

Reputation Concerns of Independent Directors: Evidence from Individual Director Voting¹

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ABSTRACT

Using a unique dataset of board proposal voting by individual independent directors of public companies in China from 2004 to 2011, we analyze the incentives and consequences for directors to confront management. Overcoming the endogeneity in both board formation and proposal selection by relying on within-board proposal variations, we find that younger and more reputed directors are more likely to dissent, and that dissention is eventually rewarded in the marketplace in the form of more outside opportunities for directorships and lowered risk of regulatory sanctions. Moreover, director dissention improves corporate governance and market transparency mainly through the responses of stakeholders (shareholders, creditors, and regulators), to whom dissention disseminates value relevant information.

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ABSTRACT

Using a unique dataset of board proposal voting by individual independent directors of public companies in China from 2004 to 2011, we analyze the incentives and consequences for directors to confront management. Overcoming the endogeneity in both board formation and proposal selection by relying on within-board proposal variations, we find that younger and more reputed directors are more likely to dissent, and that dissention is eventually rewarded in the marketplace in the form of more outside opportunities for directorships and lowered risk of regulatory sanctions. Moreover, director dissention improves corporate governance and market transparency mainly through the responses of stakeholders (shareholders, creditors, and regulators), to whom dissention disseminates value relevant information.

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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, who are not significant shareholders and who do not receive direct compensation that is nearly as generous or performance sensitive as the managers they monitor (Bryan and Klein (2004), Yermack. (2004), Fich and Shivdasani (2006), and Adams and Ferreira (2008)). Additionally, management has significant influence on the appointment of independent directors (Shivdasani and Yerack (1999) and Dahya, Dimitrov, and McConnell (2008)). Thus, a natural question arises as to what motivates these outsiders to align themselves with the shareholders rather than the managers. Moreover, do independent directors have a positive impact on corporate governance when they stand up to management?

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 this hypothesis by showing that career opportunities for directors are indeed related to their performance. Positive performance includes rescission of takeover defenses (Coles and Hoi (2003)), termination of underperforming CEOs (Farrell and Whidbee (2000)), receipt of high takeover premium (Harford (2003)), retention during a bankruptcy process (Gilson (1990)), and/or general firm performance (Yermack (2004)). Mirror-image examples include dividend cuts (Kaplan and Reishus (1990)), shareholder lawsuits (Fich and Shivdasani (2007)), option backdating (Ertimur, Ferri, and Maber (2012)) and proxy contest nominations (Fos and Tsoutsoura (2013)). Relatedly, Dewally and Peck (2010), Fahlenbrach, Low, and Stulz (2013) and Agrawal and Chen (2011) study how director departure is associated with reputational incentives.

While the aforementioned studies confirm that independent directors are rewarded with more career opportunities for “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 of taking the right action. More importantly, most studies on boards of directors are conducted at the firm-board level. To the extent that the composition of

boards is endogenously chosen, 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 (Hermalin and Weisbach (1998), Boone, Field, Karpoff, and Raheja (2007), and Denis, Denis, and Walker (2012)). A related issue highlighted by Adams, Hermalin, and Weisbach (2010) is that it is difficult to observe the actual behavior of individual directors and harder to quantify them for formal analyses.¹ 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. The Chinese Securities Regulatory Commission (CSRC), the regulatory authority of China's stock market, mandated disclosure of votes cast by individual directors on board proposals beginning in 2004. We are thus able to compose a comprehensive sample of voting records on 770 board proposals involving dissention over 2004–2011 by hand-collecting information from corporate filings. Given that a great majority of proposals voted on by the board are sponsored by management, which in China mostly represents insiders and controlling shareholders, dissention reflects a director's willingness to confront the management on behalf of the outside shareholders.

The resulting dataset is well suited to analyze both the ex ante incentives and ex post consequences for independent directors to air dissenting opinions. The mandatory disclosure rule yields granular director-proposal level data that are not publicly available in the U.S. or any other major market. An analysis of individual directors' actual voting actions fills the gap in empirical research because existing work in the area has been mostly theoretical or experimental (e.g., Warther (1998), Gillette, Noe, and Rebello (2003), and Malenko (2013)). A crucial empirical advantage of the dataset is that it allows for identification from variations within a board proposal (i.e., variations in the actions and outcomes for directors who vote on the same proposal) by allowing for the inclusion of board- or

¹ Work by Schwartz-Ziv and Weisbach (2013) represents a critical improvement in this regard by studying "what boards do" using information from meeting minutes.

proposal-level fixed effects in the regressions. By relating different voting behavior within the same board to various director characteristics (especially the proxies for reputation concerns), we are able to filter out any potentially time-varying firm or board level unobserved heterogeneity that reflects the endogenous composition of a board or the endogenous inclusion of a proposal. Similarly, comparing the different career outcomes of dissenting and non-dissenting directors who served on the same board allows us to isolate the ex post outcome attributable to dissention.

The findings in this study contribute to our understanding of both board governance and career concerns. First, supporting the standard career concerns models which posit that agents who aspire to advance in their careers work harder (Holmström (1982)), we find that age (a common proxy for the strength of career concerns) is negatively associated with the propensity to dissent within a given board. Confirming the theoretical model of Diamond (1989), which predicts that agents become more self-disciplined to maintain their reputation as the latter grows and becomes a valuable asset, we also find that more highly reputed directors (measured by the number of positive or neutral media references and the number of independent directorships) dissent more often. Moreover, we uncover an interesting interaction effect: the negative relationship between director age and the tendency to dissent is more pronounced among directors who already enjoy high reputation value.

Second, traditional theoretical work on career concerns assumes a single class of “potential employers” that an agent needs to impress. However, researchers in board governance have long recognized the two-sided nature of career concerns faced by directors (Hermalin and Weisbach (2003) and Levit and Malenko (2014)) because of the potential conflict of interest between corporate insiders and outside shareholders. While their primary fiduciary duties rest with the shareholders, independent directors often feel beholden to the management, to whom they owe their nomination/appointment and possibly reappointment. The effective two-term limit for directors in China provides a variation in the relative strength of career concerns with the current management versus the outside market. Indeed, we find that directors in their first term are less likely to dissent than the second-termers on the same board, plausibly because the first-termers place greater importance on their reputation for being management

friendly because they desire to be reappointed. This analysis complements prior studies, which tend to focus on the relation between firm performance and directors' outside opportunities without explicitly recognizing the dual tensions.

Third, we validate the premise that career concerns motivate directors to establish a reputation for being a diligent monitor, rather than for being management friendly, with ex post outcomes. We find that dissention is rewarded with more outside career opportunities (measured by gains in board seats elsewhere post dissention) and better reputation protection (measured by avoidance of regulatory sanctions associated with firm wrong-doing). The combined ex ante and ex post results conclude that stronger reputational concerns among the independent directors contribute to better corporate governance.

Finally, our study provides novel evidence on the channel through which independent directors improve corporate governance and market transparency with their dissentions. Though it rarely blocks a proposal from passing, dissention disseminates new and value relevant information to shareholders and important stakeholders. Media exposure of firms involved in dissention during the event month spikes to more than four times the normal volume, bringing heightened levels of public scrutiny. Additionally, the stock prices decline by an average of -1.9% during the event window, and stocks predominantly held by retail investors experience even greater losses. Banks and regulators also respond negatively, as shown by reduced credit availability and increased enforcement actions. Dissention thus appears to be a valuable form of "passive monitoring" (Tirole (2001)), which refers to monitoring that aims to evaluate firms and disseminate information, rather than to directly alter the firm's course of action.

Admittedly, our study is confined to a single country—China—because the unique director-level data became available following a change in Chinese law. Due to the many specific features in China's economic and corporate governance systems, which are often different from those in Western economies, we do not presume that all director or stakeholder actions are generalizable to other countries. Our study, however, aims to inform board governance in the following two aspects. First, academic literature shows that outside shareholders are vulnerable to expropriation by controlling

shareholders in emerging economies (La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997, 1998), Johnson, La Porta, Lopez-de-Silanes, and Shleifer (2000)). Our study suggests that independent directors can be an important force offsetting the power of dominant shareholders, supporting evidence from other countries (Dahya, Dimitrov, and McConnell (2008) and Black and Kim (2012)). Second, while country-specific governance structures represent variations in parameters, the underlying economic incentives arising from reputation concerns are universal: agents in their early career have a stronger desire for good reputations, and highly reputed agents have more to lose when reputation is compromised. As such, reputational concerns have been shown to discipline directors and increase monitoring quality in other markets, including the U.S. (e.g., Masulis and Mobbs (2014) and Fos and Tsoutsoura (2014)). By integrating ex post outcomes with ex ante incentives in the same system, we hope that the resulting key insights transcend a single country.

2. Institutional Background

China's stock market, first introduced in the early 1990s, had grown to be the world's second largest market in terms of market capitalization (about \$3.4 trillion) by 2011, with 2,342 listed companies on the two domestic stock exchanges in Shanghai and Shenzhen. Corporate governance has been a looming issue because many of the listed companies were carve-outs from state-owned enterprises (SOEs), and the government and its agencies often remain the controlling shareholders.² 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 that the rights of minority shareholders will be expropriated by controlling shareholders. Within a board, the duty to uphold the interests of outside shareholders rests disproportionately on the independent directors.

² At the end of 2004, the ultimate controlling shareholder of most Chinese firms (63%) was either the central government, local government, or an SOE. That fraction had decreased to about 45% in 2011.

The roles of directors in China are very similar to those defined in the context of U.S. corporate law. In fact, the independent director system in China was meant to be a “legal transplant” from U.S. corporate governance law and practice (Clarke, 2006), as exemplified by the 2001 “*Guideline for the establishment of the independent director system in listed firms*” (henceforth, the “*Guideline*”).

Directors have a legal obligation to review the corporation’s major plans and policies, and are charged with selecting, compensating, evaluating, and when appropriate, dismissing top managers. Independent directors, who do not have material business relations with the firms they oversee, are often nominated by large shareholders or management, and are then formally elected at the shareholder meetings.

Independent directors make up of at least one third of the boards of listed companies. While major U.S. stock exchanges require a greater percentage of independent board members relative to board size than the comparable requirement in China, the definition of “independence” is more stringent in China. A director affiliated with or representing a non-insider blockholder who holds more than 1% of shares outstanding is not considered independent in China, while the common ownership threshold for insider classification is 10% in the U.S. Moreover, an independent director can serve at most six years on a company’s board, effectively limiting independent directors’ tenure to be no more than two terms in most companies. There are virtually no staggered boards among public firms in China.

Similar to practices in the U.S. and other major markets, boards function mainly through proposals discussed and voted on at board meetings. The *Companies Law of China* requires that a board proposal must receive majority support to be effective. According to a 2004 survey of 204 firms by the Research Center at the Shanghai Stock Exchange (RCSHSE) (henceforth, the “*Survey*”), in 88% of the companies the chairmen (usually insiders) decide which proposals to include in the meeting agenda. The *Survey* also indicates that the average firm holds 7.4 board meetings each year and reviews 3.6 proposals on average at each meeting.

Although voting on proposals is a crucial board function, director voting records are not disclosed in the U.S. and other major markets. China is an exception because timely disclosure of summary information of the voting outcome is mandatory after the updated “Code of information

disclosure for listed firms: annual reports” in 2004.³ The purpose of the change in law was to promote transparency and to offer the market timely warnings of compromising situations. The required disclosure includes details on the votes, identities of the dissenting directors, the topics of the proposals, and the directors’ opinions. This change in regulation provides us with a unique opportunity to construct a comprehensive sample that links the opinion expressed by individual independent directors to the incentives they face and to the resulting outcomes.

In parallel studies, Du, He, and Rui (2012) and Ma and Khanna (2013) also study independent director disagreement using Chinese data. Their research is motivated by a regulatory change concurrent to the 2001 *Guideline* which requires independent directors on the same board to issue a *joint* “report of opinion” before or after a board (or shareholder) meeting or other major corporate events.⁴ Unlike the actual vote, the opinion is not binding. Our study differs from theirs along two critical dimensions. First, the “report of opinion” pools the opinions of all independent directors and therefore the director-level results are derived mainly from variations between corporate events. In contrast, all our key results are derived from within-board variations. Second, our primary interest lies in the career and reputational concerns of directors while Ma and Khanna (2013) focus more on the social ties between the directors and management.

3. Data and Empirical Motivation

A. Data Overview

The most important information—votes on proposals cast by independent directors—is hand-collected from the annual reports of all public firms listed on the Shanghai and Shenzhen stock

³ 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.

⁴ We find that 65% of the dissenting events did not have recorded public opinions, while 63% of the firm-year observations with negative opinions are in our sample. Hence the dissenting sample is considerably larger than the negative public opinion sample. Our main results hold on the subsamples without concurrent negative public opinions, and are therefore not driven by the latter.

exchanges during 2004-2011.⁵ We identify 487 board meetings with 770 proposals in which at least one independent director voted “Abstain” or “Against.” We classify both as dissention because “Abstain” and “Against” have similar real effects: First, the disclosure requirement is identical when either type of negative vote occurs. Second, the *Companies Law of China* requires that board proposals receive majority support (“for” votes) to be effective. Third, empirically we find that a director who cast a negative vote on a proposal related to the action enjoys the same relief from liabilities associated with the company’s wrongdoing, suggesting that “abstention” and “against” are comparable forms of non-support from a regulatory perspective. We henceforth call the resulting sample the “dissention sample.”⁶ In a sensitivity analysis we code “Against” and “Abstain” as ordered dissention and obtain similar results. About 5.8% of all independent directors during our sample period dissented at least once. We follow the directors’ career outcomes and stakeholder reactions through year 2012.

