Can Retail Investor Voice Discipline Firms? Evidence from Exchange-Mandated Interactive Platforms and Corporate Misconduct

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Abstract: This study investigates whether exchange-mandated interactive investor platforms (IIPs) in China empower the retail investor voice to discipline firms and reduce corporate misconduct. Leveraging the earlier introduction of the Hudongyi platform by the Shenzhen Stock Exchange as an exogenous shock, and employing a difference-in-differences approach, we find that providing a formal channel for retail investor voice significantly reduces corporate misconduct, particularly financial misreporting and misrepresentation. The disciplinary effect of the retail investor voice is stronger when firms provide timelier and more detailed responses to investor inquiries. The impact is also more pronounced in firms with weaker pre-existing corporate governance and higher initial information asymmetry, suggesting that the retail investor voice, when channeled through IIPs, serves as an effective complement to traditional governance mechanisms by enhancing transparency and enabling direct monitoring. This study contributes to the literature on technology-enabled corporate governance, the disciplinary role of retail investor voice, and regulatory innovations in preventing corporate misconduct, with particular relevance for emerging markets.

Keywords: Interactive investor platform; Corporate misconduct; Information asymmetry; Corporate governance

JEL Classifications: G14; G34; G38; M41; M48

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1. Introduction

Corporate misconduct, encompassing a spectrum of actions from financial misreporting and misrepresentation to opportunistic insider trading that violates security laws and regulations, inflicts significant costs on firms and undermines market integrity (Amiram et al., 2018; Habib et al., 2021). A persistent challenge in curbing such behavior is the information asymmetry that often allows corporate insiders to exploit their positions for personal gain (e.g., Ndofor et al., 2015), particularly when the corporate governance mechanisms are weak[1]. Retail investors, in particular, have traditionally been vulnerable; being dispersed and individually lacking market power, they have faced significant obstacles in monitoring management and protecting their interests. While institutional investors may engage management directly or vote with their feet ("exit"), the retail investor voice has historically lacked an effective, collective channel, leaving small shareholders with little recourse against corporate misconduct.

The emergence of exchange-mandated interactive investor platforms (IIPs) in China represents a fundamental change to this information and governance landscape. These platforms provide a formal, low-cost mechanism for tens of thousands of retail investors to aggregate their concerns, directly question corporate management on firm-specific information, and scrutinize corporate actions (Chau et al., 2020; Lee and Zhong, 2022). By requiring firms to publicly respond to investor inquiries, these regulated platforms institutionalize a communication channel that was previously nonexistent and transform the dynamic between retail investors and corporate management. This innovation potentially elevates the retail investor voice from a collection of

[1] The two early studies by Beasley (1996) and Dechow et al. (1996) have reported positive correlation between weak corporate governance structure and corporate misconduct. Both Beasley (1996) and Dechow et al. (1996) find that corporate misconduct is more frequent in firms with a greater proportion of insiders on the board of directors. Dechow et al. (1996) also find that violated firms are more likely to have a CEO who doubles as chairman of the board.

disparate murmurs to a more coherent and impactful governance pressure, bridging communication gaps and fostering a more transparent information environment.

This institutional change raises a critical question for corporate finance: Can this newly empowered retail investor voice effectively discipline firms and curb corporate misconduct? The concept of "voice" as a governance mechanism suggests that direct stakeholder feedback can alert management to failings and pressure them toward corrective action (Hirschman, 1970; Hart and Zingales, 2017; Broccardo et al., 2022). This is particularly evident among retail investors, who have minimal market power and face significant information asymmetries (Ang et al., 2021). As a result, voice becomes their primary mechanism for influence. However, it is not certain that this new mechanism of retail investor voice through exchange-mandated IIPs will be effective in practice. The communications from retail investors could be dismissed by management as uninformative "cheap talk," or firms might strategically manage their responses to mislead investors (Wu et al., 2022; Duan et al., 2023; Wang, 2023). Therefore, whether the retail investor voice, even when amplified by a formal platform, has a real disciplinary impact is an open empirical question. This study addresses this question by examining whether the introduction of IIPs led to a discernible reduction in corporate misconduct.

To causally assess whether retail investor voice channeled through IIPs disciplines firms, we leverage the introduction of Hudongyi (literally meaning "Interaction Made Easy") by the Shenzhen Stock Exchange (SZSE) as an exogenous shock. Employing a standard difference-in-differences (DiD) approach, with SZSE-listed firms as the treatment group and Shanghai Stock Exchange (SSE)-listed firms (prior to its own platform's more limited launch) as the control group,

we analyze the impact on corporate misconduct[2]. Our findings indicate a significant reduction in corporate misconduct, particularly financial misreporting and misrepresentation, among firms engaging on the platform. We also find that the disciplinary effect of the retail investor voice is stronger when firms provide timelier and more detailed responses.

We explore two primary channels through which the retail investor voice on IIPs may exert its disciplinary function: enhancing information transparency and strengthening corporate governance. We find that the effect is more pronounced in firms previously characterized by higher information asymmetry, suggesting that the platform helps reduce information gaps. Furthermore, the effect is stronger in firms with weaker pre-existing corporate governance structures, indicating that the retail investor voice serves as a valuable complementary governance mechanism. This voice not only provides an additional layer of monitoring but also appears to stimulate traditional external governance mechanisms, such as media attention.

This study aims to make several contributions. We provide novel evidence that institutionalizing the retail investor voice through a regulated, technology-based platform can serve as an effective tool for reducing serious corporate misconduct. Our work extends the emerging research on the positive effects of IIPs on corporate outcomes like market liquidity, earnings management, and stock market crash risk (Lee and Zhong, 2022; Li et al., 2023a; Li et al., 2023b; Cong et al., 2022). We contribute to the corporate governance literature by demonstrating how retail investor voice, when adequately facilitated, can complement traditional governance mechanisms, a finding of particular significance given the growing importance of retail investors in capital markets (Amiram et al., 2018; Ang et al., 2021; Neville et al., 2019; Velte, 2023). Finally,

[2] As highlighted by Lee and Zhong (2022) and Li et al. (2023a), due to different rigor of enforcement, Hudongyi exhibits much more active and effective engagement than SSE's eHudong platform, making it the focus of our study.

our study adds to the literature on corporate misconduct by showing how innovative regulatory approaches that amplify retail investor voice can enhance market discipline, building on recent field experiment evidence from the platform that retail investors can effectively influence corporate behavior (Wong et al., 2024a, 2024b). Our findings are especially relevant for emerging markets, which often feature high retail investor participation and weak corporate governance structures, as we show how regulatory and technological innovations can strengthen market integrity and retail investor protection.

The remaining part of the paper proceeds as follows. Section 2 briefly introduces the IIPs in China. Section 3 develops testable hypotheses. Section 4 describes the sample and the research design. Section 5 presents the empirical analysis. Section 6 briefly concludes.

2. Interactive Investor Platforms in China

The IIPs in China represent a significant institutional innovation designed to amplify the retail investor voice in corporate affairs. Hudongyi, launched by the SZSE "to establish a direct bridge of communication between investors and listed firms" was the first of its kind. Its perceived success led the SSE to introduce a similar platform, eHudong ("e-Interaction"), on July 5, 2013.

Hudongyi provides a formal, exchange-monitored, and semi-mandatory channel for retail investors to exercise their voice. Each SZSE-listed company maintains a dedicated webpage on Hudongyi. This page functions not only as a Q&A forum where investors can directly voice inquiries, suggestions, or complaints to management, but also as an information repository for the firm, disseminating managerial disclosures, records of investor relations activities, and press releases, among others. Companies are required to provide timely responses to investor queries, typically within two business days, and must appoint a senior employee (usually the board secretary) to manage these interactions. This structure ensures that the retail investor voice is heard

and acknowledged, fostering active engagement that has resulted in millions of Q&As and a consistently high response rate (Lee and Zhong, 2022; Li et al., 2023a).

While regulations prohibit firms from releasing new, price-sensitive information directly on the platform, they mandate transparency. If a company shares non-public, non-material information with specific entities like analysts or institutional investors, it must upload this information to the platform. Similarly, written records of media briefings must be posted within two trading days. These rules aim to level the playing field, ensuring that the retail investor voice is informed by the same information available to institutional players. Given that retail investors may sometimes struggle to interpret complex financial information (Blankespoor et al., 2019, 2020; Lee and Zhong, 2022), the platform becomes a crucial tool for them to voice their need for clarification and to better understand firm-specific matters through direct Q&As. This direct line of communication allows the retail investor voice to address a wide array of corporate matters, from accounting practices to investment decisions (Cai et al., 2024). Notably, our examination of platform data reveals over 3,000 instances within Hudongyi's first four years (2010-2013) where retail investors directly voiced concerns specifically about corporate misconduct[3].

