

Reputation Concerns of Independent Directors:
Evidence from Individual Director Voting¹
(Preliminary and Incomplete)

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ABSTRACT

Using a director-level dataset of board proposal voting by independent directors of public companies in China from 2004 to 2009, we analyze the effects of career concerns and current reputation stock on independent directors in their voting behavior. Younger directors and directors in their second (and last) terms, who have stronger career concerns, are more likely to be aligned with investors rather than the managers. Their dissenting behavior is eventually rewarded in the market place in the form of more outside career opportunities. Directors with higher reputation stocks (measured by positive news media mentioning) are also more likely to dissent. Finally, we find that career concerns are significantly stronger among directors who already enjoy higher reputation.

JEL classification: G34; L25.

Boards of directors are key players in corporate governance. Within a board, the responsibility to monitor the managers and to mitigate agency issues falls mostly on independent directors. Independent directors in most markets are outsiders without material business affiliation with the firms they oversee. Hence, they are not significant shareholders, and tend not to receive direct compensation that is nearly as generous nor performance sensitive as the managers they monitor (Bryan and Klein (2004), Yermack (2004), Fich and Shivdasani (2006)). Moreover, independent directors are often appointed by the management (Shivdasani and Yermack (1999)). Hence a natural question arises as what motivates these outsiders to align themselves with the shareholders rather than to side with the managers. In this paper, we study how reputation concerns drive independent directors to confront the management among public companies in China. The reputation concerns include both the traditional career concerns (i.e., the incentive effects from aspiring to have a good reputation in the future, as modeled by Holmstrom (1982)) and the effect of one's current reputation (as modeled by Diamond (1989)).

Fama and Jensen (1983) conjecture that “outside directors have incentives to develop reputations as experts in decision control. . . They use their directorships to signal to internal and external markets for decision agents that they are decision experts. . . The signals are credible when the direct payments to outside directors are small. . .” A number of studies have supported their hypothesis. For example, Coles and Hoi (2003) document that directors whose firms opting out of stringent state antitakeover provisions gain additional outside directorships. Similar pattern is documented for companies that fire their CEOs (Farrell and Whidbee (2000)), for firms that are sold at a premium (Harford (2003)), or for firms that perform well in general (Yermack (2004)).

While the aforementioned studies confirm that independent directors are rewarded with more career opportunities for their “good” performance, they do not study how independent directors should have responded to such career concern incentives, nor do they explain the cross-sectional variations in the directors' behavior given the ex post benefits for taking the right action. More importantly, most studies on board of directors are conducted at the firm level. If the composition of boards is endogenously chosen by firms (including its senior management), as emphasized by Hermalin and Weisbach (1998),

any relation between board characteristics and outcomes regarding firm performance and corporate governance could reflect the optimization of individual firms under different parameters rather than causality from the actions of directors. A related issue, highlighted by Adams, Hermalin, and Weisbach (2010), is that it is difficult to observe the actual behavior of directors and harder to quantify them for formal analyses. Hence even the studies that carefully address endogeneity provide only indirect evidence of the heterogeneity in board effectiveness.

Our study explores a unique director-level voting dataset from China's stock market to overcome the aforementioned empirical challenges. In a push to enhance the transparency of governance of public companies, the Chinese Securities Regulatory Commission (CSRC), the regulatory authority of China's stock market, mandated increased public disclosure of votes casted by directors on board proposals in 2004. We are thus able to hand-collect data from corporate filings to compose a comprehensive sample of 652 board-proposal-level voting records involving dissenting (i.e., at least one independent director voted "Abstain" or "Against"). The sample covers 487 board meetings (each could have multiple proposals) for 232 unique firms over 2004-2009. We supplemented this base sample with standard and hand-collected data on firm and director characteristics, most importantly, information proxying the directors' reputation.

The unique dataset from China is well suited for the goal of our research to analyze the reputation concerns among independent directors. First, the mandatory disclosure rule in China yields the detailed director-proposal level action data. In contrast, the same data are not publicly available in the U. S. and other major markets to our best knowledge. In China, a great majority of proposals voted by the board are sponsored by management who mostly represent insiders and controlling shareholders⁵. As a result, dissenting tends to reflect an independent director's willingness to confront managers and insiders. Second, emerging markets are commonly perceived as having more serious collusive behavior between managers, controlling shareholders and directors (Johnson, La Porta, Lopez-de-Silanes, and Shleifer

⁵ According to a survey of 204 firms by the Research Center at Shanghai Stock Exchange (RCSHSE), in 88% of the companies the chairmen (who are insiders, often representatives of controlling shareholders) decide which proposals to be included in the meeting agenda.

(2000)). In countries with weak shareholder protection, independent directors could serve an important force to offset the power of dominant shareholders (Dahya, Dimitrov, and McConnell, 2008). China—which does not rank favorably in corporate governance⁶—makes an interesting venue to study the factors that could potentially motivate independent directors to serve the outside shareholders rather than to collude with the managers. Findings on the effectiveness (and limitations) of the reputation mechanism for individual directors in China have general implications for board-based corporate governance across the world.

The director-proposal level data commands a crucial advantage allowing identification from variations within a board. Analyzing 537 proposals involving both approving and dissenting independent directors, we are able to filter out any potentially time-varying firm or board level unobserved heterogeneity by including fixed effects at the board/proposal level in the regressions. Such an identification strategy relates individual director characteristics (most importantly, the strength of their career concerns and the level of their reputation) to their voting behavior. The endogeneity of board formation is no longer an issue as the estimation builds on variations within a board.

Our main findings and contributions could be summarized as follows. First, we find that younger independent directors, presumably having stronger career concerns, are significantly more likely to dissent. An inter-quartile increase in director age is associated with a 5.1 percentage point decrease in the probability of dissent. In addition, directors with higher reputation stock measured by media coverage and number of independent directorships have a higher probability of dissenting. A one standard error increase in a director's media mentioning is associated with an 8.6 percentage point increase in dissent likelihood. The latter result was not predicted by the standard career concerns models such as Fama (1980) and Holmstrom (1999). Thanks to the identification strategy, we could interpret the findings as the effects of director characteristics (most importantly their reputation and the strength of their career concerns) on their incentive to monitor or even confront the management.

⁶ The IMD's (Switzerland) 2004 survey of sixty economies ranked China to be the 25th on corporate board, 40th on shareholder value, 57th on insider trading, and 44th on shareholder right.

Second, this is the first study that empirically integrates the effects of career concerns and that of reputation stocks, and highlights their interactions. In contrast, previous empirical studies examine reputation concerns (Gibbson and Murphy (1992), Chevalier and Ellison (1999)) and reputation stock (Milbourn (2003)), Rajgopal, Shevlin, and Zamora (2006)) in separate settings. We uncover an interesting interaction effect—the negative relationship between director age (a common proxy for the strength of career concerns) and dissent is more pronounced among directors with high reputation stock. This indicates that directors with high reputation stock have strong incentive to maintain (or further build up) their reputation rather than to “cash in.” These results confirm the theoretical models of Diamond (1989), and are consistent with Fang and Yasuda (2009) who find that highly reputable sell-side stock analysts are less likely to succumb to conflicts of interest.

Third, our study sheds light on the two-sided nature of the career concerns faced by directors, that is, a trade-off between their reputation as effective monitors and decision makers versus a reputation for being manager-friendly. Prior studies tend to focus on the relation between firm performance and directors’ outside opportunities (Gilson (1990), Kaplan and Reishus (1990), Fich (2005), Fich and Shivdasani (2007)), and do not analyze the dual tension. The asymmetry in the existent literature is not accidental. Theoretical work on career concerns assumes a single class of “potential employers” that an agent needs to impress while in the case of independent directors the reputation concerns are two-sided with investors and managers. Empirically, assessing the effect of directors’ reputation on their willingness to “rock the boat” requires observing differences across directors on the same “boat” (firm or board).

