

Reputation Concerns of Independent Directors: Evidence from Individual Director Voting¹

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First Draft: July 2012

This Draft: November 2013

¹ The authors have benefitted from discussions with seminar and conference participants at Delaware, ESCP Europe, EM Lyon, Grenoble School of Management, The LBS Summer Finance Symposium (2013), Reims Management School, Shanghai Lixin University of Commerce, the second Symposium on China's Financial Markets (2013), the annual conference of the CICF (2013), the European Finance Association (2012), the Financial Intermediation Research Society (2013), the Financial Management Association (2013), and the Swiss Society for Financial Market Research (2013). In particular, we thank Mark Chen, Claudia Custodio, Junxiong Fang, Fabrizio Ferri, Vyacheslav Fos, Sheng Huang, Qiao Liu, Stefano Rossi, Chander Shekhar, Stefan Zeume, Le Zhang, Qifeng Zhang, Weibing Zhang, and Evgenia Zhivotova for their valuable comments and discussions. Wei Jiang acknowledges the generous support from the Jerome A. Chazen Institute of International Business at Columbia Business School. Hualin Wan acknowledges financial and intellectual support from the following organizations in China: the National Natural Science Foundation of China (Grant No.71102013), the "Dawn" Program of the Shanghai Education Commission (Grant No. 10SG54), and the National Accounting Leader (Reserve) Personnel Training Plan (Academic Class).

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ABSTRACT

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

JEL classification: G34; L25.

Boards of directors are key players in corporate governance. Within a board, the responsibility to monitor the managers and to mitigate agency issues falls mostly on independent directors. Independent directors in most markets are outsiders without material business affiliation with the firms they oversee. Hence, they are not significant shareholders, and tend to receive direct compensation that is not nearly as generous or performance sensitive as the managers they monitor (Bryan and Klein (2004), Yermack (2004), Fich and Shivdasani (2006), and Adams and Ferreira (2008)). Moreover, management has strong influence on the appointment of independent directors (Shivdasani and Yermack (1999) and Dahya, Dimitrov, and McConnell (2008)). Hence a natural question arises as to what motivates these outsiders to align themselves with the shareholders rather than to side with the managers. In this paper, we explore how reputation concerns drive independent directors to confront management in public companies in China. The reputation concerns studied include both the traditional career concerns, i.e., the incentive effects from aspiring to have a good reputation in the future as modeled by Holmström (1982), and the effect of one's current reputation as modeled by Diamond (1989).

Fama and Jensen (1983) conjecture that “outside directors have incentives to develop reputations as experts in decision control. ...They use their directorships to signal to internal and external markets for decision agents that they are decision experts. ... The signals are credible when the direct payments to outside directors are small.” A number of studies have supported their hypothesis. For example, Coles and Hoi (2003) document that those directors whose firms opted out of stringent state antitakeover provisions gained additional outside directorships. A similar pattern is documented for companies that fire underperforming CEOs (Farrell and Whidbee (2000)), that are sold at a premium (Harford (2003)), or that perform well in general (Yermack (2004)). Mirror-image examples include work by Ertimur, Ferri, and Maber (2012), which analyzed reelection setbacks for directors of firms involved in option backdating, and Fos and Tsoutsoura (2013), which showed nominated directors in proxy contests lose seats on other boards. In addition, Dewally and Peck (2010), Fahlenbrach, Low, and Stulz (2013) and Agrawal and Chen (2011) study how director departure is associated with reputational incentives. Our

study presents new and direct evidence on directors' confrontation with management, as exemplified by voting dissention.

While the aforementioned studies confirm that independent directors are rewarded with more career opportunities for "good" performance, they do not study how independent directors should have responded to such career concern incentives, nor do they explain the cross-sectional variations in the directors' behavior given the ex post benefits of taking the right action. More importantly, most studies on boards of directors are conducted at the firm level. To the extent that the composition of boards is endogenously chosen by firms to reflect cost-benefit tradeoffs (Hermalin and Weisbach (1998), Boone, Field, Karpoff, and Raheja (2007), and Denis, Denis, and Walker (2012)), any relation between board characteristics and outcomes regarding firm performance and corporate governance could reflect the optimization of individual firms under different parameters rather than causality from the actions of directors. A related issue highlighted by Adams, Hermalin, and Weisbach (2010) is that it is difficult to observe the actual behavior of individual directors and harder to quantify them for formal analyses.¹ Hence even the studies that carefully address endogeneity provide only indirect evidence of the heterogeneity in board effectiveness.

Our study explores a unique director-level voting dataset from China's stock market to overcome the aforementioned empirical challenges. The Chinese Securities Regulatory Commission (CSRC), the regulatory authority of China's stock market, mandated disclosure of votes cast by directors on board proposals beginning in 2004. We are thus able to compose a comprehensive sample of voting records on 652 board-proposals involving dissention (i.e., at least one independent director voted "Abstain" or "Against") over 2004–2009 by hand-collecting information from corporate filings.

The resulting dataset is well suited to analyze the reputation concerns among independent directors. First, the mandatory disclosure rule yields the detailed director-proposal level action data that is not publicly available in the U. S. and other major markets. In China, a great majority of proposals

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

voted on by the board are sponsored by management who mostly represent insiders and controlling shareholders.² As a result, dissention tends to reflect an independent director's willingness to confront management. Second, emerging markets are commonly perceived as having more serious collusive behavior between managers and controlling shareholders (Johnson, La Porta, Lopez-de-Silanes, and Shleifer (2000)).³ Independent directors could be an important force to offset the power of dominant shareholders (Dahya, Dimitrov, and McConnell (2008) and Black and Kim (2012)). Indeed, a recent study by Giannetti, Liao, and Yu (2013) suggests that the talent and experience of independent directors are crucial for firm performance and corporate governance in China.

Our study contributes to the literature on board governance as well as that on career concerns. First, our analysis of individual directors' actual voting actions fills the gap between theory and empirical research on voting by directors because existing work has been mostly theoretical or experimental (e.g., Warther (1998), Gillette, Noe, and Rebello (2003), and Malenko (2013)). More importantly, the director-proposal level data commands a crucial advantage allowing identification from variations within a board (or directors that vote on the same proposal). Analyzing proposals involving both approving and dissenting independent directors, we are able to filter out any potentially time-varying firm or board level unobserved heterogeneity by including board or even proposal level fixed effects in the regressions. Such an identification strategy relates individual director characteristics (most importantly, the strength of their career concerns and the level of their reputation) to their voting behavior and career outcomes. The endogeneity of board formation and/or proposal scheduling is no longer an issue.

Second, our study not only extends the empirical literature on career concerns to the setting of independent directors, but is also the first study that empirically integrates the effects of both career concerns and reputation stocks, and highlights their interaction. Supporting the standard career concerns models, we find that younger independent directors and directors with higher reputation stock (measured

² According to a survey of 204 firms by the Research Center at Shanghai Stock Exchange (RCSHSE), in 88% of the companies the chairmen (who are insiders, often representatives of controlling shareholders) decide which proposals to include in the meeting agenda.

³ The IMD Business School's (Switzerland) 2004 survey of 60 economies ranked China to be the 25th on board governance, 40th on shareholder value, 57th on insider trading, and 44th on shareholder rights.

by media mentions and the number of independent directorships) dissent significantly more often. Moreover, we uncover an interesting interaction effect: the negative relationship between director age (a common proxy for the strength of career concerns) and dissenting tendency is more pronounced among directors already enjoying high reputation stock. This indicates that well-reputed directors have a strong incentive to maintain (or further develop) their reputation rather than to “cash in” when they are young. These results confirm the theoretical model of Diamond (1989), and are consistent with Fang and Yasuda (2009) who find that highly reputable sell-side stock analysts are less likely to succumb to conflicts of interest.

Third, our study decomposes the two sides of career concerns faced by directors. As argued by Hermalin and Weisbach (2003) and Levit and Malenko (2013), independent directors face a trade-off between a reputation as effective monitors and decision makers versus a reputation as management-friendly. Prior studies tend to focus on the relation between firm performance and directors’ outside opportunities (Gilson (1990), Kaplan and Reishus (1990), Fich (2005), and Fich and Shivdasani (2007)), and do not analyze the dual tensions. Traditional theoretical work on career concerns assumes a single class of “potential employers” that an agent needs to impress, while in the case of independent directors the reputation concerns are potentially two-sided with both investors and management. Empirically, assessing the effect of directors’ reputations on their willingness to “rock the boat” requires observing differences across directors on the same “boat” (firm or board). Our dataset allows us to characterize both sides of the directors’ career concerns. Presumably, directors in their first term place greater importance on their reputation with the current management than their reputation with the general market due to the influence of the former in director appointment and directors’ general desire to be reappointed.⁴ Empirical results are indeed consistent with this hypothesis.

Finally, by confirming that the ex post director career outcomes are consistent with the ex ante incentives, we validate the premise that dissenting behavior is perceived as diligent monitoring so that career concerns motivate the directors to set up a reputation for being a diligent monitor, rather than being

⁴ Due to a term limit in China, directors in most companies can only serve up to two terms.

management friendly. We find that dissention is rewarded with more outside career opportunities (in terms of gains of board seats elsewhere post dissention) and better reputation protection (in terms of avoiding regulatory sanctions due to firm wrong-doing). The combined ex ante and ex post results thus conclude that stronger reputational concerns among the independent directors contribute to better corporate governance.

In a parallel study, Ma and Khanna (2013) study independent director disagreement using Chinese data. Their research is motivated by a regulatory change that occurred in 2001 and required independent directors on the same board to issue a *joint* “report of opinion” before or after a board (or shareholder) meeting or major corporate events.⁵ Unlike the actual voting, the opinion is not binding. Our study differs from theirs along two critical dimensions. First, the “report of opinion” pools the opinions of all independent directors and therefore their director-level results are derived mainly from variations between corporate events. In contrast, all our main results are derived from within-board variations. Second, our primary interest lies in the career and reputational concerns of directors while Ma and Khanna (2013) focus more on the social ties between the directors and management.