In essence, the IIP empowers the retail investor voice by providing cost-effective access to company information and a convenient, official channel to express concerns, suggestions, or criticisms directly to management. This contrasts with traditional communication methods like site visits or conference calls, which are often resource-intensive and thus predominantly accessible to

[3] To pick a random example, on February 29, 2012, a retail investor voiced the following concern and request to the management of Baoan China (SZ.000009): "I am a loyal fan of Baoan and have read a lot of information about the company… Today, I see that your company has violated information disclosure regulations. As a shareholder who has held Baoan for nearly a year, I sincerely ask if your company can make more efforts in these areas. Is it possible to allow small shareholders who hold it to hold it with peace of mind for the long term, and truly achieve long-term value investing?"

institutional investors. The platform's public nature and the exchange's rigorous oversight lend credibility and weight to the interactions, drawing attention from a broader range of stakeholders and regulators, and making the retail investor voice a more potent force in corporate governance[4].

3. Hypothesis Development

3.1 The Impact of Retail Investor Voice on Corporate Misconduct

The introduction of IIPs, by design, facilitates and amplifies the retail investor voice in corporate governance. Most interactions on these platforms involve investors voicing inquiries for specific information or explanations, making suggestions, or requesting verification of rumors (Chau et al., 2020; Lee and Zhong, 2022). We posit that empowering the retail investor voice through these platforms can act as a significant deterrent to corporate misconduct.

By providing retail investors with unprecedented direct access to corporate information and management, IIPs can reduce the information asymmetry that often enables corporate misconduct (Ndofor et al., 2015). When investors can publicly voice their questions and concerns, and management is obligated to respond, the opacity that shields potential wrongdoing diminishes. Furthermore, the public nature of this dialogue and the mandatory management responses create a new avenue for accountability. This aligns with Hirschman's (1970) seminal work, which argues that "voice" can be more effective than "exit" (selling shares) in alerting management to failings and prompting corrective action. Recent studies reinforce this, showing that voice can compel firms to act more responsibly (Hart and Zingales, 2017; Broccardo et al., 2022). Given that retail

[4] The SZSE typically enforces pecuniary penalty and public denouncement for firms that disseminate misleading information on its platform. For instance, on January 8, 2024, the SZSE announced that Simei Media would face a warning and a 1.5 million yuan fine due to misleading statements made on Hudongyi. Additionally, the company's board secretary was also publicly named and issued a warning and a fine of 1 million yuan. According to the official claim, the SZSE also takes the quality of interactions on the platform into account when they officially rate the quality of information disclosure for firms in each year.

investors have limited market power and face significant information asymmetries compared to corporate managers and institutional investors (Ang et al., 2021), voice becomes their primary mechanism for influence.

Compared to criticisms on other unofficial social media, the direct engagement facilitated by IIPs, coupled with the exchange's oversight, significantly increases the reputational costs and social pressure associated with corporate violations. This enables retail investors, often the primary victims of such misconduct, to transform their collective voice into an active monitoring mechanism, complementing traditional governance structures. Field experiments confirm that firms do respond meaningfully when retail investors voice their concerns on these platforms (Wong et al. 2024a, 2024b). Therefore, we hypothesize that the institutionalized retail investor voice via IIPs leads to a reduction in corporate misconduct.

H1: The introduction of IIP, by empowering the retail investor voice, results in a reduction in corporate misconduct among firms that engage on the platform.

3.2 Quality of Interactions and the Effectiveness of Retail Investor Voice

The extent to which the retail investor voice can discipline firms depends on the quality of the dialogue facilitated by the IIPs. High-quality interactions, characterized by timely and detailed management responses, signal management's attentiveness and responsiveness to the retail investor voice (Li et al., 2023a).

When firm management provides prompt and comprehensive answers to voiced investor inquiries, it demonstrates a commitment to transparency and stakeholder engagement. This not only addresses investor concerns directly but also implicitly increases the reputational stakes for potential misconduct, as management is seen to be actively engaging with and accountable to the retail investor voice. Moreover, detailed responses equip investors with better information,

enhancing their ability to monitor corporate affairs effectively. The exchange's monitoring of interaction quality further incentivizes management to maintain high communication standards when responding to the retail investor voice. Therefore, a more responsive and substantive engagement with the retail investor voice should amplify its disciplinary effect.

H2: The disciplinary effect of the retail investor voice, facilitated by IIP, on reducing corporate misconduct is stronger for firms with higher-quality interactions, as measured by the timeliness and comprehensiveness of management responses.

3.3 The Potential Mechanisms Behind the Impact of Retail Investor Voice

The empowered retail investor voice on IIPs could reduce corporate misconduct through two mechanisms: enhancing information transparency and strengthening corporate governance.

First, regarding information transparency, IIPs create a direct communication channel that allows the retail investors to efficiently access and seek clarification on firm-specific information. This process can significantly reduce investor-management information asymmetry (Blankespoor et al., 2019, 2020; Lee and Zhong, 2022). When the retail investors can publicly probe and question, their voice limits managers' ability to exploit private information for personal gain, as potential misconduct becomes harder to conceal and easier to detect. Consequently, firms that previously had higher information asymmetry should benefit more from the enhanced transparency spurred by an active retail investor voice, as the platform provides a valuable means to close these information gaps. The public nature of the platform also ensures that information elicited by the retail investor voice is broadly disseminated, further improving market transparency.

H3a: The introduction of IIP, by enabling retail investors to seek information, reduces information asymmetry; hence, the disciplinary effect of the retail investor voice on reducing corporate misconduct is stronger for firms with higher information asymmetry previously.

Second, the IIP functions as an additional governance mechanism by enabling the retail investor voice to directly and frequently participate in corporate monitoring (Chau et al., 2020; Lee and Zhong, 2022). The requirement for management to respond to voiced concerns, under exchange oversight, increases managerial accountability. As recent field experiments show, the retail investor voice, when channeled through these platforms, can effectively influence corporate behavior, such as compelling reductions in environmental violations (Wong et al. 2024a, 2024b).

Moreover, the retail investor voice articulated on IIPs may also catalyze traditional external governance mechanisms. For instance, concerns voiced by retail investors can attract greater media attention, leading to increased news coverage and thereby intensifying social pressure against corporate misconduct. Similarly, Cai et al. (2024) find that the platform draws attention from the China Securities Regulatory Commission (CSRC), resulting in increased regulatory scrutiny. Thus, the retail investor voice can both supplement existing governance structures and strengthen them, particularly in firms where such structures are initially weaker.

H3b: The introduction of IIP, by providing a platform for the retail investor voice, supplements and strengthens traditional governance mechanisms; hence, the disciplinary effect of the retail investor voice on reducing corporate misconduct is stronger for firms with weaker pre-existing corporate governance structures.

4. Sample and Research Design

4.1. Initial Sample

The launch of Hudongyi on January 1, 2010, initiated a period of user adaptation to this new channel for retail investor voice (Lee and Zhong, 2022; Li et al., 2023a). This led to a steady increase in user engagement and the volume of voiced interactions from 2010 to 2013. By 2013, nearly all firms listed on the SZSE had received investor inquiries via the platform, indicating

widespread adoption of this mechanism for retail investor voice (Li et al., 2023a) [5]. Therefore, to comprehensively assess Hudongyi's impact and ensure a relatively balanced pre- and post-launch sample for the exercise of this voice, our analysis focuses on listed companies on both SZSE and SSE from 2007 to 2013, consistent with Li et al. (2023a) and Li et al. (2023b), among others. As is common practice, we exclude financial companies and financially distressed companies (insolvent firms or firms with Special Treatment status) from our sample.

4.1.1 Retail Investor Voice on Hudongyi

Chau et al. (2020), Lee and Zhong (2022), and Li et al. (2023a) provide comprehensive analyses of the interactions on Hudongyi. Here we present an alternative examination based on our sample firms, focusing on these interactions as manifestations of retail investor voice. We sourced data on investor-firm interactions on Hudongyi—the inquiries representing the retail investor voice and the firms' responses—from the Chinese Research Data Services (CNRDS). Table 1 in Appendix A details the dynamics of these voiced inquiries and responses on Hudongyi from 2010 to 2020 for these firms. Consistent with Lee and Zhong (2022) and Li et al. (2023a), the platform saw a gradual increase in the articulation of retail investor voice and subsequent engagement from 2010 to 2013. The number of inquiries voiced rose from 17,835 in 2010 to 305,708 in 2013, nearly tripling between 2012 and 2013. The peak in this activity occurred in 2015, coinciding with a bull market, after which the numbers gradually declined. The trend in replies mirrors this pattern, sustained by a consistent reply rate of approximately 95%. The reply lag—the average time taken to respond to the retail investor voice—significantly dropped from 34.2 days in 2010 to just 5.3

[5] For context, the SSE's eHudong, launched in July 2013, saw limited interaction in its initial year. As reported by Li et al. (2023a), SZSE firms received 321,725 investor inquiries in total in 2013. In stark contrast, SSE firms only received 21,874 inquiries in the same year.

days in 2013. The average length of replies to these voiced inquiries stabilized at about 60-70 characters once the volume of interactions reached a substantial level in 2013 and 2014[6].

