Soft Activism and Corporate Dividend Policy: Evidence from Institutional Investors Site Visits*

This version: December 2020

Xiaping (Jerry) Cao, Hanyang Wang, Sili Zhou†

Abstract

Site visits, acting as a form of soft activism, help discipline firm management by increasing cash dividend ex post. The casual link is built by using both Difference-in-Difference and instrumental variable approaches. The effect of site visits works through the channel of threat of exit. Moreover, site visits discipline through active enagement resulting in more participating shareholders and dividend-related proposals in upcoming shareholder meetings. The paper highlights the role of soft activism in a weak institutional environment.

Keywords: Site visits; Dividend pay; Soft activism; Weak institutions

JEL Classification: G34; G35

* We owe special thanks to the Editor, Bart Lambrecht, two anonymous reviewers, Huafeng (Jason) Chen, Luming Chen, Ying Fang, Doron Levit, Song Ma, William L. Megginson, Jun Qian, Yifan Shen, Neng Wang, Shangjin Wei, Jing Xie and seminar participants at the 1st FISF-SSE Finance Workshop, 2018 China Financial Market Conference, the 13th Joint Economics Symposium of Six Leading East Asian Universities, the 2nd International Conference on Banking and Money, 2020 China Finance Scholar Forum and 2020 FMA Virtual Conference. We thank Yue Peng and Han Wei for great research assistance.

† Xiaping Cao is from the IBSS, Xi'An Jiaotong Liverpool University. Email: xiaping.cao@xjtlu.edu.cn. Hanyang Wang is from School of Economics, Peking University. Email: wanghy67@pku.edu.cn. Address: No.5 Yiheyuan Road Haidian District, Beijing, 100871. Sili Zhou is from Fanhai International School of Finance and School of Economics, Fudan University. Email: silizhou@fudan.edu.cn. Address: 220 Handan Rd, Yangpu District, Shanghai, China, 200433. The authors do not have any potential conflicts of interest to disclose. All errors remain our own.

Soft Activism and Corporate Dividend Policy: Evidence from Institutional Investors Site Visits

Abstract

Site visits, acting as a form of soft activism, help discipline firm management by increasing cash dividend ex post. The casual link is built by using both Difference-in-Difference and instrumental variable approaches. The effect of site visits works through the channel of threat of exit. Moreover, site visits discipline through active enagement resulting in more participating shareholders and dividend-related proposals in upcoming shareholder meetings. The paper highlights the role of soft activism in a weak institutional environment.

Keywords: Site visits; Dividend pay; Soft activism; Weak institutions

JEL Classification: G34; G35

1. Introduction

Dividend policy is a central issue in corporate governance because managers prefer not paying dividend but spending on wasteful projects with free cash flow (Jensen and Meckling, 1976; Jensen, 1986). Activism by institutional investors is a pivotal mechanism to reduce agency conflict and force managers to distribute excess cash flow through dividend payout (Brav et al., 2008; Becht et al., 2017; Brav et al., 2018). The outcome model suggested by La Porta et al.(2000) implies that minority shareholders can use their power to force companies to pay dividends.[3] However, whether those outside institutional investors have enough "voice" to influence managers on dividend decisions is debatable, especially in countries where there is weak shareholder protection (Faccio et al., 2001; Jiang et al., 2010). One way to overcome this agency conflict is soft activism, which recent evidences show as effective and important corporate governance mechanism between investors and firms (McCahery et al., 2016; Levit, 2018).

Despite the fact that China is the largest emerging market, the dividend payout ratio is extremely low compared with U.S. or other emerging markets (See Figure 1). One potential reason could be the weak institutional environment and poor shareholder protection (Allen et al. 2005). This weak legal investor protection is likely to cause severe expropriation regarding dividend payments in China. (La Porta et al., 2000). China Securities Regulation Commission (CSRC), the regulator in Chinese stock market, raised concerns on non-dividend paying firms[4]. Secondly, China has unique

[3] They use the outcome model and substitute model to explain difference in dividend policies globally.
[4] CSRC prior chairman Shiyu Liu publicly criticized that some listed firms have not paid dividend to their shareholder since 1994. The related report can be found at

share reform from non-tradable shares to tradable shares through partial privatization, and institutional investors have grown to become more important stakeholders. Compared to retail investors, institutional investors usually have higher incentive to monitor portfolio firms via an increasingly popular form- corporate site visits. Unlike U.S. market, CSRC requires firms listed in Chinese market publicly disclose site visits activities (Bowen et al. 2018). The full archival records of disclosed site visits allow us to directly carry out empirical analysis on the relationship between site visits and corporate payout policy.

[INSERT FIGURE 1 HERE]

We manually collect corporate site visit data of all publicly listed firms in both Shanghai and Shenzhen Stock Exchanges from 2009 to 2016. Empirically, we find that firms with institutional site visits increase cash dividend payout ratio (dividend per share/earnings per share) by 1.4% in the subsequent year compared to companies without visits.

In order to deal with endogenous issues[5], we devote considerable attention to selection concerns, which effectively emerge from the fact that visited firms were not chosen randomly and that choice may not be orthogonal to unobserved factors that also affect firm outcome. We first investigate the determinants of site visits. In this way, we use propensity score matching (PSM) to address the selection issue. We match visited firms and non-visited firms by firm characteristics and use Difference-in-Difference

http://news.cnnb.com.cn/system/2017/04/08/008621570.shtml.

[5] For example, there exists unobservable firm characteristics leading to high dividend payout (i.e., omitted variables), or the possibility that high dividend payout firms attracting more site visits from institutional investors (i.e., reverse causality).

(DiD) approach to estimate the effect of site visits on dividend payout with the first-visit year as the event year. We still find that firms on-site visited by institutional investors pay out more cash dividend than matched non-visited firms.

Moreover, to achieve our identification, we use two instrumental variables (IV): the distance between firm headquarter and the city from which institutional investors come and the proportion of visitors coming from cities connected to the high-speed railway (HSR). The distance reflects the information acquisition demand behind site visits and HSR decreases the cost to gather and process non-material information during site visits (Cheng et al., 2019; Chen et al., 2020). More importantly, our instruments, the distance and proportion of visitors from cities connected to HSR, are not directly related to corporate dividend policy, which allows us to establish a causality relation between site visits and dividend payment.

Finally, we explore potential mechanisms through which site visits increase corporate dividend payout. The monitoring effect of site visit is credible through the threat of exit by institutional investors[6]. We find that institutional site visits may discipline the management through the threat of exit. Different from information acquisition channel on security analysts (Cheng et al., 2016; Cheng et al., 2019; Dong et al., 2019), we find fund managers play a significant role in monitoring. Non state-owned firms and firms with more dispersed ownership are under larger pressure by institutional investor's threat of exit after site visits. Moreover, we find institutional site visits may discipline management through the active engagement. More shareholders

[6] We owe thanks to a helpful referee for pointing out the most important reason behind the discipline effect of institutional site visit —threat of exit.

engagement and dividend-related proposals will spring up at shareholder meetings in the subsequent year after site visits. As the whisper effect, site visits involving with dividend-related discussions have stronger effect on cash dividend ex post. Our results are consistent with Levit (2018) model on soft activism, that is, site visits serve as a form of the soft activism and interact with exit and vote as the hard activism.

Our paper contributes to several strands of the literatures. First, our paper is related to the research on the soft activism through which institutional investors conduct corporate governance by voice (Adams and Ferreira, 2007; McCahery et al., 2016; Levit, 2018). The logic is that "hard" governance, such as exit and vote, is costly and often face opposition from incumbent managers equipped with poison pills, staggered boards, dual-class structures and other defense tools. Soft activism may act in substantial and effective ways to protect minority shareholder from expropriation by insiders, especially in a weak institutional environment such as China.

Second, our paper contributes to the work on institutional ownership and dividend policy (Short et al., 2002; Grinstein and Michaely, 2005; Crane et al., 2016). The prior studies treat dividend payout as a measure of governance outcome by showing that institutional ownership increases corporate dividend (Michaely et al., 1995; Amihud and Li, 2006, Hartzell and Starks, 2003; Aghion et al., 2013). Our findings provide evidence that institutional investors can affect dividend policies through threat of exit.

Last but not least, this paper also contributes to the effect of site visits in monitoring channel. Giroud (2013) documents that direct flight makes headquarter much easier to monitor local plants, thus increases both plant-level investment and productivity.

Bernstein et al. (2016) show that the introduction of new direct flight significantly reduces venture capitalists' cost to visit portfolio companies, leading to increasing innovation and successful exit. But due to no disclosed site visits data in U.S market, these two papers use direct flight as proxy for site monitoring. A recent paper by Chen et al. (2020) uses high-speed rail connection in China as an exogenous shock on information acquisition. They find that both information production and output quality from analysts increase after on-site visits to portfolio companies. Different from their paper, we look at the effect of institutional site visits, from sell-side analysts and more importantly buy-side investors, on corporate dividend policy, a direct observable governance outcome.

The rest of this paper is organized as follows. Section 2 briefly introduces background of institutional site visits and dividend policy in China. Section 3 summarizes the data and variables as well as summary statistics. Section 4 reports our baseline empirical results. Section 5 shows our identification strategy addressing endogenous concern. Section 6 discusses potential channels for the effect of site visits on dividend policy. Section 7 concludes the paper.

2. Institutional Background

In this section, we provide two types of background information. First, we present the basic background about institutional investors in Chinese stock exchanges and their site visits. We then briefly introduce the development of corporate dividend policy in

Mainland China.

2.1 Intuitional investor and their site visits

China's two domestic stock exchanges, the Shanghai Stock Exchange (SHSE) and Shenzhen Stock Exchange (SZSE), were established in December 1990 and April 1991, respectively. Their A share markets combined are the second largest in the world in terms of market capitalization, trailing only the United States. At the end of 2019, there are more than 3,700 firms listed and traded.

While the A-share market is well-known dominated by retail investors, institutional investors have increased their presence over the past few years. Figure 2 plots the evolution of institutional investors in China based on the semi-annual institutional holding information from the Wind database. After 2008 global financial crisis, institutional investors grew at a high speed, eventually catching up with the developed stock market in term of its relative importance in both trading and shareholding.

[INSERT FIGURE 2 HERE]

Corporate site visits, normally initiated by institutional investors, refer to trips to a firm's headquarter and its production facilities. Visitors include asset management companies, fund, securities, foreign institutions, banks, insurance companies, investment companies, private equity and trust. [7]Hosts are investor relations (IR) managers and top executives. During site visits, visitors can physically inspect production facilities, observe employee engagement and meet with managers. Visitors

[7] In the empirical part, we categorize asset management companies, fund, foreign institutions, insurance companies, investment companies, private equity and trust as buy-side investors with securities as sell-side investors.

frequently raise questions and solicit in-depth answers from top executives or board members. Table A7 in Appendix gives an example of detailed Q&A transcript of in-house meeting of site visits.

In terms of disclosure regulation in two stock exchanges in the Chinese market, the Shenzhen Stock Exchange (SZSE) mandated all listed firms to disclose information on site visits in their annual reports since 2009. Firms have not been required to do so before. On July 17, 2012, Shenzhen Stock Exchange (SZSE) issued a new regulation that firms must disclosure a standard summary report on its official website within two trading days after site visit. However, Shanghai Stock Exchange (SHSE) only encouraged firms to disclosure site visits to the public, and hence disclosure is not mandatory.

Table A1 in Appendix presents statistics of institutional site visitsfrom year 2009 to 2016. As shown in Panel A, the total number of site visits increased from 9,429 in 2009 to 66,799 in 2016. Panel A also presents the timing of these site visits over months. There is no obvious clustering of site visits, except that there are slightly more in May and November. Panel B reports distribution by industry. Firms mostly targeted by site visitors operate in the manufacturing industry (64.97%).