The paper proceeds as follows. Section 2 provides information on the institutional background and discusses theoretical motivation. Section 3 describes data, sample construction, and empirical methods. Section 4 presents the main results on the effects of career concerns and reputation levels. Section 5 validates such concerns with ex post outcomes. Finally, Section 6 concludes.

2. Institutional Background

China’s stock market, first introduced in the early 1990s, had grown to be the world’s second largest market in terms of market capitalization (about \$3.57 trillion) by 2009. At the end of 2009, there were 1,718 listed companies on the two domestic stock exchanges in Shanghai and Shenzhen. Corporate governance has been a looming issue because many of the listed companies were carve-outs from state-

⁵ Du, He, and Rui (2012) analyze the tendency for independent directors to issue negative opinions using the same data source.

owned enterprises (SOEs), and the government and its agencies often remain the controlling shareholders.⁶ In addition, the majority of listed firms in China have a parent company which typically has multiple subsidiaries in a complicated group structure, reducing the transparency in operations and corporate governance. Concentrated ownership and opaque group affiliations create conflicts of interest between the controlling and minority shareholders, leading to serious concerns that the rights of minority shareholders will be expropriated by controlling shareholders.⁷

As in other major markets, boards of directors serve as the pivotal mechanism for monitoring the managers of public companies in China. Directors have a legal obligation to review the corporation's major plans and policies, and are charged with selecting, compensating, evaluating, and when appropriate, dismissing top managers. Within a board, the duty to uphold the interests of outside (and often minority) shareholders rests disproportionately on the independent directors who, by legal requirement, do not have material business ties with the companies and are not representatives of the large shareholders. Independent directors are often nominated by large shareholders or management, and are then formally elected in the shareholder meetings.

In August 2001, the CSRC mandated that independent directors make up of at least one third of the boards of listed companies (see the "*Guideline for the establishment of the independent director system in listed firms*," henceforth, the "*Guideline*"). Moreover, an independent director can serve at most six years on a company's board. Given that in most companies one term of directorship lasts for three years, this requirement effectively limits independent directors' tenure at one company to be no more than two terms. There are virtually no staggered boards among public firms in China. Though the minimum percentage of independent director is lower than what major U.S. stock exchanges require for U.S. public companies, the definition of "independence" tends to be more stringent in China. For example, a director affiliated with a non-insider blockholder is not considered independent in China.

⁶ At the end of 2004, the ultimate controlling shareholder of most Chinese firms (70%) was either the central government, local government, or an SOE.

⁷ The senior officials in China admit the issue themselves. In a speech delivered in 2001, Mr. Xiaochuan Zhou, the chairman of Chinese Securities Regulatory Commission (CSRC), the regulatory authority of China's stock market, said that "the expropriation of minority shareholders of listed firms is widespread."

Boards function mainly through proposals discussed and voted on at board meetings, with common practices similar to those in the U.S. and other major countries. The *Companies Law of China* requires that a board proposal must receive majority support from qualified directors⁸ to be effective. According to a survey of 204 firms by the Research Center at Shanghai Stock Exchange (RCSHSE), in 88% of the companies the chairmen (usually insiders) decide which proposals to be included in the meeting agenda. The survey also indicates that the average firm holds 7.4 board meetings each year and each meeting discusses 3.6 proposals on average.

Though a crucial board function, director voting records are not disclosed in security filings in most major countries (including the U.S.). China is an exception because timely disclosure of summary information of the voting outcome is mandatory.⁹ In an effort to promote transparency in corporate governance, the CSRC updated its “Code of information disclosure for listed firms: annual reports” in 2004 to require disclosure of the details of votes involving dissenting independent directors, including the identities of the dissenting directors, the titles of the proposals, and the directors’ opinions. This change in regulation allows us to construct a comprehensive sample of independent director dissention.

3. Data and Empirical Motivation

A. Data Overview

The most important information—votes on proposals cast by independent directors—is hand-collected from the annual reports of all public firms listed on the Shanghai and Shenzhen stock exchanges during 2004-2009.¹⁰ We identified 487 board meetings with 652 proposals in which at least one independent director voted “Abstain” or “Against.” We classify both as dissention because “Abstain” and “Against” have similar real effects: the *Companies Law of China* requires that a board proposal must

⁸ Similar to practices in other major markets, directors affiliated with certain parties are not eligible to vote on proposals regarding related party transactions.

⁹ Firms file with the exchanges which disclose the information almost instantly on their websites (similar to the EDGAR system in the U.S.). Media and trading companies have developed various software tools to collect, summarize, and distribute the information.

¹⁰ 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.

receive majority support (“for” votes) to be effective. We henceforth call the resulting sample the “dissent sample.”¹¹ About 6.6% of all independent directors during our sample period dissented at least once. We follow the directors’ career outcomes to year 2011.

The dissenting sample consists of 2,393 director-proposal level observations, involving 232 unique firm identities and 901 unique independent directors. The sample contains firms from 12 out of 13 level-one industries classified by the CSRC and the sample industry representation is comparable to that of the universe of public firms. It is worth noting that restricting data collection to proposals involving dissent by at least one independent director does not compromise data coverage given the purpose of our research. A key feature of our empirical specification is the incorporation of proposal fixed effects in order to filter out unobserved and potentially time-varying heterogeneity in firm, board, and proposal characteristics, the major source of endogeneity discussed in the board literature. Proposals without variation in director voting would not contribute to estimation in the presence of a proposal fixed effect.

Panel A of Table 1 reports the time series statistics of meetings, proposals, and firms involving dissent by independent directors. The number of sample firms started at 86 in 2004 and decreased to 40 in 2009. The patterns for meetings and proposals are similar. Dissent is not a common behavior among independent directors even conditional on proposals with dissent.¹² In two-thirds of the sample proposals only one director dissents (431 proposals). In another 117 (73) proposals, two (three) independent directors dissent. A typical board has three independent directors. By a different sorting, 308 directors (62.5% of all ever dissenting independent directors) dissent only once during the sample period, another 87 (36) directors dissent twice (thrice).

[Insert Table 1 here.]

¹¹ Our empirical results are qualitatively similar if we separate “Against” from “Abstain” and apply an ordered logit estimation method.

¹² The rare occurrence of dissent is not unusual and is not specific to China. In Schwartz-Ziv and Weisbach (2013), directors disagree with the CEO in 2.5% of the meetings.

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

Our dataset is unique in that it contains information about the exact composition of the board at the dissenting meeting, the identity of the independent directors, and their votes. In addition, we obtain director age, gender, and compensation information from China Securities Market and Accounting Research (CSMAR, a standard database on Chinese capital markets), 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 assumed by individuals and their tenure at those positions. We do not analyze stock ownership of independent directors because they rarely hold significant amount of stocks in the companies they oversee. Finally, directors' primary occupation data are manually coded from their biographies in the annual reports.

Key variables to our analysis are the proxies for the strength of career concerns of the directors and those for the level of their reputation stock. The default measure for career concerns in the literature (Gibbons and Murphy (1992) and Chevalier and Ellison (1999a)) is director age (*DirectorAge*), as young directors are expected to have stronger incentives to build up a reputation for better future career opportunities. However, the reputation effect is more subtle for independent directors given that they bear fiduciary duties to shareholders, but simultaneously often owe their appointment to the support of the management. A priori it is not clear whether directors' career concerns should align them more with the management or with the shareholders. To measure the two-sided incentives, we define a dummy variable (*FirstTerm*) to be equal to one if a director is in her first term. Due to reelection motives, directors in their first term should have stronger incentives to cater to the current management in order to be reappointed given that board seats are highly coveted—they are recognitions of talent and accomplishment, and

bestow further visibility and prestige on the directors, which benefit the latter's career. In contrast, directors in their second (and last) term care more about the perception of the market.

To measure directors' reputation stock, our default measure is *MediaMention*, defined as the number of articles containing the director's name and primary employer affiliation that appear in the top six Chinese newspapers by distribution volumes from year $t-3$ to year $t-1$ where year t is the year of the vote on the proposal. To obtain an accurate measure for positive reputation, we manually exclude articles with negative comments. The construction of the measure follows the method used in Milbourn (2003) and Rajgopal, Shevlin, and Zamora (2006). Our results are not sensitive to minor variations in news outlets (such as using the top five business newspapers) and time windows. An alternative and popular measure for a director's reputation adopted in the literature is the number of independent directorships in public companies (*#Directorship*).¹³ A long list of work (Shivdasani (1993), Kaplan and Reishus (1990), Gilson (1990) Shivdasani (1993), Brickley, Coles, and Linck (1999), and Ferris, Jagannathan, and Pritchard (2003)) have argued or documented a positive relation between the number of directorships held and director quality. One caution to this measure is that a high number of directorships can also be related to leniency toward the management by directors (Yermack (2004) and Fich and Shivdasani (2006)).

To partly control for the leniency tendency, we construct a measure for 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 had one of the following common experiences with the Chairman, the CEO, or the ultimate owner: (1) served in the same military unit; (2) graduated from the same university within a three year period;¹⁴ (3) was born in the same city/county; or (4) worked for the same employer. The personal data of directors required to construct this measure are hand-

¹³ The CSRC limits the maximum of number of outside directorships to be five. This constraint is seldom binding as the average number is 1.6.

¹⁴ In some cases we do not have information for the directors' graduation year. In such case our coding relies on age information assuming that directors graduate from college at the age of 22.

collected from companies' annual reports, Baidu (the largest internet search engine in China) Who's Who, and directors' personal web pages. Criterion (3) regarding birth place might appear unusual but reflects a special phenomenon in China's culture where people with common geographic origins form a strong bondage. Anecdotes abound that even people from a large city (such as Shanghai) are more likely to form social ties with others from the same hometown. To a large extent this phenomenon is related to highly diverse and distinctive language dialects formed within tight regional diameters.

