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Article

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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

Institutional investors site visits, CSR performance, and large shareholder's expropriation

Jingwei Zhang^{1,2*}

Abstract: The presence of institutional investors in a firm's ownership structure is often associated with improved corporate governance practices and increased focus on long-term sustainable value creation. This study investigates whether the presence of institutional investors and a strong CSR performance act as deterrents to large shareholder expropriation, which refers to the misuse of controlling power by large shareholders to extract personal benefits at the expense of minority shareholders. Empirical analysis yields several key findings. First, institutional investor site visits exhibit a significant negative association with large shareholder expropriation, implying that heightened institutional investor engagement through site visits is linked to improved corporate governance and a reduced propensity for opportunistic actions by large shareholders. Second, CSR plays a mediating role, elucidating that institutional investor engagement not only directly impacts governance but also indirectly shapes large shareholder behavior through CSR. Third, institutional ownership moderates the site visits-expropriation relationship, underscoring the significance of ownership structure in governance dynamics. This study contributes to the existing literature by offering empirical evidence of how institutional investor engagement, mediated by CSR, can curtail large shareholder expropriation. These findings expand comprehension of the mechanisms through which institutional investors bolster governance and emphasize the need to consider ownership structure when analyzing governance dynamics. The implications of this study are



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multifaceted. Firms can enhance corporate governance by fostering engagement with institutional investors, leading to improved CSR practices and reduced risks of large shareholder expropriation. Policymakers should recognize the importance of institutional ownership and investor involvement when crafting governance regulations, as these elements strengthen governance mechanisms.

Subjects: Chinese Economics; Entrepreneurship and Small Business Management; Economics

Keywords: institutional investors; corporate social responsibility; large shareholder; expropriation; corporate governance

1. Introduction

Since the issue of expropriation was proposed as a corporate governance issue, it has been intensively studied (Berkman et al., 2009; Bertrand et al., 2002; Cheung et al., 2006; Huyghebaert & Wang, 2012; Pindado et al., 2014). Many firms have large shareholders who can control the power structure of the firm (Alim et al., 2020; Pindado et al., 2014; Zhang et al., 2018). According to the expropriation effect, large shareholders are identified as causing harm to the interests of minority shareholders through the transfer of firm assets. All Chinese listed firms generally hold about 40% majority shareholder control, which makes the issue of expropriation possible (Wang & Qiu, 2023). Currently, there are relatively few channels for minority shareholders in China to appeal, and they often find it difficult to fully protect their interests through legal means (Lin et al., 2022). Consequently, the expropriation of large shareholders in the Chinese capital market is a topic that must be worth paying attention to.

Most former scholars have confirmed the consequences caused by large shareholder expropriation and believe that the main factors causing large shareholder expropriation are concentrated ownership and weak institutional environment (Espenlaub et al., 2020). However, they have rarely studied the ways to suppress large shareholder expropriation from the perspective of external shareholders (Zhou & Gan, 2022).

Institutional investors are an undeniable force in the capital market. Institutional investors usually keep a large amount of capital (Abdul Wahab et al., 2022; Dressler, 2020; Marshall et al., 2022; Ntim & Soobaroyen, 2013), and their participation increases the trading activity and market liquidity of stocks (Gao et al., 2017). Institutional investors have strong resources and professional knowledge in the market (Uche et al., 2016), and their long-term investment tendency may help reduce the volatility of stock prices and make stock prices relatively stable (Jiang & Bai, 2022). Institutional investors typically participate in the governance affairs of a firm (Alvarez et al., 2018; Fatima et al., 2018; Luong et al., 2017), exerting pressure on its management to improve transparency and accountability systems (Yang & Ma, 2022). Institutional investors may also provide suggestions on compensation plans and strategic decisions, which can help improve the firm's governance structure. The intervention of institutional investors may lead to an increase in the market's evaluation of the firm, thereby driving up stock prices and increasing the firm's market value (Yang & Ma, 2022).

One way to gain a deeper understanding of the potential invested firm is to conduct site visit which is gradually being regarded by institutional investors as one of the most effective ways to reduce information costs related to investment (Bessler & Vendrasco, 2022) and thus improve firm performance (Li et al., 2022). China provides a unique institutional context for conducting site visits on listed firms. On one hand, listed firms are encouraged by Shanghai Stock Exchange and Shenzhen Stock Exchange to report their public announcements after institutional investors' site visits. On the other hand, the increasing proportion of institutional investors' shareholding has become a sustainable trend to improve listed firms' governance.

The issue of large shareholder expropriation in Chinese listed firms has gained considerable attention due to the prevalence of concentrated ownership and the limited channels for minority shareholders to protect their interests. Large shareholder expropriation is of significant concern as it harms the overall corporate governance landscape (Pindado et al., 2014) and negatively impacts the stock market's credibility (Chizema et al., 2020). While previous research has examined the consequences of large shareholder expropriation, there has been limited exploration of how external shareholders, specifically institutional investors, can contribute to mitigating this problem (Bhandari et al., 2023). Institutional investors wield substantial resources, market knowledge, and governance influence (Kim et al., 2020), making them a potential counterforce against large shareholder expropriation.

Theoretical motivation stems from agency theory, which highlights the conflict of interest between majority and minority shareholders (Arslan & Alqatan, 2020). Additionally, institutional theory suggests that institutional investors can shape corporate behavior through their involvement (Smith et al., 2021). Empirically, the prevalence of large shareholder expropriation in Chinese listed firms provides an opportunity to study its consequences. Furthermore, the growing presence of institutional investors in China's capital market presents an empirical context to examine their potential impact on corporate governance and shareholder protection.

Despite the extensive research on the issue of large shareholder expropriation in Chinese listed firms, a significant research gap exists in the literature (Bian et al., 2023; Lai, 2022; Song, 2023). While previous studies have examined the consequences and contributing factors of large shareholder expropriation, there is a clear lack of research focusing on the role and impact of institutional investors, particularly in the context of site visits. This gap can be summarized as follows. First, existing research has primarily concentrated on the negative consequences of large shareholder expropriation for minority shareholders and the factors driving such expropriation, often emphasizing concentrated ownership and the institutional environment (Zhang, 2022). However, there is a noticeable absence of comprehensive investigations into the potential role of institutional investors in mitigating these adverse effects. Second, institutional investors have various engagement strategies at their disposal (Fatima et al., 2018), yet research has seldom explored the significance of site visits as a means of reducing information asymmetry and improving firm performance and governance in the Chinese context. The literature lacks empirical studies assessing the effectiveness of site visits and their implications for shareholder protection. Third, China's unique institutional context, including regulatory encouragement of public announcements following institutional investors' site visits and the increasing prominence of institutional investors in the capital market, has not been adequately explored in the existing literature. There is a need to understand how these specific features influence institutional investor behavior and their impact on corporate governance. Fourth, while studies on large shareholder expropriation often focus on developed markets (Arslan & Alqatan, 2020; Pucheta-Martínez & Chiva-Ortells, 2019), there is a paucity of research examining this issue within emerging markets, especially in the context of China. China's evolving market dynamics, governance mechanisms, and the role of institutional investors offer a distinct research opportunity. Furthermore, the role of CSR in reducing large shareholder expropriation has not received sufficient attention. There is a compelling need for further research that systematically investigates the role of CSR in reducing large shareholder expropriation.

In light of these research gaps, this study seeks to address these limitations by conducting a comprehensive examination of the role and impact of institutional investors, including site visits, in mitigating large shareholder expropriation and enhancing corporate governance in Chinese listed firms. It aims to contribute valuable insights into the evolving landscape of corporate governance and shareholder protection in China's dynamic capital market. This study examines the relationship between institutional investors' site visits and large shareholder expropriation, and implies that institutional investors' on-site visits can effectively reduce the degree of large shareholder expropriation. Furthermore, this study empirically tests the role of CSR in the site visits of institutional investors and expropriation of large shareholders, and reveals the mediating effect of CSR. In addition, there is

also a significant difference in the negative correlation between site visits by institutional investors and expropriation by large shareholders under different institutional ownership.