Figure 3 reports the distribution of institutional site visits according to main types of institutions. We plot three main types of visitors: asset management companies, funds and securities. As shown in Figure 3, both securities and buy-side investors such as asset management companies and funds play important role in site visits. This is consistent with the argument in the literature that buy-side institutions are active in

monitoring (Chen et al., 2007; Ferreira and Matos, 2008; McCahery et al., 2016). As sell-side institutions, securities visit to acquire information and improve forecast accuracy (Cheng et al., 2016; Chen et al., 2020). In terms of other institutions, banks play the minor role in institutional site visits, probably because banks are debt holders instead of shareholders and in China, banks have tiny incentive to select appropriate borrowers at the expense of time and other cost. Rather, they choose SOEs and large Non-SOEs to ensure the loan repaid.

[INSERT FIGURE 3 HERE]

During each visit, material information such as conversations between investors and managers is recorded and required to disclosure after year 2012.[8] The hottest topic by site visits is operation policies since investors physically see production facilities, observe employee engagement, and scrutinize routine operational activities. Dividend policies and finance/investment policies have similar intensity. Compared with the prior studies that only investigate the effect of site visits on operation (Jiang and Yuan, 2018) or financing and investment (Cheng et al., 2016; Cao et al., 2017), our work extends to topics on dividend policy.

Site visits are different from other forms of communication between investors and firms such as phone calls (Soltes, 2014), analyst/investor open days (Kirk and Markov, 2016) and non-deal road shows (Bushee et al., 2018). Most scholars documented the information and monitoring role of institutional site visits. Cao et al. (2017) show that site visits discipline managers and curb excessive corporate investments. Jiang and

[8] We compare official transcripts with CNRDS database and tabulate the summary by topics.

Yuan (2018) find that site visits contribute to corporate innovation. Cheng et al. (2019) find that corporate site visits are associated with economically significant market reactions and abnormal stock returns around site visits are positively correlated with firms' future performance.

2.2 A Short History of Corporate Dividend Policy in China

The existing literature indicates that dividend payout is an outcome of agency issue between managers and shareholders (Jensen and Smith, 2000) and between blockholders and minority shareholders (La Porta et al., 2000). Minority shareholder could seek for cash dividend to prevent controlling shareholders and managers to satisfy their private perquisites.

However, China has its unique institutional features. Chinese government is usually the largest investor or controlling shareholder of listed firms. But the state owner is not effective in monitoring managers than other institutional investors since government officials' compensation/promotion is not closely related to the performance of their controlled companies (Cao et al., 2019). Managers have strong incentives to consume perks, overinvest and tunnel to related parties (Jiang et al., 2010). This may explain why the CSRC has pressed the firms to pay cash dividends to the public shareholders, an endeavor to reduce expropriation of minority shareholdersIn 2005, the CSRC introduced the Split-Share Structure Reform to unlock nontradable shares[9] and privatize them through a firm-by-firm negotiation process that compensated holders of

[9] Most non-tradable shares are held by state government, at various entities such as government agencies (the state asset management bureau), state asset holding management companies, and state-owned enterprises(SOEs) (Chen et al., 2009, Firth et al., 2010).

tradable shares. Huang (2020) shows that dividend payouts are positively associated with the proportion of non-tradable shares, provided that the firm has sufficient profitability. Liu et al. (2014) also document a significant reduction in cash dividends after the reform, which is significantly related to the reduction in ownership of controlling shareholders.

The overall immature stock market in China makes it hard for minority shareholders or mainly outside individual investors to directly monitor managers and controlling shareholder. After the 2008 financial crisis, the CSRC released the importance of stock market and encourage the development of financial institutions. Firth et al. (2016) document a strong monitoring effect of mutual fund on corporate cash dividends, especially for firms with higher free cash flows. But, they do not find a strong evidence on other institutional investors, such as banks, insurance companies and security companies. Cao et al. (2017) document a strong and positive effect for foreign institutional investors on cash payment in China.

3. Data, Variable Construction and Summary Statistics

3.1. Data

Our sample includes all Chinese A-share firms listed in Shanghai Stock Exchange and Shenzhen Stock Exchange. The data of site visits has been manually collected from the Juchao Website and confirmed with the Chinese Research Data Services Platform

(CNRDS). [10] Following several prior studies (Cheng et al., 2016; Jiang and Yuan, 2018) and to match the availability of the site visit information, we choose our sample period from 2009 and to 2016. We group the type of visitors into nine categories following instructions of CNRDS database and find that most visits are conducted by those institutional investors.[11] To merge with firm-level annual data, we then aggregate number of site visit at firm-year level.

We combine financial and non-financial information of firms from both WIND and the China Stock Market & Accounting Research (CSMAR) database. B-share stocks are dropped since they are only traded by foreign investors and under a different regulation (Fernald and Rogers, 2002). We also restrict our sample on several criteria following prior studies (Denis and Osobov, 2008; Grullon et al., 2011; Michaely and Qian, 2017): 1) excluding firms with listed age no more than two years for fear of IPO effect; 2) excluding financial firms; 3) excluding observations with positive dividend before tax but negative earnings per share; 4) excluding firms without consolidating their major subsidiaries. The final sample includes 13,558 firm-year observations, with 2,384 unique firms. To mitigate the influence of outliers, we winsorize all continuous variables at 1 percent and 99 percent by year.

3.2. Variable Construction

Dividend payout involve two key decisions: propensity to pay and magnitude of

[10] Juchao is the official website mandated by China Securities Regulatory Committee (CSRC) and ask listed firms to disclose information on site visits.

[11] The type of visitors in CNRDS database includes individual investors, asset management companies, media, government/regulatory institutions, foreign institutions, banks, investment companies, private equity, insurance companies, trust, fund, securities and others. We exclude visits by individual investors, media, government/regulatory institutions and others.

payouts given the decision to pay (Fama and French, 2001; Baker and Wurgler, 2004; Grullon et al., 2011). We use both to capture a firm's cash dividend payout: willingness to pay dividend (*Dividend Dummy*) and payout ratio defined as pre-tax dividend per share scaled by earnings per share (*Payout Ratio*). We consider cash dividend only as it is "bird at hand" (Bhattacharya, 1979) which protects minority shareholders from future expropriations by controlling shareholders or insiders.

Our key variables of interest are the intensity of investors' site visits. In fact, site visits are costly for institutional investors because they generate not only expenses and time cost but also information production cost (Cheng et al., 2019). Thus, not all firms have site visits and institutional investors often discretely choose target firms.[12] Firms with publicly disclosed visits are treated as our main treatment group while other firms as the control group. We construct two interested variables: *Log(SiteVisit)* is defined as the natural logarithm of one plus total amount of investors' site visits per firm given each calendar year, and *SiteVisit Dummy* is set to one if firm is visited by at least one investor at a given year.

To control firm characteristics may affect the level of payout, we also include firm controls following prior literatures (Fama and French, 2001; DeAngelo et al., 2006; Denis and Osobov, 2008; Michaely and Qian, 2017; Chu, 2018) : the natural logarithm of total assets *Log (TA)*, the natural logarithm of firm age *Log (Age)*, cash holdings over noncash assets *Cash*, EBIT over total assets *EBIT/TA*, total liabilities over total assets

[12] We thank the referee for suggestions on determinants of site visits. Investors put special attention to those good companies as documented by the literature. We try to control this selection bias by matching visited firms with non-visited firms using the similar attributes. The detailed discussion on firm characteristic will be discussed in the instrument variable regression.

Leverage and *Tobin Q*. Table 1 provides detailed variable definitions.

[INSERT TABLE 1 HERE]

3.3. Summary Statistics

Table 2 provides the descriptive statistics for all variables used in our empirical analysis. 67.4% firms have cash dividend payout with 24.2% average payout ratio. Besides, there are about 39.9% firms visited by at least one institutional visitor every year, and the average number of visits per year is about 2.13. The average age of firm in our sample period is 8. In the sample, the average cash-to-assets ratio is 39.1% and the average leverage ratio is 19.2% respectively. In terms of performance, the average ROA is 7% and the average Tobin's Q is 2.832, which are all consistent with the previous literature. If we further divide our sample into firms visited by investors (visited group) and firms not visited by investors (non-visited group), we observe better performance in visited group as documented in the pre-match part of Table A5 in Appendix. On average, compared with non-visited group, visited group features with 17.9% higher cash ratio, 0.013 higher in profitability and 0.32 in Tobin Q. Moreover, we find that those visited firms are younger with smaller size and lower leverage.

[INSERT TABLE 2 HERE]

4. Baseline Regression

To perform multivariate analysis, we provide following specification to control for other factors might intensively or extensively affect corporate dividend payout decision:

$$(1) Dividend\ Dummy\ (Payout\ Ratio)_{it+1} = \alpha + \beta Log(SiteVisit)\ \ (SiteVisit\ \ Dummy)_{it} + \gamma' X_{it} + \varphi_k + \omega_j + \delta_t + \varepsilon_{it}$$

where i, k, j and t refer to firm i, industry k, province j and year t respectively. The dependent variables are corporate dividend payout, defined as the propensity to pay dividend and the proportion of cash dividend to earnings, respectively. The key independent variables, *SiteVisit Dummy* and *Log(SiteVisit)*, measure intensity of site visits at both extensive margin and intensive margin. X_{it} are firm-level controls as discussed above. We also include industry fixed effects (φ_k), province fixed effects (ω_j) and year fixed effects (δ_t) to rule out unobservable individual and time-invariant effect. In all regressions, we use robust standard errors clustered at firm level. Note that corporate dividend payout could be contemporaneously determined with unobserved firm-level characteristics which are related to site visits. To avoid this endogeneity, we construct corporate dividend payout variables at the next year t+1 while keeping all the other variables at year t. We present our baseline regression as in Table 3.

[INSERT TABLE 3 HERE]

In the first two columns of Table 3, the dividend dummy is the dependent variable in the Logit specification. Both coefficients of *Site Visit Dummy* and *Log(SiteVisit)* are positive and significant at the 1% level, suggesting site visits can increase the possibility of payout in the next year. The economic magnitude is also large enough. Compared with non-visited firms, firms with investors' visits increase propensity to pay by 3.5%, where 1% increase in site visits intensity leads to 0.015% increase in propensity to pay dividend. In Columns 3 and 4, we change the dependent variable to payout ratio and use the Tobit model. The coefficients are still significantly positive. Compared with non-visited firms, firms with investors' visits increase payout ratio by 1.4%, where 1%

increase in site visits intensity leads to 0.004% increase in payout ratio. From Columns (5) to (8), we control firm fixed-effect and find the effect of site visits is still robust in both propensity to pay and payout ratio. Moreover, the magnitude rises in terms of the effect of site visits on payout ratio. Compared with non-visited firms, firms with investors' visits increase payout ratio by 1.9% , where 1% increase in site visits intensity leads to 0.008% increase in payout ratio.