[Insert Table 1 here]

4.1.2 Corporate Misconduct

The paper focuses on the impact on corporate misconduct resulting from Hudongyi's launch and the consequent amplification of retail investor voice. Therefore, our primary outcome variable pertains to the misconduct. We define corporate misconduct as violations of security laws and regulations that result in penalties from regulatory bodies such as the two stock exchanges (SZSE and SSE), the CSRC, the Ministry of Finance, and its local subsidiaries.

We source the data on corporate misconduct from the penalty documents compiled by the China Stock Market and Accounting Research (CSMAR). To be specific, we first identify the specific year of each misconduct from penalty documents. Since a single penalty document can report misconduct spanning multiple years, we aggregate the instances of a company committing misconduct within the same year across different documents. This aggregation forms the basis of our variable *Violations*, which represents the number of instances of actual misconduct (violations) committed by a company in a given year. This variable serves as our dependent variable in the baseline regression. We also construct a binary variable, *IsViolate*, to denote whether a company committed any violations in a particular year. It takes the value of 1 if a violation occurred and 0 otherwise. *IsViolate* is used as a dependent variable in our robustness check.

Table 2 in Appendix A presents the accumulated number of instances of misconduct by major types for the sample firms during 2007 - 2013. Following the terminology coined by Amiram et al.

[6] Data on eHudong are not reported here as it is not included in our regression analysis. For information, the numbers of questions and replies for our sample firms on eHudong were 11,011 and 9,494, respectively, in 2013.

(2018), corporate misconduct can be broadly classified into three categories. The first category is *financial misreporting*, which includes irregularities that pertain to financial reporting (disclosure), such as significant omission, delayed disclosure, false record (misleading statement), among others. The second category is *financial misrepresentation*, which includes fraud, misrepresentation, and manipulation in financial statements, such as general accounting misconduct, fictitious profits, overstated assets, tax-related misconduct, among others. The last category is about *opportunistic trading behaviors*, which includes illegal trading of stocks, insider trading, and stock price manipulation. The table shows that most of the misconduct falls in the categories of financial misreporting and financial misrepresentation. The type with the largest number of instances of misconduct is "Other", which accounted for 1,689 incidents during the sample period; followed by "Significant Omission", "Delayed Disclosure" and "False Record (Misleading Statement)", which register 974,812, and 778 incidents, respectively. Other major types of misconduct include "Illegal Trading of Stocks", "General Accounting Misconduct", "Fictitious Profits", and "Occupation of Company Assets", among others.

[Insert Table 2 here]

4.1.3 Other Control Variables

Following the prior studies (e.g., Dechow et al., 1996; Heese et al., 2022; Lee and Zhong, 2022; Li et al., 2023a; among others), we also incorporate a range of key firm-level control variables in our analysis, including: basic characteristics of the firm, such as firm size (*Size*), capital structure (*Lev*), profitability (*ROA*), and the nature of its ownership (*SOE*); variables related to internal governance, such as board size (*Board*), board independence (*Indep*), concentration of ownership (*Top1*), and CEO-board chair duality (*Duality*); variables related to external governance,

such as institutional holdings of shares (*Inst*), analyst coverage (*Analyst*), exposure to the news media (*News*), and the type of auditors (*Big4*).

Table 3 in Appendix A defines and summarizes these variables. We sourced the data for these variables from the CSMAR database. We exclude observations with missing data on these key variables, which results in an initial sample of 10,397 firm-year observations. To address potential outliers, we winsorize all continuous variables at the conventional 1% level at both ends.

[Insert Table 3 here]

4.2. PSM Sample

Although the launch of Hudongyi was an exogenous shock, firms choosing to list on SZSE might systematically differ from firms listed on SSE. To alleviate such concerns, we use the propensity score matching (PSM) method to match each SZSE (treated) firm with an SSE (control) firm. Specifically, we match firms based on key firm characteristics in 2009, the year immediately preceding the launch of Hudongyi (the treatment event that systematically channeled retail investor voice for SZSE firms), as in Heese et al. (2022) and Li et al. (2023a). We first estimate a Probit model where the dependent variable is a dummy variable indicating treatment status (*Treat*), which equals 1 for SZSE (treated) firms and 0 for SSE (control) firms. The covariates are the set of control variables mentioned above. We then apply the nearest neighbor matching method with a caliber of 0.05 and without replacement to pair each SZSE firm with an SSE firm from the same industry based on the propensity scores. This results in 377 pairs of matched firms, totaling 4,791 firm-year observations in the PSM sample.

Panel A of Table 4 in Appendix A illustrates the imbalance between SZSE firms and SSE firms prior to matching. The row labelled "distance" aggregates the overall divergence between SZSE and SSE firms across various metrics as represented by the covariates. The magnitude of the

imbalance is striking when assessed using standardized mean differences (*Std. Mean Diff.*), variance ratios (*Var. Ratio*), and empirical cumulative distribution function (*eCDF Mean*) statistics. Ideally, standardized mean differences and eCDF statistics should approach zero, while variance ratios should approach one to reflect satisfactory balance; however, the values we observe are considerably distant from these benchmarks, signaling pronounced disparities.

Panel B of Table 4 in Appendix A illustrates the improved balance between matched SZSE and SSE firms. Again, the row labelled "distance" shows the overall discrepancy between SZSE and SSE firms along those dimensions indicated by the covariates. Now the three balance measures are closely aligned with their optimal values. This convergence suggests that the matching process has been effective, resulting in a well-balanced sample.

For our main analysis, we will focus on the matched sample created through PSM. To ensure robustness, we will also use the initial unmatched sample and another refined sample in additional robustness tests. This approach allows us to validate the consistency and reliability of our findings across different samples.

[Insert Table 4 here]

4.3. Baseline Model Specification

We leverage the launch of Hudongyi as an exogenous event that formally enabled and amplified retail investor voice for a specific group of firms. Therefore, we employ the standard Difference-in-Differences (DiD) methodology to assess its impact[7]. The basic regression we estimate is as follows:

[7] While Hudongyi experienced a gradual increase in user engagement over 2010-2013, leading Li et al. (2023a) to adopt a staggered DiD approach, this methodology is not as suitable for our study. Because some of the initiation of investors' inquiries with a firm might be driven by corporate violations, as the example in footnote 3 shows. As a result, directly examining the relationship between the number of posts (or answers) and the number of violations in the full sample of SZSE and SSE firms during a longer period is also subject to the endogeneity issue and yields a

$$Y_{it} = \alpha + \beta \text{Treat}_i \times \text{Post}_t + \text{controls} + \text{Firm} + \text{Year} + \varepsilon_{it,} \quad (1)$$

where subscripts *i* and *t* denote firm and year, respectively. *Firm* and *Year* denote firm and year fixed effects, respectively. The dependent variable Y_{it} is either the number of instances of misconduct committed by firm *i* in year *t* (*Violations*), or the dummy variable that indicates the occurrence of misconduct (*IsViolate*). The variable $Treat_i$ is a dummy indicating the treatment status of a firm: $Treat_i = 1$ for SZSE-listed firms (where retail investor voice was formally channeled via Hudongyi) and $Treat_i = 0$ for SSE-listed firms. The variable $Post_t$ is another dummy, indicating the time period relative to Hudongyi's launch. $Post_t = 0$ for periods before and $Post_t = 1$ for periods since its launch. The coefficient of interest is β on the interaction term between $Treat_i$ and $Post_t$. A significant $\beta < 0$ would suggest that the institutionalized retail investor voice through Hudongyi effectively reduced corporate misconduct in engaging firms.

5. Empirical Results

5.1. Summary Statistics

Table 5 in Appendix A summarizes the descriptive statistics for the variables in the initial sample. To conserve space, we focus on our two main dependent variables (*Violations* and *IsViolate*) and the two DiD indicators here. There is nothing unusual about other control variables.

The sample mean of *Violations* is 0.40, with a standard deviation of 1.04. The minimum is 0 and the maximum is 6. Therefore, there are considerable variations in the number of instances of misconduct among different firms. Breaking into different categories, the sample mean of *Misreporting* is 0.20, with a standard deviation of 0.64, a minimum of 0, and a maximum of 4; the

positive relationship. Therefore, we choose the cleaner standard DiD setup as our baseline, which is used by Lee and Zhong (2022) among many others. Then, in Section 5.4, we provide a cross-sectional analysis to directly examine the relationship between the quality of interactions on the platform and corporate violations.

sample mean of *Misrepresentation* is 0.15, with a standard deviation of 0.45, a minimum of 0, and a maximum of 2; the sample mean of *Trading* is 0.04, with a standard deviation of 0.19, a minimum of 0, and a maximum of 1. Therefore, consistent with Table 2, most of the misconduct falls into the categories of financial misreporting and financial misrepresentation.

The sample mean of *IsViolate* is 0.19, with a standard deviation of 0.39, which implies that 19% of the sample has committed certain kinds of misconduct. The sample mean of *Treat* is 0.56, with a standard deviation of 0.5, which means 56% of the firms are treated and implies relatively balanced treat and control groups. The sample mean of *Post* is 0.69, with a standard deviation of 0.46, which means 69% of the observations are after the launch of Hudongyi, which ensures a sufficient sample size to examine the dynamics of the platform.

