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Frequencies of Board Meetings on Various Topics and Corporate Governance: Evidence from China

ABSTRACT

This paper examines the relationship between number of topic-specific board meetings and quality of corporate governance. The quality of corporate governance is estimated by CEO turnover-performance and compensation-performance sensitivities. Information about topic-specific meetings is collected from the reports of independent directors of Chinese listed firms. We find that more frequent discussions of growth strategies related to the use of IPO proceeds, investment and acquisitions increase CEO compensation-performance sensitivity. By contrast, more discussions about the nomination of directors and top management are likely to reduce the sensitivities of both CEO turnover and compensation to performance. Our findings shed light on what makes boards efficient, and how board monitoring of assorted decisions modifies the relationship between CEO interests and firm performance.

JEL Classification: G30; G34

Keywords: Board Effectiveness, Board Meeting Topics, CEO Dismissal, CEO Compensation, China

1. Introduction

Board meetings, possibly the most easily observed board activity, are often advocated by the public and regulators as a way to enhance board effectiveness in public companies. Regulators (e.g. in the US, UK, India, and China) often require listed companies to hold a minimum number of meetings every year. However, a high number of meetings does not necessarily suggest a board functions well, owing to the fact that the topics of board meetings are diverse. At board meetings, various proposals (e.g. business strategy, risk oversight, CEO succession planning) are discussed by the directors. It is not the number of board meetings that indicates the success of a board's efforts in monitoring, but the ratification and monitoring of corporate proposals in board meetings, which help boards to monitor and assess CEOs (e.g. Fama and Jensen, 1983; Hermalin and Weisbach, 1998).

The monitoring of assorted types of proposals provides boards with channels for evaluating CEO and corporate performance. Boards of directors often have limited access to firm information (e.g. Adams and Ferreira, 2007; Jensen, 1993). At board meetings, they rely on the supplementary information provided in proposals to make decisions. This means that most additional information acquired by boards is proposal-based. The amount, range and complexity of the information received by directors influences their performance (e.g. Hermalin and Weisbach, 1998; Raheja, 2005). Board activities related to major proposals enhance the efficiency of the directors as a group, as this involves exchanging information and interacting with each other (Lipton and Lorsch, 1992; Forbes and Milliken, 1999). Thus, board activities related to various proposals represent board supervisory effectiveness in corresponding dimensions.

Boards of directors play a major role in mitigating agency problems associated with the separation between ownership and control (e.g. Fama and Jensen, 1983a,b; Jensen and Meckling, 1976). Without boards' monitoring, management teams are more likely to take self-benefitting actions, and deviate from the interests of residual claimants. Agency models prescribe normative actions such that compensation is related to effort and performance, and boards fire poorly performing CEOs. CEO dismissal and compensation are the most important decisions made by boards of directors (Adams *et al.*, 2010; Hermalin, 2005; Hermalin and Weisbach, 2003). Therefore, the effectiveness of these decisions indicates the effectiveness of the board's supervisory role in monitoring the CEO, and represents the quality of governance.

Our study provides new evidence of board effectiveness by looking into the black box of board meetings via various supervisory activities. We use number and type of meeting to proxy for board supervisory activities on assorted proposals. The CEO dismissal-performance relationship and compensation-performance relationship are used as proxies for quality of corporate governance, as widely applied in previous literature (e.g. Adams *et al.*, 2010; Gibson, 2003; Kato and Long, 2006a). We investigate the relationship between number of topic-specific board meetings and quality of corporate governance.

Observing board monitoring of different types of proposals is not straightforward, due to data confidentiality. Almost two decades ago, the China Securities Regulatory Commission (CSRC) introduced an innovative practice whereby independent directors were obliged to issue *Report[s] of the Independent Director* after board meetings.¹ The reports publicly disclose topics discussed at meetings and the opinions of the independent directors on these topics. This represents a novel approach to enriching corporate disclosure and board

¹ The Code of Corporate Governance for Listed Companies in China in 2001 and 2002.

accountability in the decision-making process. From these reports, we are able to capture task-based board activities on six major topics: personnel changes, compensation, financial reports and audit, firm control transactions, changes of equity structure, and growth strategies.

In China (as in many other emerging markets), the legal protection of investor rights and accounting standards are less developed than in Western countries. Evidence on CEO dismissal/compensation and firm performance based on Chinese data is not widely available, and the concrete factors affecting CEO contracting are yet to be established conclusively. In the limited studies that do exist, results are mixed (e.g. Conyon and He, 2012, 2014; Fung and Pecha, 2018). Empirical studies focusing on board effectiveness in China often utilize the proportion of independent directors on the board or annual board meeting frequency as proxies for board monitoring. They show mixed results on whether increasing board monitoring benefits corporate governance (Peng, 2004; Chen, Firth, Gao, and Rui, 2006; Kato and Long, 2006a; Liu *et al.*, 2015).