Again, using within board variation, we are able to characterize both sides of the directors’ career concerns. Presumably, directors in their first term care more about their reputation with the current management versus with the general market due to the influence of the current management in director

reappointment.⁷ Empirical results are indeed consistent with this hypothesis in that directors in their first terms are 8.7 percentage points (significant at the 1% level) less likely to dissent. The combined results of young directors and directors in their second terms dissenting more indicate that the career concerns motivate the directors to set up a reputation of being a diligent monitor, rather than being manager-friendly, in the hope that such behavior will be appreciated by the outside market.

Finally, we confirm that the ex post market outcome is consistent with the ex ante incentives. We find that a dissenting director gains on average 2.7% more board seats over the three year period after dissenting compared than their non-dissenting peers. This relation indicates that dissenting is rewarded with more outside career opportunities, likely because the behavior is perceived by the market as diligent monitoring. More importantly, the effects are more pronounced among younger directors. The combined results indicate that the career concerns of independent directors are more aligned with investors rather than managers.

Our paper is related to several recent studies using director-level data. Adams and Ferreira (2008) find that director pay, albeit small, has a significant and positive effect on director attendance of board meetings. Dewally and Peck (2010) find that younger directors who are active professionals are more likely to announce their departures at poorly performing firms rather than leaving quietly, consistent with an attempt to protect their reputation. Fahlenbrach, Low, and Stulz (2010) hypothesize and find evidence supporting that outside directors have incentives to resign ahead of negative news to protect their reputation. Schwartz-Ziv and Weisbach (2012) study board minutes to address “what do boards do.” None of these earlier studies have direct evidence on directors’ confrontation with the managers, where voting behavior could exemplify. Closely related to our paper is work by Agrawal and Chen (2010) which studies director disputes that came to light after director resignations. Their focus is on the firm-level determinants of disputes and the consequences like as stock market reactions.

⁷ In China, regulation mandates that independent directors can only serve on a company’s board for no more than six years. Effectively, this requires that independent directors are only allowed to serve two terms in one board because each board term is three-year in China in most of the companies.

The paper proceeds as follows. Section 2 provides information on the institutional background and discusses theoretical motivation. Section 3 describes data, sample construction, and empirical methods. Section 4 presents empirical results. Finally, Section 5 concludes.

2. Institutional Background

China's stock market, first introduced in the early 1990s, had grown to be the second largest market in terms of the market cap (about \$3.57 trillion) in the world by 2009. At the end of 2009, there were 1,718 listed companies on the two domestic stock exchanges in Shanghai and Shenzhen. Corporate governance has been a looming issue because most of the listed companies were carve-outs from state-owned enterprises (SOEs). The government and its agencies hold large amount of non-tradable shares in the resulting public companies, often as parent companies. Even though a reform starting in 2005 attempted to convert the non-tradable shares into tradable ones, the former non-tradable share owners often remain the controlling shareholders.⁸ In addition, the majority of listed firms in China have a parent company which typically has multiple subsidiaries in a complicated group structure, reducing the transparency in operations and corporate governance. Concentrated ownership and opaque group affiliations create conflicts of interest between the controlling and minority shareholders, leading to serious concerns of expropriation of minority shareholders by controlling shareholders.⁹

Like in other major markets, boards of directors serve as the pivotal mechanism for monitoring the managers of public companies in China. Directors have legal duties of reviewing the corporation's major plans and policies, and are charged with selecting, compensating, evaluating, and when appropriate, dismissing top managers. Within a board, the duty to uphold the interests of outside (and often minority) shareholders rests disproportionately on the independent directors who by legal requirement, do not have

⁸ At the end of 2004, the average (median) amount of shares owned by the largest shareholders was 39.9% (41.9%), and the total shares held by the second to tenth largest shareholders are about 20%. The ultimate controlling shareholder of most Chinese firms (69.6%) are either the central government, local government, or an SOE.

⁹ The senior officials in China admit the issue themselves. In a speech delivered in 2001, Mr. Xiaochuan Zhou, the chairman of Chinese Securities Regulatory Commission (CSRC), the regulatory authority of China's stock market, said that "the expropriation of minority shareholders of listed firms is widespread."

material business ties with the companies and are not representatives of the large shareholders.

Independent directors are often nominated by large shareholders (with ownership greater than 1%) or management, and are then formally elected in the shareholder meetings. Such practice is similar to other major markets.

In August 2001, the CSRC mandated that independent directors make up of at least one third of the boards of listed companies (in the “*Guideline for the establishment of the independent director system in listed firms,*” henceforth, the “*Guideline.*”). Moreover, an independent director can serve at most six years on a company’s board. Given that in most companies one term of directorship lasts for three years, this requirement effectively limits independent directors’ tenure at one company to be no more than two terms. The largest fraction (40%) of independent director seats are occupied by academics (university professors and full-time researchers), followed by corporate executives excluding CEOs and Chairmen, and then lawyers and accounting/finance professionals (10% and 8%). This is in contrast to the U.S. where about half of the independent directors are executives in other corporations (Linck, Netter, and Yang (2009)).

Boards function mainly through board proposals. The *Companies Law of China* requires that a board proposal must receive majority support to be effective. This is a common practice among major countries including the U.S.¹⁰ About 91% of our sample board proposals were passed with majority support. According to a survey of 204 firms by the Research Center at Shanghai Stock Exchange (RCSHSE), in 88% of the companies the chairmen (usually insiders) decide which proposals to be included in the meeting agenda. Proposals submitted by independent directors cover issues such as retention or termination of financial advisors/auditors and holdings of special board or shareholder meetings. The average firm holds 7.4 board meetings each year and each meeting discusses 3.6 proposals on average.

Though a crucial aspect of board functioning, the director voting information is not disclosed in

¹⁰ According to the Delaware General Corporation Law (DGCL), each director has one vote, and the majority of the quorum rules. Moreover, directors may not vote by proxy; they must be 'present' (i.e. communicating) at the meeting.

most major countries (including the U.S.). China is an exception where timely disclosure of summary information of the voting outcome became mandatory in 2004.¹¹ In an effort to promote transparency in corporate governance, the CSRC updated its “Code of information disclosure for listed firms: annual reports” in December 2004 to require disclosure of the details of voting involving dissenting independent directors. Specifically, it requires that “when one or more independent directors disagree on board proposals, the firm must disclose the name of the dissenting directors, titles of the proposals, and directors’ opinions (in the annual reports).” This change in regulation allows us to construct the comprehensive sample of independent director dissenting.

3. Data and Empirical Motivation

A. Data overview

The most important information—votes on proposals casted by independent directors—is hand-collected from the annual reports of all public firms listed on the Shanghai and Shenzhen stock exchanges during 2004-2009. Following the standard practice in the literature (Gul, Kim, and Qiu, 2011; Fan, Wong, and Zhang, 2007), firms that only issue B-share (about 1.3% of all public companies) are excluded.¹² We identified 487 board meetings with 652 proposals in which at least one independent director voted “Abstain” or “Against.” We classify both as dissenting votes because “Abstain” and “Against” have similar real effects: the *Companies Law of China* requires that a board proposal must receive majority support (“for” votes) to be effective. We henceforth call the resulting sample the “dissenting sample.” About 5.3% of all independent directors during our sample period dissented at least once.

