Relations between the professional backgrounds of independent directors in state-owned enterprises and corporate performance ☆

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A R T I C L E   I N F O

A B S T R A C T

The article analyzes how the professional backgrounds of independent directors (hereinafter IDs) in state-owned enterprises (hereinafter SOEs) influence corporate performance by collecting and analyzing publicly available data on listed companies. After differentiating between the "nominal professional backgrounds" and "real professional backgrounds" of IDs, we find that more than 85% of IDs have backgrounds in "the party-state system". Based on IDs' "real professional backgrounds", IDs' proportion of board seats is negatively correlated with corporate performance, indicating that IDs from "the party-state system" background did not play a positive and effective role in helping companies improve their corporate performance. Additional deep, broad analysis shows that the diversification of IDs' backgrounds in SOEs is positively correlated with corporate performance. Additionally, an SOE that has dissenting IDs or IDs with "different voices" achieves better corporate performance. Therefore, reducing the number of IDs from "the party-state system" and focusing more on IDs' professionalism and background diversity should be considered.

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1. Introduction

It can be determined from the current enterprise systems that the board system—particularly the independent director system—is the core internal control system for corporate governance. Many studies identify the board of directors as the organization that aims to solve the agency problems arising out of the separation of ownership and managerial rights. The board is also a crucial institution for supervising and balancing the enterprise at the managerial level (Fama, 1980). IDs have become essential because of their independence and professionalism.

SOEs have played a key role in China's economic system for several decades. A new round of SOE reform has been launched that includes the implementation of mixed-ownership reform. One of this round's core reforms is to improve SOEs' corporate governance. To achieve this goal, the first feasible measure is to require the board's active involvement in enterprise performance; however, the function of IDs cannot be ignored.

Chinese SOEs—especially listed ones—already have an established ID system; however, the system has not operated as smoothly as expected. There is no clear consensus about whether IDs play an effective role in improving enterprise performance or whether they are a mere "frill". Some even argue that IDs create conduits for power-to-money deals.

To identify whether IDs in China's SOEs have assiduously performed their duties, it is necessary to analyze their backgrounds. In most situations, IDs' independence and professionalism are closely related to their backgrounds. Consideration of China's unique national conditions reveals that IDs from "the party-state system" usually have poor performance in terms of independence and professionalism.

In considering these issues, this article analyzes the influence of IDs' backgrounds on SOEs' performance by collecting and analyzing publicly available data on listed companies. It then discusses how to improve the composition of SOE boards, focusing primarily on improving the ID system.

The remainder of the article is structured as follows. The second section reviews the literature related to IDs. The third section contains the research hypothesis and the fourth section explains the data used in the empirical analysis. The fifth section presents the research findings and the sixth part offers the study conclusion and recommendations.

2. Literature review

Current studies of IDs primarily use Principal-Agent Theory and Recourse Support Theory as their theoretical foundation. Principal-Agent Theory indicates that IDs are considered as enterprise "outsiders" and therefore are more objective and independent. Accordingly, IDs can improve corporate performance by supervising business operations in an impartial manner, helping companies solve principal-agent problems, and controlling agency costs (Fama, 1980). Based on empirical data, Rosenstein and Wyatt (1990) find that the proportion of IDs on a board is significantly and positively correlated with the value of the company. Several scholars (Baysinger & Butler, 1985; Brickley, Coles, & Terry, 1994, Yermack, 2004) also find that the higher proportion of IDs on a board, the better the company's operating performance. Consistent with these arguments, Stein (2011) states that an adequate number of qualified IDs can even substitute for CEOs.

Some researchers have explored these issues in the Chinese context. Wang, Ziye, and Xiaoyan (2006) indicates that IDs are significantly and positively correlated with company value. Bai et al.'s (2005) study finds that listed companies with higher management levels have greater market value, suggesting that a reasonable corporate governance structure should include a board dominated by external personnel. Jinsong and Minyi (2003), Zheng, Yang, Jun, and Cheng (2004) note that the correlation between IDs and company value is positive but weakly simultaneous.