Our study focuses on the topics boards discuss during meetings, and provides new evidence on board effectiveness in China. We apply panel data techniques to explore the moderating effects of specific topics discussed at board meetings on the sensitivity of CEO dismissal/compensation to performance. Furthermore, we extend our analysis with dynamic panel data (DPD-GMM) regressions to mitigate possible endogeneity issues. Our key findings show that CEO dismissal and compensation are related to firm performance in China, suggesting that the corporate governance mechanism is effective in contracting and monitoring executives. Pay-performance sensitivity is strengthened by additional board monitoring efforts involving discussions of firms' growth strategies (i.e. investments and acquisitions). In contrast, the relationships between CEO dismissal/pay and firm performance are weaker when there are more board activities concerning the nominations of directors and top management.

We also investigate whether the effects of board activities vary under different ownership structures. The majority of China's listed firms are controlled by either state shareholders or non-state shareholders (i.e. private firms or individuals). State shareholders have political and economic considerations, while non-state shareholders are mainly profit-driven (Allen *et al.*, 2005; Chen, Firth, Gao, and Rui, 2006). Under different ownership structures, controlling shareholders have different primary motives, which leads to different influences on managers. The different influences lead to the same topics being discussed in different ways, thereby influencing governance quality. We find that the negative moderation effect of nomination meetings on the relationship between CEO dismissal and firm performance is significant in non-state-controlled firms, yet there is no effect in state-controlled firms. Further, the moderation effect of growth-strategy meetings on the CEO-pay-to-performance sensitivity is positive in both non-state-controlled and state-controlled firms.

Our research contributes to the corporate governance literature in the following ways. First, it is related to the literature that examines board effectiveness and its influence upon firm performance. Previous studies (e.g. Adams, Hermalin, and Weisbach, 2010; Schwartz-Ziv and Weisbach, 2013) in the field of board effectiveness have only focused on board characteristics, and drawn inferences about how board characteristics could affect their activities, and ultimately impact firm value. To our best knowledge, our study is the first to conduct systematic research of whether board activities on assorted topics affect the quality of corporate governance. We show that board activities related to strategic decisions can alter the relationship between CEO interests and firm performance.

Second, our study contributes to the dynamic debate among academics and practitioners on the importance of board meetings. This study provides novel empirical evidence on how boards' task performance links with governance at the firm level. Consistent with the prediction of the board process model (e.g. Forbes and Milliken, 1999) that board task

performance can improve corporate governance, we find that meetings on growth strategies have positive effects on corporate governance, although meetings with assorted emphases have different effects. Given that previous studies (e.g. Brick and Chidambaran, 2010; Vafeas, 1999) only take annual meeting frequency into account, we argue that our proxies for board monitoring activities are more accurate.

Finally, our study provides the first large-sample evidence of board monitoring activities improving corporate governance. Previous studies (Jiang, Wan, and Zhao, 2016; Ma and Khanna, 2016; Tang, Du, and Hou, 2013), also employing data from independent director reports, focus on how independent directors improve governance via dissension reports. They investigate the effect of dissension on the stock market, and explore which factors increase the probability of dissenting votes from independent directors. However, the dissensions only account for less than 2% of all reports. Our results using all the data specify that the various monitoring activities conducted in the board room have different effects on the sensitivities of CEO dismissal/compensation to performance. This lends support to the idea that (independent) board governance can offset the power of CEOs and controlling shareholders in China.

The remainder of the paper proceeds as follows. In Section 2, we provide the institutional background and literature review. Sections 3 and 4 describe the sample data and explain our research design. The penultimate section contains the empirical results and discussion. In the final section, we present our conclusions and discuss areas for further research.

2. Literature Review

2.1 Institutional Background and Corporate Governance in China

China's economic reform began following the study of the modern corporate governance systems of Western countries. In 1992, China introduced Germany's two-tier board system, consisting of the main board and a supervisory board. In most state-owned enterprises (SOEs), the government had a significant impact on the nominations and appointments to both boards. The top management of firms worked as bureaucrats, and the supervisory boards had little motivation and ambiguous accountability when it came to monitoring managers and firm operations (Allen *et al*, 2005; Cheng, 1999; Conyon and He, 2011).

