

Reputation Concerns of Independent Directors: Evidence from Individual Director Voting

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ABSTRACT

This study examines the voting behavior of independent directors of public companies in China from 2004–2012. The unique data at the individual-director level overcome endogeneity in both board formation and proposal selection by allowing analysis based on within-board proposal variation. Career-conscious directors, measured by age and the director's reputation value, are more likely to dissent; dissension is eventually rewarded in the marketplace in the form of more outside directorships and a lower risk of regulatory sanctions. Director dissension improves corporate governance and market transparency primarily through the responses of stakeholders (shareholders, creditors, and regulators), to whom dissension disseminates information. (*JEL* G34, L25)

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Boards of directors are key players in corporate governance. Within a board, the responsibility to monitor management and mitigate agency issues mostly falls on independent directors. By definition, however, independent directors are not significant shareholders and do not receive the same type of generous and/or performance-sensitive compensation as the managers they monitor (Bryan and Klein 2004; Yermack 2004; Fich and Shivdasani 2006; Adams and Ferreira 2008). Additionally, management—the individuals the independent directors are meant to monitor— has significant influence on the appointment of independent directors (Shivdasani and Yerack 1999; Dahya, Dimitrov, and McConnell 2008). Thus, a natural question arises as to what motivates these outsiders to align themselves with shareholders rather than with management. 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 shareholder lawsuits (Fich and Shivdasani 2007), option backdating (Ertimur, Ferri, and Maber 2012), and proxy contest nominations (Fos and Tsoutsoura 2014).

The aforementioned studies confirm that independent directors are rewarded with more career opportunities for “good” performance. However, these studies do not study how independent directors should have responded to such career concern incentives, and they do not explain the variation in 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 governance characteristics and firm performance

could reflect the optimization of individual firms under different parameters rather than a causal relation resulting from the actions of directors (Hermalin and Weisbach 1998; Boone et al. 2007; 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 these behaviors 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. In 2004, the Chinese Securities Regulatory Commission (CSRC), the regulatory authority of China's stock market, mandated that the voting behavior of independent directors be publicly disclosed. We are thus able to compile a comprehensive sample of voting records on 859 board proposals involving dissension from 2004–2012 by hand-collecting information from corporate filings. Given that almost all board proposals that result in a vote are sponsored by management or controlling shareholders, dissension reflects a director's willingness to confront the management on behalf of the outside shareholders.

The mandatory disclosure rule provides granular director-proposal level data that are not publicly available in the United States or in any other major market. An analysis of the actual voting behavior of individual directors 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; Malenko 2014). A crucial empirical advantage of the dataset is that it allows for identification from variation within a board proposal (i.e., variation in actions and outcomes for directors who vote on the same proposal) by allowing for the inclusion of board- or proposal-level fixed effects in the regressions. This design filters 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

¹ Schwartz-Ziv and Weisbach (2013) represent a critical improvement in this regard using information from meeting minutes to study “what boards do.”

the different career outcomes of dissenting and nondissenting directors who served on the same board allows us to isolate the ex post outcomes attributable to dissension.

First, the findings in this study contribute to our understanding of both board governance and career concerns. In support of 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. Second, confirming Diamond’s (1989) theoretical model—which predicts that agents have stronger incentives to maintain their reputation as the latter becomes a more valuable asset—we find that more highly reputed directors (measured by 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 are already highly reputed.

Second, traditional theoretical work on career concerns assumes that an agent needs to impress a single class of “potential employers.” However, because of potential conflicts of interest between corporate insiders and outside shareholders, directors have “two-sided” incentives (Hermalin and Weisbach 2003; Levit and Malenko 2015). Their primary fiduciary duties rest with the shareholders, but 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 allows us to examine these two potentially conflicting incentives because it provides variation in the relative strength of the director’s incentives to please 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 due to the first-termers’ stronger incentives to please management in order to be reappointed. This analysis complements prior studies, many of which do not explicitly recognize the dual tensions.

Third, by examining ex post outcomes, we validate the premise that career concerns motivate directors to establish a reputation as a diligent monitor. We find that dissension is rewarded by more

outside career opportunities (measured by gains in board seats at other companies) and better reputation protection (measured by avoidance of regulatory sanctions associated with firm wrong-doing). The combined ex ante and ex post results show that stronger reputation concerns among the independent directors contribute to better corporate governance.

Finally, our study shows how independent directors improve corporate governance and market transparency with their dissensions. Though it rarely prevents a proposal from passing, dissension disseminates new and value-relevant information to shareholders and important stakeholders. Media exposure of firms involved in dissension during the event week spikes to more than four times the normal volume, bringing heightened levels of public scrutiny. Additionally, stock prices decline by an average of -2.6% during the event window, with stocks predominantly held by retail investors experiencing even greater losses. Banks and regulators also respond negatively, as shown by reduced credit availability and increased enforcement actions. Our novel evidence shows that dissension appears to be a valuable form of “passive monitoring” (Tirole 2001), meaning that it 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 of the unique director-level data that are available under Chinese law. Because of 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 nevertheless aims to inform general board governance in the following two aspects. First, our study suggests that independent directors can offset the power of dominant shareholders in emerging economies (La Porta et al. 1997, 1998; Johnson et al. 2000), which is consistent with evidence from other countries (Dahya, Dimitrov, and McConnell 2008; Black and Kim 2012). Second, while country-specific governance structures represent variation in parameters, the underlying economic incentives are universal: agents in their early career have greater incentives to develop good reputations, and highly reputed agents have more to lose when their reputations are compromised. As such,

reputation concerns have been shown to discipline directors and increase monitoring quality in other markets, including the United States (e.g., Masulis and Mobbs 2014; Fos and Tsoutsoura 2014).

Dewally and Peck (2010), Fahlenbrach, Low, and Stulz (2013), and Agrawal and Chen (2011), who all study reputation value and the consequences of director departure, are most closely related to our work. To the extent that both director dissension and resignations represent significant events in which independent directors confront management and alert outside investors about potential wrongdoing, our study is complementary to the other studies. In addition to the unique identification from within board variation, our study is able to provide additional insight into internal board functions. Not only does our study focus on board meetings and proposal resolutions, but it connects more closely to theoretical literature on board resolution (e.g., Warther 1998; Gillette, Noe, and Rebello 2003; Malenko 2014).

1. Institutional Background and Empirical Strategy

1.1 Institutional background

China's stock market, first introduced in the early 1990s, was the world's second largest market in terms of market capitalization (about \$3.7 trillion) by 2012, with 2,494 listed companies on the two domestic stock exchanges in Shanghai and Shenzhen.² Corporate governance has been a looming issue because many of the listed companies were carved out from state-owned enterprises (SOEs), and the government and its agents often remain controlling shareholders.³ In addition, most listed firms in China have complicated legal structures, thereby reducing the transparency in operations and corporate governance. The resultant concentrated ownership and opaque group affiliations create conflicts of interest between the controlling and minority shareholders that lead to serious concerns about controlling shareholders expropriating the rights of minority shareholders. Within a board, the duty to uphold the interests of these outside shareholders rests disproportionately on the independent directors.

² Source: The Annual Report of the CSRC.

³ 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 42% in 2012.

The role of directors in China is very similar to that of directors in the United States. 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 their 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 for three-year terms at shareholder meetings. Independent directors make up of at least one-third of the boards of listed companies⁴ and can only serve for a maximum of two terms in a given company. There are virtually no staggered boards among public firms in China.⁵

Similar to practices in the United States and in other major markets, boards function mainly through proposals discussed and voted on at board meetings. A board proposal must receive a 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*”), 88% of proposals are placed on the meeting agenda by company chairmen, and the remaining 12% are sponsored by insiders, including management and large shareholders. 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 publicly disclosed in the United States and in other major markets. China is an exception because the “Code of information disclosure for listed firms: Annual reports” in 2004 mandated the timely disclosure of voting records. The law’s intent was to promote transparency and to offer the market timely warnings of

⁴ While major U.S. stock exchanges require a greater percentage of independent board members, the definition of “independence” is more stringent in China. A director affiliated with or representing a noninsider 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 United States.

⁵ See Liu et al. (2015) for a comparison of independent director institutions between China and the United States. In addition, using a large sample of listed companies in China, they find that board independence significantly improves firm performance and reduces insiders’ tunneling of firm resources.

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 linking the voting patterns of individual independent directors to the incentives they face and the resulting outcomes.

In parallel studies, Du, He, and Rui (2012) and Ma and Khanna (2015) study independent director disagreement using Chinese data. These two studies are motivated by a regulatory change that required 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 event. Consistent with our results, these two studies find that reputational concerns motivate directors to openly disagree with management on corporate proposals, even when such disagreement heightens the likelihood that the director will lose her current directorship. Unlike the actual vote, however, the "report of opinion" is not binding. Moreover, the "report of opinion" precludes any analysis at the director level because it pools the opinions of all independent directors, and the negative opinion sample is considerably smaller than our dissension sample. For robustness, however, we confirm that our main results hold on the subsamples with and without concurrent negative opinions.

1.2 Empirical motivation

Why do some independent directors dissent? The primary direct costs of dissension include discomfort from confrontation, reduced likelihood of reappointment, and, in some cases, the loss of the director's seat before the full term is over. There are, however, benefits to dissension. First, literature shows that being perceived as a "tough" monitor has a positive effect on future opportunities in the market for directorships, especially from firms that wish to signal their commitment to good corporate governance. Indeed, Kaplan and Reishus (1990) argue boards retain directors largely based on loyalty and relationships, but that boards appoint new directors largely based on their reputation.

Second, under China's Corporate Law, independent directors can avoid litigation or regulatory penalties if the proposal damages public shareholders and triggers enforcement actions. Finally, as a group of people with high aspirations and accomplishments, directors value a reputation for diligence

and integrity beyond the market for board seats, especially in a country with relatively weak formal institutions, making reputation particularly important for career and business opportunities (Liebman and Milhaupt 2008).

An empirical test linking the costs and benefits of dissension usually takes the following form:

$$Dissent_{i,j,k,t} = \beta \cdot DirectorChar_{i,t} + \gamma \cdot Control + e_{i,j,k,t}, \quad (1)$$

$Dissent_{i,j,k,t}$ 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 , where the key variables are those proxying for the strength of the director's career concerns and reputation value.

$Control$ is a vector of control variables, including the important firm and/or proposal characteristics, and $e_{i,j,k,t}$ represents the residual.