The dissenting sample consists of 2,767 director-proposal level observations, involving 259 unique firm identities and 1,029 unique independent directors. In two-thirds of the sample proposals only one director dissents (541 proposals). In another 133 (76) proposals, two (three) independent directors dissent. By a different sorting, 342 directors (62.5% of all ever dissenting independent directors) dissent only once during the sample period, and another 101 (37) directors dissent twice (thrice). Our sample spans 20 out of 22 level-one industries (level 2 for manufacturing industries) classified by the CSRC, with industry representation comparable to that of the universe of public firms.

Dissention occurs in about 0.6% of the board meetings using the estimated number of meetings and proposals from the *Survey*⁷ and affects an average of 3.1% of all public firms in a given year. It is worth noting that restricting the main sample to proposals involving dissention by at least one

⁵ Following the standard practice in the literature, firms that only issue B-shares (about 1.3% of all public companies) are excluded. B-shares are issued to foreign investors and are denominated in foreign currency.

⁶ In the U.S., a director might abstain because of a potential conflict of interest or a lack of necessary information. A similarly situated director will become ineligible to vote in our setting. In the minutes, directors who recused themselves from voting and those who actually cast an abstention vote are recorded separately. In our sample no independent director was recused for such reasons. This is not surprising because it is very rare that an independent director in China would be caught in a conflicted situation.

⁷ The rare occurrence of dissention is not specific to China. In Schwartz-Ziv and Weisbach (2013), directors in Israel disagree with the CEO in about 2% of the meetings.

independent director does not compromise data coverage. This is because our empirical specification incorporates proposal fixed effects in order to filter out unobserved and potentially time-varying heterogeneity in firm, board, and proposal characteristics, the major sources of endogeneity discussed in the board literature. Proposals without variation in director voting would not contribute to estimation in the presence of a proposal fixed effect.

Table 1 presents an overview of the sample. Proposals involving dissenting directors address a wide range of issues, as shown in Panel A. Not surprisingly, the top four categories, which account for more than three-quarters of the sample, concern issues for which corporate governance is particularly relevant: (1) Investment, M&A, and restructuring (29.6%); (2) related-party transactions (17%); (3) accounting treatment and information disclosure (14.3%); (4) directors and officers selection, appointment, and turnover (14.0%).⁸

[Insert Table 1 here.]

Though our main analyses are based on the sample of director-proposal level observations conditional on the occurrence of dissention, we also collect a matched sample to gauge the representativeness of the boards/firms involved in dissention and to assess the differences between the unconditional and conditional relations. The matched sample consists of firms without any dissention events that are from the same industry-year and are closest to the observations in the conditional sample in terms of asset size. Panel B reports summary statistics for the main variables at the firm-year level from the conditional and matched samples.

Based on the identities of the independent directors, we obtain director age, gender, and compensation information from the China Securities Market and Accounting Research database (CSMAR, a standard database on Chinese capital markets), which we supplement by manually collecting information. The same data source also allows us to construct the number of independent director

⁸ We do not have a full sample of all proposals, and therefore cannot produce the unconditional composition of proposal topics. However, analyzing a pooled sample of all proposals in all board meetings that experience any dissention, we find that the same four categories emerge at the top (and with roughly the same relative magnitude) as measured by the percentage of proposals experiencing dissention within each category.

positions at all public companies and each director's tenure at her position. Finally, we hand-collected each director's primary occupation data from her biography in the annual reports.

The key variables in our analysis are the proxies for the strength of directors' career concerns and reputation values. Our default measure for career concerns is age (*DirectorAge*), following the standard in the literature (Gibbons and Murphy (1992) and Chevalier and Ellison (1999a)). Young directors are expected to have stronger incentives to build up a reputation because of their longer career horizons. However, the reputation effect is more subtle given that independent directors bear fiduciary duties to shareholders, but simultaneously often owe their appointment (and reappointment) to the support of the management. To measure the dual incentives, 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 current management. In contrast, directors in their second (and last) term care more about the perception of the market.

To measure directors' reputation values, 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 six Chinese newspapers by distribution volumes from year $t-3$ to year $t-1$ where year t is the year of the vote on the proposal. 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 the news outlets and time windows. An alternative and popular measure for a director's reputation adopted in the literature is the number of independent directorships at public companies (*#Directorship*).⁹ Directorships are a public recognition of talent and accomplishment, and bestow further visibility and prestige on the appointed director (Giannetti, Liao, and Yu (2013)). Many academic studies have argued or documented a positive relation between the number of directorships

⁹ The CSRC limits the maximum of number of outside directorships to be five. This constraint is seldom binding as the average number is 1.7.

held and director quality (e.g., Shivdasani (1993), Kaplan and Reishus (1990), Gilson (1990), Brickley, Linck, and Coles (1999), and Ferris, Jagannathan, and Pritchard (2003)).¹⁰

To partly control for the leniency tendency, we construct a measure for the director's social ties with management, analogous to the methods adopted in Hwang and Kim (2009), Fracassi and Tate (2012), and Kramarz and Thesmar (2013). Specifically, an independent director is classified as having social ties with management (*SocialTie* is coded one) if the director shares 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 within a three year period; (3) was born in the same city/county; or (4) worked for the same employer. The personal data of directors required to construct this measure are hand-collected from companies' annual reports, Baidu (the largest internet search engine in China), Who's Who, and directors' personal web pages. Criterion (3) regarding birth place might appear unusual but reflects a special phenomenon in China's culture where people with common geographic origins form a strong bond.¹¹ Anecdotes abound that even people from a large city (e.g., 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.

Other control variables include *Education*, measured as the average score of the college entrance exam required to be admitted to the undergraduate institution that a director attends. This measure is analogous to the Scholastic Aptitude Test (SAT) scores in the U.S., which have been extensively used in the literature to proxy for agent ability (Chevalier and Ellison (1999b) and Graham, Harvey, and Puri (2013)), assuming a strong assortative matching between college ranking and student quality. In China, the correlation between the standard test scores and college ranking is even stronger because college

¹⁰ One concern with this measure is that a high number of directorships may reflect that the director is lenient towards management (Yermack (2004) and Fich and Shivdasani (2006)). In our setting, the leniency factor, if present, would actually work against finding our results.

¹¹ Honig (1996) argues that "the native place identity may become the basis of identities and relationships that are as ethnic in the context of China as African American, Italian American, or Chicano identities are ethnic in the United States."

placement almost solely relies on the score. Needless to say, college ranking also contributes to the prestige of a director, in addition to measuring her ability.

As an overview, the median director in our sample is 48 years old (considerably younger than their U.S. counterparts whose median is 54¹²). On average, a director holds 0.7 additional board seat in other public companies (more than double the U.S. average of 0.28) and has received 0.6 neutral or complimentary media reference in the two-year period from three years to one year before the board meeting. About 11% of the directors are women (considerably higher than the 8.3% in the U.S.), and 57% are in their first term (there is no comparable term limit in the U.S.). The average director's compensation is 49,942 *yuan* (roughly US\$ 6,615 using the average exchange rate during the sample period of US\$ 1 = 7.55 *yuan*), or about 160% of China's per capital GDP in 2009.¹³

Among all independent directors, 38% are university professors or academic researchers (usually from business or economics disciplines). The next largest category is former government bureaucrats and politicians, who represent a sizable 29% of all independent directors. The statistics are generally consistent with contemporary studies on directors in listed companies in China (Giannetti, Liao, and Yu (2013)). The biggest contrast to the U.S. is the representation of executives from other companies. While they account for about half of the independent directors in the U.S., the same proportion in our sample is 17%. The information on professional background is useful as control because measures such as *MediaMention* may not be comparable across different professions.

We then relate dissenting events to various firm variables that characterize governance or performance. 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-

¹² The summary statistics regarding directors in the U.S. presented in this section, unless otherwise specified, are the authors' own calculations based on their subscription to the NYSE Director Database, which covers directors of all public firms from 2001 to 2013.

¹³ The compensation ratio to per capital GDP is about half of that for the average U.S. director in the S&P 1500 companies in 2012 according to the annual report by Equilar, a leading consulting firm. 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.

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 potential influence of minority shareholders in two ways: the sum of total ownership of the second through the tenth largest shareholders (*Top2to10*), and the ownership Herfindahl index of these nine shareholders (i.e., the sum of squared percentage ownership of the second through the tenth largest shareholders scaled by *Top2to10* (*HHI2to10*)).

The second group of variables captures the potential expropriation of outside shareholders. Expropriation can take various forms, among which related party transactions (RPTs) at non-market conditions are widely recognized to be one of the most common (e.g., Djankov, La Porta, Lopez-de-Silanes, and Shleifer, (2008)). We examine two forms of RPTs that are particularly prone to corporate governance concerns in the Chinese context (Jiang, Lee, Yue (2010), Berkman, Cole, and Fu (2009)). The first measure is *AR*, the net value of other accounts receivables (the difference between other receivables and other payables) due to RPTs, scaled by total assets, using information disclosed in the footnotes of financial reports. The second RPT measure is *Guarantee*, total loan guarantees provided for subsidiaries and affiliates, scaled by the firm's equity (to reflect the fact that the net worth proxies a guarantor's own financial strength and that the regulator caps the ratio at 50%). Both types of transactions entail heightened risk of delinquency. The low average values and substantial variation indicate that a minority subset of firms makes frequent use of RPTs, the abuse of which amounts to tunneling of corporate assets.

The third category of variables characterizes the boards. *BoardSize* is the total number of directors, where the median board has 9 directors (3 of which are independent). *#Committee* is the total number of committees formed by board members; *% Independent* is the fraction of independent directors on the board. Both *Boardsize* and *#Committee* enter the regressions in log values. *TenureDisp* captures the dispersion in the length of tenure within the same board, scaled by the mean values, following Anderson, Reeb, Upadhyay, and Zhao (2011).

Finally, we include standard firm characteristics as additional control variables. Firm characteristics variables are from CSMAR and Wind. In particular, *Assets* is a firm’s total assets (and enters the regressions in log value), *ROA* (*ROA*) is the ratio of operating income over total assets, and Tobin’s *Q* (*TobinQ*) is the ratio of the sum of stock market capitalization and book value of liabilities over total assets.

B. Empirical Motivation

Like any other economic behavior, voting dissention by independent directors is the outcome of a cost-benefit calculation. One important direct benefit for independent directors to vote against a proposal is that, under China’s Corporate Law, they can avoid litigation or regulatory penalties if the proposal damages public shareholders and triggers enforcement actions. The main direct costs of dissention include the discomfort from confrontation, the reduced likelihood of re-appointment, and, in some cases, the loss of the director’s seat before the full term is over. However, consistent with prior literature, we show that being perceived as a “tough” monitor has a positive effect on future opportunities in the market for directorships, as it brings the director opportunities from firms attempting to show their commitment to good corporate governance. Moreover, as a group of people with high aspirations and accomplishments, directors value a reputation of diligence and integrity beyond the market for board seats. Liebman and Milhaupt (2008) argue that reputation is particularly important in China for both individual career and corporate business opportunities because of the relatively weak formal institutions compared to the developed market.

A usual challenge to board or corporate governance research is that a governance structure—such as the composition of a board—is endogenously determined to maximize the objective function(s) of the shareholders and/or the managers. To overcome this challenge, 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 to one if director i in firm j dissents on proposal k at time t . $DirectorChar_{i,t}$ is a vector of variables describing the characteristics of director i at 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 the 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 endogenous matching between a firm and its directors) and director actions. The second is the immeasurable proposal characteristics that are correlated with both the board characteristics and director attitudes—this endogeneity arises because management will consider possible reactions from board members when deciding whether or not to include the proposal. 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 on the same proposal—and this is precisely the relation whose direction and magnitude we try to estimate.

4. Why Independent Directors Dissent: Empirical Analyses

A. Firm-Level Analyses

Though not our main contribution, we start with firm-level analyses because there has been no empirical research on the firm-level determinants of director dissention. This analysis sheds light on whether dissention, if reflective of monitoring by independent directors, is related to the potential prevalence of agency problems. We run firm-year level logit regressions with the occurrence of dissent as the dependent variable. The regressions incorporate both industry and year dummy variables, and apply standard errors clustered at the firm level. Results are reported in Table 2, which, not surprisingly, are highly consistent with those from the simple comparisons of the sample conditional on dissention and its matched sample reported in Panel B of Table 1.

[Insert Table 2 here.]

