining concerns, we use a test that exploits only within province and within industry variation. When the province-level policy increases the supply of individuals with foreign experience, firms with certain ex ante ownership characteristics are more likely to hire individuals with foreign experience to their boards. We test whether firms with ex ante ownership characteristics that make them more likely to hire such directors donate more than the median listed firm within their province and industry after the policy change. The estimation results of this test are similar to those of the original sample.

Fourth, because of the staggered adoption of the policies we exploit as instruments, the control sample includes firms that eventually attract or have already attracted directors with foreign experience. Therefore, our identification strategy is unlikely to be impacted by the possibility of asymmetric shocks for firms that eventually hire directors with foreign experience and for those without such directors. Moreover, we address this concern by using a subsample of only firms that hire or have hired directors with foreign experience. The estimation results of this subsample are similar to those of the original sample. The results section reports these robustness checks in detail, supporting the validity of the instrumental variable approach.

RESULTS

Main Results: Directors with foreign experience and firm donation

For the pooled sample, Figure 1 plots the predicted relations between sales (X axis) and donations (Y axis) for firm-year observations with positive *Foreign experience* and observations with zero *Foreign experience*.[8] This figure shows that returnee-firms donate more on average, comparing to non-returnee firms at similar sales levels.

****Insert Figure 1 about here****

We then test the hypothesis that higher foreign experience leads to higher levels of donation by regressing industry-median adjusted *Donation-to-sales* on *Foreign experience*.[9] Specifically, we use the official industry classification of the China Securities Regulatory Commission to define industries and subtract from the firm's *Donation-to-sales* the median *Donation-to-sales* of the industry where the firm is situated. Table 3 shows the results. Column 1 reports a simple OLS regression with no control variables, and Column 2 reports the OLS regression with control variables. We find a strong positive relation between *Foreign experience* and *Donation-to-sales*. The coefficient of 0.0112 implies that a one-standard deviation increase in *Foreign experience* (13.43 percent, see Table 1)[10] is associated with an increase in *Donation-to-sales* that is 4.84 percent relative to its overall-sample mean.

****Insert Table 3 about here****

[8] More than half of the firm-year observations (a 0.5619 of firm-year observations, precisely) have directors with foreign experience.

[9] This deals with industry-year specific shocks. For example, if an industry's donation keeps increasing, the industry-year median captures that and we extract the trend from the variation of the dependent variable. We also estimate alternative regression models that use industry-year fixed effects and province-specific time trend, and our results are robust.

[10] A 13.43 percent increase in foreign experience is equivalent to adding one returnee director to the board because the average board size is 9.7320 in our sample.

As discussed above, a potential caveat of the previous analysis is that changes in board foreign experience may be endogenous with respect to changes in companies' donation behavior. To address this concern, we use provincial policy change towards attracting returnees to construct instrument variables for changes in *Foreign experience* and conduct 2SLS analysis. In Column 3 of Table 3, we estimate the first-stage regression. Consistent with the raw statistics provided in Table 2, this regression shows that the introduction of returnee-friendly policies at the province level is a positive predictor of foreign experience. The percentage of board members with experiences studying or working abroad is 4.75 percent higher in provinces where the policy is introduced than in other provinces. In addition, the joint F-statistic of excluded instruments is 31.25, showing that the combination of policy change and its interaction with *Foreign ownership*, *Block*, and *State* qualifies as a strong instrument.

We then estimate the second-stage regression and show the results in Column 4 of Table 3. The relation between foreign experience and donation-to-sales is positive and economically and statistically significant. A one-standard deviation increase in foreign experience is associated with an increase of the overall-sample mean of *Donation-to-sales* that is 75.57 percent compared to the sample mean of this variable. The increase in *Donation-to-sales* is equivalent to an increase of donation expenses by 1,198,187.82 RMB (190,020.01 US dollars in 2012 exchange rate). The economic magnitude here is larger than that from the OLS regression, which can be due to the fact that more highly skilled emigrants attracted by the policies are likely to have stayed abroad for a longer term and thus accumulated more influence from the foreign culture. Overall, the results in Table 3 support our first hypothesis that all other factors being equal, firms engage in a higher level of CSR activities when a high percentage of its top management teams are returnees.

A number of control variables are worth discussing. Similar to Marquis and Lee (2013), we find that firms with a high percentage of female directors donate more. Interestingly, while firms with foreign ownership are more likely to hire returnee directors, they are less likely to donate. Further, the percentage of directors with foreign nationalities is found to have a non-significant or in some models a negative relation with corporate donation activities. Together with our main results, this result suggests that returnee directors have played unique roles in transmitting philanthropic practices to domestic firms.

Robustness

We check the robustness of the baseline analysis conducted in Table 3 using several methods. First, we deal with the concern that unobserved firm heterogeneity might be driving both the appointment of returnee directors and donation levels. We thus estimate regressions with firm fixed effects in Table 4, column (1) and find consistent results. We further exclude firms that have never hired a returnee to deal with the concern is that firms in the control group might be unable or unwilling to hire such directors due to firm-specific shocks correlated with the timing of the policies and/or donation behavior. After restricting the sample to firms that eventually hire at least one director with foreign experience during the sample period, we have in the control sample firms that are likely to experience similar shocks as firms that already have directors with foreign experience. We then re-estimate our baseline regressions using the same IV approach and report the results in Table 4 Column (2). The results are similar to those in Table 3.

Next, we alleviate the concern that the donation expenses within one province may be severely influenced by province-specific events (such as earthquakes, droughts, snow disasters and even some political pressures) that co-occurred with our policy shock, possibly impacting, independently, both donation activities as well as firms' demand for returnee directors. We construct province- and industry-median adjusted donation-to-sales by subtracting from the firm's *Donation-to-sales* the median *Donation-to-sales* of the firms in the same province in the same year as well as the median *Donation-to-sales* of the firms in the same industry in the same year. We then use this new variable as the dependent variable in regressions to account for province-specific shocks to donation and test whether firms with ex ante characteristics that make them more likely to hire such directors donate more than the median listed firm from the same province and industry after the policy change. The results of this analysis are in Column (3) of Table 4, and they are consistent with the primary results.

Finally, our baseline regression uses *Donation-to-sales* as the dependent variable. In Table 4, column (4), we report a regression result using as alternative measures of donation decisions, i.e., donation-to-asset ratio. As shown, the estimates continue to suggest a positive effect of the directors' foreign experience on the firms' donations. Further, as the corporate philanthropy often shows a high persistence, we control for lagged donation (Barnett, 2007; Tang *et al.*, 2014; Petrenko *et al.*, 2015) in Table 4, column (5) and arrive at similar results.