This study contributes to the existing literature in several ways. First, it adds to the understanding of large shareholder expropriation and its consequences in the context of Chinese listed firms, shedding light on the challenges faced by minority shareholders. Second, it identifies and analyzes the factors contributing to large shareholder expropriation, including the institutional environment and ownership. Third, it explores the role of institutional investors, particularly their engagement strategies such as site visits, in addressing large shareholder expropriation and improving corporate governance. Fourth, it provides empirical evidence on the impact of CSR on firm performance and governance, contributing to the literature on the influence of institutional investors in emerging markets like China.

2. Background

This section provides a comprehensive rationale for conducting this study by delving into the regulatory, reform, and policy issues that underscore the significance of this study within the evolving landscape of corporate governance and shareholder protection in China. China's regulatory environment has experienced significant transformations in recent years, which have profound implications for corporate governance and shareholder protection (Cao & Pan, 2022; Fu et al., 2022). Notably, regulatory bodies like the China Securities Regulatory Commission (CSRC) have actively encouraged transparency and accountability measures to bolster the credibility of the Chinese stock markets (Choi et al., 2023; Lin et al., 2023; Ozdemir et al., 2023). These regulatory efforts have created a conducive environment for institutional investors to play a more active role in governance affairs.

One noteworthy aspect of this regulatory context is the explicit encouragement of public announcements following institutional investors' site visits. The CSRC and stock exchanges, such as the Shanghai Stock Exchange and Shenzhen Stock Exchange, have endorsed this practice (Cao et al., 2023), recognizing its potential in reducing information asymmetry and enhancing corporate governance. This regulatory backing provides the backdrop against which this study explores the impact of institutional investors' site visits on mitigating large shareholder expropriation.

China's ongoing economic reforms, particularly in the realm of state-owned enterprise (SOE) reform, have spurred discussions about corporate governance and ownership structure (Chan et al., 2019). According to Chan et al. (2019), the reform agenda underscores the need for improved governance practices to align with modern market principles. In this context, the role of large shareholders in SOEs has garnered significant attention, given the potential for expropriation of minority shareholders' interests. The government's commitment to mixed-ownership reforms and the dilution of large shareholders' control in some SOEs further amplifies the relevance of this study. Institutional investors, often holding substantial stakes in these enterprises, can serve as instrumental actors in influencing corporate behavior and safeguarding the interests of minority shareholders (Costa Melo et al., 2023; Fatima et al., 2018; Ozdemir et al., 2023; Pucheta-Martínez & Chiva-Ortells, 2019).

Chinese policymakers have demonstrated a keen interest in promoting sustainable and responsible business practices. This commitment aligns with the global trend towards ESG (Environmental, Social, and Governance) considerations. The integration of CSR principles into the policy discourse reflects a broader recognition of the importance of ethical and socially responsible corporate conduct (Gillan et al., 2021; Tsang et al., 2023). Moreover, policymakers have been exploring ways to incentivize CSR practices. The government's tax reforms aimed at reducing the tax burden on enterprises engaged in CSR activities underscore the policy support for responsible business behavior (Hoang et al., 2023; Tsang et al., 2023). This study, which investigates the relationship between CSR and large shareholder expropriation, sits at the intersection of these policy developments.

The regulatory, reform, and policy issues and developments within the Chinese research context create a compelling backdrop for this study. The confluence of regulatory encouragement for institutional investor site visits, ongoing corporate governance reforms, and policy support for CSR practices sets the stage for an in-depth exploration of how institutional investors, through engagement practices and CSR initiatives, can influence the dynamics of large shareholder expropriation. By conducting this study, this study aims to contribute valuable insights to the literature and provide practical guidance for enhancing corporate governance and shareholder protection in the Chinese capital market, aligning with the evolving regulatory and policy landscape.

3. Theoretical literature review

Agency theory is a foundational framework in corporate governance research, which explores the principal-agent relationship in corporations, where shareholders (principals) delegate authority to managers (agents) to run the company on their behalf (Fama, 1980; Jensen & Meckling, 1976). Within the context of this study, agency theory helps to understand the potential conflicts of interest between large shareholders and minority shareholders. Large shareholders may expropriate wealth from minority shareholders (Cheung et al., 2021; Ouyang et al., 2020; Ruan et al., 2018), highlighting the need for mechanisms, such as CSR practices and institutional investor interventions, to mitigate agency problems and protect minority interests. Gillan et al. (2021) offer insights from an agency theory perspective by exploring the relationship between CSR and stakeholder value maximization. Agency theory posits that managers (agents) may prioritize their interests over those of shareholders. CSR initiatives can serve as a mechanism to align managerial incentives with shareholder interests, mitigating agency conflicts (Ntim & Soobaroyen, 2013). When managers act in the best interests of all stakeholders, including shareholders, it can contribute to improved financial performance.

Moreover, stakeholder theory posits that firms have responsibilities to a broader set of stakeholders beyond just shareholders, including employees, customers, suppliers, and the community (Freeman, 2015). CSR is often viewed through the lens of stakeholder theory, as it emphasizes a company's ethical and social obligations to these various stakeholders (Qaderi et al., 2020). In this study, stakeholder theory can be employed to underscore the importance of CSR initiatives in addressing the interests of not only large shareholders but also minority shareholders and the wider community (Stekelorum et al., 2020). CSR is deeply rooted in stakeholder theory, which posits that organizations should consider the interests of various stakeholders, not just shareholders (Aslan, 2020). CSR initiatives often aim to satisfy stakeholders' demands for ethical and socially responsible conduct. Firms that actively engage with stakeholders through CSR may gain competitive advantages (Aslan, 2020), including improved brand image, customer loyalty, and access to capital. These advantages can translate into enhanced financial performance.

Institutional theory examines how institutions, including regulations, norms, and cultural factors, influence organizational behavior. This study operates within the context of China's unique institutional environment, where regulatory bodies and policy initiatives have a significant impact on corporate governance practices. Institutional theory can help explain how institutional investors' site visits and CSR practices are influenced by and, in turn, influence these institutional factors. The theoretical perspective put forth by Dharwadkar et al. (2021); Guo et al. (2022) suggest that institutional ownership can play a pivotal role in encouraging CSR disclosure. Institutional investors often demand CSR transparency as part of their engagement strategies. This perspective underscores the influence of institutional investors in shaping CSR practices, which, in turn, can affect financial performance.

4. Empirical literature review and hypothesis development

4.1. Empirical literature review

Expropriation refers to the behavior of large shareholders in a firm transfer or convert firm assets into private property through various measures, jeopardizing the rights and interests of minority shareholders. La Porta et al. (1999) first define the behavior of large shareholders expropriating the wealth of listed firms, and more scholars have conducted research on this issue from various

perspectives since then (Johnson et al., 2000). When a concentrated ownership structure exists, the issue of asset-stripping becomes particularly prominent, as controlling shareholders have the power to encroach upon the interests of minority shareholders (Cheung et al., 2006). There is a common problem of concentrated shareholding ratio in Chinese listed firms, and coupled with insufficient protection of minority shareholders in the Chinese capital market, the problem of large shareholder expropriation is quite obvious. Chen et al. (2017) believe when the shareholding ratio of large shareholders is between 34% and 39%, listed firms will experience the most serious expropriation problem.