Recourse Support Theory argues that IDs can go beyond their supervisory duties to provide company management with resource support from their external networks, (Zahra & Pearce, 1989). Hambrick's (1987) research shows that experts with rich theoretical knowledge can offer relatively objective and impartial consultation and assistance. Mehran (1992) finds that IDs from a banking background can provide enterprises with potential profits. Research by Anderson and Bizjak (2003) proves that in United States (U.S.) listed companies, 40.6% of the IDs are senior executives from other companies, whereas only 4.7% are from academic institutions.

Some researchers show more interest in Chinese enterprises. Wei et al.'s (2007) empirical investigation shows that a greater number of IDs from the government and banking sectors leads to better business performance. Hu and Tang's (2008) research proves this point: the more IDs with a financial background, the better a company's ability to generate profits. Tang et al. (2005) indicate that IDs with a single background (business or non-business) exert no significant impact upon company performance. When a company hires IDs with diverse backgrounds or with miscellaneous professional experiences in various industries, the composition of IDs is likely to be diversified and therefore, these IDs are more capable of improving company performance. Zhang and Ling's (2010) study illustrates that IDs with both academic and business backgrounds can have obvious, positive effects on company performance. Additionally, Ye et al. (2011) argue that when company performance is poor, IDs are more likely to publicly question management behaviors. However, if there are different opinions and voices, or even dissenters, the enterprise's market value is predicted to be higher.

The literature invites the speculation that no matter which of the two theories is used, IDs can play a pivotal role in improving both corporate governance and company performance.

Nevertheless, some scholars disagree, contending that the influence of IDs on company performance is not obvious. For example, Adams and Ferreira (2007) indicates that IDs cannot obtain all of a company's information and thus their supervision efficiency may be reduced. By comparing data from 296 financial firms in 30 countries, Erkens, Hung, and Matos (2012) find that the stock value of enterprises with more IDs tends to be lower in times of financial crisis. Furthermore, Haijian and Heng (2006) states that 1/3 of IDs have limited influence when balancing principal shareholders and managerial staff. Moreover, studies by Li and Lai (2004) do not find significant negative correlation between IDs and corporate performance. This might be because it is difficult to guarantee IDs' independence; however, the reason that it is difficult to confirm IDs' independence is not discussed in their articles.

Whichever theory is chosen, the factual question of whether IDs can fully perform their functions and improve corporate governance is closely linked to their professional backgrounds. IDs with working experience in investment banks or who are former (or current) accountants, lawyers or entrepreneurs are more professional. Their diversified career backgrounds enable them to offer more resource support to their enterprises. Therefore, it is worth investigating IDs' real backgrounds when analyzing their influence on company performance. Currently, there seems to be no investigation or relevant studies into IDs' real backgrounds, and regression analysis based on corresponding survey data is also lacking. The next section will examine data collection and analysis focusing on the extent of IDs' influence on Chinese SOEs and the impact of their professional backgrounds on corporate performance.

3. Research hypothesis

Principal-Agent Theory posits that IDs are not restricted by controlling shareholders or company operators; therefore, they are more independent and objective than inside directors. Through their independent judgment, IDs can supervise and balance enterprise management, reduce agency costs, and optimize power distribution at the management level. By doing so, they enhance enterprise efficiency and effectiveness while promoting the interests of corporate investors. Recourse Support Theory explains that IDs can not only use their external relationships to help enterprises reduce transaction costs but also ensure the completion of beneficial transactions and provide the enterprise with necessary resource support. IDs' main purpose is to centralize social resources and therefore facilitate enterprise development. Based on these points, three hypotheses can be proposed.

