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INDEPENDENT DIRECTORS' DISSENT ON BOARDS: EVIDENCE FROM LISTED COMPANIES IN CHINA

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Research summary: *Although opinion conformity is believed to be commonly used by corporate elites to invoke reciprocity, it is hard to study in the context of corporate boards since boards are typically "black boxes." Focusing on publicly traded companies in China, where disclosure of dissent is mandated, we show that dissent is associated with a breakdown of the social exchange relationship within boards. Specifically, dissent is more likely to occur when the board chair who appointed the independent director has left the board, or when the board "game" is reaching its last round, defined as a 60-day window before departure of the board chair or the director herself. Our findings lend considerable support to conceptualization of boards as a social exchange device.*

Managerial summary: *With a novel dataset from China we ask the question of whether the social norm of reciprocity compromises independent directors' decisions. Our results lend considerable support to the hypothesis that independent directors would generally defer to top management as they feel indebted for being offered a director position and in exchange independent directors provide support. We identified two instances in which independent directors are more likely to dissent due to a breakdown of social exchange relationships: (1) when the board chair who appointed the independent director has left the board, and (2) when the board "game" was reaching its last round, that is, either the board chair or the director herself is leaving the board.*

INTRODUCTION

By far, no solid empirical evidence exists to suggest that independent directors add value to shareholders (Adams, Hermalin, and Weisbach, 2010; Tung, 2011). One possibility is that independent directors are not *socially* independent, and therefore, compromised in the performance of their duties. As Warren Buffett once observed, "It was not easy to ask difficult questions in a boardroom populated by well-mannered people who got on well" (FT. com, 2009). Much research on social influences suggests that the social norm of reciprocity significantly compromises directors' decisions (e.g., McDonald and Westphal, 2011; Park, Westphal, and Stern, 2011; Stern and Westphal, 2010; Wade, O'Reilly, and Chandratat, 1990; Westphal and Stern, 2007; Westphal and Zajac, 1997).

The extant literature, however, tends to view boards as black boxes (Adams *et al.*, 2010). Researchers tend not to observe the inner dynamics of boards except when exceptional circumstances force them into the media spotlight or into court proceedings. This study attempts to address this void. The regulatory environment in China offers a

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rare window to observe some of the inner workings of boards. For publicly-traded companies, the China Securities Regulatory Commission (CSRC) mandates that public firms disclose independent directors' dissent during board meetings. Utilizing China's unique empirical setting, we document a concrete interpersonal influence mechanism through which the reciprocity norm at work may affect board independence, that is, directors subject to the norm of reciprocity are more inclined to conform to the firm's top management (Park *et al.*, 2011; Stern and Westphal, 2010).

This study contributes to the stream of corporate governance literature drawing on social exchange theory. Under this stream, for example, researchers have found a positive correlation between CEO pay and the proportion of independent directors hired after the CEO took office (Wade *et al.*, 1990) as well as with a measure of whether the compensation committee chair was appointed after the CEO took office (Main *et al.*, 1995). However, due to the empirical challenge in observing boards' voting pattern, the opinion conformity mechanism has not been fully established in the literature. Our work illuminates that there is value to conceiving board of directors, not as a monolithic entity that shares a common agenda on all matters (Hermalin and Weisbach, 2003), but as a social institution consisting of individuals with different social exchange relationships with the top management (Herman, 1981; Pfeffer, 1972; Useem, 1984).

THEORETICAL FRAMEWORK AND HYPOTHESES

Corporate boards and social exchange

Corporate laws around the globe mandate that independent directors play a supervisory role. Yet, the incentives of independent directors are not entirely clear. Though economic theories highlight the importance of labor market reputation in motivating directors to become decision-making experts (Fama, 1980; Fama and Jensen, 1983), "a reputation as a director who does not make trouble for CEOs is potentially valuable for directors as well" (Hermalin and Weisbach, 2003: 4). Organizational researchers traditionally view boards of directors as a cohesive inner circle of corporate elites that act as a rubber stamp for management's initiative (Herman, 1981; Lorsch and MacIver, 1989; Pfeffer, 1972).

