

# Empirical Research on the Impact of Institutional Investors' Shareholding Ratio on Corporate Social Responsibility

Hong Wang

**Abstract**—Since the 21st century, China's economic development has been booming, which has promoted the growth of institutional investors and enabled them to play an increasingly important role in the capital market. On the other hand, in recent years, as the key investment object of institutional investors, listed enterprises have appeared a variety of social responsibility problems, revealing the lack of social responsibility of enterprises. Based on this, it is of great significance to study the impact of shareholding ratio of institutional investors on CSR and further put forward Suggestions on improving CSR performance. This article takes the manufacturing enterprises listed on a-share market from 2008 to 2011 as the sample, and studies the impact of the overall shareholding ratio of institutional investors on enterprises' social responsibility through empirical research. The research results show that institutional investors can promote enterprises to better undertake social responsibility, the listing time and scale of enterprises are positively correlated with social responsibility performance, and the return on equity has no significant impact on social responsibility performance. Finally, the article puts forward three Suggestions, which are to attach importance to the qualitative and quantitative research of corporate social responsibility, to promote institutional investors to actively participate in major corporate decisions, and to promote institutional investors to diversify.

**Index Terms**—Institutional investors' shareholding ratio, corporate social responsibility, empirical research.

## I. INTRODUCTION

### A. Research Background

Since 2000, the problem of corporate social responsibility has occurred frequently in China. In 2006, Foxconn was exposed to the harsh working environment and high-intensity tasks. In 2008, Sanlu toxic milk powder incident shocked the whole country. In 2013, China Petroleum and Chemical Corporation's crude oil spill. All kinds of negative reports make the public begin to pay attention to corporate social responsibility. This series of events also seriously damaged the interests of employees, the government, consumers and their stakeholders. It also made the society aware of the urgency of making corporate social responsibility policy. Fig. 1 shows that Chinese enterprises attach great importance to social responsibility in recent years and the social responsibility index tends to be stable while the economic growth slows down and the quality is improved.

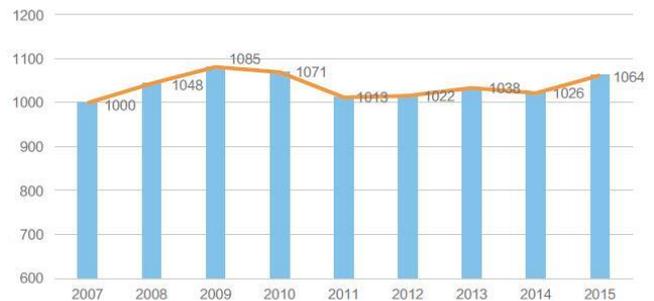


Fig. 1. M corporate social responsibility composite index from 2007 to 2015 (data source: CSR China. Com).

At present, a prominent feature of the global capital market is the rapid development of institutional investors. Institutional investors have the momentum to replace the status of individual investors and play an increasingly important role in the investment market.

It is precisely because the society pays more and more attention to corporate social responsibility, and institutional investors play an increasingly important role in the capital market. Therefore, it is of great significance to study the impact of institutional investors' shareholding on corporate social responsibility performance.

### B. Research Meaning

#### 1) Theoretical significance

Based on the data of listed manufacturing enterprises and study the impact of their overall shareholding on corporate social responsibility, which is conducive to explore how institutional investors should promote enterprises to bear more social responsibility. At the same time, it can also enrich the research on the social responsibility performance of manufacturing enterprises, and promote the improvement of corporate governance capacity in relevant aspects.

#### 2) Practical significance

Help enterprises establish correct management concept and gradually cultivate the awareness of attaching importance to corporate social responsibility. It can integrate this awareness into every business process and the actual work of employees and finally achieve the effect of improving the comprehensive competitiveness of enterprises.

Through empirical research to improve the information disclosure system of manufacturing enterprises. At the same time, it helps the government to put forward relevant policy requirements for listed manufacturing enterprises when formulating the corporate social responsibility information disclosure system to create a better and more targeted external environment for enterprises.

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Hong Wang is a with Zhejiang Gongshang University, China (email: whwowowo@163.com).

II. LITERATURE REVIEW AT HOME AND ABROAD

A. Research on Corporate Social Responsibility

In Shelton’s (1924) opinion, corporate social responsibility mainly refers to those companies that produce enough products in the industry to meet social needs. He creatively proposed that the specific internal content of corporate social responsibility should include moral content. He also believed that enterprises should first ensure the interests of the public, and then consider the benefits of enterprises.