Since share repurchase is regarded as substitution of dividend payout (Crane et al., 2016; Chu, 2018), we also consider the effect of site visits on share repurchase. In Table A2 of Appendix, we switch our dependent variable with manager's decision to repurchase shares. *Repurchase Dummy* is defined as dummy equal to one if a firm decides to buy back share at year t, and zero otherwise. Due to the data limitation of share repurchase disclosure, the sample shrinks in size but still yields a robust result for site visits to increase payout. We forgo share repurchase as dependent variable in following tables to maintain the sample size and overcome unique institutions on share repurchase in China.[13]

As we documented in the institutional background, one unique setting of Chinese market is that most companies are directly controlled or partially owned by government even after the share-split reform. Managers from state-owned enterprises (SOEs)[14] are often criticized by expropriating minority shareholders by not paying dividends. State

[13] The data for share repurchase is not available before the year 2012, where our site visit starts after 2009. According to China Company Law, share repurchase was previously only allowed in a few limited cases, for example to offset the dilution caused by employee stock options. But to battle the market selloff in 2018, regulators made share repurchases easier by permitting them for a broader range of purposes, such as defending corporate value or protecting shareholders' interests.

[14] The SOEs are defined as firms owned by local or central government.

tradable shareholders do not have incentives to monitor dividend payment while those institutional investors and foreign institutional investors play stronger role on corporate dividend policy. Therefore, we divided our sample based on corporate ownership and examine the effect of site visits separately.

Table A3 in Appendix reports the subsample results. Despite a consistently positive and significant coefficient of dividend measures, we do not find significant difference of monitoring effect between SOEs and non-SOEs. We further investigate the effect by different types of institutional investors in Table A4. We do not find site visits by state-owned insitutions have stronger effect in dividend payout ratio. The effect of securities is significant in terms of propensity to pay and payout ratio and even those private-owned securities make difference.

5. Addressing Concern for Endogeneity

5.1 The Determinants of Site Visit

Not all firms are visited by institutional investors. The determinants of corporate site visits are important to achieve identification strategy and overcome sample selection issues caused by a simple OLS specification. In this section, we examine the determinants of investors' site visits.

For the determinant model, the outcome variable is an indicator for site visits, *Site Visit Dummy,* which equals to one if firmis visited at least once in year t, and zero otherwise. Previous literatures document that investor pay more attention to firm with

better performance (Bushee and Miller, 2012; Cheng et al. 2019). We use profitability (EBIT/TA) and Tobin's Q to capture the "good" company. Besides, visits are more beneficial for firms with more complex information environment (Bushee et al., 2003). We add firm age *Log (Age)* to the model. Then, we add firm size *Log (TA)* to capture a specific firm's relative importance in its industry. Next, we expect a higher likelihood of corporate site visits when site visits are more beneficial to investors. Site visits provide investors with opportunities to observe operation and financial situation. Thus, we include *Cash* and *Leverage* to gain insight of firms operating and financing activity. Additionally, we include *Payout Ratio* to control the predetermined difference in dividend payout. We use the Logit model with the same set of controls in the baseline regressions, including industry, province and year fixed effects and payout ratio in the same year.

[INSERT TABLE 4 HERE]

Column 1 of Table 4 reports the logit regression for the determinant model. We find that the likelihood of being a visited firm is positively associated with cash, profitability and negatively associated with firm size, age, Tobin Q and leverage, consisitent with our expectations. The model also shows that current dividend payout is not determinant of site visits.

5.2 Propensity Scores Matching and Difference-in-Difference Estimates

To deal with potential endogenous concerns, we further compare the dividend payout of the treatment and control firms. To select treatment and control firms, for each firm with site visits (treatment group), we identify a matching firm never visited

but with similar firm characteristics including dividend using propensity scores matching (PSM) approach. Specifically, we use the same logit regression in determinant model as our first step of matching. In the second step, we use the first-stage propensity estimates to match firms of similar characteristics. Matching is done with a one-to-one nearest neighbor methodology without replacement and the caliper is set equal to 0.01 (Rosenbaum and Rubin, 1983). Table A5 in Appendix reports effectiveness of our propensity score matches, suggesting that PSM reduces the difference between treatment and control firms. We end up with 11,623 firm-year observations in the post-match sample.

Next, we perform a multivariate regression framework by estimating the following model[15]:

$$(2)\ Dividend\ Dummy\ (Payout\ Ratio)_{it+1}$$
$$= \alpha + \beta VisitFirm \times AfterVisit + \delta VisitFirm$$
$$+ \rho AfterVisit + \gamma' X_{it} + \varphi_k + \omega_j + \varepsilon_{it}$$

where the dependent variables $Dividend\ Dummy$ and $Payout\ Ratio$ capture firm propensity to pay and magnitude of payout respectively in the next year, as previous baseline regression; *VisitFirm* is a dummy equal to one if the firm is visited at once in our sample; *AfterVisit* is a dummy that equals to one in the years following the year of site visit and zero otherwise. When a firm has site visit in multiple years, we choose the year of first site visit.The coefficient estimate on the interaction *VisitFirm*×*AfterVisit* is

[15] We owe great thanks to the referee for suggestion on this DiD approach.

the Difference-in-Difference (DiD) estimator β, which establishes the casual effect of site visits on dividend policy. X_{it} consists of a vector of firm-level control variables used in the baseline regression. We also include industry fixed effects (φ_k)and province fixed effects (ω_j).

In Columns (2) and (3) of Table 4, we use the full sample and the coefficients on DiD estimator are positive and statistically significant, which suggests that treatment firms, on average, increase propensity to pay and dividend payout ratio following institutional investors' site visits. In Columns (4) and (5) of Table 4, we use the post-match sample and the coefficients on DiD estimator are still positive and statistically significant. Compared with firms without site visits, firms with investors' visits increase propensity to pay cash dividend and payout ratio. For visual inspection of dividend increase following site visit, we plot the dividend payout of treatment group and control group by year relative to first site visit in Figure 4. Based on post-match sample, it is clear from Figure 4 that firms with site visits increase both propensity to pay (Panel A) cash dividend and payout ratio (Panel B) in the following years. There is no significant difference between treatment and control firms in dividend payout before site visits. The results suggest (although do not prove) that the parallel trend condition, the dividend outcome should have parallel trends in the absence of site visits, is likely to be satisfied.

[INSERT Figure 4 HERE]

5.3 IV Estimation

Another approach to addressing endogeneity is to estimate an instrumental variable

regression. First, we construct instrument *Distance* as the distance between firm headquarter and the city from which institutional investors come. For multiple visits, we use the maximum distance for each firm within the year because of strong information acquisition demand behind long-distance travel[16]. The average distance of site visits is 1566 km, almost as the same trip from Shanghai to Xi'an.[17] Since the larger distance implies stronger information acquisition demand, we expect that *Distance* is positively related to the intensity of site visits. Moreover, it is exogenous to corporate dividend payout, which serves a potential candidate for instrumental variable. The second instrument we add here is *HSR Ratio*, measured as the proportion of visitors coming from cities connected to the high-speed railway (HSR). The introduction of HSR drastically eased travel among cities in China and give investors much easier access to soft information. In the line of previous papers (Giroud 2013; Bernstein et al., 2016; Chen et al., 2020), we expect that *HSR Ratio*, is positively related to the intensity of site visits mainly because the high-speed railway boosts the convenience of site visits by decreasing travel cost. We replace all missing IVs to zero for firms not visited by investors at given year.

[INSERT TABLE 5 HERE]

Table 5 reports the IV estimation using both *Distance* and *HSR Ratio*.[18] The first

[16] For example, Tianshan Gufen is a cement firm with headquarter in Xinjiang. Whereas, most of Chinese institutional investors are located in megacities in the eastern areas such as Beijing, Shanghai, Guangzhou and Shenzhen (Chen et al., 2020). Although it is too far to conduct site visits on Tianshan Gufen, this firm is visited every year in our sample. One explanation is that firms headquartered in western and remote provinces are often out of the media focus due to weak power of local press. To acquire secluded but important firm-level information, institutional investors choose to visit on site.

[17] The longest distance is 3530 km from Shanghai to Karamay, a city with oil field in the west of Xinjiang. Note that this instrument variable has missing values because of missing information on location of visitors.

[18] We thank the referee for suggestions to use distance as instrument. To save the space, we report IV

column validates the relevance condition of IV specification, that is our dependent variable *Log(SiteVisit)* is significantly related with our IVs, controlling same firm variables used in baseline regression. We use IV Probit and IV Tobit model in Columns 2 and 3 respectively using Newey (1987) estimation to investigate the effect of site visits intensity on both propensity to pay and payout ratio. The coefficients of *Log(SiteVisit)* are positive and significant, suggesting that institutional investors site visits induce more dividend payout in both propensity to pay (Column 2) and payout ratio (Column 3). When we switch the key independent variable into *SiteVist Dummy*, the discipline effect of site visits is still significant in propensity to pay (Column 4) and payout ratio (Column 5). Our identification tests based on IV approach seems strong and robust to suggest the importance of the effect of site visits on corporate dividend payout.

6. Potential Economic Channels

Levit (2018) proposes that soft activism takes effect through interaction with hard activism as exit of threat[19] and active engagement. In this sense, we investigate two possible underlying economic mechanisms through which institutional site visits enhance corporate payout. Through the first channel, institutional investors discipline the management through the threat of exit and pressure managers to reduce their free

estimation relies on *Distance* in Table A6 in Appendix. The results are mainly unchanged.

[19] We thank the referee for pointing out that it is more interesting to focus on the threat of exit by institutional investors. There could be other channels such as reducing information asymmetry. But we believe the monitoring channel is more important and relatively unexplored.

cash flow and increase dividend payment after site visits. Through the second, institutional site visits result in more participating shareholders or even formally dividend-related proposals in upcoming shareholder meetings. As th effect of whisper, site visits involving dividend-related discussions have stronger effect on dividend payout.

6.1. Threat of Exit

We use the change of institutional holding share as proxy for exit threat. The increased dividend after institutional site visits can be through the threat by institutional investor's exit. Although we do not observe direct action at investor level, it is still interesting to explore whether threat can be credible, at least on corporate institutional holding share ex post. Moreover, if ownership structure is more diversed in a company, there could be higher chance for investors to prevent themselves being expropriated by insiders. Thus, we expect that the threat is much powerful to those firms with lower concentrated ownership or those non-SOEs. The threat also can be stronger from active buy-side investors such as mutual fund managers.

[INSERT TABLE 6 HERE]

Table 6 reports the effect of site visits on change of institutional ownership. The dependent variable ΔIO is defined as annual change of institutional holdings share. In Column (1) of Table 6, the coefficient estimate on *Log(SiteVisit) is* negative and significant, suggesting that site visits decrease corporate institutional holdings share. 1% increase in site visits intensity leads to 0.004% decrease in institutional holdings share.

Consistent with our previous expectation, buy-side investors[20] have significantly stronger effect as documented in column (2). We also find non-SOEs and firms with dispersed ownership[21] undergo more exit of institutional investors as shown at interaction term of *Log(SiteVisit)* Non_SOE* and *Log(SiteVisit)* Dispersion* respectively.

Overall, we find that the effect of site visits on corporate dividend policy can be through the threat of exit. The threat is more credible if visitors are buy-side institutions and more powerful if the target firms are non-SOEs and are firms with more dispersed ownership structure.

6.2. Active Engagement

Another important channel for institutional investos to monitor insiders can be through active engagement. This shareholder activisim is widely documented in the literature (Gillan and Starks, 2000; Brav et al., 2008). But the evidence on whether shareholder activism can be efficient in emerging markets is limited. One exception is Jiang et al. (2016). They use individual-director level data covering 2004-2012 in China and find that independent directors' career concerns lead to dissention behaviors, which improves corporate governance. In this section, we examine the channel of active engagement.