Social exchange literature suggests that favor reciprocation has both normative and instrumental bases. The norm of reciprocity refers to a universal code of moral conduct that programs human beings to reciprocating favors after they are offered (Ekeh, 1974; Molm, 2003), for receiving favors without repaying them leads to a mental state of indebtedness to which human beings are averse (Greenberg, 1980; Uehara, 1995). The instrumental basis for reciprocity, on the other hand, is the self-interest of individuals who seek to receive future favors and benefits (Homans, 1958), which predicts that reciprocity would be more pervasive in repeated games of human interactions (Axelrod, 1984). Many social exchange theorists believe that social norms and individual self-interest combine to motivate reciprocity, which "dictates not only people look for opportunities to help those who have helped them, but also that they should be especially motivated to avoid taking actions that would actually harm their benefactors" (Westphal and Clement, 2008: 876).

Research on social influence tactics indicates that ingratiation is a common tool utilized by corporate elites in invoking reciprocity. Ingratiation by managers or board directors towards CEOs is shown to be associated with favorable career outcomes such as positive performance evaluations, higher compensation, and increased references for outside board appointments (Gordon, 1996; Kumar and Beyerlein, 1991; Stern and Westphal, 2010; Westphal and Stern, 2006, 2007). Common ingratiation tactics include flattery and opinion conformity. Opinion conformity, expressing agreement with another person's opinion, is traditionally regarded as an indirect form of flattery as it validates his or her judgment (Park *et al.*, 2011).

The effect of appointer-appointee tie

Social exchange theory suggests that boards would generally defer to top management as independent directors feel indebted for being offered a director position, and in exchange, independent directors provide support. While generalized forms of social exchange relationships that involve multiple actors across organizational boundaries have also drawn the attention of corporate governance researchers (Westphal and Zajac, 1997), in this study, in accordance with the recent governance literature that examined social dynamics within boards (e.g., Hwang and Kim, 2009; Jiang, Wan,

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and Zhao, 2013; Lin *et al.*, 2013), we take a strictly dyadic and intraorganizational focus.

In the United States, where ownership is widely dispersed, CEOs exert considerable influence over selection of board members (Bacon and Brown, 1975; Coles, Daniel, and Naveen, 2014; Hwang and Kim, 2009; Wade *et al.*, 1990). In China, ownership is concentrated; journalist interviews (e.g. Shi, 2001) and legal scholarship (e.g. Lu, 2002; Shen and Jia, 2004) concur that independent directors are selected by listed companies' dominant shareholder. Our field visits further confirm that in China, a board chair, who best represents firm's dominant shareholder and top management (Firth, Fung, and Rui, 2006; Liao *et al.*, 2009), handpicked nearly all of the independent directors from her own social network. Lastly, we note that in China, top management often overlaps with key board members. For state-owned enterprises (SOEs), the Communist Party selects key board members who significantly overlap with top management, and for non-SOEs the controlling family or individual is usually also the top management.

To the extent that director dissent signals negative quality of the firm (Tang, Du, and Hou, 2013), independent directors who feel indebted to the person for offering the directorship are motivated to conform to that person's initiatives. We thus propose that director dissent is positively associated with a breakdown of the social exchange relationship between the independent director and the board chair who appointed the director.

> *Hypothesis 1a: Ceteris paribus, dissent is less likely to occur in firm-years in which a higher proportion of independent directors are appointed by the board chair.*
> *Hypothesis 1b: Ceteris Paribus, an independent director is more likely to voice dissent after his or her appointing chair left the board.*