The expropriation by large shareholders is usually related to the unsound corporate governance structure. Large shareholders may make it difficult for other shareholders to supervise and constrain their behavior by controlling the board of directors or manipulating the decision-making process, leading to a deterioration of corporate governance (Cheung et al., 2021). Large shareholders' expropriation of listed firms through unfair related party transactions will significantly reduce the firm's return on funds, and this situation is difficult to accurately predict (Cheung et al., 2006). Large shareholders empty listed firms through internal borrowing and related property transactions, which triggers excessive leverage and reduces the firm's value (Liu & Tian, 2012). Liu (2021) believes that large shareholders usually extract private benefits instead of seeking shared benefits through dividends because of the weaker investors protections and low dividend payouts in Chinese listed firms. Large shareholders' expropriation may violate laws and regulatory regulations, and face the risk of legal litigation and regulatory penalties, which may further damage the firm's reputation and financial condition (Pindado et al., 2014).

Previous extensive literature has investigated the role of site visits on listed firms in building information roles, including investors and analysts. Mainstream research has confirmed that analysts can access valuable information about listed firms through private surveys. Financial analyst can release more useful, accurate and timely earnings information through the information obtained by hosting site visits meetings (Hadani et al., 2011). In addition, institutional investor site visits plays a positive role in corporate governance. Li et al. (2022) confirm that site visits help institutional investors to select better performance firms. Jiang et al. (2022) study the relationship between institutional investors site visits and ESG performance and find that subsequent ESG performance of firms site visits is actually increased. Furthermore, institutional investors site visits are pronounced significantly to increase firms' innovation (Jiang & Yuan, 2018). The role of institutional investor site visits in other aspects of corporate governance has also been acknowledged (Jiang & Bai, 2022; Zhao et al., 2023; Zhou & Gan, 2022).

But there are also some inconsistent research conclusions that have been exposed. Gao et al. (2017) pronounce that the frequency of institutional investors' site visits is positively associated with hosting firms' future stock price crash risk and financial restatement. The vast majority of scholars have affirmed the impact of investor site visits on improving governance effectiveness, but they have not paid much attention to the role investor site visits play in suppressing large shareholder expropriation.

In addition, Corporate Social Responsibility (CSR) has emerged as a critical aspect of corporate governance and sustainable business practices. A growing body of literature has explored the relationship between CSR and various dimensions of corporate performance and governance. Previous literature provides an overview of key findings from recent studies that shed light on the linkages between CSR, institutional investor engagement, and large shareholder expropriation, particularly within the context of developing countries like China. Ntim and Soobaroyen (2013) emphasize that well-governed corporations increasingly pursue socially responsible agendas through their CSR performance. This underscores the idea that CSR is not merely a philanthropic endeavor but a governance strategy adopted by responsible firms. Alatawi et al. (2023) identify a research gap where CSR studies often lack connections with non-financial indicators. Moreover, they highlight the scarcity of research from developing countries. Their study aims to address this gap by linking CSR to non-financial indicators and focusing on China as a representative developing

country. This suggests the importance of studying CSR in emerging markets with unique governance challenges. Elmghaamez et al. (2023) present evidence from multinational corporations, indicating a positive correlation between CSR reporting and accounting performance. This finding suggests that CSR initiatives not only serve social and ethical objectives but may also translate into improved financial performance, adding a financial dimension to the CSR discussion. Indarto et al. (2023) explore the mediating role of CSR in the context of social entrepreneurship and sustainable business development. Their research suggests that CSR can play a vital role in addressing economic and social challenges during the emergence of businesses. This highlights the broader societal impact of CSR initiatives, especially in countries experiencing economic growth. Ngo and Le (2023) provide compelling evidence that CSR practices guide access to finance and business model innovation. Moreover, they argue that these practices contribute to long-term sustainable performance. This underscores the notion that CSR is not just a compliance requirement but a strategic driver of innovation and competitiveness. Abdul Wahab et al. (2022) examine the relationship between book-tax differences (BTD) and specific types of risk, with a focus on the moderating role of shareholder activism via institutional investors. Their findings reveal that institutional investors can influence the relationship between CSR practices, financial performance, and risk. This implies that institutional investors play a significant role in shaping the outcomes of CSR initiatives.

These empirical findings provide valuable insights to suggest that CSR is multifaceted, influencing financial performance, risk, sustainable development, and governance practices. Moreover, they underscore the relevance of institutional investors in shaping the outcomes of CSR efforts and their potential to mitigate large shareholder expropriation. By building upon this existing literature, this study aims to contribute to a deeper understanding of how institutional investor engagement and CSR practices interact to protect minority shareholders in the specific context of the Chinese capital market.

4.2. Hypothesis development

Existing literature shows that institutional investors' site visits can achieve the function of corporate governance. According to the agency theory, the conflict of interest between large shareholders and minorities has evolved into the most important Principal—agent problem in contemporary corporate governance. Agency conflicts between large shareholders and minority shareholders may lead to expropriation of wealth. Institutional investors' site visits can serve as a monitoring mechanism to reduce information asymmetry and mitigate such conflicts. Large shareholders use their control advantage to achieve private gains, thereby eroding the interests of minority shareholders (Othman & Borges, 2015). Stakeholder Theory suggests that Stakeholder interests extend beyond large shareholders to include institutional investors. By engaging in site visits, institutional investors act as stewards of broader shareholder interests, aligning with the principles of responsible corporate governance. Unlike retail investors, institutional investors possess sufficient professionalism in identifying the selfish behavior of large shareholders. Institutional investor site visits act as effective monitoring tool when faced with potential opportunistic behavior by large shareholders. The role of site visits may be reflected in the reduction of information costs in the communication process between institutional investors and the firm's management and large shareholders, as institutional investors may use relatively sufficient professional knowledge reserves to deeply understand the management and large shareholder's operating activities. During this process, the expropriation intentions of large shareholders may be identified (Luong et al., 2017). Moreover, compared to the online speeches and other means of minority shareholders, site visits hosted by institutional investors are direct supervisory behaviors (Greenwood & Schor, 2009). Therefore, the expropriation behavior of large shareholders will converge, when faced with monitoring pressure from institutional investors. Within the context of China, regulatory pressures and norms may encourage institutional investors to conduct site visits as a means to conform to institutional expectations and promote better corporate governance.

Empirical research has shown that institutional investor engagement and monitoring can have a positive impact on corporate governance and shareholder protection (Cavich, 2022; Marshall et al., 2022). While direct studies on the correlation between site visits and large shareholder

expropriation may be limited, the broader literature supports the notion that institutional investors' involvement can act as a deterrent to expropriation (Jiang & Yuan, 2018; Meng et al., 2018; Ruan et al., 2018). In the Chinese context, where large shareholders often have significant control and the regulatory environment may have gaps in protecting minority shareholders, institutional investors' site visits assume particular importance. China's unique corporate landscape, with a mix of state-owned and privately-owned firms, presents distinctive governance challenges and opportunities for institutional investors to influence outcomes.

Accordingly, this study proposes the following hypothesis.

H1. Institutional investors' site visits are negatively correlated with large shareholder's expropriation.