Overall, these statistics show considerable variation in corporate misconduct and balanced treatment/control groups and pre/post periods, suitable for examining the impact of the platform for retail investor voice.

[Insert Table 5 here]

5.2. Main Results

We examine whether corporate misconduct changes after the launch of Hudongyi, which provided a formal channel for retail investor voice. To do so, we examine the natural logarithm of one plus the number of instances of misconduct (*Violations*) using Equation (1). Table 6 in Appendix B reports the results from different samples, in which all of the standard errors are clustered at the firm level[8].

We first analyze the PSM sample as our baseline. The basic findings, shown in Column (1) without additional control variables, reveal a coefficient of -0.070 for the interaction term

[8] Results remain consistent when clustering at the industry level.

Treat×*Post*, significant at the 5% level. This offers preliminary support for H1, suggesting that the amplified retail investor voice had a disciplinary effect. Column (2) displays baseline results incorporating control variables from Equation (1), where the interaction term's coefficient is -0.075, significant at the 5% level as well. This reinforces the conclusion that Hudongyi's introduction, by empowering retail investor voice, significantly reduces corporate misconduct among SZSE firms, formally confirming H1.

Subsequently, we analyze the initial unmatched sample, with findings in Columns (3) and (4). Without other controls, the interaction term's coefficient is -0.043, significant at the 5% level. When including covariates, this coefficient changes to -0.051, maintaining its significance at the 5% level, corroborating the PSM sample results and further confirming hypothesis H1.

Some of the sample firms record no violations during the study period. To ensure that the results are not driven by them, we exclude these non-violators from our sample. Columns (5) and (6) present results from this refined sample of only firms with violations. Focusing solely on these firms, Hudongyi's impact on misconduct becomes more pronounced. Without additional controls, the interaction term's coefficient is -0.132, significant at the 1% level. Including covariates, it becomes -0.147, also significant at the 1% level, underscoring the intensified effect of Hudongyi on corporate misconduct. Again, this confirms hypothesis H1.

In summary, the findings suggest a notable decrease in corporate misconduct among treated firms following Hudongyi's launch. Crucially, these results are not confined to a specific sample, ensuring their robustness. Therefore, our subsequent analyses will concentrate on the PSM sample.

[Insert Table 6 here]

5.3. Robustness Analysis

To verify the robustness and validity of our baseline findings from the PSM sample using the DiD method, we conduct several robustness tests[9].

5.3.1. Alternative Dependent Variables

Table 5 reveals that firms on SZSE and SSE have committed a variety of misconduct. To ensure that our baseline results are not driven by a particular major type of misconduct, we examine the robustness by excluding each major type of misconduct one at a time when calculating the number of instances of misconduct, as done in Heese et al. (2022). In these tests, we exclude either "Other", "Significant Omission", "Delayed Disclosure" or "False Record (Misleading Statement)" (the four types with the largest number of violations). As shown in Panel A of Table 7, the coefficients on the interaction term *Treat*×*Post* are all negative and significant at the 5% level, implying that the baseline results are not driven by any particular type of misconduct.

Table 5 also reveals that corporate misconduct falls into three broad categories. To examine whether the effect of Hudongyi varies across different categories, we further examine the robustness by investigating each broad category separately. Panel B of Table 7 reports the results. The column labelled "Misreporting" reports the results on the category of financial misreporting, which shows that the coefficient on the interaction term *Treat*×*Post* is -0.056, significant at the 1% level. The column labelled "Misrepresentation" reports the results on the category of financial misrepresentation, which shows that the coefficient on the interaction term is -0.033, significant at the 10% level. The column labelled "Trading" reports the results on the category of opportunistic trading behaviors, which shows that the coefficient on the interaction term is -0.004, but insignificant. Therefore, the launch of Hudongyi significantly reduces misconduct pertaining to

[9] To conserve space, only coefficients for the interaction terms are reported in those tables of robustness analysis, although the same set of covariates as in the baseline regression are included in all of the regressions.

financial misreporting and financial misrepresentation, but barely affects the opportunistic trading behaviors of corporate insiders. The trading-related misconduct is less likely to be affected by the retail investor voice because it often occurs before information becomes public, and hence it is harder for retail investors to detect or prevent through inquiries[10].

In the last column of Table 7's Panel B (labelled as "Fined"), we focus only on the misconduct that are subject to pecuniary penalty, namely, fined violations. The coefficients on the interaction term *Treat*×*Post* is -0.021, significant at the 10% level. It further implies that the baseline results are not driven by any particular type of misconduct.

We also assess the impact of retail investor voice on corporate misconduct using *IsViolate*, a binary variable indicating misconduct occurrence in a given year. The results, detailed in Panel C of Table 7, include analyses using the Probit model in Columns (1) and (2). Here, the interaction term's coefficient is -0.537, significant at the 1% level without other controls, and -0.560, also significant at the 1% level, with controls included. These results suggest a reduced likelihood of misconduct by treated firms post-Hudongyi launch, reinforcing that the platform for retail investor voice acts as a deterrent. It is important to note, however, that only 2,235 out of 4,791 observations contribute to parameter identification. This limitation is due to the exclusion of observations that perfectly classify firms as either always or never committing misconduct. To maintain the integrity of the entire PSM sample, we apply the linear probability model in Columns (3) and (4). The coefficients for the interaction term remain significant at the 1% level, -0.055 without controls and -0.059 with controls, corroborating the Probit model's findings and reinforcing our baseline results.

[10] However, it is important to recognize that the insignificant results on stock market trading could also be due to the relatively small sample size of violations in this category, as shown in Table 6.

Nevertheless, given these nuances, we will focus on the baseline setup with the PSM sample and the logarithmic number of instances of misconduct as dependent variable hereafter.

[Insert Table 7 here]

5.3.2. Parallel Trend and Dynamic Effects

The validity of the DiD analysis is contingent on the assumption of a parallel trend in violations between treated and control firms before the launch of Hudongyi. Although direct verification of this trend in the data is challenging, employing a dynamic model, as suggested in the literature, addresses this issue. Intuitively, this model introduces interaction terms for each year's *Treat* dummy, excluding 2009 (the year right before the treatment) as a reference point. Insignificant coefficients for these interaction terms before 2010, the treatment year, would imply support for the parallel trend hypothesis. The model also facilitates assessing the enduring effects of the policy shock; significant coefficients post-2010 would suggest persistent impacts.

Panel A of Table 8 in Appendix B displays results from this dynamic model, controlling for the same covariates as in the baseline regression. The table shows no significant interactions for the years 2007 and 2008 with the *Treat* dummy, supporting the parallel trend hypothesis. Conversely, the interaction with the 2010 *Treat* dummy is significant at the 5% level with a coefficient of -0.062. For 2012 and 2013, two and three years post-treatment, the coefficients are both negative and significant at the 5% and 1% level, respectively, indicating that the retail investor voice, once formally channeled, had a lasting disciplinary influence on corporate misconduct. Figure 1 visually represents this lasting impact[11].

[Insert Figure 1 here]

[11] Based on the pattern, we also test the cases when we exclude 2011 or exclude both 2010 and 2011 from the sample in the baseline regression, and find that the effect of Hudongyi's launch remains.

5.3.3. Falsification Tests

To validate that the observed effects in our baseline results are attributable to the launch of Hudongyi in 2010 and not to omitted variables or mere chance, we conduct a placebo test using artificial treatment period set in 2009. This approach involves creating a pseudo *FakePost* dummy for the year 2009. If our baseline results truly stem from Hudongyi's 2010 launch, then the coefficients for the interactions between the *Treat* dummy and this *FakePost* dummy should be statistically insignificant.

Panel B of Table 8 displays the outcomes for this artificially set treatment period. Column (1) reports the result without any control, which indicates that when Hudongyi's launch is fictitiously set in 2009, the interaction term's coefficient is not significant. Similarly, Column (2) presents analogous results for the case with additional controls. These findings suggest that the baseline results genuinely originate from Hudongyi's actual 2010 launch, not from artificial treatment time.

To further substantiate that our baseline findings are a consequence of the Hudongyi launch and not mere chance, we implemented a permutation test. In this test, treatment statuses of firms were randomly assigned, followed by a rerun of the regressions based on these artificial treatments as specified in Equation (1). Given the random and artificial nature of this setup, we would expect the coefficient on the interaction term to be insignificantly different from zero.

Panel C of Table 8 displays the results from 1,000 such permutation tests. The average estimated coefficient on the interaction term (*FakeTreat*×*Post*) across these tests is a minimal 0.0007, with a standard deviation of 0.0222. The p-value, calculated as 0.002, represents the proportion of instances in which the permuted estimates (under the assumption of no effect) are equal to or exceed the observed estimate. The near-zero mean of the coefficients and the low p-

value, well below the standard threshold of 0.05, strongly imply our baseline findings are not due to chance but are influenced by the launch of Hudongyi as a conduit for retail investor voice.