In order to deepen the economic reforms and protect the interests of minority shareholders, from 2001 onwards the China Securities Regulation Commission (CSRC) mimicked the Sarbanes-Oxley Act in adopting new corporate governance mechanisms. It issued guidelines and regulations (2001, 2002) that compelled each listed firm to have independent directors on its main board and to improve the quality of its information disclosure. The proportion of independent directors was required to be at least one-third by June 2003, while independent directors were required to publish the *Report of the Independent Director* after board meetings (CSRC, 2001). As a result, the protection of public shareholder interests and the transparency of information disclosure have improved (CSRC, 2004).

In 2005, the independent directors' system gained legal status for the first time, when it was authorized in the new Company Law of China (2005). Independent directors, as a group of corporate agents, are not affiliated with the listed firm or the controlling shareholders, and, as was set out, 'shall be especially concerned with protecting the interests of minority shareholders from being infringed' (CSRC, 2002). Furthermore, independent directors are legally liable for disclosing fraud and irregularities of listed firms through the *Report of the Independent Directors*. The report must state whether independent directors agree with important managerial proposals discussed at the board meeting. Specifically, it is mandatory that votes on firm decisions are revealed (CSRC, 2001).

These reports provide a unique dataset from China allowing us to study corporate boards that typically function inside black boxes. Recent studies (Jiang *et al.*, 2016; Tang *et al.*, 2013) show that independent directors' dissensions in board meetings are a valid signal of the presence of effective corporate governance. Tang *et al.* (2013) find that the stock market has a negative reaction to announcements of independent reports referring to dissenting votes. The probability of receiving a negative report is higher for firms with more serious agency problems. Jiang *et al.* (2016) show that independent directors who have higher human capital concerns are more likely to give negative opinions in their reports. The directors issuing dissensions are rewarded by more directorships and has lower likelihood of regulatory sanctions. These studies suggest that directors' dissenting votes enhance corporate governance and market transparency primarily through the responses of stakeholders to the information released about dissenting votes.

However, the dissenting reports account for merely 1.31% of all the reports in the dataset from 2005 to 2010 (Tang *et al.*, 2013), and less than 2% from 2005 to 2015, based on our sample. In fact, the low rate of dissent is not unique to China. Director dissensions are rarely observed worldwide (e.g. approximately 2% in ten Israel firms over three years, according to board meeting minutes) (Schwartz-Ziv and Weisbach, 2013). In addition, studies focusing on the dissenting votes ignore directors' roles in corporate governance in 'normal' situations.

By fully utilizing the data from all the independent directors' reports, we extract proposal-based board monitoring activities; specifically, topic-specific meeting frequencies. Thus, we provide systematic, large-sample empirical work, examining whether and how board monitoring based on particular topics enhances quality of corporate governance. This highlights the role of the board of directors in modifying the relationship between CEO interests and firm performance in day-to-day supervision.

2.2 CEO Dismissal and Compensation, Firm Performance and Boards of Directors in China

The board is responsible for designing a compensation contract that will motivate the CEO, rewarding acceptable firm performance, and punishing (and in extreme cases, dismissing) the CEO for poor performance (Fama, 1980). Worldwide (but heavily focused on the US market), research on the subject has mostly been restricted to investigating how board composition and features influence the relationships between CEO rewards and firm performance. These characteristics include independent director composition (Dah, Frye, and Hurst, 2014), board size (Coles, Daniel, and Naveen, 2008), CEO-chairman duality (Ryan and Wiggins, 2004), board gender or ethnic diversity (Adams and Ferreira, 2009; Carter, 2010), directors' reputation (e.g. Shivdasani, 1993), and the working backgrounds of board members (e.g. Francis, Hasan, and Wu, 2015).

The limited empirical literature based on the Chinese market shows mixed results on the drivers of CEO dismissal and compensation. The statistical significance and magnitude of the coefficients linking CEO dismissal/compensation to performance vary, depending on performance measures and sample periods (e.g. Bai and Xu, 2005; Conyon and He, 2011, 2014; Firth, Fung, and Rui, 2006; Kato and Long, 2006b). For instance, CEO turnover is more likely to be associated with accounting performance, and less with market-based performance (Conyon and He, 2014). Firth, Fung, and Rui (2007), using data from 1998 to 2000, find that CEO compensation in China is more likely to be connected to firm accounting performance (i.e. return on assets, ROA) than market performance.

Research using data on China's listed firms documents mixed results on the influence of independent directors on top executive turnover/compensation. Kato and Long (2006) find that the presence of independent directors between 1999 to 2002 enhanced the relationship

between turnover and performance. Conyon and He (2011), based on data from 2001 to 2005, argue that non-state (privately) controlled firms, and firms with more independent directors on the board, are more likely to replace their CEO due to poor performance. In contrast, Firth, Fung, and Rui (2006) show that the turnover-performance sensitivity is lower if more independent directors are on the board. Firth, Fung, and Rui (2007) show firms with more non-executive directors are more likely to use performance-based pay, and firms that have a joint CEO/chairman position are less likely to use performance-based pay. Conyon and He (2011) find that firms with more independent directors on the board have a higher pay-for-performance link, for data from 2001 to 2005.

