Reputation Concerns of Independent Directors: Evidence from Individual Director Voting[1]

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ABSTRACT

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

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

Fama and Jensen (1983) conjecture that "outside directors have incentives to develop reputations as experts in decision control. . . They use their directorships to signal to internal and external markets for decision agents that they are decision experts. . . The signals are credible when the direct payments to outside directors are small. . ." A number of studies have supported their hypothesis. For example, Coles and Hoi (2003) document that directors whose firms opting out of stringent state antitakeover provisions gain additional outside

directorships. Similar pattern is documented for companies that fire their CEOs (Farrell and Whidbee (2000)), for firms that are sold at a premium (Harford (2003)), or for firms that perform well in general (Yermack (2004)).

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

Our study explores a unique director-level voting dataset from China's stock market to overcome the aforementioned empirical challenges. In a push to enhance the transparency of governance of public companies, the Chinese Securities Regulatory Commission (CSRC), the regulatory authority of China's stock market, mandated increased public disclosure of votes casted by directors on board proposals in 2004. We are thus able to hand-collect data from corporate filings to compose a comprehensive sample of 543 board-proposal-level voting records involving dissenting (i.e., at least one independent director voted "Abstain" or "Against"). The sample covers 384 board meetings (each could have multiple proposals) for 187 unique firms over 2004-2009. We supplemented this base sample with standard and hand-collected data on firm and director characteristics, most importantly, information proxying the directors' reputation.

The unique dataset from China is well suited for the goal of our research to analyze the reputation concerns among independent directors. First, the mandatory disclosure rule in China yields the detailed director-proposal level action data. In contrast, the same data are not publicly available in the U. S. and other major markets to our best knowledge. In China, a great majority of proposals voted by the board are sponsored by management who mostly represent insiders and controlling shareholders[5]. As a result, dissenting tends to reflect an independent director's willingness to confront agency issues. Second, emerging markets are commonly perceived as having more serious collusive behavior between managers, controlling shareholders and directors (Johnson, La Porta, Lopez-de-Silanes, and Shleifer (2000)), China—which does not rank favorably in corporate

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

governance[6]—makes an interesting venue to study the factors that could potentially motivate independent directors to serve the outside shareholders rather than to collude with the managers. Findings on the effectiveness (and limitations) of the reputation mechanism for individual directors in China have general implications for board-based corporate governance across the world.

The director-proposal level data commands a crucial advantage allowing identification from variations within a board. In 463 out of the total of 543 proposals involving dissenting, there is also at least one independent director who voted in favor. Thus, we are able to filter out any potentially time-varying firm or board level unobserved heterogeneity by including fixed effects at the board/proposal level in the regressions. Such an identification strategy relates individual director characteristics (most importantly, the strength of their career concerns and the level of their reputation) to their voting behavior. The endogeneity of board formation is no longer an issue as the estimation builds on variations within a board.

Our main findings and contributions could be summarized as follows. First, we find that younger independent directors, presumably having stronger career concerns, are significantly more likely to dissent. An inter-quartile increase in director age is associated with an 8.2 percentage point decrease in the probability of dissent. In addition, directors with higher reputation stock measured by media coverage and number of independent directorships have a higher probability of dissenting. An inter-quartile increase in director's media mentioning is associated with a 6.4 percentage point increase in dissent likelihood. The latter result was not predicted by the standard career concerns models such as Fama (1980) and Holmstrom (1999). Thanks to the identification strategy, we could interpret the findings as the effects of director characteristics (most importantly their reputation and the strength of their career concerns) on their incentive to monitor or even confront the management.

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

Third, our study sheds light on the two-sided nature of the career concerns faced by directors, that is, a trade-off between their reputation as effective monitors and decision makers versus a reputation for being

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

manager-friendly. Prior studies tend to focus on the relation between firm performance and directors' outside opportunities (Gilson (1990), Kaplan and Reishus (1990), Fich (2005), Fich and Shivdasani (2007)), and do not analyze the dual tension. The asymmetry in the existent literature is not accidental. Theoretical work on career concerns assumes a single class of "potential employers" that an agent needs to impress while in the case of independent directors the reputation concerns are two-sided with investors and managers. Empirically, assessing the effect of directors' reputation on their willingness to "rock the boat" requires observing differences across directors on the same "boat" (firm or board).

Using within board variation, we are able to characterize both sides of the directors' career concerns. Presumably, directors in their first term care more about their reputation with the current management versus with the general market due to the influence of the current management in director reappointment.[7] Empirical results are indeed consistent with this hypothesis in that directors in their first terms are 5.7 percentage points (significant at the 5% level) less likely to dissent. The combined results of young directors and directors in their second terms dissenting more indicate that the career concerns motivate the directors to set up a reputation of being a diligent monitor, rather than being manager-friendly, in the outside market for directorship.

Finally, we confirm that the ex post market outcome is consistent with the ex ante incentives. We find that a dissenting director gains on average 0.14 (or 16%) more board seats over the three year period after dissenting compared than their non-dissenting peers, indicating that dissenting is rewarded with more outside career opportunities, possibly because the behavior is perceived by the market as diligent monitoring. More importantly, the effects are more pronounced among younger directors. The combined results indicate that the career concerns of independent directors are more aligned with investors rather than managers.

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

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

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

2. Institutional Background

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

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

In August 2001, the CSRC mandated that independent directors make up of at least one third of the boards of listed companies (in the "*Guideline for the establishment of the independent director system in listed firms,*" henceforth, the "*Guideline*"). Moreover, an independent director can serve at most six years on a company's board. Given that in most companies one term of directorship lasts for three years, this requirement effectively limits independent directors' tenure at one company to be no more than two terms. The largest fraction (39%) of independent director seats are occupied by academics (university professors and full-time

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

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

researchers), followed by retired government (or quasi-government organizations) (19%) and lawyers and accountants (10% and 9%). This is in contrast to the U.S. where about half of the independent directors are executives in other corporations (Linck, Netter, and Yang (2009)).