The "endgame" effect

Social exchange theory also predicts a higher likelihood of dissent when an independent director *foresees* a breakdown of the social exchange relationship in the near future. We identify two instances in which an independent director may foresee a breakdown of the social exchange relationship, and thus, have a weaker instrumental motive for reciprocity. The first instance is before departure of the independent director him or herself. In such case, either the independent director is reaching his or her six-year term limit as mandated by China's regulations, the director is forced to quit, or he or she is no longer interested in serving the firm. The second instance is before departure of the current board chair, irrespective of whether the current chair appointed the director or not. In either case, while obtaining other career advancement benefits (e.g., career advice, outside directorship recommendations) remains an instrumental motive, the motive for obtaining higher sitting fees or future appointments from the current firm/chair vanishes. Based on these arguments, we predict a higher likelihood of director dissent at the end of the board "game":

> *Hypothesis 2: Ceteris paribus, an independent director is more likely to voice dissent at the end of the board "game," that is, either when he or she herself is leaving the board or when the current chair is leaving the board.*

METHODS

Data collection

We hand-coded independent directors' voting patterns from a total of 24,212 "independent" opinion reports issued from August 2001 to June 2010. We retrieved these reports from the *China Stock Market and Accounting Research* (*CSMAR*) *Solution* Database, a leading data source for corporate governance research on Chinese firms. Independent directors of a firm issue a *joint* opinion report following a board meeting that has discussed a material matter. Each joint opinion report contains multiple director-opinion pairs, clearly stating which director(s) agreed and which director(s) dissented/abstained, along with independent directors' justification(s) for non-confirming (i.e., dissent or abstention) opinions. Independent directors' biographic information and career outcomes are hand-coded from information available at the *CSMAR Solution*. Financial ratios and other control variables can be accessed from the *CSMAR Solution* in clean and useable format.

Samples

Cross-validated by two independent data coders, we identify 119 reports containing dissenting opinions from individual directors. Scarcity of dissent

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is a phenomenon that has been documented in the United States (e.g., Whisler [1984] and Mace [1986] in interview-based studies) and in Israel (e.g., Schwartz-Ziv and Weisbach, 2013 in analyses of board meeting minutes). Practically, one may expect that in equilibrium dissent rarely occurs, especially when dissent is deemed to be associated with negative outcomes for both the firm and the director herself. This reasoning is consistent with the cross-time distribution of dissent over the sample years. During the sample period from August 2001 to June 2010, dissent dropped drastically after 2006. We interpret this as reflecting the learning curve of both the firms and the independent directors. It appears that over time, people figure out how to manage dissent. We thus see more dissent over the sample period than in the long run equilibrium even in China, and this offers us with a unique empirical window. We emphasize that our baseline results are robust to inclusion of year fixed effects.

In predicting when and where dissent occurs, we utilize two regression samples. Our first regression sample contains firm-year observations of all public firms listed on Shanghai and Shenzhen Stock Exchanges from 2001 to 2010. In testing the extent to which the norm of reciprocity affects board independence through opinion conformity, our dependent variable is a binary variable *Dissent* equal to 1 if a firm had at least one independent director who issued a dissenting opinion in a given year. We emphasize that all our results are robust to several alternative definitions of dissent. Specifically, our results are robust to defining dissent as a combination of dissent and abstention, or excluding abstention opinion justified by conflict of interest, traveling, and health issues.

The firm-year analyses allow us to test the extent to which firms that had directors who dissented are different from those where dissent never occurred. Under the assumption that corporate culture does not vary over the sample period, we allow firm fixed effects to address the endogeneity concern that omitted corporate culture is driving our results. Although we also report results without firm fixed effects for comparison, we emphasize results that are robust to inclusion of fixed effects.

The second sample contains director-vote observations. The outcome variable is a binary variable *Dissent* equal to 1 if a specific independent director dissented in an opinion report. Econometrically, allowing firm fixed effects in a binary dependent variable model implies restricting the estimation sample to 68 firms (i.e., 6% of the total number of listed firms in 2001, and 3% of total in 2010) where independent directors have dissented at least once over the sample period. Conceptually, this sample selection implies that we compare dissenting situations to non-dissenting situations restricted to the same firms that are less affected by firm-level unobserved heterogeneity.

