Seeing is believing, but is it monitoring?

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Abstract

Prior studies conceptualize institutional monitoring by the terms “concentration of institutional investors” and “heterogeneity in institutional investors”. This paper focuses on the frequency of institutional investors’ corporate site visits (CSV) in relation to firms’ performance. In the context of acquisition, I hypothesize that bidding firms with more institutional investors’ CSV will have higher abnormal announcement-period return. However, the results indicate that more institutional investors’ CSV cannot predict better acquisition decisions, unless they meet firms’ CEO or high-level managements during site visits. The reason could be that internal communication in companies is not efficient due to the hierarchy of the organization. These findings survive a number of robustness tests, including tests after winsorizing data, alternative measures for corporate site visit, and alternative samples. Moreover, further analysis shows that institutional investor’ CSV and institutional ownership are complements of each other in terms of enhancing corporate governance.

Keywords: Institutional monitoring, Mergers, Site visits, Monitoring attention

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1. Introduction

Agency problems, or a conflict of interest between shareholders and managers, occur when managers act in their own self-interest (Jensen and Meckling, 1976). Shareholders can solve these agency problems by monitoring mechanisms. However, for individual investors, monitoring is not a cost-effective behavior (Berle and Means, 1932). Large shareholders play an important role in corporate governance, due to the economies of scale of monitoring actions, large investors are more likely to incur the cost of monitoring than retail investors (Shleifer and Vishny, 1986). In fact, monitoring costs less to an institution with a large holding, since the board and senior managers are more accessible for institutions than for individual investors (Carleton et al., 1998).

Prior studies conceptualize institutional monitoring in two ways. First, the "concentration of institutional investors" angle supports the positive relationship between total institutional ownership and the effectiveness of corporate monitoring (Hartzell and Starks, 2003; Bushee, 1998). Second, the "heterogeneity in institutional investors" perspective considers institution types, investment horizon, and their inclination for trading (e.g., Chen et al., 2007; Gaspar et al., 2005; Schmidt and Fahlenbrach, 2017). However, institutional investors hold hundreds of stocks simultaneously (Zeng, 2016). Therefore, institutional investors cannot equally allocate their monitoring attention to all stocks in their portfolios due to attention constraints (Kempf et al., 2016; Liu et al., 2017). Fich et al. (2015) and Ward et al. (2018) propose that there is a positive relation between the monitoring attention of institutional investors to a firm and the fraction of the institution's portfolio represented by the firm. These previous papers provide various indirect proxies to measure institutional monitoring attention, but the effect of institutional investors' direct monitoring behavior on the actions of firm managers remains largely unexplored.

Taking advantage of the recent regulation of the compulsory disclosure of site visits in China, this study fills this gap by exploring the impact of institutional investors' corporate site visits (CSV) on acquisition performance. China is chosen for three reasons: First, according to regulations of the Shenzhen Stock Exchange (SZSE), since 2009, all of the listed firms have to include their site visits information in their annual reports. This data is difficult to obtain in other

financial markets where CSV information doesn't need to be made poblic. Second, the listed firms in China are associated with serious agency problems (Wei, Xie, and Zhang, 2005; Jiang, Lee, and Yue, 2010). Site visits, as a way of institutional investor directly observing corporate operations, play an important role in reducing agency problems. Therefore, Chinese capital market is an ideal setting to test the effectiveness of institutional investors' monitoring attention on corporate governance. Third, China is the largest emerging market around the world and ranks second in the global economy. Empirical findings from China provide profound suggestions to other emerging economies that have large population and wide area of land (Fan et al., 2011).

Corporate site visits involve analysts and investors visiting a company's headquarter and interacting face-to-face with company personnel. Company personnel includes IR managers, board secretaries, or top executives (Cheng et al., 2016). During this process, institutional investors may better understand firms' strategies for future investment and managers' long-term intentions and plans (Switzer and Keushgerian, 2012). All institutions face a choice between monitoring and trading according to their cost-benefit considerations (Chen et al., 2007). Active monitors are more likely to interact with management to voice their demand. Corporate site visits require more resources (time, money) for institutional investors email, telephone communications or other interaction tools. When an institution investor chooses to visit a company's site, there are two implications: first, the company had caught the institution's attention; second, this institutional investor would like to have an active role in monitoring, which involves direct communication with corporate management or participation in the discussion of the future investment strategy. Therefore, the frequency of institutional investors' CSV can be a more direct and better measure of institutional investors' monitoring attention.

Mergers and acquisitions (M&A) can help indicate existing agency problems between owners and managers. Empirical evidences suggest that, for bidders, returns to their shareholders in M&A transactions are mostly negative or insignificant, since bidding firms usually abandon a considerable portion of benefits to gain the target's control. That way, bidder managers tend to undertake M&A transactions to selfishly gain private benefits (Jensen, 1986).

What happens when institutional investors undertake more CSV? One possibility is that there is no improvement in managerial action given that the board or the coverage of the analysts plays

a perfect role in monitoring managers. In this scenario, institutional investors who undertake a field trip to a company only gather more private information than those who do not. A second possibility could be that institutional investors' CSV can prevent managers from trading off shareholders' interests for their own private benefits, e.g. empire building. However, the results of this paper show a more complicated conclusion.

Empirical results of this paper suggest that institutional investors' CSV cannot improve merger performance of bidding firms, unless they meet firms' top managers in such activities. The reason of these findings could be that internal communication in companies is not efficient due to the hierarchy of the organization. This conclusion survives to a bunch of robustness tests, including tests after winsorizing data, alternative measures for corporate site visit, and alternative samples. Moreover, further analysis shows that the monitoring effect of institutional investor' CSV on corporate governance and the effect of institutional ownership are complements of each other.

This paper extends the corporate governance literature on the effect of institutional investors' monitoring on managerial actions. By using institutional investors' CSV as a direct measure of shareholders' monitoring attention, this paper provides an answer to the question of how to monitor firms' management more effectively with limited monitoring attention. The findings also demonstrate that institutional investor can help mitigate the agency problem. Existing papers explore this question by conceptualizing institutional monitoring based on institutional ownership (e.g., Hartzell and Starks, 2003; Bushee, 1998) or heterogeneity in institutional investors (e.g., Chen et al., 2007; Gaspar et al., 2005; Schmidt & Fahlenbrach, 2017). As both institutional ownership and heterogeneity in institutional investors are more indirect approaches, this paper measure institutional investors monitoring directly, specifically by the frequency of their corporate site visits.

This paper greatly contributes to the literature on the private interaction between institutional investors and managers. Existing literature mainly focuses on the role of private meetings in information dissemination and the benefits of such interaction to involved shareholders or analysts (Bushee et al., 2013; Green et al., 2014; Soltes, 2014; Solomon and Soltes, 2015; Bushee et al., 2016; Cheng et al., 2016; Kirk and Markov, 2016). Unlike above mentioned studies that emphasize the information advantage to the investors, this paper provides a

framework from which to understand effect of such private meetings on managers actions, namely, corporate M&A transactions. Related papers include an article written by Jiang and Yuan (2017), that explore impact of site visits on corporate innovation and the paper written by Gao et al. (2017), that examines the correlation between institutional investors' CSV and incentives of managers to withhold bad news.

A third contribution of this paper is to allow interested researchers and investors to acquire a better understanding of the Chinese capital market. As the largest emerging market, China is attracting more and more international investors. With deeper understanding of the relation between managers and shareholders in Chinese listed companies, those investors can create a better investment strategy and undertake more effective monitoring actions.

The remaining part of the paper is organized as follows: literature is reviewed, and hypothesis is formed in section 2; section 3 provides the data set and the methodology used in this empirical study; section 4 reports the empirical findings and conducts some robustness tests; section 5 provides some further analysis; finally, section 6 concludes the paper.

2. Literature review and hypothesis development

2.1. Literature on private interaction with analysts and shareholders

A growing body of literature examines the economic effect of private contact between insiders (managers) and outsiders (analysts and investors). Most recent research support that analysts can obtain private information during the direct communication with corporate management. Green at al. (2014) document that analysts who approach to managers at broker-hosted investor conferences provide more informative and correct earnings forecasts. Cheng et al. (2016) extend this analysis to corporate site visit. By conducting 18 interviews and surveying 365 analysts, Brown et al. (2015) contribute supplementary evidence to this stream of literature. They found that compared to analysts' own research, private communication with management plays more important role in analysts' earnings forecasts and stock recommendations. In contrast, Slotes (2014) does not find that private meetings help analysts make better forecasts and suggests that private communication between analysts and managers is a complementary channel for their communication.