Board activities function mainly through board proposals. The *Corporate Act of China* requires that a board proposal must receive majority support to be effective. During our sample period, 90.6% of all board proposals were passed with majority support. According to a survey of 204 firms by the Research Center at Shanghai Stock Exchange (RCSHSE), in 88% of the companies the chairmen (usually insiders) decide which proposals to be included in the meeting agenda. The average firm holds 7.4 board meetings each year where each meeting discusses 3.6 proposals on average.

Though a crucial aspect of board functioning, the director voting information is not disclosed in most major countries (including the U.S.). China is an exception where timely disclosure of summary information of the voting outcome became mandatory in 2004.[10] In an effort to promote transparency in corporate governance, the CSRC updated its "The code of information disclosure for listed firms: annual reports" in December 2004 to require disclosure of the details of voting involving dissenting independent directors. Specifically, it requires that "when one or more independent directors disagree on board proposals, the firm must disclose the name of the dissenting directors, titles of the proposals, and directors' opinions (in the annual reports)." This change in regulation allows us to construct the comprehensive sample of independent director dissenting.

3. Data and Empirical Motivation

A. Data overview

The most important information—voting 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.[11] We identified 384 board meetings with 543 proposals in which at least one independent director voted "Abstain" or "Against."[12] These board meetings span 282 firm-year pairs for 187 unique firms, and involve 793 unique dissenting independent directors. Industry representation is comparable to the full sample of public firms. It is worth noting that restricting data collection to proposals involving dissent by independent directors (rather than all board proposals) does not compromise data coverage. Our main empirical specification incorporates proposal fixed effects in order to filter out unobserved and potentially time-varying heterogeneity in firm, board, and

[10] 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.

[11] Following the standard practice in the literature (Gul, Kim, and Qiu, 2011; Fan, Wong, and Zhang, 2007), firms that only issue B-share (about 1.3% of all public companies) are excluded. B-shares are issued to foreign investors and are denominated in foreign currency.

[12] The votes of "Abstain" and "Against" have similar real effect because the *Corporate Act of China* requires that a board proposal must receive majority support ("for" votes) to be effective.

proposal characteristics (which is the major source of endogeneity). Proposals without variation in director voting would drop out of the effective estimation sample in the presence of a proposal fixed effect.

Panel A of Table 1 reports time series statistics of meetings, proposals and firms with dissenting directors. The number of firms started at 50 in 2004, peaked at 60 in 2006, and went down to 36 in 2009. The patterns for meetings and proposals are similar. Dissenting is not a common behavior among independent directors even conditional on the occurrence of dissent. In two-thirds of the sample proposals only one director dissents (375 proposals). In another 90 (60) proposals, two (three) independent directors dissent. Similarly, 355 directors (67.6%) dissent only once during the sample period, another 85 (23) directors dissent twice (three times).

[Insert Table 1 here.]

The 543 proposals with dissenting directors address a wide range of issues, as shown in Panel B of Table 1. Not surprisingly, the top four categories, which combined consist 75.5% of the sample, concern issues where potential conflicts of interest are likely: (1) Investment, M&A, and restructuring (29.7%), (2) Related-party transactions (16.6%); (3) Information disclosure and accounting treatment (16.2%); (4) Directors and officers selection, appointment and turnover (14.2%).

A unique piece of information in our dataset is the exact composition of the board at the dissenting meeting, and the identity of independent directors and their votes. We retrieve the information on the exact composition of the board at the dissenting meetings from several sources, including the timely announcements of board meeting outcome about the dissenting events and the annual reports (in the "the turnover of directors and officers" section). In addition, we obtain director age, gender, and compensation information from China Securities Market and Accounting Research (CSMAR), a standard database on Chinese capital markets.[13] CSMAR, covering all listed firms in China, also allows us to construct the number of independent directorships assumed by individuals and director tenure. We do not consider stock ownership of independent directors because they rarely hold any 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 the level of their reputation stock. Following the literature (Baker and Murphy (1992) and Chevalier and Ellison (1999)), the default measure for career concerns is director age (*Age*) as young directors are expected to have stronger incentives to build up a reputation for better future career opportunities. However, a priori it is not clear whether directors' career concerns should align them more to the management or to the shareholders. To measure two-sided incentives, we define a dummy variable (1^{st}_term) 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

[13] Part of the CSMAR database is available through WRDS.

management in order to be reappointed. In contract, 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 ten Chinese newspapers by distribution volumes from -3 to -1 year. To obtain an accurate measure for positive reputation, we manually exclude articles with negative comments. The construction of the measure to the method used in Milbourn (2003) and Rajgopal, Shevlin, and Zamora (2006), and our results are not sensitive to variations of this construction (such as using the top seven newspapers, or the top five business newspapers). An alternative and popular measure for a director's repuation is the number of independent directorships (*#Directorships*)[14]. A long list of work (Shivdasani (1993), Kaplan and Reishus (1990), Gilson (1990), Shivdasani (1993), Brickley, Coles, and Linck (1999), and Ferris, Jagannathan, and Pritchard (2003)) have argued or documented a positive relation between the number of directorships held and director quality. One caution to this measure is that too many directorships can be related to leniency by directors (Yermack (2004), Fich and Shivdasani (2006)).

Similar to Hwang and Kim (2009) and Fracasa and Tate (2011), we construct a dummy variable, *SocialTies*, to measure a director's social ties with the management. Specifically, an independent director is classified as having social ties with the management if the director have one of the following common experiences with the Chairman, the CEO or the ultimate owner: (1) served in the same military unit; (2) graduated from the same university and within the same age cohort (no more than three years apart); (3) were born in the same city; (4) worked for the same employer. The personal data of directors required to construct this measure are hand-collected from companies' annual reports, Baidu's (the largest internet search engine in China) Who's Who, and directors' personal web pages.