The Chinese corporate governance framework has several features that may not exist in Western economies. For historical reasons, many firms are still controlled or influenced by the state. Profitability is not the only goal of the state owners. Directors in state-controlled firms are representatives of the state, or state agents, and they may be more concerned about their political careers than the professional managerial market (Wang, 2015). Thus, non-profit goals are often what state-controlled shareholders pursue, but this is against minority shareholders' interests (Allen *et al.*, 2005). As a result, independent directors do not dismiss CEOs of poorly performing firms (Firth, Fung, and Rui, 2006). In non-state-controlled firms, managers are often the controlling shareholders themselves or strongly aligned with the controlling shareholders. It is more challenging for such boards to discipline the entrenched managers. The effectiveness of board monitoring is likely to differ between state-controlled and non-state-controlled firms.

2.3 Topic-Specific Board Meetings and Corporate Governance in China

Directors (especially independent directors) are not full-time employees of the companies they serve. Board meetings offer directors more time to carry out their monitoring functions. Interactions and communications during meetings provide directors with more information about the firm (Lipton and Lorsch, 1992). Meetings also have the benefit of strengthening cohesion among directors (Forbes and Milliken, 1999). From this point of view, the more frequent the meetings, the better the monitoring and control, resulting in better corporate governance outcomes. However, Jensen (1993) points out that too many inefficient and routine meetings are held primarily to satisfy the requirements of firm hierarchy and regulation, which is the main critique of the meaningfulness of board activities.

Previous studies on board meetings (Adams, 2005; Brick and Chidambaran, 2010; Vafeas, 1999) most often portray them as rather homogeneous and monolithic. Vafeas (1999) finds that poor performance increases the frequency of board meetings, while the number of board meetings has no effect on CEO turnover/performance sensitivity in the US market. However, more board meetings and higher meeting attendances do not effectively prevent the management from engaging in opportunistic behaviours (e.g. Lo, Wong, and Firth, 2010).

Topic-specific meetings provide directors with corporate information on various dimensions, which are fundamental to board decisions. Meeting frequencies on assorted important topics are also effective measures of how directors fulfil their monitoring obligations, because boards of directors put most of their effort into monitoring sundry management decisions (Schwartz-Ziv and Weisbach, 2013; Stiles, 2001). For example, board meetings on accounting practice and reporting requirements can directly reveal managerial malfeasance (e.g. Lipton and Lorsch, 1992). Meetings on hiring, firing and assessment of top management and directors disclose the bargaining that goes on between CEOs and boards of directors (e.g. Adams et al., 2010). Furthermore, meetings on the selection of projects and

strategy provide boards with insights into CEO types (good or bad) based on the NPVs of the CEO's projects (Dominguez-Martinez, Swank, and Visser, 2008).

We hypothesize that, if the board of directors works effectively in China, the meeting frequency on certain topics could enhance the relationship between CEO turnover (or compensation) and firm performance. In contrast, if the sensitivities between CEO interests and firm performance are not altered by the number of meetings on any topics, it may suggest that board monitoring at such meetings is not effective. Our study provides evidence on how topic-specific board meetings directly affect the quality of corporate governance in China.

3. Data and Summary Statistics

We perform our analysis on a sample of firms listed on the Main Boards of the Shanghai and Shenzhen Stock Exchanges over the period 2005-2015. Financial and corporate governance information is obtained from the China Stock Market and Accounting Research (CSMAR) database. A number of screening procedures are applied to our original sample. First, we exclude financial firms because of their special regulations and accounting standards. Second, we only retain those firms with at least three consecutive fiscal years of capital market and financial statement data. Third, to alleviate the influence of extreme values, all firm-level financial data are winsorized at the top and bottom 1%. We end up with 14,359 firm-year observations after applying this selection process.

The public release of the *Report of the Independent Director*, from which our measures of topic-specific meetings are collected, began in 2001 and became 'compulsory' in 2003. During 2003-2005, reports were only issued by listed firms on a 'voluntary' basis, as the CSRC requirements for issuing such reports were unclear. The Information Disclosure Standards (CSRC, 2005) further clarified the disclosure requirements. After 2005, the

number of independent directors' reports increased sharply. For each report, the CSMAR records the firm's stock code, the issuing date, the topics discussed, the independent directors' opinions, and the entire contents of the report (see Appendix A for an example of an independent directors' report). Reports contain various combinations of topics, in accordance with the topic(s) discussed at the board meeting in question. A large proportion of reports embrace multiple topics. The descriptions of topics are brief, and usually do not provide detailed explanations of why independent directors support related proposals. We use the frequency with which a topic is discussed at board meetings over a year as a proxy for board monitoring activity on the particular topic.