Table 7 reports the effect of site visits on shareholder meetings. In Column (1), the dependent variable *Proposal* is defined as the number of dividend-related proposals in

[20] Buy-side institutions include asset management companies, foreign institutions, investment companies, private equity, insurance companies, trust and fund. Sell-side institutions refer to securities.
[21] Ownership dispersion is defined as the opposite sign of Herfindahl-Hirschman Index using shares hold by top 10 shareholders. In China, only top 10 sharholders are required to disclose their share position.

all temporary shareholder meetings in the current year. We use the Poisson count model here since the dependent variable is discrete number. The coefficient on *Log(SiteVisit)* is positive and significant, suggesting that site visits increase dividend-related proposals in shareholder meetings. Next, we change the our dependent variable to *Meeting_member* in column (2), which is defined as the natural logarithm of one plus participants at shareholder meetings in the next year.. We find consistent evidence that site visits encourage more shareholders to attend annual shareholder meetings. Furthermore, we also explore whether these proposals involve more dividend-related discussions and thus induce more dividend payment in the following year[22]. We do textual analysis and count the number of word directly mentioning dividend payment during site visits. If the number is over zero, we define that the firm holds a visit covering dividend discussions. We then aggregage at firm-year level. In this way, we swtich our dependent variable to this new measure *Log(Dividend Visit),* defined as the natural logarithm of one plus total dividend-related discussions. In Columns (3) and (4), we find as the effect of whisper, dividend-related discussions with managers have stronger discipline effect on corporate dividend policy, leading to both higher propensity to pay and higher dividend payout ratio.

[INSERT TABLE 7 HERE]

Overall, we show that the monitoring effect of site visits on dividend works through both exit threat and active engagement. Site visits are important to disgorge dividend payment from insiders through credible threat of exit and shareholders active

[22] The data on the topic of site visits is available since 2012.

engagement.

7. Conclusion

In this research, we document site visits as a new and important mode of activism by institutions in the largest emerging market where formal activism is largely absent. We show that site visits play an active governance role beyond the information acquisition documented by Cheng et al. (2016). We document a salient governance outcome of institutional site visits – significant increase in dividend payout. This new mode of soft activism suggests institutions can improve corporate governance through on-site engagement with management.

We use the unique availability of Chinese corporate site visit data to study this issue. The empirical analysis shows a significant relation between institutional site visits and corporate cash dividend payout. This relation is exposed to endogeneity concerns. We employ several empirical strategies to achieve identification. To overcome sample selection bias, we use the propensity score matching approach to mitigate confounding firm characteristics affecting both site visits intensity and corporate dividend policy. Then, we use Difference-in-Difference approach to estimate the effect of site visits based on the matched sample. Next, we use instrumental regression relying on two instrumental variables: distance between the firm headquarter and the city where visitors come and ratio of investors' visits from cities connected to the high-speed railway divided by total visits. All estimations yield robust results,

suggesting a causal link between site visits and corporate dividend policy. Moreover, we also document two channels through monitoring role of site visits on corporate dividend. Firstly, site visits play the role of governance by threat of exit. Secondly, site visits encourage investors actively engaged in shareholder meetings and propose more dividend-related proposals. As the whisper effect, dividend-related discussions during the site visits will have stronger effect on corporate payout policy.

In sum, we find that site visits allow institutional investors to communicate and exert pressure on corporate executives to increase corporate payout. This research highlights the importance of soft activism in corporate governance paradigm in general. This soft activism paradigm is particularly pertinent in emerging markets when formal forms of governance as proxy vote and short selling are not readily available.

References

1. Adams, R. B., & Ferreira, D. (2007). A theory of friendly boards. *The Journal of Finance*, 621, 217-250.
2. Aghion, P. Reenen, J. Van, Zingales, L. (2013). Innovation and institutional ownership. *American Economic Review*, 103, 277-304.
3. Allen, F., Qian, J., and Qian, M. (2005). Law, finance, and economic growth in China. *Journal of Financial Economics,* 77，57-116.
4. Amihud, Y., & Li, K. (2006). The declining information content of dividend announcements and the effects of institutional holdings. *Journal of Financial and Quantitative Analysis*, 413, 637-660.
5. Baker, M., & Wurgler, J. (2004). A catering theory of dividends. *The Journal of Finance*, 593, 1125-1165.
6. Becht, M., Franks, J., Grant, J., & Wagner, H. F. (2017). Returns to hedge fund activism: An international study. *Review of Financial Studies*, 30(9), 2933-2971.
7. Bernstein, S., Giroud, X., & Townsend, R. R. (2016). The impact of venture capital monitoring. *The Journal of Finance*, 71(4), 1591-1622.
8. Bhattacharya, S. (1979). Imperfect information, dividend policy, and "the bird in the hand" fallacy. *Bell Journal of Economics*, 101, 259-270.
9. Bowen, R. M., Dutta, S., Tang, S., & Zhu, P. 2018. Inside the "black box" of private in-house meetings. *Review of Accounting Studies*, 232, 487-527.
10. Brav, A., Jiang, W., Partnoy, F., & Thomas, R. (2008). Hedge fund activism, corporate governance, and firm performance. *Journal of Finance*, 634, 1729-1775.
11. Brav, A., Jiang, W., Ma, S., & Tian, X. (2018). How does hedge fund activism reshape corporate innovation? *Journal of Financial Economics*, 1302, 237-264.
12. Bushee, B. J., Matsumoto, D. A., & Miller, G. S. (2003). Open versus closed conference calls: the determinants and effects of broadening access to disclosure. *Journal of Accounting and Economics*, 34(1-3), 149-180.
13. Bushee, B. J., and G. S. Miller. (2012). Investor relations, firm visibility, and investor following. *The Accounting Review* 87 (3): 867–97..

14. Bushee, B. J., Gerakos, J., & Lee, L. F. (2018). Corporate jets and private meetings with investors. *Journal of Accounting and Economics*, 652-3, 358-379.
15. Cao, L., Du, Y., & Hansen, J. Ø. (2017). Foreign institutional investors and dividend policy: Evidence from China. *International Business Review*, 26(5), 816-827.
16. Cao, S., Gong, G., & Shi, H. (2017). Private Information Acquisition and Corporate Investment: Evidence from Corporate Site Visits.
17. Cao, X., Lemmon, M., Pan, X., Qian, M., & Tian, G. (2019). Political promotion, CEO incentives, and the relationship between pay and performance. *Management Science*, 65(7), 2947-2965.
18. Chen, X., Harford, J., & Li, K. (2007). Monitoring: Which institutions matter? *Journal of Financial Economics*, 86(2), 279-305.
19. Chen, D., Ma, Y., Martin, X., & Michaely, R. (2020). On the Fast Track: Information Acquisition Costs and Information Production. Available at SSRN 3527260.
20. Cheng, Q., Du, F., Wang, X., & Wang, Y. (2016). Seeing is believing: Analysts' corporate site visits. *Review of Accounting Studies*, 214, 1245-1286.
21. Cheng, Q., Du, F., Wang, B. Y., & Wang, X. (2019). Do corporate site visits impact stock prices? *Contemporary Accounting Research*, 361, 359-388.
22. Chu, Y. (2018). Shareholder-creditor conflict and payout policy: Evidence from mergers between lenders and shareholders. *Review of Financial Studies*, 31(8), 3098-3121.
23. Crane, A. D., Michenaud, S., & Weston, J. P. (2016). The effect of institutional ownership on payout policy: Evidence from index thresholds. *Review of Financial Studies*, 296, 1377-1408.
24. DeAngelo, H., DeAngelo, L., & Stulz, R. M. (2006). Dividend policy and the earned/contributed capital mix: a test of the life-cycle theory. *Journal of Financial Economics*, 812, 227-254.
25. Denis, D. J., & Osobov, I. (2008). Why do firms pay dividends? International evidence on the determinants of dividend policy. *Journal of Financial Economics*,

891, 62-82.

26. Dong, R., Fisman, R., Wang, Y., & Xu, N. (2019). Air pollution, affect, and forecasting bias: Evidence from Chinese financial analysts. *Journal of Financial Economics*.
27. Faccio, M., Lang, L. H., & Young, L. (2001). Dividends and expropriation. *American Economic Review*, 911, 54-78.
28. Fama, E. F., & French, K. R. (2001). Disappearing dividends: changing firm characteristics or lower propensity to pay? *Journal of Financial Economics*, 601, 3-43.
29. Fernald, J., & Rogers, J. H. (2002). Puzzles in the Chinese stock market. *Review of Economics and Statistics*, 843, 416-432.
30. Ferreira, M. A., & Matos, P. (2008). The colors of investors' money: The role of institutional investors around the world. *Journal of Financial Economics*, 88(3), 499-533.
31. Firth, M., Lin.C, Zou H. (2010). Friend or foe? The role of state and mutual fund ownership in the split share structure reform in China. *Journal of Financial and Quantitative Analysis*, 45, pp. 685-706.
32. Firth, M., Gao, J., Shen, J. & Zhang Y. (2016). Institutional stock ownership and firms' cash dividend policies: Evidence from China. *Journal of Banking & Finance*, 65, 91-107.
33. Gillan, S. L., & Starks, L. T. (2000). Corporate governance proposals and shareholder activism: The role of institutional investors. *Journal of Financial Economics*, 57(2), 275-305.
34. Giroud, X. (2013). Proximity and investment: Evidence from plant-level data. *The Quarterly Journal of Economics*, 128(2), 861-915.
35. Grinstein, Y., & Michaely, R. (2005). Institutional holdings and payout policy. *Journal of Finance*, 603, 1389-1426.
36. Grullon, G., Paye, B., Underwood, S., & Weston, J. P. (2011). Has the propensity to pay out declined? *Journal of Financial and Quantitative Analysis*, 461, 1-24.
37. Hartzell, J. C., & Starks, L. T. (2003). Institutional investors and executive

compensation. *Journal of Finance,* 586, 2351-2374.

38. Huang, W. (2020). Government subsidies, dividend and stock market refinancing of Chinese firms. *Finance Research Letters*, 37, 101345.
39. Jensen, M., & Meckling, W. (1976). Theory of the firm: Management behavior, agency costs and capital structure. *Journal of Financial Economics*, 3(4), 305-60.
40. Jensen, M. C., & Smith, C. W. (2000). Stockholder, manager, and creditor interests: Applications of agency theory. Theory of the Firm, 1(1).
41. Jensen, M. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review*, 76, 323-329.
42. Jiang, G., Lee, C. M., & Yue, H. (2010). Tunneling through intercorporate loans: The China experience. *Journal of Financial Economics*, 981, 1-20.
43. Jiang, W., Wan, H., & Zhao, S. (2016). Reputation concerns of independent directors: Evidence from individual director voting. The Review of Financial Studies, 29(3), 655-696.
44. Jiang, X., & Yuan, Q. (2018). Institutional investors' corporate site visits and corporate innovation. *Journal of Corporate Finance*, 48, 148-168.
45. Kirk, M., and S. Markov. (2016). Come on over: Analyst/investor days as a disclosure medium. *Accounting Review*, 91 6: 1725-1750.
46. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Agency problems and dividend policies around the world. *Journal of Finance*, 551, 1-33.
47. Levit, D. 2018. Soft shareholder activism. *Review of Financial Studies*, 327, 2775-2808.
48. Liu, C., Uchida, K., & Yang, Y. (2014). Controlling shareholder, split-share structure reform and cash dividend payments in China. International Review of Economics & Finance, 29, 339-357.
49. McCahery, J. A., Sautner, Z., & Starks, L. T. (2016). Behind the scenes: The corporate governance preferences of institutional investors. *Journal of Finance*, 716, 2905-2932.
50. Michaely, R., Richard H. Thaler, and Kent L. Womack (1995). Price reactions to dividend initiations and omissions: Overreaction or drift? *Journal of Finance* 50(2):

573-608.