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

Panel C of Table 1 reports the summary statistics of the independent director characteristics based on 2,393 director-proposal level observations. The median director is 47 years old, has served for 2.6 years on the board, does not hold additional outside directorships, and has no media mentions. On average, a director holds 0.6 additional outside board seat and has 0.6 newspaper article mentioning her name (and employer), in a neutral or complimentary way, from three years to one year before the board meeting. About 10% of the directors are women, and about half are in their first term. The average director compensation is 45,528 *yuan* (roughly US\$ 6,030 using the average exchange rate during the sample period of US\$ 1 = 7.55 *yuan*), or about 160% of China's per capital GDP in 2009.¹⁵ The compensation variable does not appear in regressions because there is hardly any within board variation in independent directors' compensation in China and our main tests only explore within board variation.

¹⁵ According to media reports and our interviews with several independent directors, the officially disclosed compensation might be an understatement as it does not include perks.

Among all independent directors, 40% are university professors or academic researchers (usually from business and economics disciplines). Corporate executives excluding CEOs and Chairmen represent the second largest group (18%). Lawyers and accounting professionals consist of 10% and 8%, respectively. Though current government officials are not allowed to sit on any corporate boards, former government bureaucrats and politicians represent a sizable one quarter of all independent directors. The statistics are generally consistent with the large sample evidence documented for listed companies in China (Giannetti, Liao, and Yu (2013)), but are in contrast to the U.S., where about half of the independent directors are executives in other corporations (Linck, Netter, and Yang (2009)). The information on professional background is useful to refine our reputation variables because measures such as *MediaMention* may not be comparable across different professions.

To relate dissenting events to firm characteristics including corporate governance and performance, we collect firm-level data from CSMAR. The total number of firm-year observations is 8,856, out of which 4.0%, or 355 observations, involve dissenting events. The summary statistics are reported in Table 1 Panel D.

The first group of such variables describes the ownership structure. We denote *Top1* to be the ownership of the largest shareholders; *State* to be a dummy variable if the largest shareholder is the state government or its affiliates; and *CrossList* to be a dummy variable if the firm also issues B- or H-shares (which are shares designated for foreign investors). Coffee (1999) and Reese and Weisbach (2002) argue that cross-listings in the international market improve corporate governance. Relatedly, we measure the potential influence of minority shareholders in two ways: the sum of total ownership by the second to the tenth largest shareholders (*Top2to10*), and the ownership Herfindahl index of these nine shareholders, i.e., the sum of squared percentage ownership by the second to the tenth largest shareholders scaled by *Top2to10* (*HHI2to10*).

The second group of variables captures the extent of potential expropriation of outside shareholders. Expropriation can take various forms, among which related party transactions (RPTs, hereinafter) at unfair terms are widely recognized as one of the most common means (e.g., Djankov, La

Porta, Lopez-de-Silanes, and Shleifer, (2008)). Similar to Berkman, Cole, and Fu (2011), we use the annual aggregate value of “non-beneficial” related-party transactions for each firm divided by the firm's year-end total assets ($RPT/Assets$). Specifically, following Cheung, Rau, and Stouraitis (2006), we classify transactions as potentially “beneficial” for the company if it receives cash, loans, or guarantees from the related party. And the value of “non-beneficial” RPTs is thus the difference between the total value of RPTs and the potentially beneficial ones. Examples of such transactions include sales of assets and/or goods to related parties.

Alternatively, we use the net value of other accounts receivables (the difference between the other receivables and other payables) due to RPTs using information disclosed in the footnotes of financial reports. We collect this information from the relevant footnotes of the companies’ annual reports. The amount is then scaled by total assets. The resulting measure, $AR/Assets$, proxies for the degree of potential expropriation as such receivables bear heightened risk of delinquency. Abusing the accounts receivables this way amounts to tunneling of corporate assets (Jiang, Lee, and Yue, (2010) and Deng, Gan and He (2008)).

The third category of variables characterizes the boards. $BoardSize$ is the total number of directors; $\#Committee$ is the total number of committees formed by board members; $\%Independent$ is the fraction of independent directors on the board; and $CEOAge$ is the age of the CEO. Both $Boardsize$ and $\#Committee$ enter the regressions in log values.

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

B. Empirical Motivation

Like any other economic behavior, dissent in voting by independent directors is an outcome of a cost-benefit calculation. One important direct benefit for independent directors to vote against a

proposal is that they can avoid litigation or punishment by the CSRC and stock exchanges if the proposals turn out to cause damage to the public shareholders that is serious enough to invite regulatory action. The main direct cost of dissention is alienation from the current management, which reduces the chance of director re-appointment; in some cases, such alienation may lead to the loss of the director's seat before the full term is over. The effect of dissention on a director's reputation as well as future opportunities in the market for directorships is more subtle. Firms may shun director candidates with a reputation for being tough, especially if the proposals that the director previously voted against were not obviously against the interest of the outside shareholders. On the other hand, dissention may also send a signal to the market that the director is a diligent monitor, which increases the director's opportunities with firms attempting to show their commitment to good corporate governance.

We conduct several empirical tests relating director characteristics, especially those proxying for career concerns and levels of reputation, to director voting actions. First, if dissention is an act of monitoring, we predict its occurrence to be positively related to firm and board characteristics that proxy for the extent of agency problems. Second, we presume that young directors have stronger reputational concerns following the standard career concerns literature pioneered by Holmström (1999). Hence their tendency to dissent relative to the older directors reveals the relative importance of shareholders versus management in the market for independent directors.

Third, we study whether the level of reputation mitigates or exacerbates conflicts of interest, a research question that is distinct from the standard notion of career concerns. The standard career concerns literature focuses on the incentive effects of desiring to have a reputation in the future rather than the effects of one's current reputation. According to Diamond (1989), when reputation becomes a valuable asset, a single failure causes a larger decline in its value; hence, the agent will be more self-disciplined in order to maintain the reputation. In our context, this predicts that highly reputable directors are more likely to "rock the boats" when they discern wrong-doing. On the other hand, if short-term benefits are also disproportionately large for reputable agents, they could also be tempted to "cash in" their reputation. Fang and Yasuda (2009) succinctly summarize the two opposing effects as the

“reputation-as-discipline” and “reputation-liquidation” hypotheses in the context of sell-side analysts.

A usual challenge to board or corporate governance research in general is that a governance structure—such as the composition of a board—is endogenously determined to maximize some objective functions of the agents (the shareholders or the managers). To overcome the issue, our main regression relates dissenting behavior to director characteristics using the following specification:

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

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

$DirectorChar_{i,t}$ is a vector of variables describing the characteristics of director i in time t . Most importantly, the regression incorporates a proposal fixed effect α_k , which automatically subsumes a firm-time fixed effect ($\alpha_{j,t}$). Such a fixed effect filters out the two most important sources of endogeneity:

The first is the potentially time-varying unobserved firm heterogeneity that might be correlated with both director characteristics (due to endogenous matching between a firm and its directors) and director actions.

The second is the immeasurable proposal characteristics that are correlated with both the board characteristics and director attitudes. In sum, our identification relies on the variations in the directors’ voting outcomes within the same proposal (which, by construction, are also within the same firm in the same period). Any such difference can only be attributed to the differences among the directors who vote for the same proposal—and this is precisely the relation whose direction and magnitude we try to estimate.

4. Why Do Independent Directors Dissent: Empirical Analyses

A. Firm-Level Analyses

Though not our main contribution, we start with firm-level analyses given that there has not been any empirical research on the firm-level determinants of director dissent. Such an analysis would shed light on whether dissention, if reflective of monitoring by independent directors, is related to the potential prevalence of agency problems at the firm level. As a first-step analysis, we run firm-year level logit regressions with the occurrence of dissent as the dependent variable. The regressions incorporate both

industry and year fixed effects, and apply standard errors that adjust for heteroskedasticity and correlation clustered at the firm level. Results are reported in Table 2.

[Insert Table 2 here.]

The key independent variables are those regarding related party transactions. The two variables, *RPT/Assets* and *AR/Assets* are defined in Section 3.A. The correlation coefficient between the two variables is close to zero and hence they capture quite different aspects of potential expropriation of shareholders. As expected, they are both positively associated with the probability of independent director dissention. The coefficients on *AR/Assets* are significant at the 1% level across all specifications. A one-standard deviation increase in *AR/Assets* leads to a 1.0 percentage point increase in the dissention likelihood, relative to a 4% unconditional probability.

The coefficient on the direct related party transactions measure, *RPT/Assets*, is not significant. Further investigation indicates that there might be an indirect effect of RPTs on the probability of dissent via operating performance. A regression of *ROA* on *RPT/Assets* (and the common control variables) yields a coefficient of -0.18 , significant at the 1% level. Table 2 clearly shows that a lower *ROA* is significantly associated with a higher probability of a dissenting event. Not surprisingly, poorly performing firms are more likely to invite directors' scrutiny. If we omit *ROA* from the regression, then *RPT/Assets* would be significant in Columns 3 and 4 at the 10% and 5% levels, with a marginal probability of 0.6% and 0.8%, respectively.

The ownership variables also go in the expected directions. A concentrated ownership of the top shareholder (*Top1*) is associated with fewer dissenting events. A powerful largest shareholder might have more influence on the appointment of independent directors, and hence are less likely to be paired with outside directors that will openly disagree. On the other hand, the state being the top shareholder (*State = 1*, its correlation with *Top1* is 0.28) does not have a significant effect, regardless of the presence of *Top1*. Although the State is often the top shareholder, our results indicate that expropriation risks are not necessarily higher in SOEs than in non-SOEs. As a balancing force to the largest shareholders, concentrated ownership by the next largest shareholders (as proxied by *HHI2to10*) is associated with

more director dissention. Such a relation indicates that minority blockholders, usually mutual funds and insurance companies, could be an important force in corporate governance. This result indirectly supports Bai, Liu, Lu, Song, and Zhang's (2004) finding that the concentration of the next largest shareholders is positively associated with firm value.

As for the board and CEO variables, we find that the effects of both board size and the number of committees are significantly positive, which is consistent with the explanation that more people/committees are exposed to higher probability of disagreement. In unreported tests, we find that leverage, CEO ownership, and having a top auditing firm do not bear significant relations to the probability of dissention.