The dissenting sample consists of 2,393 director-proposal level observations, involving 232 unique firms and 901 unique independent directors. The sample’s industry representation is comparable to that of the universe of public firms. It is worth noting that restricting data collection to proposals

¹¹ Firms file with the exchanges which disclose the information almost instantly on their websites (similar to the EDGAR system in the U.S). Media and trading companies have developed various software tools to collect, summarize, and distribute the information.

¹² B-shares are issued to foreign investors and are denominated in foreign currency.

involving dissent by at least one independent director, rather than including all board proposals, does not compromise data coverage given the purpose of our research. A key feature of our empirical specification is the incorporation of proposal fixed effects in order to filter out unobserved and potentially time-varying heterogeneity in firm, board, and proposal characteristics, the major source of endogeneity discussed in the board literature. Proposals without variation in director voting would not contribute to identification in the presence of a proposal fixed effect.

Panel A of Table 1 reports the time series statistics of meetings, proposals and firms with dissenting directors. The number of sample firms started at 86 in 2004 and went down to 40 in 2009. The patterns for meetings and proposals are similar. Dissenting is not a common behavior among independent directors even conditional on proposals with dissent. In two-thirds of the sample proposals only one director dissents (431 proposals). In another 117 (73) proposals, two (three) independent directors dissent. A typical board has 3 independent directors. Similarly, 308 directors (61.4% of all ever dissenting independent directors) dissent only once during the sample period, another 87 (36) directors dissent twice (three times).

[Insert Table 1 here.]

The 652 proposals involving dissenting directors address a wide range of issues, as shown in Panel B of Table 1. Not surprisingly, the top four categories, which combined consist of 76.8% of the sample, concern issues that are prone to potential conflicts of interest: (1) Investment, M&A, and restructuring (30.2%), (2) Related-party transactions (18.1%); (3) Information disclosure and accounting treatment (15.6%); (4) Directors and officers selection, appointment and turnover (12.9%).

A unique feature of our dataset is information about the exact composition of the board at the dissenting meeting, the identity of independent directors, and their votes. We retrieve such information from several sources, including the timely disclosure of board meeting outcomes and the annual reports (in the “the turnover of directors and officers” section). In addition, we obtain director age, gender, and

compensation information from China Securities Market and Accounting Research (CSMAR), a standard database on Chinese capital markets.¹³ CSMAR, covering all listed firms in China, also allows us to construct the number of independent directorships assumed by individuals and their tenure at those positions. We do not analyze stock ownership of independent directors because they rarely hold significant amount of stocks in the companies they oversee. Finally, directors' primary occupation data are manually coded from their biographies in the annual reports.

Key variables to our analysis are the proxies for the strength of career concerns of the directors and those for the level of their reputation stock. The default measure for career concerns in the literature (Baker and Murphy (1992) and Chevalier and Ellison (1999)) is director age (*Age*) as young directors are expected to have stronger incentives to build up a reputation for better future career opportunities. However, the reputation effect is more subtle for independent directors given that they bear fiduciary duties to shareholders but at the same time they are also often appointed by the management. A priori it is not clear whether directors' career concerns should align them more to the management or to the shareholders. To measure this two-sided incentive, we define a dummy variable (*FirstTerm*) to be equal to one if a director is in her first term. Due to reelection motives, directors in their first term should have stronger incentives to cater to the current management in order to be reappointed. To the extent that board seats are coveted, a first-term director's best hoped-for position is a reappointment in the same firm. In contrast, directors in their second (and last) term care more about the perception of the market.

To measure directors' reputation stock, our default measure is *MediaMention*, defined as the number of articles containing the director's name and primary employer affiliation that appear in the top seven Chinese newspapers by distribution volumes from year $t-3$ to year $t-1$ where year t is the year of the proposal for vote. To obtain an accurate measure for positive reputation, we manually exclude articles with negative comments. The construction of the measure follows the method used in Milbourn (2003) and Rajgopal, Shevlin, and Zamora (2006). Our results are not sensitive to minor variations in news outlet (such as using the top five business newspapers) and time window. An alternative and popular

¹³ Part of the CSMAR database is available through WRDS.

measure for a director's reputation adopted in the literature is the number of independent directorships (*#Directorship*)¹⁴ A long list of work (Shivdasani (1993), Kaplan and Reishus (1990), Gilson (1990), Shivdasani (1993), Brickley, Coles, and Linck (1999), and Ferris, Jagannathan, and Pritchard (2003)) have argued or documented a positive relation between the number of directorships held and director quality. One caution to this measure is that a high number of directorships can be related to leniency toward the management by directors (Yermack (2004), Fich and Shivdasani (2006)).

To partly control for the leniency tendency, we construct a measure for director's social ties with the management, similar to the methods adopted in Hwang and Kim (2009) and Fracasa and Tate (2011). Specifically, an independent director is classified as having social ties with the management (*SocialTies* is coded one) if the director had one of the following common experiences with the Chairman, the CEO or the ultimate owner: (1) served in the same military unit; (2) graduated from the same university and within the same age cohort (no more than three years apart);¹⁵ (3) were born in the same city/county; (4) worked for the same employer. The personal data of directors required to construct this measure are hand-collected from companies' annual reports, Baidu's (the largest internet search engine in China) Who's Who, and directors' personal web pages. Criterion (3) regarding birth place might appear unusual. In fact, bondage among people with common geographical origin is a strong cultural phenomenon of China. Anecdotes abound that even people from a large city (such as Shanghai) are more likely to form social ties with others from the same hometown. To a large extent this phenomenon is related to highly diverse and distinctive language dialects formed within tight regional diameters.

Panel C of Table 1 reports the summary statistics of the independent director characteristics based on 2,393 director-proposal level observations. The median director is 47 years old, has served for 2.6 years on the board, does not hold additional outside directorship, and has no media mentioning. On average, a director holds 0.6 additional outside board seat and has 0.6 newspaper article mentioning her

¹⁴ The CSRC limits the maximum of number of outside directorships to be five. This constraint is seldom binding as the average number is 1.9.

¹⁵ In some cases we do not have information for directors' graduation year. In such case our coding relies on age information assuming that directors graduate from college at the age of 22.

name (and employer), in a neutral or complimentary way, from three years before to one year before the board meeting. About 10% of the director observations are women, and about half are in their first term. The average director compensation is 44,130 *yuan* (roughly US\$ 5,845 using the average exchange rate during the sample period of US\$ 1 = 7.55 *yuan*).¹⁶ We use a director's average compensation across all boards on which she/he currently serves instead of her/his compensation at the firm involving dissenting because there is little within board variation in independent directors' compensation in China and our main tests only explore within board variation.

Among all independent directors, 40% are university professors or academic researchers (usually of business and economics disciplines). Corporate executives excluding CEOs and Chairmen represent the second largest group (18%). Lawyers and accounting professionals consist of 10% and 8% respectively. The statistics is generally consistent with the large sample evidence documented for all China listed firms in Lu and Lai (2010). Interestingly, though current government officials are not allowed to sit on any corporate boards, former government bureaucrats and politicians represent a sizable one quarter of all independent directors. The information of professional background is useful to refine our reputation variables because measures such as *MediaMention* may not be comparable across different professions.

To relate dissenting events to firm characteristics including corporate governance and performance, we collect firm-level data from CSMAR. The summary statistics are reported in Table 1 Panel D.