CSR is rooted in stakeholder theory, which posits that firms should consider the interests of various stakeholders. Institutional investor site visits align with stakeholder interests, and CSR initiatives can be seen as a mechanism to address these interests (Hunjra et al., 2021), including those of minority shareholders. Empirical research has shown that CSR is positively associated with improved corporate governance practices and stakeholder value protection (Garanina & Kim, 2023; Guo et al., 2022; Khenissi et al., 2022; Roy et al., 2022). This suggests that CSR can mediate relationships between external factors, such as institutional investor actions, and governance outcomes. CSR performance is increasingly valued by the management and large shareholders of listed firms. A higher CSR performance reflects the listed firm's commitment to social responsibility and efforts to protect shareholder interests. In the context of China or other emerging markets, where corporate governance challenges and expropriation risks are prevalent, the role of CSR becomes especially crucial. Regulatory and institutional nuances may influence the dynamics between institutional investors, CSR practices, and large shareholder expropriation. Since 2010, the China Securities Regulatory Commission has strongly recommended that listed firms disclose the CSR performance and have them rated by professional rating agencies (Deng et al., 2013). Listed firms with higher CSR scores are increasingly favored by institutional investors. In addition, the increase in site visits frequency by institutional investors means that listed firms have fully considered the attention of potential investors, and CSR performance will also improve. So, institutional investors can transmit financial signals about listed firms to the market and stimulate shareholders to invest in CSR projects by issuing high-quality information reports (Zhou & Gan, 2022). According to signal theory, firms with better CSR performance are also less likely to engage in opportunistic behavior by large shareholders to cater to the appetite of potential investors. Therefore, there may be a negative relationship between CSR performance and large shareholder expropriation. CSR performance can be regarded as a mediating factor between institutional investor site visits and large shareholders' expropriation (Zhou & Gan, 2022). After the analysis above, another hypothesis is posed below.

H2. CSR plays a mediating role between institutional investor site visits and large shareholder expropriation.

Agency conflicts often arise between large shareholders and minority shareholders. Institutional investors, as external monitors, can mitigate such conflicts (Agarwal & Chaudhry, 2022; Costa Melo et al., 2023; Marshall et al., 2022). This theory suggests that in firms with higher institutional ownership, institutional investors may exert stronger control over large shareholders, leading to a more pronounced negative relationship between site visits and expropriation (Fatima et al., 2018; Ruan et al., 2018). In addition, ownership concentration perspective posits that the level of ownership by large shareholders can influence corporate governance dynamics (Arslan & Alqatan, 2020; Jacoby et al.,

2019). In firms with higher institutional ownership, the presence of institutional investors can counterbalance the power of large shareholders, intensifying the impact of site visits on reducing expropriation.

Institutional ownership has become a significant form of shareholding in the capital market (Bai et al., 2023). Empirical evidence supports the notion that institutional ownership and institutional investor activism can influence corporate governance outcomes, including large shareholder expropriation. Studies have shown that higher institutional ownership is associated with improved governance practices and reduced expropriation. Bai et al. (2023) indicate that ownership has a significant positive relationship with corporate investment efficiency by reducing overinvestment. Ozdemir et al. (2023) believe that institutional ownership reduces the negative effect which increasing EPU exert on firm performance. As Xu et al. (2023) discuss, when institutional investors hold a higher proportion of shares, they will be more actively involved in monitoring the invested firms, which help them to detect the opportunistic and short-sighted behavior of large shareholders. The Chinese context, characterized by a mix of state-owned and privately-owned firms, presents unique governance challenges. Institutional investors, with their increasing presence in Chinese equity markets, may play a critical role in shaping governance practices and deterring expropriation. Contextual insights suggest that the role of institutional investors may be more pronounced in firms with higher institutional ownership. Therefore, this study expects firms with a higher proportion of institutional ownership tend to exhibit a more pronounced inhibitory effect on the large shareholders' expropriation practices through site visits. Based on the above discussion, this study develops the following hypothesis.

H3. The negative relationship between site visits and large shareholders' expropriation is more pronounced in firms with higher ownership of institutional investors.

5. Research design

This study tests the relationship between institutional investor site visits and large shareholder expropriation using the OLS method. For the role played by CSR between them, the article conducts a mediation effect test. Institutional investor site visits and large shareholder expropriation will be used as independent variable and dependent variable, respectively. And CSR will be used as mediating variable. In addition, in order to explore the difference of this relationship under different ownership, this study conducts split sample analyse. Finally, the article implements a robustness test so that the empirical findings can demonstrate stabilization.

5.1. Sample and data selection

This study takes all A-share listed firms in China as the research sample, and the time interval is 2016–2020. The reason is that a series of important events occurred in the Chinese stock market in 2015. The China government took several measures to stabilise the stock market and introduced a series of measures to curb speculative behavior and market volatility. Together, these events constituted important developments and turning points in China's stock market in 2015, with far-reaching impacts on China's economy and investment environment. The data of CSR used in this study was compiled from the Hexun.com database. The financial data of all other listed firms are obtained from China Stock Market & Accounting Research (CSMAR) database. In addition, the samples of the financial industry as well as the missing values are excluded. Finally, this study obtains a total of 10,438 observations for 2702 firms.

5.2. Variables measurement

5.2.1. Measurement of dependent variable

Some scholars use non-fair related-party transactions to measure large shareholder expropriation currently, but this approach has the disadvantage that non-fair related-party transactions themselves contain a form of "propping up" (meaning that the firm uses significantly higher-than-market pricing for its transactions with related parties, which generally results in a short-term positive feedback from the capital markets) (Cheung et al., 2006). It is difficult to distinguish

between expropriation and “propping up” in the case of unfair transactions. Therefore, the use of non-fair related party transactions is not an appropriate measure of large shareholder expropriation.

Lin et al. (2022) argue that inter-corporate loans are suitable for measuring the expropriation problem under the Chinese capital market environment and can be directly used to quantify the economic impact of the opportunistic behaviour of large shareholders on the firms. Therefore, this study borrows their approach and construct a proxy variable for large shareholder expropriation by dividing other receivables arising from inter-corporate loans by the balance of total assets and multiplying by 100 (ORECTA). The reason for doing this is that simply doing an OLS regression using the balance of other receivables divided by total assets may produce empirical results that are not robust, considering the extreme value cases that may arise from this method. The amounts of other receivables and total assets were collected from the published annual financial statements of listed firms.

5.2.2. *Measurement of independent variables*

Due to stakeholder theory, institutional investors typically hold significant stakes in a company, affording them a degree of influence over corporate governance (Alvarez et al., 2018; Fatima et al., 2018). Through regular company visits or on-site investigations, they can gain a better understanding of the company’s operations (Alvarez et al., 2018), internal processes (Jiang & Yuan, 2018), and risk management, thus fulfilling a supervisory role. This empowers them to uncover potential large shareholder expropriation practices. In addition, according to agency theory, large shareholder expropriation often involves information asymmetry (Jacoby et al., 2019), where major shareholders possess more information while minority shareholders and other stakeholders have limited access. Institutional investors’ on-site investigations help alleviate this information asymmetry by facilitating their access to internal company information (Arslan & Alqatan, 2020; Kim et al., 2020). This methods, in turn, enables institutional investors to gain a better understanding of potential risks and opportunities.

In this study, institutional investor site visits have been used as independent variable. This study draws on prior research and uses the total number of times a listed firm which is visited by institutional investors in a given year and takes the natural logarithm as the proxy (Liu & Hou, 2022; Zhao et al., 2023; Zhou & Gan, 2022). The number of investor visits can be found in the China Stock Market & Accounting Research database(CSMAR). This study expects that the more the total number of times a listed firm is visited by institutional investors in a given year, the less the large shareholders’ expropriation. In addition, in order to maintain the scientific validity and robustness of this study’s findings, this study also uses the total number of institutional investors participating in site visits of listed firms in a given year as another measure of independent variable and take the natural logarithm as a proxy. When the number of institutional investors participating in the site visits of listed firms increases, the large shareholders will converge on expropriation (Wu et al., 2022).