51. Michaely, R., & Qian, M. (2017). Stock liquidity and dividend policy: Dividend policy changes following an exogenous liquidity shock. Unpublished working paper.
52. Newey, W. K. (1987). Efficient estimation of limited dependent variable models with endogenous explanatory variables. *Journal of Econometrics*, 36(3), 231-250.
53. Rosenbaum, P. R., & Rubin, D. B. (1983). The central role of the propensity score in observational studies for causal effects. *Biometrika*, 70(1), 41-55.
54. Short, H., Zhang, H., & Keasey, K. (2002). The link between dividend policy and institutional ownership. *Journal of Corporate Finance*, 82, 105-122.
55. Soltes, E. (2014). Private interaction between firm management and sell-side analysts. *Journal of Accounting Research*, 521, 245-272.

Figure 1: Comparison of Dividend Payout Ratio among S&P 500, MSCI Emerging Market Index and Chinese CSI 300 Index

This figure shows the dividend payout ratio of U.S. S&P 500 Index, MSCI Emerging Market Index and Chinese CSI 300 Index from year 2009 to 2016. The dividend payout ratio is defined as the ratio of cash dividend per share to earnings per share. The data on dividend payout ratio comes from Bloomberg.

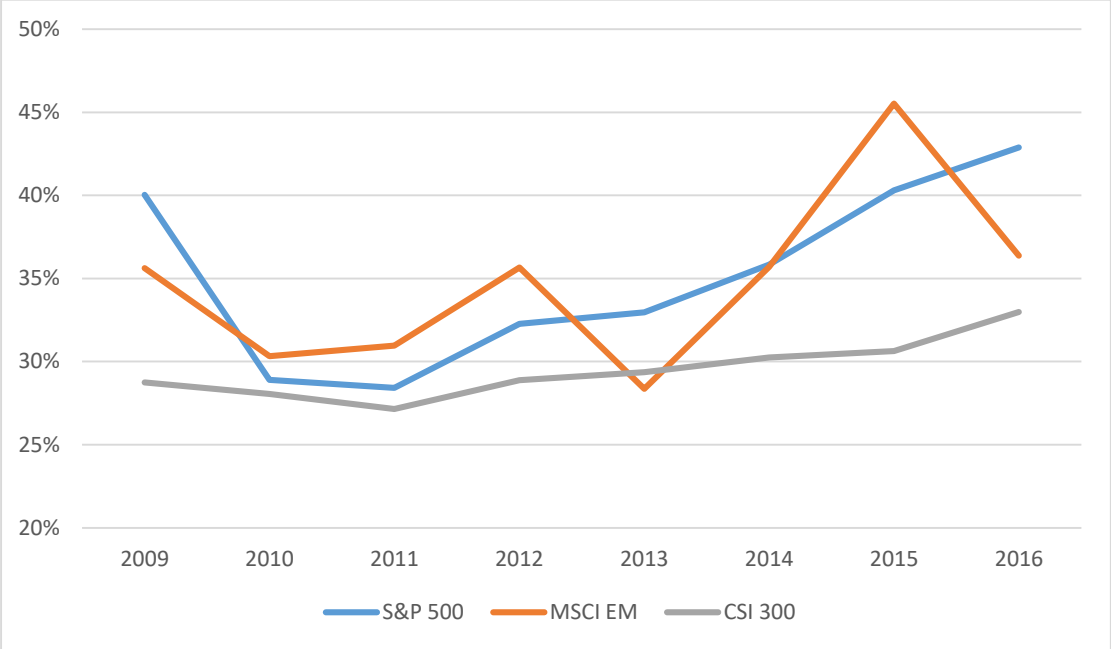


Figure 2：Evolution of Institutional Investors in China

This figure shows the evolution of institutional investors in Chinese market from year 2005 to 2016.The vertical axes represent the size of institutional investors' accounts and institutional holding share respectively. We plot the trend on semi-annual basis. Information on institutional investors' accounts terminated in 2015. Data on size of institutional investors' accounts and institutional holding comes from the WIND database.

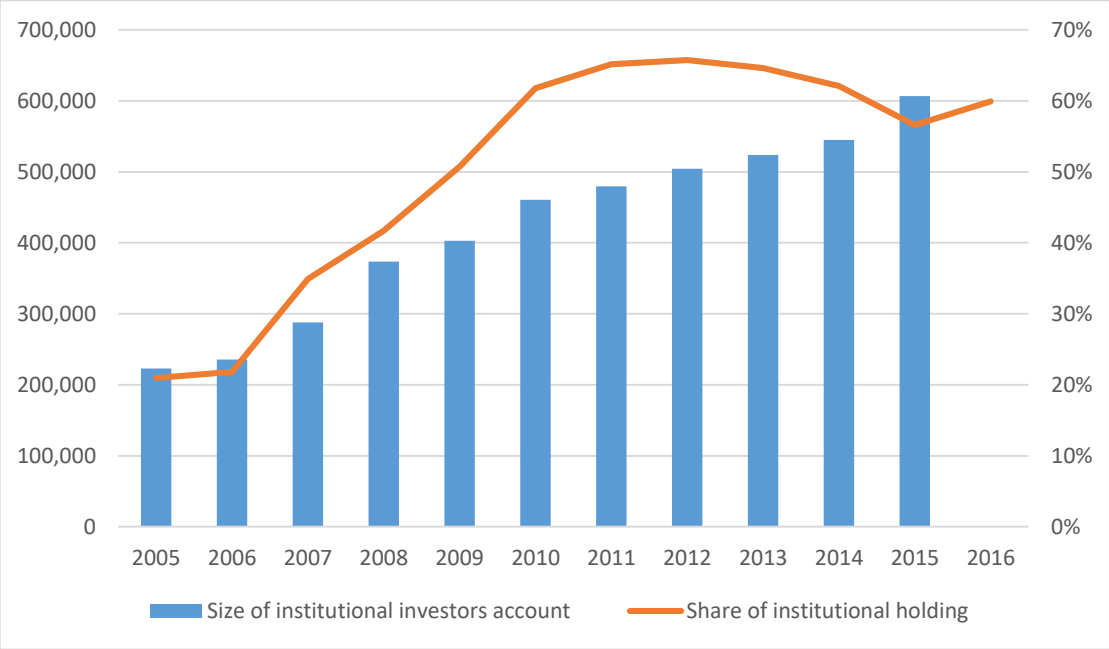


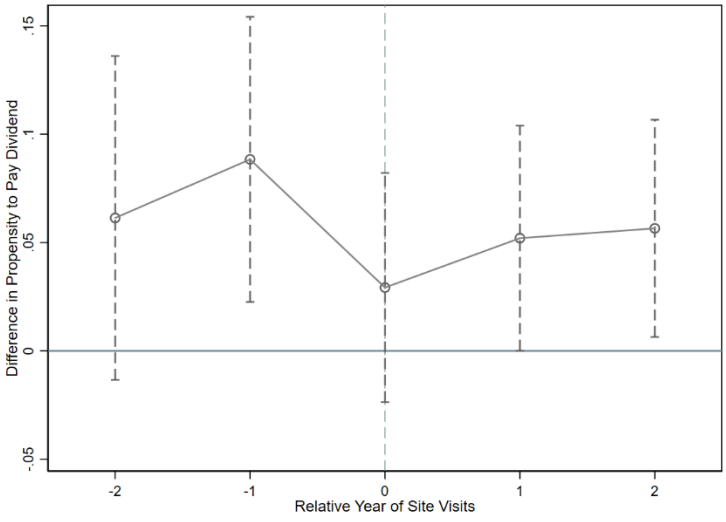
Figure 3: Profile of Institutional Types of Site Visits

The figure shows different types of institutional investors visiting on site from year 2009 to 2016. The vertical axis represents intensity of site visits by different institutional investors. We plot by three main types: Funds, Asset Management Companies and Securities. Information on types of visitors comes from CNRDS database.

Figure 4: Payout Difference between Visited and Non-Visited Firms

This figure shows the difference in dividend payout between firms visited and firms without site visits based on post-match sample. The y-axis represents the difference in propensity to pay (Panel A) and payout ratio (Panel B), respectively. The x-axis represents year relative to first-visit. We plot the average difference with 5% confidential interval (dashed line).

Panel A: Difference in Propensity to Pay



Panel B: Difference in Payout Ratio

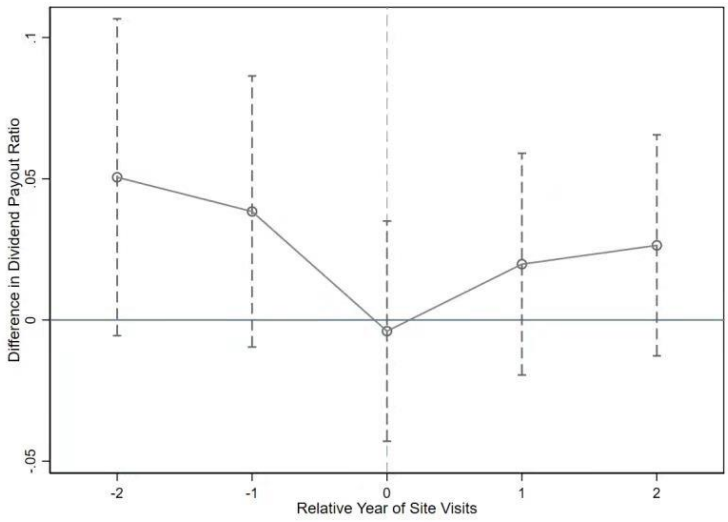


Table 1: Variable Definitions

Variables	Definitions	Source
Dividend Dummy	A dummy variable that equals one if the firm pays cash dividend in the next year.	CSMAR
Payout Ratio	Dividend per share over earnings per share in the next year.	CSMAR
Repurchase Dummy	A dummy variable that equals one if the firm repurchases share in year t.	WIND
SiteVisit Dummy	A dummy variable that equals one if the firm is visited in year t.	Hand Collect; CNRDS
Log(SiteVisit)	Natural logarithm of one plus site visits in year t.	Hand Collect; CNRDS
VisitFirm	A dummy that equals to one if the firm is visited in our sample.	Hand Collect; CNRDS
AfterVisit	A dummy that equals to one after the firm is visited for the first time.	Hand Collect; CNRDS
Log(TA)	Natural logarithm of book value of assets at the end of year t.	CSMAR
EBIT/TA	Firm's profitability, calculated as EBIT over total assets of year t.	CSMAR
Leverage	Firm 's leverage ratio, calculated as total debt over total assets of year t.	CSMAR
Tobin Q	Firm 's Tobin's Q at the end of year t. Tobin's Q = (market value of equity at the end of year + book value of debt) / book value of assets.	CSMAR
Log(Age)	Natural logarithm of the number of years that firm i has been listed on a stock exchange at the end of year t.	WIND
Cash	Cash holding over noncash assets at the end of year t.	CSMAR
Hsr Ratio	The ratio of visits by high-speed railway to total visits in year t.	CNRDS
Distance	Natural logarithm of maximum distance between the firm headquarter and cities which visitors come from.	Hand Collect; CNRDS
△IO	The institutional holding share change from year t to th next year.	CSMAR
Proposal	Proposals on dividend at shareholder meetings in the next year.	CSMAR
Meeting_member	Natural logarithm of one plus participants at shareholder meetings in the next year.	CSMAR
Log(Dividendvisit)	Natural logarithm of one plus site visit involving discussions on dividend in year t	Hand Collect; CNRDS
Buyside	A dummy variable that equals one if the firm is visited by buy-side institutions in year t.	Hand Collect; CNRDS
Non-SOE	A dummy variable that equals one if the firm is not state-owned enterprises.	WIND
Dispersion	The opposite Herfindahl-Hirschman Index of the ownership (Top 10 shareholders) in year t.	CSMAR
SOEIns	A dummy variable that equals one if the firm is visited by institutions owned by state.	WIND
Log(SellVisit)	Natural logarithm of one plus site visits by sells-side investors in year t.	WIND
Log(NonSOESellVisit)	Natural logarithm of one plus site visits by Non-SOE sells-side investors in year t.	WIND

Table 2: Summary Statistics

This table reports the statistics of variables in our sample (observation, mean, standard deviation, minimum and maximum). *Dividend Dummy* is a dummy equal to one if the firm pays cash dividend in the next year. *Payout Ratio* is the ratio of payout to earnings per share in the next year. *SiteVisit Dummy visit* is a dummy equal to one if the firm is visited in the current year. *Log(SiteVisit)* is equal to natural logarithm of one plus site visits numbers to the firm in the current year. *Log(TA)* is natural logarithm of the total assets of the firm in the current year. *Log(Age)* is the natural logarithm of the age of the firm in the current year. *Cash* is cash holding scaled by total assets. *EBIT/TA* is EBIT over total assets. *Leverage* is the total liabilities over total assets. *Tobin Q* is ratio of market value to book value of assets. The market value of assets is proxied by market value of equity plus book value of total liabilities. In addition to variables in baseline regression, we also summarize variables used in other regressions. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles.