****Insert Table 4 about here****

Mechanisms

The evidence provided so far indicates that there is a positive effect of directors with foreign experience on firm donation for the firms whose behavior is affected by the policies. This effect is robust to a battery of robustness checks. In the following section, we explore the underlying reasons for which the estimated effect would take place.

Cultural Explanations: Individualism, power distance and future-time-reference

We first explore the hypothesized mechanism that these individuals are imprinted with cultural norms of the countries where they accumulated experience and that are conducive to high levels of

CSR. We obtain these two indexes from the Hofstede's official website[11] and use each index to separate the returnee directors into two groups: directors with foreign experience in countries with higher index scores than median index scores and directors with foreign experience in countries that have a lower index than the median. We construct two indicator variables *All lower power distance* and *All higher individualism*. *All lower power distance* equals 1 if all the board's returnee directors resided in countries that have a lower power distance level of index score than median and zero otherwise, and *All higher individualism* equals 1 if all returnee directors resided in countries that have a higher individualism level of index score than median and zero otherwise. We adopt the FTR strength as another dimension to measure countries' culture of CSR. We code the countries our returnees resided into strong- and weak- FTR ones, according to Liang *et al.* (2014) Appendix A. We then construct *All weak FTR dummy* which equals 1 if all returnee directors resided in countries that mainly speak a weak FTR language.

Table 5 reports results of regressions that use the interactions between each indicator variable and *Foreign experience*. The coefficients on the interaction variables are significantly positive for all three indicator variables. These results imply that firms whose returnee directors are coming back from the countries with culture orientations supporting CSR engagement (i.e., bearing high values for individualism and egalitarianism, or practicing language that are less of a future orientation), donate more. These results are supportive of Hypothesis 2.

****Insert Table 5 about here****

Alternative Explanation: Tax avoidance

[11] Accessed at http://geert-hofstede.com/countries.html

Another often mentioned reason for corporate donation is that firms do it to reduce their taxable income (Nelson, 1970; Clotfelter, 1985). To the extent that it reduces tax payments, donation serves as a cost saving strategy for business purpose. Following this reason, returnee directors who experienced the practices of donating for tax sheltering when they studied and/or worked abroad would likely donate more when the firm faces a higher margin tax rate. To see whether this argument holds true, we calculate both simple and effective tax rates on the firm-year level, and then study whether and how sensitive a relationship might exist between the firm's donation and the proportion of directors with foreign experience to firms' tax burdens.

Table 6 re-estimates our baseline regression, while including the interaction between tax rate and the proportion of returnee directors. Column (1) reports the baseline regression for comparison; Column (2) reports the coefficient of simple tax rate and its interaction with and the proportion of returnee directors, which is insignificant; Column (3) reports the coefficient of effective tax rate and its interaction with and the proportion of returnee directors, which is also insignificant. The result suggests that directors with foreign experience does not change their donation preferences when the tax burden varies.

****Insert Table 6 about here****

Alternative Explanation: Political connection

Another possibility is that returnee directors use firm CSR activities as a means to obtain political capital (Wang and Qian, 2011; Marquis and Qian, 2014; for a review see Marquis and Raynard, 2015), given that political capital often leads to beneficial outcomes in emerging economies (e.g., Leuz and Oberholzer-Gee, 2006; Siegal, 2007). If this is the case then the relation between the donation and the proportion of directors with foreign experience will be weaker for firms that have directors with available political connections (especially with valuable political titles) or accessible political resources at hand.

We first draw on director bios to code political access. Specifically, we look for cues in terms of whether a director (returnee or not) is a member of "the National People's Congress (NPC)", the only legislative body in China, "the Chinese People's Political Consultative Conference (CPPCC)", an advisory board for the Chinese government, or "Government Counselors", featherbedding appointments made by local government towards independents or non-communist party members. These three positions are the status most pursued by business leaders seeking to attain political capital. We find that 3.17 percent directors have political titles.[12] We further create a variable called *Political director ratio*, which is the numbers of directors that have political titles scaled by the total number of directors. We use this variable to proxy for the firm's political access.

We then estimate regression models for the *Political director ratio* and its interaction with the *Foreign experience*. Table 7 Column (1) presents the baseline result for comparison purposes. Column (2) shows that the interaction between *Foreign experience* and *Political director ratio* does not have a significant coefficient and that *Political director ratio* itself has a significantly positive coefficient. This result implies that while firms with politically embedded directors donate more (Marquis and Qian, 2014), the motive of obtaining political capital does not override the returnee directors' culturally driven donation decisions. Column (3) shows results consistent with Column (2) if we consider instead the political power of chairman of the board. Further, Column (4) and Column (5) respectively measure the existing political connection with a SOE indicator variable and the proportion of firm's shares owned by the state. In both columns, we continue to have insignificant coefficients on the interaction between *Foreign experience* and the measure of political capital.

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[12] The majority of the politically connected directors in our sample are identified to take positions in the NPC or the CPPCC.

****Insert Table 7 about here****

Persistence of Effect over Directors' Tenure

We further examine whether the effect of returnee directors persists over their tenures. We restrict the sample to observations that have no or only one returnee director and calculate the tenure of a returnee director by subtracting from current year the year the director first appeared as a director for the company. We then construct four indicator variables, *Tenure period 1* to *Tenure period 4*, based on the quintiles of this variable such that *Tenure period 1 (2, 3, or 4)* equal 1 if the tenure variable is within the 1st (2nd, 3rd, or 4th) quintile and zero otherwise. When the firm has no returnees, the four dummies equal to 0. We further interact the dummies with *Foreign Experience*, and regress *Donation-to-sales* on the indicator variables, the interaction, and other control variables.

We use two ways to define different categories of director tenure. The first one is based on the 25 percent, 50 percent and 75 percent quantile values of tenure period for all firms. The second one is by industry. Either way, the joint F-test statistics are both quite small, suggesting that there are no significant changes in the interaction coefficients over directors' tenure. This result provides support that these influences have a long lasting effect over time.

****Insert Table 8 about here****

Contingencies of Main Effects: A need-based explanation

We also leverage information on the receiving provinces and explore the contingencies of our main effects. While fine-grained data on where the donation monies are going does not exist in China, to the best of our knowledge, the causes that receive the most donation support are those of basic human needs include healthcare (37%), education (28%), poverty alleviation (11%) (China Charity Watch, 2014). Further, we run regressions where we interact *Foreign experience* with conditions of provincial-level development, measured by NERI marketization index or local GDP index, and find that firms with returnee directors by and large donate more in provinces that are poorer and less developed. The results are reported in Appendix Table 4, which provides suggestive evidence that returnee directors are most propelled to give back when the local conditions they return to are in dire need of corporate participation in social domains.