On the other hand, Nascent research shows that shareholders obtain material information through private contacts with management. Mayew and Venkatachalam (2012) use vocal emotion analysis software to analyze managerial verbal cues during face time with investors and found that insightful investors obtain substantial non-public information. In M&A setting, Subasi (2014) shows that institutional investors increase their ownership in future targets that have showed up at investor conferences, consistent with investor conferences endowing institutional investors with an informational advantage. Bushee et al. (2018) use corporate jet flight patterns as a proxy for private meetings with investors. Consistent with the notion that private meetings provide substantial information to market participants, they found such "roadshow" activities result in greater abnormal stock return, greater analyst forecast activity and higher institutional ownership. Using all one-on-one meetings between senior management and investors for a NYSE firm, Solomon and Soltes (2015) confirm that such private meetings help investors in making better trading decisions. Kirk and Markov (2016) examine the determinants and consequences of analyst/investor days that allow for private interactions between shareholders and company executives, in doing so, they found evidence that institutional ownership and analyst coverage rise significantly after such interactions.

In sum, prior research examines the role of private contact between insiders and outsiders in information dissemination, but the potential effect of such interaction on managerial decisions making remains largely unexplored. Therefore, this paper tries to fill this gap by studying the effect of institutional investors' corporate site visits on M&A transactions.

2.2. Literature on institutional monitoring

A vast number of researchers investigate the characteristics of motivated institutional monitors and the circumstances under which institutional investors' monitoring can be effective. Hartzell and Starks (2003) found a significant positive relation between institutional ownership concentration and the pay-for-performance sensitivity of executive compensation, consistent with the notion that institutions play a monitoring role in corporate governance. Gaspar et al. (2005) consider the effect of institutional investment horizon on M&A events. They found that target firms with short-term investors have more bid offers, but takeover premiums are lower than average. Weaker monitoring allows managers to achieve personal goals at the cost of

shareholders' benefits. Consistent with Gaspar et al. (2005), Chen et al. (2007) provide evidence that independent long-term institutions' investors prefer monitoring rather than trading, and they are associated with more withdrawal of bad bids. In addition, Gaspar and Massa (2007) found that local ownership induces a higher quality of monitoring to firms. Similar evidence can be found in the study of Schmidt and Fahlenbrach (2017), which shows that the power of executives increases with passive ownership in their corporations. Exogenous increases in passive ownership are related to worse M&A deals and to negative announcement returns to the appointments of new independent directors. Furthermore, An and Zhang (2013) found that there is a negative correlation between the stake of dedicated institutional investors and stock price synchronicity or crash risk. Their findings suggest that institutional monitoring inhibits managers' cash flow from capturing firms' cash flow and alleviates managerial bad-news hoarding. However, institutional investors' monitoring attention is limited, and they cannot allocate the same attention on each firm they hold (Kempf et al., 2016). Fich et al. (2015) propose that institutional investors have a greater motivation to monitor target firms when they have allocated more fund into those firms than others. They found that these motivated institutions are related to better M&A transactions. In line with the result of Fich et al. (2015), Ward et al. (2019) have suggested that motivated monitoring by institutions make firms invest more efficiently.

In summary, aforementioned literature focuses on the concentration of institutional investors and the heterogeneity in institutional investors when they study the determinants and consequences of institutional monitoring. Also, most researchers who conduct studies in the context of M&A are focus on target firms. In contrast to these indirect measures, this paper studies the effect of institutions monitoring on bidder firms by using the frequency of institutional investors' CSV as a direct measure.

2.3. Hypothesis development

The rationale for using institutional investors' CSV as a proxy of their monitoring attention is based on the fact that CSV enable institutional investors to inspect the firms' operations and facilities, to have face-to-face interactions with key employers, and to grow a deeper understanding of the firms' culture. Institutional investors who undertake corporate site visits are

more familiarized with the firms' top executives and are able to gain soft information by analyzing managers' body languages and verbal cues. Moreover, such private meetings provide institutional investors information regarding managers' long-term investment plans (Wolper, 2009). Thus, corporate site visits put institutional investors in a better position to gain favorable information and to influence managers in making decisions that affect the benefits of shareholders.

The main prediction of this paper is that institutional investors' CSV should affect the managerial actions and thus improve the governance of firms. Hellwig (1998) proposes that managers take advantage of "incomplete contract" to protect themselves against undesirable intervention from outsiders. The result of conflict between insiders and outsiders relies on each other's relative informational advantages (Gaspar and Massa, 2005). Therefore, I expect that institutional investors' CSV are able to enhance corporate governance as it allows them to monitor the company in an efficient way. I choose M&A events in bidders as my study setting because, for bidders, M&A events can demonstrate agency problems. For example, managers of acquirers may abandon a great portion of shareholders' benefits to achieve personal purpose, such as empire building or job security (Amihud and Lev, 1981; Morck et al.,1990). Based on the above arguments, I have the following hypothesis:

H1: The bidding firms with more institutional investors' CSV will be associated with better mergers performance.

3. Sample, data and methodology

3.1. Sample and data

3.1.1 Data sources of institutional investors' CSV

As previously mentioned, the information of corporate site visits has become recently accessible in China. From August 2006, Shenzhen Stock Exchange (SZSE) Information Fair Disclosure Guidelines required that listed firms on the SZSE have to submit the applications of investors' site visits to China Securities Regulatory Committee (CSRC) two business days before on-site visits, and also have to report the details of the event to CSRC and SZSE after a visit finished. It was in 2009 that this information finally became available for the public. From 2009,

the SZSE required all its listed firms to public their site visits information in their annual reports. A typical record of site visits includes the numbers and the names of visitors, institutions and individuals separately, the event locations and dates, the positions of firms' participants, and the involved questions and answers during these events[1].

In this paper, the initial sample includes all Chinese listed firms on SZSE from 2013 to 2016[2].The sample starts in 2013 because institutional investors' CSV data from the China Stock Market & Accounting Research Database (CSMAR) is only available from the July 2012.[3] This data sporadically consist of non-site-visit cases, such as teleconferencing, email communications, webinars, and conferences that are not organized in the companies. I remove these events from my sample. Moreover, since my research focuses on site visits conducted by institutional investors, I exclude all site visits events that are undertaken by individuals, analysts and media institutions. Table 1 illustrates the sample distribution of site visits by institutional investors and individuals to listed firms on SZSE in the sample period. Panel A presents the total number of institutional investors and individuals conducting site visits to firms. The result shows that institutional investors are the main visitors, which is consistent with Shleifer and Vishny's (1986) finding that large investors are more likely to incur the cost of monitoring than retail investors. Panel B provides the number of participating institutional investors and individual investors by year. The results demonstrate that, for both institutional investors and individual investors, the number of visitors increases with the year. The number of visiting institutional investors in 2016 is almost the double in 2013, suggesting that site visits become an increasing popular form that connect investors and companies.

*** Insert Table 1 About Here ***

3.1.2 Data sources of M&A transactions

I begin with all M&A events with announcement dates between January 1, 2014 and December 31, 2017 in the CSMAR Mergers and Acquisitions Database. Due to incomplete CSMAR data, I supplement information on industry of target firms from Zero2IPO Database. Following Moeller et al. (2004), I select M&A transactions that meet the following criteria:

[1] More information about site visits can be found in Cheng et al. (2016) paper.

[2] The sample period is actually from 2013 to 2016 for the measure of institutional investors' corporate site visits and control variables, but from 2014 to 2017 for the measure of the frequency of M&A deals and the performance of those deals, which are one year ahead of corporate site visits.

[3] Untabulated results show that my findings remain if having the sample in 2012.

1. Bidding firm is Chinese firm listed in the Shenzhen Stock Exchange, and the deal is classified as assets acquisition, assets exchange, merger, and tender offer.
2. The acquirer is not in the financial industry.
3. The transaction is completed within 1000 days.
4. The transaction value is more than RMB 1 million4.

I further eliminate observations which have inconsistent information within these two databases, as well as incomplete data for the control variables. The final data includes 207 observations from 179 firms. All other data are collected from CSMAR.