The original coefficients in logit models, β_k , are log-odds ratios. For ease of interpretation, in all logit (or conditional logit) regressions we report the exponentiated coefficients, e^{β_k} , which become the “ratio of odds ratios” (henceforth, simply “odds ratios” as commonly used).¹⁴ In our context, an odds ratio indicates the multiple of the ratio $Prob(Dissent)/[1- Prob(Dissent)]$ relative to the base level due to a one-unit change in x_k . An odds ratio greater (smaller) than unit indicates an increase in the regressor is associated with an increase (decrease) in the probability of dissent. The reported t -statistics are associated with whether the original coefficients (or the log odds ratios) are significantly different from zero, and show how significantly the odds ratios deviate from the null level of one (i.e., no change).

The key independent variables are the proxies for related party transactions: accounts receivables (*AR*) and loan guarantees (*Guarantee*). The correlation between the two variables is weak (0.07) and hence they capture quite different aspects of potential shareholder expropriation. As expected, they are both positively associated with the probability of independent director dissent. The coefficients on *AR* are significant at the 1% level across all specifications. Using figures from the full regression in column (5), the odds ratio associated with a one-standard deviation increase in *AR* is 1.235. Given the unconditional dissention probability of 3.1% in this sample, the odds ratio is equivalent to a 0.7 percentage point increase in the probability of dissention.¹⁵

The ownership variables are also directionally consistent with our hypothesis. A concentrated ownership of the top shareholder (*Top1*) is associated with fewer dissenting events. Such a powerful shareholder might have more influence on the appointment of independent directors, and hence is less

¹⁴Let p be the probability of dissention and let β_k ($k = 1, 2, \dots, K$) be the coefficient associated with characteristics x_k . The logit model estimates $\ln\left(\frac{p}{1-p}\right) = \sum_{k=1}^K x_k \beta_k + \varepsilon$, where $\frac{p}{1-p}$ is an odds ratio. Let p' be the probability after

increasing x_k by one unit while keeping all other regressors unchanged, then $e^{\beta_k} = \left(\frac{p'}{1-p'}\right) / \left(\frac{p}{1-p}\right)$.

¹⁵ The detailed calculation follows from the previous footnote: Column (5) of Table 2 indicates that a one unit change in *AR* is associated with an odds ratio multiple of 14.992, implying an unexponentiated coefficient of 2.708 ($=\ln(14.992)$). Given the standard deviation of *AR* of 0.078, the odds ratio multiple associated with a one standard deviation change is 1.235 ($=\exp(2.708 \times 0.078)$). The unconditional probability of 3.1% is equivalent to an odds ratio of 0.0320 ($=0.031/(1-0.031)$). A multiple of 1.235 raises the odds ratio to 0.0395 ($=0.0320 \times 1.235$), which implies a new probability of 0.038 ($=0.0395/(1+0.0395)$), or a 0.7 percentage point increase.

likely to be paired with vocal outside directors. On the other hand, the effect is not significant when the state is the top shareholder ($State = 1$, its correlation with $Top1$ is 0.27), regardless of the presence of $Top1$. Counter-balancing the force of the largest shareholder, concentrated ownership by the next largest shareholders (as proxied by $HHI2to10$) is associated with more director dissention. Such a relation indicates that minority blockholders, usually mutual funds and insurance companies, could be an important force in corporate governance.

As for the board and CEO variables, we find that the effects of both board size and the number of committees are significantly positive, which is consistent with the explanation that there is a higher probability of disagreement when there are more people/committees. In unreported tests, we find that investment, leverage, CEO ownership, CEO/chair duality, having a top auditing firm, industry performance and competitiveness, and board diversity (other than dispersion in tenure) do not bear significant relations to the probability of dissention.

B. Director-Level Analyses

B1. Conditional analysis with board proposal fixed effects

In this section we apply the conditional logit model to address the following question: *conditional* on the existence of dispersion in the votes cast on a proposal, what type of individual director characteristics, relative to fellow directors voting on the same proposal, contribute to the differential voting behavior? In such a model, the proposal fixed effect (α_k) is integrated out and hence not estimated. By construction, the sample relevant for estimation includes all 650 proposals on which at least one independent director dissented and at least one independent director approved, resulting in 2,374 observations.¹⁶ Results are reported in Table 3 Panel A. The conditional interpretation of the

¹⁶ 107 proposals dropped out because all independent directors dissented, among which 65 failed to pass because the majority of votes were negative. The categories of topics with the highest representations are: “Related party transactions” (31.8%) “Investment, M&A, and restructuring” (20.6%), and “Director and officer selection” (15.0%). The determinants of uniform dissention by independent directors are qualitatively similar to those reported in Table 2. Another 13 proposals were excluded due to inexact information about the identities of the dissenters.

results is no different from that of the standard linear fixed effect models. While it is silent on why some boards and not others produce dissenting voices, the conditional specification uncovers a relatively clean relation between director characteristics and dissenting propensity at the individual director level that is free from the effects of a potentially endogenous matching between boards and firms/proposals.

[Insert Table 3 here.]

In Table 3 Panel A, the dependent variable is a dummy variable equal to one if a director dissents over a board proposal. The probability of dissention conditional on the dispersion of votes within the same boards is 33.8%, implying a base odds ratio of 0.511 ($= 33.8\% / (1 - 33.8\%)$) in the conditional logit model. All the odds ratios associated with one-unit changes in the regressors could be assessed accordingly by multiplying the base ratio with the exponentiated coefficient.

The explanatory variables of key interest are those measuring the intensity of the directors' career concerns and those measuring the quality of the directors' reputations.. Table 3 Panel A reveals several interesting patterns. First, the coefficient on *DirectorAge* (which is expressed in multiples of 10 years in the regressions) indicates that older directors are less likely to dissent (*t*-statistics range from -1.98 to -2.34), consistent with prior findings in career concerns literature that older directors have a weaker incentive to develop a reputation in the labor market. The economic magnitude of the age effect is sizable: For two otherwise equivalent directors, except that one is 10 years older than the other, the odds ratio of dissenting (versus not dissenting) for the older director is 0.87–0.90 times that of the younger one on the same board voting for the same proposal. Given that the conditional probability of dissenting is 33.8%, the odds ratio implies that the average probability of dissention is reduced by 3.0 percentage points for every decade of advance in age (please refer to footnotes 15 and 16 for the calculation).

Though age has been the primary proxy for the intensity of career concerns in the literature, it no doubt embeds other forces that affect behavior. One can argue that the youngsters are inherently “impetuous” and the old-timers more “jaded” (borrowing the phrases from Prendergast and Stole (1996)), which is reflected in the difference in the propensity to dissent. What is important is that in the

Prendergast and Stole's (1996) model, career concerns are precisely the force underlying the youngsters' tendency to deviate.

Second, the term limit for directors in China (which is mostly absent in the U.S.) allows us to separately identify the dual incentives faced by independent directors. The reappointment rates for dissenters and non-dissenters in the sample are 55.9% and 46.7%, respectively, the difference of which is significant at the 5% level. Given that directors who rock the boat during their first term risk losing re-appointment, directors in their first terms should be less likely to dissent due to the higher cost. The effect is indeed statistically significant. As for the economic effect, a first-term director's odds ratio for dissenting is only 0.75–0.78 times that for a second-termer. With imputed parameter values, the conditional probability of dissention is reduced by 5.4–6.2 percentage points when a director is in her first-term. It is possible an extended term of board service brings more information and experience to the director who is therefore more likely to detect problems in firms.¹⁷ In untabulated results, we find that the coefficient on *FirstTerm* remains significant when a direct proxy for experience, tenure as a director in the same industry, is included. At the same time, the newly added experience variable is not significant. Therefore, the term effect seems to dominate pure experience.

Third, directors with higher reputation value, as measured by the number of non-negative media references in the top six publications (*MediaMention*) or the number of director seats held at different companies (*#Directorship*), are both positively and significantly (at the 5% level) associated with dissention. The economic effect is also significant. The odds ratio of 1.50–1.57 means a one-standard deviation increase in $\log(\text{MediaMention})$ leads to an increase in the conditional probability of dissention of about five percentage points (see footnote 21 for the calculation). Similarly, a one-standard deviation increase in $\log(\text{\#Directorship})$ leads to a 3.4–5.2 percentage point increase in the probability of dissention.

¹⁷ Another hypothesis related to director tenure is that extended board service time makes outside directors more captive by the management (Core, Holthausen, and Larcker (1999)). Note that this force would work against finding our results. Additionally, due to the term limits in China, this force is also likely to be weaker.

According to Diamond (1989), when reputation becomes a valuable asset, a single failure causes a larger decline in its value; hence the agent will be more self-disciplined in order to maintain the reputation. On the other hand, if short-term benefits are also disproportionately large for reputable agents, they could also be tempted to “cash in” their reputation. Fang and Yasuda (2009) succinctly summarize the two opposing effects as the “reputation-as-discipline” and “reputation-liquidation” hypotheses in the context of sell-side analysts. In our setting, the disciplinary effect dominates and manifests itself as highly reputable directors being more likely to “rock the boat” when they discern wrong-doing.

In addition to the effects of reputation and career concerns, some of the 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 an educational or academic institution; *Bureaucrat* is a dummy variable equal to one if the director has previously worked for the government; *Accountant* is a dummy variable equal to one if the director is an accounting professional; *Lawyer* is a dummy variable equal to one if the director has a legal background; *Banking* is a dummy variable equal to one if the director is affiliated with a bank; and *Executive* is a dummy variable equal to one if the director’s primary employer is another, non-financial firm. The omitted *Other* category accounts for about 14% of the observations; it covers professions such as consulting, engineering, industry associations, and retirees.

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 by far the most likely dissidents (with an odds ratio that is about 2.2–2.5 times that of the omitted *Other* category), presumably because they are among the most aware of the potential legal liabilities that can arise from corporate fraud and because their careers are most sensitive to such liabilities. The positive difference between *Lawyer* and *Other* (the omitted category) is highly

significant (at the 1% level), and the negative difference between *CEOChair* and *Other* is significant at the 5% level in all five specifications.

Intuitively, the existence of a social tie between a director and the corporate head (the dummy variable *SocialTie* equal to one) is associated with less dissention, suggesting that social connection leads to leniency. It corroborates work by Ma and Khanna (2013) showing that directors are more likely to report disagreement with management when the social ties between the two parties break down, and is consistent with Kramarz and Thesmar's (2013) finding that social networks in the board room have detrimental effects on governance because they cause directors to over-pay and under-replace CEOs. Interestingly, directors graduating from more prestigious colleges (measured by *Education*) are significantly more likely to dissent. To the extent that *Education* proxies for ability and status, both of which imply the existence of better outside opportunities, the relation suggests that directors with higher current or potential reputation values are more likely to align themselves with shareholders as opposed to management when there is a conflict.

We conduct several tests to ensure robustness. The results are similar when we use board meeting fixed effects or when we replace the proposal fixed effects with the coarser firm-year (which is equivalent to board-year) fixed effects. To reduce the influence of "frequent" dissenting directors and targeted firms, we adopt an alternative specification that keeps only the first proposal with dissenting behavior in a firm-year. The results are not sensitive to such a variation. Finally, the results remain robust when using linear probability regressions with proposal fixed effects.

B2. Unconditional analyses

After showing how director characteristics affect their propensity to dissent based on the conditional sample of board proposals involving dissention, we remain curious as to why some boards, and not others, produce dissenting voices. Moreover, given that the conditional sample represents a small subset of the universe of directors and proposals, it also remains to be shown how the conditional sample differs from the universe of boards and directors in a regression framework and whether the same director characteristics are associated with more dissention unconditionally. We construct a matched

sample in order to address these issues. More specifically, the matched firms are those from the same industry-year with the closest asset size and without dissention (see Table 1 Panel B for summary statistics). Table 3 Panel B presents the results from a logit analysis on the pooled sample.

The unconditional relations between dissention and the directors' ages, media references, outside directorships, and professions are analogous to those from the conditional analysis, indicating that young and reputable directors are more likely to dissent, with or without taking into consideration the potential endogenous matching between directors and firms/boards. However, the magnitude as well as the significance of the coefficients from the unconditional analysis is noticeably lower than that of those from the conditional analysis. Such an attenuation effect is even more notable with *FirstTerm*: While the variable predicts a lower frequency of dissention within a board, its relation to dissention is close to neutral unconditionally. The contrast reveals the endogeneity inherent in the decision to include a proposal: Management might be less inclined to include a proposal unfavorable to outside shareholders if the directors are all or predominantly young, highly reputed, or in their second term, which attenuates the observed relation between these characteristics and directors' tendency to confront the management.

The unconditional analysis, in the absence of board-proposal fixed effects, also allows us to add board/firm level regressors. Echoing the two-sample comparisons from Table 2, firms with governance issues (higher accounting receivables from related party transactions) and poor performance (lower ROA) are more likely to incur dissention. Moreover, conforming to standard organizational theories (see a review by Williams and O'Reilly (1988)), both the number of committees and dispersion in director tenure within a board predicts higher likelihood of disagreement. Presumably similarity in time of entry eases communication and aligns social identity.