When comparing observable firm characteristics across two groups of firms: firms that had at least one dissent and firms that never had dissent, F-tests show that for all observable firm characteristics other than the SOE dummy, within-firm, cross-year differences are shown to be at least as large as the cross-firm differences, offering little evidence that cross-firm variations constitute stronger determinants of independent directors' dissent than within-firm variations.

Variables of interest

Board chairs often nominate independent directors in the name of the entire board. It thus appears challenging to identify the exact nominator of an independent director based on publicly available information. In keeping with the recent U.S. literature (Coles *et al.*, 2014; Hwang and Kim, 2009), we define independent directors as appointed by a board chair if they joined the board after the chair assumed office.

In firm-year analyses, we conceive a firm's independent directors as an entirety and use two variables to measure its social exchange tie with the board chair: (1) *all hired by chairperson* is a binary variable equal to 1 if all independent directors sitting on the board in a particular year are appointed by the board chair; (2) *% hired by chairperson* is a continuous variable defined as percentage of independent directors appointed by the board chair. Dissent is associated with a breakdown of the appointer-appointee tie. The major endogeneity concern is that there are unobserved factors driving both departure of the board chair and director dissent. We therefore control for *chairperson transition,* a binary variable indicating whether a firm experienced departure of board chair in a given year. Ideally, one would like to compare the voting pattern of a firm's independent directors, as an entirety, before and after departure of its appointing chair. However, a board is not monolithic in regards to its social tie with the chairperson. Board composition is in constant flux whereby members come and go with their appointing leaders. We turn to dyadic ties in our director-vote analyses.

In director-vote analyses, we utilize multiple variables to quantify an independent director's social exchange relationship with the board chair at a specific point in time, that is, when the vote occurs. We include *chairperson departure*, a dummy variable equal to 1 if the appointing chair left the board during an independent director's tenure. *Post-chairperson Departure* is a binary variable equal to 1 if an opinion was issued after the appointing chair left the board. Inclusion of these two variables, *chairperson departure* and *post-chairperson departure*, means that we estimate a difference-in-difference model in which the former captures the pre-treatment (unobserved) systematic difference between independent directors who experienced departure of the board chair and those who did not experience it, and the latter takes care of the difference in voting behavior before and after departure of the appointing chair.

Endgame is a binary variable equal to 1 if one of the following conditions is met: the opinion is issued in less than 60 days before (1) the director left the board before reaching the six-year term limit (i.e., *director midterm departure*); (2) the current board chair left the board, irrespective of whether the chair appointed the director or not (i.e., *chairperson departure*); or (3) the director left the board as reaching the six-year term limit (i.e., *director term limit*).

Before proceeding to the next subsection, we summarize how we have addressed several endogeneity issues that normally plague this literature. First, assuming firm culture does not change over the sample period, firm fixed effects are included in the model to control for the effect of unobserved firm culture. Second, we used a difference-in-difference framework to control for unobserved factors that might induce a correlation between director dissent and chairperson departure, and compared voting pattern before and after departure of the appointing chair. Lastly, even if we find that a director is more likely to dissent after the appointing chair leaves the board, this is consistent with not only social exchange theory, but also an information asymmetry explanation that directors dissent more because they have less confidence in a new chair's ability. So, to address the information explanation, we control for the number of days the director and the current board chair had been sitting together on the board (*days with current chair*). We also control for the number of days the director has been sitting on the board (*days on board*).