Hypothesis 1. : *The larger the proportion of IDs on the board of an SOE, the better the corporate performance the SOE will achieve.*

According to Recourse Support Theory, IDs can provide resource support to enterprises via their external relationships to improve the enterprise's resource integration capability. An enterprise is likely to benefit from employing IDs with various backgrounds and by doing so, it can obtain more resources. For instance, IDs from universities and research institutions possess rich theoretical knowledge; IDs from government departments or with military backgrounds are well equipped to interpret national policies; and IDs from foreign or private enterprises not only engage in advanced market-oriented thinking but also typically have a deep understanding of the characteristics of competitive markets.

Hypothesis 2. : *The more diverse IDs' backgrounds tend to be, the better corporate performance the SOE will achieve.*

Some regard IDs' independence as unimportant because IDs are considered to have little influence compared to inside directors. If an ID dares to openly question a board proposal, this indicates that the ID has relatively high independence. IDs' greater independence can largely alleviate principal-agency problems, thus helping increase an enterprise's value. Meanwhile, IDs' open questioning can remind other stockholders to strengthen their supervision of management, which helps reduce agency costs.

Hypothesis 3. : *The presence of IDs with "different voices" or who dissent allows for better corporate performance in an SOE.*

4. DATA and sample

4.1. Data

The SASAC subordinate enterprises between 2009 and 2013 are selected after eliminating missing data, resulting in a sample of 867 enterprises with 3041 IDs. All of the enterprise data are drawn from the **CSMAR** (China Stock Market and Accounting Research) database. Meanwhile, most IDs' background data are either deficient or completely missing. Therefore, to determine the IDs' real occupational backgrounds, we had to artificially recheck their work experience in SOEs one ID at a time using annual reports, work reports, finance and economics networks and other public asset-verification resources. Some SOEs have temporarily adjusted IDs' appointments and consequently, we have made certain adjustments when reviewing enterprises' annual earnings reports. IDs are selected based on their tenure, which means that only IDs who have worked for their companies at least eight months are selected. This is because IDs cannot exert an adequate amount of influence upon an enterprise unless they have been in their position for a certain period. The composition of the sample is outlined in Table 1.

4.2. Sample characteristics

To easily analyze the IDs' intuitive features, we first define the characteristic variables related to IDs, as set forth in Table 2. Table 3 illustrates the institutional features of IDs and provides a statistical analysis of each variable. The average proportion of IDs is 36.69%, which barely meets the suggested requirement that a board be comprised of at least one-third IDs.

We found that IDs in SOEs primarily come from academic institutions, government departments or other SOEs. Academic institutions—e.g., universities, the Chinese Academy of Science, etc.—provide 42.11% of SOEs, whereas another 10.16% are retired officials. IDs from banks and other financial institutions, other SOEs, private foreign enterprises, accounting firms and law firms constitute 3.12%, 14.92%, 5.17%, 6.18% and 9.28% of IDs, respectively. The remaining 8.42% of IDs are from other non-governmental organizations such as industry associations.

Table 1
Sample explanation.

Year	Enterprise number	ID number
2010	215	753
2011	220	763
2012	221	763
2013	220	762

(Source: CSMAR).

Table 2
The definition of IDs' characteristic variables.

Variable	Definition
IDP	The proportion of independent directors
ACD	The proportion of independent directors from academic research institutions
GOV	The proportion of independent directors in the enterprise from government
BANK	The proportion of independent directors from banks and other financial institutions
SOEs	The proportion of independent directors from state-owned enterprises
PEs	The proportion of independent directors from private foreign investment enterprises
CPA	The proportion of independent directors from accounting firms
LAW	The proportion of independent directors from law firms
GUILD	The proportion of independent directors from industry associations

As noted above, SOEs' IDs hail from different backgrounds in various fields. However, further analysis of IDs' background distribution indicates that in private enterprises, accounting firms, law firms and industry associations, most IDs come from "the party-state system": either they are engaged as IDs after their retirement or they previously worked for the government or other SOEs. All IDs' work experiences can be determined from public information. Subsequently, we re-examined IDs' professional backgrounds by gathering and analyzing public information. There is no need to re-categorize the backgrounds of IDs who have part-time jobs unless they were longtime occupants of real job positions before taking the ID position. The results from the analysis are presented in Table 4.