3.2. Empirical models

To examine the association between the institutional investor's CSV and merger performance (H1), I test the regression as follows:

$$\mathrm{CAR}_{i,t+1} = \alpha + \beta_1 \mathrm{Ln}(\mathrm{CSV}+1)_{i,t} + \beta n * \text{control variable}_{i,t} + \varepsilon_{i,t} \quad (1)$$

where i and t index firm and year separately, and $\varepsilon_{i,t}$ is the error term. The regression coefficient β_1 is what I focus on, and it represents the relation between institutional investors' CSV and merger performance. Since the time of dependent variable is one year ahead of the test variable $\mathrm{Ln}(\mathrm{CSV}+1)_{i,t}$ and all control variables, the time period for merger performance is from 2014 to 2017. I expect the coefficient β_1 to be significantly positive, suggesting that the firm with more institutional investors' CSV has better merger performance.

3.3. Variables definition

3.3.1. Dependent variable: acquisition premium

A central variable of interest is the merger performance. In this paper, I conduct analysis using the CAR (-2,0), CAR (-1,0) and CAR (-1,1), which is defined as the sum of acquirer's abnormal announcement return within two or three days around the announcement, (-2,0), (-1,0) and (-1,1) separately, where day 0 is the date when a firm makes bid announcement. I calculate daily abnormal stock returns by using the market model and CSI 300 Index5, which is the index of top

[4] The transaction value is defined as the total value of cost by the bidding frim.
[5] The CSI 300 Index is a capitalization-weighted stock market index that can reflect market performance of the Shanghai

300 stocks that are traded in Shanghai Stock Exchange and Shenzhen Stock Exchange. The estimation period is days (-200, -60) prior to the merger announcement date. The detailed process of calculating CAR as follows. First, I use following regression to estimate each sample firm's alpha and beta:

$$\hat{R}_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \quad (2)$$

where $\hat{R}_{i,t}$ is the daily stock return for firm i in day t, and $R_{m,t}$ is the daily stock return for CSI 300 Index in the same day. $\varepsilon_{i,t}$ is the error term. α_i and β_i are the regression coefficients for firm i. The estimation window in this process is defined from 200 days to 60 days prior to the announcement. The abnormal return of the firm is defined as the difference between its real return $R_{i,t}$ and predictive return, as follows:

$$AR_{i,t} = R_{i,t} - (\hat{\alpha}_i + \hat{\beta}_i R_{m,t}) \quad (3)$$

where $\hat{\alpha}_i$ and $\hat{\beta}_i$ are estimated market model coefficients. And then I sum up abnormal returns of days around the announcement:

$$CAR_{i,t} = \sum_{t-1}^{t+1} AR_{i,t} \quad (4)$$

3.3.2. Test variable: the institutional investors' CSV

Using the same procedure as Cheng et al. (2016), I measure the concentration of monitoring by institutional investors based on the frequency of institutional investors' CSV in a given calendar year. For firms that do not have any information about site visits, the CSV is set to zero. In the regression, the frequency of institutional investors' CSV is calculated as the natural logarithm of one plus the number of institutional investors' CSV, *Ln (CSV+1).*

3.3.3. Control variables

Control variables that may potentially affect the merger announcement return are the same as those reported in previous studies (Moeller et al., 2004; Kempf et al., 2016). These control variables include: the size of the company (*log size*), logarithm of the market capitalization of the acquirer; Tobin's Q (*Q*), the ratio of the acquirer's market value to the book value of assets; *cash holdings*, the ratio of cash plus receivables to the total assets of last year; *cash flow*, the net cash

Stock Exchange and Shenzhen Stock Exchange.

flow from operating activities, scaled by lagged total assets; *relative size*, the ratio of the transaction value to the equity market capitalization of the acquirer; *B/M,* book value divided by market value; *leverage*, the book value of debt divided by market value of equity; *RoA*, the acquirer's net income divided by its assets; *IO*, total ownership of institutional investors on bidders' total share outstanding*; cash*, dummy variable takes the value of one if the transaction is 100% paid by cash and zero otherwise; *stock*, dummy variable takes the value of one if the transaction is 100% paid by equity and zero otherwise; *diversifying*, dummy variable takes the value of one if the acquirer operates in a different industry than the target firm and zero otherwise[6]; *state*, dummy variable takes the value of one if the acquirer is state-owned enterprise, zero otherwise[7].

3.3.4. Fixed effect

Consistent with the method of Bouwman et al. (2004), all regressions in this paper contain industry and year dummies to control for industry and year fixed effects, so these findings cannot be impacted by industry-level time-invariant overlooked factors, such as industry-wide government policy support, the state of business cycle, and other related factors.

4. Empirical result and discussion

4.1. Descriptive statistics

Table 2 shows the descriptive statistics for the variable between 1st January 2013 and 31th December 2016. The mean value of *Ln(CSV+1)* is 1.30, indicating that each sample firm receives 2.67 times institutional investors' CSV on average in a year. The standard deviation of *Ln(CSV+1)* is 0.92, suggesting that the time of institutional investors' CSV varies across firms.

*** Insert Table 2 About Here ***

[6] The criteria of industry classification are based on the "Guidelines for the Industry Classification of Listed Companies" issued by Chinese Securities Regulatory Commission in 2012. The industry classification document can be download on website: http://www.csrc.gov.cn/pub/csrc_en/laws/overrule/Announcement/201302/W020130225570141407159.doc.

[7] A large strand of prior literature has shown that state-owned enterprise acquirers have better short- and long-term performance than privately owned enterprise peers in M&A deals. (e.g. Zhou et al. 2012)

4.2. Does Ln(CSV+1) measure institutional investors' monitoring attention?

According to prior studies, these institutional investors could be the independent institutions with long-term investment (Chen et al., 2007), the istitutions who have large stake of the firm in their portfolios (Fich et al.,2015) or the local institutions (Gaspar and Massa, 2005). Above is the theoretical evidence demonstrating that institutional investors' CSV can be a proxy for their monitoring attention. Now, I provide empirical evidence to support this argument.

I start by analyzing two proxies for investors monitoring used in previous studies, namely institutional ownership and analyst coverage (e.g. Loh, 2010; Chung et al. 2002). My research question investigates whether there is more monitoring attention when *Ln(CSV+1)* is high, and which proxy would be consistent with site visits measuring monitoring attention.

The first proxy is institutional ownership. High institutional ownership indicates that the stocks have lower liquidity (Maug,1998) and thus they hold for a longer time. In such situation, institutional investors tend to exert effort to gather information, intervene managers' actions, and request them to make better investment decisions. McConnell and Servaes (1990) found that a larger percentage of institutional investors' ownership leads to a higher firm's value. Chung et al. (2002) used discretionary accounting accruals as the proxy for earnings management, and found that a higher percentage of institutional investors' ownership prevented managers from modifying reported profits, which is consistent with the notion of institutional monitoring. Thus, a large body of literatures uses the percentage of institutional ownership as the measure for institutional monitoring attention (e.g. Loh,2010; Fich et al., 2015). In this section, I use the total ownership of institutional investors on bidders' total share outstanding as the measure of institutional ownership. I collect this data from CSMAR database. The sample is from 2013 to 2016 consisitent to other variables time-period. I regress *Ln(CSV+1)* on the institutional ownership and other control variable. The results are shown in Table 3. The coefficient of *IO* is positive and significant at 5% level, suggesting that greater institutional ownership can predict higher frequency of institutional investors' CSV.

*** Insert Table 3 About Here ***

Using the same method as Loh (2010), I choose analyst coverage as my second proxy for institutional attention. Analyst reports are one of the most important sources for investors to access information of firms. Higher analyst coverage indicates more information of the firms in

the market, thus grabbing more institutional investors' attention. In this paper, I measure analyst coverage by the natural logarithm of the number of analysts covering a firm plus one (*Ln (analyst+1)*), and by the natural logarithm of the number of analyst reports covering a firm plus one (*Ln(report+1)*). I obtain these data from CSMAR database. The sample is from 2013 to 2016 as other variables. Column (1) of Table 4 shows the results that I regress *Ln (CSV+1)* on *Ln(analyst+1)* with other control variables. Column (2) of Table 4 shows the results that I regress *Ln (CSV+1)* on *Ln(report+1)* with other control variables. The results show that coefficients of these two test variables are both positive and significant at 1%, indicating that *Ln(CSV+1)* is higher when analyst coverage is high.