Control variables

Our model includes a set of control variables. First, we control for firm characteristics that are known to affect board effectiveness, including firm performance, leverage, firm size, equity concentration, board size, and board independence (see Adams *et al.* [2010] for a review). We use market-based *Tobin's Q* to measure firm performance since it captures firm's past performance as well as its growth potential. We use *debt-equity* ratio to measure leverage, log of book value of *asset* to measure firm size, Herfindahl index of top 10 shareholders' percent shareholding to measure *equity concentration*, total number of board members to measure *board size*, and *% independent directors* and *chairperson-CEO duality* (i.e., a dummy variable indicating whether board chair also assumes the CEO position) to capture board independence. Second, we control for director characteristics, including a director's gender, *age*, *compensation* (i.e., log of annual sitting fee plus allowance), percent *shareholding*, *days on board* as well as professional background, that is, whether the independent director is an *accounting* professional, *law* professional, *academic*, *bureaucrat*, or *engineer*. To account for China's unique institutional context, we also control for whether the firm is a *SOE*, and whether a director has *foreign experience* because exposure to developed socioeconomic institutions may affect one's willing to voice dissent. Lastly, in following the recent literature on inner workings of boards (Schwartz-ziv and Weisbach, 2012), in director-vote analyses, we also include topic-subject fixed effects to capture variations that might be driven by particular issues under discussion, such as executive turnover, executive compensation, financial report, related party transaction, credit guarantee, investment and acquisition, auditing, equity issuance, financing, sale of assets, and reform in non-tradable shares.

EMPIRICAL RESULTS

Firm-year analyses

Table 1 presents results of the firm-year analyses. Panel A presents summary statistics and the univariate analysis, and Panel B presents multivariate regression results. In Panel B, Columns (1) and

Table 1. Firm-year analyses

(A) Summary statistics and univariate analyses

Variable	Summary statistics					Univariate analysis
	Obs	Mean	Std. dev.	10th percentile	90th percentile	Dependent variable: dissent
Dissent	14,994	0.0054	0.0733	0	0	
Chairperson transition	14,994	0.248	0.432	0	1	0.0272***
All hired by chairperson	14,148	0.555	0.497	0	1	−0.0376***
% hired by chairperson	14,148	0.637	0.439	0	1	−0.0388***
Tobin's Q	14,787	3.958	155.693	0.958	2.728	0.0018
Debt/equity	14,994	0.685	7.599	0.213	0.767	0.0156*
ln (assets)	14,994	21.354	1.316	20.028	22.858	−0.0234***
Equity concentration (top 10)	14,994	0.200	0.138	0.053	0.399	−0.0261**
SOE	14,994	0.689	0.463	0	1	−0.0290***
Board size	14,831	9.430	2.160	7	12	0.0045
% independent directors	14,829	0.322	0.102	0.2	0.429	0.0203**
Chairperson-CEO duality	14,868	0.149	0.356	0	1	0.0272***

(B) Multivariate analyses

	Logit		Conditional logit	
	(1)	(2)	(3)	(4)
Chairperson transition	0.540**	0.424*	0.256	0.100
	(2.43)	(1.84)	(0.86)	(0.31)
All hired by chairperson	−0.842***		−0.466	
	(3.07)		(1.26)	
% hired by chairperson		−0.930***		−0.713*
		(3.34)		(1.70)
Tobin's Q	−0.000	−0.000	−0.198**	−0.206**
	(1.09)	(1.10)	(2.39)	(2.51)
Debt/equity	0.001	0.001	0.812**	0.841**
	(0.50)	(0.46)	(2.38)	(2.49)
ln (assets)	−0.188*	−0.192*	−0.506	−0.514
	(1.74)	(1.77)	(1.50)	(1.52)
Equity concentration	−2.003*	−2.020*	−3.364	−3.013
	(1.83)	(1.86)	(1.22)	(1.08)
SOE	−0.550**	−0.556**	−0.954	−0.956
	(2.07)	(2.11)	(1.48)	(1.50)
Board size	0.129**	0.136**	0.042	0.050
	(2.10)	(2.19)	(0.41)	(0.48)
% independent directors	2.427	2.663	4.161	4.325*
	(1.23)	(1.39)	(1.59)	(1.65)
Chairperson-CEO duality	−0.133	−0.152	0.262	0.267
	(0.35)	(0.40)	(0.52)	(0.53)
Constant	−2.346	−2.228		
	(1.07)	(1.01)		
Observations	13,657	13,657	549	549
Prob. > Chi^2	0.0000	0.0000	0.0000	0.0000

*, ** and *** denote significance at 10, 5, and 1% level, respectively.
Standard errors are clustered at firm. |z| statistics are reported in parentheses.