DISCUSSION

This paper asks whether and how mobile individuals such as returnees may serve to create or fortify linkages through which one institutional environment influences another by acting as transmitters of outside ideas to home country firms where they are sufficiently embedded. To examine this question empirically, we exploit a natural experiment from China. At various times during 2000-2012, China introduced provincial policies to attract returnees, which provided an exogenous shock to the supply of returnee talents. Drawing on the instrumental variable approach, we show that results are consistent with the theory that returnee corporate elites drive up CSR. Our analysis shows that a one-standard deviation increase in board foreign experience (roughly equal to adding one returnee director on the board) is associated with an average increase of donation per sales —our dependent variable of interest — by 75.57 percent, which approximates an increase of donation amounts of 1,198,187.82 RMB (or, 190,020.01 US dollars). The result holds while we perform a battery of robustness checks. Further exploration of the mechanisms shows a higher increase in a firm's donations when its board members have foreign experiences from countries with more cultural orientations supporting CSR engagement; and the effect persists over the duration of director tenure. We find no evidence for the alternative explanation that returnee directors increase firm donations for tax benefits, nor that they do so for political access. Overall, our results provide persuasive support to the theory that returning corporate elites act as agents of cultural change insofar as they transmitted the practices of corporate social actions from aboard to companies in their countries of origin.

Our paper makes a number of contributions. First, it contributes to the institutional change literature. The analysis of change has been a thorny problem for institutionalists who take the assumption of stability seriously. One approach is to invoke influences from external environments, but it is unclear who carries, introduces, interprets, and weaves the foreign elements into the otherwise inert domestic system. By focusing on returnees, who are mobile across institutional environments, we provide evidence for the presence of one mechanism by which actors may spur change without challenging the assumption that actors are unable to wholly escape the influence bestowed by their cultures and institutions of origin. Our result also complements the inter-organizational mobility literature. Research in recent decades has greatly advanced the understanding – oftentimes through the availability of detailed personnel level data– about individuals who switch jobs (*e.g.*, Broschak, 2004; Rosenkopf, Metiu, and George, 2001; Ganco, 2013; Carnahan and Somaya, 2013) and who act as transmitters of knowledge and practices (Almeida and Kogut, 1999; Wezel, Cattani, and Pennings, 2006; Marx, Strumsky, and Fleming, 2009; Azoulay, Graff Zivin, and Sampat, 2011). It would certainly be interesting to explore whether and how inter-organizational mobility impacts institutional change (Kraatz and Moore, 2002), with particular focus on those individuals who are engaged in revolving doors (Katic and Kim, 2015).

Second, our study enriches the CSR literature by linking research on upper echelons and executive traits that are associated with CSR with research on institutional drivers for CSR. While the upper echelons literature finds the critical roles of individuals in spearheading corporate involvement in the social space (*e.g.*, Chin, Hambrick, and Trevino, 2013; Briscoe, Chin and Hambrick, 2014; Tang *et al.*, 2014), the puzzle remains as to how these individuals arrive at a higher preference for CSR in the first place. Our paper offers an institutional explanation for individuals' varying propensities to become social agents of corporate social responsibility efforts. We argue that these individual differences originate from individuals' salient past experiences. We thus advance the research on the antecedents of CSR and on the understanding of heterogeneity among firms' corporate social activities.

In a way, our theory echoes the larger theme in the imprinting literature that history matters (e.g., Stinchcombe, 1965; Marquis, 2003; Burton and Beckman, 2007; Marquis and Tilcsik, 2013; Tilcsik, 2014; Liu and Sameer, 2015). Specifically, we argue that early experience studying or working in countries with a high culture of CSR tends to have an enduring effect on these individuals, such that when they return to their home countries, they bear stamps of such culture. We further explain the mechanism through which these external, institutional factors went into the boardroom to impact on corporate governance such as CSR activities (Aguilera *et al.*, 2015).

Third, we contribute to recent research on returnees and their roles in firms in the era of globalization. By theoretically and empirically showing that returnees act as cultural transmitters, we add to the list of effects of returning migrants and their abilities to facilitate development of corporate social actions at home. Recent evidence shows that while equipped with technical knowledge, returnees could be marginalized compared with homegrowners (Obukhova, 2012; Li *et al.*, 2012; Wang, 2015). We build on these insights in the following ways: our estimated effects are based on a policy shock that attracts back exceptionally talented returnees that would not have returned if the policy lure were not in place. Thus, an average returnee might not generate the same results. Further, these high-ability returnees might still be disadvantaged as suggested by the literature mentioned above. They still might be lacking in local networks and suffer reverse cultural shocks. In fact, their resource disadvantages might be precisely the reason that these returnees are eager to figure out new institutional arrangements and establish new operating modes for business in which CSR activities can become an integral part. Also noteworthy is that we stop short of implying that cultural brokerage is necessarily value boosting for the receiving end. Those economies that adopt the informal rules of another economy will have very different performance characteristics than the sending one, because of different enforcement. The implication is that transferring the informal norms of successful western market economies to China is not a sufficient condition for good performance for firms.

Finally, we contribute to the understanding of social changes in China. Despite the lack of a symbolic moment in which the Chinese government has suddenly broken from the past and embraced western systems and values, observers have nonetheless pointed out the significance of social and political reforms that have occurred in China, and have pointed to the government as a driving force of such changes (*e.g.,* Guthrie, 2009). Our result hopes to complement this understanding by exploring and documenting micro-level processes through which these profound social changes take place. Whereas this paper situates itself within the context of CSR and China, the idea that returnees serve as agents of a mechanism for driving change is likely generalizable for other emerging markets and for other ideas. Further explorations on the boundary conditions, as well as the socio-political processes through which these changes are diffused, will be a necessary passage in this direction.