[Insert Table 8 here]

5.4. Cross-Sectional Analysis: Quality of Interaction with Retail Investor Voice

Hypothesis H2 proposes that the effectiveness of the retail investor voice in reducing corporate misconduct depends on the quality of the dialogue between investors and management on the platform. To test the hypothesis, we focus on two dimensions that could reflect the quality of these interactions. The first is reply lag, defined as the average time it takes for a firm to respond to investor inquiries over the course of a year. A shorter reply lag generally indicates promptness in responding, which indicates effective and timely communication with investors. The second is reply length, which measures the average number of Chinese characters (excluding punctuation) in the firm's responses within a year. Longer replies typically suggest more detailed and thorough explanations or clarifications, implying a higher quality of interaction.

5.4.1. Reply Lag

To examine whether variations in firms' reply lags impact the effectiveness of retail investor voice in reducing corporate misconduct, we split the PSM sample into two groups based on the average reply lags from 2010 to 2013. Following Li et al. (2023a), in this and subsequent subsample analyses, classifications are applied to treated firms, with control firms then being matched accordingly. The process involves first calculating the average reply lag for each treated firm during the 2010-2013 period. Then a treated firm is categorized into the High-Lag group if its average lag exceeds the median of all treated firms; otherwise, it is placed in the Low-Lag group. Given that swifter replies may indicate superior interaction quality, leading to more timely

information exchange or prompt firm actions, it is hypothesized that the influence of retail investor voice on reducing corporate misconduct will be more evident in firms with lower reply lags.

Panel A of Table 9 details the results. The regression outcome for the High-Lag group, depicted in Column (High-Lag), reveals a marginally negative but not statistically significant coefficient for the *Treat*×*Post* interaction term. In contrast, the Low-Lag group's results, presented in Column (Low-Lag), display a significant coefficient of -0.115 at the 1% level for the same interaction term. The coefficient difference test indicates that the difference is significant at the 10% level. This supports H2, suggesting that prompt engagement with the retail investor voice enhances its disciplinary power[12].

5.4.2. Reply Length

To test whether the length of firms' replies, as a measure of their detail and thoroughness, impact the effectiveness of retail investor voice in reducing corporate misconduct, we split the PSM sample into two groups based on the average reply word count from 2010 to 2013. The process involves first calculating the average reply words for each treated firm during the 2010-2013 period. Then a treated firm is categorized into the High-Length group if its average word count is above the median of all treated firms. Otherwise, it is placed in the Low-Length group. As longer replies typically provide more detailed clarifications or explanations, potentially enhancing the effectiveness of retail investor voice in curtailing corporate violations, it is hypothesized that the influence of retail investor voice on reducing corporate misconduct will be more evident in firms with longer replies.

[12] Sometimes, a firm may quickly reply with some brief and generic answer, such as "Respectful investor, thank you for your inquiry, currently there is no undisclosed information about the firm that should be disclosed", which contains around 35 Chinese characters. To exclude such cases, we perform a robustness test in which we calculate the average reply lag only for replies with more than 40 Chinese characters (excluding punctuation). The results are qualitatively similar. Our results are also robust with different intervals, such as 2010 - 2015 and 2010 - 2019, used to calculate average reply lags or average reply length in the following.

Panel B of Table 9 details the results. For the High-Length group, as shown in Column (High-Length), the regression analysis reveals a significant coefficient of -0.109 at the 1% level for the *Treat*×*Post* interaction term. This indicates a stronger effect of Hudongyi in reducing violations among firms that provide lengthier, more detailed replies. In contrast, the Low-Length group's results, presented in Column (Low-Length), show that the coefficient for the interaction term is negative but not statistically significant. The coefficient difference test indicates that the difference is significant at the 5% level. This further supports H2, indicating that more substantive responses to the retail investor voice amplify its effectiveness in curtailing corporate misconduct.

[Insert Table 9 here]

5.5. Additional Analysis on the Mechanisms: How Retail Investor Voice Disciplines

Hypothesis H3 proposes that the retail investor voice on IIPs reduces corporate misconduct through enhanced information transparency and strengthened corporate governance.

5.5.1. The Information Channel: Retail Investor Voice Seeking Transparency

To explore whether the launch of Hudongyi and the retail investor voice on the platform affect corporate misconduct through information channel, we examine how the effect varies across firms with different levels of information asymmetry. In line with existing literature, we employ two measures to gauge a firm's information asymmetry: market liquidity and discretionary accruals (DA). Market liquidity is represented by the Amihud (2002) illiquidity measure. It reflects the premise that uninformed investors, wary of adverse selection, generally seek protection in the form of reduced liquidity, a common manifestation of information asymmetry (e.g., Lee and Zhong, 2022). Discretionary accruals are estimated through the modified Jones model. Higher levels of discretionary accruals typically suggest more opacity, indicating poorer revelation of firm-specific information (e.g., Hutton et al., 2009; Zhong, 2018).

Market liquidity. To examine the information channel from the perspective of market liquidity, we split the sample into two groups based on the Amihud illiquidity measure of treated firms in 2009, the year right before the launch of Hudongyi. Treated firms with an illiquidity measure above the median are categorized into the High-Illiq group, while those below the median fall into the Low-Illiq group. If the effect of retail investor voice is indeed channeled through information dissemination, we anticipate a more pronounced effect in the High-Illiq group. The results, as detailed in Panel A1 of Table 10, support this hypothesis. The regression for the High-Illiq group, shown in Column (High-Illiq), reveals a significant coefficient of -0.143 at the 1% level for *Treat*×*Post* interaction term. Conversely, the Low-Illiq group's results, in Column (Low-Illiq), indicate that the coefficient is neither statistically nor economically significant. The coefficient difference test indicates that the difference is significant at the 5% level. This supports H3a, suggesting that the retail investor voice is particularly effective in reducing information gaps where asymmetry was initially high.

Discretionary accruals. Similarly, to examine the information channel from the perspective of discretionary accruals, we split the sample into two groups based on the absolute value of discretionary accruals of treated firms in 2009[13]. Treated firms with DA above the median are categorized into the High-DA group, while those below the median fall into the Low-DA group. The results, as detailed in Panel A1 of Table 10, provide insights into this aspect of the information channel. The regression for the High-DA group, shown in Column (High-DA), reveals that the *Treat*×*Post* interaction term's coefficient is -0.072, significant at the 10% level. In the Low-DA group (Column Low-DA), the coefficient is also negative but not statistically significant. However,

[13] We use the absolute value to incorporate both upward and downward management of accruals. The results are qualitatively similar if we use the original value.

the coefficient difference test indicates that the difference is insignificant. This suggests the retail investor voice may be less effective in addressing complex accounting choices like DA.

Impact of IIP on information asymmetry. To further examine the effect of retail investor voice via the information channel, we directly test how the launch of Hudongyi affects the two measures of information asymmetry. Panel A2 of Table 10 presents these additional results. Columns (1) and (2) focus on the effect of Hudongyi's launch on the Amihud illiquidity measure, where the dependent variable is the Amihud illiquidity measure. Column (1) shows a significant *Treat*×*Post* coefficient of -0.022 at the 1% level without controls, while Column (2) maintains this significance at -0.013 with controls in place. Consistent with Lee and Zhong (2022), these results indicate that Hudongyi's launch significantly improves market liquidity, suggesting enhanced information transparency, and validating hypothesis H3a. Columns (3) and (4) examine the effect on DA, where the dependent variable is the absolute value of DA. They reveal insignificant and minor coefficients for the interaction term, implying Hudongyi's launch does not significantly impact DA[14]. This is perhaps not surprising, as DA is more subtle and harder for the retail investor voice to directly challenge through IIPs[15].

Overall, these findings suggest that while the retail investor voice enhances information flow, its reach has limits, particularly concerning technical accounting complexities. This also reminds us of the dark side of investor interactive platforms mentioned by Wu et al. (2022), Duan et al. (2023), and Wang (2023).

5.5.2. The Additional Governance Channel: Retail Investor Voice as a Monitor

[14] We rerun the same two regressions for DA using the initial unmatched sample, the coefficients on the interaction term are also minimal and insignificant. Hence, this is not due to the specific sample used. The results are also qualitatively similar if we use the original value of DA.

[15] Discretionary accruals represent management's accounting choices that are within GAAP guidelines. While IIP enhances transparency for obvious misconduct, it may be less effective for monitoring technical accounting decisions.

To explore whether the launch of Hudongyi and the retail investor voice on the platform affect corporate misconduct through an additional governance channel, we examine how the effect of the platform varies across firms with different levels of pre-existing governance.