From the data presented above it can be observed that more than 70% of the staff in industry associations is composed of retired officials who were engaged as IDs by SOEs after their retirement. This means that those IDs are from the "system". After reclassifying IDs' working background, we found that more than 85% of the IDs had worked or are working for "the party-state system" and come primarily from academic institutions, government departments or other SOEs.

5. Regression analysis and test

5.1. Analysis and test of Hypotheses 1 and 2

When investigating how IDs' backgrounds influence corporate performance, the number of IDs in a single enterprise should be controlled and therefore, both Hypotheses 1 and 2 should be tested in one regression model. Corporate performance is identified as the dependent variable in this model. In addition, to ensure the robustness of the regression results, rate of return on common stockholders' equity (ROE) and net cash flow per share (CASH) are selected as indicators to measure corporate performance. The former represents the income level of shareholders' equity and the latter is indicative of the enterprises' dividend-distribution ability. The explanatory variables are the proportion of IDs present on the board (IND), their professional backgrounds and whether the enterprise employs IDs with diverse backgrounds (NUMEROUS). Specific definitions of variables in the section are given in Table 2. Controlled variables that may be informed by existing documents (Wei et al., 2007; He, Wang, & Wang, 2010) include the proportion of direct controlling shareholders, the part-time status of chairmen and presidents (PS), board size (BSIZE), firm size (FSIZE), IDs' remuneration (REWARD), industry compatibility (COMP) and revenue growth rate (IRBR). For additional explanation of these variables, see Table 5.

To illustrate IDs' influence on corporate performance since taking office, current data are used to represent explained variables in the regression equation, whereas explanatory variables are represented by lagged data, thereby avoiding the endogenous problems in regression analysis. Based on the empirical research, we found that more than 85% of IDs have a background in "the party-state system". To continuously explore and differentiate how IDs' real professional backgrounds influence corporate performance, both "nominal professional backgrounds" and "real professional backgrounds" are used in the regression analysis.

Table 3
Sample descriptive statistics analysis results.

Variable name	Average	Median	Maximum	Minimum	Standard deviation
IDP	0.3669	0.3333	0.8000	0.2500	0.0631
ACD	0.4211	0.3300	1.0000	0.0000	0.2967
GOV	0.1016	0.0000	1.0000	0.0000	0.1746
BANK	0.0317	0.0000	0.6700	0.0000	0.1012
SOEs	0.1492	0.0000	1.0000	0.0000	0.2377
PEs	0.0575	0.0000	0.6700	0.0000	0.1270
CPA	0.0618	0.0000	1.0000	0.0000	0.1315
LAW	0.0928	0.0000	0.6700	0.0000	0.1474
GUILD	0.0842	0.0000	1.0000	0.0000	0.1677

(Source: CSMAR).

Table 4
Real backgrounds of independent directors.