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Figure 1. Donation-to-sales in Firms Without or With Returnee Directors

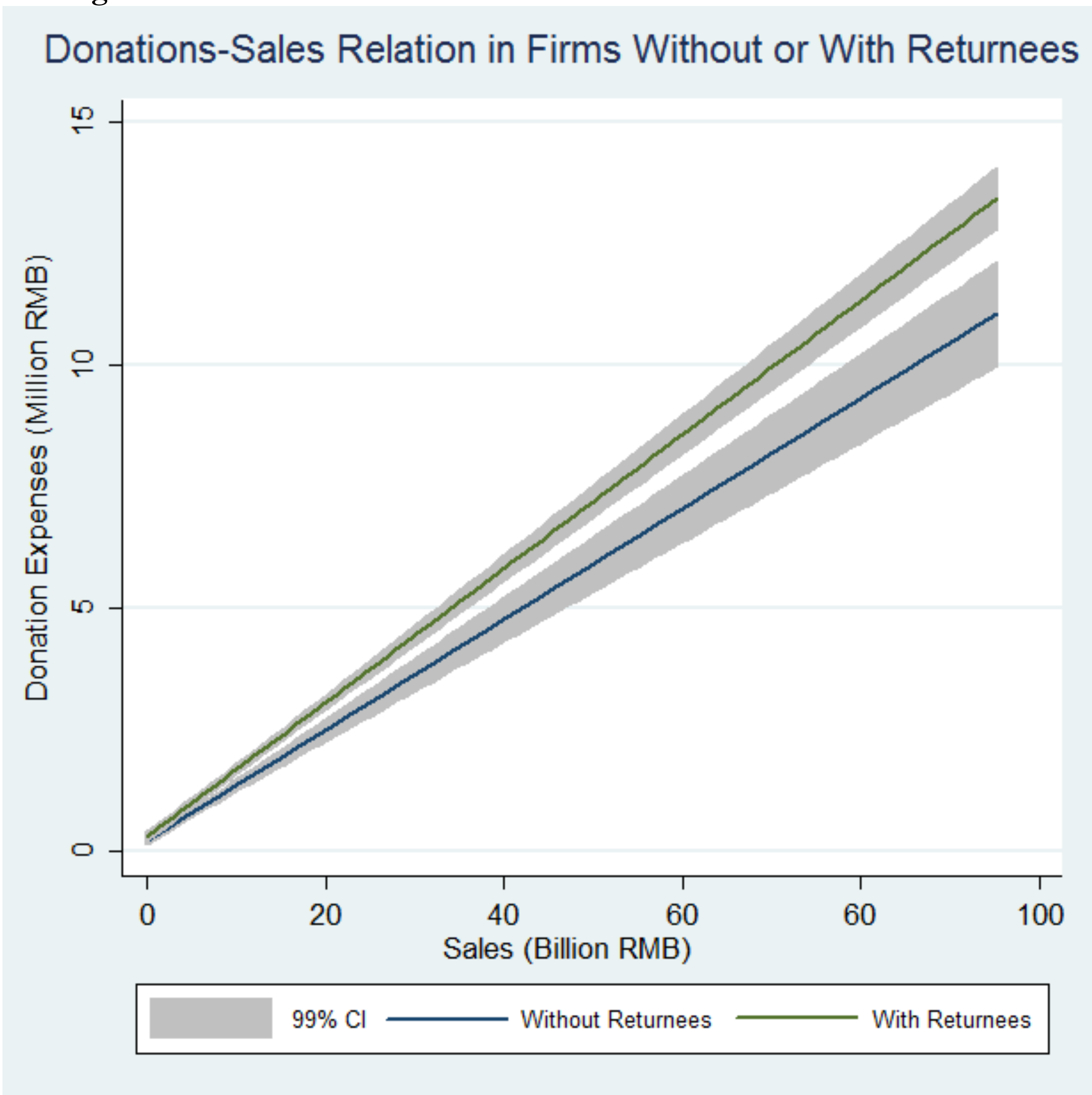

Table 1. Summary Statistics

	Mean	Median	Std. dev	# of obs.
Donation expense (thousand RMB)	715.0580	21.6295	2986.3840	19802
Donation-to-sales (%)	0.0311	0.0020	0.0814	19750
Donation-to-assets (%)	0.0155	0.0011	0.0381	19799
Foreign experience	0.1104	0.0909	0.1343	19802
Positive foreign experience dummy	0.5619	1.0000	0.4962	19802
Directors with foreign experience	1.0837	1.0000	1.3615	19802
Director age	48.8642	48.9000	3.9959	19793
Director tenure	2.9712	3.0000	0.7133	19802
Female director	0.1066	0.1000	0.1066	19802
Insider director	0.3858	0.3750	0.2049	19784
Foreign director	0.0046	0.0000	0.0262	19802
Block	0.3860	0.3654	0.1623	19802
Foreign ownership	0.0123	0.0000	0.0559	19802
State	0.4632	0.0000	0.4987	19802
State ownership	0.2144	0.0514	0.2515	19802
Firm size (natural logarithm of numbers in RMB)	21.4146	21.2703	1.1789	19799
Firm age (natural logarithm of days)	8.1976	8.2983	0.5342	19802
ROA	0.0329	0.0386	0.0829	19799
MB	2.5060	1.9194	2.0095	19245
Leverage	0.4926	0.4779	0.3036	19799
Free cash flow (divided by total asset)	0.0279	0.0070	0.1311	19730

Notes: This table reports the summary statistics of firm-year level observations between 2000 and 2012.

Table 2. Policies to Attract Highly Skilled Returnees

Province	Issuing year	# of unique firms	# of firm-year observations			% of firms with returnees	
			Total	Before	After	Before	After
Anhui	1994	77	638	0	638	N/A	50.78
Beijing	2000	210	1483	61	1422	34.43	66.67
Chongqing	2005	36	340	139	201	38.85	67.66
Fujian	2000	85	652	30	622	26.67	62.70
Gansu	2003	25	241	57	184	10.53	32.61
Guangdong	1999	361	2468	0	2468	N/A	77.23
Guangxi	2005	29	290	113	177	40.71	58.19
Guizhou	2003	21	214	46	168	17.39	33.93
Hainan	2001	26	270	37	233	51.35	47.64
Hebei	2001	50	435	43	392	6.98	43.62
Heilongjiang	2002	31	330	65	265	30.77	48.68
Henan	1992	67	502	0	502	0.00	51.39
Hubei	2002	80	787	149	638	30.87	57.37
Hunan	2001	72	579	57	522	14.04	59.96
Inner Mongolia	2001	25	241	30	211	10.00	37.91
Jiangsu	2004	231	1479	350	1129	42.00	58.46
Jiangxi	2003	34	322	71	251	36.62	51.00
Jilin	2001	40	408	52	356	11.54	45.79
Liaoning	1999	68	628	0	628	N/A	39.33
Ningxia	2003	12	142	40	102	37.50	35.29
Qinghai	1999	11	121	0	121	N/A	46.28
Shaanxi	1995	37	343	0	343	0.00	72.30
Shandong	2005	154	1167	393	774	40.71	56.72
Shanghai	2005	196	1855	751	1104	53.66	70.02
Shanxi	2007	33	346	192	154	43.75	49.35
Sichuan	2005	91	814	314	500	33.76	54.20
Tianjin	2001	38	363	39	324	30.77	68.52
Tibet	N/A	10	103	N/A	N/A	N/A	N/A
Xinjiang	2003	38	367	85	282	24.71	26.24
Yunnan	2001	28	287	32	255	21.88	51.37
Zhejiang	2001	245	1587	115	1472	24.35	64.27
Total		2461	19802	3261	16438	38.55	59.75

Notes: This table reports the year of the policy adoption, the number of unique sample firms, and the proportion of directors with foreign experience for each province that implements a policy to attract highly talented emigrants. The sample period is 2000-2012. "Issuing year" is the year when the policy was adopted. "After" refers to number of observations after the issuing year. "Before" refers to observations before and during the issuing year. "% of firms with returnees" refers to the fraction of firms with at least one foreign experience director in the corresponding firm-year observations.