The first group of such variables describes the ownership structure. We denote *Top1* to be the ownership of the largest shareholders; *State* to be a dummy variable if the largest shareholder is the state government or its affiliates; and *CrossList* to be a dummy variable if the firm also issues B- or H-shares (which are shares designated for foreign investors). Coffee (1999) and Reese and Weisbach (2002) argue that cross-listings in the international market improve corporate governance. Relatedly, we measure the

¹⁶ According to media reports and our interviews with several independent directors, the officially disclosed compensation might be an understatement as it does not include perks.

potential influence of minority shareholders in two ways: the sum of total ownership by the second to the tenth largest shareholders (*Top2to10*), and the ownership Herfindahl index of these nine shareholders, i.e., the sum of squared percentage ownership by the second to the tenth largest shareholders scaled by *Top2to10* (*HHI2to10*). Bai, Liu, Lu, Song, and Zhang (2004) document that the concentration of the next largest shareholders is positively associated with firm value.

The second group of variables captures the extent of potential expropriation of outside shareholders. Expropriation can take various forms (Johnson, La Porta, Lopez-de-Silanes, and Shlerfer (2000)) among which related party transactions (*RPTs*, hereinafter) at unfair terms are widely recognized as one of the most common means (e.g., Djankov, La Porta, Lopez-de-Silanes, and Shlerfer, 2008). Following Berkman, Cole, and Fu (2010), we use the annual aggregate value of “non-beneficial” related-party transactions for each firm divided by the firm's year-end total assets (*RPT/Assets*). Further following Cheung, Rau, and Stouraitis (2006), we classify transactions as potentially “beneficial” for the company if it receives cash, loans or guarantees from the related party. And “non-beneficial” RPTs are thus the difference between the total and the potentially beneficial ones. Examples of such transactions include sale of assets/goods to the related parties. Other papers using similar measures include Deng, Gan, and He (2010).

Alternatively, we use net accounts other receivables (the difference between accounts other receivables and other payables) due to RPTs using information disclosed in the footnote of financial reports. We collect this information from the relevant footnotes from the companies' annual reports. The amount is then scaled by total assets (*AR/Assets*), resulting in a measure of receivables owed by a related party, proxying for the degree of potential expropriation as such receivables bear heightened risk of not paying. Abusing the accounts receivables this way amounts to tunneling of corporate assets (Jiang, Lee, and Yue, 2010; Deng, Gan and He, 2008). All RPT related variables are constructed using information from the CSMAR.

The third category of variables characterizes the boards. *BoardSize* is the total number of directors; *#Committee* is the total number of committees formed by board members; *% Independent* is the

fraction of independent directors on boards; and *CEOAge* is the age of a CEO. Both *Boardsize* and *#Committee* enter the regressions in log values.

Finally, we include four standard firm characteristics as additional control variables. *Assets* is a firm's total assets (and enters regressions in its log value); *FirmAge* is the number of years since the firm's listing on a stock exchange (and enters regression in its log value); *ROA* is the ratio of operating income over total assets; *Growth* is sales growth over the past year.

The total number of firm-year observations is 8,856, out of which 4%, or 355 observations, involve dissenting events ("event observations"). In a later analysis we compare the event observation with non-event firm-years by year and industry, and then choose the firm-year that is closest in total assets. All event observations are properly matched. Under such outcome-based sampling schemes, we use logit model to estimate the determinants of binary outcomes (such as dissenting). According to Cosslett (1981), the logit coefficients from the matched sample consistently estimate the population coefficients when the model is correctly specified. However, the marginal probability estimates should be interpreted relative to the sample probability of positive outcomes due to the construction of the matched samples.

B. Empirical Motivation

Like any other economic behavior, dissent in voting by independent directors is an outcome of cost-benefit calculation. One important direct benefit for independent directors to vote against a proposal is that they can avoid litigation or punishment by the CSRC and stock exchanges if the proposals turn out to cause damage on the minority shareholders that are serious enough to invite legal actions.¹⁷ The main cost of dissent is alienation from the current management, which reduces the chance of director re-

¹⁷ According to Zhao, Tang, and Deng (2010), 114 independent directors received warnings from the CSRC during 2004-2009. From July 2008 to June 2009, the Shanghai Stock Exchange took legal actions against 10 independent directors and publicly criticized 72. The same numbers at the Shenzhen Stock Exchange were 20 and 69 between January 2007 and June 2009. In all cases directors who did not vote "For" over the proposals were exempt from the punishment.

appointment, and in some extreme cases, leads to the loss of the director's current board seats¹⁸. The effect of dissent on a director's reputation as well as future opportunities in the market for directorship is more subtle. Firms may shun director candidates with a reputation for being tough, especially if the proposals that the director previously voted against was not obviously damaging on the outside shareholders. In the meanwhile, dissent may also send to the market a signal for diligent monitoring which increases the director's opportunities with firms who attempt to show their commitment to good corporate governance.

The main contribution of our empirical study is two-fold. First, our study relates director characteristics, especially those proxying for career concerns and levels of reputation, to their actions. Overall we predict that the occurrence of the dissent is positively related to firm and board characteristics that proxy for the extent of agency problems (Hermalin and Weisbach (1988)). We predict that directors in their second (and last) terms are more likely to dissent because the cost of alienating the current management is relatively small in the absence of any opportunity to be re-appointed. Following the standard career concerns literature, we also presume that young directors have stronger reputational concerns. Hence their tendency to dissent relative to the older directors reveals the relative importance of shareholders versus management in the market for independent directors.

Whether the level of reputation mitigates or exacerbates conflicts of interest is distinct from the standard notion of career concerns. The standard career concerns literature (e.g., Holmstrom (1982)) focuses on the incentive effects of desiring to have a reputation in the future rather than the effects of one's current reputation. According to Diamond (1989), when reputation becomes a valuable asset, a single failure causes a larger decline in its value; and hence the agent would be more self-disciplined in order to maintain the reputation. In our context, this predicts that highly reputable directors are more likely to "rock the boats" when they discern wrong doing. On the other hand, if short-term benefits are

¹⁸ According to "The guideline for establishing independent director system in listed firms" issued by the CSRC in August 2001, firms cannot replace independent directors during the term in the absence of good reasons (such as acquisitions and big restructuring). The dismissal of independent directors during the term is thus rare. Nevertheless, the rule is hard to enforce.

also disproportionately large for reputable agents, they could also be tempted to “cash in” their reputation. Ayako and Fang (2009) succinctly summarize the two opposing effects as the “reputation-as-discipline” and “reputation-liquidation” hypotheses in the context of sell-side analysts.

The second contribution is about identification. A usual challenge to board or corporate governance research in general is that a governance structure—such as the composition of a board—is endogenously determined to maximize some objective functions of the shareholders or the managers if one adopts the optimal contracting approach. As a result, any relation between an outcome and a governance structure may be an equilibrium result due to unobserved heterogeneity or reverse causality. Using director-proposal level data, our analysis transcends the endogenous match between a firm and a board.

More specifically, our main regression relates dissenting behavior to director characteristics using the following specification:

$$Dissent_{i,j,k,t} = \beta \cdot DirectorChar_{i,t} + \gamma \cdot Control + \alpha_k + \varepsilon_{i,j,k,t},$$

where $Dissent_{i,j,k,t}$ is a dummy variable equal one if director i in firm j dissents on a proposal k in time t .

$DirectorChar_{i,t}$ is a variable proxying for the characteristics of director i in time t . Most importantly, the regression incorporates a proposal fixed effect α_k , which automatically subsumes a firm-time fixed effect ($\alpha_{j,t}$). Such a fixed effect filters out two most important sources of endogeneity: The first is the potentially time-varying unobserved firm heterogeneity that might be correlated with both director characteristics (due to an endogenous matching between firm and its directors) and director actions. The second is the immeasurable proposal characteristics that are correlated with both the board characteristics and director attitude. In sum, our identification relies on the variations in the directors’ voting outcomes within the same proposal (which, by construction, are also within the same firm in the same period). Any such difference can only be attributed to the differences among the directors who vote for the same proposal—and this is precisely the relation whose direction and magnitude we try to estimate.