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

Given the granular feature of our data, we are able to explore the relation between individual director characteristics and their dissenting behavior using the within proposal level variations. Adding a proposal fixed effect in the regular logit specification would lead to inconsistent estimates due to the “incidental parameter” problem in non-linear regressions. Instead we resort to the conditional logit model which answers the following question: *conditional* on the existence of dispersion in the opinions among directors on a proposal, the within-board variation of which attributes of individual directors contribute to their different voting behavior? In such a model, the proposal fixed effect (α_k) is integrated out and hence not estimated. By construction, the sample relevant for estimation includes all 537 proposals on which at least one independent director dissents and at least one independent director approves, resulting in 2,016 observations.¹⁶

¹⁶ Among all proposals, at least one independent director dissents in 652 proposals (and 2,393 observations). However, 115 proposals of this subsample drop out because all independent directors dissented. Our sample directors are comparable to the full sample of all independent directors in China's listed companies along the main dimensions. For example, the proportion of directors in their first term is almost identical. The sample directors tend to be slightly younger (by 1.9 years) with shorter tenure at the directorship (by 0.42 years). Such differences are consistent with our later findings that directors in their early career are more likely to dissent.

To summarize, our estimation isolates how within-board variation in director attributes (especially their reputation levels and concerns) lead to their different attitude on the same proposal. This conditional interpretation is no different from the standard linear fixed effect models. Admittedly, we are silent in explaining why some boards and not others produce dissenting voices. The achievable goal of this study is to uncover a relatively clean relation between director characteristics and dissenting propensity at the individual director level that is free from the effects of a potentially endogenous matching between boards and firms/proposals.

Results from the conditional logit model are reported in Table 3. The dependent variable is a dummy variable equal to one if a director votes “Against” or “Abstain” over a board proposal. The probability of dissention in this conditional sample is 33.5%. The coefficients from logit models are log-odds ratios. For ease of interpretation, we report the exponentiated coefficients which become the odds ratios. Let p be the probability of dissention and let β_k ($k = 1, 2, \dots, K$) be the coefficient associated with characteristics x_k . Then the logit model is defined by the equation $\ln\left(\frac{p}{1-p}\right) = \sum_{k=1}^K x_k \beta_k + \varepsilon$. Let p' be the probability associated with a one-unit increase in x_k while keeping all other regressors unchanged, then

$e^{\beta_k} = \left(\frac{p'}{1-p'}\right) / \left(\frac{p}{1-p}\right)$. That is, the odds ratio indicates the multiple of the ratio $Prob(Dissent) / [1 - Prob(Dissent)]$ relative to the original level due to a one-unit change in x_k . In conditional logit models, $Prob(.)$ are “conditional probabilities,” or the probability of dissention conditional on the dispersion of votes within the same boards. The t -statistics are associated with the tests of whether the original coefficients (or the log odds ratios) are significantly different from zero, and inform how significantly the odds ratios deviate from the null level of one (i.e., no change).

[Insert Table 3 here.]

The explanatory variables of key interest are those measuring the intensity of independent directors’ career concerns and the level of their reputation stock. Table 3 reveals several interesting patterns. First, the coefficient on *DirectorAge* (which is expressed in multiples of 10 years in the

regressions) indicates that older directors are less likely to dissent (t -statistics = -1.93 to -2.06), consistent with the older directors' weakened incentive to develop a reputation in the labor market. The economic magnitude of the age effect is sizable: For two otherwise equivalent directors except one is 10 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 one on the same board voting for the same proposal. Given that the sample frequency of dissenting is 33.5%, the odds ratio implies that the average dissenting probability is reduced by 2.8 percentage points for every decade of advance in age.¹⁷

Though age (or tenure, which is correlated with *FirstTerm* in our study) has been the primary proxy for the intensity of career concerns in the literature, it no doubt embeds other forces that affect behavior. One can argue that the youngsters are inherently “impetuous” and the old-timers more “jaded” (borrowing the phrases from Prendergast and Stole (1996)), which is reflected in the difference in the propensity to dissent. While we do not refute a psychological hypothesis, we wish to point to the Prendergast and Stole's (1996) model, in which career concerns are precisely the force underlying the youngsters' tendency to deviate.

Second, directors in their first terms are less likely to dissent, verifying the effect from the cost side: directors who rock the boat during their first term risk losing re-appointment. As for the economic effect, a first-term director's odds ratio for dissenting is only 0.70-0.76 times that for a second-termer. With imputed parameter values, the conditional dissenting probability is reduced by 5.9-7.4 percentage points when a director is in her first-term. This result might be confounded with an experience hypothesis, that is, extended board service time brings more information and experience to the director who is therefore more likely to detect problems in firms.¹⁸ In theory (see, e.g., Malenko (2013)) and in reality a dissenting director should try her best to convey information to the rest of the board in order to garner

¹⁷ The exact calculation is as follows: The sample frequency of 33.5% corresponds to an odds ratio of 0.504 [=33.5% / (1-33.5%)]. A ten-year increase in age reduces the odds ratio to 0.443 (=0.504*0.88), and this corresponds to a probability of 0.307 [=0.443 / (1+0.443)]. So the reduction in the probability is 0.028 (0.307 – 0.335).

¹⁸ Another hypothesis related to director tenure is that extended board service time makes outside directors more captive by the management (Core, Holthausen, and Larcker (1999)). Note that this force would work against finding our results. Additionally, due to the term limits in China, this force is also likely to be weaker.

support. Hence information from experience is unlikely a reason for board dissention. In untabulated results, we find that the coefficient on *FirstTerm* remains significant when a direct proxy for experience, tenure as a director (either in the particular firm or in the same industry), is included. At the same time, the newly added experience variable is not significant. Therefore, the term effect seems to dominate pure experience.

Third, directors with higher reputation stock, as measured by the number of non-negative media mentions in the top six publications (*MediaMention*) or the number of director seats held at different companies (*#Directorship*), are both positively and significantly (at the 5% level) associated with dissention, indicating that more reputed directors have stronger incentives to uphold their reputation, rather than to “cash in” their reputation by colluding with management. The economic effect is significant, too. A one-standard deviation increase in $\log(\text{MediaMention})$ leads to a 5.5–6.1 percentage point increase in the conditional probability of dissention (see footnote 21 for the calculation). Similarly, a one-standard deviation increase in $\log(\text{\#Directorship})$ leads to a 3.0–5.4 percentage point increase in dissention probability. The evidence that high reputational stake strengthens monitoring incentives is consistent with the finding by Masulis and Mobbs (2013), which shows that a firm is better governed when there is a larger proportion of independent directors for whom the current board represents their most prestigious directorship.

In addition to the effects of reputation and career concerns, some of these control variables are of interest on their own. We classify directors into eight categories by professional background. *CEOChair* is a dummy variable equal to one if the director is the Chairman or CEO of another company; *Academic* is a dummy variable equal to one if the director’s primary employer is an educational or academic institution; *Bureaucrat* is a dummy variable equal to one if the director has previously worked for the government; *Accountant* is a dummy variable equal to one if the director is an accounting professional; *Lawyer* is a dummy variable equal to one if the director has a legal background; *Banking* is a dummy variable equal to one if the director is affiliated with a bank; and *Executive* is a dummy variable equal to one if the director’s primary employer is another, non-financial firm. The omitted *Other* category

accounts for about 20% of the observations; it covers professions such as consulting, engineering, industry associations, and retirees.

For director type dummies, we find that CEOs or Chairmen of other companies are the least likely to dissent, followed by former government bureaucrats, and then by other corporate executives. On the other end, lawyers are the most likely dissidents (with an odds ratio that is about 2.3–2.6 times that of the omitted *Other* category), possibly due to the fact that they are among the most sensitive to potential legal liabilities from corporate fraud. The positive difference between *Lawyer* and *Other* (the omitted category that includes all directors that do not belong to one of the classified fields) is highly significant (at the 1% level), and the negative difference between *CEOChair* and *Other* is significant at the 10% level in one out of five specifications.

Table 3 further shows that the existence of a social tie between a director and the corporate head (*SocialTie*) is associated with less dissention, which is consistent with the intuition that social connection leads to leniency. It also corroborates work by Ma and Khanna (2013) showing that directors are more likely to report disagreement with management when the social ties between the two parties break down, and is consistent with Kramarz and Thesmar's (2013) finding that social networks in the board room have detrimental effects on governance because they cause directors to over-pay and under-replace CEOs. Interestingly, directors graduating from more prestigious colleges (measured by *Education*) are significantly more likely to dissent. To the extent that *Education* proxies for ability and status, both of which imply the existence of outside opportunities, the relation suggests that directors with higher current or potential reputation are more likely to align themselves with shareholders as opposed to management when there is a conflict.

We conduct several tests to ensure robustness. The results are similar when we use board meeting fixed effects or when we replace the proposal fixed effects with the coarser firm-year fixed effects. As we indicated in Section 3.A, some firms have several proposals with dissention in one year and some directors dissent over several proposals during the sample period. To reduce the influence of these “frequent” dissenting directors and targeted firms, we adopt an alternative specification that keeps only

the first proposal with dissenting behavior in a firm-year. The results are not sensitive to such a variation in the regression specification. Finally, the results remain robust when using linear probability regressions with proposal fixed effects.

C. Interaction of Career Concerns and Reputation Stock

The interaction between reputation stock and career concerns is equally important, and theory does not provide clear predictions regarding this interaction. Building on main regression specification using the conditional logit model with proposal fixed effects, we make the following modifications: add an interactive term to the regression ($MediaMention * DirectorAge$ or $\#Directorship * DirectorAge$) or split the full sample into subsamples of directors with high and low reputation stocks based on the criteria of whether the director has positive number of media mentions (that is, $MediaMention > 0$) or whether the director holds director seats in other companies (that is, $\#Directorship > 1$). Results are reported in Table 4.

[Insert Table 4 here.]