5.2.3. *Measurement of CSR*

According to stakeholder theory and agency theory, CSR is often seen as a manifestation of a firm’s commitment to its stakeholders, which include both minority shareholders and the broader community (Katmon et al., 2019; Qaderi et al., 2020; Stekelorum et al., 2020). Stakeholder theory posits that firms aim to satisfy various stakeholders, which can help mitigate agency problems, including large shareholder expropriation (Stekelorum et al., 2020). Therefore, CSR provides a theoretically grounded link between institutional investor engagement and governance outcomes (Chintrakarn et al., 2021). Previous studies suggest CSR mediate the relationship between institutional investor site visits and large shareholder expropriation by influencing a firm’s behavior and reputation (Katmon et al., 2019; Shankar et al., 2021; Stekelorum et al., 2020). The positive influence of institutional investor engagement on CSR practices can indirectly deter large shareholders from engaging in expropriation since unethical behavior can harm a firm’s reputation and stakeholder relationships (Bui & Le, 2023; Zhong & Ren, 2023). In summary, using CSR as an

intermediate variable in this research context helps establish a meaningful and theoretically grounded connection between institutional investor site visits and the prevention of large shareholder expropriation.

This study uses Corporate Social Responsibility(CSR) as a mediating variable in this study and CSR score as the proxy. It is collected from the CSR reports of listed firms published annually by China Hexun.com. In China, Hexun.com scores the CSR performance of Chinese listed firms on five dimensions, with each score out of 100 (Cao et al., 2023).The five dimensions contain: employees, suppliers, customers, environmental protection, and society. This study uses the mean of the scores of the five dimensions as a proxy variable for CSR performance to fully reflect the ability of listed firms to undertake social responsibility.

5.2.4. Control variables

Some corporate governance characteristics linked with ORECTA are included as control variables: leverage(Lev), market to book value ratio(BM), the numbers of board members(Board), Chairman and CEO in 1 (Dual), auditors in Big4 (Big4). Finally, all the definitions of variables are reported in Table 2.

5.3. Empirical model

To test the hypotheses, this study examines the following equations by introducing ordinary least squares (OLS) regressions with robust standard errors. OLS regression analysis is a appropriate statistical procedure for testing the correlation between independent variables and a sole dependent variable (Ghaleb et al., 2021).

Accordingly, this study constructs the following model to test the hypotheses of this study.

$$\text{ORECTA} = \alpha_0 + \alpha_1 \text{Visit_num} + \alpha_2 \text{CSR} + \alpha_3 \text{Lev} + \alpha_4 \text{BM} + \alpha_5 \text{Board} + \alpha_6 \text{Dual} + \alpha_7 \text{Big4} + \varepsilon \quad (1)$$

$$\text{ORECTA} = \beta_0 + \beta_1 \text{Visit_ins} + \beta_2 \text{CSR} + \beta_3 \text{Lev} + \beta_4 \text{BM} + \beta_5 \text{Board} + \beta_6 \text{Dual} + \beta_7 \text{Big4} + \varepsilon \quad (2)$$

In (1) and (2), α_i and β_i represent the regression coefficients for each variable and ε represents the residuals of the regression model. The meaning of each variable is shown in Table 2.

6. Empirical results and discussion

6.1. Descriptive analysis

Table 3 presents the descriptive statistical regression results of the independent variables, the dependent variables, and the control variables. Among them, the average value of the large shareholder expropriation (ORECTA) is 1.359, the minimum value is 0.0170, and the maximum value is 12.23, indicating that the degree of large shareholder expropriation in Chinese listed firms varies greatly.

Most listed firms have not been effectively valued by institutional investors, resulting in a median of 0 site visits and an average of 0.659. The highest number of Visits_num has reached 501, but there are also a few firms that have never been visited within a fiscal year. The average number of institutions participating in the site visits (Visit_ins) is 1.314, which is also relatively small. This implies that institutional investors in the Chinese capital market have not yet played a more important role at the current stage, and their governance efficiency is still worth being respected.

In terms of CSR performance, the average value of CSR is 19.94, with a minimum value of less than 0 and a maximum value of 74.61, indicating a significant gap in CSR scores, and the social responsibility performance of Chinese listed firms is at a relatively vulgar level. In the field of strengthening social responsibility, Chinese listed firms still have a long way to probe. The range of institutional investor shareholding ratio (INST) is from 0 to 0.878, with an average of 0.343,

indicating that some firms have not received institutional investment, and the current shareholding ratio of Chinese institutional investors is rudimentary.

The results of controlling variables are also reflected in the Table 3. The average value of the Asset Liability Ratio (Lev) is 0.382, indicating that the overall debt level of Chinese A-share listed firms is not high, with a minimum of 0.05 and a maximum of 0.862 and a significant gap is recognized. In recent years, Chinese listed firms have responded to the national call to actively reduce their leverage level, leading to a significant reduction in the debt ratio of enterprises. The difference in firm market value (BM) is also significant, with a minimum value of 0.084 and a maximum value of 4.297. According to the calculation of the Natural logarithm of the board of directors, from 2016 to 2020, the minimum size of the board of directors of the sample firm is 5, the maximum number is 13, and the majority is about 9. According to the regulations of the China Securities Regulatory Commission, one firm has a board of directors which should consist of five to nineteen members. Therefore, it is evident that a few listed firms have not met the minimum number requirement. The median of Dual is 0, with a mean of 0.351, suggesting that Chinese A-share listed firms with 35.1% experience the situation of chairman and general manager dual roles. The median audit efficiency (Big4) is 0, with a mean of 0.0390, indicating that the overall proportion of A-share listed firms using high-quality auditing is relatively low.

6.2. Correlation test

The correlation between variables can be reflected in Table 4. The correlation coefficients between ORECTA and Visit_num/Visit_ins are -0.056 and -0.060 respectively, there is a significant negative correlation at the 1% level, indicating a negative relationship between the large shareholder expropriation and institutional investor participation in site visits. The higher degree of institutional investor participation in site visits, the smaller extent of large shareholder expropriation showed. This result provides preliminary support for H1 and suggests that, within the perspective of agency theory, one significant avenue for addressing the second type of agency problem is the introduction of institutional investors.

The correlation between BM and ORECTA is 0.154, which is significant at the 1% level, showing that firms with high investment value are easily targeted by large shareholders. The correlation between corporate debt level (Lev) and ORECTA is significant at the 0.255 with 1% level, indicating that firms with higher debt ratios are more likely to experience large shareholder hollowing out. The relationship between Dual and ORECTA is significantly negatively correlated, with a correlation coefficient of -0.042 . The combination of chairman and general manager can effectively reduce the large shareholder's expropriation (Hwang et al., 2013; Wu et al., 2015; Yang et al., 2012). However, the results of Big4 and ORECTA unexpectedly shows a positive relationship, which is significant at the 1% level, revealing a clear correlation between high-quality auditing and large shareholder expropriation behavior. This study will show the relevant explanations in the following sections.

6.3. Multiple regression test

Table 5 shows the results of multiple linear regression for Model (1) and Model (2). The independent variable (institutional investor site visits) is significantly negatively correlated with the dependent variable (ORECTA) in both Model (1) and Model (2), with regression coefficients of -0.070 and -0.036 , respectively. This means that the frequency of institutional investor site visits and the number of institutions participating in the site visits can effectively reduce the degree of large shareholder expropriation (Liu, 2021). This is consistent with empirical findings of Alnabsha et al. (2018); Li et al. (2022); Qi et al. (2021); Wu et al. (2022). The empirical results can support first hypothesis that through site visits, institutional investors have gained a better understanding of the operational situation of listed firms and are more likely to identify potential issues of corporate governance, especially large shareholder expropriation.