4. Empirical Results

A. Firm level analyses

Though not our main contribution, we start with firm-level analyses given that there has not been any empirical research on the firm-level determinants of director dissent. Viewing dissent as reflecting the monitoring effort by independent directors, we expect such behavior to be related to the potential prevalence of agency problems at the firm level. To this end, we run firm-year level logit regressions with the occurrence of dissent as the dependent variable. We first run a regression on the full sample of all listed firms (where about 4% of the firm year observations involve dissenting by independent directors), then on the matched samples using the matching algorithm described in Section 3.1. (where the frequency of dissenting is 50% of construction). Both regressions incorporate industry and year fixed effects, and apply standard errors that adjust for heteroskedasticity and correlation clustered at the firm level. Results are reported in Panels A and B of Table 2.

[Insert Table 2 here.]

The key independent variables are those regarding related party transactions (RPTs). The two variables, *RPT/Assets* and *AR/Assets* are defined in Section 3.1. The correlation coefficient between the two variables is close to zero and hence they capture quite different aspects in potential expropriation of shareholders. As expected they are both positively associated with the probability of independent director activism, as shown in Panel A. The coefficients on *AR/Assets* are significant at the 1% level across all specifications. An inter-quartile increase in *AR/Assets* leads to a 2.5 percentage point increase in dissent likelihood, relative to a 4% unconditional probability.

The coefficient on direct related party transactions, *RPT/Assets*, is not significant. Further investigation indicates that there might be an indirect of RPTs on the probability of dissent via operating performance. A regression of *ROA* on *RPT/Assets* (and the common control variables) yields a coefficient of -0.17, significant at the 1%. Table 2 Panel A clearly shows that lower ROA is significantly

associated with a higher probability of a dissenting event. Not surprisingly, poorly performing firms are more likely to invite directors' scrutiny. If we omit ROA from the regression, then *RPT/Assets* would be significant in Columns 3 and 4 at the 10% and 5% levels, with a marginal probability of 0.6% and 0.8% respectively.

The ownership variables also go in the expected directions. A concentrated ownership of the top shareholder (*Top1*) is associated fewer dissenting events. A powerful largest shareholder might have more influence on the appointment of independent directors, and hence are less likely to be paired with outside directors that will dissent. On the other hand, the State being the top shareholder (*State = 1*, its correlation with *Top1* is 0.25) does not have a significant effect, with or without the presence of *Top1*. Although the State is often the top shareholder, our results indicate that expropriation risks are not necessarily higher in SOEs than in non-SOEs. As a balance to the largest shareholders, concentrated ownership by the large outside shareholders (as proxied by *HHI2to10*) is associated with more director activism, indicating that large minority shareholders, usually mutual funds and insurance companies, could be an important force in corporate governance.

As for board and CEO variables, we find that the effects of both board size and the number of committees are significantly positive, consistent with the explanation that more people/committees are exposed to higher probability of disagreement.

In Panel B, we obtain similar results using the matching sample. In unreported tests, we find that leverage, CEO ownership, and having an auditing firm from the top seven do not bear significant relations to the probability of dissent.

B. Director-Level Analyses: Career Concerns and the Effect of Reputation

B1. Director-proposal level determinants of dissenting

Given the granular feature of our data, we are able to run director-proposal level dissent regressions with proposal-level fixed effects which controls for the potentially time-varying unobserved heterogeneity at the firm/board level. Such a specification clears the concern that an endogenous

matching between a firm and its governance form could drive the empirical relation between governance and outcomes. The sample includes all 652 proposals on which at least one independent director dissents, resulting in 2,393 proposal-director observations. In the presence of proposal fixed effects, observations belonging to proposals in which all independent directors dissent are dropped, resulting in 2,016 observations. We estimate a logit model where the dependent variable is a dummy variable equal to one if a director votes “Against” or “Abstain” over a board proposal. The unconditional probability of dissenting among this sample is 34%. Results are reported in Table 3.

[Insert Table 3 here.]

The explanatory variables of key interest are those measuring the intensity of independent directors’ career concerns and the level of their reputation stock. Table 3 shows that older directors and directors in their first terms are less likely to dissent. The first relation is consistent with the old directors’ weakened incentive to build up a reputation in the market for serving the interest of shareholders. The second relation verifies the effect from the cost side: directors who rock the boat during their first term risk losing re-appointment. The economic magnitude of these effects is sizable: An inter-quartile increase in *DirectorAge* is associated with a 5.1 percentage point decrease in the probability of dissent; and directors in their first terms are 11 percentage point less likely to dissent.

Interestingly, directors with higher reputation stock, as measured by the number of non-negative media mentioning in the top seven publications (*MediaMention*) or the number of director seats held at different companies (*#Directorship*) are both positively associated with dissenting, indicating that more reputed directors have stronger incentive to uphold their reputation, rather than to “cash in” their reputation and collude with the managers. The economic effect is significant too. A one standard error increase in *MediaMention* leads to an 8.6 percentage point increase in the probability of dissent. Similarly, an inter-quartile increase in *#Directorships* leads to a 9.9 percentage point increase in dissent likelihood.

The aforementioned results represent the marginal effects of reputation and career concerns conditional on other director characteristics in a matched sample. Some of these control variables are of interest on their own. We classify directors into eight categories by professional background. *CEOChair* is a dummy variable equal to one if the director is the Chairman or CEO of another company; *Academic* is a dummy variable equal to one if the director's primary employer is education or academic institutes; *Bureaucrat* is a dummy variable equals one if the director has working experience in the government; *Accountant* is a dummy variable equals one if the director is a professional in accounting; *Lawyer* is a dummy variable equals one if the director has a legal background; *Banking* is a dummy variable equals one if the director has a bank background; *Executive* is a dummy variable equal one if the director's primary employer is another, non-finance firm.

For director type dummies, we find that CEOs or Chairmen of other companies are the least likely to dissent, followed by former government bureaucrats, and then by other corporate executives. On the other end, lawyers are the most likely dissidents, possibly due to the fact that they are among the most sensitive to potential legal liabilities from corporate fraud, and legal liabilities from directorship is more damaging for lawyers, too. The positive difference between *Lawyer* and *Other* (the omitted category that includes all directors that do not belong to one of the classified fields) is highly significant (at the 1% level); and the negative difference between *CEOChair* and *Other* is significant at the 10% level or less for two out of five specifications. The omitted *Other* category accounts for 18% of the observations; it covers professions such as consultancy, engineering, and industry associations, and retirees.

We conduct several tests to ensure robustness. The results are similar when we use board meeting fixed effects or replacing the proposal fixed effects with coarser firm and year fixed effects. As we indicated in Section 3.1., some firms have several proposals with dissent in one year and some directors dissent over several proposals during the sample period. To reduce the effect of these "frequent" dissenting directors and firms, we conducted analyses keeping only the first proposal with dissenting behavior in a firm-year. The results are not sensitive to such a variation in regression specification.