Panel C of Table 1 reports the statistics for individual characteristics of the independent directors in our sample based on 2,117 director-year level observations. The median director is 47 years old, has served for 3 years on the board, does not hold additional outside directorship, and has no media mentioning. On average, a director holds 0.6 additional outside board seat and has two newspaper articles from three years before to one year before the board meeting. About 10% of the director observations are women, and about 56% are in their second term. The average director compensation is 47,207 *yuan* (The average exchange rate during the sample period is 1 US dollar = 7.55 *yuan*).[15] We use a director's average compensation across all boards on which she/he currently serves instead of her/his compensation at the firm involving dissenting because there is little within board variation in independent directors' compensation in China and our main tests only explore within board variation.

[14] The CSRC limits the maximum of number of outside directorships to be five. This constraint is, however, almost never binding as the average number is 1.9.

[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, 38% are university professors or academic researchers (usually of business and economics disciplines). Corporate executives excluding CEOs and Chairmen represent the second largest group (14%). Professionals, lawyers and accountants, consist of 10% and 9.3% respectively. The statistics is generally consistent with the large sample evidence documented for all China listed firms in Lu and Lai (2010). Interestingly, though current government officials are not allowed to sit on the boards, former government bureaucrats and politicians represent a sizable 10.5% of all independent directors. The information of professional background is useful to refine the reputation variables because measures such as *MediaMention* may not be comparable across different professions.

In addition, we collect firm-level data from CSMAR. The summary statistics of the variables are provided in the Panel D of Table 1. The most important variables are proxies for corporate governance. 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. 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*) . Bai, Liu, Lu, Song, and Zhang (2004) document that the concentration of the next largest shareholders is positively associated with firm value.

The second group of variables captures the extent of potential expropriation of outside shareholders. Expropriation can take various forms (Johnson, La Porta, Lopez-de-Silanes, and Shlerfer (2000)), but related party transactions (*RPTs*, hereinafter) at unfair terms are widely recognized as one of the most common means (e.g., Djankov, La Porta, Lopez-de-Silanes, and Shlerfer, 2008). Following Berkman, Cole, and Fu (2010), we use the annual aggregate value of "non-beneficial" related-party transactions for each firm divided by the firm's year-end total assets (*RPT/Assets*). Following Cheung, Rau, and Stouraitis (2006), we classify transactions as potentially "beneficial" for the company if it receives cash, loans or guarantees from the related party. And "non-beneficial" RPTs are thus the difference between the total and the potentially beneficial ones. Examples of such transactions include sale of assets/goods to the related parties. Other papers using similar measures include Deng, Gan, and He (2010). Our results are not sensitive to the inclusion of potentially beneficial RPTs. Alternatively, we use net accounts other receivables (the difference between accounts other receivables and other payables) due to RPTs, scaled by total assets (*AR/Assets*) to proxy for the degree of potential expropriation because it measures receivables owed by a related party, with heightened risk of not paying. Abusing the accounts receivables this way amounts to tunneling of corporate assets (Jiang, Lee, and Yue (2010), Deng, Gan and He (2008)). All RPT related variables are constructed using information from the CSMAR

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

Finally, we include four standard firm characteristics as additional control variables. *Assets* is a firm's total assets (and enters regressions in its log value); *FirmAge* is the number of years since the firm's listing on a stock exchange (and enters regression in its log value); *ROA* is the ratio of operating income over total assets; *Growth* is sales growth over the past year. We first match each firm-year observation involving dissent ("event observation") with non-event firm-years by year and industry, and then choose the firm-year that is closest in total assets. All event observations are properly matched.

B. Empirical Motivation

Like any other economic behavior, dissent in voting by independent directors is an outcome of cost-benefit calculation. One important direct benefit for independent directors to vote against a proposal is that they can avoid litigation or punishment by the CSRC and stock exchanges if the proposals turn out to cause damage on the minority shareholders that are serious enough to invite legal actions.[16] The main cost of dissent is alienation from the current management, which reduces the chance of director re-appointment, and in some extreme cases, leads to the loss of the director's current board seats (which occurs in our sample)[17]. The effect of dissent on a director's reputation as well as future opportunities in the market for directorship is more subtle. Firms may shun director candidates with a reputation for being tough, especially if the proposals that the director previously voted against was not obviously damaging on the outside shareholders. In the meanwhile, dissent may send to the market a signal for diligent monitoring which increases the director's opportunities with firms who attempt to show their commitment to good corporate governance.

Overall we predict that the occurrence of the dissent is positively related to firm and board characteristics that proxy for the extent of agency problems (Hermalin and Weisbach (1988)). The main contribution of our empirical study lies in the director-level regressions that related director characteristics, especially those proxying for career concerns and reputations, to their actions. We predict that directors in their second (and last) terms are more likely to dissent because the cost of alienating the current management is relatively small in the absence of

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

[17] According to "The guideline for establishing independent director system in listed firms" issued by the CSRC in August 2001, firms cannot replace independent directors during the term in the absence of good reasons (such as acquisitions and big restructuring). The dismissal of independent directors during the term is thus rare. Nevertheless, the rule is not completely enforced. We observe nine cases from media reports in which independent directors are fired after dissenting from the management.

any opportunity to be re-appointed. Following the standard career concerns literature, we also presume that young directors have stronger reputational concerns. Hence their tendency to dissent relative to the older directors reveals the relative importance of shareholders versus management in the market for independent directors.