Consistent with the method provided by Kempf (2016), both tests control for additional variables that measure characteristics of the firm, including firm size, Tobin' Q, cash holding, cash flow, book-market value and leverage. The definition of these variables can be found in Appendix. All tests in this section include year and industry fixed effect.

In sum, the results on institutional ownership and analyst average present empirical evidence suggesting that institutional investors' CSV is an ideal proxy for their monitoring attention.

*** Insert Table 4 About Here ***

4.3. Main Results

4.3.1. Regression results on merger performance

In Table 5, I present the multivariate results focusing on the effect of institutional investors' CSV on firms' merger performance. In my hypothesis development, I anticipate that institutional investors' CSV could serve a monitoring role in corporate governance, so that firms with more institutional investors' CSV are associated with better merger performance. However, the results in Table 5 do not support my predictions. None of coefficients before *Ln(CSV+1)* are statistically significant, suggesting that institutional investors' CSV cannot predict firms' merger performance. These results are not consistent with Gaspar and Masssa's (2005) finding that monitoring induced by private informed investors enhances corporate government. To address this elusive problem, I assume that institutional investors' CSV are less effective in improving the quality of corporate governance when institutional investors do not meet with top executives, such as CEO or chairman of the Board, during site visits.

In the context of site visits, various managers and employees may be involved. In some site visits, top executives may show up, but in others, only investor relations (IR) managers or some employees may be engaged in. In the latter case, those personnel cannot serve a perfect intermedia role between investors and managers. According to the finding of Tariszka-Semegine, (2012), vertical organizational communication includes both downward and upward communication. In terms of downward communication, if top managers do not communicate directly with involving employees, these employees may have some misunderstandings with respect to managers' intention or future investment plans. Thus, investors cannot collect the most accurate information during site visits. In terms of upward communication, investors' expectations might be modified as they get reported upward. All of these situations weaken the effectiveness of communications between managers and investors. However, if institutional investors can directly interact with top managers and confirm companies' plans for future capital investment, these managers may execute better transactions and practices due to investors' oversight. Moreover, in Chinese culture, people put great weight upon Mianzi (face), that is, the affirmation of one's dedication and ability by others (Buckley et al., 2010). Such consideration may make firms' managers more prone to keep their promises and initiate better M&A transactions after they have face-to-face negotiations with institutional investors. To verify my conjectures above, I divide the main sample into two parts in next sections: site visits in which firms' top managers are involved and site visits in which firms' top managers are not involved.

*** Insert Table 5 About Here ***

4.3.2. Corporate site visits with and without firms' top managers

Table 6 show the results that I regress *CAR* on the corporate site visits in which firms' top managers are not involved, *LN(CSVN+1)*. Table 7 presents the results of site visits in which top managers are involved, *Ln(CSVT+1)*. In Table 6, none of coefficients before *Ln(CSVN+1)* is significant. These results indicate that institutional investors' CSV cannot serve a monitoring role if they do not meet firms' top managers during such costly activities. In Table 7, The cumulative abnormal returns for three event windows (-2/0, -1/0, and -1/1) are all positive, statistically significant at the 10% or 5% level, suggesting that higher frequency of such institutional investors' CSV is associated with higher abnormal returns. Specifically, a one-standard-deviation increase in the number of such institutional investors' site visits lead to 0.111

increase of a standard deviation in cumulative abnormal return for event windows (-1/1). These findings are consistent with the notion that personal contacts between managers and investors can improve the corporate performance and firm value. These findings also demonstrate that institutional investors can help mitigate the agency problem.

*** Insert Table 6 About Here ***

*** Insert Table 7 About Here ***

4.3.3. Endogeneity

In the baseline regression, only the coefficients of *Ln(CSVT+1)* are statistically significant. However, there could be a simultaneity problem. That is, I have demonstrated that there is a significantly positive relation between institutional investors' CSV involving top managers of a firm and its merger performance. Theoretically, such meeting should enhance the corporate governance. However, we cannot rule out the possibility that firms with better performance attracts more investors to meet with managers. To find out if there is the endogeneity problem, I use the number of companies where a firm's CEO has concurrent positions, *Ln(NCC+1)*, as my instrumental variable for *Ln(CSVT+1)* to perform Hausman test and the Durbin-Wu-Hausman test (Wooldridge, 2012). Usually, the more companies a firm's CEO manages, the more he cares about relationships with institutional investors. Thus, investors may have a greater chance of meeting the CEO during site visits. Moreover, there is no evidence suggesting that the number of companies where a firm's CEO has concurrent positions could affect the firm's merger performance.

Table 8 shows the results of Weak Instrument test. The coefficient before *Ln(NCC+1)* is statistically significant at 1%, suggesting that *Ln(NCC+1)* is not a weak instrumental variable.

*** Insert Table 8 About Here ***

Here are the reports of endogeneity tests. First, Hausman test that compares Instrumental Variable (IV) estimator $\hat{\beta}^{2sls}$ and OLS estimator $\hat{\beta}^{\mathrm{OLS}}$ reports χ^2- value 0.03 (Prob > chi2 =1.000), suggesting that both $\hat{\beta}^{2sls}$ and $\hat{\beta}^{OLS}$ are consistent and $\hat{\beta}^{OLS}$ is more efficient. Second, using the method mentioned by Wooldridge (2012), I estimate the reduced form for *Ln(CSVT+1)* by running following regression and obtain the residuals, υ.

$$Ln(CSVT+1) = \alpha + \beta_1 \mathrm{Ln}(\mathrm{NCC}+1)_{i,t} + \beta_n * \text{ control variable}_{i,t} + \upsilon_{i,t} \quad (5)$$

then, I add the residuals, υ, to the original regression.

$$\mathrm{CAR}(-1,1)_{i,t+1} = \alpha + \beta_1 \mathrm{Ln}(\mathrm{CSVT}+1)_{i,t} + \beta_2 v_{i,t} + \beta_n * \text{ control variable}_{i,t} + \varepsilon_{i,t} \quad (6)$$

Consistent with the finding of Hausman test, the results show that the estimated parameter of the predicted residuals, β_2, is not significant (P> |t|=0.861), consistent with the finding of Hausman test. In sum, *Ln(CSVT+1)* is not an endogenous variable.

4.4. Robustness tests

In this section, I perform some robustness tests, including tests after winsorizing data, alternative measures for corporate site visit, and alternative samples. The dependent variable of regressions in this section is *CAR (-1,1).*

4.4.1. Test after winsorizing data

To mitigate the potential influence caused by outliers, I winsorize all continuous variables at 1% level at the both tails. Table 9 reports the regression result after winsorizing data. The coefficient of *Ln(CSV+1)* and *Ln(CSVN+1)* is not significant and the coefficient before *LN(CSVT+1)* is still significant at 10% level. These results reinforce my interpretations in the baseline model that only directly interactions with firms' top managers in site visits improve the corporate governance.

*** Insert Table 9 About Here ***

4.4.2. Alternative measures for corporate site visit

In my baseline regression, I measure the concentration of monitoring by institutional investors based on the frequency of institutional investors' CSV to a firm in a given calendar year. However, these results can be affected by some extreme cases. The number of participating institutions varies across site visits and firms. Some site visits contain dozens of institutions, while others maybe contain only one institution. The monitoring effect on managerial actions are obviously different between these two cases. To address these bias, I substitute *Ln(CSV+1)*, *Ln(CSVN+1)* and *Ln(CSVT+1)* in my main regression with the natural logarithm of one plus the number of institutional investors visiting a firm in a given calendar year, *Ln(CSV2+1)*, *Ln(CSVN2+1)* and *Ln(CSVT2+1)*. *Ln(CSV2+1)* is the number of institutional investors

conducting site visits to a firm in a given calendar year. *LN(CSVN2+1)* is the number of institutional investors conducting site visits without firms' top managers in a given calendar year. *LN(CSVT2+1)* is the number of institutional investors conducting site visits, that involve firms' top managers, in a given calendar year. The results are reported in Table 10. Column (1), column (2) and column (3) in Table 10 shows the regression results on *LN(CSV2+1), Ln(CSVN2+1)* and *Ln(CSVT2+1),* separately. The coefficient of these three test variables suggest that the findings of baseline model is not driven by the measure for the intensity of institutional investors' monitoring.