Table 3. Returnee Directors and Corporate Donation

	Dependent variable: Industry-year median adjusted donation-to-sales			
	OLS		IV 1st Stage	IV 2nd Stage
	Column 1	Column 2	Column 3	Column 4
Foreign experience	0.0108*	0.0112*		0.1753***
	(0.0057)	(0.0063)		(0.0459)
Provincial policy			0.0475***	
			(0.0086)	
Provincial policy × Foreign ownership			0.1946***	
			(0.0454)	
Provincial policy × Block			-0.0107	
			(0.0155)	
Provincial policy × State			-0.0143**	
			(0.0057)	
Foreign ownership		-0.0201*	0.1375***	-0.0695***
		(0.0110)	(0.0443)	(0.0167)
Block		-0.0218***	-0.0215	-0.0148**
		(0.0067)	(0.0153)	(0.0071)
State		-0.0064***	-0.0152***	-0.0025
		(0.0017)	(0.0041)	(0.0021)
Firm size		0.0021**	0.0156***	-0.0007
		(0.0010)	(0.0026)	(0.0013)
Firm age		0.0005	-0.0083*	0.0012
		(0.0017)	(0.0042)	(0.0018)
ROA		0.0435***	0.0437**	0.0395***
		(0.0124)	(0.0203)	(0.0128)
MB		0.0022***	0.0010	0.0019***
		(0.0005)	(0.0009)	(0.0006)
Leverage		-0.0158***	0.0048	-0.0149***
		(0.0044)	(0.0073)	(0.0045)
Free cash flow		0.0036	0.0057	0.0021
		(0.0049)	(0.0059)	(0.0049)
Female director		0.0151*	-0.0434***	0.0169**
		(0.0081)	(0.0167)	(0.0086)
Director age		-0.0002	-0.0013**	-0.0001
		(0.0002)	(0.0005)	(0.0003)
Director tenure		0.0001	-0.0004	-0.0002
		(0.0011)	(0.0014)	(0.0011)
Insider director		0.0213***	-0.0389***	0.0287***
		(0.0038)	(0.0083)	(0.0045)
Foreign director		-0.0421	1.0041***	-0.2206***
		(0.0288)	(0.0878)	(0.0617)
F-test of excluded instruments			31.250***	
Partial R-squared				0.021

Cragg-Donald Wald F statistic				101.334
5% maximal IV relative bias				16.850
10% maximal IV relative bias				10.270
# of obs	19750	19110	19047	19007
# of firms	2461	2397	2387	2387
R-squared[13]	0.017	0.036	0.222	-0.030
Financial firms	Drop	Drop	Drop	Drop
Province fixed effect	Yes	Yes	Yes	Yes

Notes: Dependent variables are measured on a firm-year level, and standard errors clustered at the firm level are reported in parentheses. All models include a constant, of which the coefficients are not reported. Significance level: * p<0.10; ** p<0.05; *** p<0.01.

[13] Wooldridge (2006) mentioned in his textbook, "Unlike in the case of OLS, the R-squared from IV estimation can be negative because SSR for IV can actually be larger than SST. Although it does not really hurt to report the R-squared for IV estimation, it is not very useful, either". So the negative R-squared values in IV regressions thereafter are actually meaningless.

Table 4. Robustness

	Dependent variable: Industry-year median adjusted donation-to-sales				
	IV 2nd Stage				
	Column 1	Column 2	Column 3	Column 4	Column 5
	Firm FE	Exclude never-hire-returnee firms	Within province test	Donation-to-assets	Control for lagged donation-to-sales
Foreign experience	0.3723***	0.1864***	0.0913***	0.0810***	0.0690*
	(0.1330)	(0.0411)	(0.0335)	(0.0208)	(0.0390)
Lag donation-to-sales					0.3156***
					(0.0221)
Partial R-squared	0.006	0.028	0.033	0.021	0.017
Cragg-Donald Wald F statistic	100.039	110.149	159.565	101.164	71.318
5% maximal IV relative bias	16.85	16.85	16.85	16.85	16.85
10% maximal IV relative bias	10.27	10.27	10.27	10.27	10.27
# of obs	18860	15491	19007	19047	16600
# of firms	2240	1867	2387	2387	2240
R-squared	-0.141	-0.044	0.003	-0.008	0.120
Financial firms	Drop	Drop	Drop	Drop	Drop
Controls	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	No	No	No	No
Province fixed effects	No	Yes	Yes	Yes	Yes

Notes: Dependent variables are measured on a firm-year level. Standard errors clustered at the firm level are reported in parentheses. All models include a constant, of which the coefficients are not reported. Significance level: * p<0.10; ** p<0.05; *** p<0.01.

Table 5. Cultural Explanation: Power Distance, Individualism, Future Time Reference

	Dependent variable: Industry-year median adjusted donation-to-sales			
	IV 2nd Stage			
	Column 1 Donation-to-sales	Column 2 Power distance	Column 3 Individualism	Column 4 FTR
Foreign experience	0.1753*** (0.0459)	0.1620*** (0.0602)	0.1635*** (0.0613)	0.1282* (0.0741)
Foreign experience × All lower power distance		0.2618*** (0.0847)		
All lower power distance		0.0071 (0.0115)		
Foreign experience × All higher individualism			0.2606*** (0.0827)	
All higher individualism			0.0060 (0.0118)	
Foreign experience × All weak FTR dummy				0.1128* (0.0597)
All weak FTR dummy				0.0081 (0.0119)
Partial R-squared	0.021	0.030	0.031	0.022
Cragg-Donald Wald F statistic	101.334	32.211	32.023	33.675
5% maximal IV relative bias	16.85	17.70	17.70	17.70
10% maximal IV relative bias	10.27	10.22	10.22	10.22
# of obs	19007	19007	19007	19007
# of firms	2387	2387	2387	2387
R-squared	-0.030	-0.108	-0.119	-0.020
Financial firms	Drop	Drop	Drop	Drop
Controls	Yes	Yes	Yes	Yes
Province fixed effects	Yes	Yes	Yes	Yes

Notes: Dependent variables are measured on a firm-year level. Standard errors clustered at the firm level are reported in parentheses. All models include a constant, of which the coefficients are not reported. Significance level: * p<0.10; ** p<0.05; *** p<0.01.