	(1)	(2)	(3)	(4)	(5)
Variable	N	Mean	S.D	Min	Max
Dividend Dummy	13558	0.67	0.47	0	1
Payout Ratio	13558	0.24	0.31	0	2.27
Log(SiteVisit)	13558	1.14	1.59	0	6.052
SiteVisit Dummy	13558	0.40	0.49	0	1
Log(Age)	13558	2.13	0.72	0.69	3.26
Log(TA)	13558	21.87	1.32	13.76	28.51
Cash	13558	0.39	0.58	0.0034	7.003
EBIT/TA	13558	0.071	0.085	-0.27	0.62
Leverage	13558	0.19	0.19	0	1.22
Tobin Q	13558	2.83	2.32	0.83	22.92
Distance	4484	7.36	0.47	3.002	8.17
Hsr Ratio	4432	0.70	0.41	0	1
VisitFirm	13558	0.63	0.48	0	1
AfterVisit	13558	0.48	0.50	0	1
△IO	11098	0.021	0.15	-0.85	0.90
Dispersion	13558	-0.17	0.12	-0.81	-0.00002
Non-SOE	13558	0.57	0.50	0	1
Sellside	13558	0.64	0.48	0	1
Proposal	8755	1.011	0.12	0	3
Meeting_member	11629	3.46	1.33	0	9.72
Log(Dividendvisit)	13558	3.71	2.72	0	6.29
SOEIns	13558	0.36	0.48	0	1
Repurchase Dummy	11098	0.0087	0.093	0	1
Log(SellVisit)	13558	0.78	1.18	0	4.98
Log(NonSOESellVisit)	13558	0.13	0.37	0	3.00

Table 3: Baseline Regression

This table reports the regressions of site visits on dividend payout in the next year. We report marginal effects of *SiteVisit Dummy* and *Log(SiteVisit)*. Standard errors are clustered by firm and the corresponding t-values are reported in parentheses. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Logit Regression		Tobit Regression		Linear Probability Regression		OLS Regression	
	Dividend Dummy	Dividend Dummy	Payout Ratio	Payout Ratio	Dividend Dummy	Dividend Dummy	Payout Ratio	Payout Ratio
SiteVisit Dummy	0.035***		0.014***		0.019*		0.019**	
	(3.40)		(3.76)		(1.88)		(2.39)	
Log(SiteVisit)		0.015***		0.004***		0.009***		0.008***
		(4.27)		(3.84)		(2.80)		(3.03)
Log(TA)	0.53***	0.52***	0.050***	0.049***	0.086***	0.084***	0.007	0.006
	(11.26)	(11.03)	(13.47)	(13.16)	(7.13)	(6.97)	(1.08)	(0.86)
Log(Age)	-0.90***	-0.89***	-0.12***	-0.12***	-0.16***	-0.17***	-0.075***	-0.078***
	(-14.28)	(-14.05)	(-20.85)	(-20.65)	(-6.29)	(-6.45)	(-3.79)	(-3.91)
Cash	-0.073	-0.073	0.019***	0.019***	-0.014	-0.013	0.015**	0.016**
	(-1.02)	(-1.02)	(2.72)	(2.73)	(-1.56)	(-1.42)	(1.99)	(2.12)
EBIT/TA	9.62***	9.56***	0.85***	0.85***	0.44***	0.44***	0.041	0.038
	(14.20)	(14.14)	(16.83)	(16.70)	(8.15)	(8.09)	(1.00)	(0.92)
Leverage	-2.83***	-2.81***	-0.41***	-0.41***	-0.12***	-0.12***	-0.082***	-0.081***
	(-15.44)	(-15.39)	(-18.62)	(-18.56)	(-3.74)	(-3.71)	(-3.57)	(-3.52)
Tobin Q	-0.13***	-0.13***	-0.029***	-0.030***	0.006***	0.006***	-0.006***	-0.006***
	(-6.88)	(-7.09)	(-11.99)	(-12.14)	(2.69)	(2.60)	(-3.69)	(-3.79)
Constant	-8.69***	-8.45***	-0.64***	-0.62***	-0.90***	-0.85***	0.26*	0.30**
	(-8.68)	(-8.45)	(-7.22)	(-6.94)	(-3.50)	(-3.30)	(1.78)	(2.00)
Firm FE	No	No	No	No	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	No	No	No	No
Province FE	Yes	Yes	Yes	Yes	No	No	No	No
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	13558	13558	13558	13558	13435	13435	13435	13435
Pseudo/adj. R-sq	0.24	0.24	0.13	0.13	0.53	0.53	0.32	0.32

Table 4: PSM-DiD Specification

This table reports the determinant model in Column (1) and DiD estimates from Columns (2) to (5). From Columns (2) to (3), we use the full sample and from Columns (4) to (5), we use sample after propensity score matching. All regressions include industry and province fixed effects. Standard errors are clustered by firm and the corresponding t-values are reported in parentheses. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1)	(2)	(3)	(4)	(5)
		Pre-match		Post-match	
	OLS Regression	Logit Regression	Tobit Regression	Logit Regression	Tobit Regression
	VisitFirm	Dividend Dummy	Payout Ratio	Dividend Dummy	Payout Ratio
VisitFirm*AfterVisit		0.82**	0.20***	0.72*	0.18**
		(2.05)	(2.77)	(1.83)	(2.45)
VisitFirm		0.27***	0.043***	0.27***	0.041***
		(3.79)	(3.68)	(3.55)	(3.26)
AfterVisit		-0.88**	-0.21***	-0.83**	-0.19***
		(-2.24)	(-2.95)	(-2.14)	(-2.70)
Payout Ratio	0.080				
(current year)	(0.74)				
Log(TA)	-0.17***	0.59***	0.059***	0.58***	0.059***
	(-3.43)	(24.17)	(16.49)	(22.93)	(15.25)
Log(Age)	-1.12***	-0.87***	-0.12***	-0.80***	-0.11***
	(-13.83)	(-22.49)	(-19.30)	(-18.88)	(-16.72)
Cash	0.24**	-0.077	0.018***	-0.17***	0.009
	(2.55)	(-1.53)	(2.58)	(-2.86)	(1.01)
EBIT/TA	1.73***	9.15***	0.80***	9.22***	0.92***
	(3.99)	(25.80)	(15.91)	(25.00)	(16.78)
Leverage	-0.33	-2.97***	-0.44***	-3.003***	-0.46***
	(-1.35)	(-22.82)	(-19.91)	(-22.21)	(-19.48)
Tobin Q	-0.055***	-0.094***	-0.024***	-0.12***	-0.030***
	(-2.59)	(-7.31)	(-11.02)	(-7.88)	(-11.45)
Constant	5.14***	-9.86***	-0.80***	-9.66***	-0.78***
	(4.65)	(-17.76)	(-9.36)	(-16.63)	(-8.35)
Industry FE	Yes	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	No	No	No	No
N	13558	13558	13558	11623	11623
Pseudo R-sq	0.19	0.23	0.13	0.23	0.13

Table 5: IV Estimation with Distance of Site Visits and High-Speed Railway Ratio

This table reports the instrumental variables regressions. *HSR Ratio* and *Distance* are our instruments. All regressions include year, industry and province fixed effects. Corresponding t-values are reported in parentheses. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1) OLS Regression	(2) IV Probit Regression	(3) IV Tobit Regression	(4) IV Probit Regression	(5) IV Tobit Regression
	Log(SiteVisit)	Dividend Dummy	Payout Ratio	Dividend Dummy	Payout Ratio
SiteVisit Dummy				2.81**	0.61**
				(2.37)	(2.02)
Log(SiteVisit)		0.19***	0.039**		
		(2.76)	(2.14)		
HSR Ratio	0.18**				
	(2.31)				
Distance	0.79***				
	(12.83)				
Log(TA)	0.31***	0.11***	0.002	0.12***	0.003
	(9.97)	(2.69)	(0.16)	(2.83)	(0.31)
Log(Age)	-0.24***	-0.31***	-0.051***	-0.32***	-0.053***
	(-5.68)	(-6.14)	(-4.13)	(-5.97)	(-4.12)
Cash	-0.17***	0.13**	0.057***	0.19***	0.071***
	(-4.00)	(2.28)	(4.93)	(2.70)	(4.53)
EBIT/TA	0.92***	6.71***	0.48***	7.27***	0.60***
	(2.63)	(14.98)	(4.75)	(14.59)	(5.32)
Leverage	-0.60***	-1.50***	-0.34***	-1.47***	-0.34***
	(-3.98)	(-8.87)	(-7.93)	(-7.53)	(-6.91)
Tobin Q	0.077***	-0.071***	-0.018***	-0.066***	-0.017***
	(5.60)	(-4.21)	(-4.35)	(-3.63)	(-3.93)
Constant	-9.35***	-1.77**	0.17	-4.12***	-0.32
	(-12.98)	(-2.28)	(0.92)	(-4.27)	(-1.34)
Industry FE	Yes	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Wald test of exogeneity (p-value)		0.019	0.074	0.0071	0.028
N	4075	4075	4075	4075	4075
Pseudo/adj. R-sq	0.30	0.30	0.30	0.19	0.19

Table 6：Economic Channel: Threat of Exit

Table 6 analyzes the effect of site visits on corporate institutional holding share change. Column (1) reports main results and columns (2) to (4) report the interaction results to verify the channel of exit threat. Standard errors are clustered at the firm level and the corresponding t-values are reported in parentheses. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
		OLS Regression		
		△IO		
Log(SiteVisit)	-0.004***	0.005	-0.0002	-0.007***
	(-3.68)	(1.08)	(-0.16)	(-4.55)
Log(SiteVisit)*Buyside		-0.017***		
		(-2.97)		
Buyside		0.026***		
		(3.23)		
Log(SiteVisit)*Non_SOE			-0.005***	
			(-2.67)	
Non_SOE			-0.006**	
			(-2.08)	
Dispersion*Log(SiteVisit)				-0.025***
				(-2.90)
Dispersion				-0.18***
				(-12.15)
Log(TA)	-0.006***	-0.006***	-0.008***	-0.013***
	(-5.04)	(-4.43)	(-5.86)	(-10.43)
Log(Age)	-0.018***	-0.018***	-0.021***	-0.010***
	(-8.68)	(-8.80)	(-9.51)	(-5.09)
Cash	-0.003	-0.003	-0.004	-0.004*
	(-1.41)	(-1.42)	(-1.45)	(-1.75)
EBIT/TA	-0.005	-0.004	-0.003	-0.020
	(-0.29)	(-0.22)	(-0.16)	(-1.07)
Leverage	0.002	0.002	0.004	0.008
	(0.33)	(0.28)	(0.60)	(1.17)
Tobin Q	-0.005***	-0.004***	-0.005***	-0.006***
	(-4.91)	(-4.54)	(-4.83)	(-6.33)
Constant	0.25***	0.23***	0.28***	0.35***
	(8.74)	(8.07)	(9.60)	(12.53)
Industry FE	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	11098	11098	11098	11098
Adj. R-sq	0.019	0.020	0.020	0.040