Column 1 of Table 1 reports mandatory disclosure subjects in the independent directors' reports recorded in the CSMAR database. Based on the content and roles of these topics in corporate governance, we group them into six major topics, as in Column 2 of Table 1, namely Nomination (A), Compensation (B), Financial reports and audit (C), Corporate control transactions (D), Change of equity structure (E) and Growth strategies (F). Tang et al. (2013) use a similar categorization of topics.²

Insert Table 1 about here

3.1 Types of Board Meeting

Nomination. A role typically associated with the board of directors is control of the process by which top executives are hired, promoted, assessed and, if necessary, dismissed.

² We also used eleven topics in robustness tests (available upon request). Our main results were unchanged.

Nomination decisions of board members and top management may also reflect the power dynamics between the CEO and the board. If the board is weak, the CEO turnover and salary might not be significantly related to firm performance (Boyd, 1994; Weisbach, 1988). Shivdasani and Yermack (1999) suggest that board monitoring is weakened if the selection of directors is not independent from the CEO.

Compensation. The board is also responsible for keeping the levels of remuneration sufficient to attract, retain and motivate directors. Empirical studies in China often find a weak association between CEO compensation and firm performance (e.g. Firth *et al.*, 2006a). Although boards of directors are supposed to monitor for excess compensation of executives, they hardly ever confront management except when it comes to firing them. Brick, Palmon, and Wald (2006) find that director pay is positively related to CEO pay. They also find evidence that excess compensation (for both directors and CEO) is associated with firm underperformance, indicating mutual back scratching or cronyism among the CEO and directors.

Financial report and audit, and corporate control transactions. Boards of directors are also responsible for overseeing internal control, approval of financial statements, and reporting to the shareholders. The “*financial reports and audit*” meetings include meetings on issuing/amending annual reports, auditors’ reports and auditor changes. “*Corporate control transactions*” involve related-party transactions, loan guarantees and the disposal of assets. These transactions may be associated with a manager’s or a controlling shareholder’s “tunnelling or propping” behaviour, which can harm shareholders’ interests (e.g. Peng, Wei, and Yang, 2011). Board meetings on these topics assist the board in fulfilling their disciplinary role, which reduces the probability of financial fraud and managers’ tunnelling behaviour.

Growth strategies. Setting the strategic direction of the company is another role the board serves (Demb and Neubauer, 1992). Meetings on growth strategies enable boards of directors to re-evaluate CEO capability and firm fundamentals. The board makes decisions on issues that are critical and strategic, such as acquiring a new firm, divesting a division or negotiating a takeover bid (Baysinger and Bulter, 1985; Zahra and Pearce, 1989; Minichilli *et al.*, 2009). Meetings on growth strategies include the use of IPO proceeds, investments and acquisitions, and financing.

Change of equity structure. Our sample period coincides with the split share structure reform in China. Prior to 2005, listed firms in China were characterized by a split share structure, in which two-thirds of the state-owned shares were not tradable. These non-tradable shares were largely blamed for some serious corporate governance issues and a lack of incentives for managers under the state-ownership structure. In April 2005, the CSRC initiated a split share structure reform, which enabled state shareholders of listed firms to trade their restricted shares. Board meeting decisions related to the split share structure reform could change a firm's ownership structure, so eventually cause a change in the firm's internal corporate governance mechanisms (e.g. Cao, Pan, and Tian, 2011).

Table 2 presents the sample distribution and descriptive statistics for the six types of meeting across industries. Generally, the meeting frequencies of the six topics are steady across industries. Accommodation and Catering (H) and Culture and Sports and Entertainment (M) tend to have slightly more meetings than other industries, but account for just 1.9% of the sample.

Insert Table 2 about here

3.2 Key Variables

CEO dismissal. The top executive in a Chinese listed firm is often the chairperson (or general manager) of the board. She/he is the legal representative of the firm, works full time, and is involved in the firm's daily decision making (e.g. Conyon and He, 2011; Kato and Long, 2006a). Consistent with previous studies, we adopt the title of CEO for the top executive, to avoid confusion. CEO dismissal is coded as a dichotomous variable, which equals one if a CEO is forcefully dismissed, and zero otherwise. In line with previous studies (e.g. Chang and Wong, 2009; You and Du, 2012), we exclude voluntary turnover because of health issues or retirement, based on public information (recorded in the CSMAR dataset), retaining only the forced dismissals.