Original background	Real backgrounds								
	Year	GOV	SOEs	PEs	ACD	CPA	LAW	BANK	GUILD
GUILD	2009	70.42%	15.49%	1.40%	7.04%	0.00%	1.40%	0.00%	4.22%
	2010	78.08%	13.70%	1.37%	1.37%	0.00%	1.37%	0.00%	4.11%
	2011	78.75%	13.75%	1.25%	1.25%	0.00%	1.25%	0.00%	3.75%
	2012	77.78%	14.81%	0.00%	4.94%	0.00%	1.23%	0.00%	1.23%
	2013	74.70%	18.07%	0.00%	4.82%	0.00%	0.00%	0.00%	2.41%
LAW	2009	30.88%	5.88%	1.47%	0.00%	0.00%	60.29%	0.00%	1.47%
	2010	27.14%	11.43%	0.00%	0.00%	0.00%	61.43%	0.00%	0.00%
	2011	29.49%	10.26%	0.00%	0.00%	0.00%	58.97%	0.00%	1.28%
	2012	29.49%	8.97%	0.00%	0.00%	1.28%	60.26%	0.00%	0.00%
	2013	27.63%	11.84%	0.00%	0.00%	1.32%	58%	0.00%	0.00%
CPA	2009	36.96%	15.22%	2.17%	0.00%	43.48%	0.00%	2.17%	0.00%
	2010	34.00%	10.00%	2.00%	0.00%	52.00%	0.00%	2.00%	0.00%
	2011	34.09%	11.36%	2.27%	0.00%	50.00%	0.00%	2.27%	0.00%
	2012	29.41%	17.65%	0.00%	0.00%	47.06%	0.00%	1.96%	0.00%
	2013	27.27%	16.36%	0.00%	0.00%	50.91%	0.00%	2.00%	0.00%
PEs	2009	10.87%	0.00%	82.61%	0.00%	0.00%	0.00%	6.52%	0.00%
	2010	14.58%	4.17%	79.17%	0.00%	0.00%	0.00%	2.08%	0.00%
	2011	12.77%	8.51%	76.60%	0.00%	0.00%	0.00%	2.13%	0.00%
	2012	11.36%	6.82%	81.82%	0.00%	0.00%	0.00%	0.00%	0.00%
	2013	7.14%	4.76%	88.10%	0.00%	0.00%	0.00%	0.00%	0.00%

(Source: CSMAR and enterprise annual report, work report of IDs and other public asset verification resources).

Regression equations (1) and (2) of "nominal professional backgrounds":

$$
\begin{aligned}
CASH_{i,t} = {} & \alpha_0 + \alpha_1 ACD1_{i,t-1} + \alpha_2 GOV1_{i,t-1} + \alpha_3 BANK1_{i,t-1} + \alpha_4 SOEs1_{i,t-1} + \alpha_5 PEs1_{i,t-1} + \alpha_6 CPA1_{i,t-1} + \alpha_7 LAW1_{i,t-1} \\
& + \alpha_8 GUILD1_{i,t-1} + \alpha_9 IDP_{i,t-1} + \alpha_{10} COMP_{i,t} + \alpha_{11} NUMRS_{i,t} + \alpha_{12} PS_{i,t} + \alpha_{13} BSIZE_{i,t} + \alpha_{14} STATE_{i,t} + \alpha_{15} EAL_{i,t} \\
& + \alpha_{16} FSIZE_{i,t} + \alpha_{17} REWARD_{i,t} + \alpha_{18} IRBR_{i,t} + \varepsilon_{i,t}
\end{aligned}
\tag{1}
$$

$$
\begin{aligned}
ROE_{i,t} = {} & \beta_0 + \beta_1 ACD1_{i,t-1} + \beta_2 GOV1_{i,t-1} + \beta_3 BANK1_{i,t-1} + \beta_4 SOEs1_{i,t-1} + \beta_5 PEs1_{i,t-1} + \beta_6 CPA1_{i,t-1} + \beta_7 LAW1_{i,t-1} \\
& + \beta_8 GUILD1_{i,t-1} + \beta_9 IDP_{i,t-1} + \beta_{10} COMP_{i,t} + \beta_{11} NUMRS_{i,t} + \beta_{12} PS_{i,t} + \beta_{13} BSIZE_{i,t} + \beta_{14} STATE_{i,t} + \beta_{15} EAL_{i,t} \\
& + \beta_{16} FSIZE_{i,t} + \beta_{17} REWARD_{i,t} + \beta_{18} IRBR_{i,t} + \varepsilon_{i,t}.
\end{aligned}
\tag{2}
$$