B2. Interaction of career concerns and reputation stock

Equally importantly, we next examine the interaction between reputation stock and reputation concerns, where theory does not provide clear predictions. We use two specifications: adding an interactive term to the regression ($MediaMention*DirectorAge$ or $\#Directorship*DirectorAge$) or splitting the full sample into subsamples that involve directors with high and low reputation stocks where the dividing criterion is whether the director has positive number of media mention (that is, $MediaMention > 0$) or whether the director holds director jobs in other companies (that is, $\#Directorship > 1$). Results are reported in Table 4. Both interactive effects, between $MediaMention$ and $DirectorAge$, and between $\#Directorship$ and $DirectorAge$, are negative and significant (at the 1% level) cross effect. That is, a director's outside reputation (as captured by media exposure or the number of director jobs assumed) strengthens their career concerns. In the split-sample analysis, we find that the negative relation between dissent and director age is only significant in the subsamples of directors who enjoy high reputation. The difference of the coefficients between the two subsamples, at -0.054, is significant at the 1% level. Results in Table 4 overall support the “reputation as discipline” hypothesis and is not consistent with the “reputation liquidation” one.

[Insert Table 4 here.]

C. Ex Post Outcomes of Dissenting

To validate the interpretation of the empirical relation between dissenting and proxies for the intensity of career concerns and the level of reputation, we need to further establish that the ex post outcomes from dissenting are consistent with the ex ante career incentives. More specifically, we need to demonstrate that dissenting signals diligent monitoring in a way that improves the independent director's future career opportunities. To this end, we compare the various career outcome variables of dissenting directors after the dispute event with their non-dissenting colleagues.

[This section is to be completed.]

5. Conclusion

Using a unique dataset of board proposal voting by independent directors in public companies in China from 2004 to 2009, we conduct the first study analyzing the voting behavior by independent directors at the director level. Our study sheds light on the two-sided career concerns of independent directors where they trade-off their reputation as diligent monitors against a perception of being hostile to management. The ex ante prediction is not clear as whether a career-conscientious director should confront the management on proposals that potentially hurt shareholder interest. Our findings indicate that independent directors' career concerns lead to their being more aligned with investors rather than the managers because their dissenting behavior is eventually rewarded in the market place in the form of more opportunities for directorship. Moreover, career concerns are significantly stronger among directors who already enjoy higher reputation. Both are good news for corporate governance.

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Table 1

Summary Statistics.

Panel A: Time series of dissenting events

	# firms	# meetings	# proposals	# directors
2004	86	124	160	323
2005	77	105	158	286
2006	67	89	119	238
2007	47	65	80	171
2008	38	51	64	152
2009	40	53	71	142
Total	355	487	652	1,312

Panel B: Purposes of board proposals

Issues	# proposals	% of the sample
1. Investment, M&A, and restructuring	197	30.2%
2. Related-party transactions	118	18.1%
3. Accounting Treatment and information disclosure.	102	15.6%
4. Directors and officers selection, appointment and turnover	84	12.9%
5. Internal corporate governance e.g., managerial pay, bylaws, board functioning	73	11.2%
6. Payout policies	16	2.5%
7. Financing and capital structure	14	2.1%
8. Board or shareholder meeting agenda	13	2.0%
9. Miscellaneous issues	35	5.4%
Total	652	100.0%

Panel C: Characteristics of Independent Directors

Observations are at the director-proposal level, and the total number of observation is 2,393. *Compensation* is a director's average compensation across all boards in which she currently serves in *yuan* (the average exchange rate during the sample period is US\$ 1 = 7.55 *yuan*). *DirectorAge* is a director's age. *#Directorship* is the total number of firms that a director serves as an independent director. *Education* is the minimum score of the entrance exam (equivalent to SAT in the U.S.) required to be admitted to the university which the independent director graduated from. *Female* is a dummy variable equal to one if a director is female. *FirstTerm* is a dummy equal one if a director serves a first term on the board. *MediaMention* is the number of non-negative articles containing a director's name and primary employer affiliation that appear in the top seven Chinese newspapers by distribution volumes from -3 to -1 year around the board meeting that involves dissent. *SocialTies* is a dummy variable equal to one if a director has social (through schooling, military training, common birth place and employment) ties with the firm's CEO, chairman or ultimate owner. *Tenure* is the number of months a director has served the board.

Variable	Mean	Standard deviation	25 th percentile	Median	75 th percentile
Compensation (in yuan)	44,130	30,784	30,000	40,000	50,000
Log(1+Compensation)	10.3	1.8	10.3	10.6	10.8
DirectorAge	49.7	10.1	42	47	57
#Directorship	1.6	1.1	1	1	2
Log(#Directorship)	0.34	0.51	0	0	0.69
Education	524	82	425	555	589
Log(Education)	6.25	0.16	6.05	6.32	6.38
Female	0.10	0.29	0	0	0
FirstTerm	0.48	0.50	0	0	1
MediaMention	0.6	2.8	0	0	0
Log(1+ MediaMention)	0.16	0.51	0	0	0
SocialTies	0.15	0.36	0	0	0
Tenure (Month)	31	21	14	28	44

Panel D: Firm Characteristics

This table reports the summary statistics of 8,856 firm-year level observations. *Top1* is the ownership of the largest shareholders. *Top2to10* is the sum of the ownership of the second to the tenth largest shareholders. *State* is a dummy variable equal to one if the largest shareholder is the state government or its affiliates. *CrossList* is a dummy variable equal to one if the firm also issues B-shares (shares traded on Chinese stock exchanges for foreign accounts) or H-shares (shares traded on Hong Kong Stock Exchange). *HHI2to10* is the sum of squared percentage ownership by the second to the tenth largest shareholders divided by *Top2to10*. *RPT/Assets* is the annual aggregate value of non-beneficial related-party transactions (RPTs) for a firm scaled by the firm's year-end total assets. *AR/Assets* is the net accounts other receivables (the difference between accounts other receivables and other payables) due to RPTs scaled by total assets. *BoardSize* is the total number of directors. *#Committee* is the total number of committees; *% Independent* is the fraction of independent directors on boards. *CEOAge* is the age of a CEO. *Assets* is a firm's total assets. *FirmAge* is the number of years since the firm's initial listing on a stock exchange. *ROA* is the ratio of a firm's operating income over total assets. *Growth* is sales growth over the past year.

Variable	Mean	Standard deviation	25 th percentile	Median	75 th percentile
<u>1. Ownership</u>					
Top1	0.38	0.16	0.25	0.36	0.50
Top2to10	0.20	0.13	0.08	0.18	0.29
State	0.70	0.46	0	1	1
CrossList	0.06	0.23	0	0	0
HHI2to10	0.07	0.06	0.02	0.04	0.10
<u>2. Proxies for potential expropriation</u>					
RPT/Assets	0.31	0.45	0.03	0.16	0.38
AR/Assets	0.002	0.053	-0.004	0	0.001
<u>3. Board characteristics</u>					
BoardSize	9.4	2.1	9	9	11
Log(BoardSize)	2.2	0.2	2.2	2.2	2.4
#Committee	2.7	1.8	0	4	4
Log(1+#Committee)	1.1	0.7	0	1.6	1.6
% Independent	0.35	0.05	0.33	0.33	0.38
CEOAge	46.3	6.1	42	46	50
<u>4. Firm characteristics</u>					
Assets (in billion yuan)	5.2	12.8	0.9	1.8	3.9
Log(Assets)	21.3	1.2	20.5	21.2	21.9
FirmAge	11.9	4.2	9	12	15
Log(FirmAge)	2.41	0.41	2.2	2.5	2.7
ROA	0.024	0.097	0.007	0.032	0.067
Growth	0.23	0.55	0.02	0.19	0.31

Table 2

Determinants of Director Dissent: Firm-Level Regressions.