This empirical specification leads to concerns of endogeneity. A priori, it is usually difficult to sign the bias due to endogeneity; however, in our setting the bias is likely attenuating for the following two reasons. First, firms with better governance are more likely to appoint independent directors who have characteristics associated with diligent monitoring; these same firms are less likely to put forward proposals that are detrimental to outside shareholders. This unobserved firm heterogeneity induces a negative correlation between the director characteristics and the residual, which biases the estimated effect \hat{b} toward zero. Second, managers who strive to avoid dissension are less likely to introduce a dubious proposal if the independent directors are, a priori, of the monitoring (rather than the condoning) type. This again induces the attenuation bias because it creates a negative correlation between the director characteristics and the residual.

To overcome the endogenous relation between dissensions and director characteristics, our main regression includes proposal fixed effects:

$$Dissent_{i,j,k,t} = \beta \cdot DirectorChar_{i,t} + \gamma \cdot Control + \alpha_k + \varepsilon_{i,j,k,t}, \quad (2)$$

where the proposal fixed effect α_k automatically subsumes unobserved heterogeneity at the firm, board, proposal, and time period levels. These fixed effects filter out the two most important sources of

endogeneity: board formation and proposal inclusion. Our identification relies on the variation in directors' voting outcomes within the same proposal (by construction, variation also occurs within the same firm in the same period). Any difference in voting outcomes thus only can be attributed to the differences among the directors who vote on the same proposal—precisely the relation whose direction and magnitude we try to estimate.

The cost of this identification scheme is that our analysis is limited to proposals that exhibit within-board variation in voting, a small subsample relative to the universe of all boards and proposals. As a result, we identify a “local average treatment effect” on the conditional sample of boards/proposals involving dissension, rather than a “population average treatment effect” on the full sample. This trade-off is analogous to instrumental variable estimation in which the well-identified results come only from “compliers” (observations whose outcomes are manipulated by the instruments in the intended direction) and the inference is silent on the population average treatment effect (“compliers” generally only represent a small subset of the full sample). For this reason, we present specification (2) as our primary (and well-identified) “conditional” analysis, but we also present specification (1) as an “unconditional” analysis. The sample for the unconditional analysis includes a pooled “event” sample (involving at least one independent director dissenting) and a “matched” sample (involving dissension propensity score-matched firms). The comparison of the two analyses is informative about the nature of the selection of the conditional sample, as well as the potential effect of the major sources of endogeneity.

2. Data Overview

2.1 Sample construction

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

exchanges from 2004–2012.⁶ We identify 609 board meetings with 859 proposals in which at least one independent director voted “abstain” or “against” (henceforth, the “Dissension sample”). We classify both as dissension 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 (i.e., “for” votes) to be effective. Third, empirically we find that directors who cast “abstention” and “against” votes enjoy the same relief from liabilities associated with the company’s wrongdoing, suggesting that regulators view these two voting options as comparable.

About 5.9% of all independent directors in all listed companies during our sample period dissented at least once. This becomes our “main sample,” which consists of 3,072 director-proposal-level observations and involves 285 unique firm identities and 1,126 unique independent directors. In two-thirds of the sample proposals only one director dissents (597 proposals). Two (three) independent directors dissent in another 136 (91) proposals. Using a different sorting, 364 directors (61.7% of all ever-dissenting independent directors) dissent only once during the sample period, and another 116 (43) directors dissent twice (three times). Our sample spans 20 out of 22 level-one industries (or level-two for manufacturing industries) classified by the CSRC, with industry representation comparable to that of the universe of public firms. Dissension occurs in about 0.6% of board meetings, using the estimated number of meetings and proposals from the *Survey*,⁷ and affects an average of 3.0% of all public firms in a given year.

Table 1, panel A, presents the distribution of the proposals from the main sample by topic. Not surprisingly, the top four categories, which account for more than three-quarters of the sample, address issues for which corporate governance is particularly relevant: (1) investment, M&A, and restructuring

⁶ 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.

⁷ The culture in China is more consensus driven than in Western societies, and this might help explain the rarity of dissension. However, the low frequency of dissension is not specific to China: directors in Israel disagree with the CEO in about 2% of the meetings (Schwartz-Ziv and Weisbach 2013).

(30.3%), (2) related-party transactions (16.3%), (3) accounting treatment and information disclosure (14.1%), and (4) director and officer selection, appointment, and turnover (13.7%).⁸

[Insert Table 1 here.]

For our unconditional analysis, we construct both an “event” sample and a “matched” sample. All directors (whether or not dissenting) who voted on proposals that drew at least one dissenting vote form the event sample. The matched sample is constructed using standard propensity score methodology—directors at firms in the event sample are matched to directors at the firm with the closest propensity to dissent as the event firm, but without a dissension event in the same year. The predictive variables are those used in Table 2.

2. 2 Variable definitions and summary statistics

Table 1, panel B, reports and compares the summary statistics for the main variables at the firm-year and/or director-year level from the event 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 positions at all public companies and each director’s tenure at her position. Finally, we hand-collected each director’s primary occupation 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; Chevalier and Ellison 1999a). Young directors are

⁸ For comparison, we collected an additional sample of proposals with no dissension from the same meetings (hence voted on by the same board of directors) involving dissension. We find that proposals involving dissension are significantly more likely to concern topics that are most prone to agency problems, such as investment, restructuring, and related-party transactions, and far less likely to involve mundane issues, such as internal appointments.

expected to have stronger incentives to build their reputation because they have longer career horizons. The reputation effect is more subtle, however, because independent directors bear fiduciary duties to shareholders, but simultaneously often owe their appointment (and reappointment) to management. To measure the dual incentives, we define a dummy variable (*FirstTerm*) as equal to one if a director is in her first term. Because of re-election motives, directors in their first term should have stronger incentives to cater to current management. By contrast, directors in their second (and last) term care more about their perception in 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 in the top six Chinese newspapers by distribution volume 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 14 articles with negative or critical comments. The construction of the measure follows the method used by Milbourn (2003) and Rajgopal, Shevlin, and Zamora (2006). Our results are not sensitive to reasonable variation in the news outlets, scaled by average media references, and alternative time windows. An alternative and popular measure for a director's reputation adopted in the literature is the number of independent directorships a director holds at public companies (*#Directorship*).⁹ Directorships are public recognition of talent and accomplishment, and bestow further visibility and prestige on the appointed director (Giannetti, Liao, and Yu 2015). Many academic studies have argued, or documented, that there is a positive relation between the number of directorships held and director quality (e.g., Kaplan and Reishus 1990; Gilson 1990; Brickley, Linck, and Coles 1999; Ferris, Jagannathan, and Pritchard 2003).

Next, 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 and either the Chairman, CEO, or ultimate owner: (1) served in the same

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

military unit, (2) graduated from the same university within a three-year period, (3) were born in the same city/province, 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 phenomenon in Chinese culture that people with common geographic origins form strong bonds (Honig 1996). To a large extent, this phenomenon is related to the highly diverse and distinctive language dialects formed within tight regional centers. We expect that social ties breed leniency.

Other control variables include *Education*, measured as the average score of the college entrance exam required to be admitted to the director's undergraduate institution. This measure is analogous to the Scholastic Aptitude Test (SAT) scores in the United States. Assuming a strong assortative matching between college ranking and student quality, these have been extensively used in the literature to proxy for agent ability (Chevalier and Ellison 1999b; Graham, Harvey, and Puri 2013). In China, the correlation between standardized test scores and college ranking is even stronger because college placement almost solely relies on the score.¹⁰ Needless to say, college ranking also contributes to the prestige of a director, in addition to measuring her ability.

The median director in our sample is 48 years old, considerably younger than their U.S. counterparts whose median is 54,¹¹ but with similar remaining career longevity (employees in the state-owned or controlled sectors in China are required to retire at age 60, and directors seldom serve beyond age 65 even if they are not subject to the mandatory retirement age). On average, a director holds 0.7 additional board seat in other public companies (more than double the United States average of 0.28) and has received 0.7 neutral or complimentary media reference in the two-year period from three years to

¹⁰ In a separate regression, we added *Overseas Education*, a dummy variable equal to one if an independent director obtained a degree from a university overseas, following Giannetti, Liao, and Yu (2015). The variable is not significant. The main reason is that the 6.4% overseas-educated directors in our sample almost all attended colleges domestically (and mostly prestigious ones). Hence, the effect of overseas education is subsumed by *Education*.

¹¹ The summary statistics regarding directors in the United States 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.

one year before the board meeting. About 11% of the directors are women (considerably higher than the 8.3% in the United States), and 59% are in their first term (there is no comparable term limit in the United States). The average director's compensation is 51,643 yuan (roughly US\$ 6,840 using the average exchange rate during the sample period of US\$ 1 = 7.55 yuan), or about 160% of China's per capita GDP in 2009.¹²

Among all independent directors, 37% are university professors or academic researchers (usually from business or economics disciplines), and the next largest category is former government bureaucrats and politicians, who represent a sizable 28% of all independent directors. These statistics are generally consistent with contemporary studies on directors in listed companies in China (Giannetti, Liao, and Yu 2015). The biggest contrast to the United States is the representation of executives from other companies. While such executives account for about half of the independent directors in the United States, the same proportion in our sample is 14%. The low number suggests that the outside market, rather than the CEOs, is more important for the independent directors' career prospects.

We then relate dissension to firm variables characterizing 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* is a dummy variable equal to one if the largest shareholder is the state government or its affiliates. To explore the effects of firms' decision to cross-list their shares on overseas exchanges, we separately code *BHList* (a dummy variable equal to one if the firm issues B- or H-shares, i.e., shares on the Chinese and/or Hong Kong Stock Exchanges that are designated for foreign investors), and *USList* (a dummy variable for firms that cross-list on a U.S. exchange). A recent review by Karolyi (2012) summarizes the literature of cross-listing. Most notable is the "bonding" theory—pioneered by Stulz (1999) and Coffee (1999) and further developed and tested in Reese and Weisbach (2002) and Doidge, Karolyi, and Stulz (2004, 2009)—which argues that listing in overseas markets with stronger

¹² 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. However, the officially disclosed compensation tends to be understated as it does not include the perks that are important in China.

investor protection improves corporate governance (and hence valuation). Finally, 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 nonmarket conditions are widely recognized to be one of the most common (e.g., Djankov et al. 2008). We examine two forms of RPTs that are particularly prone to corporate governance concerns in the Chinese context. 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 (calculated using information disclosed in the footnotes of financial reports). Jiang, Lee, and Yue (2010) document that the size of this entry is associated with worse firm performance. The second RPT measure is *Guarantee*, the total value of bank loans guaranteed by the company on behalf of a related party (e.g., subsidiaries and affiliates), scaled by the firm's equity (to reflect the guarantor's own financial strength and because regulatory requirements cap the ratio at 50%). Berkman, Cole, and Fu (2009) find that such loans default more frequently than loans extended at arms' length. The two variables have low average values but substantial variation, indicating 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 nine directors (three of which are independent). *#Committee* is the total number of committees formed by board members, and *%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 among all directors on the same board, scaled by the mean values, following Anderson et al. (2011).