Regression equations (3) and (4) of "real professional backgrounds":

$$
\begin{aligned}
CASH_{i,t} = {} & \delta_0 + \delta_1 ACD2_{i,t-1} + \delta_2 GOV2_{i,t-1} + \delta_3 BANK2_{i,t-1} + \delta_4 SOEs2_{i,t-1} + \delta_5 PEs2_{i,t-1} + \delta_6 CPA2_{i,t-1} + \delta_7 LAW2_{i,t-1} \\
& + \delta_8 GUILD2_{i,t-1} + \delta_9 IDP_{i,t-1} + \delta_{10} COMP_{i,t} + \delta_{11} NUMRS_{i,t} + \delta_{12} PS_{i,t} + \delta_{13} BSIZE_{i,t} + \delta_{14} STATE_{i,t} + \delta_{15} EAL_{i,t} \\
& + \delta_{16} FSIZE_{i,t} + \delta_{17} REWARD_{i,t} + \delta_{18} IRBR_{i,t} + \varepsilon_{i,t}
\end{aligned}
\tag{3}
$$

Table 5
Definitions of the main model variables.

Variable	Definition
CASH	Amount of cash flows (A share)
ROE	Enterprise net assets yield equal to the enterprise net income divided by shareholders' equity average balance
NUMRS	If the IDs in an enterprise have at least three different backgrounds 1, otherwise 0
STATE	Directly controlling shareholders holding ratio
PS	If the enterprise's chairman concurrently serves as a manager 1, otherwise 0
BSIZE	BOARDSIZE
LEV	Enterprise asset–liability ratio
FSIZE	Logarithm of the total amount of enterprise assets
COMP	If at least one ID comes from a background that is in line with the business scope of the enterprise's industry 1, otherwise 0
REWARD	Logarithm of the average reward paid by the enterprise to its IDs
IRBR	The enterprise's operating income growth rate

Table 6
Professional backgrounds and corporate performance regression results.

	CASH		ROE	
	Background 1	Background 2	Background 1	Background 2
C	7.1**	6.95	0.79	0.47
IDP	0.14	−0.06	−0.48***	−0.44***
NUMRS	0.16*	0.21*	0.06***	0.07**
STATE	−0.79	−0.64	0.34	0.28
PS	−0.22**	−0.20*	0.01	0.02***
BSIZE	−0.03	−0.03	−0.01	−0.00
LEV	2.33***	2.36***	−0.21	−0.21
FSIZE	−1.53***	−1.52***	−0.09***	−0.09**
REWARD	1.29	1.25	0.09	0.14**
IRBR	0.03***	0.03***	0.00**	0.00**
COMP	−0.07	−0.10	0.10	0.11
ACD	1.44	1.86***	−0.28***	−0.30***
GOV	0.96	1.06	−0.03	0.15
BANK	0.72	0.22	−0.35***	−0.28***
SOEs	0.60	1.01	0.10	0.09**
PEs	1.72**	2.41***	−0.24***	−0.35***
CPA	0.88	0.96	−0.14	−0.28***
LAW	0.95	1.26*	0.14	−0.19
GUILD	0.97	2.50	−0.02	−0.04
R2	0.27	0.28	0.73	0.73

(Source: CSMAR).

* indicate significance at 10%.
** indicate significance at 5%.
*** indicate significance at 1%.

$$ROE_{i,t} = \phi_0 + \phi_1 ACD2_{i,t-1} + \phi_2 GOV2_{i,t-1} + \phi_3 BANK2_{i,t-1} + \phi_4 SOEs2_{i,t-1} + \phi_5 PEs2_{i,t-1} + \phi_6 CPA2_{i,t-1} + \phi_7 LAW2_{i,t-1}$$
$$+ \phi_8 GUILD2_{i,t-1} + \phi_9 IDP_{i,t-1} + \phi_{10} COMP_{i,t} + \phi_{11} NUMRS_{i,t} + \phi_{12} PS_{i,t} + \phi_{13} BSIZE_{i,t} + \phi_{14} STATE_{i,t} + \phi_{15} EAL_{i,t}$$
$$+ \phi_{16} FSIZE_{i,t} + \phi_{17} REWARD_{i,t} + \phi_{18} IRBR_{i,t} + \varepsilon_{i,t}. \tag{4}$$