C. Interaction of Career Concerns and Reputation Value

Theory has not provided a clear prediction regarding the interaction between reputation value and career concerns. Building on our main regression specification using the conditional logit model with proposal fixed effects, we make the following modifications: (1) we add an interaction term to the

regression ($MediaMention \times DirectorAge$ or $\#Directorship \times DirectorAge$), and (2) we split the full sample into subsamples of directors with high and low reputation values based on the criteria of whether the director has a positive number of media references (that is, $MediaMention > 0$) or whether the director holds director seats in other companies (that is, $\#Directorship > 1$). Results are reported in Table 4.

[Insert Table 4 here.]

The first two columns of Table 4 indicate that both interactive effects, between *MediaMention* and *DirectorAge* and between *\#Directorship* and *DirectorAge*, are negative and significant (at the 5% and 1% levels, respectively). That is, a director's outside reputation (as captured by media exposure or the number of director jobs assumed) strengthens his or her career concerns (i.e., the slope on *DirectorAge* becomes even more negative).

The partial effects from interaction terms are not straightforward to impute in non-linear models. The economic magnitude is much easier to interpret with the split-sample analysis, as shown in columns (3) to (6).¹⁸ It turns out that the negative relation between dissent and director age is only significant in the subsamples of directors who are highly reputed, as measured by either media references or outside board seats. For example, for directors who do not hold additional board seats, their dissenting propensity is roughly invariant to age (where the odds ratio is close to one, the neutral value). For those who hold additional board seats, a 10-year advancement in age is associated with an odds ratio of 0.39, which amounts to a decrease of 19.9 percentage points in the conditional probability of dissenting from the sub-sample frequency of 42.3%, or a near-halving of the average probability. Overall, the results in Table 4 provide strong support for the “reputation-as-discipline” hypothesis rather than the “reputation-liquidation” hypothesis.

5. Ex Post Outcomes of Dissent

¹⁸ The director type dummies (e.g., *Academic*, *Bureaucrat*, etc.) are not included in column (3) because of the small sample size considered. Adding these dummies would cause singularity conditions in estimation.

A. Dissent as “Passive Monitoring”

The previous sections were based on the premise that dissenting is a way for an independent director to exercise his/her monitoring responsibility. Results in Table 2 offer some support for this premise by showing that dissention occurs more often among underperforming firms with dubious related-party transactions.

At face value, this monitoring mechanism might appear weak given that 92% of our sample proposals eventually pass despite dissention. The high passage rate per se is not surprising given management’s control over the board meeting agenda and the minority representation of independent directors. The fact that dissenting directors usually do not successfully block proposals to which they object suggests that dissention is largely a form of “passive monitoring” *a la* Tirole (2001). Passive monitoring refers to actions of collecting and transferring information about the firm. The aim is to evaluate the firm/management and to disseminate value relevant information, rather than to directly alter the firm’s course of action. We present evidence consistent with passive monitoring in terms of both stakeholder reactions to dissention and career outcomes for dissenting directors.

B. Stakeholder Reaction to Dissention

B1 Investor reaction: Evidence from news reports and stock returns

Dissenting events alert the general investing public to operational or governance issues at the firm, which could be previously unknown or overlooked by outside investors. We conduct two tests to capture this “whistle-blowing” effect. First, we identify abnormal news coverage of firms with dissention events. To this end, we search all 62 publicly circulated business-related daily newspapers in China for news covering the companies that experience dissention events, and record the news volume at the monthly, weekly, and daily frequency. A news article is included only if it contains both the name of a company under review and one of the key words representing the broad category of issues discussed in the proposal that involves dissention. For example, if dissention is over a proposal regarding a company’s guarantee for a subsidiary, then the searched key words would include “guarantee,” and

“guarantor.” We track the average news coverage per company from 12 months (weeks, days) before dissention to 12 months (weeks, days) after, and plot the resulting graphs in Figure 1.

[Insert Figure 1 here.]

Figure 1 Panel A plots the raw news volume, which exhibits a clear and unique spike of news coverage during the month (week, day) of dissention: The event period news exposure regarding the company and the associated issues is roughly four (monthly frequency) to over ten (daily frequency) times the normal volume. Panel B shows the abnormal news volume net of a control sample, which consists of observations of the same firms from a different year in $[t-2, t+2]$ when proposals on similar topics (by key words) are discussed but there is no dissention on any proposal during the full year. The purpose of the control is to filter out any potential news effect of certain topics of the proposals even in the absence of dissention. The graphs in two charts appear identical up to scale. The consistent news spikes in both panels make it difficult to refute the disclosure of dissention as the cause for the surge of media attention. Indeed, articles published during the event window often (in about one-quarter of the cases) explicitly mention the board proposal in controversy, and sometimes the names of the dissenting directors as well.

In China, the major newspapers (whose print content often appears online as well in recent years) serve as an essential channel for the investing public to learn about the companies. Thus a natural question that follows becomes whether the news-worthy event has value implications for shareholders. The “whistle-blowing” hypothesis implies that dissention reveals unfavorable information and, as a consequence, the stock market should react negatively. Data confirm this hypothesis. Using the market-adjusted returns for firms with dissenting events (but without confounding events) during the 21-day window centered on the announcement of board voting outcomes, Figure 2 shows that firms with dissenting events on average experience negative returns of around -1.5% to -2.0% during the event time window.

[Insert Figure 2 here.]

We further conjecture that stock prices of firms that are predominately owned by retail shareholders should be more responsive to dissenting events because retail investors enjoy less access to alternative information sources. This is indeed the case. In China, stocks are predominantly owned by retail investors as institutional investors were still in a formative stage during most of the sample period. In our sample, the average (median) level of institutional ownership (excluding state shares) is 9.8% (3.4%), much lower than the U.S. average (median) of 41.5% (36.1%) during the same period according to the Thomson Reuters Ownership Databases. We split the sample based on whether institutional ownership exceeds 5%, which is the 57th percentile of our sample. Figure 2 further shows that the cumulative abnormal returns for the low institutional ownership sample amount to -3.0% to -3.5% on average, twice the magnitude of the full sample.

Both tests indicate that the dissenting events disseminate new and valuable information to the market—especially to small investors—and improve stock price efficiency. Such an effect is particularly important in China (as well as in many other emerging markets) where institutional investors have yet to emerge as major equity holders or a powerful force in corporate governance.

B2. Creditor reaction to dissention

We next consider another group of important stakeholders: creditors. Bank loans are by far the most important form of finance for firms in China (Qian, Strahan, and Yang, 2014; Allen, Qian, Zhang, and Zhao, 2012). If dissention alerts creditors about potential operational or governance issues with the borrower and thus subjects the latter to more scrutiny, then creditors should respond by being more selective in loan provisions. To explore this channel, we run the standard difference-in-difference regressions on firm-year observations of both event and matched firms from one (three) year(s) before to one (three) year(s) after the year of dissention. Matched firms are those from the same industry-year with the closest asset size and without dissention. Results are reported in Table 5. The key coefficient is that on the variable *Dissent*×*After*, which reflects the change in new loan provisions of event firms post dissention compared to matched firms.

[Insert Table 5 here.]

Columns (1) and (3) of Table 5 Panel A show that the total value of new bank loans (scaled by total assets) drops significantly by 6.5 (5.2) percentage points (relative to the mean level of 26.9%) during the one (three) year(s) in the post-dissention period, controlling for standard measures of performance such as ROA and Tobin's Q. The decrease in bank credit post dissention represents a negative response from an important stakeholder. Relatedly, columns (2) and (4) of the same table examine the changes in loan guarantees, an important form of related party transactions (discussed in Section 3.A) that potentially impairs the credit worthiness of the guarantor. Results indicate that dissention is also associated with a significant drop of 5.9 percentage points in the balance of guarantees (relative to the sample average of 13.7 percentage points) the year after the dissention. The reduction could be due to two reasons, both of which are associated heightened level of scrutiny. First, improved governance resulting from dissention should reduce related party transactions including loan guarantee. Second, creditors become more cautious accepting guarantee provided by firms that experience dissention.¹⁹

B3. Regulatory reactions to dissention

The CSRC and the stock exchanges, as the gate keepers for publicly traded companies in China, routinely impose sanctions on firms, their senior managers, and other insiders who violate the rules. Previous studies (e.g., Chen et al. (2005)) show that those sanctions lead to serious firm-level consequences including negative stock returns, increased CEO turnover rates and wider bid-ask spreads. We collect data on sanctions against firms from the CSMAR frauds and sanction database. Following the literature, we focus on four types of common sanctions against firms: public criticisms, public condemnations, warnings, and fines. In most cases, insiders (management and directors) of the implicated firms are also penalized. In addition, CSRC investigations and especially sanctions are often followed by administrative and/or judicial actions (Liebman and Milhaupt (2008)).

¹⁹ We do not find a significant drop in *AR* possible because, unlike *Guarantee*, the accounts receivables due to related party transaction do not directly rely on the acceptance of an outside stakeholder (i.e., creditors).

The unusually stringent disclosure rule regarding director dissention imposed by CSRC was meant to promptly inform the regulators when independent directors detect potential wrongdoings.²⁰ The rarity of dissention makes it a highly informative signal such that occurrences of dissention almost always trigger CSRC investigations.²¹ Data show that dissention by independent directors precedes regulatory sanctions against the firm, as shown in Panel B of Table 5.

Applying logit and ordered logit models to a difference-in-difference set up, we analyze the incremental likelihood of sanctions against firms during the one- and three-year period post dissention for event firms versus matched firms. In columns (1) and (3), we use a logit model for the likelihood of any sanction at the firm-year level, and find the coefficients on *Dissent*×*After* to be significant at the 10% level. Unlike linear models, the cross-partial marginal probability associated with *Dissent*×*After* cannot be inferred directly from a logit model. Using the Ai and Norton (2003) method, we manually impute that the probability of a sanction on a firm involved in dissention is about 5.8 (4.0) percentage points higher than the unconditional probability of 6.5% (5.2%) during a one- (three-) year window, a sizable economic effect.

In columns (2) and (4), we use an ordered logit model where the dependent variable, *Sanction*, is classified into two levels following Chen et al. (2005): a “light” level involving public criticism/condemnation, and a “heavy” level entailing all harsher sanctions. This specification provides inferences on the change in the odds ratio for a firm to increase to the next level of sanction (from nothing to light sanction, or from light to heavy sanction) for event firms during the one- to three-year

²⁰ This stance was expressed in an article entitled “Are Independent Directors ‘Independent’ and ‘Directing’” by a senior CSRC official in *China Securities News* (the leading newspaper on the securities market in China) on February 20, 2004.

²¹ Here is an example. In June 2004, three independent directors dissented at the board meeting of Ha Ci Company Ltd, in protest of related party transactions initiated by controlling shareholders. The CSRC launched an immediate investigation (and explicitly mentioned the dissention as the trigger), and levied penalties on the company and the Chairman of the board (an insider) for the company’s lack of due process and failure to issue timely disclosure.

period post dissention. The odds ratios and levels of statistical significance are very close to the results from the logit specification.²²

Admittedly, the statistical finding that sanctions follow dissention does not distinguish between the explanation that dissention attracts the attention of regulators (which in turn leads to investigation and enforcement), and an alternative explanation that directors dissent more in anticipation of regulatory scrutiny. Both hypotheses are likely to be at work in reality. The fact that dissention almost automatically triggers CSRC probing—which precedes any sanctions—suggests that dissention at the very least impacts the timing of sanctions even if it does not cause the latter.

More importantly, a coherent set of results regarding multiple stakeholders (media, shareholders, creditors, and regulators) reveals that at the very least dissention raises public awareness and subjects the company to a higher level of scrutiny. Even though dissention usually does not directly change the cause of the proposals, the event disseminates new information to stakeholders whose reactions bring about value-relevant changes to the firms. This also supports the view that “independent directors matter,” corroborating Giannetti, Liao, and Yu’s (2013) finding that the talent and experience of independent directors are crucial for firm performance and corporate governance in China.

C. Career Outcomes for Dissenting Directors

C1. Board seats gained and lost post dissention

Career success is difficult to quantify uniformly due to data limitations on directors’ main professions. We resort to the common measure in the literature which is the number of board seats that a director assumes in other public companies (e.g., Yermack (2004), Coles and Hoi (2003), and Fos and Tsoutsoura (2013)). Such a reduced form method is reasonable as board seats on publicly listed companies are highly coveted as recognitions of talent and accomplishment in China as in other major

²² Untabulated results indicate that the increased exposure to regulatory sanctions is completely driven by the subsample of proposals that passed despite dissention (which are about 90% of all proposals that experience dissention).

economies. Our data allow us to compare the number of seats gained and lost by dissenting directors after the dispute event with their non-dissenting colleagues on the same board, which isolates the effects of dissention from confounding factors due to the endogenous formation of boards. Here the relevant sample is all director-year observations where directors (including non-dissenting directors) are present in any board meeting that involves dissention. If a director has two dissenting events in the sample, we only consider his/her first. To mitigate truncation in the analysis, we drop observations after 2009 so that we can fully observe post-dispute outcomes through 2012.

The measures for the direct outcome of dissention are whether a director resigns from the current board before the term ends (*Departure*), and the number of new independent directorships obtained in other companies during the three years following dissention (*SeatGain*). Following Kaplan and Reishus (1990), we separately measure seats gained and lost because the same act of dissention could antagonize the management of the firm under review while sending a positive signal to the outside market for independent directors. Combining them would mingle the two opposite effects. In fact, the net gain of board seat for dissenting directors is negative but statistically indistinguishable from zero.