Finally, standard firm characteristics, retrieved from CSMAR and Wind (both are the most commonly used databases covering public companies in China), serve as control variables. In particular, *Assets* is a firm's total assets (and enters the regressions in log value), ROA (*ROA*) is the ratio of earnings before taxes and interest over total assets, and Tobin's q (*TobinQ*) is the sum of the stock market capitalization and the book value of liabilities, scaled by total assets.

3. Why Do Independent Directors Dissent: Empirical Analyses

3.1 Firm-level analyses

We start with a firm-level analysis to shed light on whether dissension, if reflective of monitoring by independent directors, is related to a seeming 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 standard errors are clustered by firm. The results in Table 2 are consistent with the matched sample univariate results in panel B of Table 1.

[Insert Table 2 here.]

The original coefficients in the logit models are log-odds ratios. For ease in interpretation, in all logit (or conditional logit) regressions we report the exponentiated coefficients, which become the "ratio of odds ratios" (henceforth, simply "odds ratios" as commonly used). In our context, an odds ratio indicates the multiple of the ratio $Prob(Dissent)/[1 - Prob(Dissent)]$ relative to the base level caused by a one-unit change in x_k . An odds ratio greater (smaller) than one indicates an increase in the regressor is associated with an increase (decrease) in the probability of dissension. 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. 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 1.205. Given the unconditional dissension probability of 3.0% in this sample, the odds ratio is equivalent to a 0.6 percentage point increase in the probability of dissension.¹³

The ownership variables are also directionally consistent with our hypothesis. Concentrated ownership by the top shareholder (i.e., *Top1* or *State* = 1, where the correlation between the two variables is 0.26) is associated with significantly fewer dissensions. A powerful shareholder (especially the State) might have more influence on the appointment of independent directors and hence is less likely to be paired with vocal outside directors. Counterbalancing the force of the largest shareholder, concentrated ownership by the next largest shareholders (as proxied by *HHI2to10*) is associated with more director dissension. 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 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/chair duality, the presence of 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 dissension.

3.2 Director-level analyses

3.2.1 Conditional analysis with board proposal fixed effects. In this section we apply the conditional logit model (Equation (2)) to address the following question: conditional on the existence of dispersion

¹³ The detailed calculation is as follows: Column 5 of Table 2 indicates that a one unit change in *AR* is associated with an odds ratio multiple of 10.983, implying an unexponentiated coefficient of 2.396 ($=\ln(10.983)$). Given the standard deviation of *AR* of 0.079, the odds ratio multiple associated with a one-standard-deviation change is 1.205 ($=\exp(2.396 \times 0.079)$). The unconditional probability of 3.0% is equivalent to an odds ratio of 0.031 ($=0.030/(1-0.030)$). A multiple of 1.205 raises the odds ratio to 0.0374 ($=0.031 \times 1.205$), which implies a new probability of 0.036 ($=0.0374/(1+0.0374)$), or a 0.6 percentage point increase.

in the votes cast on a proposal, which 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. The interpretation of the results is no different from that of the standard linear fixed effect models. By construction, the sample relevant for estimation includes all 721 proposals for which at least one independent director dissented and at least one independent director approved, resulting in 2,623 observations.¹⁴

Results, reported in Table 3, panel A, provide a well-identified relation between director characteristics and propensity to dissent in the conditional sample. The probability of dissension, conditional on the dispersion of votes within the same boards, is 34.1%, implying a base odds ratio of 0.517 ($=34.1\%/(1-34.1\%)$). All the odds ratios associated with one-unit changes in the regressors could be assessed accordingly by multiplying the base ratio with the exponentiated coefficients.

[Insert Table 3 here.]

The key explanatory variables 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 ten years in the regressions) indicates that older directors are less likely to dissent (t -statistics range from -2.11 to -2.35), consistent with general conclusions in the career concerns literature that older agents have a weaker incentives to develop reputations in the labor market. For two otherwise equivalent directors, except that one is ten years older than the other, the odds ratio of dissenting (versus not dissenting) for the older director is 0.88–0.89 times that of the younger director on the same board voting for the same proposal, implying that the average probability of dissension is reduced by 2.8 percentage points (please refer to footnote 15 for the calculation).

Second, the term limit for directors in China, which is mostly absent in the United States, allows us to separately identify the dual incentives faced by independent directors. The reappointment rates for

¹⁴ Proposals (119), in which all independent directors dissented, were dropped. Another 19 proposals were excluded due to inexact information about the identities of the dissenters.

dissenters and nondissenters in the sample are 44.6% and 55.6%, respectively (the difference of which is significant at the 1% level). Given that directors who rock the boat during their first term risk losing reappointment, directors in their first terms should be less likely to dissent due to the higher cost. Indeed, a first-term director's odds ratio for dissenting is about 0.8 times that for a second term director (significant at the 5% level). With imputed parameter values, the conditional probability of dissension is reduced by about five percentage points when a director is in her first term. To address the possibility that an extended term of board service brings more information and experience to the director, making her more likely to detect problems in firms, we run the analysis with a direct proxy for experience: tenure as a director in the same industry.¹⁵ In untabulated results, we find that the coefficient on *FirstTerm* remains significant, but that 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 nonnegative media references in the top six national publications (*MediaMention*) or the number of director seats held at different companies (*#Directorship*), are both positively and significantly (at the 1% level) associated with dissension. The economic effect is also significant. The odds ratio of 1.37–1.43 means a one-standard-deviation increase in $\log(\text{MediaMention})$ leads to an increase in the conditional probability of dissension of about four percentage points. Similarly, a one-standard-deviation increase in $\log(\text{\#Directorship})$ leads to a 2.5– to 4.1-percentage-point increase in the probability of dissension.

According to Diamond (1989), when reputation becomes a valuable asset, a single failure causes a larger decline in its value; hence, on the one hand, the agent may be more self-disciplined in order to maintain her reputation. However, on the other hand, if short-term benefits are also disproportionately large for reputable agents, they could be tempted to “cash in” their reputation. Fang and Yasuda (2009) succinctly summarize these two opposing effects as the “reputation-as-discipline” and “reputation-

¹⁵ Another hypothesis related to director tenure is that extended board service makes outside directors more captive to the management (Core, Holthausen, and Larcker 1999). Note that this force works against our results. Additionally, due to the term limits in China, this force is also likely to be weaker.

liquidation” hypotheses in the context of sell-side analysts. In our setting, the disciplinary effect dominates and manifests itself as the increased likelihood that highly reputable directors will “rock the boat” when they discern wrongdoing.

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 works 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 is a legal professional; *Banking* is a dummy variable equal to one if the director is employed by a financial institution; and *Executive* is a dummy variable equal to one if the director’s primary employer is another nonfinancial firm, and she does not hold a CEO or chairman position. The omitted *Other* category accounts for about 16% of the observations and covers professions such as consulting, engineering, industry associations, and retirees.

These dummy variables indicate 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 1.8–2.0 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. In comparison, CEOs or chairmen (*CEOChair*) from other firms are less likely to dissent, presumably because they naturally sympathize with management. Both effects are significant at the 1% level.

Intuitively, the existence of a social tie between a director and a corporate head (the dummy variable *SocialTie* is equal to one) is associated with less dissension, suggesting that social connections lead to leniency. This finding corroborates work by Ma and Khanna (2015), who show 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 lead to overcompensating and underreplacing 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 rather than with 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 each firm-year. The results are not sensitive to this variation. Finally, the results remain robust using linear probability regressions with proposal fixed effects.

3.2.2. Unconditional analyses. While the conditional analysis in the previous section provides relatively clean identification for the causes of dissension, it is silent on why some boards, and not others, produce dissenting voices. To illustrate the selection of the event sample and the unconditional relation between director characteristics and dissension, we conduct regressions based on Equation (1) using the pooled sample of event proposals and corresponding propensity score-matched sample previously described in Section 3.A. Table 3, panel B, presents the results from a logit analysis on the pooled sample, with industry and year dummy variables included. The relations do not allow for causal inference, but, instead, serve to illustrate the impact of potential endogeneity when compared to the results in panel A.

The unconditional relations between dissension and the directors' ages, number of media references, outside directorships, and professions are analogous to those from the conditional analysis, indicating that younger and more 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 and significance of the coefficients from the unconditional analysis is generally lower than from the conditional analysis. The potential offsetting effect due to endogeneity is even more notable with *FirstTerm*: while the variables predict a significantly lower frequency of dissension within a board, its relation to dissension is weakly positive unconditionally. The contrast confirms the discussions in Section 2.2: management is less likely to put forward a “bad” proposal when the directors are a priori more ready to confront (e.g., in their second term), offsetting the causal relation between the term and the propensity to dissent conditional on a given proposal.

In addition to the director-level variables, the unconditional analysis 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 dissension. Moreover, conforming to standard organizational theories (see a review by Williams and O’Reilly 1998), both the number of board committees and the dispersion in director tenure within a board predict higher likelihood of disagreement. Presumably, similarity in the time of entry eases communication and aligns social identity.

3.3 The interaction between career concerns and reputation value

Theory has not provided a clear prediction regarding the interaction between reputation value and career concerns. To analyze this question, we make the following modifications to specification (2). First, we add an interaction term to the regression ($MediaMention \times DirectorAge$ or $\#Directorship \times DirectorAge$). Second, 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 (i.e., $MediaMention > 0$) or whether the director holds director seats in other companies (i.e., $\#Directorship > 1$). 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 1%

level). That is, a director's outside reputation (as captured by media exposure or the number of directorships assumed) strengthens his or her career concerns (i.e., the slope on *DirectorAge* becomes even more negative).