The results from the Hausman tests were ①$\chi^2(18) = 27.9345$, ②$\chi^2(18) = 62.4121$, ③$\chi^2(18) = 29.5469$, and ④$\chi^2(18) = 42.2506$, which shows that a fixed effect model is preferred to a random-effects model and therefore the former is selected. The following facts can be observed from the regression results shown in Table 6:

1. When "nominal professional backgrounds" is used as explanatory variables in the regression, although the proportion of IDs is significantly negatively correlated to ROE and is positively correlated to CASH (in yuan), its significance is not obvious. However, once "real professional backgrounds" is included as an explanatory variable in the regression analysis, the proportion of IDs is significantly negative correlated with both ROE and CASH (in yuan).

The result shows that when an SOE has more IDs with backgrounds in "the party-state system", corporate performance is likely to suffer. This result does not support Principal-Agent Theory or Recourse Support Theory, and it is the opposite of the results found by most of the literature. The primary reason for this is that IDs with this type of background are not always employed pursuant to a formal process but instead are employed in accordance with non-market factors. For example, such IDs may be appointed by the authorities, SOEs may invite them for public-relations purposes, or both sides may be involved in some "power-to-money businesses under the table". Therefore, it can be predicted that IDs with backgrounds in "the party-state system" tend not to share their resources or to contribute but instead identify their appointment as a "money-making opportunity". The situation is different in foreign companies (Kirchmaier, Grant, & Kirshner, 2009; Atanasov, Black, & Ciccotello, 2014), from which management and controlling shareholders find it easy to extract wealth. To some extent, this explains why China has enacted a series of regulations to restrict current and retired government officers from being invited to serve as IDs in listed SOEs.[1]

2. The diversity of both "nominal professional backgrounds" and "real professional backgrounds" is significantly positively correlated with corporate performance, but the correlation coefficient of the latter item is notably larger than that of the former one. This can be interpreted as suggesting that IDs with miscellaneous backgrounds play their roles effectively, which is significantly positively correlated with corporate performance, consistent with our hypothesis. Based on Recourse Support Theory, IDs are capable of providing necessary resources to enterprises via their private external networks, and each ID has advantages. When numerous IDs with various backgrounds are employed by the enterprise, its resource-

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[1] On October 19, 2013, the Organization Department of the CPC Central Committee issued relevant policies and regulations restricting the qualifications, retirement age, tenure age and salary of party leaders serving in SOEs.

Table 7
"Different voices", disagreements and dissents of IDs.

Type of open questioning of the board's decision	Personnel change	Annual report	Related transactions	Related guarantees	Others
Numbers	1	1	5	10	3
Types of openly questioning opinions	Disagreement		Dissent		Others
Numbers	2		1		11

(Source: CSMAR).

integration ability can be developed, thus boosting its operational efficiency, both improving operation quality and increasing market competitiveness.

5.2. Analysis and test of Hypothesis 3

There are several types of vote on a board, including for, against, waiver, reservations, unable to comment, objection and others. The Chinese have been advocating the culture of "the Doctrine of the Mean" since ancient times and because of this, IDs rarely vote against others. Instead, they use a relatively discreet method of saying "no", such as waiver, reservation, no comment, etc. Therefore, we divide all of the non-affirmative votes into a "dissent group". Because the dissenting votes were mostly cast in 2013, our empirical analysis is based on that year. There are 22 enterprises and 762 IDs. Forty-two IDs cast a dissent vote, accounting for 5.41% of all of their votes. For information about "different voices", disagreements and dissents, see Table 7.