*** Insert Table 10 About Here ***

4.4.3. Alternative samples

In China, many institutional investors and listed firms prefer to set up headquarters in mega cities, such as Beijing, Shanghai and Shenzhen, because such cites provide a diverse clientele base and a completed infrastructure Gao et al. (2017). Firms located in these cities may receive more institutional investors' CSV. Thus, the location of firms may affect my results on the baseline regression. Using the same method as Gao et al. (2017), I exclude sample firms which is located in Beijing, Shanghai and Shenzhen and retest my regression models. The results are shown in Table 11. The coefficient of *Ln(CSV+1)* and *Ln(CSVN+1)* are not significant without exception, and the coefficient before *Ln(SCVT+1)* is still significantly positive with greater value. In sum, the results suggest that my main findings in the baseline model are not affected by geographic factors.

*** Insert Table 11 About Here ***

5. Further analysis

5.1. Institutional investors' CSV and institutional ownership: substitutes VS complements

In the previous section, I demonstrate that both institutional investors' CSV and institutional ownership can be a proxy for their monitoring intensity. Duggal and Millar (1999) provide the evidence suggesting that there is positive relation between bidders return and institutional ownership. My findings above show that institutional investors' CSV improve the merger

performance after I control for institutional ownership. Thus, one interesting question is whether these two monitoring effects are substitutes or complements of each other. One possibility is that corporate site visits by institutional investors can increase the bidding firms' abnormal returns even when there is a high institutional ownership in the firms. Another circumstance could be that institutional investors' CSV cannot improve corporate governance and induce better acquisitions, as the monitoring caused by high institutional ownership urge management to make best investment decisions. To explore this issue, I separate the main sample into two subsamples along the median value of institutional ownership: high institutional ownership and low institutional ownership. Then, I create a dummy variable *IO dummy* and an interaction term *Ln(CSV+1)* * *IO dummy*. *IO dummy* takes the value of one if the institutional ownership of sample firms is greater than the median value of whole sample and zero otherwise. The specification of the regression model is as follows.

$$\text{CAR}\,(-1,1)_{i,t+1} = \alpha + \beta_1 \text{Ln}(\text{CSV}+1)_{i,t} + \beta_2 [Ln(CSV+1) * IOdummy]_{i,t} + \beta_n * \text{control variable}_{i,t} + \varepsilon_{i,t} \quad (7)$$

The regression results are shown in Table 12. The coefficient of the interaction term (*Ln(CSVT+1)* * *IO dummy*) in column (3) is not significant, suggesting that institutional investors' CSV can enhance corporate governance even in the firms with higher institutional ownership. These findings support that there is a complementary relation between institutional investors' CSV and institutional ownership.

*** Insert Table 12 About Here ***

5.2. State-owned enterprises (SOEs) VS Privately owned enterprises (POEs)

In China, SOEs are usually thought to have worse corporate control than POEs, but SOEs acquirers have better short- and long-term performance than POEs peers in M&A deals (e.g. Zhou et al. 2012). It is interesting to test that whether institutional investors' CSV have more or less impact on SOEs in terms of merger performance. Using the same method as last section, I create an interaction term *Ln(CSV+1)* * *State dummy*. The specification of the regression model is as follows.

$$\text{CAR3}\ (-1,1)_{i,t+1} = \alpha + \beta_1 \text{Ln}(\text{CSV}+1)_{i,t} + \beta_2 [Ln(CSV+1) * State\ dummy]_{i,t} + \beta_n * \text{control variable}_{i,t} + \varepsilon_{i,t} \quad (8)$$

The regression results are shown in Table 13. The coefficient of the interaction term (*Ln(CSVT+1) * State dummy*) in column (3) is not significant, suggesting that the effect of site visit is not different between SOEs and POEs.

*** Insert Table 13 About Here ***

6. Discussion and conclusion

Prior studies use various proxies to measure institutional monitoring, such as institutional ownership (McConnell and Servaes,1990), investment horizon (Gaspar et al., 2005), and local institutional investors (Gaspar and Massa,2005). Indeed, these indexes capture the characteristics of motivated institutional investors who are more likely to intervene against behavior of managers and improve the performance of the company. However, motivated institutional investors and effective monitors are not the same.

This paper uses institutional investors' corporate site visits as a measure of their monitoring attention to answer two practical questions. The first one is if institutional investors' monitoring attention is effective in improving corporate performance as they thought; the second one is how institutional investors can use their limited attention more effectively.

I examine the effect of institutional investors' corporate site visits on bidding firms' merger performance. The main regression results show that only the site visits where institutional investors can meet firms' top managers induce higher abnormal announcement-period return. The site visits in which firms' top officers are not involved cannot predict higher announcement returns. The reason could be that the hierarchy of the organization weakens the effect of investors' monitoring on corporate governance. Further analysis shows that the monitoring effects of institutional investors' CSV on corporate governance complement, rather than substitute for, that of institutional ownership.

The findings of this paper also provide practical suggestions to investors who are interested in Chinese capital market. For institutional investors, directly communicating with firm management is the most effective way to gather accurate information and influence firms'

managers in issues relating to shareholders' benefits. For retail investors, who cannot bear the high cost of monitoring, choosing the firms with higher institutional ownership can be their favorable choices.

This paper contributes to the literature by providing a new proxy for institutional investors' monitoring attention and demonstrating that directly meeting with top' managers is the best way to improve corporate governance. Due to the abundance of the data, future research could be done. For example, this paper only focuses on the impact of institutional investors' CSV on the bidders. It would be interesting to test the effect of such activities on target firms. Do the corporate site visits to target firms improve firms' premiums and lower the probability of a bid? The present study also paves the way for future research investigating the impact of investors' site visits on other corporate events where institutional monitoring plays an important role, such as the CEO turnover, CEO compensation, self-tender offer and dividend paid. Future research could shed a light on effect of site visits on information dissemination and corporate government.

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Appendix

Variable definitions

Variable	Definition	Source
CAR	Cumulative abnormal announcement returns of the bidding firms are calculated using the market model and CSI 300 Index[8], which is the index of top 300 stocks that are traded in Shanghai Stock Exchange and Shenzhen Stock Exchange. The estimation period is days (-200, -60) prior to the merger announcement date and event window is (-2,0), (-1,0) and (-1, 1) day.	CSMAR: China Listed Firms' Stock Trading Research Database CSMAR: Merger & Acquisition, Asset Restructuring Database
Ln(CSV+1)	Natural logarithm of one plus the frequency of institutional investors' corporate site visits.	CSMAR: China Listed Firms' Investor Relations Research Database
Log size	Logarithm of the market capitalization of the acquirer at the end of year.	CSMAR: China Stock Market Financial Statements Database
Q	The ratio of the acquirer's market value to the book value of assets.	CSMAR: China Stock Market Financial Statements Database
Cash holdings	The ratio of cash plus receivables to the total assets of last year.	CSMAR: China Stock Market Financial Statements Database
Cash flow	The net cash flow from operating activities, scaled by lagged total assets.	CSMAR: China Stock Market Financial Statements Database
Relative size	The ratio of the transaction value to the equity market capitalization of the acquirer.	CSMAR: Merger & Acquisition, Asset Restructuring Database

[8] The CSI 300 Index is a capitalization-weighted stock market index that can reflect market performance of the Shanghai Stock Exchange and Shenzhen Stock Exchange.

B/M	Book value divided by market value.	CSMAR: China Stock Market Financial Statements Database
Leverage	The book value of debt divided by market value of equity.	CSMAR: China Stock Market Financial Statements Database
RoA	The acquirer's net income divided by its assets.	CSMAR: China Stock Market Financial Statements Database
IO	Total ownership of institutional investors on bidders' total	CSMAR: The Institutional Investor Database
Cash	Dummy variable takes the value of one if the transaction is 100% paid by cash and zero otherwise.	CSMAR: Merger & Acquisition, Asset Restructuring Database
Stock	Dummy variable takes the value of one if the transaction is 100% paid by equity and zero otherwise.	CSMAR: Merger & Acquisition, Asset Restructuring Database
Diversifying	Dummy variable takes the value of one if the acquirer operates in a different industry than the target firm and zero otherwise.[9]	Zero2IPO Database
State	Dummy variable takes the value of one if the acquirer is state-owned enterprise, zero otherwise[10].	CSMAR: China Listed Firm's Bank Loan Research Database

[9] The criteria of industry classification are based on the "Guidelines for the Industry Classification of Listed Companies" issued by Chinese Securities Regulatory Commission in 2012. The industry classification document can be download on website: http://www.csrc.gov.cn/pub/csrc_en/laws/overrule/Announcement/201302/W020130225570141407159.doc.