The economic effects from interaction terms are not straightforward to interpret in nonlinear models. Hence, we also resort to the split-sample analysis shown in Columns 3 and 6.¹⁶ 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 (the odds ratio is close to one, the neutral value). For those with positive *MediaMention* (about 15% of the directors in our sample), a 10-year advancement in age is associated with an odds ratio of 0.36, which amounts to a decrease of 22.5 percentage points in the conditional probability of dissension from the subsample frequency of 45.6%—a near halving of the average probability. The sorting by *Directorship* provides very similar inferences. In an unreported analysis sorting the sample by *FirstTerm*, the variable *DirectorAge* is significant only for the second-term subsample. Overall, the results in Table 4 provide strong support for the “reputation-as-discipline” hypothesis rather than the “reputation-liquidation” hypothesis.

4. Ex Post Outcomes of Dissension

4.1 Dissension 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. Table 2 offers some support for this premise by showing that dissension occurs more often among underperforming firms with dubious related-party transactions.

¹⁶ The director type dummies (e.g., *CEOChair* and *Lawyer*) are not included in Column 3 because of the small sample size. Adding these dummies would cause singularity conditions in estimation.

At face value, this monitoring mechanism might appear weak given that 92% of our sample proposals eventually pass despite dissension (given management’s control over the board meeting agenda and the minority representation of independent directors, this high passage rate is not surprising). The fact that dissenting directors usually do not successfully block proposals to which they object suggests that dissension 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.

4.2 Stakeholder reaction to dissension

4.2.1 Investor reaction: Evidence from news reports and stock returns. Dissension alerts the general investing public to operational or governance issues at the firm, which may have been previously unknown or overlooked by outside investors. Two tests capture this “whistle-blowing” effect. First, we identify abnormal news coverage of firms with dissension events. To this end, we search all 62 publicly circulated business-related daily newspapers in China for news covering the companies that experience dissension 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 dissension. For example, if the proposal in question relates to a company’s guarantee for a subsidiary, then the key words searched would include “guarantee” and “guarantor.” We track the average news coverage per company from 12 months (or weeks or days) before dissension to 12 months (or weeks or days) after, and plot the resultant graphs in Figure 1.

[Insert Figure 1 here.]

Figure 1, panel A, plots the raw news volume, which exhibits a clear and unique spike in news coverage during the month (or week or day) of dissension. During the event period, news coverage of the company and the associated issues is roughly three (monthly frequency) to over eight (daily frequency)

times the normal volume. Panel B shows the abnormal news volume net of a control sample, where the control sample consists of observations from the same firms from a different year in $[t-2, t+2]$ when proposals on similar topics were discussed, but there was no dissension on any proposal during the full year. The purpose of the control is to filter out any potential news effect of certain proposal topics even in the absence of dissension. The graphs in two charts appear identical up to scale. The consistent news spikes in both panels do not strictly identify that dissension causes the news; however, because the abnormal news volume on the day dissension was publicly disclosed (i.e., after the date of the vote), alternative hypotheses, such as reverse causality, are unlikely. We further manually check whether the articles published during the event window explicitly mention the board proposal in controversy: roughly one-quarter of the cases not only mention the proposal but also sometimes mention the names of the dissenting directors as well.

These figures provide evidence on the channel through which independent directors disseminate information. In China, the major newspapers and corresponding online Web sites are an essential channel for the investing public to learn about listed companies. Consistent with the figures showing a spike in media coverage, data confirm the “whistle-blowing” hypothesis, that is, that dissension reveals unfavorable information. 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 -2.0% to -2.6% during the event time window.

[Insert Figure 2 here.]

We further conjecture that stock prices of firms that are predominately owned by retail shareholders will be more responsive to dissenting events because retail investors have fewer alternative information sources. 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 9.4% (3.5%), which is much lower than the U.S. average (median) of 41.5% (36.1%) during the same period, according to the Thomson

Reuters Ownership Database. We split the sample based on whether institutional ownership exceeds 5%, which is the 63th percentile of our sample. Figure 2 further shows that the cumulative abnormal returns for the low institutional ownership sample range from -3.0% to -3.5% on average—50% larger than the magnitude of the full sample.

Therefore, 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.

4.2.2. Creditor reaction to dissension. Next, we 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 2015; Allen et al. 2012). If dissension alerts creditors to potential operational or governance issues with the borrower and thus subjects the latter to increased scrutiny, then creditors should respond by being more selective in loan provisions. To explore this channel, we run standard difference-in-differences 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 dissension. Matched firms are those from the same industry-year with the closest performance (ROA) and without dissension. Results are reported in Table 5. The key coefficient is that on the variable $Dissent \times After$, which reflects the change in new loan provisions of event firms post-dissension 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, significantly decreases by 4.9% (7.0%) relative to the mean level of 26.7% during the one (three) year(s) post-dissension (controlling for the standard measures of performance). The decrease in bank credit post-dissension 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 dissension is also associated with a significant drop of 5.1% in the

balance of guarantees (relative to the sample average of 9.9%) the year after the dissension. The reduction could be due to two reasons, both of which are associated with a heightened level of scrutiny. First, improved governance resulting from dissension should reduce related-party transactions, including loan guarantees. Second, creditors may become more cautious in accepting guarantees provided by firms that experience dissension.¹⁷

4.2.3. Regulatory reactions to dissension. The CSRC and the stock exchanges, who are the gatekeepers for publicly traded companies in China, routinely impose sanctions on firms, firms' senior managers, and other insiders who violate the rules. Previous studies (e.g., Chen et al. 2005) have shown that these 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 sanctions database, and specifically 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).

The unusually stringent disclosure rule regarding director dissension imposed by CSRC was meant to promptly inform the regulators when independent directors detect potential wrongdoing. The rarity of dissension makes it a highly informative signal—indeed, dissension almost always triggers CSRC investigations,¹⁸ and data in Table 5, panel B, show that dissension precedes the corresponding firm sanctions.

¹⁷ We do not find a significant drop in *AR*, possibly 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).

¹⁸ 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. 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 dissension as the trigger) and levied penalties against the company and the Chairman of the board (an insider) for the company's lack of due process and failure to issue timely disclosure.

Applying logit and ordered logit models to a difference-in-differences set-up, we analyze the incremental likelihood of sanctions against firms during the one- and three-year period post-dissension 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 that the coefficients on *Dissent*×*After* are significant at the 1% and 5% level, respectively. 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 dissension is about 10.9% (4.0%) higher than the unconditional probability of 7.0% (5.5%) during a one- (three-) year window, a sizable economic effect.

In Columns 2 and 4, we use an ordered logit model in which 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 inference on the change in the odds ratio for a firm to increase to the next level of sanction (from no to a light sanction, or from a light to heavy sanction) for event firms during the one- to three-year period post-dissension. The odds ratios and levels of statistical significance are very close to the results from the logit specification.

Admittedly, the statistical finding that sanctions follow dissension does not distinguish between whether dissension attracts the attention of regulators (which in turn leads to investigation and enforcement) or whether directors dissent more in anticipation of regulatory scrutiny. Both hypotheses are likely to be at work in reality. The fact that dissension almost automatically triggers a CSRC investigation—which precedes all sanctions—suggests that, at a minimum, dissension impacts the timing of sanctions. More importantly, a coherent set of results regarding multiple stakeholders (media, shareholders, creditors, and regulators) reveals that, at the very least, dissension raises public awareness and subjects the company to increased scrutiny. The increased scrutiny leads to value-relevant changes at the firms, supporting the view that “independent directors matter.”

4.3. Career outcomes for dissenting directors

4.3.1 Board seats gained and lost post dissension. Career success is difficult to quantify due to data limitations on directors' primary professions. We resort to the common measure in the literature: the number of board seats that a director assumes in other public companies (e.g., Yermack 2004; Coles and Hoi 2003; Fos and Tsoutsoura 2014). Our data allow us to compare the number of seats gained and lost by dissenting directors after the event relative to their nondissenting colleagues on the same board; thus, we can avoid confounding factors caused by endogenous board formation. Here, the sample includes all director-year observations in which directors (including nondissenting directors) are present at any board meeting that involves dissension. To mitigate truncation in the analysis, we drop observations after 2009 so that we can fully observe post-dissension outcomes through 2012.

The measures for the direct outcome of dissension are whether a director resigns from the current board before the term ends (*Departure*), and the number of new independent directorships obtained at other companies during the three years following dissension (*SeatGain*). We separately measure seats gained and lost because the same act of dissension 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.

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 as in Section 3.1, but are recorded at the director-term level in the current analysis. We include board fixed effects in order to make a meaningful comparison 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.

We first analyze the risk that a director will lose her current board seat following dissension. At first glance, univariate statistics indicate that dissenting directors have a significantly higher rate of premature departure than nondissenting directors: 10.7% versus 7.1% (the difference is significant at a 5% level). Table 6, panel A, reports more refined regression results.¹⁹ In conditional logit regressions with *Departure* as the dependent variable (and including board fixed effects), dissension significantly increases the odds ratio that a director will lose her current seat by 2.1 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), however, we find that the relation between dissension and the loss of the current board seat is only significant for the younger and less reputed directors. 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 dissension, are indeed more likely to dissent.

[Insert Table 6 here.]

Though we cannot affirm that the seat loss is caused by dissension, we conduct an additional test to rule out the possibility that some directors dissent simply because they are inclined to phase out of the directors' market in general. For the subsample of dissenters who hold multiple seats (35.4% of the sample), we compare their rate of departure at other companies with that of their fellow independent directors on the same boards. The results show the dissenters lose an average of 0.40 seats, and the control directors lose an average of 0.42 seats. The difference is insignificant statistically and economically.

Next, in panel B of Table 6, we consider the “benefits” side, that is, the relation between dissenting and seat gains elsewhere. In our sample 15% (6% and 4%, respectively) gain one seat (two and three, respectively) in the following three years. We analyze the relation using linear regressions

¹⁹ The number of observations is much smaller than the sample of 1,054 independent directors relevant for this analysis. This is because the conditional logit model requires within-board variation in director departure. Our results are robust to alternative estimation methods that utilize the full sample of independent directors, including a linear probability model with board fixed effects and a conditional logit model with industry-year fixed effects.

with firm-year fixed effects (which, by construction, implies the same board). Effectively, a dissenting director's seat gain in the ensuing three years is compared to her fellow nondissenting 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 0.15 more board seats (or 9% of the total seats held by an average director) within three years after dissent, compared to nondissenting directors on the same board. The magnitude of seat gains is modest; however, seat gains are just one proxy for an increase in reputation value. 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 (1982).