In the early stage of CSR theory research, scholars focused on the definition of corporate social responsibility, which gave birth to two definitions: broad and narrow. Mc Gurie is a representative figure in a narrow sense. He used social responsibility, moral responsibility and legal responsibility to classify the corporate responsibility, while the broad sense school had different views and they believed that the pursuit of economic interests of enterprises should also be included in the corporate social responsibility. For example, Carroll (1979) believed that corporate social responsibility should include the pursuit of economic interests. He also used the four responsibilities of economy, law, ethics and voluntariness as the four frameworks to measure corporate social responsibility [1].

In the middle and later period of CSR research, the measurement method of corporate social responsibility has become a hot research direction. This article lists several methods in Table I below:

TABLE I: MEASUREMENT METHOD OF CORPORATE SOCIAL RESPONSIBILITY

Measurement Method	Concrete Content
KLD Index Method	KLD index method evaluates corporate social responsibility from environment, community, employees, opportunities and consumers. This method evaluates corporate social responsibility in a comprehensive way and the investigation process of this method relies on professional rating agencies, which can cover a wide range of information, and can also be studied across time dimensions, so the results are more fair and objective.
Content Analysis	The content analysis method is based on the financial report, social responsibility report and other documents publicly disclosed by the enterprise. And according to the corresponding standards for each block of content after scoring according to the comprehensive score to reflect the performance of corporate social responsibility evaluation method. This method has strong operability, and can effectively eliminate the subjective influence caused by the evaluation with experts, making the conclusion more objective and effective.
Reputation Index Method	Reputation index method is a comprehensive score which is weighted by some authoritative experts to evaluate the performance of corporate social responsibility. This method can prevent the influence of different expert evaluation standards on the evaluation results.
Questionnaire Survey	The method of questionnaire is to distribute the questionnaire to the stakeholders of the enterprise and to give the score weighting according to the answers of each part of the questionnaire to get the social responsibility score of the enterprise. This method is based on the evaluation of each stakeholder to the enterprise.

Similarly, domestic scholars also have some research on corporate social responsibility. Junhai Liu (2001) believed that corporate social responsibility is to protect the interests of shareholders as much as possible and also to protect the interests of social environment other than shareholders [2]. He also pointed out that corporate responsibility is a modification of the company's pursuit of only shareholders' interests. At the same time, Daifu Lu (2001) also proposed that entrepreneurs' moral consciousness knowledge and social responsibility consciousness are the early forms of modern corporate social responsibility [3]. Liubin Chen (2006) believes that the concept of corporate social responsibility is not fixed and China's current corporate social responsibility includes the following aspects: the responsibility to the local government where the enterprise is located, the responsibility to consumers, the responsibility to employees, the responsibility to the environment, the responsibility to resource protection and sustainable development, the responsibility to public welfare undertakings and the responsibility to protect social facilities [4]. In addition, Cheng Chen, Junrui Zhang, Ming Li and others (2015) defined corporate social responsibility and they believed that the connotation of corporate social responsibility is that enterprises integrate economic and social goals, and take more strict and voluntary policy measures for core stakeholders, the location of enterprises and the environment that exceed the requirements of laws and regulations [5].

All in all, in terms of corporate social responsibility, although there is no unified definition at home and abroad, it can be seen that most scholars believe that corporate social responsibility includes not only the realization of profits and the benefit of employees and shareholders, but also the responsibilities of other stakeholders such as the government, society and environment.

B. Research on Institutional Investors

The research on institutional investors are mainly in its concept and participation in corporate governance.

In terms of concept, Bamard (1992) proposed a more systematic definition. He found in the literature that the definition of institutional investors can be divided into narrow sense and broad sense. For example, pension funds, social security funds, securities, insurance companies and securities intermediaries are institutional investors in a narrow sense; the broad definition should be based on this and plus private donation funds, many charities, and even some religious organizations.