The key independent variable is *Dissent*, a dummy variable equal to one if the director dissents at least once in a meeting during the year. The variables in the regressions (e.g., *MediaMention* and *#Directorship*) are defined the same way as in Section 3.A, but are recorded at the director term-year level in the current analysis. We include board fixed effects in the regressions in order to make a meaningful comparison (and one that is free from the effects of unobserved board heterogeneity) between the dissenting directors and their colleagues serving on the same firms' boards in the same year. If a director dissents more than once within the window allocated for the ex post outcome (i.e., the remaining term for *Departure* and the three following years for *SeatGain*), we only keep the first dissenting observation in the regression. This procedure assures that the control samples do not include dissenting events.

We first analyze the risk of losing the current board seat following dissention. At first glance, the rates of departure before the term ends (resignations) are significantly different at the 5% level between

dissenting and non-dissenting directors: 11.1% versus 7.1%. Table 6 Panel A reports more refined regression results. First, we run conditional logit regressions with *Departure* as the dependent variable using board fixed effects. As expected, dissent significantly increases the odds ratio of losing the current seats by 2.2 times (column (1) of Panel A). When splitting the sample by the number of director media references (zero or positive) and the total number of current board seats (one or multiple), we find that the relation between dissent and the loss of the current board seat is only significant for the younger and less reputed directors. The difference in the coefficients on *Dissent* between subsamples sorted by *MediaMention* is significant at the 5% level. This ex post outcome is compatible with the ex ante incentive shown in Table 3 that within a board, directors who are more secure in their seats, and hence incur lower costs from dissent, are indeed more likely to dissent.

[Insert Table 6 here.]

Next, in Panel B of Table 6, we consider the “benefits” side, that is, the relation between dissenting and seat gains elsewhere. We analyze the relation using linear regressions with firm-year (which, by construction, implies the same board) fixed effects. Effectively, a dissenting director’s seat gain in the ensuing three years is compared to her fellow non-dissenting directors on the same board at the time she dissents. If a director dissents in year t , she is excluded as a control member in $t+1$ to $t+3$ so that the effect of dissenting is isolated.

Column (1) in Table 6 Panel B shows that, on average, dissenting directors are rewarded by the market: dissenters gain an average of 0.14 more board seat (or 8% of the total seats held by an average director) within three years after the dispute, compared to non-dissenting directors on the same board. The magnitude of seat gains is modest; however, seat gains are just one proxy for a reputation gain which may benefit the directors’ careers in many other ways. Furthermore, there is a significant positive relation between the number of existing director seats and further gains among all directors. The “winner takes more” situation partly explains the result in Table 4 that more reputed directors have stronger career concerns because they have better outside options, consistent with the theory by Diamond (1989).

The subsample analyses in Table 6 Panel B indicate that the seat-gaining effect is similar between older and younger directors, but is only significant among the less reputed directors. In fact, the full sample relation between seat gains and dissenting behavior is driven by the subsample of directors with no media references or no current outside directorships, and the differences between the subsamples are significant at the 10% level sorted by *MediaMention*. Therefore, the market for directors reacts more strongly when the prior on dissenting director is diffuse because they are relatively unknown.

C2. Dissent and regulatory sanctions against independent directors

Directorships bring prestige, compensation, and career opportunities in other areas. At the same time, individual directors also face significant liabilities that range from harm to their reputations to legal sanctions if the firms they oversee experience major issues, especially governance-related issues (such as inadequate information disclosure or fraudulent activity). In the U.S., legal liabilities of directors mainly come from shareholder derivative suits and class action suits. Though a similar legal system was introduced in China in 2005, such lawsuits against publicly traded companies have yet to emerge beyond sporadic occurrences. Instead, the legal risk that directors in China face mainly comes from regulatory sanctions.²³ If the regulators perceive them to be failing in their monitoring responsibilities, sanctions may also fall upon the independent directors.

Regulatory sanctions, even in the mildest form of public criticism, impose severe reputational costs on the directors.²⁴ An important question for career-conscientious independent directors thus becomes whether conditional on the firm being sanctioned, are the regulators more likely to spare those who previously dissented on proposals related to the wrong-doing? After all, independent directors in China seldom have ruling control over firms' policies because they are generally minorities on the

²³ Huang (2012) documented 58 shareholder derivative law suits in China from 2006 to 2010, all of which involved private companies. In contrast, the U.S. SEC rarely targets outside directors in its enforcement actions (Larcker and Tayan (2011)).

²⁴ Liebman and Milhaupt (2008) argue that the most significant effects on individuals may be "intangible," i.e., reputational. Officials, lawyers, and corporate officials the authors interviewed all stated that the consequences of public criticism on an individual's reputation can be severe. Many independent directors are academics or well-known people who fear that the criticisms will harm their public standing.

boards. To the extent that they are considered to have exercised due diligence, dissenting directors should be more likely to be exonerated or be subject to less harsh penalties.

To test this hypothesis, we analyze the relation between dissention and subsequent regulatory sanctions on independent directors at the director-year level by forming a sample of all observations belonging to firms that were sanctioned during the event year using the CSMAR frauds and sanctions database. For each sanction against a firm that could potentially implicate the board of directors,²⁵ we identify independent directors who served on the board when the fraud was conducted and track down any regulatory sanctions against them. Results are reported in Table 7. The dependent variable in the table is either *Any Penalty* (including public criticisms/condemnations, warnings, fines, and suspension of eligibility to serve on boards) or penalty in two ordered levels: *Light Penalty* (public criticisms/condemnations) and *Heavy Penalty* (all else). The key variable *Dissent* indicates the occurrence of dissenting events during the year.

[Insert Table 7 here.]

Columns (1) and (2) report results from the conditional logit regressions of individual director sanctions on individual director dissention (and control variables including yearly dummies) with industry fixed effects. When a director dissents in consecutive years, we only include the observation associated with the first dissention. The results show that dissention is indeed an effective way for independent directors to avoid penalty when the firm is in trouble with the regulators. While 42.1% of the independent directors are subject to some form of penalty in this conditional sample, column (1) shows that dissention on the related proposals reduces the odds ratio to 0.52 (equivalent to reducing the conditional probability of receiving a sanction to 27.4%), all else equal. Further, results from ordered logit regressions reported in column (2) indicate that dissention reduces the odds ratio of incurring more severe sanctions (from no to light sanction or from light to heavy sanction) to 0.56. Both reductions are

²⁵ Some sanctions were against firm wrongdoings where independent directors should, *a priori*, not be held responsible. For the purpose of this test, we exclude such events which mainly include illegal trading of stocks by insiders (excluding independent directors).

significant at the 10% and 5% levels, respectively. In addition, directors are even more likely to enjoy relief from regulatory enforcement when they successfully block the proposal, but the difference is not statistically significant due to the relative small sample size of majority dissention.

Note that the first two regressions incorporate only industry, and not firm-year, fixed effects. In fact, the key results would be rendered insignificant if the firm-year fixed effects were added due to a general lack of within-board variation in the outcome. Such a “non-result” suggests that independent directors on the same board are treated similarly by regulators in penalty assessment as long as there was a dissenting voice when the firm was engaging in wrongdoing.

To confirm this relation, we adopt the specification in columns (3) and (4) where regressions are still run at the director-year (i,t) level but *Dissent* is defined as a dummy variable equal to one if there is any dissention from the board on which director i serves during year t . Again, only the first dissention event is included if a board experiences dissenting events in consecutive years. The coefficients on *Dissent* in the last two columns are higher but quite close to the corresponding coefficients in columns (1) and (2) in terms of the economic magnitude, indicating that any director dissention brings relief for all independent members on the same board. However, the statistical significance in columns (3) and (4) is notably lower, suggesting that the relation between sanction relief on a director and dissention by her colleagues is not as tight as that with her own dissention. Given the imperfect “free-riding” in dissention, it is plausible that directors who place a higher premium on their reputation value (e.g., young directors and directors who are legal professionals) should be among the first to dissent when they spot the signs of wrongdoing.

Across all specifications, the effect of director reputation as measured by *MediaMention* on the probability of penalty is close to zero (that is, the odds ratio is close to one), and far from statistically significant. The effect of *#Directorship* is positive and significant in all our specifications. These results indicate that high current reputation per se does not adequately protect a director from legal enforcement, reinforcing directors’ incentives to protect their reputations by exposing issues in proposals even if they cannot directly change the firm action in question.

6. Conclusion

We conduct the first study analyzing both the voting behavior of independent directors at the director level and the career consequences of dissent. Our study presents two key takeaways. First, independent directors' career concerns lead them to be better aligned with investors than with management because their dissenting behavior is eventually rewarded in the marketplace in the form of more opportunities for directorships and lowered risk of regulatory sanctions. Second, director dissent improves corporate governance and market transparency primarily through the responses of stakeholders (shareholders, creditors, and regulators), for whom dissent disseminates value relevant information. Both findings are good news for corporate governance. Though dissent does not tend to directly change outcomes at firms, it sets the right incentive for the directors and managers, and makes the stock prices more information. Such a mechanism should benefit all firms.

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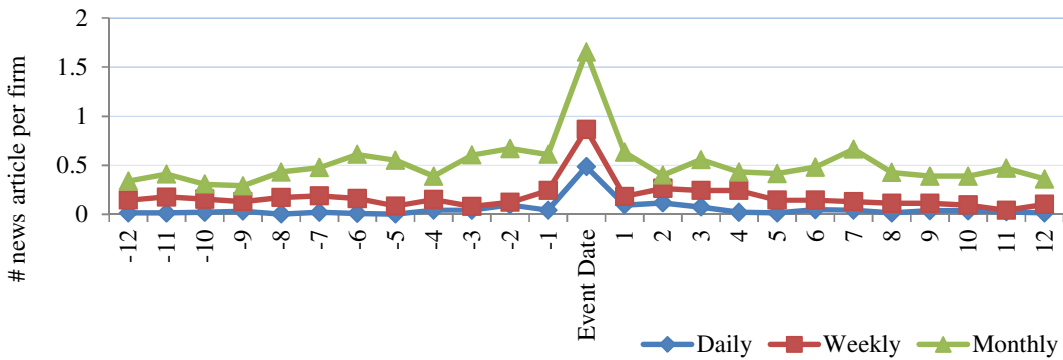
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Figure 1: News Volume of Companies around Announcement of Independent Director Dissention

The charts plot the time series of the average number of news articles in 62 publicly circulated daily business-related newspapers for each company involving dissention (Panel A), and the abnormal number of news articles adjusted by a control sample (Panel B). The time range is from 12 months (or weeks, days) before the announcement of dissention to 12 months (or weeks, days) after. A news article is included if it contains both the name of the company and the topic of the proposal. To isolate the effects of individual events, the sample for the chart is restricted to 210 events (covering 151 companies) for which there is not an additional dissenting event within 365 days. The control sample (in Panel B) consists of the same firms from a different year within [t-2, t+2] when proposals on similar topics (by key words) are discussed and there is no dissention during the year. The sample of dissenting firms with proper matches in Panel B consists of 156 events (covering 108 companies).

Panel A: News volume around dissention



Panel B: Abnormal news volume around dissention

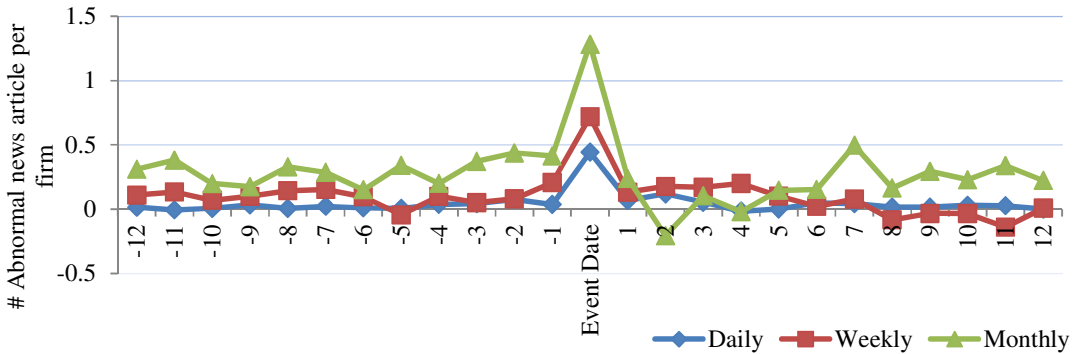


Figure 2: Stock Returns around the Announcement of Independent Director Dissention

This figure plots the average cumulative abnormal returns for the event window of [-10, +10] days around the announcement of independent director dissentions. To isolate the effect of dissention, we exclude all observations with confounding events during the time window. Such confounding events include the following: dissention on other proposals, disclosure of quarterly, semi-annual, or annual reports, and/or announcement of events of material importance (such as related party transactions; important contracts; major property or ownership changes; major investment, acquisitions, or divestitures; dividend initiations or changes; and/or risk warnings). The final sample consists of 114 firm-events. The abnormal returns are calculated using the market model where market beta is estimated using return data during the [-230, -21] days window. The two graphs in the chart represent the full sample and the subsample of firms whose institutional ownership falls below 5% (57% of the sample).