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

The partial effects from interaction terms are not straightforward to impute in non-linear models. The economic magnitude is much easier to interpret with the split-sample analysis, as shown in columns (3) to (6).¹⁹ It turns out that the negative relation between dissent and director age is only significant in the subsamples of directors who enjoy high reputations. For example, for directors who hold additional board seats, a director who is 10 years older has a dissenting odds ratio that is 59% lower than his

¹⁹ The director type dummies (e.g., *Academic*, *Bureaucrat*, etc.) are not included in column (3) because of the small sample size considered. Adding these dummies would cause singularity conditions in estimation.

younger colleague on the same board when voting on the same proposal. This amounts to an 18.3 percentage point drop in the conditional dissenting probability from the sample frequency of 39.3%, or a near-halving of the average probability. Results in Table 4 provide strong support for the “reputation as discipline” hypothesis and are not consistent with the “reputation liquidation” one.

5. Ex Post Outcomes of Dissention

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

At face value, this monitoring mechanism might appear weak given that 91% of our sample board proposals eventually pass despite dissenting voices. The high passing rate per se is not surprising given the management’s control over the board meeting agenda and the minority representation of independent directors. The fact that dissenting directors usually do not successfully block proposals to which they object to suggests that dissention is largely a form of “passive monitoring” *a la* Tirole (2001). Passive monitoring refers to the actions of collecting and transferring information about the firm. The aim is to evaluate the firm and management, rather than to affect the value of the firm directly by altering the firm’s course of action. In this section, we present evidence from news reports for monitoring of such nature, and we track the career outcomes for directors based on their dissenting behavior.

A. Does Dissention Reflect Monitoring? Evidence from News Reports

Dissenting events alert the general investing public to potential governance issues of the firm, especially issues that were previously unknown or overlooked by outside investors. Hence, the action of these independent directors facilitates dissemination of value-relevant information and improves transparency.

To capture this effect, we search all 59 publicly circulated business-related daily newspapers in China for news covering the companies that experience dissention events, and record the news volume at the monthly, weekly, and daily frequency. A news article is included only if it contains both the name of a company under review and one of the key words representing the broad category of issues discussed in the proposal that involves dissention. For example, if dissention is over a proposal regarding a company's guarantee for a subsidiary, then the searched key words include "guarantee," and "guarantor." We track the average news coverage per company from 12 months (weeks, days) before dissention to 12 months (weeks, days) after, and plot the resulting graphs in Figure 1.

[Insert Figure 1 here.]

Figure 1 exhibits a clear and unique spike of news coverage during the month (week, day) of dissention: The event period news exposure regarding the company and the associated issues is about three times the normal volume. Such a pattern is difficult to explain without attributing the surge to the public disclosure of the dissention events. Indeed, articles published during the event window often (in about one-quarter of the cases) explicitly mention the board proposal in controversy, and sometimes the names of the dissenting directors as well. In China, the major newspapers (whose print content often appears online as well in recent years) serve as a major channel for the investing public to learn about the companies. Therefore, the dissenting events "blow the whistle" even though they do not block the proposals in a great majority of the cases.

B. Career Outcomes for Dissenting Directors

Career success is difficult to quantify uniformly due to data limitations on directors' main professions. We resort to the common measure in the literature which is the number of board seats that a director assumes in other public companies (e.g., Yermack (2004), Choles and Hoi (2003), and Fos and Tsoutsoura (2013)). Such a reduced-formed method is reasonable as board seats on publicly listed companies are highly coveted in China as recognitions of talent and accomplishment. More specifically, we compare the seat gains and losses of dissenting directors after the dispute event with their non-

dissenting colleagues on the same board. Here the relevant sample is all director-year observations where directors (including non-dissenting directors) are present in any board meetings that involve dissent. If a director has two dissention events in the sample, we only consider his/her first. To mitigate truncation in seat gain analysis, we drop observations after the end of 2008 (to allow full observation of post-dispute outcomes until 2011).

The measures for the direct outcome of dissention are whether a director resigns from the current board (*Departure*) before term ends, and the number of new independent directorships obtained in other companies (*SeatGain*) during the following three years. We separately measure seat gains and losses because the same act of dissention could antagonize the management of the firm under review while sending a positive signal to the outside market for independent directors. Combining the two would mingle the opposite effects.

The independent variable of key interest is *Dissent*, a dummy variable equal to one if the director dissents at least once in a meeting during the year. Moreover, the variable *MediaMention*, defined the same way as in Section 3.A but recorded at the director-year level in the current analysis, captures the effect of reputation stock. The variable *DirectorAge* (director age at the meeting) tests the premise of career concerns. That is, to the extent that the market has less information about younger directors' ability, the reaction to dissention by younger directors should be stronger. The control variables include return on assets during the year before the event year and firm size (total assets). Though most of the variables were introduced in earlier tables, they are now measured at an annual frequency rather than at the event time. For this reason, we report the summary statistics of the key variables in Table 5 Panel A, while Panels B and C report the regressions.

[Insert Table 5 here.]

As before, a meaningful comparison (and one that is free from the effects of unobserved board heterogeneity) should be made between the dissenting directors and their colleagues serving on the same boards. Since we are now analyzing observations at the director-year level (rather than the proposal level), we use firm-year fixed effects in the regressions. Given that all observations associated with the

same firm-year are from the same board, the identification relies on within-board variations. If a director dissents more than once within the window for the recording of an ex post outcome (i.e., the remaining term for *Departure* and three years for *SeatGain*), we only keep the first dissenting observation in the regression. This procedure assures that the control samples in the regressions are free of dissenting events.

We first analyze the risk of losing the current board seat following dissention, and report the results in Panel B. We run conditional logit regressions with *Departure* as the dependent variable using firm-year fixed effects. As expected, dissention dramatically increases the odds ratio of losing the current seats by 2.4 times (column (1)). When splitting the sample by director age (below or above median), media mentions (zero or positive), and the total number of current board seats (one or multiple), we find that the effects tend to be stronger for older and less reputed directors. The difference in the coefficients on *Dissent* between subsamples sorted by *MediaMention* is significant at the 5% level. Comparing results in this table with those in Table 3, we find that directors who are more secure in their seats, and hence incur lower costs from dissention, are indeed more likely to dissent. The ex post outcome is compatible with the ex ante incentive.

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

Column (1) in Table 5 Panel C shows that dissenting directors are rewarded by the market on average as they gain 0.16 more board seat within three years after the dispute, compared to non-dissenting directors on the same board. This magnitude amounts to about 10% of the seats held by an average director. The coefficient of director age is negative and significant at 5%. This indicates that younger directors are especially rewarded. When splitting the sample into “old” and “young” directors (using the median age of 47) in columns (2) and (3), we find that the *Dissent* variable is significant (at the 5% level) in both subsamples; moreover, the magnitude of the two coefficients is very close. Furthermore, there is a

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 due to higher stakes in the form of better outside options, consistent with the theory by Diamond (1989).

When splitting the sample by directors’ reputation stock (based on whether they have a positive number of media mentions or hold board seats elsewhere), we find that the coefficients are much higher and more significant among the less reputed directors. In fact, the full sample relation between seat gains and dissenting behavior is driven by the subsample of directors with no media mentions or no current outside directorships. The difference in the coefficients on *Dissent* between the subsamples sorted by *#Directorship* is significant at the 10% level. The evidence is consistent with the hypothesis that the market for directors reacts more strongly to dissention when the dissenting director was previously less known, and hence the prior was more diffuse. Apparently, dissention is an effective way for directors to establish their reputation.

The overall magnitude of seat gains is modest; however, seat gains are unlikely to be the only reward from a reputation of due diligence as such a reputation may benefit the directors’ careers in many other ways. Importantly, the combined results from seat losses and gains confirm the premise underlying the analyses in the previous sections, that is, dissention alienates the independent directors from the current management but sends a positive signal to the stock market, both of which are consistent with the interpretation that the market perceives dissention as positive monitoring.

C. Regulatory Sanctions against Firms/Directors and Director Dissenting

Directorships bring prestige, compensation, and career opportunities in other areas. At the same time, individual directors also face significant liabilities from reputation tarnish to legal sanctions if the firms they oversee experience major problems, especially in governance-related issues (such as inadequate information disclosure or fraudulent activity). The CSRC and the stock exchanges, the gate keepers for publicly traded companies in China, routinely impose sanctions (ranging from public

warnings and fines all the way to revocation of licenses) on firms and their senior managers (and other insiders) who violate the rules. If the regulators perceive them as failing in their monitoring responsibilities, sanctions may also fall upon the independent directors.

In fact, independent director dissention is a strong predictor of firm-level regulatory enforcement. Unconditionally, 3.8% of public firms incur some forms of regulatory sanction (including the lightest form of public warning) for wrong-doing during a year. Other things equal, the odds ratio of receiving a sanction increases to 2.7 times the normal level among the subsample of firms with at least one dissention event during the year (untabulated).²⁰ When we restrict the events to “heavy” penalties (including fines, confiscation of income, and revocation of license/forced closure of business, combined occurring at an unconditional annual probability of 1.4%), the odds ratio increase associated with independent director dissention is almost identical. Hence, our results indicate that dissention predicts sanctions. However, the predictive relation per se does not differentiate between the hypothesis that dissention raises regulator awareness (which in turn leads to investigation and enforcement), and the hypothesis that directors dissent more in anticipation of regulatory scrutiny. In either case, this result echoes the finding in Section 5.A that a dissenting event alerts public investors to potentially serious governance issues at a firm.

For independent directors’ career concerns, the most important question becomes, conditional on the firm being sanctioned, whether the regulators are more likely to spare those who have previously dissented on proposals related to the wrong-doing. After all, independent directors seldom have ruling control over firms policy because they are generally minorities on the board. To the extent that they are considered to have exercised due diligence, dissenting directors should be more likely to be exonerated or be subject to less harsh penalties.