In terms of the effect of participating in corporate governance, Mitra and Credy (2005), Wahal and Mcconell (2000) found that if institutional investors actively participate in corporate governance, they can play a good role in restraining and supervising the opportunism of corporate management. Through empirical analysis, Qing Han and Hua Wang (2014) found that institutional investors in China can play an important role in promoting the governance of independent directors, and can form a complementary relationship with the board of directors [6]. In addition, institutional investors in China have played an positive role in corporate innovation (Hongjiang Zhao and Hui Xia, 2009), information transparency (Yaping Wang and Huilong Liu,

2009), performance compensation, sensitivity (Min Zhang and Fuxiu Jiang, 2010), cash dividend distribution (Shoufu Xu and Zhijun Li, 2013), corporate risk-taking ability (Zhenshan Wang and Dalin Shi, 2014), etc.

### *C. Research on the Relationship between Institutional Investors' Shareholding and Corporate Social Responsibility*

According to frexell and Coffey (1991), there is no correlation between institutional investor ownership and the proportion of charitable donations [7]. Mahoney and Roberts (2007) conducted an empirical analysis on some Canadian enterprises and found that the number of institutional investors has a positive effect on corporate social responsibility, but it has little to do with the shareholding ratio [8]. Cox (2004) thinks that the long-term institutional investors' ownership has a positive correlation with corporate social responsibility, while the short-term has no correlation. In addition, Hoq (2010), Kangarluie and Bayazidi (2011), Ali Osman and mehpare (2014) and other scholars also found that institutional investors are more inclined to invest in enterprises with better social responsibility when making investment decisions through empirical analysis [9].

In recent years, the research on the relationship between institutional investors' shareholding and corporate social responsibility is in a booming state in China. Zhaozhen Feng and Lin Song (2013) found that the quality of corporate social responsibility information disclosure has a "U" relationship with institutional investors' shareholding, and institutional investors can play a more significant role in non-state-owned enterprises.

## III. THEORETICAL BASIS

### *A. Stakeholder Theory*

In the 1960s, Stanford University scholars defined stakeholders as "groups essential for the survival and development of organizations". Freeman (1984) defined this group as "a team or individual that can influence or be influenced by the organization" [10].

Stakeholder theory embodies the social responsibility of enterprises, and expounds who should be responsible and how much responsibility should be done. The theory holds that: first, the most important thing for an enterprise to survive is to make profits, so an enterprise should maximize its economic profits as much as possible, so as to make contributions to social and economic development and lay a solid foundation for the realization of other interests of the enterprise. Second, while obtaining economic benefits, an enterprise should not neglect itself as a member of the society, but should pay attention to consumers and the environment, the government, the community and the creditors are the stakeholders who bear the corresponding responsibilities. Third, in order to achieve sustainable and healthy development, enterprises must attach importance to information exchange and communication with stakeholders. Stakeholders should also extract useful information for themselves and analyze the business situation of the enterprise through the disclosed information, so as to provide useful reference for decision-making.

### *B. Shareholder Activism*

Shareholder activism emerged in the 1930s. At that time, the interests of shareholders were often damaged by corporate governance. Minority shareholders demanded unity to restrain corporate governance. With the vigorous development of institutional investors, institutional investors are more willing to participate in corporate governance by submitting shareholder proposals or communicating with management. Shleifer and Vishny (1986) believe that institutional investors holding more corporate shares usually have a larger capital scale and a more professional investment perspective [11]. As institutional investors increase their equity, they will actively participate in the supervision of corporate governance and fulfill their due responsibilities. Nowadays, institutional investors have had a significant impact on corporate governance, and this era has become a period of shareholders' activism.

All in all, institutional investors have gradually exceeded the influence of individual investors with the characteristics of larger investment capital and more rational investment strategy. In the future, institutional investors will be more inclined to adopt professional means to participate in corporate governance and there are more and more ways to participate in corporate governance. At the same time, institutional investors can also gain returns by actively participating in corporate governance. Therefore, more and more institutional investors are no longer only concerned about the short-term interests of the company, but more concerned about the long-term value growth of the company, and shareholder activism has been better implemented.

### *C. Principal-Agent Theory*

In the late 1960s and early 1970s, principal-agent theory flourished. Jensen and Meckling (1976) defined principal-agent as "contract" [12]. According to this contract, the actor can find the agent to serve himself by means of employment and give him corresponding remuneration according to the quality of employment service. In order to reduce the agency costs as much as possible and obtain as many economic benefits as possible, and the agent will also actively disclose the performance of the responsibility to the principal. Therefore, the principal-agent relationship is essentially a game. Through the game between the principal and the agent, a set of schemes that can be recognized by both sides and beneficial to the enterprise is finally formed.