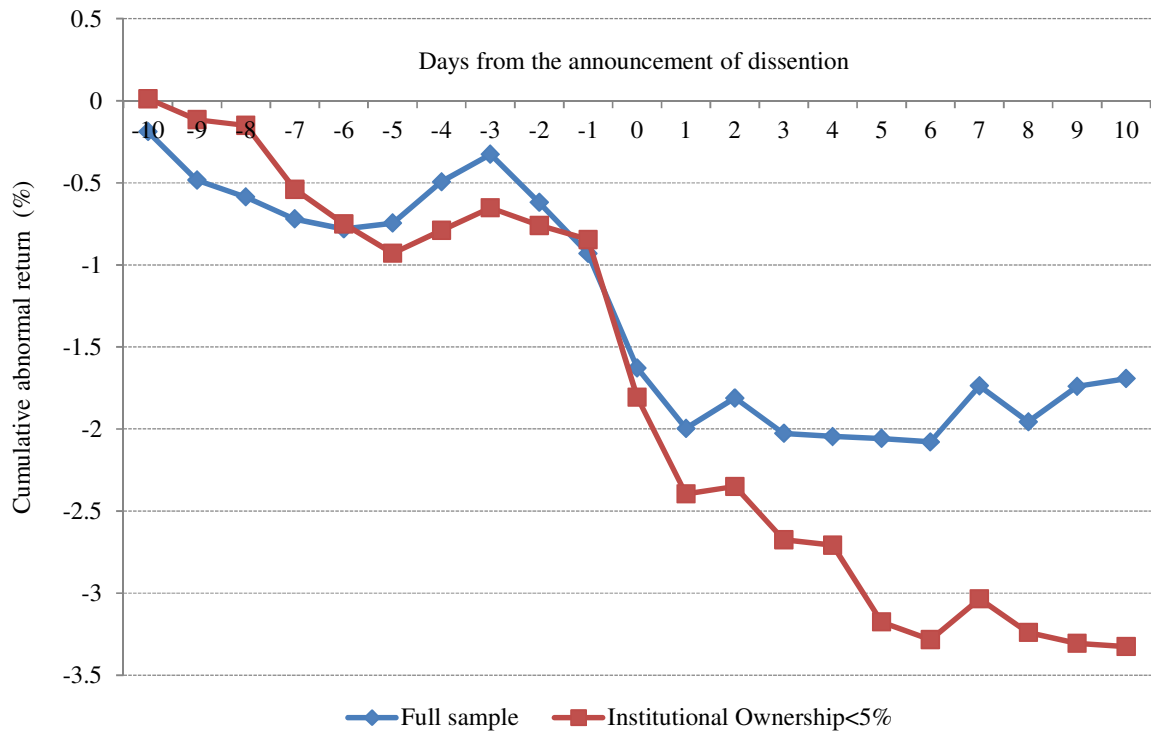


Table 1: Summary Statistics

This table presents an overview of the sample and main variables. Panel A reports the distribution of proposals with dissenting votes by the topics/issues. Panel B reports the summary statistics for firms and directors included in our main sample (all firms that experience dissention by any independent director during the year) and compares them to those of a matched sample consisting of those firms from the same industry-years without any dissention events and which are closest in asset size to the observations in the main sample. The comparison is at the firm-director-year level with 1,475 observations for the main sample and 1,374 for the matched sample. The director characteristics variables include the following: *Compensation* is a director's compensation in Chinese *yuan* (the average exchange rate during the sample period is US\$ 1 = 7.55 *yuan*). *DirectorAge* is a director's age and enters regressions in multiples of 10 years. *#Directorship* is the total number of boards on which a director serves as an independent director. The variable enters regressions in logarithm. *Education* is the average score of the entrance exam (equivalent to the SAT test in the U.S.) required to be admitted to the undergraduate institution (college) from which the independent director graduated. The variable enters regression in scores scaled by 100. *Female* is a dummy variable equal to one if a director is female. *FirstTerm* is a dummy variable equal to one if a director is serving her first term on the board. *MediaMention* is the number of positive or neutral references in articles (containing a director's name and primary employer affiliation) that appear in the top six Chinese newspapers by distribution volumes from three years to one year prior to the board meeting that involves dissent. The variable enters the regressions in logarithm. *SocialTie* is a dummy variable equal to one if a director has social (through schooling, military assignment, common birth place, or employment) ties with the firm's CEO, chairman, or ultimate owner. The firm characteristics variables include the following: *Top1* is the ownership stake of the largest shareholder. *Top2to10* is the sum of the ownership of the second through 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 the Hong Kong Stock Exchange). *HHI2to10* is the sum of squared percentage ownership for the second through the tenth largest shareholders divided by *Top2to10*. *Guarantee* is the balance of loan guarantees the firm provides for its subsidiaries and affiliates during the year, scaled by equity. *AR* is the net accounts receivables from related parties, 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. *TenureDisp* is the standard deviation of the director's tenure on the board, scaled by the average tenure. *Assets* is the firm's total assets. *ROA* is the ratio of the firm's operating income over total assets. *TobinQ* is the ratio of the sum of stock market capitalization and book value of liabilities over total assets. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels for the differences in mean values between the main and matched sample.

Panel A: Distribution of proposals with dissenting votes by the topics/issues

Issues	# Proposals	% of the sample
1. Investment, M&A, and restructuring	228	29.6%
2. Related-party transactions	131	17.0%
3. Accounting treatment and information disclosure	110	14.3%
4. Director and officer selection, appointment, and turnover	108	14.0%
5. Internal corporate governance e.g., managerial pay, bylaws, board functioning	83	10.8%
6. Payout policies	19	2.5%
7. Financing and capital structure	18	2.3%
8. Board or shareholder meeting agenda	16	2.0%
9. Miscellaneous issues	57	7.4%
Total	770	100.0%

Panel B: Summary statistics and comparison between the conditional and matched samples

Variable	Main Sample					Matched Sample		Difference
	Mean	Standard deviation	25 th percentile	Median	75 th percentile	Mean	Median	
<u>1. Director Characteristics</u>								
Compensation (in <i>yuan</i>)	49,942	44,166	30,000	40,000	50,000	47,151	40,000	2,791*
DirectorAge	50.5	10.5	42.0	48.0	58.0	51.6	50.0	-1.1***
#Directorship	1.7	1.1	1	1	2	1.6	1	0.1
Log(#Directorship)	0.4	0.5	0	0	0.7	0.3	0	0.1
Education	524	82	425	537	599	490	425	34***
Female	0.11	0.31	0	0	0	0.12	0	-0.01
FirstTerm	0.57	0.50	0	1	1	0.53	1	0.04**
MediaMention	0.57	2.56	0	0	0	0.23	0	0.34***
Log(1+ MediaMention)	0.17	0.52	0	0	0	0.08	0	0.09***
SocialTie	0.15	0.36	0	0	0	0.14	0	0.01
<u>2. Ownership</u>								
Top1	0.34	0.16	0.22	0.30	0.44	0.39	0.36	-0.05***
Top2to10	0.22	0.13	0.11	0.24	0.32	0.21	0.19	0.01***
State	0.51	0.5	0	1	1	0.60	1	-0.09***
CrossList	0.06	0.23	0	0	0	0.04	0	0.02*
HHI2to10	0.08	0.07	0.02	0.07	0.11	0.07	0.04	0.01***
<u>3. Proxies for potential expropriation</u>								
AR (scaled by Assets)	0.024	0.078	-0.001	0	0.029	0.003	0	0.021***
Guarantee (scaled by Equity)	0.173	0.315	0	0	0.2	0.075	0.0	0.098***
<u>4. Board characteristics</u>								
BoardSize	10.6	2.6	9	10	12	9.9	9	0.7***
#Committee	2.8	1.7	1	4	4	2.5	4	0.3***
Log(1+#Committee)	1.2	0.7	0.7	1.6	1.6	1.0	1.6	0.2***
% Independent	0.35	0.05	0.33	0.33	0.36	0.36	0.33	-0.01
TenureDisp	0.494	0.214	0.359	0.490	0.634	0.405	0.438	0.089***

Variable	Mean	Standard deviation	Main Sample			Matched Sample		Difference
			25 th percentile	Median	75 th percentile	Mean	Median	
<u>5. Firm characteristics</u>								
Assets (in billion <i>yuan</i>)	8.7	26.5	0.8	1.6	4.0	9.0	1.7	-0.3
Log(Assets)	21.4	1.4	20.5	21.2	22.1	21.5	21.2	-0.1
ROA	-0.006	0.106	-0.021	0.019	0.047	0.031	0.033	-0.037***
TobinQ	2.16	1.57	1.26	1.64	2.46	2.16	1.65	0.0

Table 2: Determinants of Director Dissent: Firm-Level Regressions

The table reports the determinants of director dissent at the firm-year level by applying a logit model on the full sample of all publicly listed firms. The dependent variable, *Dissent*, is a dummy variable equal to one if a firm has at least one dissention event in a given year. All control variables are defined in Table 1. *#Committee* and *Assets* enter in log values. All regressions include industry and year dummies. The exponentiated coefficients (or the odds ratios) of dissenting versus not-dissenting are reported in bold fonts, and the t-statistics (in parentheses) associated with the original (unexponentiated) coefficients are based on standard errors clustered at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
AR	18.451 ^{***} (3.32)	16.782 ^{***} (3.23)			14.992 ^{***} (3.16)
Guarantee			2.144 ^{***} (4.11)	2.010 ^{***} (3.79)	1.963 ^{***} (3.67)
State		0.727 [*] (-1.85)		0.725 [*] (-1.90)	0.736 [*] (-1.81)
Top1		0.202 ^{***} (-3.21)		0.229 ^{***} (-2.93)	0.221 ^{***} (-3.02)
Top2to10		0.290 (-1.56)		0.270 [*] (-1.65)	0.256 [*] (-1.72)
HHI2to10		12.407 [*] (1.67)		15.905 [*] (1.83)	15.156 [*] (1.82)
CrossList	1.086 (0.25)	1.063 (0.19)	1.019 (0.06)	1.013 (0.04)	1.025 (0.07)
TenureDisp	3.556 ^{***} (4.75)	3.188 ^{***} (4.15)	3.373 ^{***} (4.47)	3.069 ^{***} (3.98)	2.968 ^{***} (3.86)
% Independent	6.695 (1.52)	6.002 (1.43)	5.766 (1.38)	4.993 (1.27)	6.052 (1.44)
BoardSize	1.176 ^{***} (4.37)	1.176 ^{***} (4.26)	1.174 ^{***} (4.35)	1.175 ^{***} (4.28)	1.180 ^{***} (4.40)
#Committee	1.345 ^{***} (2.85)	1.337 ^{***} (2.83)	1.300 ^{**} (2.53)	1.302 ^{**} (2.57)	1.305 ^{***} (2.60)
TobinQ	0.949 (-1.09)	0.963 (-0.78)	0.970 (-0.66)	0.982 (-0.39)	0.981 (-0.41)
ROA	0.051 ^{***} (-5.02)	0.072 ^{***} (-4.29)	0.037 ^{***} (-5.54)	0.051 ^{***} (-4.84)	0.092 ^{***} (-3.84)
Assets	0.883 (-1.58)	0.957 (-0.55)	0.884 (-1.55)	0.954 (-0.59)	0.952 (-0.62)
Prob(Dissent = 1)	3.1%	3.1%	3.1%	3.1%	3.1%
# Observations	12,927	12,927	12,927	12,927	12,927
(Pseudo) R-squared	10.3%	11.1%	10.4%	11.2%	11.5%

Table 3: Determinants of Dissent at the Director-Proposal Level

This table analyzes determinants of dissent at the individual director level. Panel A applies conditional logit regressions at the proposal-director level with proposal fixed effects. As a result, only directors affiliated with board proposals that experience dissent are included. The sample consists of 2,374 observations covering 650 proposals, and the sample frequency of dissent is 33.8%. Panel B applies logit regressions at the firm-director-year level, and includes both the dissention sample and its matched sample (as described in Table 1). The full sample consists of 2,775 observations covering 587 firms, and the frequency of dissention is 25.3%. Regressions in Panel B include industry and year dummies. The dependent variable, *Dissent*, is a dummy equal to one if the director votes “Against” or “Abstention” over a board proposal. *MediaMention* (in logarithm), *#Directorship* (in logarithm), *DirectorAge* (in multiples of 10 years), *FirstTerm*, *SocialTie*, *Education* (scores scaled by 100), and *Female* are defined in Table 1. *CEOChair* is a dummy variable equal to one if the director is a CEO or Chair of another company. *Academic* is a dummy variable equal to one if the director’s primary employer is an educational or academic institution; *Bureaucrat* is a dummy variable equal to one if the director previously worked in the government; *Accountant* is a dummy variable equal to one if the director is an accounting professional; *Lawyer* is a dummy variable equal to one if the director has a legal background; *Banking* is a dummy variable equal to one if the director has previously worked at a financial institution; *Executive* is a dummy variable equal to one if the director’s primary employer is another, non-financial firm, and he does not hold a CEO or chairman position. The omitted category is the group of directors who do not belong to any of aforementioned categories. The exponentiated coefficients (or the odds ratios) of dissenting versus not-dissenting are reported in bold fonts. The *t*-statistics associated with the original coefficients (or the log-odds ratios) are reported in parentheses. In all specifications in Panel A, the *t*-statistics associated with the original coefficients (or the log-odds ratios) are reported in parentheses. Standard errors are clustered at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Conditional logit analysis with proposal fixed effects