The table reports the determinants of director dissent at the firm-year level using the logit model. The dependent variable, *Dissent*, is a dummy variable equal to one if a firm has at least one dissent event in a given year. All control variables are defined in Table 1 Panel D. *BoardSize*, *#Committee*, *Assets*, *FirmAge* enter in log values. Panel A reports regression results using the full sample of all publicly listed firms, while Panel B reports results using a sample of “event observations” (i.e., all firm-year observations that involve at least one dissent event) and a “match” sample of equal size. For each event observation, a match is defined as the “non-event” observation from the same industry-year with firm assets closest to the event observation. All regressions include industry and year fixed effects. Reported are coefficients (in bold fonts), the t-statistics (in parentheses) based on standard errors clustered at the firm level, and marginal effects (in percentage points) for one unit change of a given regressor while keeping other covariates at their respective mean levels (for continuous variables) or at zero (for dummy variables). *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels.

Panel A: Full sample of listed firms

	(1)	(2)	(3)	(4)	(5)
AR/Assets	3.693 ^{***} (3.45) 13.9%	3.678 ^{***} (3.45) 17.3%			3.659 ^{***} (3.44) 19.1%
RPT/Assets			0.064 (0.43) 0.1%	0.106 (0.71) 0.3%	0.103 (0.66) 0.3%
State		0.037 (0.21) 0.1%		0.018 (0.1) 0%	0.045 (0.25) 0.1%
Top1		-1.274 ^{**} (-2.14) -3.5%		-1.307 ^{**} (-2.14) -3.6%	-1.334 ^{**} (-2.20) -3.7%
Top2to10		-1.114 (-1.25) -3.1%		-1.032 (-1.14) -2.9%	-1.102 (-1.23) -3%
HHI2to10		3.420 ^{**} (2.09) 9.4%		3.371 ^{**} (2.02) 9.4%	3.378 ^{**} (2.05) 9.3%
CrossList	-0.129 (-0.36) -0.3%	-0.086 (-0.24) -0.2%	-0.140 (-0.39) -0.4%	-0.094 (-0.27) -0.3%	-0.092 (-0.25) -0.2%
% Independent	0.642 (0.46) 1.8%	0.517 (0.37) 1.4%	0.308 (0.22) 0.9%	0.162 (0.11) 0.5%	0.544 (0.39) 1.5%
BoardSize	1.204 ^{***} (3.17) 3.4%	1.094 ^{***} (2.81) 3%	1.135 ^{***} (3.01) 3.2%	1.016 ^{***} (2.63) 2.8%	1.089 ^{***} (2.81) 3%
#Committee	0.323 ^{***} (3.04) 0.9%	0.316 ^{***} (2.97) 0.9%	0.315 ^{***} (2.97) 0.9%	0.312 ^{***} (2.91) 0.9%	0.317 ^{***} (2.98) 0.9%

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>
CEOAge	-0.008 (-0.84) 0%	-0.008 (-0.83) 0%	-0.009 (-0.94) 0%	-0.009 (-0.92) 0%	-0.008 (-0.82) 0%
Growth	-0.039 (-0.33) -0.1%	-0.029 (-0.24) -0.1%	-0.044 (-0.37) -0.1%	-0.038 (-0.32) -0.1%	-0.033 (-0.28) -0.1%
ROA	-3.250*** (-5.87) -9.2%	-3.134*** (-5.57) -8.6%	-3.808*** (-7.79) -10.8%	-3.638*** (-7.24) -10.1%	-3.062*** (-5.49) -8.5%
Assets	-0.073 (-0.91) -0.2%	-0.051 (-0.63) -0.1%	-0.062 (-0.78) -0.2%	-0.038 (-0.47) -0.1%	-0.051 (-0.63) -0.1%
FirmAge	0.264 (1.1) 0.7%	0.124 (0.48) 0.3%	0.275 (1.13) 0.8%	0.131 (0.5) 0.4%	0.113 (0.44) 0.3%
Observations	8856	8856	8856	8856	8856
Pseudo R-squared	0.087	0.092	0.081	0.086	0.092

Panel B: The matched sample

	(1)	(2)	(3)	(4)	(5)
AR/Assets	3.380** (2.21)	3.168** (2.08)			3.151** (2.09)
RPT/Assets			0.250 (1.2)	0.301 (1.44)	0.298 (1.39)
State		0.014 (0.06)		0.022 (0.09)	0.021 (0.09)
Top1		-0.718 (-0.83)		-0.827 (-0.95)	-0.836 (-0.96)
Top2to10		0.252 (0.19)		0.203 (0.15)	0.225 (0.17)
HHI2to10		1.432 (0.63)		1.805 (0.79)	1.516 (0.67)
CrossList	0.224 (0.42)	0.211 (0.4)	0.249 (0.46)	0.233 (0.43)	0.222 (0.41)
% Independent	0.496 (0.29)	0.280 (0.17)	0.162 (0.1)	-0.028 (-0.02)	0.446 (0.26)
BoardSize	1.409*** (3.13)	1.238*** (2.68)	1.422*** (3.15)	1.232*** (2.66)	1.246*** (2.69)
#Committee	0.385*** (2.76)	0.394*** (2.80)	0.397*** (2.85)	0.405*** (2.87)	0.395*** (2.80)
CEOAge	-0.016 (-1.10)	-0.015 (-1.03)	-0.016 (-1.10)	-0.015 (-1.01)	-0.014 (-0.95)
Growth	-0.023 (-0.15)	-0.028 (-0.17)	-0.063 (-0.40)	-0.065 (-0.41)	-0.028 (-0.17)
ROA	-4.305*** (-4.27)	-4.182*** (-4.15)	-4.736*** (-4.80)	-4.580*** (-4.62)	-4.164*** (-4.16)
Assets	-0.024 (-0.22)	0.012 (0.11)	-0.032 (-0.29)	0.007 (0.06)	0.004 (0.04)

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>
FirmAge	0.194 (0.68)	0.139 (0.46)	0.215 (0.75)	0.145 (0.48)	0.115 (0.38)
Observations	710	710	710	710	710
Pseudo R-squared	0.076	0.081	0.072	0.079	0.084

Table 3

Determinants of Dissent: Director-Proposal Level Regression with Proposal Fixed Effects.

This table reports results from logit regressions explaining the likelihood of individual dissent in the board voting at the proposal-director level. The dependent variable, *Dissent*, is a dummy equal to one if the director votes “Against” or “Abstains” over the board proposal. *CEOChair* is a dummy variable equal to one if the director is the Chairman or CEO of another company; *Academic* is a dummy variable equal to one if the director’s primary employer is education or academic institutes; *Bureaucrat* is a dummy variable equals one if the director has working experience in the government; *Accountant* is a dummy variable equals one if the director is a professional in accounting; *Lawyer* is a dummy variable equals one if the director has a legal background; *Banking* is a dummy variable equals one if the director has a bank background; *Executive* is a dummy variable equal one if the director’s primary employer is another, non-finance firm. The omitted category is the group of directors who do not belong to any of aforementioned categories. Other control variables are defined in Table 1 Panel C. *MediaMention*, *#Directorship*, and *Compensation* enter in log values. Reported are coefficients (in bold fonts), the t-statistics (in parentheses) based on standard errors clustered at the firm level, and marginal effects (in percentage points) for one unit change of a given regressor while keeping other covariates at their respective mean levels (for continuous variables) or at zero (for dummy variables). *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels.