Table 6. Alternative Explanation: Tax Avoidance

	Dependent variable: Industry-year median adjusted donation-to-sales		
	IV 2nd Stage		
	Column 1 Donation-to-sales	Column 2 Simple tax rate	Column 3 Effective tax rate
Foreign experience	0.1753*** (0.0459)	0.1717*** (0.0500)	0.1616*** (0.0437)
Foreign experience × Simple tax rate		-0.1526 (0.1562)	
Simple tax rate		0.0106 (0.0157)	
Foreign experience × Effective tax rate			-0.1520 (0.0949)
Effective tax rate			0.0139 (0.0093)
Partial R-squared	0.021	0.041	0.036
Cragg-Donald Wald F statistic	101.334	43.578	47.559
5% maximal IV relative bias	16.85	17.70	17.70
10% maximal IV relative bias	10.27	10.22	10.22
# of obs	19007	16713	15836
# of firms	2387	2385	2382
R-squared	-0.030	-0.030	-0.002
Financial firms	Drop	Drop	Drop
Controls	Yes	Yes	Yes
Province fixed effects	Yes	Yes	Yes

Notes: Dependent variables are measured on a firm-year level. Standard errors clustered at the firm level are reported in parentheses. All models include a constant, of which the coefficients are not reported. Significance level: * p<0.10; ** p<0.05; *** p<0.01.

Table 7. Alternative Explanation: Political Connection

	Dependent variable: Industry-year median adjusted donation-to-sales				
	IV 2n Stage				
	Column 1 Donation-to-sales	Column 2 Political directors	Column 3 Political chairman	Column 4 SOE	Column 5 State ownership
Foreign experience	0.1753*** (0.0459)	0.1445*** (0.0444)	0.1449*** (0.0443)	0.1691*** (0.0531)	0.1616*** (0.0494)
Foreign experience × Political director ratio		-0.0781 (0.2869)			
Political director ratio		0.0876** (0.0437)			
Foreign experience × Political chairman dummy			-0.0466 (0.0739)		
Political chairman dummy			0.0275*** (0.0103)		
Foreign experience × State				0.0086 (0.0491)	
State	-0.0025 (0.0021)	-0.0017 (0.0020)	-0.0014 (0.0021)	-0.0035 (0.0056)	0.0004 (0.0028)
Foreign experience × State ownership					0.0619 (0.1136)
State ownership					-0.0149 (0.0114)
Partial R-squared	0.021	0.020	0.023	0.027	0.027
Cragg-Donald Wald F statistic	101.334	48.229	49.060	53.835	46.755
5% maximal IV relative bias	16.85	17.70	17.70	17.70	17.70
10% maximal IV relative bias	10.27	10.22	10.22	10.22	10.22
# of obs	19007	19007	19007	19007	19007
# of firms	2387	2387	2387	2387	2387
R-squared	-0.030	-0.001	-0.003	-0.028	-0.027
Financial firms	Drop	Drop	Drop	Drop	Drop
Controls	Yes	Yes	Yes	Yes	Yes

Province fixed effects	Yes	Yes	Yes	Yes	Yes

*Note*s: Dependent variables are measured on a firm-year level. Standard errors clustered at the firm level are reported in parentheses. All models include a constant, of which the coefficients are not reported. Significance level: * p<0.10; ** p<0.05; *** p<0.01.

Table 8. Persistence of Returnee Director Effect on Donation

	Dependent variable: Industry-year median adjusted donation-to-sales	
	OLS	
	By all	By industry
Foreign experience	0.0479*	0.0547**
	(0.0261)	(0.0263)
Tenure period 2	0.0033	0.0089
	(0.0117)	(0.0154)
Tenure period 3	0.0122	0.0116
	(0.0122)	(0.0132)
Tenure period 4	0.0077	0.0115
	(0.0117)	(0.0101)
Tenure period 2 × Foreign experience	-0.0385	-0.0843
	(0.1087)	(0.1410)
Tenure period 3 × Foreign experience	-0.1054	-0.0973
	(0.1142)	(0.1197)
Tenure period 4 × Foreign experience	-0.0477	-0.1126
	(0.1088)	(0.0905)
Joint F-test	0.32	0.73
# of obs	14028	14028
# of firms	2001	2001
R-squared	0.036	0.036
Financial firms	Drop	Drop
Firms with more than one returnee	Drop	Drop
Controls	Yes	Yes
Province fixed effect	Yes	Yes

Notes: Dependent variables are measured on a firm-year level. Standard errors clustered at the firm level are reported in parentheses. All models include a constant, of which the coefficients are not reported. Significance level: * p<0.10; ** p<0.05; *** p<0.01.

APPENDIX FOR

COMING BACK & GIVING BACK:

RETURNEE DIRECTORS AND CORPORATE DONATIONS

Appendix Table 1. Database Coverage of Donation

Database	**Year coverage**
CSMAR	2003-2011
RESSET	2000-2006
iFind	2008-2012

Notes: We obtain donation expense data from three databases (CSMAR, RESSET and iFind). Each database covers different periods for firms' donation expense.