Whether reputation mitigates or exacerbates conflicts of interest is distinct from the standard notion of career concerns. As summarized by Diamond (1989), the Holmstrom (1982) model "focuses on the incentive effects of having a reputation in the future rather than the effects of one's current reputation." According to Diamond (1989), when reputation becomes a valuable asset, a single failure causes a larger decline in its value; and hence the agent would be more self-disciplined in order to maintain the reputation. In our context, this predicts that highly reputable directors are more likely to "rock the boats" when they discern wrong doing. On the other hand, if short-term benefits are also disproportionately large for reputable agents, they could also be tempted to "cash in" their reputation. Ayako and Fang (2009) succinctly summarize the two opposing effects as the "reputation-as-discipline" and "reputation-liquidation" hypotheses in the context of sell-side analysts.

4. Empirical Results

A. Firm level analyses

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

[Insert Table 2 here.]

The key independent variables regard related party transactions (RPTs). The two variables, *RPT/Assts* and *AR/Assets* are defined in Section 3.1. As expected they are both positively associated with the probability of independent director activism, as shown in Panel A. The coefficients on *AR/Assets* are significant at the 1% level across all specifications. An inter-quartile increase in *AR/Assets* leads to a 0.8 percentage point increase in dissent likelihood, relative to a 3.2% unconditional probability. An inter-quartile increase in *RPT/Assets* leads to a 0.6 percentage point increase in dissent likelihood. The ownership variables also go in the expected directions. A concentrated ownership of the top shareholder (*Top1*, usually the government or their agencies) is associated

fewer dissenting events. A powerful largest shareholder might have more influence on the appointment of independent directors, and hence are less likely to be paired with outside directors that will dissent. On the other hand, the State being the top shareholder (*State = 1*) does not have a significant effect, with or without the presence of *Top1*. As a balance to the largest shareholders, concentrated ownership by the large outside shareholders (as proxied by *HHI2to10*) is associated with more director activism, indicating that large minority shareholders, usually mutual funds and insurance companies, could be an important force in corporate governance.

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

Finally, firm operating performance, as measured by *ROA*, significantly and negatively associated with the probability of dissenting, that is, poorly performed firms are more likely to invite director scrutiny. Sales growth (*Growth*) has a similar positive effect but not statistically significant.

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

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

B1. Director-level determinants of dissenting

Given the unique feature of our data, we are able to run director-level dissent regressions with proposal-level fixed effects which controls for the potentially time-varying unobserved heterogeneity at the firm/board level. Such a specification clears the concern that an endogenous matching between a firm and its governance form could drive the empirical relation between governance and outcomes. The sample includes all 543 proposals on which at least one independent director dissents, resulting in 2,117 proposal-director observations. In the presence of proposal fixed effects, observations belonging to proposals in which all independent directors dissent are dropped, resulting in 1,873 observations. We estimate a logit model where the dependent variable is a dummy variable equal to one if a director votes "Against" or "Abstain" over a board proposal. Results are reported in Table 3.

[Insert Table 3 here.]

The explanatory variables of key interest are those measuring the intensity of independent directors' career concerns and the level of their reputation stock. Table 3 shows that older directors and directors in their first terms are less likely to dissent. The first relation is consistent with the old directors' weakened incentive to build up a reputation in the market for serving the interest of shareholders. The second relation verifies the effect

from the cost side: directors who rock the boat during their first term risk losing re-appointment. The economic magnitude of these effects is sizable: An inter-quartile increase in *DirectorAge* is associated with an 8.2 percentage point decrease in the probability of dissent; and directors in their first terms are 5.7 percentage point less likely to dissent.

Interestingly, directors with higher reputation stock, as measured by the number of non-negative media mentioning in the top ten publications (*MediaMention*) or the number of director seats held at different companies (*#Directorship*) are both positively associated with dissenting, indicating that highly reputed directors have stronger incentive to uphold their reputation, rather than to "cash in" their reputation and collude with the managers. The economic effect is significant too. An inter-quartile increase in *MediaMention* leads to a 6.4 percentage point increase in the probability of dissent. Similarly, an inter-quartile increase in *#Directorships* leads to an 8.0 percentage point increase in dissent likelihood.

The aforementioned results represent the marginal effects of reputation and career concerns conditional on common director characteristics. Some of these control variables are of interest on their own. To summarize, we find that female directors are slightly less likely to dissent than their male counterparts, but the difference is not statistically significant. For director type dummies, we find that CEOs or Chairmen of other companies are the least likely to dissent, followed by former government bureaucrats, and then by other corporate executives. On the other end, lawyers are the most likely dissidents, possibly due to the fact that they are among the most sensitive to potential legal liabilities from corporate fraud. The 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 difference between *CEOChair* and *Other* is significant at the 10% level of less for four out of five specifications.

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

B2. Interaction of career concerns and reputation stock

Equally importantly, we next examine the interaction between reputation stock and reputation concerns, where theory does not provide clear predictions. We use two specifications: adding an interactive term to the regression (*MediaMention*DirectorAge* or *#Directorship*DirectorAge*) or splitting the full sample into subsamples that involve directors with high and low reputation stocks where the dividing criterion is whether the director has positive number of media mention (that is, *MediaMention > 0*) or whether the director holds director jobs in other companies (that is, *#Directorship > 1*). Results are reported in Table 4. While the interactive effect

between *MediaMention* and *DirectorAge* is not significant, we find a negative and significant (at the 1% level) cross effect between *#Directorship* and *DirectorAge.* That is, a director's outside reputation (as captured by the number of director jobs assumed) strengthens their career concerns.

Such a result supports the "reputation as discipline" hypothesis and is not consistent with the "reputation liquidation" one.

[Insert Table 4 here.]