[10] A large strand of prior literature has shown that state-owned enterprise acquirers have better short- and long-term performance than privately owned enterprise peers in M&A deals. (e.g. Zhou et al. 2012)

Table 1: Sample distribution

This table shows the total number of institutional investors and individuals undertaking corporate site visits in the sample period in Panel A, and the total number of institutional investors and individuals undertaking corporate site visits per year in Panel B.

Panel A: the total number of institutional investors and individuals.

Visitor type	Number	% of total visit
Institutional investors	31341	98.63
Individual investors	434	1.37
Total	31775	100

Panel B: Sample distribution from 2013 to 2016.

Year	Institutional investors	Individual investors
2013	5476	61
2014	7932	117
2015	8053	106
2016	9880	150
Total	31341	434

Table 2: Descriptive statistics

This table shows descriptive statistics for the variable in my main regression. The sample period is from 2013 to 2016 for all the variables except merger announcement return (*CAR*), which is one year ahead of other variables. All variables are defined in Appendix.

Main sample (179 firms)

	N	Mean	Std. Dev.	Min	0.25	Median	0.75	Max
Dependent variables								
CAR (-2,0)	207	0.0026	0.0526	-0.1372	-0.0240	-0.0007	0.0207	0.2959
CAR (-1,0)	207	-0.0001	0.0412	-0.1359	-0.0220	-0.0017	0.0146	0.1968
CAR (-1,1)	207	0.0009	0.0562	-0.1698	-0.0277	0.0004	0.0196	0.2983
Test independent variable								
Ln(CSV+1)	207	1.2985	0.9208	0.0000	0.6931	1.0986	1.9459	3.4340
Control variables								
Log size	207	9.3673	0.3545	8.5300	9.0984	9.3404	9.5918	11.1000
Q	207	4.2167	2.7994	0.4100	2.2090	3.6550	5.3940	22.5620
Cashholdings	207	0.2656	0.1851	0.0000	0.1334	0.2194	0.3597	1.2241
Cash flow	207	0.0688	0.0925	-0.2034	0.0208	0.0677	0.1141	0.4389
Relativesize	207	0.0223	0.0377	0.0001	0.0028	0.0090	0.0274	0.3837
B/M	207	0.2943	0.2128	0.0826	0.1771	0.2455	0.3448	1.8060
Leverage	207	0.2910	0.1813	0.0014	0.1451	0.2638	0.4187	0.8456
RoA	207	0.0228	0.0361	-0.0167	0.0033	0.0165	0.0369	0.2521
IO	207	5.6079	3.8989	0.1800	2.1900	4.8319	8.4400	16.9400
Cash	207	0.9855	0.1198	0.0000	1.0000	1.0000	1.0000	1.0000[11]
Stock	207	0.0048	0.0695	0.0000	0.0000	0.0000	0.0000	1.0000

[11] In China, most of the M&A transactions are only paid by cash, and more details can be found in the Chi et al, (2010) paper.

Diversifying	207	0.4638	0.4999	0.0000	0.0000	0.0000	1.0000	1.0000
State	207	0.1063	0.3089	0.0000	0.0000	0.0000	0.0000	1.0000

Table 3: Institutional investors' CSV and institutional ownership

This table presents results from model which regresses institutional investors' CSV on institutional ownership (*IO*). The dependent variable is *Ln(CSV+1),* which is the natural logarithm of the number of institutional investors' site visits plus one. Test variable is the total ownership of institutional investors on bidders' total share outstanding. All control variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	Ln(CSV+1)
IO	0.0375**
	(0.040)
Log size	0.8863***
	(0.000)
Q	0.0188
	(0.551)
Cash holdings	-0.2393
	(0.521)
Cash flow	0.2254
	(0.767)
B/M	0.2159
	(0.501)
Leverage	-0.2410
	(0.577)
RoA	4.6801**
	(0.010)
Industry dummies	Yes
Year dummies	Yes
Observations	207
R^2 within	0.1625

Table 4: Institutional investors' CSV and analyst coverage

This table presents results from model which regresses institutional investors' CSV on analyst coverage. The dependent variable is *Ln (CSV+1),* which is the natural logarithm of the number of institutional investors' site visits plus one. The test variable in column (1) is *Ln (analyst+1)*, which is the natural logarithm of the number of analysts covering a firm plus one. The test variable in column (2) is *Ln (report+1)*, which is the natural logarithm of the number of analyst reports covering a firm plus one. All control variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	(1)	(2)
Ln (analyst +1)	0.3344***	
	(0.000)	
Ln(report+1)		0.2517***
		(0.000)
Log size	0.6709***	0.6880***
	(0.004)	(0.003)
Q	0.0154	0.0158
	(0.662)	(0.656)
Cash holdings	-0.2711	-0.2626
	(0.419)	(0.435)
Cash flow	-0.0692	-0.0941
	(0.917)	(0.888)
B/M	0.1491	0.1416
	(0.601)	(0.633)
Leverage	-0.2911	-0.3310
	(0.466)	(0.411)
RoA	3.0534*	2.0201*
	(0.083)	(0.069)
Industry dummies	Yes	Yes

Year dummies	Yes	Yes
Observations	207	207
R^2 within	0.2321	0.2297

Table 5: Institutional investors' CSV and merger performance

This table presents results from model which regresses the merger performance on institutional investors' CSV. The dependent variable is cumulative abnormal announcement returns (*CAR*), which are calculated using market model estimated over trading days (-200, -60). Test variable is *Ln(CSV+1),* which is the natural logarithm of the number of institutional investors' site visits plus one. All control variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	CAR (-2,0)	*CAR (-1,0)*	*CAR (-1,1)*
Ln(CSV+1)	-0.0008	-0.0003	-0.0031
	(0.833)	(0.934)	(0.523)
Log size	0.0105	0.0140	0.0331*
	(0.526)	(0.289)	(0.064)
Q	0.0011	0.0015	0.0026
	(0.531)	(0.314)	(0.219)
Cash holdings	-0.0119	0.0019	-0.0050
	(0.606)	(0.915)	(0.826)
Cash flow	-0.0383	-0.0049	0.0188
	(0.301)	(0.868)	(0.668)
Relative size	0.3859	0.2649	0.4347
	(0.125)	(0.167)	(0.154)
B/M	0.0054	-0.0163	-0.0278
	(0.755)	(0.270)	(0.120)
Leverage	0.0243	0.0139	0.0250
	(0.287)	(0.430)	(0.324)
RoA	-0.0797	-0.1615*	-0.3185***
	(0.502)	(0.078)	(0.005)
IO	0.0002	0.0001	-0.0007
	(0.816)	(0.839)	(0.458)

Cash dummy	0.0004	-0.0256	0.0032
	(0.989)	(0.271)	(0.951)
Stock dummy	-0.0841	-0.0663	-0.0025
	(0.352)	(0.364)	(0.984)
Diversifying dummy	0.0097	0.0052	-0.0062
	(0.242)	(0.414)	(0.457)
State dummy	0.0317*	0.0323**	0.0240
	(0.072)	(0.014)	(0.137)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Observations	207	207	207
R^2 within	0.1151	0.1390	0.1725