## IV. RESEARCH HYPOTHESIS AND EMPIRICAL RESEARCH DESIGN

### *A. Research Hypothesis*

Nowadays, the strength of an enterprise should be evaluated not only from the perspective of economic benefits, but also from the perspective of society and environment. Institutional investors tend to pay more attention to noneconomic factors. Moreover, many previous studies have shown that institutional investor ownership can play a positive role in corporate social responsibility. For example, Neubaum and Zahra (2006) found that institutional investors can play an important role in making some important decisions, and have more supervision and driving force than

ordinary shareholders. In conclusion, the following assumptions are proposed:

H1: overall institutional investor's shareholding can have a positive impact on corporate social responsibility performance

**B. Definition of Research Variables**

*1) Explained variables*

Although the above mentioned four commonly used measurement methods of foreign scholars, each of them has its own problems. At present, there is no unified method or official database to measure the performance of corporate social responsibility in China. Most scholars are based on stakeholder theory and establish a social responsibility index system by analyzing the relevant data of corporate financial statements. However, the information of financial statements is disclosed by the enterprise itself, which lacks the independent evaluation of the third party and lacks the independence and impartiality in the final data.

Therefore, this article uses the rating data released by the authoritative third-party evaluation agency " Rankins CSR Ratings " to study. " Rankins CSR Ratings " adopts MCT-CSR system for scoring.

*2) Explanatory variables*

There are many kinds of institutional investors. In this article, six kinds of institutional investors are selected, including trust, insurance, social security fund, QFII, securities companies and funds. As the proportion of institutional investors' shareholding is relatively low in the enterprise shareholders' shares, this article excludes the enterprise annuity and financial companies' shareholding, so the sum of the above six institutions is the total proportion of shares.

*3) Control variables*

In this article, the control variable method is used for modeling research, and the selected variables are shown in Table II below:

TABLE II: CONTROL VARIABLE SELECTION

Variable Name	Selection Reason	Calculation Method
Enterprise Scale (Size)	The larger the model, the greater the impact of its reputation, reputation and public image on the interests of the enterprise. At this time, more social responsibility is needed to improve the image. At the same time, the larger the enterprise scale, the more resource support it can obtain in undertaking social responsibility.	Take the logarithm of the total assets in the enterprise financial indicators to calculate the approximate scale of the enterprise
Return on Quity (Roe)	As a financial indicator to measure the profitability of an enterprise, the higher the Roe, the more profitable the enterprise is. And the more capable it is to undertake social responsibilities and attract institutional investors' investment.	After tax profit/net profit

The longer the listing time of the enterprise, the more tests the enterprise experiences in the market, the stronger the capital strength and operation strength, so that the return on investment will be more stable and predictable and will be favored by more institutional investors. At the same time, the longer the listed company is, the more social responsibilities it will undertake.

Duration of Listing (Time)

Annual report time-listing time

**C. Research Model**

According to the previous hypothesis, this article takes the overall institutional investor's shareholding ratio as the explanatory variable and corporate social responsibility score as the explanatory variable and establishes the model according to multiple linear regression:

$$CSR=C + \beta_1 Organ + \beta_2 Size + \beta_3 Time + \beta_4 Roe + \varepsilon$$

Among them,  $\beta_1 (i=1,2,3,4)$  is the variable coefficient, Organ is the proportion of shareholding by the organization,  $\varepsilon$  is the random interference term and C is the constant term.

**V. EMPIRICAL TEST AND RESULT ANALYSIS**

*A. Sample Selection and Data Source*

This article takes A-shares listed manufacturing enterprises in Shanghai and Shenzhen stock markets as the research object and selects the data from 2008 to 2010, and further selects the data through the following standards:

- (1) Excluding the enterprises without three consecutive years' data of "Rankins CSR Ratings" rating and institutional investors' shareholding ratio;
- (2) Excluding ST and PT listed companies;
- (3) Excluding the enterprises that have not been listed for 10 years as of 2011 because the data of corporate social responsibility performance and investor's shareholding ratio of enterprises that have been listed for a short time are not very relevant;

Through the above screening, a total of 69 listed manufacturing enterprises' three-year sample data are screened. Due to the lag, this article selects 69 enterprises "Rankins CSR Ratings" rating data from 2009 to 2011 for empirical research. In addition, the original data of enterprise scale, return on net assets, listing time and shareholding ratio are all from CSMAR, and the data of corporate social responsibility are from the rating report disclosed by "Rankins CSR Ratings".