Table 7: Economic Channel: Active Engagement

Table 7 shows the effect of site visits on dividend-related proposals, on participating members in shareholder meetings and the effect of site visits covering dividend-related discussions. Standard errors are clustered at the firm level and the corresponding t-values are reported in parentheses. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	Poisson Regression	OLS Regression	Logit Regression	Tobit Regression
	Proposal	Meeting_member	Dividend Dummy	Payout Ratio
Log(SiteVisit)	0.001*	0.023**	0.11***	0.011***
	(1.67)	(2.46)	(4.49)	(3.73)
Log(Dividend Visit)			2.08***	0.22***
			(8.06)	(4.56)
Log(TA)	-0.001	0.25***	0.47***	0.045***
	(-0.54)	(14.87)	(9.29)	(9.90)
Log(Age)	0.004	0.081***	-0.85***	-0.11***
	(1.34)	(3.46)	(-12.05)	(-15.67)
Cash	-0.003	0.033	-0.11	0.017*
	(-1.29)	(1.28)	(-1.13)	(1.66)
EBIT/TA	0.025	0.76***	10.40***	0.80***
	(1.21)	(3.86)	(11.45)	(12.40)
Leverage	0.049***	0.75***	-2.96***	-0.43***
	(5.57)	(8.31)	(-12.73)	(-15.12)
Tobin Q	-0.001	0.079***	-0.14***	-0.030***
	(-1.58)	(8.60)	(-7.01)	(-10.58)
Constant	0.010	-2.44***	-20.21***	-1.84***
	(0.33)	(-6.66)	(-12.09)	(-6.12)
Industry FE	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	8755	11629	8934	8934
Pseudo/adj. R-sq	0.0002	0.13	0.24	0.12

SOFT ACTIVISM AND CORPORATE DIVIDEND POLICY: EVIDENCE FROM INSTITUTIONAL INVESTORS SITE VISITS

APPENDIX

Table A1. Distribution of Site-Visits

This Appendix reports the distribution of site visits during the 2009-2016 period. We exclude firms in the financial industry, firms with B-shares. Panel A reports the distribution of site visits by calendar year and month. Panel B reports the distribution of site visits by industry.

Panel A: Site Visits by Calendar Year and Month

	Year							
Month	2009		2010		2011		2012	
	#	%	#	%	#	%	#	%
JAN	382	4.05	1139	7.45	1211	6.20	1261	2.15
FEB	824	8.74	461	3.02	1045	5.35	3583	6.12
MAR	1005	10.66	1709	11.18	1490	7.63	3096	5.29
APR	828	8.78	1162	7.60	1572	8.05	2752	4.70
MAY	888	9.42	1458	9.54	2374	12.16	5442	9.30
JUN	767	8.13	1153	7.55	1658	8.49	4035	6.89
JUL	739	7.84	1343	8.79	1334	6.83	3183	5.44
AUG	781	8.28	1301	8.51	2140	10.96	7902	13.50
SEPT	923	9.79	1309	8.57	1957	10.03	8086	13.82
OCT	557	5.91	899	5.88	854	4.38	4886	8.35
NOV	938	9.95	1863	12.19	2155	11.04	9916	16.94
DEC	797	8.45	1484	9.71	1730	8.86	4385	7.49
Total	9429	100	15281	100	19520	100	58527	100

	Year							
Month	2013		2014		2015		2016	
	#	%	#	%	#	%	#	%
JAN	2238	5.43	3242	5.81	4014	7.77	4858	7.27
FEB	1232	2.99	4396	7.88	1904	3.69	2218	3.32
MAR	3397	8.24	4801	8.61	5791	11.21	5193	7.77
APR	2773	6.72	4509	8.08	5320	10.30	5225	7.82
MAY	5108	12.38	6720	12.04	6149	11.90	7382	11.05
JUN	3158	7.66	4293	7.69	4679	9.06	4527	6.78
JUL	3007	7.29	3987	7.15	2985	5.78	5479	8.20
AUG	4504	10.92	5077	9.10	4326	8.37	8437	12.63
SEPT	3469	8.41	5097	9.14	3648	7.06	5674	8.49
OCT	3243	7.86	3847	6.90	2533	4.90	3351	5.02
NOV	5971	14.48	6342	11.37	6563	12.70	9534	14.27

DEC	3146	7.63	3481	6.24	3749	7.26	4921	7.37
Total	41246	100	55792	100	51661	100	66799	100

Panel B: Site Visits by Industry

Industry categories	Sample firms	
	#	%
A Agriculture, forestry, livestock farming, fishery	32	1.38
B Mining	39	1.68
C Manufacturing	1504	64.97
D Utilities	71	3.07
E Construction	54	2.33
F Wholesale and retail	92	3.97
G Transportation	39	1.68
H Hotel and Catering industry	6	0.26
I Information transmission, software, and IT service	213	9.20
K Real estate	92	3.97
L Leasing and commerce service	46	1.99
M Scientific research and technology service	21	0.91
N Water conservancy, environment, and public facilities	36	1.56
P Resident services, repairs and education	5	0.22
Q Health and social work	15	0.65
R Culture, sports, and entertainment	39	1.68
S Comprehensive	11	0.48
Total	2315	100

Table A2. Baseline Regressions with Share Repurchase as Dependent Variable

This table reports the regressions of site visits on share repurchase in the next year. Standard errors are clustered by firm and the corresponding t-values are reported in parentheses. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1)	(2)	(3)	(4)
	Linear Probability Regression			
	Repurchase Dummy			
SiteVisit Dummy	0.004**		0.006*	
	(2.02)		(1.85)	
Log(SiteVisit)		0.002**		0.003**
		(2.40)		(2.14)
Log(TA)	0.002***	0.002**	0.002	0.002
	(2.66)	(2.38)	(0.89)	(0.71)
Log(Age)	-0.002*	-0.002	0.011	0.010
	(-1.66)	(-1.44)	(1.56)	(1.39)
Cash	-0.002	-0.002	-0.005**	-0.005**
	(-1.61)	(-1.60)	(-2.21)	(-2.07)
EBIT/TA	0.009	0.008	-0.023**	-0.024**
	(1.02)	(0.88)	(-2.36)	(-2.49)
Leverage	-0.009**	-0.009**	0.004	0.005
	(-2.16)	(-2.07)	(0.68)	(0.72)
Tobin Q	0.000	0.000	-0.001	-0.001
	(0.20)	(0.00)	(-1.00)	(-1.06)
Constant	-0.031*	-0.027*	-0.065	-0.052
	(-1.87)	(-1.65)	(-1.09)	(-0.87)
Firm FE	No	No	Yes	Yes
Industry FE	Yes	Yes	No	No
Province FE	Yes	Yes	No	No
Year FE	Yes	Yes	Yes	Yes
N	11098	11098	11089	11089
Adj. R-sq	0.008	0.009	0.026	0.027

Table A3. Sub-sample Analysis by Firm Ownership

This table replicates baseline regression in sum-samples by firm ownership. We report marginal effects of *SiteVisit Dummy* and *Log(SiteVisit)*. Standard errors are clustered by firm and the corresponding t-values are reported in parentheses. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	SOE				Non-SOE			
	Logit Regression		Tobit Regression		Logit Regression		Tobit Regression	
	Dividend Dummy		Payout Ratio		Dividend Dummy		Payout Ratio	
SiteVisit	0.036**		0.013**		0.032***		0.012**	
Dummy	(1.97)		(2.40)		(2.73)		(2.28)	
Log(SiteVisit)		0.014**		0.005***		0.014***		0.003**
		(2.20)		(2.99)		(3.72)		(2.13)
Log(TA)	0.48***	0.47***	0.046***	0.045***	0.63***	0.62***	0.063***	0.062***
	(7.14)	(7.01)	(9.33)	(9.06)	(9.28)	(9.01)	(9.67)	(9.46)
Log(Age)	-0.86***	-0.85***	-0.087***	-0.086***	-0.98***	-0.96***	-0.14***	-0.14***
	(-6.74)	(-6.68)	(-8.42)	(-8.30)	(-12.76)	(-12.57)	(-16.72)	(-16.62)
Cash	-0.37**	-0.37**	-0.024*	-0.024*	0.050	0.052	0.032***	0.032***
	(-2.31)	(-2.34)	(-1.72)	(-1.77)	(0.62)	(0.64)	(3.75)	(3.77)
EBIT/TA	12.41***	12.37***	1.049***	1.043***	8.019***	7.94***	0.69***	0.69***
	(9.85)	(9.85)	(13.52)	(13.43)	(10.56)	(10.49)	(10.05)	(9.98)
Leverage	-2.96***	-2.96***	-0.42***	-0.42***	-2.74***	-2.71***	-0.40***	-0.40***
	(-10.66)	(-10.66)	(-13.34)	(-13.30)	(-11.47)	(-11.39)	(-12.67)	(-12.62)
Tobin Q	-0.12***	-0.12***	-0.026***	-0.026***	-0.11***	-0.11***	-0.028***	-0.028***
	(-2.61)	(-2.66)	(-5.48)	(-5.57)	(-5.26)	(-5.47)	(-9.07)	(-9.17)
Constant	-7.87***	-7.69***	-0.66***	-0.63***	-10.58***	-10.25***	-0.86***	-0.83***
	(-5.30)	(-5.16)	(-5.17)	(-4.94)	(-7.44)	(-7.20)	(-5.90)	(-5.72)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	5804	5804	5804	5804	7754	7754	7754	7754
Pseudo R-sq	0.24	0.24	0.14	0.14	0.25	0.25	0.14	0.14

Table A4. Sub-sample Analysis by Institutional Investors Ownership

This table investigates the effect of site visits on dividend payout by different types of visitors. Standard errors are clustered by firm and the corresponding t-values are reported in parentheses. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1) Logit Regression	(2) Tobit Regression	(3) Logit Regression	(4) Tobit Regression	(5) Logit Regression	(6) Tobit Regression
	Dividend Dummy	Payout Ratio	Dividend Dummy	Payout Ratio	Dividend Dummy	Payout Ratio
SOEIns*Log	0.11**	0.007				
(SiteVisit)	(2.19)	(0.87)				
Log(SellVisit)			0.19***	0.015***		
			(6.37)	(4.40)		
Log(NonSOESell					0.40***	0.020**
Visit)						
					(4.83)	(2.00)
SOEIns	0.18*	0.026*				
	(1.89)	(1.84)				
Log(SiteVisit)	-0.046	-0.002				
	(-1.12)	(-0.28)				
Log(TA)	0.52***	0.049***	0.51***	0.049***	0.52***	0.050***
	(11.02)	(13.20)	(10.99)	(13.20)	(11.12)	(13.31)
Log(Age)	-0.87***	-0.12***	-0.86***	-0.12***	-0.90***	-0.12***
	(-13.76)	(-20.12)	(-13.64)	(-20.22)	(-14.42)	(-21.30)
Cash	-0.074	0.019***	-0.078	0.019***	-0.079	0.018***
	(-1.05)	(2.71)	(-1.11)	(2.65)	(-1.11)	(2.63)
EBIT/TA	9.52***	0.84***	9.45***	0.84***	9.57***	0.86***
	(14.11)	(16.59)	(14.06)	(16.54)	(14.15)	(16.92)
Leverage	-2.81***	-0.41***	-2.80***	-0.41***	-2.82***	-0.41***
	(-15.37)	(-18.53)	(-15.32)	(-18.53)	(-15.44)	(-18.66)
Tobin Q	-0.13***	-0.029***	-0.13***	-0.029***	-0.13***	-0.029***
	(-7.04)	(-11.99)	(-7.12)	(-12.09)	(-6.95)	(-12.02)
Constant	-8.49***	-0.63***	-8.40***	-0.62***	-8.52***	-0.62***
	(-8.48)	(-7.07)	(-8.44)	(-7.01)	(-8.50)	(-7.01)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	13558	13558	13558	13558	13558	13558
Pseudo R-sq	0.24	0.13	0.24	0.13	0.24	0.13