(2) show results of the pooled, cross-sectional logit estimation, where the sample contains all possible firm-years from year 2001 to 2010. Columns (3) and (4) show results of conditional (i.e., firm fixed effect) logit estimation, where regressions are restricted to the subsample of firms that had at least one dissent over the sample period. Hypothesis 1 is generally supported: though dissent is more likely to occur when the board is undertaking leadership transition, it is less likely to occur when board, as an entirety, has a stronger appointer-appointee tie with the board chair. In the pooled, cross-sectional

regressions, dissent is *not* significantly correlated with Tobin's Q, but in the restricted sample firm fixed effect regressions dissent occurs more when performance suffers. These results suggest that dissent is to a large extent driven by within-firm cross-year variations, rather than cross-firm variations in firm performance.

Table 2 presents results of director-vote analyses. The sample contains all director-opinions issued in firms that had at least one dissent. Panel A shows summary statistics and the univariate analysis. Panel B presents results of conditional (firm fixed-effect) logit estimation. Overall, the results are consistent with the hypotheses that dissent is associated with a breakdown of social exchange relationship with the board chair. First, independent directors who experienced departure of the appointing chair dissent more, as compared to those who never experienced departure of the appointing chair. This result is statistically significant, lending support to the potential endogeneity concern that unobserved firm-level financial and organizational problems cause both director dissent and chairperson departure. The difference-in-difference framework allows us to partially circumvent this endogeneity problem, by comparing individual directors' voting patterns before and after departure of the appointing chair. Controlling for the fact that an independent director has experienced chairperson departure, voting after chairperson departure nearly triples his or her likelihood of dissent. Note that this result is consistent with not only Hypothesis 1, but also the information asymmetry explanation that directors dissent more as they know less about the new board chair's ability. To distinguish between the two explanations, we further show that likelihood of dissent does not significantly decrease with the number of days the director and the current board chair had been sitting together on the board (*days with current chair*), which provides little support for the information asymmetry explanation.

Column (2) further addresses the endogeneity concern that both chairperson departure and director dissent may be driven by unobserved firm-level turmoil. In Column (2), we break down *post-chairperson departure* based on stated reasons for chairperson departure. First, we find that directors more likely to dissent after job transfer of the appointing board chairs. This can be interpreted as consistent with (1) the endogeneity concern that job transfer of board chair is less likely to be triggered by firms' internal turmoil, as compared to board chair resignation or dismissal; and (2) the social exchange hypothesis that independent directors are motivated to obtain future benefits from the appointing chairs who have been rotated to another position. Independent directors, however, dissent more after the appointing chairs completed a pre-specified term of office but did not end up transferring to another position. If board chair's term of office is strictly enforced, it can be considered as exogenous to unobserved firm-level abnormalities, and thus, provides strong support to Hypothesis 1. Compared to the "neutral" cases in which appointing chair leaves the company due to job transfer or end of term, independent directors are more likely to dissent when the chair departs for explicitly "bad" reasons (i.e., resignation, dismissal, or lawsuit) or for "gray" reasons (i.e., health and personal issues), which may be capturing both dissolution of appointer-appointee ties and the target firm's internal turmoil. To summarize, the results reported in Column (2) indicate that while endogeneity remains a concern, it does not refute our central point that independent directors' increased dissent is associated with a breakdown of social exchange relationship (as shown in the "neutral" cases).

Lastly, consistent with Hypothesis 2, there is a strong "endgame" effect. All else constant, voting at board "endgames" increases the odds of dissenting by 86 percent. Column (3) breaks down *endgame* into three cases, namely, *director midterm departure, chairperson departure,* and *director term limit*. Of the three types of departures, only *director term limit* is mandated by law and thus can be seen as strictly exogenous. *Director midterm departure* and *chairperson departure* are not mandated by law and may be related to firm's internal financial or organizational problems. We found that the "endgame" effect is driven by endogenous movement of board members: dissent is positively correlated with *director midterm departure* and *chairperson departure;* however, directors reaching the six-year term limit are not more likely to dissent. These results suggest that although the endgame effect is consistent with Hypothesis 2, we cannot reject the idea that the unobserved factors lead to both departure of board members and director dissent right before those departure events.