C. Ex Post Outcomes of Dissenting

The natural question arises as whether the ex pose outcomes from dissenting are consistent with the ex ante career incentives we have documented so far. To address this issue, we consider two types of outcomes: the stock market reaction to dissenting events, and career outcomes for dissenting directors in terms of directorship gains/losses post dissenting.

C1. Stock market reaction to dissenting events

If dissenting is a way for an independent director to exercise his/her monitoring responsibility and to alert to the market potential governance issues of the firm, the stock market reaction to the dissenting events should be negative on average. We conduct two tests to test this hypothesis. First, we conduct an event study on the stock price reaction to disclosed dissenting events. Specifically, firms disclose board meeting voting outcomes in the timely announcements. We collect the announcement dates (typically 1−4 days after the meeting) of board meeting outcomes from the WIND financial database, a major financial database in China. To ensure that our sample is not contaminated by other events, we exclude observations confounded by other important announcements (such as earning reports, equity issuance, dividend distribution, board turnover, etc.) within the [-5, +5 days] window center on the announcement of dissenting. Our final sample contains 202 board meeting outcome announcements.

We apply the standard event-study method according to Brown and Warner (1985), where abnormal returns are market-model prediction errors. We draw our stock return data from the CSMAR. Here the "market" return is the composite index return of the Shanghai Stock Exchange or the Shenzhen Stock Exchange. We estimate the expected return of each firm using daily data for the estimation window [-250,-21] days, and then calculate abnormal returns as the difference between actual and expected returns. We then sum up the abnormal returns during the [-10, +10 days] window to obtain the cumulative abnormal returns (CARs).

Figure 1 plots the cumulative abnormal returns for event window [-10,-10 days]. Interestingly, stock prices drop on average about one percentage point upon the news of independent director dissenting, followed by

another half percentage point further decrease the day after. Apparently, the dissenting event does serve as a whistle blower alerting the outside investors with possible wrong-doing within the company. Indeed a newspaper articles in 2005 argued that dissent by independent directors would play an important warning device for small investors.[18] As such, a dissenting event, on average, signals to the market that the independent director is performing his monitoring role.

[Insert Figure 1 here.]

C2. *Career outcomes for dissenting directors*

To validate the interpretation of the empirical relation between dissenting and proxies for the intensity of career concerns and the level of reputation, we need to further establish that dissenting signals diligent monitoring in a way that improves the independent director's future career opportunities. To this end, we compare the various career outcome variables of dissenting directors after the dispute event with their non-dissenting colleagues. Here the relevant sample is directors in all board meetings that involve dissent (including non-dissenting directors). If a director has two dissent events in the sample, we only consider his/her first event. To mitigate truncation, we drop observations after the end of 2007 (to allow full observation of post-dispute outcomes till 2010).

To measure the ex post reward/penalty of dissenting, we construct two dependent variables using data from CSMAR. The first variable, *NetGain*, is the number of new independent directorships obtained up to three years after the dissent event minus the loss of the current director seat scaled by the number of current seats held at the time of the dissent. The second variable, *SeatChange,* is the number of board seats assumed by a director in the third year after the dissent event minus the same number at the time of the dissenting event, scaled by the latter. The construction of *SeatChange* follows the specification adopted in Yermack (2004). The correlation of the two dependent variables is 0.38. Results are reported in Table 5, where Panel A reports the summary statistics of the variables (at the director-year level) used in this analyses and Panel B displays regression results.

[Insert Table 5 here.]

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 3.1. 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 dissent by younger directors

[18] See, for example, "The information on independent directors is useful," in *China Securities Journal,* January 13, 2005.

should be stronger. The control variables include return on assets during the event year (*ROA(t)*) and prior year *(ROA(t−1)*), as well as firm size (total assets).

Column (1) in Table 5 Panel B shows that dissenting directors are rewarded by the market on average as they gain 0.14 (significant at the 5% level) board seat within three years after the dispute. Such an effect is economically large as the unconditional change for all directors (shown in Panel A of Table 5) is – 0.22 seat on average. When splitting the sample into "old" and "young" directors (using the median age of 47) in columns (2) and (3), we find that the *Dissen*t variable is only significant in the subsample of young directors where the effect is 0.21 (significant at the 1% level), consistent with the hypothesis that the market has stronger update about the ability of younger directors after observing their dissenting behavior. Interestingly, the coefficient on *MediaMention* is negative and significant (at the 1% level for the full sample, and at 5-10% levels for the subsamples) and does not vary significantly across age groups—presumably the highly reputed directors already held more seats and are therefore less likely to gain more. Firm performance is overall positively associated with net gain of board seats but results are short of significance.

Regressions using *SeatChange* as the dependent variable yield qualitatively similar results, which are reported in columns (4)-(6) of Table 5. Again, the effect of dissent is significant only among young directors, where dissenting directors gain 15.7% more seat relative to the number of directorships they currently assume.

Overall the regression results confirm that the reward to dissent is stronger among younger directors, reminiscent of Chevalier and Ellison's (1999) finding that termination to performance sensitivity is higher for younger mutual fund managers. These findings confirm the premise underlying the analyses in the previous sections, that is, younger directors should be more concerned about the market's perception about their diligence to monitor managers. More importantly, we also show that the career concerns of independent directors should be more aligned with the investors rather than the managers as their anti-management behavior is eventually rewarded in the market place in the form of more outside career opportunities.

5. Conclusion

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

significantly stronger among directors who already enjoy higher reputation. Both are good news for corporate governance.