Panel A of Table 3 exhibits the yearly distribution for *CEO dismissal*. During our sample period, we identify 2,556 forced CEO dismissals among the 14,359 firm-year observations. If a firm has two or more dismissals in one fiscal year, we merely count the last one. The likelihood of forced CEO turnover is approximately 18%, implying an average CEO tenure of less than five years, which is consistent with the findings of Conyon and He (2014) and similar to the turnover rate in the US (Kaplan and Minton, 2012).

Insert Table 3 about here

Compensation. Executive compensation schemes in China typically include three components: cash salaries, bonuses, and stipends. Although the CSRC has permitted stock

option trading since 2005, their adoption in equity compensation is rare: only 1.5% of CEOs received equity grants in 2005, a figure that rose to 3.5% in 2010 (Conyon and He, 2012). Empirical studies estimate that Chinese executives may receive ‘perks’ from their companies, accounting for approximately 15-32% of total compensation, but these are rarely disclosed in financial reports and are difficult to assess using public data. Hence, *compensation* in this study is the reported sum of cash salaries, bonuses, and stipends. *Compensation* is measured as the average compensation of the three highest-paid management executives and directors in a firm, consistent with prior research (e.g. Conyon and He, 2012).

Panel A of Table 3 illustrates that executive compensation has risen rapidly. The amount paid in 2015, about 802,000 RMB (116,500 USD), was triple that in 2005 (230,000 RMB / 33,400 USD). Although executive compensation is not as high as that in the US, it is ten times the average wage of employees in the same industry, according to data from the National Bureau of Statistics of China. The logarithm of executive compensation is included in our regressions. Chinese listed firms probably set up their compensation contracts using industry benchmarks (Jiang, Liao, Lin, and Liu, 2018). In our regressions, we use *Industry-adjusted compensation* as a proxy for excess compensation, which is defined as the firm’s *compensation* minus the average compensation in the same industry, based on the CSRC industry code, in the given year. The untabulated results obtained by using raw compensation are similar.

Topic-specific meetings. Panel B of Table 3 details the descriptive statistics and annual meeting frequencies for each specific topic. Although the annual number of meetings does not change much (about eight or ten meetings per year, see last row of Panel A-Table 3), the topics discussed at the meetings show significant variation. Since 2005, proposals of firm control transactions (e.g. related-party transactions) have been the most frequently discussed

topic, at 1.74 times per firm-year. The nomination of directors and executives is the second most frequent, occurring about once per firm-year. The number of meetings about compensation changes increases from 96 in 2005 to 915 in 2015, which is in line with the rapid increase in executive compensation over that period. The average meeting frequencies for the topics of financial reports and audit and growth strategies are 0.42 and 0.35, respectively. The frequency of meetings on changes in equity structure is likely influenced by government policy. In 2005, the CSRC instigated the split share structure reform, setting a deadline for the end of 2006. As most of the equity structure changes were related to non-tradable shares, mostly owned by SOEs or government agencies, being transformed into tradable shares, the frequency of meetings on equity structure changes peaked at 1,055 in the year 2006.

Panel C of Table 3 shows how meeting frequencies vary with firm size. Board characteristics and monitoring activities may differ based on organizational complexity; one such characteristic is firm size (Eisenberg, Sundgren, and Wells, 1998; Vafeas, 1999). Thus, we divide firm-year observations into three groups based on corporate book value: small firms (the lower third of the distribution), median firms (the median third) and large firms (the higher third). Among the six topics of meetings, frequencies for four topics increase with firm size: nomination, compensation, corporate control transactions, and growth strategies. In particular, the number of meetings about corporate control transitions in large firms is double that in small firms (t -statistic for the average meeting frequency for corporate control transactions in small firms minus that in large firms is significant at the 1% level). Meetings about changes in equity structure are most frequent in small firms; meetings to discuss financial reports and audits do not alter with firm size.

Panel D of Table 3 presents the descriptive statistics and annual meeting frequencies for all eleven topics, based on the CSMAR database. It provides more detailed statistics for the

original dataset. How these eleven topics have been grouped into six major topics in our estimation was reported in Table 1. Meetings of related-party transactions (M4) and loan guarantees (M5) comprise most of the meetings discussing corporate control transactions, approximately 1.2 and 0.5 meetings per year. Audit changes (M7), ownership changes (M8) and disposal of assets (M10) are not discussed frequently in board meetings in China (less than 0.1 times per year).