Table 6: Corporate site visits without firms' top managers

This table presents results from model which regresses the merger performance on institutional investors' CSV without firms' top officers. The dependent variable is cumulative abnormal announcement returns (*CAR*), which are calculated using market model estimated over trading days (-200, -60). Test variable is *Ln(CSVN+1),* which is the natural logarithm of the number of institutional investors' site visits that do not involve firms' top managers plus one. All control variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	CAR (-2,0)	*CAR (-1,0)*	*CAR (-1,1)*
Ln(CSVN+1)	-0.0037	-0.0030	-0.0077
	(0.391)	(0.349)	(0.119)
Log size	0.0127	0.0162	0.0366**
	(0.439)	(0.210)	(0.041)
Q	0.0012	0.0016	0.0028
	(0.497)	(0.287)	(0.190)
Cash holdings	-0.0123	0.0014	-0.0056
	(0.594)	(0.937)	(0.806)
Cash flow	-0.0383	-0.0048	0.0184
	(0.299)	(0.871)	(0.675)
Relative size	0.3801	0.2583	0.4280
	(0.124)	(0.169)	(0.148)
B/M	0.0064	-0.0153	-0.0261
	(0.707)	(0.293)	(0.135)
Leverage	0.0224	0.0123	0.0213
	(0.331)	(0.487)	(0.398)
RoA	-0.0716	-0.1530*	-0.3078***
	(0.546)	(0.093)	(0.006)
IO	0.0003	0.0002	-0.0006
	(0.742)	(0.744)	(0.542)

Cash dummy	0.0023	-0.0237	0.0061
	(0.929)	(0.298)	(0.903)
Stock dummy	-0.0817	-0.0636	0.0001
	(0.357)	(0.371)	(0.999)
Diversifying dummy	0.0096	0.0052	-0.0067
	(0.244)	(0.412)	(0.419)
State dummy	0.0321*	0.0325**	0.0250
	(0.068)	(0.012)	(0.110)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Observations	207	207	207
R^2 within	0.1185	0.1431	0.1845

Table 7: Corporate site visits with firms' top managers

This table presents results from model which regresses the merger performance on institutional investors' CSV with firms' top managers. The dependent variable is cumulative abnormal announcement returns (*CAR*), which are calculated using market model estimated over trading days (-200, -60). Test variable is *Ln(CSVT+1)*, which is the natural logarithm of the number of institutional investors' site visits that involve firms' top managers plus one. All control variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	CAR (-2,0)	*CAR (-1,0)*	*CAR (-1,1)*
Ln(CSVT+1)	0.0091*	0.0065*	0.0093**
	(0.099)	(0.084)	(0.045)
Log size	0.0067	0.0116	0.0272*
	(0.675)	(0.350)	(0.093)
Q	0.0013	0.0017	0.0028
	(0.454)	(0.269)	(0.197)
Cash holdings	-0.0095	0.0035	-0.0020
	(0.678)	(0.847)	(0.930)
Cash flow	-0.0403	-0.0062	0.0161
	(0.274)	(0.831)	(0.706)
Relative size	0.4217*	0.2890	0.4807
	(0.092)	(0.131)	(0.119)
B/M	0.0051	-0.0164	-0.0290
	(0.764)	(0.267)	(0.109)
Leverage	0.0215	0.0119	0.0225
	(0.346)	(0.495)	(0.377)
RoA	-0.1040	-0.1772*	-0.3538***
	(0.361)	(0.051)	(0.002)
IO	0.0003	0.0004	-0.0001
	(0.964)	(0.952)	(0.281)

Cash dummy	-0.0022	-0.0272	-0.0013
	(0.935)	(0.244)	(0.980)
Stock dummy	-0.0938	-0.0726	-0.0163
	(0.294)	(0.315)	(0.898)
Diversifying dummy	0.0080	0.0041	-0.0082
	(0.323)	(0.514)	(0.321)
State dummy	0.0347*	0.0343**	0.0273*
	(0.050)	(0.010)	(0.097)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Observations	207	207	207
R^2 within	0.1291	0.1508	0.1834

Table 8: Weak Instrument tests

This table presents results from model which regresses *Ln(CSVT+1)* on *Ln(NCC+1)* and other exogenous variables. Dependent variable is *Ln(CSVT+1),* which is the number of institutional investors' site visits, that involve firms' top managers, to a firm in a given calendar year. Instrumental variable is *Ln(NCC+1),* which is the natural logarithm of the number of companies where a firm's CEO has concurrent positions. All control variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	Ln(CSVT+1)
Ln(NCC+1)	0.1585***
	(0.004)
Log size	0.2702
	(0.208)
Q	-0.0209
	(0.420)
Cash holdings	-0.2211
	(0.469)
Cash flow	0.2134
	(0.733)
Relative size	-2.628
	(0.185)
B/M	-0.0977
	(0.747)
Leverage	0.2651
	(0.411)
RoA	1.6776
	(0.288)
IO	0.0149
	(0.274)

Cash dummy	0.1802
	(0.750)
Stock dummy	0.5102
	(0.642)
Diversifying dummy	0.1772*
	(0.097)
State dummy	-0.2423
	(0.239)
Industry dummies	Yes
Year dummies	Yes
Observations	207
R^2 within	0.1432

Table 9: Robustness tests: Using winsorizing data

This table presents results from model which regresses the merger performance on site visits using winsorizing data. The dependent variable is three-day cumulative abnormal announcement returns, *CAR (-1,1),* which are calculated using market model estimated over trading days (-200, -60). Test variable in Column (1) is *Ln(CSV+1),* which is the number of institutional investors' site visits to a firm in a given calendar year. Test variable in Column (2) is *LN(CSVN+1)*, which is the number of institutional investors' site visits, that do not involve firms' top managers, to a firm in a given calendar year. Test variable in Column (3) is *LN(CSVT+1)*, which is the number of institutional investors' site visits, that involve firms' top managers, to a firm in a given calendar year. All control variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	(1)	(2)	(3)
Ln(CSV+1)	-0.0025		
	(0.587)		
Ln(CSVN+1)		-0.0067	
		(0.143)	
Ln(CSVT+1)			0.0085*
			(0.072)
Log size	0.0330*	0.0360**	0.0277*
	(0.056)	(0.039)	(0.088)
Q	0.0032	0.0033	0.0035
	(0.189)	(0.180)	(0.160)
Cash holdings	-0.0066	0.0075	-0.0033
	(0.763)	(0.731)	(0.877)
Cash flow	0.0160	0.0167	0.0130
	(0.708)	(0.696)	(0.755)

Relative size	0.1788	0.1749	0.2203
	(0.429)	(0.424)	(0.335)
B/M	-0.0131	-0.0117	-0.0131
	(0.403)	(0.441)	(0.401)
Leverage	0.0373	0.0341	0.0354
	(0.109)	(0.137)	(0.128)
RoA	-0.3431**	-0.3366**	-0.3866***
	(0.017)	(0.018)	(0.009)
IO	-0.0009	-0.0008	-0.0011
	(0.337)	(0.398)	(0.205)
Cash dummy	-0.0026	-0.0003	-0.0057
	(0.954)	(0.995)	(0.901)
Stock dummy	-0.1339**	-0.1341**	-0.1325**
	(0.021)	(0.018)	(0.023)
Diversifying dummy	-0.0058	-0.0062	-0.0076
	(0.466)	(0.428)	(0.339)
State dummy	0.0207	0.0216	0.0232
	(0.176)	(0.145)	(0.136)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Observations	207	207	207
R^2 within	0.1552	0.1660	0.1656

Table 10: Robustness tests: Alternative measure for corporate site visits

This table presents results from model which regresses the merger performance on alternative measure for institutional investors' CSV. The dependent variable is three-day cumulative abnormal announcement returns, *CAR (-1,1),* which are calculated using market model estimated over trading days (-200, -60). Test variable in Column (1) is *Ln(CSV2+1),* which is the number of institutional investors conducting site visits to a firm in a given calendar year. Test variable in Column (2) is *LN(CSVN2+1)*, which is the number of institutional investors conducting site visits without firms' top managers in a given calendar year. Test variable in Column (3) is *LN(CSVT2+1)*, which is the number of institutional investors conducting site visits, that involve firms' top managers, in a given calendar year. All control variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	(1)	(2)	(3)
Ln(CSV2+1)	-0.0015		
	(0.523)		
LN(CSVN2+1)		-0.0038	
		(0.108)	
Ln(CSVT2+1)			0.0039*
			(0.065)
Log size	0.0329*	0.0363**	0.0277*
	(0.064)	(0.041)	(0.089)
Q	0.0028	0.0032	0.0028
	(0.202)	(0.143)	(0.197)
Cash holdings	-0.0038	-0.0019	-0.0008
	(0.869)	(0.933)	(0.973)
Cash flow	0.0198	0.0192	0.0140
	(0.653)	(0.665)	(0.742)
Relative size	0.4336	0.4180	0.4761
	(0.157)	(0.159)	(0.122)