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 dissension is driven by the subsample of directors with no media references and/or no current outside directorships. Therefore, the market for directors reacts more strongly when the prior on the dissenting director is diffuse because she is relatively unknown.

4.3.2 Dissension and regulatory sanctions against independent directors. Directorships bring prestige, compensation, and career opportunities in other areas. At the same time, individual directors can face significant liabilities that range from reputational harm 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 United States, 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, similar lawsuits against publicly traded companies have yet to emerge beyond sporadic occurrences. Instead, the legal risk that directors in China face comes from mainly regulatory

sanctions.²⁰ . Regulatory sanctions, even in the mildest form of public criticism, impose severe reputational costs on the directors (Liebman and Milhaupt 2008), and regulators may sanction independent directors if they perceive them to be failing in their monitoring responsibilities. To the extent that they are considered to have exercised due diligence, dissenting directors should be more likely to be exonerated or incur more lenient penalties.

To test this hypothesis, we analyze the relation between dissension 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, 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 other sanctions). The key variable *Dissent* indicates the occurrence of dissension 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 dissension—all models include control variables, year dummies, and industry fixed effects. When a director dissents in consecutive years, we only include the observation associated with the first dissension. The results show that dissension is indeed an effective way for independent directors to avoid being penalized by regulators. While 43.9% of independent directors are subject to some form of penalty in this conditional sample, Column 1 shows that dissension on the related proposals reduces the odds ratio to 0.56 (equivalent to reducing the conditional probability of

²⁰ Huang (2012) documented 58 shareholder derivative lawsuits 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 (e.g., Larcker and Tayan 2011; Brochet and Srinivasan 2014).

receiving a sanction to 31%), all else equal. Further, results from the ordered logit regressions reported in Column 2 indicate that dissension reduces the odds ratio of incurring more severe sanctions (from no to a light sanction or from a light to heavy sanction) to 0.59. Both reductions are significant at the 10% and 5% level, respectively. In addition, directors are even more likely to enjoy relief from regulatory sanctions when they successfully block the proposal, but the difference is not statistically significant due to the relatively small sample size.

Note that the first two regressions incorporate only industry, and not firm-year, fixed effects. In fact, the key results are rendered insignificant if firm-year fixed effects are added because there is a general lack of within-board variation in outcome. Such a “nonresult” suggests that, in determining penalties, regulators treat independent directors on the same board similarly as long as there was at least one dissenting voice when the firm engaged in wrongdoing. To confirm this relation, we adopt the specification in Columns 3 and 4. These 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 dissension from the board on which director i serves during year t . Again, only the first dissension event is included if a board experiences dissenting events in consecutive years. The coefficients on *Dissent* in these two columns are quite close to the corresponding coefficients in Columns 1 and 2 in terms of economic magnitude, indicating that any director dissension likely brings relief for all independent directors on the board. However, the statistical significance in Columns 3 and 4 is notably lower, suggesting that a director is more likely to receive a reprieve when she herself, rather than her colleagues, has dissented.

Finally, untabulated results show that regulatory sanctions damage directors’ careers. We were able to collect full career information for 90 independent directors—including 61 sanctioned directors—who served as directors when the firms were sanctioned for the first time from 2005–2009. The probability of a demotion (or a lateral transfer to a significantly smaller institution) increases dramatically from negligible to close to 10% (the difference is significant at the 10% level). Given the apparent consequences of sanctions and the imperfect “free riding” in dissension, it is intuitive that

directors who place a higher premium on their reputation value (e.g., young directors and directors who are legal professionals) are among the first to dissent when they identify wrongdoing.

5. Conclusion

We conduct the first study analyzing both the voting behavior of independent directors at the director level and the career consequences of dissension. Our study presents two key takeaways. First, independent directors' career concerns lead them to be more 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 a lower risk of regulatory sanctions. Second, director dissension improves corporate governance and market transparency primarily through the responses of stakeholders (shareholders, creditors, and regulators), for whom dissension disseminates value-relevant information. Both findings are good news for corporate governance.

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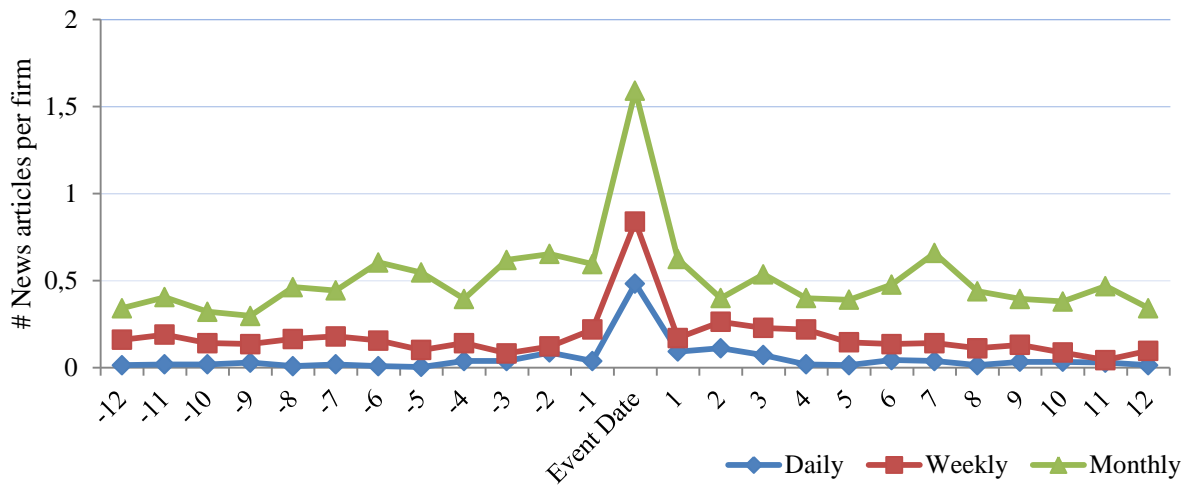
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Figure 1. News volume of companies around announcement of independent director dissension

The time series of the average number of news articles in 62 publicly circulated daily business-related newspapers for each company involving dissension is plotted in panel A, and the time series of the abnormal number of news articles (i.e., the number of articles relative to a control sample) is plotted in panel B. The date range is from 12 months (or weeks or days) before the announcement of dissension to 12 months (or weeks or 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 234 events (covering 168 companies), for which there is not an additional dissenting event within 365 days. Abnormal news volume in panel B is determined by plotting the number of news articles relative to a control sample, where the control sample consists of the same firms from a different year within $[t-2, t+2]$ when proposals on similar topics are discussed and there was no dissension during the year. The sample of dissenting firms with proper matches in panel B consists of 178 events (covering 122 companies).

Panel A: News volume around dissension



Panel B: Abnormal news volume around dissension

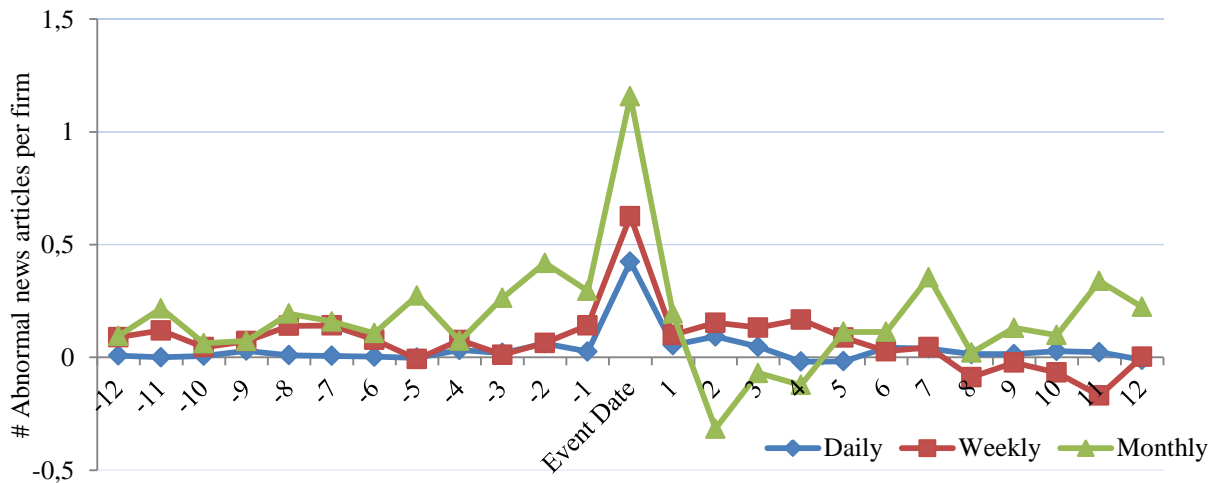


Figure 2. Stock returns around the announcement of independent director dissension

This figure plots the average cumulative abnormal returns for the event window of [-10, +10] days around the announcement of independent director dissensions. To isolate the effect of dissension, we exclude all observations with confounding events during the time window. Such confounding events include the following: dissension on other proposals, the disclosure of quarterly, semiannual, or annual reports, and/or the announcement of events of material importance (including 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 120 firm events. The abnormal returns are calculated using the market model in which 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% (63% of the sample).