All control variables behave similarly in both models. There is a positive relationship between BM and ORECTA, but the regression coefficient is not significant, indicating that there is no inevitable connection between the firm's investment value and large shareholder expropriation. Similar results can be reflected on Big4, but there is also no significant relationship with the dependent variable. This conclusion may be inconsistent with many other scholars (Smith et al., 2021; Tsiouridou & Spathis, 2014). The empirical results of this study suggest that audit quality cannot completely replace other corporate governance mechanisms, therefore, audit quality itself is not sufficient to control the behavior of large shareholders' expropriation. Board and Dual are significantly negatively correlated with ORECTA, indicating that large board size plays a positive role in improving corporate governance efficiency, thereby suppressing opportunistic behavior by large shareholders. Similar conclusions can be found in Alnabsha et al. (2018) who imply that board size and composition are positive linked to corporate governance. At the same time, the integration of the chairman and general manager gives directors more power, enabling them to be in a more advantageous position in the agency relationship and more effectively supervising shareholder expropriation behavior. In order to avoid collinearity issues in the variable selection process, this study used variance inflation factor (VIF) to test the VIF values of each variable, and the results are also listed in Table 5. The results of VIF detection show that the VIF value of any variable is less than 10, implying that the selection of variables is effective and the collinearity problem will not confuse the model.

In summary, there is a significant relationship between institutional investors' site visits and the expropriation behavior of large shareholders. Institutional investors can effectively monitor certain opportunistic behaviors of large shareholders through site visits, and transmit positive signals to large shareholders promptly, thereby effectively reducing the possibility of large shareholders implementing expropriation. The above results confirm that an increase in the frequency of institutional investor site visits can effectively reduce the corporate governance costs resulting from agency problems.

6.4. Mediating effect test of CSR

Table 6 reports the Mediating effect of CSR in influencing the relationship between institutional investor site visits and expropriation of large shareholders. Through it, a significant relationship can be found among institutional investor site visits, CSR, and large shareholder expropriation. Specifically, two variables representing institutional investor site visits, Visit_num, Visit_ins and CSR show a significant positive correlation at the 1% level, with regression coefficients of 2.004 and 1.112, respectively. The findings confirm a significant positive correlation between institutional investor site visits and CSR, supporting the notion that institutional investors play a role in enhancing the social responsibility performance of listed firms. This aligns with the idea that institutional investors, as external governance mechanisms, can effectively supervise and improve CSR. In Model (3) and Model (4), the regression coefficient between CSR and ORECTA is negative and significant at the 1% level, meaning that the improvement of social responsibility of listed firms has played a role in external governance, which is conducive to weakening the motivation of large shareholders to conduct opportunistic behavior, thereby suppressing adverse effects on the firms' performance. The negative and significant relationship between CSR and large shareholder expropriation (ORECTA) indicates that the enhancement of social responsibility acts as an external governance mechanism that weakens the motivation of large shareholders to engage in opportunistic behavior. This finding is consistent with the expectation that CSR can mitigate agency problems within firms.

There is a significant negative correlation between leverage (Lev) and CSR at the 1% level, with regression coefficients of -8.658 and -8.762 , respectively. A possible explanation is that listed firms with higher debt level may threaten the control of creditors, and as a result they may react to this, which can be detected by CSR rating agencies, thereby reducing the firm's CSR score. As CSR decreases, the level of ORECTA correspondingly increases, with significance coefficients of 2.385 and 2.388, implying that financial pressure is an important contributing factor to the occurrence of

expropriation behavior. The level of BM can significantly increase CSR, which means that firms with higher market capitalization are more likely to gain the favor of rating agencies, thus improving their social responsibility performance. However, as previously discussed, BM cannot effectively control ORECTA, so the mediating effect of CSR is not reflected here. The size of the board (Board) is significantly positively correlated with CSR, indicating that with more board members, listed firms are more likely to bear more social responsibilities, thereby exerting the monitoring role of corporate governance and reducing the expropriation behavior of large shareholders.

However, Dual significantly reduces the firm's CSR performance, which may be explained by the following two possible reasons. Firstly, according to human resources theory, job mergers may lead to an increase in the workload of the board of directors or general managers, thereby reducing their ability and willingness to focus on and invest in corporate social responsibility activities. Secondly, according to cost-effectiveness theory, after job mergers, firms may focus more on cost control and efficiency improvement, treating CSR activities as additional expenses, which may lead to a reduction among investment in CSR projects, limiting the scope and scale of CSR activities, and thereby reducing the intensity and practical effectiveness of CSR.

Big4 shows a significant positive relationship with CSR, which indicates that high-quality audit is easily regarded by rating agencies as a more effective external governance tool to improve corporate CSR performance, but the mediating effect does not report the relationship between CSR and reducing large shareholders' expropriation, which further proves that enhancing the quality of information disclosure is insufficient to make up for the lack of other governance mechanisms.

In combination with the above analysis, institutional investor site visits has indeed curbed the expropriation behavior of large shareholders through CSR, and empirically proved the mediating effect of CSR between independent variables and dependent variables. These findings have several implications. First, fostering institutional investor engagement through site visits can contribute to improved CSR and reduced agency problems, ultimately benefiting the financial performance and reputation of listed firms. Second, the study empirically validates the mediating role of CSR in the relationship between institutional investor site visits and large shareholder expropriation, adding to the existing literature on corporate governance and CSR. Third, regulators and policymakers may consider encouraging institutional investor involvement and promoting CSR as a means to mitigate agency problems in listed firms, potentially leading to more stable and responsible corporate behavior. By linking these findings back to the theoretical framework, empirical literature, and hypotheses developed in earlier sections, the study provides a comprehensive understanding of the role of institutional investors in improving corporate governance and social responsibility practices.

6.5. Split sample analyse

Table 7 presents the results of split sample analyse using institutional investor shareholding ratio as the classification basis. This study divides all samples into high and low groups based on the shareholding ratio of institutional investors, and then performs OLS regression separately. This study considers the samples of institutional investors with a shareholding ratio higher than the industry average as the High group, and the samples with lower ratio as the Low group, and then review the results of OLS regression.

It has been reported the group with a higher proportion of institutional investors comprised of 4863 samples, while the group with a lower proportion of institutional investors has 5575 samples. The results of group regression imply that in the group with a higher proportion of institutional investors holding shares, VISIT has a more significant inhibitory effect on ORECTA, and the results can be observed in Model (1) and Model (2). At the same time, the regression effects of CSR and control variables are also more robust. As a comparison, in the group with lower institutional investor shareholding, although the regression coefficient between VISIT and ORECTA is negative,

the results are not significant, as shown in Model (3) and Model (4), indicating that visit cannot play a good governance role. Except for CSR and Lev, all other variables have no significant relationship with ORECTA, indicating that the relationship between sample variables with lower shareholding ratios of institutional investors is no longer robust.

In summary, the shareholding ratio of institutional investors does have a significant impact on the relationship between institutional investors' site visits and large shareholder expropriation. When the shareholding ratio of institutional investors is high, the discourse power and actual actions of institutional investors produce a significant impact on large shareholders (Danis, 2020), while site visits activities develop a supervisory role, thereby compressing the motivation of large shareholders to implement expropriation (Ng et al., 2021; Prisantani, 2021). On the contrary, when the shareholding ratio of institutional investors is low, it is difficult for them to exert power on the decisions of large shareholders, which immerse them in more opportunities to empty a firm.

The findings align with agency theory, suggesting that institutional investors can serve as external monitors, particularly when they hold a substantial share in the company, reducing agency problems and the motivation for large shareholders to engage in expropriation. They also support stakeholder theory, emphasizing the role of institutional investors in enhancing stakeholder interests, as evidenced by their impact on CSR and governance. These empirical findings underscore the importance of the institutional investor shareholding structure in shaping the effectiveness of corporate governance mechanisms, such as site visits, in curbing large shareholder expropriation. This insight has implications for corporate governance practices and underscores the need to consider the ownership structure when implementing governance measures.

6.6. Robust testing

In order to test the robustness of the model, this study lagged the dependent variables of all models by one year and conducted OLS regression testing. Table 8 discloses the results of the testing. Previous research has revealed that the behavior of institutional investors may have an impact on the degree of large shareholder expropriation in a lagging period, therefore it is speculated that there is a significant negative correlation between institutional investor site visits and ORECTA in a lagging period. (Tables 1) and (Table 4) in Table 7 support this hypothesis collectively. The inhibitory effect of institutional investor site visits on large shareholder expropriation can be extended to the lagged period. Table 8 also presents the robustness regression results after group splitting.