An independent director is significantly more likely to dissent in firms with lower Tobin's Q.

Table 2. Director-vote analyses

(A) Summary statistics and univariate analysis

Variable	Summary statistics: Obs.	Mean	Std. dev.	10th percentile	90th percentile	Univariate analysis: Dependent variable: dissent
Dependent variable						
Dissent	3,377	0.052	0.222	0.000	0.000	
Independent variables						
Social exchange relationship						
Chairperson departure	3,377	0.640	0.480	0.000	1.000	0.0539***
Post-chairperson departure	3,377	0.364	0.481	0.000	1.000	0.0359**
Post-chairperson departure × ln (days with ex-chair + 1)	3,377	−0.259	0.571	−1.247	0.238	0.005
ln (days with current chair + 1)	3,377	5.706	1.432	4.143	7.061	0.0098
Endgame	3,377	0.184	0.387	0.000	1.000	0.0781***
Director characteristics						
Accounting	3,364	0.255	0.436	0.000	1.000	−0.0112
Law	3,364	0.145	0.352	0.000	1.000	−0.0063
Academic	3,364	0.435	0.496	0.000	1.000	−0.0606***
Bureaucrat	3,364	0.240	0.427	0.000	1.000	−0.0003
Foreign experience	3,364	0.076	0.265	0.000	0.000	−0.0300**
Engineer	3,364	0.084	0.277	0.000	0.000	−0.0223
Male	3,364	0.924	0.266	1.000	1.000	0.0119
ln (age)	3,364	3.884	0.184	3.664	4.220	−0.0107
ln (compensation + 1)	3,364	10.047	2.487	9.904	11.002	−0.0413
ln (days on board + 1)	3,377	6.271	1.208	4.913	7.356	0.0322**
Shareholding	3,377	0.000	0.000	0.000	0.000	0.0007
Firm and board characteristics						
Tobin's Q	3,366	6.226	55.383	0.933	3.906	0.0175
Debt/equity	3,371	1.024	5.445	0.329	0.946	0.0902***
ln (assets)	3,371	21.180	1.536	19.625	22.671	−0.0795***
Equity concentration	3,377	0.148	0.107	0.044	0.289	−0.0209
SOE	3,377	0.526	0.499	0.000	1.000	−0.0440**
Board size	3,377	10.035	2.330	8.000	15.000	−0.0579***
% independent directors	3,377	0.351	0.056	0.333	0.412	0.0318*
Chairperson-CEO duality	3,377	0.107	0.309	0.000	1.000	0.0609***

(B) Multivariate analyses

	(1)	(2)	(3)
Social exchange relationship			
Chairperson departure	0.869***	0.784**	0.858**
	(2.58)	(2.28)	(2.50)
Post-chairperson departure	1.062***		1.145***
	(2.92)		(3.07)
Job transfer		1.347***	
		(2.65)	
End of term		1.297*	
		(1.65)	
Resignation, dismissal, lawsuit		1.526***	
		(3.29)	
Health or personal issues		2.555***	
		(3.75)	
Change control		17.182	
		(0.00)	
Other		−2.008	
		(1.36)	