Firm performance measures. Our primary measure of firm performance is ROA. Table 4 shows that the average ROA is about 3.9%, which is consistent with prior research (Canyon and He, 2011, 2012; Kato and Long, 2006a). We also use two other accounting performance measures in robustness tests, return on equity (ROE) and profit margin (sales profit/sales income). Although market-based performance measures (i.e. stock returns and Tobin's Q) are widely used in developed markets, they are not considered an appropriate performance measure for Chinese listed firms. Most Chinese listed firms are SOEs, the majority of whose shares are not tradable in the secondary market. The holders of non-tradable shares, mainly governments or state-owned legal persons, typically acquire their shares at prices significantly lower than the initial public offering prices. Since there are big pricing gaps between tradable and non-tradable shares, Tobin's Q would not correctly reflect firms' financial performance or value. In addition, the Chinese stock markets are highly speculative, and share prices bear little relationship to their fundamental values (Bai *et al*, 2004; Lin *et al*, 2014). In our regression, we use the *industry-adjusted return on assets* that is the firm's ROA minus the average ROA in the same industry, following the literature (Brick and Chidambaran, 2010; Vafeas, 1999). We also employ firms' raw ROA in the regressions, and the results are unaltered (available upon request).

Insert Table 4 about here

Control variables. Following the recent corporate board literature (Canyon and He, 2011; You and Du, 2012), we group the vector of control variables into three categories: board features, ownership variables, and firm characteristics. Table 4 presents the descriptive statistics for these variables. The category of board feature variables contains the percentage of independent directors on a board (*Independent directors %*), the natural log of the number of board directors (*Board size*), and a dummy variable for whether the CEO also chairs the board (*Duality*). The group of ownership structure variables includes shares held by the largest shareholders (*Largest shareholding*), the *Herfindahl* index, which is the sum of squares of the shareholding percentages of the top five shareholders (*Ownership concentration*), and an indicator variable taking a value of 1 if the firm is controlled by a parent SOE or government agent (*State-owned enterprises*). To control for firm characteristics, we include the natural log of a firm's total assets (*Log(firm size)*), the natural logarithm of the number of employees (*Log(employees)*), and the book value of debt divided by total assets (*Leverage*). We also control for CEO age (*Age*) and gender (*Female*) in the estimations of CEO dismissal. A set of year dummies are included to control for macro-economic shocks, while industry dummies account for industry-specific factors.³

About 66% of the listed companies in our sample are State-owned enterprises (SOEs). The average number of board members is 9.19, of whom independent directors make up 37% (the legal requirement since 2003 has been one third). About 14% of firms have a CEO with a dual

³ Industry dummies are included because listed firms may change main business sectors during the sample period. The untabulated coefficients of the industry dummies prove the existence of within-group variance for most industries.

leadership role. The pairwise correlations between the variables are provided in Appendix B. There are only modest correlations among the independent variables. The values of the variance inflation factors (VIFs) range from 1.02 to 1.86, and all the values are strictly less than 3, indicating that the regression analysis is not likely to have multicollinearity problems. The distributions of the other variables are largely consistent with those reported in prior studies.

4. Research Methodology

To examine the impact of topic-specific meetings on the sensitivity of CEO dismissal to firm performance, we estimate six series of panel data logistic regressions with fixed effects, for firm i in year t :

$$Probability (Dismissal_{it}) = f(Performance_{it-1}, Topic\ focused\ meeting\ frequency_{it-1}, Performance_{it-1} \times Topic\ focused\ meeting\ frequency_{it-1}, Control\ variables_{it-1}) \quad (1)$$

To test the effect of topic-specific meetings on the correlation between compensation and performance, we estimate six series of linear regression models using fixed effects:

$$Compensation_{it} = f(Performance_{it-1}, Topic\ focused\ meeting\ frequency_{it-1}, Performance_{it-1} \times Topic\ focused\ meeting\ frequency_{it-1}, Control\ variables_{it-1}) \quad (2)$$

A fixed effects estimator can help to control the heteroscedasticity caused by unobserved firm-specific influences or measuring errors in regressions. In order to examine whether the holding of topic-specific meetings has an impact on performance-related CEO dismissal and compensation, we include interaction effects of the frequencies of meetings on the six major topics, individually. In other words, for each type of meeting, we include *topic focused meeting frequency* _{$it-1$} and the interaction term $Performance_{it-1} \times$

topic focused meeting frequency $it-1$ in the regression models. The use of interaction terms is common in economics and finance research (e.g. Firth *et al.*, 2006; Kato and Long, 2006b; Weisbach, 1988; You and Du, 2012). A positive value for the effect of the interaction term in the compensation models would imply that, the higher the frequency with which topics were discussed at board meetings, the greater the sensitivity of CEO compensation to performance. In the CEO dismissal models, a negative value for the effect of the interaction would indicate that, the more a certain topic was discussed at board meetings, the greater would be the CEO dismissal-to-performance sensitivity. To provide robust evidence, we also measure meeting frequency using an indicator for each topic, *topic-specific meeting dummy*, which equals one if the meeting frequency is above the median of the distribution within the same year, and zero otherwise.