	(1)	(2)	(3)	(4)	(5)
MediaMention	0.739 ^{***} (6.14) 15.8%				0.667 ^{***} (5.36) 14.2%
#Directorship		0.691 ^{***} (5.19) 14.8%			0.419 ^{***} (2.98) 8.9%
DirectorAge			-0.016 ^{**} (-2.22) -0.3%		-0.018 ^{**} (-2.30) -0.4%
FirstTerm				-0.505 ^{***} (-3.42) -10.8%	-0.399 ^{***} (-2.59) -8.4%
SocialTies	-0.656 ^{***} (-3.24) -12.7%	-0.385 [*] (-1.87) -7.8%	-0.369 [*] (-1.80) -7.5%	-0.445 ^{**} (-2.16) -8.9%	-0.656 ^{***} (-3.13) -12.6%
Education	1.604 ^{***} (3.48) 34.3%	1.695 ^{***} (3.69) 36.3%	1.730 ^{***} (3.82) 37.2%	1.751 ^{***} (3.85) 37.6%	1.419 ^{***} (3.04) 30.2%
Compensation	-0.119 [*] (-1.67) -2.5%	-0.132 ^{**} (-2.11) -2.8%	-0.086 (-1.32) -1.9%	-0.110 (-1.64) -2.4%	-0.158 ^{**} (-2.25) -3.4%
Female	0.026 (0.12) 0.6%	0.098 (0.47) 2.1%	-0.026 (-0.12) -0.6%	0.031 (0.15) 0.7%	0.049 (0.23) 1.1%
CEOChair	-0.777 (-1.49) -14.1%	-0.843 [*] (-1.66) -15%	-0.853 (-1.64) -15.3%	-0.975 [*] (-1.88) -16.9%	-0.850 (-1.61) -15%

	(1)	(2)	(3)	(4)	(5)
Academic	0.364** (2.07) 7.9%	0.227 (1.27) 4.9%	0.375** (2.16) 8.2%	0.373** (2.13) 8.1%	0.230 (1.27) 4.9%
Bureaucrat	-0.621** (-1.97) -11.7%	-0.508* (-1.66) -9.9%	-0.452 (-1.42) -8.9%	-0.615** (-1.99) -11.7%	-0.429 (-1.34) -8.4%
Accountant	0.533* (1.94) 12.2%	0.277 (1.02) 6.2%	0.219 (0.79) 4.9%	0.374 (1.4) 8.5%	0.354 (1.26) 7.9%
Lawyer	1.396*** (5.99) 33.1%	1.286*** (5.53) 30.5%	1.214*** (5.17) 28.9%	1.321*** (5.75) 31.4%	1.272*** (5.35) 30.1%
Banking	0.640* (1.83) 14.9%	0.585 (1.62) 13.6%	0.624* (1.85) 14.6%	0.681** (1.96) 15.9%	0.597 (1.61) 13.8%
Executive	-0.005 (-0.02) -0.1%	-0.217 (-1.03) -4.5%	-0.218 (-1.05) -4.6%	-0.155 (-0.74) -3.3%	-0.124 (-0.57) -2.6%
Observations	2,016	2,016	2,016	2,016	2,016
Pseudo R-squared	0.133	0.129	0.12	0.122	0.144

Table 4

Reputation Stock and Career Concerns.

This table reports results from logit regressions explaining the likelihood of individual dissent in the board voting over 1,873 proposal-director observations, based on 543 board proposals voting involving dissenting. The dependent variable, *Dissent*, is a dummy equal to one if the director votes “Against” or “Abstains” over the board proposal. Control variables are defined in Table 1 Panel C or in the Table 3. In Columns (1) and (4), *DirectorAge* and *#Directorship* are demeaned in the interactive specification. Reported are coefficients (in bold fonts), the t-statistics (in parentheses) based on standard errors clustered at the firm level, and marginal effects (in percentage points) for one unit change of a given regressor while keeping other covariates at their respective mean levels (for continuous variables) or at zero (for dummy variables). *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels.

	Full Sample	MediaMention > 0	MediaMention = 0	Full Sample	#Directorship > 1	#Directorship = 1
	(1)	(2)	(3)	(4)	(5)	(6)
DirectorAge	-0.013 *	-0.221 ***	-0.007	-0.014 *	-0.154 ***	0.021 *
	(-1.65)	(-2.90)	(-0.78)	(-1.94)	(-5.47)	(1.89)
	-0.3%	-5.4%	-0.1%	-0.3%	-3.6%	0.5%
MediaMention	0.923 ***					
	(6.17)					
	19.7%					
MediaMention *DirectorAge	-0.069 ***					
	(-2.84)					
	-1.5%					
#Directorship				0.687 ***		
				(4.93)		
				14.6%		
#Directorship *DirectorAge				-0.073 ***		
				(-5.18)		
				-1.6%		
SocialTies	-0.589 ***	10.534 ***	-1.057 ***	-0.377 *	-1.865 ***	-0.582
	(-2.90)	(7.56)	(-3.88)	(-1.78)	(-2.62)	(-1.61)
	-11.5%	96.8%	-19.6%	-7.6%	-32.7%	-11.8%
Education	1.445 ***	21.212 ***	1.839 ***	1.574 ***	2.417	2.121 ***
	(3.10)	(3.30)	(3.51)	(3.40)	(1.63)	(3.09)
	30.9%	523.8%	40.3%	33.5%	56.7%	47%
Compensation	-0.118 *	3.959 **	-0.140 *	-0.121 **	0.022	-0.211 *
	(-1.72)	(2.35)	(-1.95)	(-1.98)	(0.03)	(-1.89)
	-2.5%	97.8%	-3.1%	-2.6%	0.5%	-4.7%
Female	-0.023		0.130	0.071	0.108	-0.120
	(-0.11)		(0.55)	(0.34)	(0.15)	(-0.39)
	-0.5%		2.9%	1.5%	2.6%	-2.6%
CEOChair	-0.766		-0.644	-0.656	1.509	-1.702 *
	(-1.46)		(-1.22)	(-1.32)	(0.99)	(-2.27)
	-13.9%		-12.4%	-12.2%	35.6%	-26%

	Full Sample	MediaMention > 0	MediaMention = 0	Full Sample	#Directorship > 1	#Directorship = 1
	(1)	(2)	(3)	(4)	(5)	(6)
Academic	0.363** (2.05) 7.8%	6.371*** (2.69) 78.8%	0.333 (1.62) 7.4%	0.212 (1.18) 4.6%	-0.552 (-1.20) -13%	0.475* (1.67) 10.8%
Bureaucrat	-0.455 (-1.42) -8.9%		-0.474 (-1.32) -9.5%	-0.480 (-1.47) -9.3%	1.122 (1.42) 27.3%	-1.370** (-2.39) -22.9%
Accountant	0.453 (1.61) 10.3%	-4.296* (-1.65) -47%	0.641** (2.07) 15.1%	0.180 (0.64) 3.9%	-1.925** (-2.04) -30.8%	0.733* (1.84) 17.5%
Lawyer	1.308*** (5.51) 31%	34.513*** (11.04) 98.6%	1.609*** (6.05) 38.1%	1.299*** (5.41) 30.8%	0.173 (0.23) 4.1%	1.815*** (5.74) 42.5%
Banking	0.673 (1.95)* 15.7%		0.966** (2.46) 23.2%	0.719* (1.88) 16.8%	-0.265 (-0.19) -6%	1.317*** (2.76) 31.7%
Executive	-0.038 (-0.18) -0.8%	37.472*** (7.26) 82.4%	0.025 (0.11) 0.6%	-0.176 (-0.82) -3.7%	1.672** (2.33) 39.3%	0.158 (0.53) 3.5%
Observations	2,016	85	1,592	2,016	360	966
Pseudo R-squared	0.140	0.681	0.135	0.141	0.198	0.145