Both internal and external governance mechanisms play crucial roles in curbing corporate misconduct. For internal governance, we focus on the four factors included in our regression analysis: board size (*Board*), board independence (*Indep*), CEO duality (*Duality*), and concentration of ownership (*Top1*). Beasley (1996) and Dechow et al. (1996) have clearly identified the impact of board independence and CEO duality on corporate misconduct. The other two variables, board size and ownership concentration, present somewhat more complexities or mixed information (Dechow et al., 1996). Board independence (and maybe board size) reflects the oversight of management and CEO duality reflects the power of CEO over board. A robust internal governance structure should be characterized by higher oversight of management and lower power of CEO over board, and hence should be positively correlated with board independence (and maybe board size) and negatively correlated with CEO duality (Dechow et al., 1996). External governance involves various market participants like institutional investors, analysts, news media, and auditors, each exerting their own form of oversight on firms. The presence of informed and active external entities can enhance governance through increased scrutiny and accountability. Elements such as higher institutional holdings (Hart and Zingales, 2017; Broccardo et al., 2022), extensive analyst coverage (Bradshaw et al., 2017; Ren et al., 2021), widespread media exposure (e.g., Heese et al., 2022), and competent auditors (e.g., Lin and Liu, 2009) are indicative of robust external governance. These elements can collectively act as a check on corporate misconduct.

Internal governance. We first examine how the effect of retail investor voice varies across firms with different levels of internal governance. Following Dechow et al. (1996), we apply factor

analysis to obtain a summary measure of the effectiveness of firms' internal governance structure from the four indicators mentioned above. The results from the factor analysis identify the factor that is positively correlated with board independence and board size, but negatively correlated with CEO duality and ownership concentration, which represents the overall strength (score) of internal governance, as expected. We then split the sample into two groups based on the score of treated firms in 2009[16]. Firms above the median score are in the High-Score group, while those below are in the Low-Score group. Hypothesis H3b proposes that if Hudongyi empowers retail investor voice to exert additional external governance, its impact should be more pronounced in the Low-Score group, where the existing internal governance is weaker.

Panel B1 of Table 10 details the results from this examination. In the High-Score group, Column (High-Score) shows that the coefficient on the interaction term *Treat*×*Post* is small (-0.017) and insignificant. In contrast, in the Low-Score group, Column (Low-Score) shows that the coefficient is -0.133, significant at the 1% level. The coefficient difference test indicates that the difference is significant at the 5% level. This supports H3b, indicating that the retail investor voice acts as a valuable complement where internal oversight is lacking.

External governance. Then we examine how the effect of retail investor voice varies across firms with different levels of external governance. Similarly, we apply factor analysis to synthesize a composite measure of the effectiveness of firms' external governance from the four indicators: institutional holdings (*Inst*), analyst coverage (*Analyst*), exposure to news media reports (*News*), and auditor type (*Big4*). The results from the factor analysis identify the factor that is positively

[16] The factor reads: Internal governance = 0.697 Indep + 0.057 Board – 0.634 Duality – 0.024 Top1. The results are qualitatively similar if we only use board independence and CEO duality in the factor analysis, which identifies the factor that reads: Internal governance = 0.668 Indep – 0.668 Duality. The results are also qualitatively similar if we only use board independence to split the sample.

correlated with all of the four factors, which represents the overall strength (score) of external governance, as per our expectation. We then split the sample into two groups based on the score of treated firms in 2009[17]. Firms above the median score are in the High-Score group, while those below are in the Low-Score group. Hypothesis H3b proposes that if Hudongyi enables retail investor voice to provide additional external governance, its impact should be more pronounced in the Low-Score group, where the existing external governance is weaker.

Panel B1 of Table 10 details the results. In the High-Score group, Column (High-Score) shows that the coefficient on the interaction term *Treat*×*Post* is small (-0.032) and insignificant. Conversely, in the Low-Score group (Column Low-Score), the coefficient is -0.111, significant at the 1% level. The coefficient difference test indicates that the difference is significant at the 10% level. This further supports H3b, showing the retail investor voice also complements traditional external governance.

Impact of IIP on conventional external governance. To further examine the effect of retail investor voice via the governance channel, we also examine how the launch of Hudongyi may spur more active traditional external governance as well, such as more media attention and news coverage. Cai et al. (2024) show that retail investors' voice on the platform draws attention from CSRC towards companies, resulting in increased regulatory scrutiny with more CSRC comment letters. However, CSRC comment letters were introduced and made public only after 2013, beyond our sample period, which implies that there were other mechanisms at work before 2013. Young (2024) provides evidence on the important interplay among media coverage, shareholder activism

[17] The factor reads: External governance = 0.633 Inst + 0.842 Analyst + 0.821 News + 0.487 Big4.

campaigns and capital markets. Therefore, we test whether the retail investor voice on the IIP draws more media attention, resulting in more extensive news coverage for engaging firms.

Panel B2 of Table 10 details the results. Using the natural logarithm of news coverage (*News*) as the dependent variable and without any other control variables, Column (1) shows that the coefficient on the interaction term *Treat*×*Post* is 0.038, significant at the 1% level. Column (2), where we also include the same set of covariates as in the baseline regressions, shows that the coefficient on *Treat*×*Post* is 0.037, significant at the 1% level as well.

Since exposed corporate misconduct itself could draw widespread media attention, in Column (3), we further include the number of corporate misconduct (*Violations*) in the regression. The column shows no significant effect of misconduct after we take into account the effect of IIP and other controls. Therefore, the coefficient on *Treat*×*Post* is still 0.038, significant at the 1% level. This confirms that the retail investor voice can draw more media attention, thereby strengthening overall governance pressure and supporting H3b.

In summary, these findings suggest that the retail investor voice, when empowered by platforms like Hudongyi, both enhances information transparency and acts as a supplementary and strengthening force for traditional governance mechanisms. Its disciplinary effect is particularly pronounced where information asymmetry is high and existing governance is weaker.

[Insert Table 10 here]

6. Conclusion

This study provides compelling evidence that exchange-mandated interactive investor platforms (IIPs) in China serve as an effective mechanism for reducing corporate misconduct by empowering the retail investor voice. Leveraging the introduction of the Hudongyi platform as an exogenous shock within a difference-in-differences framework, we demonstrate that providing a

formal channel for retail investor voice significantly decreases corporate misconduct, particularly that related to financial misreporting and misrepresentation.

The disciplinary power of the retail investor voice is amplified when firms engage with it more meaningfully—providing quicker and more comprehensive responses to voiced inquiries. Furthermore, the impact of this voice is greater in companies characterized by weaker pre-existing corporate governance and higher initial information asymmetry. These findings indicate that the retail investor voice, when formally channeled through IIPs, operates through dual mechanisms: it enhances information transparency by allowing investors to publicly seek and receive firm-specific information, and it strengthens corporate governance by enabling direct monitoring and accountability. The retail investor voice thus serves as a valuable complement to traditional governance structures, particularly where such structures are less robust.

Our research makes significant contributions to the understanding of technology-enabled corporate governance. It demonstrates how digital platforms can effectively channel the retail investor voice, transforming it into a tangible disciplinary force that can curb corporate misconduct. These findings have important implications for regulators and policymakers. They suggest that fostering and structuring channels for retail investor voice can be a potent tool for improving market discipline and enhancing investor protection, especially in markets with substantial retail investor participation. Therefore, the insights are particularly relevant for emerging markets seeking to strengthen their governance frameworks and empower individual investors through technological innovations. Future considerations could explore the optimal design of such platforms to further enhance the effectiveness of the retail investor voice in promoting corporate accountability.

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Appendix

A. Sample Description

Table 1 presents the characteristics of questions and replies for the sample firms on Hudongyi. Table 2 presents the number of instances of misconduct for the sample firms by type. Table 3 presents the description of the variables. Table 4 and 5 present the balance of covariates between SZSE firms and SSE firms for unmatched sample and PSM sample, respectively. Table 6 presents the descriptive statistics of the variables in the initial sample.

Table 1: Characteristics of questions and replies on Hudongyi

Year	Firm Number	Questions	Replies	Reply Lag	Reply Words	Reply Ratio
2010	817	17,835	16,810	34.207	85.732	0.943
2011	1,257	57,966	56,114	12.644	92.029	0.968
2012	1,433	137,757	133,607	7.956	83.502	0.97
2013	1,432	305,708	297,968	5.315	70.104	0.975
2014	1,435	440,717	428,945	5.211	60.639	0.973
2015	1,433	448,976	430,473	5.806	54.823	0.959
2016	1,432	337,183	323,085	7.48	57.365	0.958
2017	1,430	258,904	246,749	8.171	62.894	0.953
2018	1,428	193,513	180,030	10.516	68.785	0.93
2019	1,412	171,890	161,120	9.974	72.02	0.937
2020	1,410	253,930	239,918	9.757	72.151	0.945

The numbers are based on the firms in the initial sample.

Table 2: Number of instances of misconduct by type during 2007 – 2013

Category	Type of Misconduct	Count
Misreporting	Significant Omission	974
	Delayed Disclosure	812
	False Record (Misleading Statement)	778
	Occupation of Company Assets	124
	Illegal Guarantee	81
	Untrue Disclosure (Other)	74
	Unauthorized Change of Fund Use	68
Misrepresentation	Other	1,689
	General Accounting Misconduct	338
	Fictitious Profits	167
	Failure to Pay or Underpayment of Taxes (Tax Owing)	65
	Overstated Assets	30
	Deduction of Taxes from Other Invoices	24
	Issuing False VAT Invoices or for Export Tax Refund Fraud	24
	Tax Evasion	22
	Issuing False General Invoices	2
Trading	Illegal Trading of Stocks	420
	Insider Trading	115
	Stock Price Manipulation	7

The numbers of misconduct are based on the firms in the initial sample.