To test this hypothesis, we analyze the relation between dissention and subsequent regulatory sanctions on independent directors at the director-year level, conditional on the subsample of observations belonging to firms during a sanction year. Results are reported in Table 6. The dependent variable in the

²⁰ Regulatory reports reveal clearly the events that triggered the sanctions. Hence we are able to match the sanction event year with the dissention year. Sanctions in our sample always appear in a later year than the events that trigger them.

table is either *Any Penalty* (including public criticism/warning, fine, and suspension of eligibility to serve on board seats) or *Heavy Penalty* (excluding public criticism/warning) on individual directors. The key variable *Dissent* indicates the occurrence of dissenting events during the year.

[Insert Table 6 here.]

Columns (1) and (2) report results from the conditional logit regressions of individual director sanctions on individual director dissention (and control variables including yearly dummies) with industry fixed effects. When a director dissents in consecutive years, we only include the observation associated with the first dissention. It shows that dissention is indeed an effective way for independent directors to escape penalty when the firm is in trouble with the regulators. While 36.2% of the independent directors are subject to some form of penalty conditional on the firms they oversee incurring regulatory sanctions, column (1) shows that dissention on the related proposals reduces the odds ratio by 0.76 (i.e., reduced to a conditional probability of 30.2%), other things being equal. Further, column (2) indicates that dissention reduces the chance of incurring a heavy penalty even more dramatically, from 9.0% to 0.5% (corresponding to the odds ratio of 0.048). Only the second effect is significant (at the 1% level).

Note that the first two regressions incorporate only industry, and not firm-year, fixed effects. If we apply the latter and explore whether an independent director is less likely, relative to the non-dissenting directors on the same board, to incur a penalty, the resulting coefficients are highly insignificant both statistically and economically due to a general lack of within-board variation in the outcome. Such a “non-result” suggests that independent directors on the same board are more or less treated the same way by regulators in penalty assessment as long as there was a dissenting voice on the proposals associated with the later enforcement. To confirm this relation, we adopt the specification in columns (3) and (4) where regressions are still run at the director-year (i,t) level but *Dissent* is defined as a dummy variable equal to one if there is *any* dissention from the board on which director i serves during year t . Again, only the first dissention event is included if a board experience dissenting events in consecutive years. Compared to columns (1) and (2), the coefficients on *Dissent* are somewhat smaller (higher) when *Any Penalty* (*Heavy Penalty*) is the dependent variable but the overall economic magnitude

is qualitatively similar. Moreover, both coefficients are highly significant at the 1% level. Therefore, the results indicate that director dissent benefits all independent members on the same board almost as much as it benefits the dissenting director himself.

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

Overall, the results in Table 6 reveal that dissent protects independent directors from the liabilities associated with regulatory sanctions on the public companies that they oversee, and that the effect is more pronounced for heavy penalties. Moreover, the dissenting directors exert a significant externality on fellow directors on the same board. Given that directors can hope to save their reputation by dissenting on dubious proposals that might lead to government sanctions, or by free-riding on the dissenting action of fellow directors, it is plausible that directors who place a higher premium on their reputation stock (e.g., young directors and directors who are legal professionals) should be among the first to dissent when they spot the signs of wrong-doing.

6. Conclusion

Using a unique dataset of board proposal voting by independent directors in public companies in China, we conduct the first study analyzing the voting behavior by independent directors at the director level and the career consequences from dissent. Our study sheds light on the two-sided career concerns of independent directors where they trade-off their reputation as diligent monitors against a perception of being hostile to management. Our findings indicate that independent directors' career concerns lead them to be better aligned with investors than with management because their dissenting behavior is eventually rewarded in the marketplace in the form of more opportunities for directorships.

Moreover, career concerns are significantly stronger among directors who already enjoy higher reputation stock. Both findings are good news for corporate governance.

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Figure 1

News Volume of Companies around Dissenting Event

This chart plots the time series of the average number of news articles in 59 publicly circulated daily business-related newspapers for each company involving dissent. The time range is from 12 months (or weeks, days) before the dissenting event to 12 months (or weeks, days) after. A news article is included if it contains both the name of the company and the type of the proposal. To isolate the effects of individual events, the chart only includes 157 event-days (regarding 131 companies) without another dissenting event within 365 days.

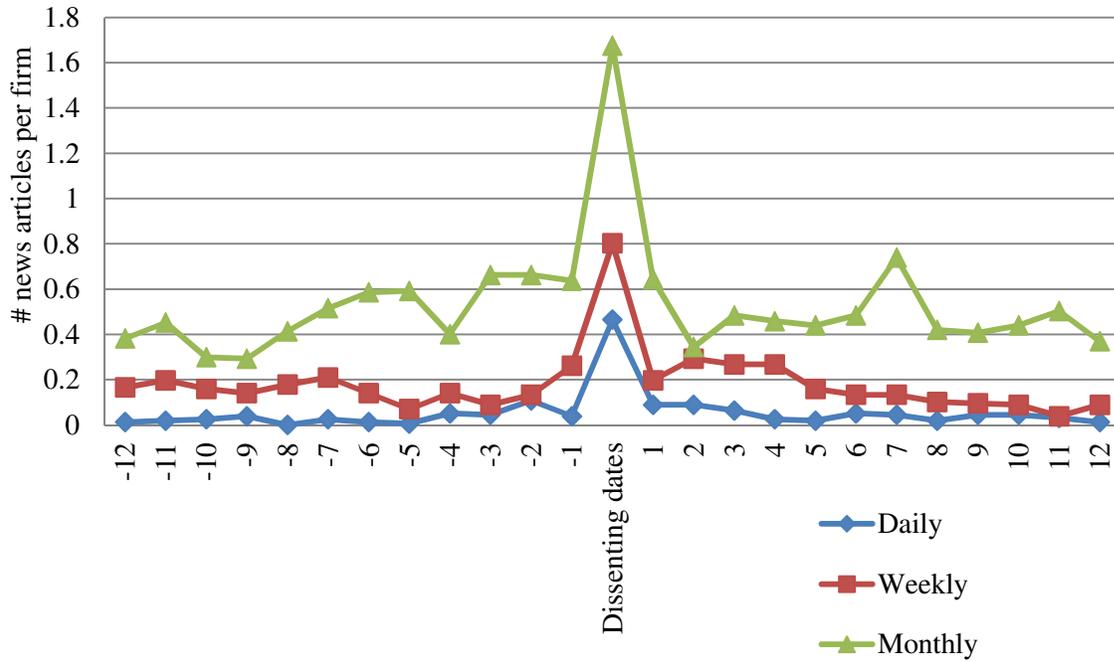


Table 1**Summary Statistics**

Panel A: Time series of dissenting events

	# firms	# meetings	# proposals	# directors
2004	86	124	160	316
2005	77	105	158	285
2006	67	89	119	238
2007	47	65	80	169
2008	38	51	64	151
2009	40	53	71	142
Total	355	487	652	1,301

Panel B: Purposes of board proposals with dissenting votes

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

Panel C: Characteristics of Independent Directors

A total of 2,393 observations are recorded at the director-proposal level. *Compensation* is a director's compensation in Chinese *yuan* (the average exchange rate during the sample period is US\$ 1 = 7.55 *yuan*). *DirectorAge* is a director's age and enters regressions in multiples of 10 years. *#Directorship* is the total number of firms on which a director serves as an independent director. The variable enters regressions in logarithm. *Education* is the average score of the entrance exam (equivalent to the SAT test in the U.S.) required to be admitted to the undergraduate institution (college) from which the independent director graduated. The variable enters regression in scores scaled by 100. *Female* is a dummy variable equal to one if a director is female. *FirstTerm* is a dummy variable equal to one if a director is serving her first term on the board. *MediaMention* is the number of positive or neutral mentions in articles (containing a director's name and primary employer affiliation) that appear in the top six Chinese newspapers by distribution volumes from three years to one year prior to the board meeting that involves dissent. The variable enters regression in logarithm. *SocialTie* is a dummy variable equal to one if a director has social (through schooling, military assignment, common birth place, or employment) ties with the firm's CEO, chairman, or ultimate owner.

Variable	Mean	Standard deviation	25 th percentile	Median	75 th percentile
Compensation (in <i>yuan</i>)	45,528	40,999	30,000	40,000	50,000
DirectorAge	49.7	10.1	42	47	57
#Directorship	1.6	1.1	1	1	2
Log(#Directorship)	0.34	0.51	0	0	0.69
Education	523	82	425	542	593
Female	0.10	0.29	0	0	0
FirstTerm	0.48	0.50	0	0	1
MediaMention	0.6	2.7	0	0	0
Log(1+ MediaMention)	0.16	0.51	0	0	0
SocialTie	0.14	0.35	0	0	0

Panel D: Firm Characteristics

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

Variable	Mean	Standard deviation	25 th percentile	Median	75 th percentile
<u>1. Ownership</u>					
Top1	0.38	0.16	0.25	0.36	0.50
Top2to10	0.20	0.13	0.08	0.18	0.29
State	0.70	0.46	0	1	1
CrossList	0.06	0.23	0	0	0
HHI2to10	0.07	0.06	0.02	0.04	0.10
<u>2. Proxies for potential expropriation</u>					
RPT/Assets	0.213	0.403	0.010	0.075	0.233
AR/Assets	0.002	0.053	-0.004	0	0.001
<u>3. Board characteristics</u>					
BoardSize	9.4	2.1	9	9	11
#Committee	2.7	1.8	0	4	4
Log(1+#Committee)	1.1	0.7	0	1.6	1.6
% Independent	0.35	0.05	0.33	0.33	0.38
CEOAge	46.3	6.1	42	46	50
<u>4. Firm characteristics</u>					
Assets (in billion yuan)	5.2	12.8	0.9	1.8	3.9
Log(Assets)	21.3	1.2	20.5	21.2	21.9
FirmAge	11.9	4.2	9	12	15
Log(FirmAge)	2.41	0.41	2.2	2.5	2.7
ROA	0.024	0.097	0.007	0.032	0.067
Growth	0.23	0.55	0.02	0.19	0.31