*B. Descriptive Statistics*

This article uses Excel 2007 to make descriptive statistical analysis on the overall shareholding ratio of institutional investors, the shareholding ratio of six categories, the control variable data and the rating data from 2009 to 2011 of these 69 enterprises. The content mainly shown in Table III below:

TABLE III: DESCRIPTIVE STATISTICAL ANALYSIS

Variable Name	Observation Number	Mean Value	Maximum Value	Minimum Value	Standard Deviation	Variance
Fund Holding	202	6.62	18.67	0.25	4.62	21.37
Securities Holding	47	1.85	9.79	0.20	2.05	4.19
Insurance Holding	75	1.80	10.16	0.15	2.21	4.87
Social Security Fund Holding	43	1.33	3.47	0.16	0.82	0.68
Trust Holding	18	1.72	6.54	0.18	1.86	3.47
QFII Holding	53	1.74	8.10	0.04	1.60	2.57
Organ	207	8.41	22.85	0.22	5.50	30.26
CSR	207	35.55	81.88	18.07	12.30	151.39
Size	207	22.87	26.16	20.04	1.16	1.35
Time	207	12.83	18.00	8.00	2.21	4.86
Roe	207	14.41	51.05	-50.82	12.36	152.80

It can be seen from Table III that: (1) On the whole, the average shareholding ratio of listed manufacturing industry is about 8.41%, indicating that on the whole, the shareholding ratio of institutional investors in manufacturing industry is relatively low. From the perspective of the maximum value of 22% or so and the minimum value of 0.22%, the institutional shareholding ratio of listed manufacturing enterprises also has a large gap and uneven level. (2) From the perspective of the six types of institutional shareholding ratio, the average fund shareholding ratio is 6.62%, which is far higher than that of other institutions with an average of 2%, indicating that manufacturing enterprises and even China have a unique fund in the securities investment market Situation. (3) From the perspective of corporate social responsibility performance score, in the case of 100 points, the average score of the overall manufacturing enterprises is only about 36, indicating that the overall performance of the manufacturing industry in undertaking corporate social responsibility is not good, and the deviation reaches about 63, indicating that the gap between the enterprises in social responsibility performance is very obvious, and the overall level needs to be improved. (4) From the perspective of enterprise scale and listing time, as a whole, for manufacturing enterprises with a listing time of about 10 years, the enterprise scale gap is not large, and they all belong to stable development; (5) From the perspective of return on net assets, although the overall level has reached a good level of about 14%, the lowest value still has a negative situation, and the variance has reached a high value of 152, indicating the income of each manufacturing enterprise It is easy to affect the change of the investment proportion of the enterprise institutional shareholders because of the wide gap of profit rate and the uneven operation.

C. Empirical Analysis

Because the way to obtain the social responsibility performance rating data of "Rankins CSR Ratings" is limited, this article can only use the data of three consecutive years for research. At this time, in theory, it is not necessary to carry out unit root test on the three-year data, and it can directly use the data for regression analysis of the model.

1) Model estimation

After establishing panel data of 69 enterprises through pool file in eviews7 for three years, we make a preliminary regression and get the results as shown in Fig. 2:

Dependent Variable: CSR?  
 Method: Pooled Least Squares  
 Date: 04/28/19 Time: 18:58  
 Sample: 2008 2010  
 Included observations: 3  
 Cross-sections included: 69  
 Total pool (balanced) observations: 207

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-55.62711	17.04372	-3.263790	0.0013
ORGAN?	0.019514	0.158543	0.123086	0.9022
SIZE?	3.655499	0.717287	5.096282	0.0000
TIME?	0.533189	0.373840	1.426251	0.1553
ROE?	0.027450	0.069659	0.394063	0.6940

R-squared	0.130972	Mean dependent var	35.43860
Adjusted R-squared	0.113764	S.D. dependent var	12.41592
S.E. of regression	11.68837	Akaike info criterion	7.778923
Sum squared resid	27596.81	Schwarz criterion	7.859423
Log likelihood	-800.1185	Hannan-Quinn criter.	7.811477
F-statistic	7.610909	Durbin-Watson stat	0.370086
Prob(F-statistic)	0.000010		

Fig. 2. Preliminary regression results.