Table 3: Variable Definition

Notation	Description
Violations	Number of instances of misconduct (violations) for a firm in a year
IsViolate	Indicates whether a firm commits misconduct in a year, 1 for Yes, 0 for No
Misreporting	Number of instances of misconduct in the category of financial misreporting
Misrepresentation	Number of instances of misconduct in the category of financial misrepresentation
Trading	Number of instances of misconduct in the category of opportunistic stock market trading
Fined	Number of instances of misconduct that are subject to pecuniary penalty
Treat	Indicates whether a firm is treated (listed on SZSE), 1 for Yes, 0 for No
Post	Indicates whether it is after the treatment year (2010), 1 for Yes, 0 for No
Size	Logarithm of total assets
Lev	The leverage ratio, total liabilities/total assets
ROA	Return on assets, net income/total assets
SOE	1 for State-owned enterprises, 0 for others
Board	Board size, logarithm of number of board directors
Indep	Board independence, independent directors/total number of directors
Duality	Indicates whether board chair and CEO are the same person, 1 for Yes, 0 for No
Top1	Share holdings of Top 1 shareholder, % of shares outstanding
Inst	Institutional holdings of shares, % of shares outstanding
Analyst	Logarithm of analyst coverage
News	Logarithm of number of media news reports on the firm
Big4	Indicates whether the auditor is from the Big 4 audit firms, 1 for Yes, 0 for No

Table 4: PSM sample of SZSE Firms and SSE Firms

Panel A: Unmatched sample - initial imbalance between SZSE Firms and SSE Firms

Variables	Means Treated	Means Control	Std. Mean Diff.	Var. Ratio	eCDF Mean
distance	0.60	0.40	0.99	1.06	0.26
Size	21.50	22.05	-0.49	0.83	0.14
Lev	0.47	0.52	-0.23	1.23	0.07
ROA	0.04	0.03	0.20	1.12	0.06
SOE	0.53	0.72	-0.39		0.20
Board	2.22	2.30	-0.38	0.84	0.06
Indep	0.37	0.37	-0.04	0.82	0.02
Duality	0.23	0.11	0.29		0.12
Top1	0.36	0.38	-0.11	0.95	0.03
Inst	0.52	0.58	-0.26	1.34	0.07
Analyst	1.63	1.71	-0.06	0.95	0.02
News	4.58	4.58	-0.03	0.77	0.02
Big4	0.04	0.08	-0.22		0.04

Variables are defined in Table 3. SZSE denotes Shenzhen Stock Exchange. SSE denotes Shanghai Stock Exchange.

Panel B: Matched sample - assessing the quality of matches

Variables	Means Treated	Means Control	Std. Mean Diff.	Var. Ratio	eCDF Mean
distance	0.50	0.49	0.02	1.04	0.01
Size	21.78	21.76	0.02	1.15	0.02
Lev	0.51	0.51	0.02	1.20	0.02
ROA	0.04	0.03	0.04	0.84	0.01
SOE	0.63	0.64	-0.01		0.01
Board	2.26	2.25	0.02	0.91	0.01
Indep	0.37	0.37	0.07	1.04	0.02
Duality	0.15	0.14	0.01		0.00
Top1	0.37	0.36	0.04	1.03	0.01
Inst	0.56	0.55	0.03	1.20	0.03
Analyst	1.68	1.60	0.07	0.94	0.01
News	4.58	4.57	0.02	0.90	0.01
Big4	0.06	0.05	0.08		0.02

Variables are defined in Table 3.

Table 5: Descriptive Statistics for Variables in the Initial Sample

	N	Mean	SD	Min	Median	Max
Violations	10397	0.40	1.04	0.00	0.00	6.00
IsViolate	10397	0.19	0.39	0.00	0.00	1.00
Misreporting	10397	0.20	0.64	0.00	0.00	4.00
Misrepresentation	10397	0.15	0.45	0.00	0.00	2.00
Trading	10397	0.04	0.19	0.00	0.00	1.00
Fined	10397	0.03	0.23	0.00	0.00	2.00
Treat	10397	0.56	0.50	0.00	1.00	1.00
Post	10397	0.69	0.46	0.00	1.00	1.00
Size	10397	21.86	1.22	19.67	21.69	25.65
Lev	10397	0.46	0.21	0.05	0.47	0.87
ROA	10397	0.04	0.05	-0.14	0.04	0.20
SOE	10397	0.52	0.50	0.00	1.00	1.00
Board	10397	2.27	0.23	1.61	2.20	2.89
Indep	10397	0.37	0.06	0.25	0.33	0.57
Top1	10397	0.37	0.15	0.09	0.35	0.75
Duality	10397	0.20	0.40	0.00	0.00	1.00
Inst	10397	0.52	0.24	0.01	0.53	0.97
Analyst	10397	1.58	1.16	0.00	1.61	3.74
News	10397	4.44	0.28	3.87	4.37	5.49
Big4	10397	0.06	0.24	0.00	0.00	1.00

Variables are defined in Table 3.

B. Empirical Results

Table 6: Main results - DiD regression of the number of instances of misconduct (*Violations*)

Covariates/Sample	PSM Sample		Initial Sample		Violated Sample	
	(1)	(2)	(3)	(4)	(5)	(6)
Treat×Post	-0.070 **	-0.075 **	-0.043 **	-0.051 **	-0.132 ***	-0.147 ***
	(-2.442)	(-2.573)	(-1.988)	(-2.355)	(-2.934)	(-3.260)
Size		0.068 **		0.076 ***		0.149 ***
		(2.421)		(3.694)		(3.966)
Lev		0.012		-0.001		0.007
		(0.131)		(-0.022)		(0.051)
ROA		-0.142		-0.172		-0.275
		(-0.720)		(-1.179)		(-0.989)
SOE		0.026		0.009		0.055
		(0.272)		(0.150)		(0.522)
Board		-0.056		-0.005		-0.005
		(-1.250)		(-0.149)		(-0.079)
Indep		-0.155		-0.056		-0.118
		(-1.101)		(-0.580)		(-0.558)
Duality		0.051		0.032		0.060
		(1.446)		(1.431)		(1.430)
Top1		-0.058		-0.108		-0.087
		(-0.336)		(-0.887)		(-0.408)
Inst		-0.064		-0.067		-0.208 *
		(-0.796)		(-1.253)		(-1.873)
Analyst		-0.031 **		-0.031 ***		-0.058 ***
		(-2.351)		(-3.466)		(-3.250)
News		0.067		0.104 ***		0.183 ***
		(1.399)		(3.486)		(3.053)
Big4		-0.021		-0.001		-0.028
		(-0.476)		(-0.044)		(-0.264)
N	4791	4791	10397	10397	4688	4688
Adj. R2	0.339	0.342	0.393	0.397	0.227	0.236

With firm FE and year FE. The dependent variable is the natural logarithm of one plus the number of instances of misconduct (*Violations*). The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

Table 7: Robustness analysis - alternative dependent variables

Panel A: PSM-DiD regression of the number of instances of misconduct by type

Covariates/Outcome	Excluding Each Major Type of Misconduct One at a Time			
	Other	Significant Omission	Delayed Disclosure	False Record (Misleading Statement)
Treat×Post	-0.060 **	-0.064 **	-0.070 **	-0.059 **
	(-2.506)	(-2.482)	(-2.562)	(-2.221)
N	4791	4791	4791	4791
Adj. R2	0.314	0.322	0.322	0.342

With firm FE, year FE and the same set of covariates as in the baseline regression. The dependent variable is the natural logarithm of one plus the number of instances of misconduct after excluding the specific type. The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

Panel B: PSM-DiD regression of the number of instances of misconduct by broad category

Covariates/Outcome	Broad Category			
	Misreporting	Misrepresentation	Trading	Fined
Treat×Post	-0.056 ***	-0.033 *	-0.004	-0.021 *
	(-2.598)	(-1.798)	(-0.540)	(-1.951)
N	4791	4791	4791	4791
Adj. R2	0.333	0.306	0.079	0.353

With firm FE, year FE and the same set of covariates as in the baseline regression. The dependent variable is the natural logarithm of one plus the number of instances of misconduct in each category. The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

Panel C: PSM-DiD regression of the occurrence of misconduct (*IsViolate*)

Covariates/Method	Probit Model		Linear Probability Model	
	(1)	(2)	(3)	(4)
Treat×Post	-0.537 ***	-0.560 ***	-0.055 ***	-0.059 ***
	(-3.101)	(-3.192)	(-2.936)	(-3.124)
Controls	No	Yes	No	Yes
N	2235	2235	4791	4791
Adj. R2			0.331	0.332
Pseudo R2	0.169	0.177		