Appendix Table 2. Variable Definition

Variable name	Definition
# of directors with foreign experience	The number of directors with foreign experience on the board. The data are from the CSMAR database and manual collection.
All higher individualism	A dummy variable equal to one if all returnee directors came from countries that has a higher score of individualism index than sample median, and zero otherwise. The data are from Geert Hofstede's official website at http://geert-hofstede.com/countries.html.
All lower power distance	A dummy variable equal to one if all returnee directors came from countries that have a lower power distance level of index score than median, and otherwise zero. The data are from Geert Hofstede's official website at http://geert-hofstede.com/countries.html.
All weak FTR dummy	A dummy variable equal to one if all returnee directors came from countries that speak a weak FTR language, and otherwise zero. Data are from Liang *et al.* (2014) Appendix A.
Block	It is the proportion of shares held by the largest shareholder. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database.
Director age	It is the average difference in years between the observation year and the birth year of the directors for each firm-year. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database.
Director tenure	It is the average difference between the observation year and the year when the individual joined the board of a given firm for each firm-year. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database.
Donating dummy	A dummy variable equal to one if the firm made donations that year, and zero otherwise. The data are from the CSMAR, RESSET, and iFind databases.
Donation-to-assets (%)	It is the donation expense divided by the firm's total assets, and then multiplied by 100. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR, RESSET, and iFind databases.
Donation-to-sales (%)	It is the donation expense divided by the firm's sales, and then multiplied by 100. This variable is winsorized at 1% and 99% levels. The data are from the CSMAR, RESSET and iFind databases.
Effective tax rate	It is the ratio of income tax expenses to the adjusted total profits. The adjusted total profits is the actual total profits minus the deferred profits which is the deferred tax divided by the statutory tax rate (Stickney (1982)). This variable is winsorized at 1% and 99% levels. The data are from the CSMAR database.
Female director	It is the ratio of the number of female directors divided by the number of all directors for each firm-year. It is winsorized at the

	1% and the 99% levels. The data are from the CSMAR database.
Firm age	It is the natural logarithm of the total age in days that the firm had operated. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database.
Firm size	It is the natural logarithm of the firm's total assets. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database.
Foreign director	It is the ratio of the number of directors with a foreign nationality divided by the number of all directors for each firm-year. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database and manual collection.
Foreign experience	It is the proportion of directors with foreign experience on the board. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database and manual collection.
Foreign ownership	It is the proportion of shares held by all foreign all foreign legal persons. This variable is winsorized at 1% and 99% levels. The data are from the CSMAR database.
Free cash flow	It is the sum of cash flow from a firm's operating, financing, and investing activities, scaled by total assets. This variable is winsorized at 1% and 99% levels. The data are from the CSMAR database.
Insider director	It is the ratio of the number of directors who receive the salary as the employee of the firm divided by the number of all directors for each firm-year. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database.
Leverage	It is the total liabilities divided by total assets. This variable is winsorized at 1% and 99% levels. The data are from the CSMAR database.
Marketization index	It is province-year level marketization scores covering the period 2000-2009, in which a high value of marketization indicating a higher degree of development towards market-based economy in a given province-year. The data are from Fan, Wong, and Zhang (2013).
MB	Market-to-book ratio. It is constructed as the sum of the market value of equity and book value of total liabilities, scaled by the book value of total assets. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database.
Per capita disposable income (urban)	It refers to the actual income at the disposal of China's urban residents which can be used for final consumption, other non-compulsory expenditure and savings. This equals to the sum of income from wages and salaries, cash income from personal operations, income from properties and income from transfers, minus income tax and personal contribution to social security. This variable is denominated in thousand RMB. The data are from the CSMAR database.
Per capita GDP	It is measured about the total output on the province-year level, by dividing the provincial gross domestic product (GDP) by the

	number of people in that province for each year. This variable is denominated in thousand RMB. The data are from the CSMAR database.
Per capita net income (rural)	It refers to the total income of China's rural residents from all sources minus all corresponding expenses. It was classified as the sum of income from wages and salaries, income from personal operations, income from properties and income from transfers, minus personal operation expenses, depreciation of fixed assets for production, taxes and fees paid, and gifts to non-rural relatives. This variable is denominated in thousand RMB. The data are from the CSMAR database.
Political chairman dummy	A dummy variable equal to one if the Board Chairman of the firm is a current or former member of the People's Congress, the Chinese People's Political Consultative Conference or Government Counselors and zero otherwise. The data are from the CSMAR database and manual collection.
Political director ratio	It is the ratio of the number of directors who are a current or former member of the People's Congress, the Chinese People's Political Consultative Conference or Government Counselors for each firm-year. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database and manual collection.
ROA	It is the firm's operating income divided by total assets. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database.
Simple tax rate	It is the ratio of income tax expenses to total profits. This variable is winsorized at the 1% and 99% levels. The data are from the CSMAR database.
State	A dummy variable equal to one if the largest ultimate shareholder of the firm is marked in the database with "State-owned" or "State-controlled". The data are from the CSMAR database.
State ownership	It is the proportion of shares held by the state. This variable is winsorized at the 1% and 99% levels. The data are from CSMAR database.
Tenure period 1, 2, 3, and 4	We calculate the tenure of all returnees by subtracting the current year with the year they first appear as a director for the company and construct these four dummy variables based on the quintiles of the tenure variable such that Tenure period 1 (2, 3, or 4) equal 1 if the tenure variable is within the 1st (2nd, 3rd, or 4th) quintile and zero otherwise. The data are from the CSMAR database.

Notes: Variables are sorted in alphabetic orders.

Appendix Table 3. Correlation of Variables

Panel A: Correlations in the First Stage

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Foreign experience	1								
(2) Provincial policy	0.1605	1							
(3) Provincial policy × Block	0.0709	0.7192	1						
(4) Provincial policy × Foreign ownership	0.2688	0.1103	0.0262	1					
(5) Provincial policy × State	-0.0554	0.4320	0.5005	-0.1468	1				
(6) Block	-0.0488	-0.1460	0.3364	-0.0271	0.0790	1			
(7) Foreign ownership	0.2285	0.0215	-0.0096	0.6601	-0.1138	-0.0032	1		
(8) State	-0.1501	-0.2279	-0.0177	-0.1427	0.3303	0.2917	-0.1035	1	
(9) Firm size	0.1082	0.1214	0.2432	-0.0283	0.2217	0.2047	-0.0094	0.0965	1
(10) Firm age	0.0212	0.2670	0.1010	-0.0485	0.1946	-0.3340	-0.0977	-0.1781	0.1358
(11) ROA	0.0723	0.0098	0.0369	0.0221	-0.0298	0.1569	0.0411	-0.0102	0.2287
(12) MB	-0.0088	-0.0201	-0.0807	0.0279	-0.1198	-0.0862	0.0074	-0.1129	-0.4381
(13) Leverage	-0.0404	0.0198	0.0128	-0.0784	0.1442	-0.0979	-0.0792	0.0160	0.0458
(14) Free cash flow	0.0390	0.0127	-0.0168	0.0255	-0.0848	0.0010	0.0487	-0.0621	-0.0430
(15) Director age	0.0491	0.1504	0.1734	0.0751	0.1356	0.0906	0.0448	0.0303	0.3232
(16) Director tenure	0.0195	0.0989	0.0798	0.0070	0.0319	-0.0102	-0.0142	-0.0912	0.0965
(17) Female director	-0.0149	0.0733	0.0098	0.0524	-0.0612	-0.0807	0.0315	-0.1375	-0.1055
(18) Insider director	-0.0570	-0.0467	-0.0911	0.0034	-0.1712	-0.0466	-0.0218	-0.1056	-0.0576
(19) Foreign director	0.2849	0.0758	0.0173	0.2862	-0.0687	-0.0331	0.2771	-0.1117	0.0099