Table A5. Effectiveness Test of Propensity Score Matching

This table compares firm characteristics between visited group and non-visited group before matching and after matching. All continuous variables are winsorized at the 1st and 99th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

Variable		Mean, Control Firms	Mean, Treatment Firms	Difference (Treatment-Control)
Payout Ratio (Current Year)	Pre-match	0.21	0.26	0.055***
	Post-match	0.21	0.24	0.033***
Log(TA)	Pre-match	22.14	21.71	-0.43***
	Post-match	22.14	21.84	-0.30***
Log(Age)	Pre-match	2.47	1.92	-0.55***
	Post-match	2.47	2.12	-0.35***
Cash	Pre-match	0.28	0.46	0.18***
	Post-match	0.28	0.37	0.095***
EBIT/TA	Pre-match	0.062	0.075	0.013***
	Post-match	0.062	0.074	0.012***
Leverage	Pre-match	0.22	0.17	-0.048***
	Post-match	0.22	0.20	-0.025***
Tobin Q	Pre-match	2.63	2.95	0.32***
	Post-match	2.63	2.79	0.16***

Table A6. IV Estimation with Distance of Site Visits

This table reports the instrumental variables regressions. *Distance* is our instrument. All regressions include year, industry and province fixed effects. Corresponding t-values are reported in parentheses. Variable definitions are provided in the Table 1. All continuous variables are winsorized at the 1st and 99th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1)	(2)	(3)	(4)	(5)
	OLS Regression	IV Probit Regression	IV Tobit Regression	IV Probit Regression	IV Tobit Regression
	Log(SiteVisit)	Dividend Dummy	Payout Ratio	Dividend Dummy	Payout Ratio
SiteVisit Dummy				2.67**	0.47*
				(2.39)	(1.71)
Log(SiteVisit)		0.18***	0.031*		
		(2.74)	(1.79)		
Distance	0.81***				
	(14.06)				
Log(TA)	0.31***	0.15***	0.009	0.17***	0.011
	(10.21)	(4.04)	(0.99)	(4.29)	(1.26)
Log(Age)	-0.24***	-0.35***	-0.058***	-0.36***	-0.058***
	(-5.80)	(-7.61)	(-5.01)	(-7.00)	(-4.84)
Cash	-0.14***	0.11**	0.052***	0.16**	0.060***
	(-3.52)	(2.10)	(4.65)	(2.49)	(4.42)
EBIT/TA	0.94***	6.24***	0.51***	6.65***	0.58***
	(2.95)	(15.33)	(5.46)	(15.11)	(5.97)
Leverage	-0.55***	-1.64***	-0.37***	-1.64***	-0.37***
	(-3.93)	(-10.45)	(-9.10)	(-9.28)	(-8.57)
Tobin Q	0.072***	-0.068***	-0.018***	-0.061***	-0.017***
	(5.39)	(-4.25)	(-4.65)	(-3.61)	(-4.32)
Constant	-9.48***	-2.42***	0.063	-4.62***	-0.32
	(-13.59)	(-3.29)	(0.35)	(-5.09)	(-1.48)
Industry FE	Yes	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Wald test of exogeneity (p-value)		0.024	0.18	0.0066	0.077
N	4484	4484	4484	4484	4484
Pseudo/adj. R-sq	0.29	0.29	0.29	0.17	0.17

Table A7: An Example of Site Visits Transcript

This table shows a detailed Q&A transcript of in-house meeting of site visits.

Security code: 000685 Corporate name: Zhongshan Pubic Utilities

The Record of Zhongshan Investors Relation Activities Code：2015-009

Type of Investors	■ In-house investor meeting ■Specific Research☐ Analyst meeting ☐ Media interview ☐ Performance announcement meeting ☐ Public news meeting ☐ Road show ■ Site visit
Relation Activities	☐ Other (conference call)

Meeting Participants	China Great Wall Asset Management Company, Huamei International Investment Group, Shenzhen Junhe Asset Management Co., LTD., Shenzhen Yiwei, Micro-Capital Management Co., LTD, ShenzhenJiyin Asset Management Co., LTD.
Time	October 12, 2015
Where	Corporate Conference Room on 6th floor
Management attended	Board General Manager Minghua Wang, Board Deputy General Manager Qing He, Assistant of Board Chairman/ Deputy General Manager Huanming Huang， Deputy general manager Xuetao Liu, Deputy General Manager/ Board Secretary: Hui Cao , Chief Financial Officer Huaqun Xu, Securities Transactions Representative Qili Liang, Board Office: Jianfeng Guo and Jin Shen
Content of the meeting	**Visiting company's exhibition hall** **Conversation with executives:** **Q1: The core business of your company is water-related environmental protection, but the focus of this project is the upgrade and transformation of a farmers' market. What are your thoughts on this?** Answer: Running a farmers' market is the starting point of our business, and we develop it steadily every year. Through the upgrading, predictable market operating revenue and profit will be improved significantly. At the same time, maintaining the good development of traditional business will support the core business of environmental protection. The two will complement each other. **Q2: What is the process of the Tianyi Resource Project and your future development plan?** Answer: In July 2015, the company successfully acquired 100% equity in Zhongshan Tianyi Energy Co., LTD. As the first project of the company is to enter the solid waste treatment industry, the relevant

work of the equity acquisition of Tianyi Energy project has been completed.

The next stage of work will focus on:

1. The solid waste treatment equipment will undergo a comprehensive upgrade, and the synchronization will also usher in a series of improvements in operation and management.

2. The second stage is to expand next year. After expansion, the solid waste processing capacity of our company will be largely increased. And we will also seek different project resources and gradually build a broader business development platform in the future.

Q3: What is the environmental protection platform built by Fuxing Group? What kind of changes will be brought to Zhongshan Public?

Answer: Zhongshan Public is the best and the most valuable company of the environmental protection investments by Fuxing Group, which is also the most important part of the layout of the environmental protection industry of Fuxing. Fuxing and Zhongshan Public Utilities are not only cooperating partners, but we also focus on enhancing the investment capacity of Zhongshan Public through the coordination and integration of resources and market opportunities, and sending the investment concept of Fuxing to Zhongshan to cultivate an excellent investment team.

The entrance of the Fuxing Group brings two changes to Zhongshan Public:

1. The corporate governance structure is marketized to achieve the reform of mixed ownership of state-owned enterprises.

2. More support for investment projects. Whether it comes to the project promotion or the related resources information offer, Fuxing Group lays emphasis on the coordination and integration of resources and market opportunities in order to enhance the investment capacity of Zhongshan Public Utilities. The reason why the number of this kind of project is relatively small is that our company is not always pursuing the scale effect and chooses projects very carefully.

Q4: Please brief us on the specific location and the progress of the project.

Answer: As far as the expansion of the environmental water protection project in concerned, on July 1st, 2015, the company purchased a 100% stake in Tianyi Power co., LTD for about 168 million yuan, which has the operation rights over the northern city of Zhongshan group waste incineration plant and the wastewater leakage treatment plant franchise authorized by the Zhongshan city housing authority. Specifically, the waste incineration power plant is currently designed to process 970 tons/day, with an installed capacity of 2*12MW turbo generators. And the leakage treatment plant is designed to process 450 tons/day. Tianyi Energy Co., LTD at Zhongshan is expected to be an important platform for the future development of the environmental protection industry represented by solid waste treatment.

In terms of the expansion of local water business, we will explore the establishment of a secondary water supply project (receiving and operation mode), and continue to carry out external projects and water quality inspection projects to continuously improve the profitability of the water service business.

Our company's outward investment is mainly in the form of acquisition, complemented by PPP and new projects. We focus on investment opportunities' growth potential rather than the current yield. We are going to achieve sustainable growth by increasing environmental water sector revenue and market share. Most merger and acquisition projects take a long time, so we hope investors can be patient and

	continue to pay attention to company announcements in the future. **Q5: Compared with Hanlan Environment, the profitability of water supply in Zhongshan is low, what is the reason for that?** Answer: Hanlan Environment and Zhongshan Public business have different operations. Specifically, Hanlan Environment focuses on "pump business sale" while Zhongshan Utilities needs to supply water to end users directly through the network pumps. The staffing and production operations in this process make the costs higher. In contrast, the costs of Hanlan Environment are less and thus the profitability is higher. **Q6: How do the company and Fuxing Group deal with the public dividend distribution of Zhongshan Public Utilities?** Answer: There are no agreed terms for dividend distribution between Fuxing and Zhongshan. According to the provisions of article 163, when it does not affect the company's continual operations, the company's annual dividend payout proportion should not be less than 30% of the distributable profit that year. And the company annual cash dividend ratio should not be less than 20% of the annual distributable profits. When the cash flow of the company's operating activities is negative for two consecutive years, it shall not pay a high proportion of dividends. The company's profit distribution should pay attention to a reasonable return on investment for investors, and balance the long-term and sustainable development of the company. The profit distribution policy should maintain the principle of continuity and stability, and follow the related provisions of laws and regulations. The profit distribution of the company shall not exceed the cumulative distribution of profits and shall not impair the company's ability to continue operating. In addition, the board of directors, the board of supervisors and the general meeting of shareholders should give full consideration to the opinions of the independent directors and minority shareholders in the decision-making and demonstration of the profit distribution policy. **Q7: What is the progress of the new third board listing of the passenger transportation business in China and Hong Kong?** Answer: It is in progress and investors can pay attention to our new announcements. **Q8: What is your purpose in establishing the Hong Kong branch?** Answer: We set up the Hong Kong branch mainly to use the advantages of Hong Kong as a financial center and business center in the Asia-Pacific region, and to build a platform to export utilities management services and look for overseas business cooperation opportunities. At the same time, as the financial center of the Asia-Pacific region, Hong Kong has lower financing costs. So, we can treat the subsidiary in Hong Kong as a platform to obtain overseas financing and low-cost capital to save the costs of financing for the company. **Q9: What was the net profit of Tianyi Energy Company last year? What is the condition of the**

	company's solid waste treatment capacity and future development? Answer: Tianyi Energy Company's net profit last year was low. The company's waste incineration power plant is currently designed to process 970 tons per day, but this capacity has not yet been achieved. The data provided by the government shows that the amount of garbage collected in the northern part of Zhongshan city is nearly 1900 tons/day. So, Tianyi Company has the opportunity to carry out Phase-Two expansion, and there exists much room for improvement in the capacity of solid waste disposal. Tianyi Company plans to complete the relevant technical renovation work by March 2016 . At that time, the efficiency of Tianyi Energy will be improved.
Date of record	October 13, 2015