When the shareholding ratio of institutional investors is high, as presented by models (2) and (5), the regression results of the dependent variable of the independent variable are more significant. However, the role of CSR in these two groups was not well demonstrated, resulting in insignificant regression coefficients, mainly because the supervisory effect of CSR was absorbed by institutional investor site visits and shareholding ratios (Ghaleb et al., 2021; Qaderi et al., 2020; Shankar et al., 2021). As a comparison, under a lower shareholding ratio of institutional investors, the regression coefficient of the independent variables (both Visit_num and Visit_ins) is relatively low, and the absolute value is also smaller than Model (2) and (5), suggesting that listed firms with low shareholding ratios of institutional investors are difficult to leverage the advantages of equity structure diversification. Moreover, in Models (3) and (6), most of the control variables are not significant. Overall, the regression results of the model are robust and consistent with previous analysis and assumptions.

6.7. Instrumental variable test

Considering potential investment risks, institutional investors may focus more on companies where expropriation issues are more severe. Therefore, large shareholder expropriation may also affect institutional investor site visits, which makes the empirical results of this study less robust. To ensure the robustness of the results, this study employed the instrumental variable approach to re-examine the relationship between institutional investor site visits, CSR, and large shareholder expropriation. This

Table 1. Sample selection

Details	N
A-share firms listed throughout 2016–2020	4,140
Financial firms	(258)
Sample with no CSR disclosure	(1,180)
Final sample firms	2,702
Final sample	13,510
Sample with missing value	(3,068)
Final firm-year (5 years)	10,438

Table 2. Variables measurement

Variable	Measurement/Proxy
ORECTA	Other receivables divided by total assets multiplied by 100.
Visit_num	The natural logarithm of the total number of site visits of listed firms by institutional investors in year _t .
Visit_ins	The natural logarithm of the total number of institutional investors participating in site visits on listed firms in year _t .
CSR	CSR scores published by Hexun website.
Lev	The ratio of total liabilities divided by total assets.
BM	The ratio of market value divided by the book value per share.
Board	The number of directors on the board.
Dual	Chairman and CEO in 1.
Big4	Dummy variable which equals 1 if auditors in Big4 and 0 otherwise.

Table 3. Descriptive statistical results

Variable	N	Mean	SD	Min	p50	Max
ORECTA	10438	1.359	1.909	0.0170	0.708	12.23
Visit num	10438	0.659	0.866	0	0	6.217
Visit ins	10438	1.314	1.687	0	0	6.992
CSR	10438	19.94	10.50	-4.700	20.85	74.61
INST	10438	0.343	0.245	0	0.311	0.878
Lev	10438	0.382	0.189	0.0500	0.367	0.862
BM	10438	0.685	0.620	0.0840	0.505	4.297
Board	10438	2.099	0.191	1.609	2.197	2.565
Dual	10438	0.351	0.477	0	0	1
Big4	10438	0.0390	0.194	0	0	1

study uses executive compensation as the instrumental variable to ensure the exogeneity of the variables.

Agency theory posits that there is a principal-agent relationship within a firm, where shareholders (the principals) delegate decision-making authority to managers (the agents) to run the company on their behalf. However, there is a potential conflict of interest between shareholders and managers. Shareholders want managers to act in their best interests and maximize

Table 4. Correlation test results

	ORECTA	Visi_num	Visit_ins	Lev	BM	Board	Dual	Big4
ORECTA	1							
Visit_num	-0.056***	1						
Visit_ins	-0.060***	0.898***	1					
Lev	0.255***	-0.085***	-0.097***	1				
BM	0.154***	-0.117***	-0.154***	0.550***	1			
Board	0.0100	0.023**	0.00400	0.130***	0.162***	1		
Dual	-0.042***	0.057***	0.076***	-0.088***	-0.115***	-0.151***	1	
Big4	0.038***	-0.0150	-0.022**	0.111***	0.237***	0.060***	-0.040***	1

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. All the variable with extreme values have been winsorized at 1%.

Table 5. OLS multiple regression results

Variables	Model(1)		Model (2)	
	ORECTA	VIF	ORECTA	VIF
Visit_num	-0.070*** (0.021)	1.02		
Visit_ins			-0.036*** (0.011)	1.03
Lev	2.471*** (0.115)	1.44	2.475*** (0.115)	1.44
BM	0.050 (0.036)	1.53	0.046 (0.036)	1.55
Board	-0.277*** (0.097)	1.05	-0.281*** (0.097)	1.05
Dual	-0.084** (0.039)	1.04	-0.083** (0.039)	1.04
Big4	0.073 (0.096)	1.06	0.074 (0.096)	1.06
Constant	1.035*** (0.206)		1.045*** (0.206)	
Observations	10,438		10,438	
R-squared	0.067		0.067	

Notes: standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

shareholder wealth, while managers may have incentives to prioritize their own interests, such as job security, power, and financial compensation.

In this context, executive compensation plays a crucial role. It serves as a mechanism to align the interests of managers with those of shareholders. When executive compensation packages are structured to link a significant portion of executive pay to the firm's financial performance and stock price, managers are incentivized to make decisions that benefit shareholders, as their own financial well-being is tied to the company's success.

Institutional investor site visits often involve discussions with top executives, including those who determine executive compensation packages. Institutional investors, being large shareholders or representatives of shareholders, have a vested interest in ensuring that executive compensation is structured in a way that aligns with shareholder interests. Therefore, the relationship between executive compensation and institutional investor site visits can be explained as follows: Higher levels of executive compensation, especially when tied to financial performance, may attract institutional investors' attention. They may use site visits as a means to engage with executives, assess the alignment of executive interests with shareholder interests, and influence compensation decisions. In this way, site visits can serve as a governance mechanism through which institutional investors seek to mitigate agency conflicts and ensure that managers are motivated to act in the best interests of shareholders.

The results obtained from the instrumental variable analysis in Table 9 provide valuable insights into the relationship between institutional investor site visits (Visit_num and Visit_ins) and large shareholder expropriation (ORECTA), taking into consideration potential endogeneity issues.

Table 6. Mediating effect test results

Variables	(1)	(2)	(3)	(4)
	CSR	CSR	ORECTA	ORECTA
Visit_num	2.004*** (0.116)		-0.050** (0.0213)	
Visit_ins		1.112*** (0.060)		-0.025** (0.011)
CSR			-0.010*** (0.002)	-0.010*** (0.002)
Lev	-8.658*** (0.634)	-8.762*** (0.633)	2.385*** (0.116)	2.388*** (0.116)
BM	0.632*** (0.199)	0.780*** (0.200)	0.0562 (0.0360)	0.0536 (0.0362)
Board	3.456*** (0.537)	3.540*** (0.535)	-0.242** (0.0972)	-0.246** (0.0971)
Dual	-0.534** (0.213)	-0.601*** (0.212)	-0.0897** (0.0384)	-0.0887** (0.0385)
Big4	4.901*** (0.529)	4.866*** (0.528)	0.122 (0.0961)	0.123 (0.0961)
Constant	14.24*** (1.138)	13.88*** (1.136)	1.178*** (0.207)	1.184*** (0.207)
Observations	10,438	10,438	10,438	10,438
R-squared	0.059	0.063	0.070	0.070

Notes: standard errors in parentheses and *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

The coefficient for Visit_num is significantly negative (-1.194 , $p < 0.01$), suggesting that an increase in institutional investor site visits is associated with a reduction in large shareholder expropriation. This result aligns with the earlier findings and supports the hypothesis that greater engagement by institutional investors through site visits leads to improved corporate governance and a decrease in expropriation behavior by large shareholders. Similarly, the coefficient for Visit_ins is significantly negative (-0.444 , $p < 0.01$). This reaffirms that institutional investor site visits have a notable negative impact on large shareholder expropriation. Companies receiving more attention from institutional investors through site visits are less prone to opportunistic actions by large shareholders. Several control variables were included in the analysis. Notably, the leverage (Lev) variable remains positively related to ORECTA (2.314 for Model 1 and 2.411 for Model 2, both $p < 0.01$). This suggests that higher leverage levels are associated with increased large shareholder expropriation. Additionally, the board size (Board) variable is not significantly related to ORECTA in either model, indicating that board size may not be a determining factor in large shareholder expropriation in this context.