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Table 1：Summary Statistics

Panel A: Time series of dissenting events, proposals and firms

	# firms	% of sample	# meetings	% of sample	# proposals	% of sample
2004	50	17.7%	78	20.3%	109	20.1%
2005	59	20.9%	82	21.4%	134	24.7%
2006	60	21.3%	77	20.1%	107	19.7%
2007	42	14.9%	54	14.1%	70	12.9%
2008	35	12.4%	46	12.0%	59	10.9%
2009	36	12.8%	47	12.2%	64	11.8%
Total	282	100.0%	384	100.0%	543	100.0%

Panel B: Classification of proposals

Issues	# proposals	% of the sample
1.Investment, M&A and restructuring	161	29.7%
2. Related-party transactions	90	16.6%
3. Accounting Treatment and information disclosure.	88	16.2%
4. Directors and officers selection, appointment and turnover	77	14.2%
5. Internal corporate governance e.g., managerial pay, bylaws, board functioning	70	12.9%
6. Financing and capital structure	13	2.4%
7. Board or shareholder meeting agenda	12	2.2%
8.Payout policies	11	2.0%
9. Miscellaneous issues	21	3.9%
Total	543	100.0%

Panel C：Characteristics of Independent Directors

Observations are at the director-proposal level. *MediaMention* is the number of non-negative articles containing a director's name and primary employer affiliation that appear in the top ten Chinese newspapers by distribution volumes from -3 to -1 year around the board meeting that involve dissent. *#Directorship* is the number of firms that a director serves as an independent director. *DirectorAge* is a director's age; *FirstTerm* is a dummy equal one if a director serves a first term on the board. *SocialTies* is a dummy variable equal to one if a director has social (through schooling, military training, and employment) ties with the firm's CEO, chairman or ultimate owner. *Compensation* is a director's average compensation in all boards in which she currently serves in *yuan* (the average exchange rate during the sample period is US$ 1 = 7.55 *yuan*). *Tenure* is the number of months a director has served the board. *Female* is a dummy variable equal to one if a director is female.

Variable	Observations	Mean	Median	Standard Deviation
FirstTerm	2,117	0.283	0	0.451
DirectorAge	2,117	49.608	47	10.066
MediaMention	2,117	1.969	0	4.547
Log(1+ MediaMention)	2,117	0.588	0	0.837
Compensation (in yuan)	2,117	47,206.95	40,000	47,461.16
Log(1+Compensation)	2,117	10.304	10.597	1.871
#Directorship	2,117	1.598	1	1.023
Log(#Directorship)	2,117	0.325	0	0.493
Female	2,117	0.1	0	0.3
SocialTies	2,117	0.079	0	0.27
Tenure (Month)	2,117	32.592	29.833	21.292

Panel D：Firm Characteristics

Observations are at the firm-year level. *Dissent* is a dummy variable equal to one if a firm has at least one dissent event in a given year. *RPT/Assets* is the annual aggregate value of "non-beneficial" related-party transactions for a firm scaled by the firm's year-end total assets. *AR/Assets* is the net accounts other receivables (the difference between accounts other receivables and other payables) scaled by total assets. *Top1* is the ownership of the largest shareholders. *Top2to10* is the sum of the ownership of the second to the tenth largest shareholders. *HHI2to10* is the sum of squared percentage ownership by the second to the tenth largest shareholders divided by *Top2to10*. *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- or H-shares. *BoardSize* is the total number of directors. *#Committee* is the total number of committees; *% Independent* is the fraction of independent directors on boards. *CEOAge* is the age of a CEO. *Assets* is a firm's total assets. *FirmAge* is the number of years since the firm's initial listing on a stock exchange. *ROA* is the ratio of a firm's operating income over total assets. *Growth* is sales growth over the past year.

Variable	Observation	Mean	Median	Standard Deviation
#Committee	8,680	2.681	4	1.804
Log(1+#Committee)	8,680	1.101	1.609	0.716
% Independent	8,680	0.356	0.333	0.048
AR/Assets	8,680	0.004	0	0.081
BoardSize	8,680	9.400	9	2.104
Log(BoardSize)	8,680	2.214	2.197	0.202
CEOAge	8,680	46.216	45	6.075
HHI2to10	8,680	0.064	0.042	0.064
CrossList	8,680	0.058	0	0.234
Dissent	8,680	0.032	0	0.175
FirmAge	8,680	10.782	11	4.400
Log(FirmAge)	8,680	2.406	2.485	0.396
Growth	8,680	0.214	0.118	0.518
ROA	8,680	0.024	0.033	0.102
RPT/Assets	8,680	0.21	0.076	0.428
Assets (in billion yuan)	8,680	6.455	1.770	21.868
Log(Assets)	8,680	21.323	21.184	1.189
State	8,680	0.699	1	0.459
Top1	8,680	0.377	0.356	0.159
Top2to10	8,680	0.197	0.177	0.134

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

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

Panel A. Full sample of listed firms

	(1)	(2)	(3)	(4)	(5)
AR/Assets	0.046**	0.045**			0.043**
	(2.357)	(2.351)			(2.227)
RPT/Assets			0.005	0.006	0.006
			(0.994)	(1.290)	(1.090)
State		-0.001		-0.002	-0.001
		(-0.231)		(-0.293)	(-0.189)
Top1		-0.039**		-0.042**	-0.043**
		(-2.005)		(-2.104)	(-2.138)
Top2to10		-0.027		-0.025	-0.026
		(-0.969)		(-0.891)	(-0.948)
HHI2to10		0.075		0.072	0.072
		(1.396)		(1.332)	(1.342)
CrossList	-0.005	-0.003	-0.005	-0.004	-0.004
	(-0.459)	(-0.310)	(-0.500)	(-0.355)	(-0.367)
% Independent	0.045	0.038	0.040	0.033	0.038
	(0.876)	(0.736)	(0.770)	(0.617)	(0.727)
BoardSize	0.046***	0.044***	0.045***	0.042***	0.043***
	(3.399)	(3.176)	(3.291)	(3.042)	(3.159)
#Committee	0.011***	0.011***	0.012***	0.011***	0.011***
	(3.068)	(2.997)	(3.069)	(3.001)	(3.024)
CEOAge	-0.000	-0.000	-0.000	-0.000	-0.000
	(-1.093)	(-1.048)	(-1.130)	(-1.054)	(-1.013)
Growth	-0.004	-0.003	-0.004	-0.004	-0.004
	(-0.862)	(-0.791)	(-0.908)	(-0.853)	(-0.856)
ROA	-0.090***	-0.087***	-0.101***	-0.096***	-0.084***
	(-5.174)	(-4.892)	(-6.654)	(-6.204)	(-4.765)
Assets	-0.003	-0.002	-0.002	-0.001	-0.002
	(-1.063)	(-0.732)	(-0.988)	(-0.610)	(-0.710)
FirmAge	0.004	-0.001	0.003	-0.002	-0.002
	(0.421)	(-0.111)	(0.365)	(-0.206)	(-0.198)
Observations	8,680	8,680	8,680	8,680	8,680
Pseudo R-squared	0.0785	0.0826	0.0760	0.0807	0.0834