2) Model test

After the preliminary return, we can see that although the result is not obvious, the proportion of institutional investors does play a positive role in corporate social responsibility. However, panel data need to be further tested for fixed or random effects. Therefore, in this article, fixed effect regression and random effect regression are carried out for panel data to obtain the results shown in Table IV below:

TABLE IV: RESULTS OF RANDOM EFFECT AND FIXED EFFECT

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Organ (fixed)	0.3237	0.1483	2.1828	0.0308
Size (fixed)	0.6124	1.8645	0.3285	0.7431
Time (fixed)	0.6124	0.5789	2.0145	0.0459
Roe (fixed)	-0.0941	0.0549	-1.7152	0.0886
Organ (random)	0.2536	0.1310	1.9352	0.0544
Size (random)	2.9800	0.9732	3.0620	0.0025
Time (random)	0.6785	0.4046	1.6768	0.0951
Roe (random)	-0.0863	0.0496	-1.7397	0.0834

Finally, the Hausman test is used to analyze the two regression models, and the results are shown in Fig. 3:

Correlated Random Effects - Hausman Test  
 Pool: PANERL  
 Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.835516	4	0.2118

Fig. 3. Hausman test results.

From the test results,  $P > 0.1$ , so it should be accepted that this model is a random effect model. Therefore, this article should choose individual random effect model. The results also confirm the hypothesis 1 is correct.

According to the data in Table IV, the estimated results of the model in this article can be written as:

$$CSR = C + 0.254Organ + 2.98Size + 0.679Time - 0.08Roe + \varepsilon.$$

The model shows that under the influence of enterprise size, enterprise listing market and return on equity, especially under the influence of the variable of enterprise size, the shareholding ratio of overall institutional investors has a positive influence on the enterprise's social responsibility. Specifically, with other conditions unchanged, the corporate social responsibility performance can be improved by 0.254 for every 1% increase in institutional investors' shareholding ratio. In addition, both the size of the enterprise and the time of listing have a positive effect on the social responsibility of the enterprise, and the positive effect of the size of the enterprise is more significant, while the return on net assets of the enterprise has little impact on the social responsibility of the enterprise, which may be because the sample size is not enough to cause the data results to be not significant.

## VI. SUGGESTIONS AND PROSPECTS

### A. Policy Recommendations

1) We should pay attention to the qualitative and quantitative research of corporate social responsibility, especially the research on the creation of specialized databases like KLD, so as to make the future research more scientific and accurate.

2) We should attach importance to the positive role of institutional investors and encourage enterprises to take more social responsibilities. Institutional investors should attach importance to their position in enterprise decision-making, especially manufacturing enterprises are closely related to people's life. If investors can play a positive role in influencing enterprises to bear corporate social responsibility, they can effectively improve people's quality of life and ensure their safety and health.

3) Focus on diversification of institutional investors. From the data of this article, the development of institutional investors is extremely unbalanced and there is a situation that the fund is one of the best in the manufacturing industry, while other institutional investors, due to the weak investment strength or the weak ability to bear the risk, are far behind the proportion of the fund, which is easy to cause imbalance. Therefore, we should attach importance to the overall development of all kinds of institutional investors and promote the development of the other five types of institutional investors.

### B. Research Deficiency and Prospect

Of course, there are some shortcomings in this article. First of all, the data of this article is too few to be selected annually, and there are problems in the stability test. Secondly, this article only studies the impact of the overall shareholding

ratio on corporate social responsibility performance and does not study the relationship between the two, which needs to be improved in the depth of research. Finally, the control variables selected in this article are not comprehensive enough and do not select the variables that affect the shareholding ratio of institutional investors and only study the listed manufacturing industry, lack of certain universality in the conclusion.

## CONFLICT OF INTEREST

The author declares no conflict of interest.

## AUTHOR CONTRIBUTIONS

Hong Wang designed research, performed research, analyzed data, and wrote the paper.

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**Hong Wang** was born in Ningbo Zhejiang China on Feb. 23, 1999. She is now an undergraduate in Zhejiang Gongshang University majoring in applied statistics. The major field of her study is in financial and management data analysis.

She took an internship in Didi Chuxing in 2020 as a data operation intern. She is a hard-working student at school. Over the three years at university, she achieved the school comprehensive scholarship and the honorary title of outstanding student leader.