With firm FE and year FE. "Controls" denote the same set of covariates as in the baseline regression. The dependent variable is the dummy variable indicating the occurrence of misconduct (*IsViolate*). The other variables are defined in Table 3. T- or z-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

Table 8: Robustness analysis – validity test of DiD regression

Panel A: Parallel trend and dynamic effects

	Violations
Year2007×Treat	-0.003
	(-0.096)
Year2008×Treat	-0.025
	(-0.839)
Year2010×Treat	-0.062 **
	(-2.055)
Year2011×Treat	-0.029
	(-0.748)
Year2012×Treat	-0.100 **
	(-2.293)
Year2013×Treat	-0.143 ***
	(-3.137)
N	4791
Adj. R2	0.343

With firm FE, year FE and the same set of covariates as in the baseline regression. The dependent variable is the natural logarithm of one plus the number of instances of misconduct (*Violations*). Year2007-Year2013 denote the year dummy for year 2007, 2008, 2010, 2011, 2012, and 2013, respectively. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

Panel B: Placebo test with artificial treatment time

Covariates/Time	Artificial Treatment Time in 2009	
	(1)	(2)
Treat×FakePost	-0.046	-0.050
	(-1.391)	(-1.416)
Controls	No	Yes
N	4791	4791
Adj. R2	0.338	0.341

With firm FE and year FE. "Controls" denote the same set of covariates as in the baseline regression. The dependent variable is the natural logarithm of one plus the number of instances of misconduct (*Violations*). The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

Panel C: Permutation test with artificial treatment status

	Mean Permuted Estimate	Standard Deviation	P-value
FakeTreat×Post	0.0007	0.0222	0.0020

Results from 1,000 permutations. With firm FE, year FE and the same set of covariates as in the baseline regression.

Table 9: Cross-sectional analysis - quality of interactions and the effectiveness of IIP

Panel A: Heterogeneous effects of Hudongyi among firms with different reply lags

Covariates/Group	Reply Lags	
	High-Lag	Low-Lag
Treat×Post	-0.010	-0.115 ***
	(-0.242)	(-2.782)
Diff.	0.105*	
N	2356	2388
Adj. R2	0.35	0.349

With firm FE, year FE and the same set of covariates as in the baseline regression. The dependent variable is the natural logarithm of one plus the number of instances of misconduct (*Violations*). We use reply lag, defined as the average time it takes for a firm to respond to investor inquiries over the course of a year, to measure the quality of the interactions on IIP. Firms with the average reply lags above the median are categorized into the High-Lag group, while those below the median fall into the Low-Lag group. The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

Panel B: Heterogeneous effects of Hudongyi among firms with different reply length

Covariates/Group	Reply Words	
	High-Length	Low-Length
Treat×Post	-0.109 ***	-0.032
	(-2.733)	(-0.765)
Diff.	-0.077**	
N	2373	2371
Adj. R2	0.349	0.345

With firm FE, year FE and the same set of covariates as in the baseline regression. The dependent variable is the natural logarithm of one plus the number of instances of misconduct (*Violations*). We also use reply length, which measures the average number of Chinese characters (excluding punctuation) in the firm's responses within a year, as another measure of interactions quality on the IIP. Firms with the average reply length above the median are categorized into the High-Length group, while those below the median fall into the Low-Length group. The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

Table 10: Mechanism analysis - the potential mechanisms behind IIP's impact

Panel A1: Information channel - heterogeneous effects of Hudongyi among firms with different degree of information asymmetry

Covariates/Group	Amihud Illiquidity		Discretionary Accruals	
	High-Illiq	Low-Illiq	High-DA	Low-DA
Treat×Post	-0.143 ***	-0.016	-0.072 *	-0.068
	(-3.180)	(-0.449)	(-1.709)	(-1.638)
Diff.	-0.127**		-0.004	
N	2359	2432	2373	2418
Adj. R2	0.308	0.383	0.332	0.357

With firm FE, year FE and the same set of covariates as in the baseline regression. The dependent variable is the natural logarithm of one plus the number of instances of misconduct (*Violations*). We use Amihud Illiquidity and Discretionary Accruals as measures of information asymmetry. Firms with Amihud illiquidity measure above the median are categorized into the High-Illiq group, while those below the median fall into the Low-Illiq group. Firms with absolute value of discretionary accruals above the median are categorized into the High-DA group, while those below the median fall into the Low-DA group. The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p <0.05; * p < 0.1.

Panel A2: Information channel - the effect of Hudongyi on information asymmetry of engaging firms

Covariates/Outcome	Amihud Illiquidity		Discretionary Accruals	
	(1)	(2)	(3)	(4)
Treat×Post	-0.022 ***	-0.013 ***	-0.002	-0.003
	(-7.468)	(-3.318)	(-0.411)	(-0.601)
Controls	No	Yes	No	Yes
N	4791	4791	4780	4780
Adj. R2	0.011	0.625	0.198	0.208

With firm FE and year FE. "Controls" denote the same set of covariates as in the baseline regression. We use Amihud Illiquidity and Discretionary Accruals as two measures of information asymmetry. The dependent variable for column (1) and (2) is the Amihud illiquidity measure. The dependent variable for column (3) and (4) is the absolute value of discretionary accruals estimated through the modified Jones model. The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p <0.05; * p < 0.1.

Table 10 (contd.): Mechanism analysis - the potential mechanisms behind IIP's impact

Panel B1: Governance channel - heterogeneous effects of Hudongyi among firms with different strength of corporate governance

Covariates/Group	Internal Governance		External Governance	
	High-Score	Low-Score	High-Score	Low-Score
Treat×Post	-0.017	-0.133 ***	-0.032	-0.111 ***
	(-0.407)	(-3.241)	(-0.802)	(-2.636)
Diff.	0.116**		0.079*	
N	2413	2378	2417	2374
Adj. R2	0.334	0.356	0.410	0.269

With firm FE, year FE and the same set of covariates as in the baseline regression. The dependent variable is the natural logarithm of one plus the number of instances of misconduct (*Violations*). We apply factor analysis to obtain the summary measures of the effectiveness of firms' governance structures. Firms with the composite measure of governance above the median are categorized into the High-Score group, while those below the median fall into the Low-Score group. The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

Panel B2: Governance channel - the effect of Hudongyi on news coverage of engaging firms

Covariates/Outcome	News Coverage		
	(1)	(2)	(3)
Treat×Post	0.038 ***	0.037 ***	0.038 ***
	(2.685)	(2.890)	(2.941)
Controls	No	Yes	Yes
Violations			0.012
			(1.393)
N	4791	4791	4791
Adj. R2	0.681	0.710	0.710

With firm FE and year FE. "Controls" denote the same set of covariates as in the baseline regression. The dependent variable is the natural logarithm of the number of news coverage (*News*). The other variables are defined in Table 3. T-statistics based on firm clustered robust standard errors in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.1.

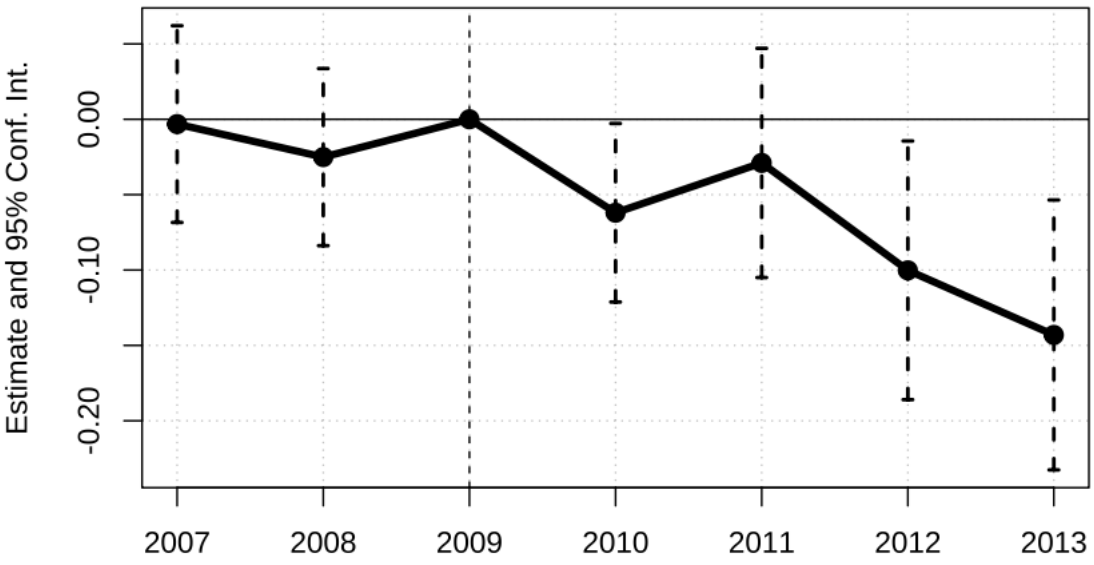

Figure 1: Parallel trend and dynamic effects