Variables	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
(10) Firm age	1									
(11) ROA	-0.1474	1								
(12) MB	-0.0197	-0.0838	1							
(13) Leverage	0.2479	-0.5259	0.1267	1						
(14) Free cash flow	-0.1314	0.1628	0.1426	-0.1415	1					

(15) Director age	0.1322	0.0872	-0.1031	-0.0384	-0.0351	1				
(16) Director tenure	0.0634	0.0532	-0.0500	-0.0422	-0.0094	0.1349	1			
(17) Female director	0.0612	-0.0191	0.0314	-0.0089	0.0264	-0.0772	0.0344	1		
(18) Insider director	-0.1103	0.0591	-0.0013	-0.0912	0.0395	-0.1196	0.0174	0.0610	1	
(19) Foreign director	-0.0165	0.0537	0.0093	-0.0709	0.0418	0.0861	-0.0004	0.0161	0.0243	1

Note: Panel A summarizes the correlations of variables in the first stage.

Panel B: Correlations in the OLS and the Second Stage

Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**
(1) Donation-to-sales (%) (industry-year median adjusted)	1								
(2) Donation-to-assets (%) (industry-year median adjusted)	0.8242	1							
(3) Donating dummy	0.2971	0.3118	1						
(4) Foreign experience	0.0217	0.0305	0.0664	1					
(5) Block	-0.0577	-0.0479	-0.0508	-0.0485	1				
(6) Foreign ownership	-0.0050	0.0028	0.0062	0.2280	-0.0036	1			
(7) State	-0.0765	-0.0878	-0.0667	-0.1502	0.2907	-0.1038	1		
(8) Firm size	-0.0151	0.0128	0.2282	0.1081	0.2017	-0.0089	0.0947	1	
(9) Firm age	-0.0027	-0.0065	0.0645	0.0227	-0.3329	-0.0962	-0.1772	0.1436	1
(10) ROA	0.0739	0.1416	0.1208	0.0729	0.1544	0.0409	-0.0125	0.2191	-0.1425
(11) MB	0.0439	0.0495	-0.1198	-0.0056	-0.0777	0.0100	-0.1117	-0.4312	-0.0348
(12) Leverage	-0.0722	-0.0656	-0.0230	-0.0398	-0.0944	-0.0793	0.0184	0.0584	0.2476
(13) Free cash flow	0.0326	0.0232	0.0025	0.0391	0.0014	0.0489	-0.0618	-0.0427	-0.1321
(14) Director age	-0.0286	0.0047	0.0849	0.0506	0.0920	0.0454	0.0307	0.3267	0.1341
(15) Director tenure	0.0112	0.0167	0.0449	0.0192	-0.0110	-0.0137	-0.0909	0.0953	0.0644
(16) Female director	0.0320	0.0214	0.0054	-0.0129	-0.0794	0.0316	-0.1364	-0.1024	0.0603

(17) Insider director	0.0741	0.0761	0.0492	-0.0561	-0.0473	-0.0225	-0.1063	-0.0611	-0.1109
(18) Foreign director	0.0015	0.0109	0.0445	0.2846	-0.0331	0.2769	-0.1116	0.0098	-0.0158

Variables	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**	**(17)**	**(18)**
(10) ROA	1								
(11) MB	-0.0438	1							
(12) Leverage	-0.5227	0.1050	1						
(13) Free cash flow	0.1692	0.1480	-0.1433	1					
(14) Director age	0.0895	-0.1095	-0.0365	-0.0353	1				
(15) Director tenure	0.0517	-0.0485	-0.0401	-0.0093	0.1341	1			
(16) Female director	-0.0176	0.0279	-0.0093	0.0251	-0.0758	0.0346	1		
(17) Insider director	0.0578	0.0035	-0.088	0.0381	-0.1202	0.0168	0.0610	1	
(18) Foreign director	0.0538	0.0114	-0.0712	0.0420	0.0865	-0.0005	0.0163	0.0239	1

Notes: Panel B summarizes the correlations of variables in the OLS or the second stage.

Appendix Table 4. Contingencies of Main Effects

	Dependent variable: Industry-year median adjusted donation-to-sales					
	IV 2nd Stage					
	Donation-to-sales	Per capita GDP	Per capita disposable income (urban)	Per capita net income (rural)	Donation-to-sales (subsample 2000-2009)	Marketization index (subsample 2000-2009)
Foreign experience	0.1753***	0.2127***	0.2510***	0.2230***	0.2825***	0.2530**
	(0.0459)	(0.0581)	(0.0585)	(0.0570)	(0.0680)	(0.1113)
Foreign experience × Per capita GDP		-0.0027***				
		(0.0009)				
Per capita GDP		0.0005***				
		(0.0001)				
Foreign experience × Per capita disposable income (urban)			-0.0067***			
			(0.0021)			
Per capita disposable income (urban)			0.0012***			
			(0.0003)			
Foreign experience × Per capita net income (rural)				-0.0129***		
				(0.0048)		
Per capita net income (rural)				0.0024***		
				(0.0008)		
Foreign experience × Marketization index						-0.0229*
						(0.0122)
Marketization index						0.0059***
						(0.0019)
Partial R-squared	0.021	0.057	0.075	0.063	0.018	0.077
Cragg-Donald Wald F statistic	101.334	55.736	50.793	56.733	57.898	21.041
5% maximal IV relative bias	16.85	17.70	17.70	17.70	16.85	17.70
10% maximal IV relative bias	10.27	10.22	10.22	17.70	10.27	17.70

# of obs	19007	19007	19007	19007	12542	12542
# of firms	2387	2387	2387	2387	1622	1622
R-squared	-0.0298	0.0032	-0.0020	-0.0042	-0.1505	0.0235
Financial firms	Drop	Drop	Drop	Drop	Drop	Drop
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Dependent variables are measured on a firm-year level. Moderating variables *Per capita GDP*; *Per capita disposable income (urban)*; *Per capita net income (rural)* are measured on a province-year level. Marketization Index is measured on a province-year level, where a high value of marketization indicating a higher degree of development towards market-based economy in a given province-year (Fan, Wong, and Zhang, 2013). Standard errors clustered at the firm level are reported in parentheses. All models include a constant, for which the coefficients are omitted from reporting. Significance level: * p<0.10; ** p<0.05; *** p<0.01.