Table 2
Determinants of Director Dissent: Firm-Level Regressions

The table reports the determinants of director dissent at the firm-year level using a logit model using the full sample of all publicly listed firms. The dependent variable, *Dissent*, is a dummy variable equal to one if a firm has at least one dissention event in a given year. All control variables are defined in Table 1 Panel D. *#Committee*, *Assets*, and *FirmAge* enter in log values. All regressions include industry and year fixed effects. The table reports the coefficients (in bold font), the t-statistics (in parentheses) based on standard errors clustered at the firm level in both panels, and marginal effects (in percentage points) for a one unit change of a given independent variable while keeping other covariates at their respective mean levels (for continuous variables) or at zero (for dummy variables). *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
AR/Assets	3.672 ^{***} (3.43) 12.1%	3.663 ^{***} (3.44) 19.1%	-- -- --	-- -- --	3.668 ^{***} (3.47) 10.4%
RPT/Assets	-- -- --	-- -- --	0.053 (0.38) 0.2%	0.098 (0.70) 0.3%	0.113 (0.81) 0.3%
State	-- -- --	0.041 (0.23) 0.1%	-- -- --	0.019 (0.10) 0.1%	0.047 (0.26) 0.1%
Top1	-- -- --	-1.274 ^{**} (-2.14) -3.5%	-- -- --	-1.292 ^{**} (-2.14) -3.6%	-1.328 ^{**} (-2.22) -3.7%
Top2to10	-- -- --	-1.156 (-1.29) -3.2%	-- -- --	-1.083 (-1.20) -3.0%	-1.155 (-1.29) -3.2%
HHI2to10	-- -- --	3.499 ^{**} (2.13) 9.7%	-- -- --	3.470 ^{**} (2.09) 9.7%	3.482 ^{**} (2.12) 9.6%
CrossList	-0.128 (-0.35) -0.3%	-0.085 (-0.24) -0.2%	-0.140 (-0.39) -0.4%	-0.095 (-0.27) -0.3%	-0.093 (-0.26) -0.2%
% Independent	0.458 (0.34) 1.3%	0.371 (0.27) 1.0%	0.132 (0.10) 0.4%	0.014 (0.01) 0.0%	0.386 (0.29) 1.1%
BoardSize	0.122 ^{***} (3.28) 0.3%	0.112 ^{***} (2.92) 0.3%	0.116 ^{***} (3.12) 0.3%	0.105 ^{***} (2.74) 0.3%	0.112 ^{***} (2.91) 0.3%
#Committee	0.325 ^{***} (3.07) 0.9%	0.318 ^{***} (3.00) 0.9%	0.317 ^{***} (2.99) 0.9%	0.313 ^{***} (2.94) 0.9%	0.320 ^{***} (3.01) 0.9%

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>
CEOAge	-0.009 (-0.85) 0.0%	-0.008 (-0.84) 0.0%	-0.009 (-0.96) 0.0%	-0.009 (-0.94) 0.0%	-0.008 (-0.84) 0.0%
Growth	-0.038 (-0.32) -0.1%	-0.027 (-0.23) -0.1%	-0.042 (-0.35) -0.1%	-0.035 (-0.29) -0.1%	-0.031 (-0.26) -0.1%
ROA	-3.201*** (-5.77) -9.0%	-3.091*** (-5.48) -8.5%	-3.777*** (-7.70) -10.8%	-3.619*** (-7.16) -10.1%	-3.029*** (-5.35) -8.3%
Assets	-0.077 (-0.96) -0.2%	-0.056 (-0.70) -0.2%	-0.065 (-0.82) -0.2%	-0.042 (-0.51) -0.1%	-0.055 (-0.68) -0.2%
FirmAge	0.263 (1.09) 0.7%	0.123 (0.48) 0.3%	0.276 (1.14) 0.8%	0.134 (0.51) 0.4%	0.113 (0.44) 0.3%
Prob(Dissent = 1)	4.0%	4.0%	4.0%	4.0%	4.0%
Observations	8,856	8,856	8,856	8,856	8,856
Pseudo R-squared	8.7%	9.2%	8.1%	8.6%	9.2%

Table 3
Determinants of Dissenting at the Director-Proposal Level: Conditional Logit Model with Proposal Fixed Effects

Results in this table are from conditional logit regressions at the proposal-director level with proposal fixed effects. The dependent variable, *Dissent*, is a dummy equal to one if the director votes “Against” or “Abstains” over a board proposal. *MediaMention* (in logarithm), *#Directorship* (in logarithm), *DirectorAge* (in multiples of 10 years), *FirstTerm*, *SocialTie*, *Education* (scores scaled by 100), *Compensation* (in logarithm), and *Female* are defined in Table 1 Panel C. *Academic* is a dummy variable equal to one if the director’s primary employer is an educational or academic institution; *Bureaucrat* is a dummy variable equal to one if the director previously worked in the government; *Accountant* is a dummy variable equal to one if the director is an accounting professional; *Lawyer* is a dummy variable equal to one if the director has a legal background; *Banking* is a dummy variable equal to one if the director has previously worked at a financial institution; *Executive* is a dummy variable equal to one if the director’s primary employer is another, non-financial firm, and he does not hold a CEO or chairman position. The omitted category is the group of directors who do not belong to any of aforementioned categories. The exponentiated coefficients (or the odds ratios) of dissenting versus not-dissenting are reported in bold fonts. The *t*-statistics associated with the original coefficients (or the log-odds ratios) are reported in parentheses. In all specifications, the number of observations is 2,016; the number of proposals is 537, and the sample frequency of dissenting is 33.5%. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
MediaMention	1.678 ^{***} (5.24)				1.600 ^{***} (4.53)
#Directorship		1.580 ^{***} (4.29)			1.295 ^{**} (2.26)
DirectorAge			0.890 [*] (-1.93)		0.879 ^{**} (-2.06)
FirstTerm				0.701 ^{***} (-2.78)	0.758 ^{**} (-2.10)
SocialTie	0.642 ^{**} (-2.54)	0.776 (-1.50)	0.778 (-1.50)	0.737 [*] (-1.81)	0.645 ^{**} (-2.46)
Education	1.256 ^{***} (3.11)	1.268 ^{***} (3.26)	1.281 ^{***} (3.41)	1.284 ^{***} (3.44)	1.225 ^{***} (2.74)
Female	1.032 (0.18)	1.091 (0.50)	0.992 (-0.05)	1.041 (0.23)	1.048 (0.27)
CEOChair	0.562 (-1.37)	0.539 (-1.47)	0.536 (-1.48)	0.491 [*] (-1.68)	0.535 (-1.46)
Academic	1.298 [*] (1.80)	1.178 (1.11)	1.310 [*] (1.88)	1.308 [*] (1.86)	1.190 (1.17)
Bureaucrat	0.652 (-1.56)	0.713 (-1.26)	0.733 (-1.13)	0.656 (-1.56)	0.755 (-1.01)

	(1)	(2)	(3)	(4)	(5)
Accountant	1.460* (1.65)	1.229 (0.91)	1.173 (0.69)	1.309 (1.19)	1.306 (1.14)
Lawyer	2.570*** (5.00)	2.393*** (4.65)	2.251*** (4.27)	2.442*** (4.79)	2.387*** (4.53)
Banking	1.594* (1.67)	1.516 (1.49)	1.570 (1.64)	1.625* (1.75)	1.534 (1.51)
Executive	0.998 (-0.01)	0.862 (-0.87)	0.861 (-0.88)	0.899 (-0.62)	0.925 (-0.44)
Pseudo R-squared	6.4%	5.8%	4.8%	5.0%	7.6%

Table 4
Interaction between Reputation Stock and Career Concerns

This table reports 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 “Abstains” over the board proposal. Control variables are defined in Table 1 Panel C or in Table 3. In columns (1) and (2), *DirectorAge* and *#Directorship* are demeaned in the interactive specification to facilitate interpretation. The exponentiated coefficients (or the odds ratios) of dissenting versus not-dissenting are reported in bold fonts. The *t*-statistics associated with the original coefficients (or the log-odds ratios) based on standard errors clustered at the firm level are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1) Full Sample	(2) Full Sample	(3) [*] <i>MediaMention</i> >0	(4) <i>MediaMention</i> =0	(5) <i>#Directorship</i> >1	(6) <i>#Directorship</i> =1
DirectorAge	0.911 (-1.46)	0.901 [*] (-1.67)	0.292 ^{***} (-2.93)	0.953 (-0.71)	0.411 ^{***} (-4.73)	1.150 (1.61)
MediaMention	1.891 ^{***} (5.77)					
MediaMention*DirectorAge	0.704 ^{**} (-2.44)					
#Directorship		1.551 ^{***} (3.98)				
#Directorship*DirectorAge		0.592 ^{***} (-4.30)				
SocialTie	0.683 ^{**} (-2.18)	0.789 (-1.40)	26.974 ^{***} (3.89)	0.495 ^{***} (-3.24)	0.349 ^{**} (-2.16)	0.683 (-1.40)
Education	1.223 ^{***} (2.73)	1.254 ^{***} (3.07)	2.300 (1.20)	1.293 ^{***} (3.15)	1.299 (1.42)	1.366 ^{***} (3.04)
Female	0.993 (-0.04)	1.060 (0.34)	0.000 (-0.00)	1.099 (0.50)	1.113 (0.20)	0.919 (-0.35)
CEOChair	0.557 (-1.38)	0.633 (-1.08)		0.601 (-1.19)	2.393 (0.58)	0.325 [*] (-1.92)
Academic	1.280 [*] (1.68)	1.178 (1.09)		1.241 (1.30)	0.752 (-0.91)	1.428 [*] (1.68)

	(1) Full Sample	(2) Full Sample	(3)* <i>MediaMention</i> >0	(4) <i>MediaMention</i> =0	(5) <i>#Directorship</i> >1	(6) <i>#Directorship</i> =1
Bureaucrat	0.721 (-1.17)	0.722 (-1.17)		0.743 (-0.99)	1.851 (0.88)	0.436* (-1.93)
Accountant	1.364 (1.32)	1.158 (0.63)		1.540* (1.70)	0.328 (-1.50)	1.684* (1.67)
Lawyer	2.417*** (4.58)	2.432*** (4.62)		2.783*** (4.92)	1.087 (0.17)	3.090*** (4.52)
Banking	1.603* (1.69)	1.696* (1.86)		1.975** (2.15)	0.941 (-0.07)	2.451** (2.33)
Executive	0.968 (-0.19)	0.895 (-0.63)		1.014 (0.07)	2.677* (1.75)	1.136 (0.53)
Prob(Dissent = 1)	33.5%	33.5%	48.4%	34.9%	42.6%	36.2%
Observations	2,016	2,016	97	1,592	359	966
Number of Board-Proposals	537	537	47	461	144	304
Pseudo R-squared	7.3%	7.3%	50.2%	6.8%	17.1%	9.2%

*: In column (3), the director professional category dummy variables are not included due to a near-singularity condition if they were.