	(1)	(2)	(3)	(4)	(5)
MediaMention	1.569 ^{***} (5.00)				1.502 ^{***} (4.32)
#Directorship		1.566 ^{***} (4.50)			1.341 ^{***} (2.80)
DirectorAge			0.895 ^{**} (-1.98)		0.872 ^{**} (-2.34)
FirstTerm				0.745 ^{***} (-2.59)	0.778 ^{**} (-2.14)
SocialTie	0.682 [*] (-2.41)	0.770 [*] (-1.68)	0.755 [*] (-1.82)	0.728 ^{**} (-2.04)	0.681 ^{**} (-2.38)
Education	1.244 ^{***} (3.29)	1.260 ^{***} (3.50)	1.271 ^{***} (3.64)	1.265 ^{***} (3.56)	1.202 ^{***} (2.73)
Female	0.915 (-0.56)	0.944 (-0.37)	0.868 (-0.90)	0.900 (-0.68)	0.909 (-0.60)
CEOChair	0.402 ^{**} (-2.27)	0.396 ^{**} (-2.30)	0.370 ^{**} (-2.46)	0.358 ^{**} (-2.55)	0.380 ^{**} (-2.38)
Academic	1.133 (0.96)	1.021 (0.16)	1.109 (0.80)	1.136 (0.99)	1.008 (0.06)
Bureaucrat	0.613 [*] (-1.88)	0.653 [*] (-1.66)	0.668 (-1.54)	0.620 [*] (-1.86)	0.705 (-1.32)

	(1)	(2)	(3)	(4)	(5)
Accountant	2.209 ^{***} (4.22)	1.923 ^{***} (3.51)	1.783 ^{***} (2.99)	2.065 ^{***} (3.89)	1.932 ^{***} (3.35)
Lawyer	2.471 ^{***} (5.09)	2.323 ^{***} (4.76)	2.165 ^{***} (4.29)	2.367 ^{***} (4.89)	2.258 ^{***} (4.48)
Banking	1.325 (1.15)	1.238 (0.87)	1.238 (0.88)	1.267 (0.97)	1.179 (0.66)
Executive	0.942 (-0.37)	0.833 (-1.13)	0.818 (-1.24)	0.864 (-0.91)	0.857 (-0.93)
# Observations	2,374	2,374	2,374	2,374	2,374
(Pseudo) R-squared	6.4%	6.1%	5.1%	5.3%	7.6%

Panel B: Logit analysis with pooled event and matched samples

	(1)	(2)	(3)	(4)	(5)
MediaMention	1.359 ^{***} (2.74)				1.338 ^{**} (2.51)
#Directorship		1.215 ^{**} (2.06)			1.158 (1.50)
DirectorAge			0.889 [*] (-1.88)		0.885 [*] (-1.93)
FirstTerm				0.922 (-0.70)	0.930 (-0.62)
SocialTie	0.660 ^{***} (-2.84)	0.661 ^{***} (-2.80)	0.661 ^{***} (-2.80)	0.653 ^{***} (-2.89)	0.672 ^{***} (-2.70)
Education	1.565 ^{***} (6.91)	1.568 ^{***} (6.90)	1.570 ^{***} (6.91)	1.585 ^{***} (7.12)	1.529 ^{***} (6.42)
Female	0.762 (-1.56)	0.763 (-1.57)	0.736 [*] (-1.77)	0.751 [*] (-1.65)	0.760 (-1.57)
CEOChair	0.728 (-0.90)	0.711 (-0.96)	0.716 (-0.92)	0.707 (-0.98)	0.718 (-0.90)
Academic	0.857 (-1.19)	0.843 (-1.32)	0.850 (-1.25)	0.876 (-1.04)	0.814 (-1.56)
Bureaucrat	1.047 (0.20)	1.069 (0.29)	1.141 (0.58)	1.058 (0.25)	1.139 (0.58)
Accountant	1.526 ^{**} (2.32)	1.487 ^{**} (2.19)	1.350 (1.55)	1.493 [*] (2.22)	1.388 [*] (1.70)
Lawyer	1.696 ^{***} (2.58)	1.656 ^{**} (2.47)	1.473 [*] (1.77)	1.651 ^{**} (2.47)	1.538 ^{**} (1.99)
Banking	0.929 (-0.26)	0.921 (-0.29)	0.853 (-0.57)	0.918 (-0.31)	0.866 (-0.51)
Executive	0.923 (-0.72)	0.903 (-0.92)	0.881 (-1.11)	0.904 (-0.91)	0.899 (-0.94)
AR	13.774 ^{***} (2.86)	13.527 ^{***} (2.84)	13.115 ^{***} (2.80)	13.050 ^{***} (2.80)	14.970 ^{***} (2.95)

	(1)	(2)	(3)	(4)	(5)
Guarantee	1.253 (1.03)	1.252 (1.02)	1.262 (1.05)	1.251 (1.02)	1.266 (1.06)
State	0.776 (-1.44)	0.763 (-1.53)	0.769 (-1.49)	0.772 (-1.46)	0.767 (-1.50)
Top1	0.380 (-1.63)	0.384 (-1.61)	0.382 (-1.63)	0.385 (-1.61)	0.382 (-1.62)
Top2to10	0.741 (-0.35)	0.797 (-0.27)	0.783 (-0.29)	0.795 (-0.27)	0.783 (-0.29)
HHI2to10	0.393 (-0.61)	0.399 (-0.60)	0.336 (-0.71)	0.394 (-0.61)	0.328 (-0.72)
CrossList	0.634 (-1.17)	0.611 (-1.27)	0.632 (-1.20)	0.626 (-1.22)	0.635 (-1.19)
TenureDisp	1.951** (2.00)	1.955** (1.99)	1.989** (2.06)	1.973** (2.01)	1.980** (2.04)
% Independent	0.224 (-1.21)	0.235 (-1.17)	0.228 (-1.19)	0.226 (-1.20)	0.222 (-1.21)
BoardSize	0.990 (-0.34)	0.990 (-0.32)	0.988 (-0.39)	0.989 (-0.35)	0.992 (-0.28)
#Committee	1.384*** (3.08)	1.385*** (3.08)	1.383*** (3.07)	1.397*** (3.18)	1.370*** (2.97)
TobinQ	0.961 (-0.74)	0.966 (-0.63)	0.964 (-0.67)	0.965 (-0.67)	0.962 (-0.70)
ROA	0.107*** (-3.20)	0.102*** (-3.31)	0.106*** (-3.26)	0.107*** (-3.23)	0.100*** (-3.30)
Assets	0.984 (-0.19)	0.999 (-0.02)	1.010 (0.11)	0.996 (-0.04)	0.995 (-0.06)
# Observations	2,775	2,775	2,775	2,775	2,775
(Pseudo) R-squared	8.9%	8.7%	8.8%	8.6%	9.2%

Table 4: Interaction between Reputation Stock and Career Concerns

This table reports the results from conditional logit regressions with proposal fixed effects. The dependent variable, *Dissent*, is a dummy variable equal to one if the director votes “Against” or “Abstention” over the board proposal. Control variables are as defined in Table 1 except for director category variables which are as defined in Table 3. In columns (1) and (2), *DirectorAge* and *Directorship* are demeaned in the interactive specification to facilitate interpretation. The exponentiated coefficients (or the odds ratios) of dissenting versus not-dissenting are reported in bold fonts. The *t*-statistics associated with the original coefficients (or the log-odds ratios) based on standard errors clustered at the firm level are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1) Full Sample	(2) Full Sample	(3)* <i>MediaMention</i> >0	(4) <i>MediaMention</i> =0	(5) <i>#Directorship</i> >1	(6) <i>#Directorship</i> =1
DirectorAge	0.904* (-1.69)	0.900* (-1.82)	0.427** (-2.47)	0.938 (-1.02)	0.394*** (-5.12)	1.091 (1.12)
MediaMention	1.772*** (5.70)					
MediaMention× DirectorAge	0.757** (-2.41)					
#Directorship		1.565*** (4.36)				
#Directorship× DirectorAge		0.607*** (-4.41)				
SocialTie	0.683** (-2.40)	0.805 (-1.38)	10.912* (1.94)	0.487*** (-3.75)	0.271*** (-2.66)	0.719 (-1.33)
Education	1.220*** (2.97)	1.240*** (3.21)	1.614 (0.84)	1.231*** (2.82)	1.392* (1.81)	1.320*** (3.06)
Female	0.876 (-0.84)	0.919 (-0.54)		0.939 (-0.37)	1.774 (1.17)	0.660* (-1.88)
CEOChair	0.386** (-2.35)	0.469* (-1.86)		0.437** (-2.10)	2.339 (0.56)	0.246** (-2.45)
Academic	1.075 (0.55)	1.021 (0.15)	0.497 (-0.77)	1.126 (0.93)	0.815 (-0.66)	1.071 (0.37)
Bureaucrat	0.655 (-1.60)	0.689 (-1.41)	0.092 (-0.97)	0.732 (-1.12)	1.515 (0.63)	0.442** (-2.03)
Accountant	1.987*** (3.50)	1.861*** (3.18)	0.060 (-1.44)	2.449*** (4.61)	0.502 (-1.03)	2.736*** (4.00)
Lawyer	2.271*** (4.51)	2.366*** (4.71)		2.832*** (5.76)	0.771 (-0.53)	2.716*** (4.25)
Banking	1.266 (0.95)	1.349 (1.20)		1.545* (1.68)	1.748 (0.68)	1.711 (1.62)
Executive	0.889 (-0.72)	0.860 (-0.91)			3.170** (2.05)	0.960 (-0.18)
Prob (Dissent = 1)	33.8%	33.8%	47.7%	35.3%	42.3%	36.7%
# Observations	2,374	2,374	75	1,891	390	1,176
#Board-Proposals	649	649	35	564	155	384
(Pseudo) R-squared	7.1%	7.5%	26.3%	7.6%	18.8%	8.8%

* In column (3), some of the director professional category dummy variables are omitted due to a near-singularity condition.

Table 5: Stakeholder Reactions Following Dissent

This table analyzes stakeholder (creditors and regulators) reactions following dissent. The sample starts with 259 firm-year observations for firms' first dissent events in 2004–2011 (or 2004–2009 for the [t-3,t+3] specifications). Matched firms are those from the same industry-year with the closest asset size and without dissent. Deleting those firms for which there was no suitable match and those firms with missing information yields a final sample of 245 sample firms and the same number of match firms. In both Panels, the samples for first (last) two columns consist of observations from one (three) year(s) before to one (three) year(s) after the dissent. The key independent variable *Dissent* is a dummy variable equal to one if a firm has any dissenting events during the year. Control variables are as defined in Table 1 except for director category variables which are as defined in Table 3. All regressions include industry dummies. Panel A reports the results from linear regressions. The dependent variables are *Loan* (in columns (1) and (3) and defined as new loans received by firms during the year scaled by total assets) and *Guarantee* (in columns (2) and (4) and defined as the balance of loan guarantees the firm provided to related parties scaled by equity). In Panel B, the dependent variable is the presence of regulatory sanctions against the firms. Columns (1) and (3) apply a logit model where the dependent variable is *Sanction*, a dummy variable equal to one if there is any regulatory sanction against the firm. Columns (2) and (4) apply the ordered logit model where the dependent variable, *Sanction*, is an ordered specification where heavy sanctions, light sanctions, and no sanctions are coded as 2, 1, and 0, respectively. Heavy sanctions include warnings and fines, while light sanctions include public criticisms or condemnations. The exponentiated coefficients (or the odds ratios) of dissenting versus not-dissenting are reported in bold fonts. The *t*-statistics associated with the original coefficients (or the log-odds ratios) based on standard errors clustered at the firm level are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Creditor reactions following dissention

Sample Dependent Variable	(1)	(2)	(3)	(4)
	Loan [t-1, t+1]	Guarantee	Loan [t-3, t+3]	Guarantee
Dissent	0.029 (1.37)	0.049** (2.01)	0.009 (0.51)	0.019 (1.15)
After	0.042** (2.09)	0.036* (1.75)	0.032 (1.41)	-0.005 (-0.19)
Dissent×After	-0.065*** (-2.70)	-0.059** (-2.18)	-0.052** (-2.38)	-0.015 (-0.65)
State	-0.001 (-0.07)	-0.024 (-0.93)	0.005 (0.30)	-0.025 (-1.30)
Top1	0.055 (0.68)	-0.185** (-2.20)	0.004 (0.05)	-0.128** (-2.12)
Top2to10	0.098 (0.78)	0.098 (0.60)	0.046 (0.44)	0.056 (0.52)
HHI2to10	-0.196 (-0.96)	-0.154 (-0.62)	-0.128 (-0.78)	-0.194 (-1.21)
CrossList	0.018 (0.46)	0.038 (0.61)	0.027 (0.83)	-0.008 (-0.28)
TenureDisp	0.038 (0.97)	0.119*** (2.88)	-0.015 (-0.57)	0.162*** (5.70)
Independent	-0.116 (-0.87)	-0.296* (-1.76)	-0.113 (-1.27)	-0.146* (-1.81)
BoardSize	-0.000 (-0.03)	-0.004 (-0.82)	0.001 (0.30)	-0.005* (-1.66)