In summary, the instrumental variable analysis confirms the robustness of the relationship between institutional investor site visits and large shareholder expropriation. It provides further evidence that increased engagement by institutional investors through site visits contributes to better corporate governance, which, in turn, mitigates the risk of large shareholder expropriation. These findings have important implications for both corporate governance practices and policy-making, emphasizing the role of institutional investors in improving firm-level governance and reducing agency problems related to large shareholders.

Table 7. Split sample analyse:the role of institutional investors’s ownership

Variables	High		Low	
	(1)	(2)	(3)	(4)
Visit_num	-0.055* (0.029)		-0.036 (0.031)	
Visit_ins		-0.030** (0.015)		-0.015 (0.016)
CSR	-0.009*** (0.002)	-0.008*** (0.002)	-0.011*** (0.003)	-0.011*** (0.003)
Lev	2.201*** (0.166)	2.204*** (0.166)	2.590*** (0.162)	2.593*** (0.162)
BM	0.113** (0.0462)	0.109** (0.047)	-0.011 (0.057)	-0.012 (0.058)
Board	-0.550*** (0.143)	-0.556*** (0.143)	0.056 (0.134)	0.053 (0.134)
Dual	-0.155*** (0.058)	-0.152*** (0.058)	-0.064 (0.052)	-0.065 (0.052)
Big4	0.086 (0.107)	0.086 (0.107)	0.327 (0.207)	0.328 (0.207)
Constant	1.793*** (0.310)	1.807*** (0.310)	0.576** (0.283)	0.577** (0.283)
Observations	4,863	4,863	5,575	5,575
R-squared	0.075	0.075	0.071	0.071

Notes: standard errors in parentheses and *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

7. Summary and conclusion

This study investigates the relationship between institutional investor site visits, corporate social responsibility (CSR), and large shareholder expropriation in the context of corporate governance. This study employs a comprehensive dataset and applied various statistical techniques to examine this relationship. This study’s findings provide valuable insights into the dynamics between institutional investor engagement, CSR, and shareholder expropriation, while considering potential endogeneity issues. This study’s empirical analysis revealed several key findings. First, this study reveals a significant negative relationship between institutional investor site visits and large shareholder expropriation. This suggests that increasing engagement by institutional investors through site visits is associated with improved corporate governance and a reduced likelihood of opportunistic behavior by large shareholders. Second, Corporate Social Responsibility (CSR) plays a mediating role in the relationship between institutional investor site visits and large shareholder expropriation. This indicates that institutional investor engagement not only directly affects governance but also indirectly influences large shareholder behavior through its impact on CSR. Third, the shareholding ratio of institutional investors was shown to moderate the relationship between site visits and expropriation. When institutional investors held a higher proportion of shares, their engagement had a more pronounced impact on reducing expropriation, highlighting the importance of ownership structure in governance effectiveness.

This study contributes to the existing literature on corporate governance, institutional investors, and CSR in several ways. This study provides empirical evidence supporting the positive influence of institutional investor engagement, mediated by CSR, on reducing large shareholder expropriation. This extends our understanding of the mechanisms through which institutional investors contribute to better governance. This study highlights the moderating role of institutional ownership in

Table 8. Robustness test results

	(1)	(2)	(3)	(4)	(5)	(6)
Variables	L.ORECTA	High	Low	L.ORECTA	High	Low
Visit_num	-0.088*** (0.025)	-0.101*** (0.034)	-0.067* (0.036)			
Visit_ins				-0.043*** (0.013)	-0.052*** (0.018)	-0.030* (0.018)
CSR	-0.007*** (0.002)	-0.002 (0.003)	-0.010*** (0.003)	-0.007*** (0.002)	-0.002 (0.003)	-0.010*** (0.003)
Lev	2.268*** (0.133)	2.189*** (0.190)	2.405*** (0.187)	2.275*** (0.133)	2.198*** (0.191)	2.410*** (0.187)
BM	0.032 (0.040)	0.112** (0.052)	-0.095 (0.065)	0.027 (0.040)	0.105** (0.052)	-0.097 (0.065)
Board	-0.171 (0.109)	-0.408** (0.163)	0.061 (0.149)	-0.175 (0.109)	-0.415** (0.163)	0.058 (0.149)
Dual	-0.100** (0.043)	-0.178*** (0.065)	-0.062 (0.058)	-0.099** (0.043)	-0.175*** (0.066)	-0.061 (0.058)
Big4	0.222** (0.111)	0.098 (0.125)	0.632*** (0.239)	0.222** (0.111)	0.097 (0.125)	0.635*** (0.240)
Constant	0.972*** (0.234)	1.341*** (0.354)	0.595* (0.316)	0.977*** (0.234)	1.354*** (0.354)	0.595* (0.317)
Observations	7,408	3,572	3,836	7,408	3,572	3,836
R-squared	0.067	0.075	0.065	0.067	0.075	0.065

Notes: standard errors in parentheses and *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 9. Instrumental variable test results

Variables	(1)	(2)
	ORECTA	ORECTA
Visit_num	-1.194*** (0.233)	
Visit_ins		-0.444*** (0.084)
Lev	2.314*** (0.147)	2.411*** (0.140)
BM	-0.116* (0.068)	-0.117* (0.066)
Board	-0.017 (0.122)	-0.141 (0.108)
Dual	0.019 (0.047)	0.009 (0.043)
Big4	0.135 (0.120)	0.127 (0.110)
Constant	1.365*** (0.252)	1.391*** (0.241)
Observations	10,438	10,438

Notes: robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

this relationship, emphasizing the need to consider ownership structure when analyzing governance dynamics.

The implications of empirical findings are noteworthy for various stakeholders. On one hand, empirical results emphasize the role of institutional investors in improving corporate governance. Firms should encourage engagement with institutional investors, which can lead to enhanced CSR practices and ultimately reduce the risk of large shareholder expropriation. On the other hand, policymakers should recognize the significance of institutional ownership and investor engagement when formulating governance regulations. Encouraging institutional investors to actively participate in corporate oversight can strengthen governance mechanisms.

Despite the contributions of this study, it has some limitations. While this study employed instrumental variable techniques to address endogeneity concerns, the possibility of unobserved variables influencing the relationships cannot be fully eliminated. Empirical findings are based on data from a specific context, and the generalizability to other settings may be limited.

This study opens avenues for future research in the field of corporate governance. First, investigating the relationship between institutional investor engagement, CSR, and large shareholder expropriation across different countries and legal systems can provide valuable insights into the influence of institutional ownership in diverse contexts. Second, longitudinal analyses can help assess the long-term impact of institutional investor engagement on corporate governance and performance. Third, qualitative research methods can complement quantitative findings by providing a deeper understanding of the mechanisms and motivations behind institutional investor site visits. In conclusion, this study underscores the importance of institutional investor engagement and CSR in corporate governance. By understanding the interplay of these factors, firms and policymakers can enhance governance practices and mitigate agency problems associated with large shareholders.

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