Table 2. Continued

(B) Multivariate analyses	(1)	(2)	(3)
Post-chairperson departure × ln (days with ex-chair + 1)	0.130	0.297	0.128
	(0.41)	(0.91)	(0.41)
ln (days with current chair + 1)	0.097	0.128	0.117
	(0.89)	(1.15)	(1.05)
Endgame	0.621**	0.622**	
	(2.32)	(2.26)	
Director midterm departure			0.495
			(1.41)
Chairperson departure			0.474
			(1.36)
Director term limit			−1.083
			(1.57)
Firm characteristics			
Tobin's Q	−0.227***	−0.196**	−0.232***
	(3.14)	(2.51)	(3.21)
Debt/equity	0.884***	0.750**	0.901***
	(3.09)	(2.43)	(3.16)
ln (assets)	−1.181***	−1.263***	−1.237***
	(3.26)	(3.35)	(3.38)
Equity concentration	12.500***	12.136***	13.065***
	(3.22)	(3.12)	(3.31)
SOE	0.249	0.085	0.378
	(0.34)	(0.11)	(0.51)
Board size	0.092	0.058	0.105
	(1.01)	(0.62)	(1.12)
% independent directors	5.628*	4.638	5.669*
	(1.86)	(1.48)	(1.87)
Chairperson-CEO duality	1.463***	1.468***	1.420***
	(3.42)	(3.28)	(3.29)
Director characteristics			
Accounting	0.051	0.095	0.043
	(0.20)	(0.36)	(0.16)
Law	0.130	0.129	0.147
	(0.46)	(0.45)	(0.52)
Academic	−0.212	−0.147	−0.200
	(0.79)	(0.53)	(0.73)
Bureaucrat	−0.012	−0.019	0.015
	(0.04)	(0.07)	(0.05)
Foreign experience	−0.211	−0.220	−0.210
	(0.44)	(0.46)	(0.44)
Engineer	−0.004	−0.013	−0.039
	(0.01)	(0.03)	(0.09)
Male	0.156	0.255	0.102
	(0.37)	(0.59)	(0.24)
ln (age)	0.084	−0.052	0.056
	(0.14)	(0.08)	(0.09)
ln (compensation + 1)	−0.021	−0.026	−0.032
	(0.50)	(0.59)	(0.76)
ln (days on board + 1)	−0.085	−0.141	−0.106
	(0.56)	(0.93)	(0.69)
Shareholding	22,100	23,250	21,421
	(0.86)	(0.90)	(0.83)
Observations	3,318	3,318	3,318
Prob. > Chi^2	0.0000	0.0000	0.0000

*, ** and *** denote significance at 10, 5, and 1% level (two-tailed test), respectively.
Regressions contain unreported year and topic-subject fixed effects. Standard errors are clustered at firm. |z| statistics are reported in parentheses.

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The effect of firm performance, however, is moderate in magnitude as compared to that of the social exchange variables. One unit improvement in Tobin' Q decreases the odds of dissent by approximately 20 percent. We do not find that accounting and law professionals are more likely to dissent, casting doubt on the notion that professionalism facilitates active monitoring (Roe, 2004). Replacing Tobin's Q with accounting performance such as return on assets (ROA) or return on equity (ROE), including lagged performance, replacing book value of assets with number of employees, and using different measures of equity concentration (i.e., concentration of largest 1, 3, 5, or 10 shareholders) generate qualitatively similar results.

DISCUSSION

Our results provide further empirical foundation for "a distinct alternative to under-socialized governance theories, such as agency theory" (Westphal and Zajac, 2013: 607). While our work, similar to other recent work on internal dynamics of boards (Jiang *et al.*, 2013; Lin *et al.*, 2013; Schwartz-Ziv and Weisbach, 2012) is from a particular institutional context, we believe that the mechanisms documented in this study are conceptually sound enough to warrant further scholarship. We highlight several further trajectories for research. First, idiosyncrasies of the Chinese institutional context make extrapolation to other contexts challenging. We conjecture that China provides a lower bound for independent directors' dissent. Due to the legal necessity that dissent needs to be revealed, amid the Chinese societal fabric that prioritizes relationships (Chen and Miller, 2011), Chinese firms can reasonably be expected to devote more efforts to resolve conflicts with independent directors. A fascinating research avenue is to examine independent directors' voting patterns in a wide range of institutional settings. Second, we confine our analyses to the director-chair dyad, in keeping with the existing governance literature. To gain further insights on the strategic interactions within boards, future research may consider a higher-level social connection structure, for instance, a structure that takes into account generalized social exchange relationships within boards. Of course, this is harder to operationalize.

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