B/M	-0.0279	-0.0272	-0.0300*
	(0.121)	(0.122)	(0.096)
Leverage	0.0252	0.0226	0.0237
	(0.319)	(0.365)	(0.354)
RoA	-0.3206***	-0.3118***	-0.3491***
	(0.004)	(0.005)	(0.002)
IO	-0.0007	-0.0005	-0.0011
	(0.470)	(0.567)	(0.239)
Cash dummy	0.0019	-0.0015	-0.0018
	(0.971)	(0.977)	(0.904)
Stock dummy	-0.0027	0.0000	0.0152
	(0.983)	(1.000)	(0.904)
Diversifying dummy	-0.0065	-0.0075	-0.0080
	(0.432)	(0.361)	(0.334)
State dummy	0.0239	0.0240	0.0262
	(0.142)	(0.129)	(0.109)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Observations	207	207	207
R^2 within	0.1721	0.1827	0.1816

Table 11: Robustness tests: Alternative samples

This table presents results from model which regresses the merger performance on institutional investors' CSV using alternative samples excluding the firms headquartered in Beijing, Shanghai and Shenzhen. The dependent variable is three-day cumulative abnormal announcement returns, *CAR (-1,1),* which are calculated using market model estimated over trading days (-200, -60). Test variable in Column (1) is *Ln(CSV+1),* which is the number of institutional investors' site visits to a firm in a given calendar year. Test variable in Column (2) is *LN(CSVN+1)*, which is the number of institutional investors' site visits, that do not involve firms' top managers, to a firm in a given calendar year. Test variable in Column (3) is *LN(CSVT+1)*, which is the number of institutional investors' site visits, that involve firms' top managers, to a firm in a given calendar year. All control variables are defined in Appendix. The full sample consists of 175 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	(1)	(2)	(3)
Ln(CSV+1)	-0.0005		
	(0.919)		
LN(CSVN+1)		0.0050	
		(0.354)	
Ln(CSVT+1)			0.0111*
			(0.066)
Log size	0.0231	0.0250	0.0169
	(0.222)	(0.178)	(0.349)
Q	0.0017	0.0016	0.0018
	(0.511)	(0.563)	(0.489)
Cash holdings	-0.0252	-0.0253	-0.0221
	(0.281)	(0.277)	(0.342)
Cash flow	0.0179	0.0179	0.0148
	(0.696)	(0.697)	(0.742)
Relative size	0.0843	0.0880	0.1170

	(0.704)	(0.688)	(0.600)
B/M	-0.0357	-0.0020	-0.0026
	(0.846)	(0.914)	(0.886)
Leverage	0.0520**	0.0497*	0.0539**
	(0.047)	(0.055)	(0.038)
RoA	-0.2218*	-0.2050*	-0.2415**
	(0.076)	(0.085)	(0.045)
IO	-0.0005	-0.0003	-0.0007
	(0.652)	(0.775)	(0.487)
Cash dummy	0.0054	0.0092	0.0036
	(0.902)	(0.831)	(0.935)
Stock dummy	0.1471	0.1458	0.1397
	(0.105)	(0.103)	(0,125)
Diversifying dummy	-0.0084	-0.0081	-0.0100
	(0.367)	(0.382)	(0.275)
State dummy	0.0184	0.0200	0.0219
	(0.282)	(0.229)	(0.203)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Observations	175	175	175
R^2 within	0.1626	0.1685	0.1788

Table 12: Corporate site visits and institutional ownership: substitutes VS complements

This table presents the relationship between the effect of institutional investors' CSV and institutional ownership. The dependent variable is three-day cumulative abnormal announcement returns, *CAR3* (-1,1), which are calculated using market model estimated over trading days (-200, -60). The interaction term in column (1) is *Ln(CSV+1) * IO dummy*. The interaction term in column (2) is *Ln(CSVN+1) * IO dummy*. The interaction term in column (3) is *Ln(CSVT+1) * IO dummy*. *IO dummy* takes the value of one if the institutional ownership of sample firms is greater than the median value of whole sample and zero otherwise. All variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	(2)	(2)	(3)
Ln(CSV+1)	-0.0003		
	(0.966)		
Ln(CSVN+1)		-0.0059	
		(0.384)	
Ln(CSVT+1)			0.0134**
			(0.025)
Interaction term	-0.0055	-0.0035	-0.0102
	(0.262)	(0.549)	(0.178)
Log size	0.0321*	0.0367**	0.0257
	(0.074)	(0.041)	(0.114)
Q	0.0026	0.0028	0.0026
	(0.223)	(0.186)	(0.229)
Cash holdings	-0.0055	-0.0061	-0.0049
	(0.807)	(0.785)	(0.828)
Cash flow	0.0220	0.0186	0.0148
	(0.615)	(0.671)	(0.727)
Relative size	0.4375	0.4302	0.4888

	(0.149)	(0.145)	(0.112)
B/M	-0.0296	-0.0275	-0.0272
	(0.101)	(0.122)	(0.132)
Leverage	0.0235	0.0203	0.0206
	(0.348)	(0.413)	(0.413)
RoA	-0.3310***	-0.3122***	-0.3535***
	(0.004)	(0.005)	(0.002)
Cash dummy	0.0047	0.0071	-0.0000
	(0.928)	(0.888)	(1.000)
Stock dummy	-0.0004	0.0017	-0.0193
	(0.997)	(0.989)	(0.879)
Diversifying dummy	-0.0054	-0.0059	-0.0068
	(0.501)	(0.464)	(0.394)
State dummy	0.0256	0.0260*	0.0277*
	(0.107)	(0.095)	(0.086)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Observations	207	207	207
R^2 within	0.1764	0.1848	0.1856

Table 13: State-owned enterprises (SOEs) VS Privately owned enterprises (POEs)

This table compares the effect of site visit on SOEs and POEs. The dependent variable is three-day cumulative abnormal announcement returns, *CAR (-1,1),* which are calculated using market model estimated over trading days (-200, -60). The interaction term in column (1) is *Ln(CSV+1) * State dummy*. The interaction term in column (2) is *Ln(CSVN+1) * State dummy*. The interaction term in column (3) is *Ln(CSVT+1) * State dummy*. *State dummy* takes the value of one if the acquirer is state-owned enterprise and zero otherwise. All variables are defined in Appendix. The full sample consists of 207 observations from 2013 to 2016. I show coefficient estimates with p-value in parentheses below. Significance at the 10%, 5%, and 1% is indicated by *, ** and ***, respectively.

	(3)	(2)	(3)
Ln(CSV+1)	-0.0030		
	(0.549)		
Ln(CSVN+1)		-0.0072	
		(0.155)	
Ln(CSVT+1)			0.0085*
			(0.063)
Interaction term	-0.0043	-0.0033	-0.0151
	(0.460)	(0.576)	(0.513)
Log size	0.0433**	0.0458***	0.0372**
	(0.013)	(0.009)	(0.016)
Q	0.0027	0.0028	0.0027
	(0.216)	(0.194)	(0.215)
Cash holdings	-0.0019	-0.0022	-0.0003
	(0.936)	(0.924)	(0.991)
Cash flow	0.0159	0.0154	0.0147
	(0.722)	(0.731)	(0.736)
Relative size	0.4513	0.4450	0.4925
	(0.145)	(0.139)	(0.116)

B/M	-0.0233	-0.0222	-0.0262
	(0.215)	(0.230)	(0.160)
Leverage	0.0258	0.0227	0.0239
	(0.316)	(0.376)	(0.357)
RoA	-0.3286***	-0.3190***	-0.3678***
	(0.005)	(0.005)	(0.002)
IO	-0.0006	-0.0005	-0.0009
	(0.493)	(0.563)	(0.294)
Cash dummy	0.0002	0.0027	-0.0037
	(0.997)	(0.963)	(0.951)
Stock dummy	-0.0142	-0.0120	-0.0268
	(0.912)	(0.924)	(0.837)
Diversifying dummy	-0.0092	-0.0096	-0.0113
	(0.278)	(0.252)	(0.179)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Observations	207	207	207
R^2 within	0.1625	0.1729	0.1704