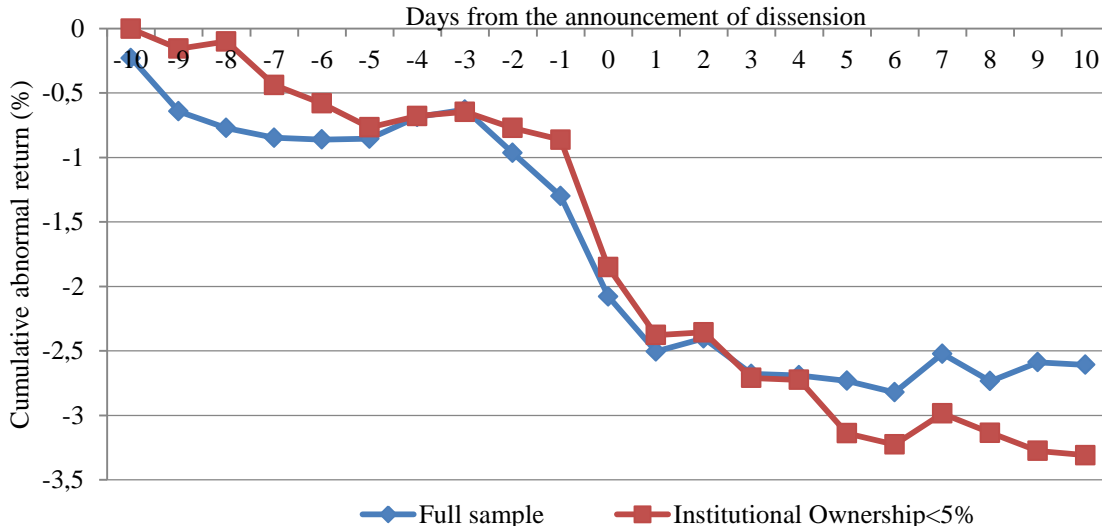


Table 1. Summary statistics

This table presents an overview of the sample and main variables. The distribution of proposals with dissenting votes by topic is reported in panel A. Summary statistics for firms (at the firm-year level) and directors (at the firm-director-year level) are reported in panel B. The “Main sample” consists of all board proposals that experience any independent director dissension during the sample period and includes 1,637 observations at the firm-director-year level and 451 observations at the firm-year level. The “Event” and “Matched” samples consist of independent directors in paired firms from the same year. The event sample includes all independent directors (whether or not they dissent) on boards that experience dissension during the year; the matched sample includes all independent directors from firms without dissension, but with the closest propensity to dissent as the event firm. The event and matched samples have 349 observations at the firm-year level and 1,225 (1,221) at the firm-director-year level. 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 ten 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 United States) required to be admitted to the director’s undergraduate institution. 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 the director’s name and primary employer affiliation) that appear in the top six Chinese newspapers by distribution volume from three years to one year prior to the board meeting at which dissension occurs. The variable enters the regressions in logarithm. *SocialTie* is a dummy variable equal to one if a director has social ties with the firm’s CEO, chairman, or ultimate owner, where ties are determined through schooling, military assignment, common birth place, or employment. 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. *USList* is a dummy variable equal to one if the firm also issues shares traded on any U.S. stock exchange. *BHList* 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*. The proxies for potential expropriation include the following. *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. The board characteristics variables include the following: *BoardSize* is the total number of directors. *#Committee* is the total number of board committees. *%Independent* is the fraction of independent directors on the board. *TenureDisp* is the standard deviation of the tenure of all directors on the board, scaled by the average tenure. *Assets* is the firm’s total assets. *ROA* is the ratio of the firm’s income before taxes and interests over total assets. *TobinQ* is the sum of stock market capitalization and book value of liabilities, scaled by total assets. Statistical significance for the differences in mean values between the main and matched sample are represented by *, **, and *** at the 10%, 5%, and 1% level, respectively.

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

Issues	# Proposals	% of the sample
1. Investment, M&A, and restructuring	260	30.3
2. Related-party transactions	140	16.3
3. Accounting treatment and information disclosure	121	14.1
4. Director and officer selection, appointment, and turnover	118	13.7
5. Internal corporate governance, e.g., managerial pay, bylaws, board procedures	97	11.3
6. Payout policies	22	2.6
7. Financing and capital structure	21	2.4
8. Board or shareholder meeting agenda	35	4.1
9. Miscellaneous issues	45	5.2
Total	859	100.0

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

Variables	Main sample					Event sample		Matched sample		Difference
	Mean	SD	25th percentile	Median	75th percentile	Mean	Median	Mean	Median	
1. Director characteristics										
Compensation (in yuan)	51,643	45,674	30,000	47,600	56,700	52,536	49,014	50,929	44,010	1,607
DirectorAge	50.9	10.5	43	48	59	51.2	49	52.5	51	-1.3***
#Directorship	1.7	1.1	1	1	2	1.7	1	1.7	1	0.1
Log(#Directorship)	0.4	0.5	0	0	0.7	0.4	0	0.4	0	0
Education	520	473	482	482	554	520	482	516	482	38**
Female	0.11	0.31	0	0	0	0.11	0.00	0.11	0	0
FirstTerm	0.59	0.49	0	1	1	0.56	1.0	0.45	0	0.11***
Tenure (in months)	31.2	21.6	13.5	28.3	45.4	32.4	30.2	34.5	30.0	-2.1***
MediaMention	0.71	4.15	0	0	0	0.70	0	0.56	0	0.14
Log(1+ MediaMention)	0.17	0.53	0	0	0	0.18	0	0.14	0	0.04**
SocialTie	0.17	0.376	0	0	0	0.16	0	0.17	0	-0.01
2. Firm ownership										
Top1	0.34	0.16	0.22	0.30	0.45	0.36	0.32	0.35	0.30	0.01
Top2to10	0.22	0.13	0.11	0.23	0.32	0.21	0.21	0.20	0.17	0.01
State	0.49	0.50	0	0	1.00	0.52	1.00	0.51	1.00	0.01
USList	0.03	0.18	0	0	0	0.04	0	0.04	0	-0.01
BHList	0.06	0.23	0	0	0	0.06	0	0.03	0	0.03*
HHI2to10	0.08	0.07	0.02	0.06	0.12	0.07	0.05	0.07	0.05	0
3. Proxies for potential expropriation										
AR (scaled by Assets)	0.023	0.079	-0.001	0	0.024	0.007	0	0.002	0	0.005
Guarantee (scaled by Equity)	0.166	0.315	0	0	0.17	0.097	0	0.112	0	-0.015
4. Board characteristics										
BoardSize	10	2.4	9	9	11	9.6	9	9.6	9	0
#Committee	2.9	1.7	2.0	4.0	4.0	2.9	4.0	2.9	4.0	0
Log(1+#Committee)	1.2	0.7	1.1	1.6	1.6	1.2	1.6	1.2	1.6	0
% Independent	0.35	0.06	0.33	0.33	0.36	0.36	0.33	0.36	0.33	0
TenureDisp	2.82	1.02	2	3	4	2.71	3	2.73	3	-0.02

Variables	Main sample					Event sample		Matched sample		Difference
	Mean	SD	25th percentile	Median	75th percentile	Mean	Median	Mean	Median	
5. Firm characteristics										
Assets (in billion yuan)	8.6	26.1	0.8	1.6	3.9	8.2	1.6	7.8	1.8	0.4
Log(Assets)	21.4	1.4	20.5	21.2	22.1	21.5	21.2	21.5	21.3	-0.1
ROA	-0.001	0.109	-0.013	0.021	0.058	0.022	0.032	0.030	0.033	-0.008
TobinQ	2.27	1.82	1.27	1.66	2.55	2.32	1.72	2.16	1.59	0.16

Table 2. Determinants of director dissension: Firm-level regressions

This table reports the determinants of director dissension at the firm-year level. The analysis uses the full sample of all publicly listed firms and applies a logit model. The dependent variable, *Dissent*, is a dummy variable equal to one if a firm has at least one dissension event in a given year. All independent 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, 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% level, respectively.

	(1)	(2)	(3)	(4)	(5)
AR	13.812*** (2.94)	12.331*** (2.82)			10.983*** (2.74)
Guarantee			2.148*** (4.10)	2.030*** (3.83)	1.990*** (3.72)
State		0.717** (-2.00)		0.715** (-2.06)	0.725** (-1.97)
Top1		0.331** (-2.35)		0.375** (-2.07)	0.359** (-2.17)
Top2to10		0.418 (-1.18)		0.393 (-1.27)	0.372 (-1.35)
HHI2to10		17.541* (1.94)		21.319** (2.05)	20.561** (2.05)
USList	0.743 (-0.81)	0.599 (-1.31)	0.787 (-0.65)	0.619 (-1.21)	0.621 (-1.20)
BHList	1.009 (0.03)	1.016 (0.05)	0.957 (-0.14)	0.976 (-0.08)	0.985 (-0.05)
TenureDisp	3.487*** (4.81)	3.315*** (4.45)	3.316*** (4.55)	3.184*** (4.28)	3.108*** (4.19)
% Independent	8.887* (1.79)	7.964* (1.70)	7.882* (1.67)	6.841 (1.55)	8.069* (1.71)
BoardSize	1.152*** (3.95)	1.152*** (3.85)	1.151*** (3.94)	1.153*** (3.89)	1.157*** (3.99)
#Committee	1.341*** (2.87)	1.339*** (2.88)	1.296** (2.53)	1.305*** (2.62)	1.306*** (2.64)
TobinQ	1.016 (0.33)	1.027 (0.56)	1.034 (0.74)	1.044 (0.93)	1.044 (0.93)
ROA	0.047*** (-5.39)	0.061*** (-4.76)	0.039*** (-5.63)	0.049*** (-5.09)	0.078*** (-4.30)
Assets	0.981 (-0.24)	1.071 (0.89)	0.978 (-0.28)	1.063 (0.79)	1.061 (0.77)
Prob(Dissent = 1)	3.0%	3.0%	3.0%	3.0%	3.0%
# Observations	15,281	15,281	15,281	15,281	15,281
(Pseudo) R-squared	9.8%	10.5%	9.9%	10.6%	10.8%

Table 3. Determinants of dissension at the director-proposal level

This table analyzes determinants of dissension at the individual director level. The dependent variable, *Dissent*, is a dummy equal to one if a director votes “against” or “abstention” over a board proposal. Panel A applies conditional logit regressions on the main sample (defined in Table 1) at the proposal-director level with proposal fixed effects. As a result, only directors affiliated with board proposals that experience dissension are included. The sample consists of 2,623 observations covering 721 proposals, and the sample frequency of dissension is 34.1%. Panel B applies logit regressions, at the firm-director-year level, on the pooled event and matched samples (defined in Table 1). The pooled sample consists of 2,446 observations covering 463 firms, and the sample frequency of dissension is 23.9%. All specifications include industry and year dummies. Variables *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 the CEO or Chairman of another company. *Academic* is a dummy variable equal to one if the director’s primary employer is an academic institution; *Bureaucrat* is a dummy variable equal to one if the director is a former government official; *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 is a legal professional; *Banking* is a dummy variable equal to one if the director is employed by a financial institution; and *Executive* is a dummy variable equal to one if the director’s primary employer is another nonfinancial firm and she 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. The *t*-statistics associated with the original coefficients (or the log-odds ratios) are reported in parentheses. Standard errors are clustered at the firm-year level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Conditional logit analysis with proposal fixed effects