Panel B. The matched sample

	(1)	(2)	(3)	(4)	(5)
AR/Assets	0.682**	0.667**			0.666**
	(2.25)	(2.29)			(2.30)
RPT/Assets			0.074	0.078*	0.078*
			(1.58)	(1.72)	(1.69)
State		-0.030		-0.024	-0.026
		(-0.50)		(-0.40)	(-0.44)
Top1		-0.218		-0.257	-0.249
		(-1.00)		(-1.16)	(-1.14)
Top2to10		0.200		0.218	0.193
		(0.86)		(0.92)	(0.83)
HHI2to10		-0.161		-0.138	-0.151
		(-1.63)		(-1.55)	(-1.62)
CrossList	0.011	0.018	0.012	0.016	0.014
	(0.09)	(0.13)	(0.08)	(0.11)	(0.10)
%Independent	0.358	0.270	0.246	0.142	0.291
	(0.67)	(0.52)	(0.45)	(0.27)	(0.56)
BoardSize	0.361***	0.343***	0.364***	0.337***	0.336***
	(3.05)	(2.89)	(3.06)	(2.83)	(2.84)
#Committee	0.098***	0.100***	0.102***	0.103***	0.099***
	(2.69)	(2.73)	(2.79)	(2.82)	(2.69)
CEOAge	-0.004	-0.004	-0.004	-0.004	-0.003
	(-1.17)	(-1.00)	(-1.19)	(-0.99)	(-0.95)
Growth	-0.047	-0.053	-0.062	-0.067	-0.054
	(-0.94)	(-1.07)	(-1.26)	(-1.36)	(-1.08)
ROA	-0.478**	-0.429**	-0.545**	-0.491*	-0.425**
	(-2.17)	(-2.02)	(-2.11)	(-1.95)	(-2.04)
Assets	0.003	0.012	0.000	0.011	0.011
	(0.10)	(0.49)	(0.00)	(0.42)	(0.43)
FirmAge	0.002	-0.028	0.007	-0.026	-0.039
	(0.03)	(-0.35)	(0.10)	(-0.32)	(-0.49)
Observations	564	564	564	564	564
Pseudo R-squared	0.0652	0.0752	0.0598	0.0705	0.0802

Table 3: Determinants of Dissent: Director-Level Regression with Proposal Fixed Effects

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

	(1)	(2)	(3)	(4)	(5)
MedianMention	0.063***				0.056***
	(3.74)				(3.37)
#Directorship		0.127***			0.122***
		(4.31)			(4.09)
DirectorAge			-0.005***		-0.004**
			(-2.81)		(-2.36)
FirstTerm				-0.067**	-0.057**
				(-2.33)	(-2.20)
SocialTies	-0.059	-0.079	-0.066	-0.038	-0.021
	(-1.18)	(-1.54)	(-1.28)	(-0.71)	(-0.38)
Compensation	-0.016	-0.020	-0.012	-0.010	-0.023*
	(-1.23)	(-1.56)	(-0.86)	(-0.75)	(-1.85)
Female	-0.037	-0.017	-0.042	-0.037	-0.040
	(-0.82)	(-0.37)	(-0.92)	(-0.83)	(-0.89)
CEOChair	-0.191***	-0.195***	-0.203***	-0.154*	-0.141
	(-2.81)	(-3.05)	(-3.09)	(-1.79)	(-1.52)
Academic	0.068	0.030	0.061	0.072*	0.038
	(1.61)	(0.71)	(1.46)	(1.68)	(0.89)
Bureaucrat	-0.103	-0.109*	-0.076	-0.108	-0.067
	(-1.49)	(-1.66)	(-1.04)	(-1.56)	(-0.82)
Accountant	0.071	0.036	0.012	0.068	0.043
	(1.14)	(0.61)	(0.19)	(1.08)	(0.68)
Lawyer	0.246***	0.236***	0.217***	0.267***	0.228***
	(3.87)	(3.78)	(3.28)	(4.21)	(3.51)
Finance	0.130	0.141	0.133	0.178*	0.163
	(1.38)	(1.43)	(1.43)	(1.91)	(1.59)
Executive	-0.039	-0.054	-0.061	-0.015	-0.025
	(-0.79)	(-1.12)	(-1.25)	(-0.28)	(-0.49)
Observations	1,873	1,873	1,873	1,810	1,810
Pseudo R-squared	0.124	0.128	0.121	0.116	0.139