Sample Dependent Variable	(1)	(2)	(3)	(4)
	[t-1, t+1]		[t-3, t+3]	
	Loan	Guarantee	Loan	Guarantee
Committee	0.001 (0.07)	0.046*** (3.25)	0.006 (0.58)	0.032*** (3.14)
TobinQ	-0.013 (-1.37)	-0.015** (-2.53)	-0.005 (-0.89)	-0.013*** (-3.85)
ROA	0.003*** (2.81)	-0.002* (-1.75)	0.003*** (4.47)	-0.001** (-2.27)
Assets	0.006 (0.56)	0.023** (2.15)	0.021** (2.38)	0.014 (1.61)
#Observations	980	980	2,552	2,552
Adjusted R-squared	5.4%	8.3%	7.3%	11.7%

Panel B: Regulatory sanctions following independent director dissention

Sample Dependent variable	(1)	(2)	(3)	(4)
	[t-1, t+1]		[t-3, t+3]	
	Any Sanction	Ordered Sanction	Any Sanction	Ordered Sanction
Dissent	0.396 (-1.55)	0.391 (-1.54)	0.771 (-0.83)	0.747 (-0.93)
After	1.008 (0.02)	0.952 (-0.09)	2.014 (1.36)	1.955 (1.31)
Dissent × After	3.895* (1.84)	4.200* (1.91)	2.188* (1.70)	2.308* (1.84)
State	0.833 (-0.45)	0.909 (-0.23)	0.606* (-1.82)	0.619* (-1.71)
Top1	0.018** (-2.43)	0.017** (-2.46)	0.052*** (-2.75)	0.058*** (-2.58)
Top2to10	0.231 (-0.71)	0.271 (-0.64)	0.088 (-1.60)	0.112 (-1.43)
HHI2to10	0.556 (-0.17)	0.504 (-0.20)	23.867 (1.38)	21.375 (1.29)
CrossList	1.361 (0.38)	1.412 (0.42)	1.462 (0.93)	1.534 (1.04)
TenureDisp	2.129 (0.85)	1.977 (0.77)	0.974 (-0.05)	0.999 (-0.00)
Independent	0.004** (-2.10)	0.007** (-1.98)	0.351 (-0.71)	0.247 (-0.93)
BoardSize	0.806*** (-2.67)	0.819*** (-2.60)	0.890* (-1.86)	0.893* (-1.87)
Committee	0.895 (-0.43)	0.822 (-0.76)	1.150 (0.75)	1.110 (0.57)

Sample Dependent variable	(1)	(2)	(3)	(4)
	[t-1, t+1]		[t-3, t+3]	
	Any Sanction	Ordered Sanction	Any Sanction	Ordered Sanction
TobinQ	0.820 (-1.33)	0.813 (-1.39)	0.786^{***} (-2.99)	0.779^{***} (-3.16)
ROA	0.931^{***} (-5.16)	0.932^{***} (-5.11)	0.935^{***} (-6.60)	0.934^{***} (-6.49)
Assets	0.844 (-0.61)	0.812 (-0.70)	0.886 (-0.80)	0.867 (-0.90)
# Observations	836	980	2,490	2,552
Prob(Penalty=1)	6.5%	3.2%	5.2%	3.3%
Prob(Penalty=2)		2.2%		1.8%
(Pseudo) R-squared	26.8%	25.6%	21.7%	19.3%

Table 6: Director Board Seats Gained and Lost Following Dissention

The sample in the analyses reported in this table consists of all independent directors in boards involving any dissenting event in a given year, and the results are presented at the director-year level. Variables on personal characteristics are the same as defined in previous tables but are now recorded annually. Panel A reports results from conditional logit regressions with board fixed effects using *Departure* as the dependent variable, where *Departure* is a dummy variable equal to one if a director resigns from the current board before the end of a term. Only observations from board pairs with variations in outcomes (i.e., with both departing and remaining directors on the same board) are included, resulting in 191 observations for 51 unique boards. The exponentiated coefficients (or the odds ratios) of dissenting versus not-dissenting are reported in bold fonts. The *t*-statistics associated with the original coefficients (or the log-odds ratios) are reported in parentheses. Panel B reports gains of new board seats in the 3 years following the dissenting events using linear regression with firm-year fixed effects. The dependent variable is *SeatGain*, the number of new board seats obtained up to three years into the future. Only observations from firm-year pairs with variation in outcome are included and only the first dissention event from each board-director is included, resulting in 1,031 observations for 301 unique boards. Coefficients are reported in bold fonts, and the *t*-statistics are reported in the parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Departure following dissention

	(1) All	(2)		(3)	(4)		
		<i>DirectorAge</i> ≤ median	<i>DirectorAge</i> > median	<i>MediaMention</i> >0	<i>MediaMention</i> = 0	<i>#Directorship</i> > 1	<i>#Directorship</i> =1
Dissent	2.193** (2.13)	2.786** (2.11)	2.390 (1.39)	0.477 (-0.82)	3.373*** (2.83)	1.525 (0.70)	2.507** (2.01)
DirectorAge	0.777 (-1.31)			1.124 (0.31)	0.686* (-1.71)	0.719 (-1.13)	0.779 (-1.11)
MediaMention	1.397 (1.15)	1.183 (0.31)	1.298 (0.73)			1.540 (1.16)	1.367 (0.62)
#Directorship	1.066 (0.33)	1.043 (0.14)	1.112 (0.41)	1.799 (1.33)	0.845 (-0.71)		
FirstTerm	0.577 (-1.23)	0.979 (-0.04)	0.258** (-2.02)	0.235 (-1.40)	0.648 (-0.89)	0.553 (-0.92)	0.492 (-1.31)
Education	0.988 (-0.05)	1.016 (0.06)	1.118 (0.40)	0.685 (-0.85)	1.024 (0.08)	1.027 (0.08)	0.965 (-0.13)
SocialTie	0.994 (-0.01)	0.735 (-0.43)	1.224 (0.31)	1.107 (0.08)	1.007 (0.01)	1.681 (0.59)	0.765 (-0.45)

	(1) All	(2) <i>DirectorAge</i> ≤ median	<i>DirectorAge</i> > median	(3) <i>MediaMention</i> >0	<i>MediaMention</i> = 0	(4) <i>#Directorship</i> > 1	<i>#Directorship</i> =1
# Observations	191	191		191		191	
(Pseudo) R-squared	8.5%	8.8%		10.3%		16.0%	

Panel B: Gain of new seats following dissention

	(1) All	(2) <i>DirectorAge</i> ≤ median	<i>DirectorAge</i> > median	(3) <i>MediaMention</i> >0	<i>MediaMention</i> = 0	(4) <i>#Directorship</i> > 1	<i>#Directorship</i> =1
Dissent	0.143*** (2.75)	0.159** (2.22)	0.126* (1.78)	-0.089 (-0.66)	0.168*** (3.05)	0.077 (0.89)	0.187*** (2.89)
<i>DirectorAge</i>	-0.020 (-0.79)			-0.035 (-0.70)	-0.020 (-0.78)	-0.025 (-0.64)	-0.026 (-0.91)
<i>MediaMention</i>	0.054 (1.13)	0.094 (1.13)	0.032 (0.57)			0.077 (1.31)	0.019 (0.23)
<i>#Directorship</i>	0.236*** (9.90)	0.259*** (7.02)	0.222*** (7.36)	0.248*** (4.94)	0.225*** (8.44)		
FirstTerm	-0.016 (-0.26)	-0.042 (-0.53)	0.022 (0.28)	0.285** (2.04)	-0.066 (-1.01)	-0.105 (-1.14)	0.004 (0.05)
Education	0.079** (2.52)	0.074** (2.23)	0.084** (2.45)	0.094* (1.66)	0.079** (2.42)	0.137*** (3.23)	0.035 (1.00)
SocialTie	-0.001 (-0.02)	-0.033 (-0.31)	0.029 (0.32)	0.051 (0.28)	0.000 (0.00)	-0.019 (-0.17)	-0.004 (-0.05)
# Observations	1,031	1,031		1,031		1,031	
R-squared	17.7%	18.2%		17.8%		13.7%	

Table 7: Dissent and Regulatory Sanctions on Independent Directors

The sample consists of director-year observations where the directors are affiliated with all firms that received regulatory sanctions for wrongdoing during 2004–2009. The dependent variable is the regulatory penalty assessed on independent directors for gross negligence or wrong-doing in a given year. Columns (1) and (3) apply the logit model with industry fixed effects and yearly dummy variables. The dependent variable *Penalty* is a dummy variable equal to 1 if any of the following government or stock exchange enforcement actions are present: public criticisms/condemnations, warnings, fines, or suspension of eligibility to serve on board seats. Columns (2) and (4) apply the ordered logit model with industry and yearly dummy variables, where “heavy,” “light,” and “no” penalties are coded as 2, 1, and 0, respectively, as the dependent variable. A light *Penalty* includes only public criticisms/condemnations, and a heavy *Penalty* includes all other categories. Other variables reflecting director/firm characteristics are the same as defined in Table 1. In columns (1) and (2), *Dissent* is equal to one if the director under consideration dissents at least once while serving on the firm’s board. In columns (3) and (4), *Dissent* is equal to one if any independent director on the same board dissents in the same firm-year. The coefficients reported are odds ratios (or exponentiated coefficients). All *t*-statistics (associated with the original coefficients or log-odds ratios) based on standard errors clustered at the firm-year level are reported in the parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	Dissention by the director		Dissention by any director on the same board	
	Logit	Ordered Logit	Logit	Ordered Logit
Dissent	0.517* (-1.92)	0.560** (-2.03)	0.552* (-1.81)	0.657 (-1.38)
MediaMention	1.095 (1.01)	1.082 (1.12)	1.090 (0.96)	1.077 (1.06)
#Directorship	1.240** (2.15)	1.275*** (2.72)	1.237** (2.13)	1.273*** (2.71)
DirectorAge	0.960 (-0.79)	0.974 (-0.58)	0.958 (-0.83)	0.972 (-0.63)
FirstTerm	0.787 (-1.60)	0.832 (-1.40)	0.776* (-1.70)	0.824 (-1.48)
Female	0.893 (-0.68)	0.903 (-0.66)	0.888 (-0.72)	0.901 (-0.68)
TenureDisp	0.895 (-0.25)	1.127 (0.30)	0.896 (-0.25)	1.131 (0.31)
AR	1.021* (1.67)	1.022** (2.18)	1.023* (1.79)	1.023** (2.17)

	(1)	(2)	(3)	(4)
	Dissention by the director		Dissention by any director on the same board	
	Logit	Ordered Logit	Logit	Ordered Logit
Guarantee	0.591 (-1.47)	0.580 (-1.58)	0.620 (-1.32)	0.593 (-1.51)
State	0.835 (-0.81)	0.844 (-0.82)	0.816 (-0.90)	0.832 (-0.87)
Top1	1.002 (0.16)	1.000 (0.04)	1.001 (0.07)	1.000 (-0.01)
Top2to10	1.004 (0.31)	1.008 (0.78)	1.002 (0.18)	1.008 (0.70)
HHI2to10	0.999 (-0.02)	0.994 (-0.26)	1.002 (0.08)	0.996 (-0.21)
CrossList	0.240 (-1.43)	0.220 (-1.60)	0.236 (-1.42)	0.221 (-1.58)
%Independent	0.982 (-1.16)	0.979 (-1.49)	0.984 (-1.04)	0.980 (-1.43)
BoardSize	1.001 (0.03)	0.989 (-0.25)	1.011 (0.23)	0.995 (-0.12)
#Committee	1.079 (0.57)	0.991 (-0.08)	1.065 (0.47)	0.984 (-0.14)
TobinQ	1.009 (0.12)	0.987 (-0.20)	1.013 (0.17)	0.989 (-0.17)
ROA	0.772 (-0.23)	0.876 (-0.14)	0.887 (-0.11)	0.959 (-0.04)
Assets	1.546^{***} (3.12)	1.558^{***} (3.51)	1.549^{***} (3.14)	1.554^{***} (3.48)

	(1)	(2)	(3)	(4)
	Dissention by the director		Dissention by any director on the same board	
	Logit	Ordered Logit	Logit	Ordered Logit
# Observations	1,996	2,082	1,996	2,082
Prob(Penalty = 1)	43.9%	25.3%	43.9%	25.3%
Prob(Penalty = 2)		16.8%		16.8%
(Pseudo) R-squared	12.9%	11.7%	13.0%	11.7%