	(1)	(2)	(3)	(4)	(5)
MediaMention	1.428*** (4.24)				1.371*** (3.63)
#Directorship		1.427*** (3.75)			1.245** (2.19)
DirectorAge			0.892** (-2.11)		0.876** (-2.35)
FirstTerm				0.758** (-2.54)	0.788** (-2.13)
SocialTie	0.693*** (-2.62)	0.719** (-2.36)	0.696*** (-2.62)	0.677*** (-2.80)	0.704** (-2.49)
Education	1.728*** (5.54)	1.711*** (5.43)	1.772*** (5.80)	1.712*** (5.42)	1.665*** (5.11)
Female	0.994 (-0.04)	1.026 (0.17)	0.981 (-0.13)	1.004 (0.02)	0.972 (-0.19)
CEOChair	0.346*** (-2.73)	0.349*** (-2.71)	0.320*** (-2.91)	0.317*** (-2.96)	0.336*** (-2.78)
Academic	1.144 (1.01)	1.050 (0.36)	1.098 (0.69)	1.163 (1.14)	1.024 (0.17)
Bureaucrat	0.480** (-2.37)	0.496** (-2.29)	0.532** (-2.05)	0.496** (-2.29)	0.529** (-2.04)
Accountant	2.632*** (5.22)	2.335*** (4.61)	2.192*** (4.09)	2.556*** (5.08)	2.292*** (4.27)
Lawyer	2.030*** (3.87)	1.931*** (3.62)	1.794*** (3.14)	1.998*** (3.81)	1.848*** (3.28)
Banking	1.296 (1.05)	1.255 (0.92)	1.170 (0.63)	1.236 (0.86)	1.193 (0.70)
Executive	0.971 (-0.17)	0.888 (-0.71)	0.850 (-0.96)	0.923 (-0.48)	0.885 (-0.71)
# Observations	2,623	2,623	2,623	2,623	2,623
(Pseudo) R-squared	7.4%	7.2%	6.7%	6.8%	8.3%

Panel B: Logit analysis with pooled event and matched samples without firm level variables

	(1)	(2)	(3)	(4)	(5)
MediaMention	1.291** (2.48)				1.275** (2.31)
#Directorship		1.093 (0.84)			1.066 (0.60)
DirectorAge			0.808*** (-3.39)		0.815*** (-3.22)
FirstTerm				1.236* (1.71)	1.214 (1.54)
SocialTie	0.847 (-1.07)	0.837 (-1.15)	0.857 (-0.98)	0.846 (-1.08)	0.877 (-0.83)
Education	1.360*** (2.76)	1.377*** (2.86)	1.356*** (2.74)	1.400*** (3.02)	1.329** (2.52)
Female	0.904 (-0.55)	0.899 (-0.59)	0.846 (-0.90)	0.878 (-0.72)	0.858 (-0.82)
CEOChair	0.796 (-0.73)	0.784 (-0.77)	0.778 (-0.77)	0.775 (-0.82)	0.795 (-0.72)
Academic	0.981 (-0.12)	0.978 (-0.14)	0.910 (-0.62)	0.986 (-0.10)	0.883 (-0.81)
Bureaucrat	0.963 (-0.14)	0.991 (-0.03)	1.089 (0.33)	1.002 (0.01)	1.063 (0.23)
Accountant	1.619*** (2.58)	1.566** (2.41)	1.297 (1.32)	1.570** (2.43)	1.349 (1.50)
Lawyer	1.383 (1.64)	1.324 (1.43)	1.064 (0.31)	1.303 (1.34)	1.110 (0.51)
Banking	0.846 (-0.52)	0.816 (-0.64)	0.692 (-1.13)	0.796 (-0.72)	0.713 (-1.04)
Executive	1.337* (1.69)	1.297 (1.52)	1.166 (0.87)	1.290 (1.49)	1.217 (1.11)
# Observations	2,446	2,446	2,446	2,446	2,446
(Pseudo) R-squared	2.3%	2.1%	2.7%	2.2%	3.1%

Table 4. Interaction between reputation value 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. All independent variables are defined in Table 1, except for the director profession variables, which are 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. The *t*-statistics associated with the original coefficients (or the log-odds ratios) based on standard errors clustered at the firm-year level are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1) Full sample	(2) Full sample	(3) ^a <i>MediaMention</i> >0	(4) <i>MediaMention</i> =0	(5) <i>#Directorship</i> >1	(6) <i>#Directorship</i> =1
DirectorAge	0.927 (-1.34)	0.891** (-2.07)	0.358*** (-2.72)	0.955 (-0.76)	0.466*** (-4.64)	1.005 (0.07)
MediaMention	1.583*** (5.06)					
MediaMention×DirectorAge	0.634*** (-3.41)					
#Directorship		1.384*** (3.32)				
#Directorship×DirectorAge		0.640*** (-4.12)				
SocialTie	0.701** (-2.54)	0.748** (-2.06)	3.355 (1.45)	0.660*** (-2.75)	0.475** (-2.04)	0.765 (-1.24)
Education	1.699*** (5.32)	1.657*** (5.03)	0.885 (-0.18)	1.655*** (4.70)	1.450 (1.52)	2.168*** (5.66)
Female	0.958 (-0.29)	1.003 (0.02)	0.000 (-0.01)	0.951 (-0.29)	2.065* (1.72)	0.701* (-1.68)
CEOChair	0.335*** (-2.80)	0.412** (-2.27)		0.356** (-2.41)	2.162 (0.69)	0.220*** (-2.59)
Academic	1.083 (0.58)	1.036 (0.26)	0.350 (-1.21)	1.109 (0.67)	0.748 (-0.95)	1.032 (0.17)
Bureaucrat	0.514** (-2.13)	0.530** (-2.02)	0.107 (-0.82)	0.567 (-1.64)	0.603 (-0.60)	0.502* (-1.71)
Accountant	2.390*** (4.49)	2.209*** (4.11)	0.169 (-1.12)	2.643*** (4.62)	0.526 (-1.15)	2.626*** (3.88)

	(1) Full sample	(2) Full sample	(3) ^a <i>MediaMention</i> >0	(4) <i>MediaMention</i> =0	(5) <i>#Directorship</i> >1	(6) <i>#Directorship</i> =1
Lawyer	1.878*** (3.36)	1.929*** (3.50)		2.267*** (3.91)	0.740 (-0.66)	2.228*** (3.33)
Banking	1.230 (0.82)	1.295 (1.03)	0.000 (-0.00)	1.372 (1.19)	0.492 (-0.75)	1.098 (0.28)
Executive	0.902 (-0.60)	0.884 (-0.72)		0.985 (-0.08)	1.653 (1.01)	0.978 (-0.09)
Prob (Dissent = 1)	34.1%	34.1%	45.6%	35.7%	42.6%	36.9%
# Observations	2,623	2,623	79	2,053	441	1,276
#Board-Proposals	721	721	35	619	176	419
(Pseudo) R-squared	8.5%	8.3%	27.0%	7.5%	13.4%	10.7%

^aIn Column 3, some of the dummy variables identifying the director's primary profession are omitted due to a near-singularity condition.

Table 5. Stakeholder reactions following dissension

This table analyzes creditor and regulator reactions following dissension. Both panels build on pooled event and matched samples. In panel A, the event sample consists of 248 firm-year observations for firms' first dissension event from 2004–2011 (or 2004–2009 for the $[t-3, t+3]$ specifications). The matched sample consists of the same number of nondissension firms from the same industry-year with the closest ROA to the event firms. The dependent variables are *Loan* (in Columns 1 and 3), defined as new loans received by firms during the year scaled by total assets, and *Guarantee* (in Columns 2 and 4), defined as the balance of loan guarantees the firm provided to related parties scaled by equity. The estimation method is a linear regression, and standard errors are clustered by firm. In panel B, the event sample consists of 249 firm-year observations for firms' first dissension event in 2004–2011 (or 2004–2009 for the $[t-3, t+3]$ specifications). The matched sample consists of the same number of nondissension firms from the same industry-year with the closest assets to the event firms. In both panels, the samples for the first (last) two columns consist of observations from one (three) year(s) before to one (three) year(s) after the dissension. Columns 1 and 3 apply a logit model in which the dependent variable is *Any 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 in which the dependent variable, *Ordered 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, and light sanctions include public criticisms or condemnations. The key independent variable *Dissent* is a dummy variable equal to one if a firm has a dissenting event during the year. Control variables are as defined in Tables 1 and 3. All regressions include industry and year dummies. The exponentiated coefficients (or the odds ratios) of dissenting versus not dissenting are reported in bold. 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% level, respectively.

Panel A: Creditor reactions following dissension

Sample period Dependent variable	(1)	(2)	(3)	(4)
	Loan	Guarantee	Loan	Guarantee
		[t-1, t+1]		[t-3, t+3]
Dissent	0.016 (0.71)	0.071*** (2.94)	0.028 (1.43)	0.039** (2.54)
After	0.022 (0.97)	0.052** (2.53)	0.045* (1.78)	0.025 (1.07)
Dissent×After	-0.049* (-1.91)	-0.051* (-1.93)	-0.070*** (-3.14)	-0.033 (-1.50)
State	0.001 (0.05)	-0.041* (-1.72)	-0.005 (-0.30)	-0.035** (-1.98)
Top1	0.152* (1.88)	-0.085 (-1.25)	0.164** (2.35)	-0.098 (-1.65)
Top2to10	-0.096 (-0.74)	-0.000 (-0.00)	-0.054 (-0.53)	-0.035 (-0.36)
HHI2to10	0.371 (1.60)	0.155 (0.62)	0.239 (1.34)	0.003 (0.02)
USList	0.018 (0.19)	-0.076 (-1.57)	0.017 (0.19)	-0.030 (-1.12)
BHList	0.081 (1.45)	0.031 (0.63)	0.065 (1.31)	-0.003 (-0.13)
TenureDisp	-0.017 (-0.39)	0.131*** (3.35)	-0.049 (-1.59)	0.145*** (4.93)
Independent	-0.047 (-0.32)	-0.111 (-0.67)	-0.187** (-2.23)	-0.029 (-0.37)
BoardSize	-0.000 (-0.07)	-0.006 (-1.14)	0.003 (0.92)	-0.005 (-1.61)
Committee	-0.002 (-0.12)	0.008 (0.57)	-0.010 (-0.87)	0.008 (0.75)
TobinQ	-0.012 (-1.33)	-0.020*** (-3.27)	-0.003 (-0.57)	-0.018*** (-5.05)
ROA	0.001 (1.03)	-0.002 (-1.29)	0.003*** (3.27)	-0.003*** (-2.63)
ROA×After	0.000 (0.12)	0.001 (0.37)	-0.001 (-1.22)	0.002 (1.33)
Assets	0.010 (0.87)	0.017* (1.83)	0.023** (2.35)	0.007 (0.98)
#Observations	992	992	2,584	2,584
Adjusted R-squared	4.9%	11.6%	8.5%	12.5%