Table 4: Reputation Stock and Career Concerns

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

	(1)	(2)	(3)	(4)	(5)	(6)
	Full Sample	*MediaMention* > 0	*MediaMention* = 0	Full Sample	*#Directorship* > 1	*#Directorship* = 1
DirectorAge	-0.004*	-0.005*	-0.005*	0.002	-0.029***	-0.002
	(-1.85)	(-1.81)	(-1.87)	(1.08)	(-4.90)	(-0.89)
MediaMention	0.068***					
	(3.27)					
*MediaMention*DirectorAge*	0.002					
	(1.21)					
#Directorship				0.142***		
				(3.92)		
*#Directorship*DirectorAge*				-0.017***		
				(-4.53)		
SocialTies	-0.058	0.041	-0.139*	-0.068	-0.243*	0.049
	(-1.12)	(0.34)	(-1.93)	(-1.25)	(-1.69)	(0.55)
Compensation	-0.017	0.023	-0.132**	-0.017	0.036	-0.044
	(-1.33)	(0.87)	(-2.43)	(-1.29)	(0.24)	(-1.16)
Female	-0.047	-0.088	-0.113	-0.023	-0.139	-0.043
	(-1.04)	(-1.11)	(-1.58)	(-0.50)	(-0.91)	(-0.65)
CEOChair	-0.194***	-0.212	-0.298***	-0.185***		-0.333***
	(-2.73)	(-1.11)	(-4.09)	(-2.64)		(-8.09)
Academic	0.061	0.168*	-0.004	0.023	-0.203**	0.060
	(1.46)	(1.93)	(-0.06)	(0.55)	(-2.05)	(0.83)
Bureaucrat	-0.068	0.117	-0.220***	-0.091	-0.569***	-0.066
	(-0.86)	(0.51)	(-2.85)	(-1.28)	(-50.94)	(-0.58)
Accountant	0.034	-0.053	0.164	0.004	-0.184	0.015
	(0.55)	(-0.47)	(1.52)	(0.06)	(-1.32)	(0.18)
Lawyer	0.214***	0.101	0.284***	0.214***	0.065	0.308***
	(3.25)	(0.77)	(3.01)	(3.36)	(0.34)	(3.74)
Finance	0.120	0.239*	0.197	0.155	-0.372***	0.100
	(1.28)	(1.85)	(1.29)	(1.51)	(-2.76)	(0.87)
Executive	-0.055	-0.145	-0.081	-0.066	0.070	-0.054
	(-1.11)	(-1.43)	(-1.05)	(-1.38)	(0.42)	(-0.77)
Observations	1,873	596	845	1,873	317	918
Pseudo R-squared	0.130	0.147	0.152	0.139	0.232	0.144

Table 5: Director Career Outcomes Following Dissent

The sample consists of all directors in boards involving dissent. *NetGain* is the number of new board seats obtained up to three years after the dissent event minus the loss of the current director seat, divided by the number of current seats held at the time of the dissent. *SeatChange* is the number of outside board seats of the director in the third year after the dissent event minus the number of current seats held at the time of the dissent all divided by number of current seats held at the time of the dissent. Other variables are the same as defined in previous tables. Panel A presents the summary statistics at the director-year level. Panel B presents regression results examining the effects of dissenting on director career outcomes. The number of observations for Panel A is 689.

Panel A: Summary Statistics

Variable	Mean	Median	Standard Deviation
DirectorAge	49.759	47	10.473
MediaMention	1.935	1.000	3.313
Log(1+ MediaMention)	0.735	0.693	0.846
#Directorship	1.551	1	1.018
Dissent	0.475	0	0.5
NetGain	-0.215	0	0.637
ROA(t-1)	-0.041	0.012	0.222
ROA(t)	-0.074	0.012	0.444
SeatChange	-0.504	-1	0.654
Assets (in billion yuan)	24.331	1.584	93.983
Log(Assets)	21.441	21.183	1.53

Panel B: Regression analysis

This table reports results from OLS regressions explaining the board seats change following the dissent events. The dependent variable is *NetGain* in columns 1 to 3 and is *SeatChange* in columns 4 to 6. The table reports the coefficient estimate and the *t*-statistics (in parenthesis) based on standard errors clustered at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively, in two-tailed tests. Industry fixed effects are included.

Dep. variable	*NetGain*			*SeatChange*		
	Full sample	*DirecorAge* > median	*DirecorAge* ≤ median	Full sample	*DirecorAge* > median	*DirecorAge* ≤ median
Dissent	0.142**	0.051	0.211***	0.076	0.055	0.157**
	(2.38)	(0.57)	(2.67)	(1.38)	(0.73)	(2.20)
MedianMention	-0.100***	-0.148***	-0.084	-0.104***	-0.122***	-0.095**
	(-2.86)	(-3.16)	(-1.65)	(-3.35)	(-3.01)	(-2.14)
DirectorAge	-0.006**			-0.006**		
	(-2.35)			(-2.57)		
#Directorships	0.109***	0.114***	0.091***	0.061***	0.098***	0.037
	(4.81)	(4.30)	(2.65)	(3.09)	(4.63)	(1.04)
ROA(t-1)	0.691	0.727	0.871*	0.795**	0.376	0.839**
	(1.59)	(1.19)	(1.92)	(2.47)	(0.78)	(2.33)
ROA(t)	0.102	0.059	0.084	-0.003	0.062	-0.019
	(1.10)	(0.43)	(1.02)	(-0.04)	(0.58)	(-0.19)
Size	0.046	0.023	0.037	0.012	0.013	0.001
	(1.49)	(0.57)	(0.89)	(0.50)	(0.38)	(0.03)
Observations	689	315	317	689	342	326
R-squared	0.15	0.14	0.16	0.11	0.11	0.07

Figure 1. Event Study: Announcement of Board Voting Outcomes

This figure presents the cumulative abnormal returns for the event window of [−10, −10] days around the announcement of the board voting outcomes, averaged over all events. The abnormal returns are calculated using the market model. The board meeting outcome announcement date is the event date (i.e., day 0). We compute abnormal returns using the market model, where the market beta is estimated using return data during the [−230, −21 days] window.