Here, corporate performance is still used as the dependent variable. Simultaneously, ROE and CASH are selected as indicators evaluating corporate performance to ensure the robustness of the regression results. ROE is indicative of the income level of shareholders' equity and CASH indicates enterprises' dividend-distribution ability. The explanatory variable is defined as VOTE, which is equal to 1 if at least one ID openly questions the board's decisions and 0 otherwise. The control variables include the proportion of IDs (IND), the part-time status of chairmen and presidents (PS), board size (BSIZE), the enterprise's asset–liability ratio (LEV) firm size (FSIZE),IDs' remuneration (REWARD) and revenue growth rate (IRBR). The basic regression models are as follows:

$$CASH_i = \eta_0 + \eta_1 VOTE_i + \eta_2 PS_i + \eta_3 BSIZE_i + \eta_4 STATE_t + \eta_5 EAL_{i,t} + \eta_6 FSIZE_i + \eta_7 REWARD_i + \eta_8 IRBR_i \qquad + \eta_9 IDP_i + \varepsilon_i \qquad (5)$$

$$ROE_i = \theta_0 + \theta_1 VOTE_i + \theta_2 PS_i + \theta_3 BSIZE_i + \theta_4 STATE_t + \theta_5 EAL_{i,t} + \theta_6 FSIZE_i + \theta_7 REWARD_i + \theta_8 IRBR_i \qquad + \theta_9 IDP_i + \varepsilon_i. \qquad (6)$$

As seen in Table 8, IDs' VOTE in SOEs is significantly and positively correlated with CASH, which is in line with our hypothesis. If IDs can openly question board decisions, they are identified with high independence. Agency theory indicates that the enhancement of IDs' independence can assist enterprises in reducing agency costs. Enterprises with more diverse voices and opinions are more likely to make relatively objective decisions. This argument is consistent with the findings in Ye et al. (2011). Additionally, IDs' VOTE in SOEs is positively correlated with ROE, but this is not notable, possibly because China's current stock market is a policy market.

Table 8
Regression results of dissent vote and company performance.

	Business Performance	
	Cash	ROE
C	0.31	−1.03
SVOTE	0.68***	0.06
FSIZE	0.26**	−0.39*
PS	0.98***	0.04
STATE	−0.32**	0.03
BSIZE	−0.12	0.09
IDP	0.15	−0.10
REWARD	1.68	0.01
EAL	−0.04	0.25
IRBR	0.44	0.17
R2	0.11	0.03

(source: CSMAR).
* indicate significance at 10%.
** indicate significance at 5%.
*** indicate significance at 1%.

6. Conclusion and recommendation

This paper quantitatively analyzes the role played by IDs of SOEs and those IDs' influence on enterprises, based on the statistics of listed companies between 2009 and 2013. Contrary to the prediction of existing theories in the literature, a greater number of IDs on the board of listed SOEs does not help improve corporate performance. After analyzing IDs' professional backgrounds, we found that more than 85% of IDs are directly or indirectly from "the party-state system", which means either that they are easily identified (to some extent) as "dummy independent directors" or they can create shortcuts for power-to-money deals and their own private benefit. Moreover, SOEs' performance is predicted to be better when IDs' professional backgrounds or more diverse and when IDs either dissent or express themselves in "different voices".

Some recommendations can be made based on the above analysis. First, it is suggested that employing IDs with diverse backgrounds instead of those from "the party-state system" background can help enhance IDs' professionalism and diversity. Furthermore, IDs should be motivated to cultivate independence and should be guided and encouraged to fulfill their responsibilities and express their actual thinking and suggestions. One of the main directions of China's future economic development is mixed ownership. The foundation of promoting mixed ownership is the authorization of private capital in the SOE system: the construction of boards and IDs are the core elements in that process. With the extension and implementation of the mixed-ownership economic reform, IDs with a background in "the party-state system" are likely to be an historical phenomenon.

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