Panel B: Regulatory sanctions following dissension

Sample period Dependent variable	(1)	(2)	(3)	(4)
	[t-1, t+1]		[t-3, t+3]	
	Any sanction	Ordered sanction	Any sanction	Ordered sanction
Dissent	0.506 (-1.31)	0.535 (-1.22)	0.837 (-0.57)	0.823 (-0.62)
After	0.324* (-1.90)	0.340* (-1.88)	1.032 (0.07)	0.981 (-0.04)
Dissent×After	8.186*** (2.98)	7.422*** (2.84)	2.628** (2.24)	2.796** (2.44)
State	1.017 (0.04)	1.075 (0.18)	0.665* (-1.64)	0.688 (-1.50)
Top1	0.064* (-1.84)	0.068* (-1.84)	0.122** (-2.10)	0.126** (-2.06)
Top2to10	0.147 (-0.83)	0.190 (-0.70)	0.130 (-1.31)	0.147 (-1.22)
HHI2to10	27.415 (0.89)	20.342 (0.78)	38.228** (1.65)	36.267 (1.59)
USList	1.716 (0.55)	2.312 (0.76)	1.618 (0.56)	1.818 (0.67)
BHList	3.033 (1.34)	3.316 (1.37)	2.108 (1.45)	2.224 (1.54)
TenureDisp	4.859 (1.51)	4.952 (1.52)	1.422 (0.62)	1.434 (0.64)
Independent	0.003** (-2.25)	0.005** (-2.33)	0.384 (-0.60)	0.302 (-0.73)
BoardSize	0.886 (-1.45)	0.895 (-1.41)	0.951 (-0.89)	0.954 (-0.85)
Committee	0.978 (-0.10)	0.951 (-0.22)	0.972 (-0.17)	0.954 (-0.28)
TobinQ	0.885 (-1.13)	0.890 (-1.14)	0.901 (-1.40)	0.899 (-1.46)
ROA	0.943*** (-4.48)	0.943*** (-4.44)	0.945*** (-5.90)	0.945*** (-5.88)
#Observations	804	996	2,483	2,586
Prob(Sanction=1)	7.0%	3.1%	5.5%	3.3%
Prob(Sanction=2)		2.5%		1.9%
(Pseudo) R-squared	22.8%	23.1%	16.1%	14.7%

Table 6. Director board seats gained and lost following dissension

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 are the same as defined in previous tables but are now recorded annually. Results from conditional logit regressions with board fixed effects are reported in panel A. The subsample analyses (Columns 2 and 4) are based on a full sample regression in which the sorting variable (*DirectorAge*, *MedianMention*, and *#Directorship*) interacts with all regressors, with coefficients reported in two separate columns. The dependent variable is *Departure*, a dummy variable equal to one if a director resigns from the current board before the term ends. Only observations from boards with both departing and remaining directors are included, resulting in 196 observations for 53 unique boards. The exponentiated coefficients (odds ratios) of dissenting versus not dissenting are reported in bold. The *t*-statistics associated with the original coefficients (log-odds ratios) are reported in parentheses. Using linear regression with firm-year fixed effects, gains of new board seats in the three years following the dissenting events are reported in panel B. The dependent variable is *SeatGain*, the number of new board seats obtained during the next three years. Only observations from firm-year pairs with variation in outcome are included, and only the first dissension event from each board-director is included, resulting in 1,054 observations for 320 unique boards. Coefficients are reported in bold, and standard errors are clustered at the board level. The *t*-statistics are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Departure following dissension

Sorting variable	(1)	(2)		(3)	(4)		
	All	<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	2.117* (1.89)	2.705** (2.23)	1.530 (0.67)	0.758 (-0.29)	2.729** (2.12)	1.140 (0.21)	3.325** (2.44)
DirectorAge	0.977 (-0.13)			1.080 (0.21)	0.941 (-0.32)	1.043 (0.18)	0.974 (-0.12)
MediaMention	1.575 (1.64)	1.100 (0.17)	2.172** (2.44)			1.586 (1.53)	1.668 (0.91)
#Directorship	0.753 (-0.71)	0.921 (-0.49)	1.172 (0.64)	1.822 (1.24)	0.977 (-0.15)		
FirstTerm	1.061 (0.35)	0.770 (-0.53)	0.825 (-0.32)	0.349 (-0.89)	0.741 (-0.70)	0.731 (-0.47)	0.730 (-0.66)
Education	0.845 (-0.51)	0.875 (-0.35)	0.822 (-0.59)	0.897 (-0.22)	0.920 (-0.23)	0.793 (-0.68)	0.724 (-0.81)
SocialTie	0.679 (-0.75)	0.621 (-0.77)	0.927 (-0.07)	0.000*** (-14.18)	0.968 (-0.07)	0.546 (-0.67)	0.877 (-0.20)
# Observations	196		196		196		196
(Pseudo) R-squared	6.1%		8.0%		12.8%		7.7%

Panel B: Gain of new seats following dissension

(1) (2) (3) (4)

	All	<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	0.148** (2.50)	0.148** (2.10)	0.139 (1.59)	0.059 (0.32)	0.157*** (2.73)	0.107 (0.87)	0.189*** (3.14)
DirectorAge	-0.023 (-1.03)			-0.072 (-0.97)	-0.018 (-0.77)	-0.008 (-0.18)	-0.038 (-1.61)
MediaMention	0.032 (0.58)	0.103 (0.80)	0.006 (0.10)			0.070 (0.87)	-0.037 (-0.37)
#Directorship	0.255*** (8.98)	0.298*** (6.18)	0.227*** (5.80)	0.255*** (3.41)	0.244*** (7.56)		
FirstTerm	-0.057 (-0.86)	-0.103 (-1.18)	0.001 (0.02)	0.225 (1.15)	-0.105 (-1.54)	-0.093 (-0.80)	-0.069 (-0.98)
Education	0.014 (0.26)	0.004 (0.08)	0.018 (0.32)	0.050 (0.51)	0.001 (0.02)	0.030 (0.40)	-0.039 (-0.76)
SocialTie	0.079 (1.15)	0.096 (1.03)	0.081 (0.92)	0.019 (0.09)	0.093 (1.29)	0.070 (0.58)	0.088 (1.06)
# Observations	1,054	1,054		1,054		1,054	
R-squared	17.5%	18.3%		18.1%		12.8%	

Table 7. Dissension and regulatory sanctions on independent directors

The sample consists of director-year observations in which the directors are affiliated with all firms that received regulatory sanctions for wrongdoing from 2004–2009. The dependent variable is the regulatory penalty assessed on independent directors in a given year. Columns 1 and 3 apply the logit model with industry fixed effects and year dummy variables. The dependent variable *Penalty* is a dummy variable equal to one 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 year 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 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 parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)
	Dissension by the director		Dissension by any director on the same board	
	Logit	Ordered logit	Logit	Ordered logit
Dissent	0.561* (-1.81)	0.592** (-1.98)	0.576* (-1.74)	0.672 (-1.35)
MediaMention	1.098 (1.04)	1.084 (1.15)	1.094 (1.00)	1.079 (1.10)
#Directorship	1.230** (2.07)	1.269*** (2.66)	1.226** (2.05)	1.266*** (2.65)
DirectorAge	0.955 (-0.90)	0.970 (-0.67)	0.954 (-0.92)	0.968 (-0.71)
FirstTerm	0.798 (-1.52)	0.842 (-1.31)	0.790 (-1.59)	0.836 (-1.37)
Female	0.892 (-0.68)	0.903 (-0.66)	0.888 (-0.71)	0.900 (-0.68)
TenureDisp	0.825 (-0.43)	1.063 (0.15)	0.829 (-0.42)	1.068 (0.16)
AR	1.020 (1.62)	1.022** (2.14)	1.022* (1.74)	1.023** (2.15)
Guarantee	0.561 (-1.59)	0.561* (-1.66)	0.590 (-1.43)	0.573 (-1.59)
State	0.807 (-0.95)	0.825 (-0.92)	0.789 (-1.04)	0.813 (-0.98)
Top1	1.002 (0.20)	1.001 (0.07)	1.001 (0.11)	1.000 (0.02)
Top2to10	1.007 (0.60)	1.011 (1.00)	1.006 (0.48)	1.010 (0.93)
HHI2to10	0.994 (-0.27)	0.990 (-0.45)	0.996 (-0.18)	0.991 (-0.41)
USList	0.153	0.242	0.159	0.234

	(1)	(2)	(3)	(4)
	Dissension by the director		Dissension by any director on the same board	
	Logit	Ordered logit	Logit	Ordered logit
BHList	(-1.45) 0.227	(-0.88) 0.212	(-1.43) 0.223	(-0.89) 0.213
%Independent	(-1.47) 0.982	(-1.64) 0.979	(-1.47) 0.983	(-1.62) 0.980
BoardSize	(-1.17) 0.993	(-1.49) 0.985	(-1.06) 1.002	(-1.43) 0.989
#Committee	(-0.15) 1.078	(-0.36) 0.991	(0.04) 1.063	(-0.25) 0.984
TobinQ	(0.56) 1.008	(-0.08) 0.987	(0.45) 1.012	(-0.14) 0.988
ROA	(0.11) 0.516	(-0.20) 0.664	(0.16) 0.595	(-0.18) 0.720
Assets	(-0.58) 1.654*** (3.44)	(-0.43) 1.626*** (3.80)	(-0.46) 1.657*** (3.45)	(-0.34) 1.626*** (3.80)
# Observations	1,996	2,082	1,996	2,082
Prob(Sanction = 1)	43.9%	25.3%	43.9%	25.3%
Prob(Sanction = 2)		16.8%		16.8%
(Pseudo) R-squared	13.2%	11.8%	13.3%	11.8%