Table 5
Director Career Outcomes Following Dissent

The sample in this analysis consists of all directors in boards involving any dissenting event in a given year, and is presented at the director-year level. *Departure* is a dummy variable equal to one if a director resigns from the current board within three years. *SeatGain* is the number of new board seats obtained up to three years into the future. Other variables on personal characteristics are the same as defined in previous tables but are now recorded at the annual frequency. *DirectorAge* enters regressions in units of 10 years. *Education* enters regression in scores scaled by 100.

Panel A reports summary statistics of the main variables. Panel B reports results from conditional logit regressions using *Departure* as the dependent variable, and with firm-year fixed effects. Only observations from firm-year pairs with variations in outcomes (i.e., with both departing and staying directors on the same board) are included, resulting in 209 observations for 59 unique boards. Panel C explains gains of new board seats following the dissenting events. The dependent variable is *SeatGain*, and the regression includes firm-year fixed effects. Only observations from firm-year pairs with both seat-gaining and non-seat-gaining independent directors on the same board are included, resulting in 982 observations for 292 unique boards. In Panels B and C coefficients are reported in bold fonts, and the *t*-statistics based on standard errors clustered at the firm level are reported in the parentheses. Coefficients in columns (2) to (4) are obtained from the pooled regressions with firm-year fixed effects on the full sample with dummy variables for subsamples (e.g., directors above and below median age) interactive with all regressors. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Summary Statistics of 1,112 Observations

Variable	Mean	Standard deviation	25 th percentile	Median	75th percentile
Departure	0.10	0.31	0	0	0
DirectorAge	49.7	10.5	42	47	57
#Directorship	1.7	1.1	1	1	2
Dissent	0.49	0.5	0	0	1
Education	523	82	425	537	599
FirstTerm	0.53	0.50	0	1	1
MediaMention	0.5	2.2	0	0	0
Log(1+MediaMention)	0.17	0.51	0	0	0
SeatGain	0.389	0.772	0	0	0.5
SocialTie	0.15	0.35	0	0	0

Panel B: Departure following Dissenting

	(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	2.356** (2.34)	2.246* (1.73)	2.808* (1.75)	0.318 (-1.10)	3.072*** (2.88)	1.959 (1.06)	2.416** (2.04)
DirectorAge	0.773 (-1.45)			0.731 (-0.79)	0.760 (-1.46)	0.767 (-1.10)	0.771 (-1.17)
MediaMention	2.084** (2.24)	1.846 (1.16)	1.864 (1.54)			1.807 (1.41)	2.364 (1.55)
#Directorship	1.088 (0.49)	0.897 (-0.38)	1.236 (0.94)	1.381 (0.77)	0.984 (-0.08)		
FirstTerm	0.709 (-0.76)	1.151 (0.27)	0.320 (-1.59)	0.352 (-0.87)	0.643 (-0.92)	0.728 (-0.46)	0.591 (-1.03)
Education	1.006 (0.03)	1.089 (0.36)	1.052 (0.21)	1.408 (0.80)	1.021 (0.09)	0.943 (-0.19)	1.002 (0.01)
SocialTie	0.979 (-0.05)	0.621 (-0.76)	1.279 (0.39)	3.635 (0.89)	0.925 (-0.16)	3.749* (1.66)	0.457 (-1.24)
Pseudo R-squared	10.3%	11.7%		13.0%		13.6%	

Panel C: Gain of New Seats following Dissenting

	(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	0.158^{***} (2.81)	0.155^{**} (2.04)	0.162^{**} (2.11)	0.016 (0.12)	0.171^{***} (2.90)	0.032 (0.36)	0.239^{***} (3.43)
DirectorAge	-0.057^{**} (-2.17)			-0.067 (-1.24)	-0.058^{**} (-2.16)	-0.076[*] (-1.87)	-0.058[*] (-1.96)
MediaMention	0.064 (1.32)	0.160[*] (1.79)	0.016 (0.27)			0.122^{**} (2.02)	-0.004 (-0.05)
#Directorship	0.234^{***} (9.49)	0.249^{***} (6.54)	0.228^{***} (7.28)	0.255^{***} (5.16)	0.219^{***} (7.87)		
FirstTerm	0.066 (0.94)	0.075 (0.89)	0.081 (0.88)	0.535^{***} (3.70)	-0.010 (-0.13)	0.078 (0.77)	0.063 (0.79)
Education	0.063[*] (1.95)	0.066[*] (1.92)	0.059[*] (1.71)	0.041 (0.70)	0.067^{**} (1.99)	0.130^{***} (2.97)	0.024 (0.65)
SocialTie	-0.015 (-0.20)	-0.071 (-0.65)	0.036 (0.37)	0.130 (0.72)	-0.029 (-0.36)	0.018 (0.15)	-0.018 (-0.19)
R-squared	16.4%	16.4%		18.2%		13.5%	

Table 6
Regulator Sanctions and Independent Director Dissention

The sample consists of directors affiliated with all firms that received regulatory sanctions for wrongdoing during 2004–2009. The dependent variable is the regulatory penalty assessed on independent directors for wrongdoing in a given year. *Any Penalty* includes the following government or stock exchange enforcement actions: public criticism/warning, fine, and suspension of eligibility to serve on board seats. *Heavy Penalty* includes the last two categories. Other variables on director/firm characteristics are the same as defined in Panels C and D of Table 1. We conduct conditional logit regressions with industry fixed effects, and include yearly dummy variables. The regressions are at the director-year level. In columns (1) and (2), *Dissent* is equal to one if the director in consideration dissents at least once while serving on the firm’s board. In columns (3) to (4), *Dissent* is equal to one if there is any independent director dissention in the same firm-year. *DirectorAge* is in units of ten years. *AR/Assets*, *RPT/Assets*, and *%Independent* are expressed in percentage points. *MedianMention*, *#Directorship*, *#Committee*, *Assets*, and *FirmAge* enter regression in logarithm values. The coefficients reported are odds ratios (or exponentiated coefficients). All *t*-statistics (associated with the original coefficients or log-odds ratios) are reported in the parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1) Any Penalty	(2) Heavy Penalty	(3) Any Penalty	(4) Heavy Penalty
Dissent	0.762 (-1.17)	0.048 *** (-3.33)	0.512 *** (-3.03)	0.081 *** (-3.26)
MediaMention	1.018 (0.14)	1.068 (0.24)	1.018 (0.13)	1.031 (0.11)
#Directorship	0.757 *** (-3.59)	0.892 (-0.66)	0.756 *** (-3.59)	0.886 (-0.70)
DirectorAge	1.154 ** (2.28)	0.952 (-0.37)	1.155 ** (2.28)	0.953 (-0.37)
FirstTerm	1.193 (1.29)	1.298 (0.89)	1.184 (1.23)	1.260 (0.80)
Female	0.904 (-0.52)	0.957 (-0.11)	0.881 (-0.65)	0.926 (-0.19)
AR/Assets	1.017 * (1.80)	1.057 ** (2.56)	1.021 ** (2.16)	1.051 ** (2.28)
RPT/Assets	0.998 (-1.02)	0.980 *** (-2.88)	0.998 (-0.93)	0.980 *** (-2.79)
State	1.350 * (1.95)	0.295 *** (-3.39)	1.378 ** (2.07)	0.293 *** (-3.40)
Top1	0.599 (-0.78)	31.047 ** (2.17)	0.526 (-0.97)	35.963 ** (2.26)

	(1) Any Penalty	(2) Heavy Penalty	(3) Any Penalty	(4) Heavy Penalty
Top2_10	0.794 (-0.24)	13.339 (1.25)	0.673 (-0.40)	11.823 (1.19)
Concentration2_10	0.486 (-0.39)	1.556 (0.12)	0.792 (-0.13)	4.029 (0.37)
CrossList	0.338^{***} (-2.66)	0.019 (-1.14)	0.329^{***} (-2.70)	0.026 (-1.25)
%Independent	0.973[*] (-1.84)	0.850^{***} (-4.52)	0.975[*] (-1.70)	0.858^{***} (-4.35)
BoardSize	0.718 (-1.00)	0.545 (-0.85)	0.853 (-0.48)	0.632 (-0.63)
#Committee	1.166 (1.48)	0.810 (-0.93)	1.173 (1.53)	0.852 (-0.71)
CEOAge	0.988 (-1.00)	1.004 (0.17)	0.987 (-1.10)	1.003 (0.13)
Growth	0.896 (-0.79)	0.891 (-0.37)	0.905 (-0.72)	0.882 (-0.41)
ROA	0.367[*] (-1.77)	0.217 (-1.03)	0.312^{**} (-2.04)	0.214 (-0.98)
Assets	1.053 (0.61)	1.735^{***} (2.87)	1.056 (0.64)	1.727^{***} (2.84)
FirmAge	1.248 (1.00)	0.851 (-0.32)	1.242 (0.97)	0.914 (-0.18)
Observations	1,284	968	1,284	968
Pr(Penalty = 1)	36.2%	9.0%	36.2%	9.0%
(Pseudo) R-squared	3.9%	22.4%	4.5%	21.9%