We can also partly mitigate the endogeneity issue by using lagged values of all independent variables to facilitate causality. Further consideration of endogeneity issues is provided in robustness checks where we implement dynamic panel GMM regressions.

5. Do Topic-Specific Board Meetings Affect Quality of Corporate Governance?

5.1 CEO Dismissal, Firm Performance, and Topic-Specific Board Meetings

In this section, we examine whether the frequency of topic-specific board meetings affects CEO turnover-performance sensitivity. The dependent variable is set to one if the CEO has been dismissed and zero otherwise. Table 5 presents the results of the logistic regressions with fixed effects based on equation (1), with firm performance measured using industry-

adjusted ROA.⁴ The topic-specific meeting variables for each of the six topics are defined as (1) the annual meeting frequency and (2) a *topic-specific meeting dummy*, indicating whether the annual meeting frequency is above the median for the distribution within the same year. Columns (A) to (F) show the estimation results for each board meeting topic. For instance, Column (A)–(1) presents the regression results obtained using the number of nomination-related meetings, while Column (A)–(2) presents those obtained using the *topic-specific meeting dummy* for nomination-related meetings.

Insert Table 5 about here

Table 5 shows that CEO dismissal and firm performance are negatively associated after controlling for firm-level governance and characteristics.⁵ This indicates that the more poorly a firm is performing, the more likely the CEO is to be dismissed by the board, consistent with previous studies (e.g. Chen, Firth, and Xu, 2009; Conyon and He, 2012; Kato and Long, 2006b).

To test and evaluate the effects of topic-specific meetings on turnover-performance sensitivity, we introduce two variables, namely *topic focused meeting frequency*_{*it-1*} and an interaction term, *Performance*_{*it-1*} × *topic focused meeting frequency*_{*it-1*}. The coefficients on meeting frequency for Nomination (A), Compensation (B), and Growth strategies (F) are negative and statistically significant, which indicates that firms with more meetings related to nominations, compensation, or growth strategies have lower likelihood of

⁴ We also estimate equation (1) using random effects, and the main results are consistent with those obtained using fixed effects. The results of a Hausman test indicate that the firm-fixed-effects models in our study are more suitable.

⁵ We use stock returns and Tobin's Q as performance measures, and find that market performance plays a limited role in explaining the probability of CEO dismissal or the size of compensation, which is consistent with the finding of Conyon and He (2014).

dismissing their CEOs. In contrast, the coefficients of (C) Financial reports and audit are positively significant, which implies that firms with more meetings discussing financial reports, auditor switches and changes of audit opinion are more likely to fire their CEOs. The amendment of financial reports and changes of auditor opinion are probably related to poor firm performance and corporate governance problems. Meetings on these topics will help directors to identify weaknesses in firm performance (Lipton and Lorsch, 1992), which could put more pressure on a firm to fire its CEO.

For nomination meetings (A), where boards discuss personnel changes involving directors, the CEO, and top management, the coefficient of the interaction term is significantly positive. This result suggests that the existence of board nomination meetings reduces the sensitivity of forced CEO dismissal to firm performance. Other board meeting topics are unlikely to affect the dismissal-performance relationship. The coefficients of the interaction terms have different signs and vary greatly in magnitude, indicating that the influence of different types of meetings on CEO-performance sensitivities differ, although most are not significant. Out of all six major types of meeting topic, we find no monitoring activities that increase the negative relationship between CEO dismissal and firm performance. It suggests that boards of directors in China are not effective at dismissing poorly performing CEOs through their monitoring of corporate decisions. Our findings reflect the difficulties boards of directors have dismissing their CEOs in China (Allen *et al.*, 2005; Firth, Fung, and Rui, 2006b). Furthermore, we explore whether the effects of nomination meetings on CEO dismissal-performance sensitivity differs under different ownership structures in Section 5.3.

CEO/chairman duality has negative effects on the probability of CEO dismissal, consistent with the findings of Goyal and Park (2002). Larger firms have a lower probability of forcibly dismissing their CEO. The coefficients of the percentage of independent directors are not significant, which is consistent with the findings of Kato and Long (2006a).

CEO dismissal may not happen suddenly, but due to unsatisfactory long-term performance. Thus, we also explore whether board meetings (or accumulated meetings over period of time) have an effect on the sensitivity of CEO dismissal to firm long-term performance. We estimate a fixed effect logit model linking CEO dismissal and long-term performance. The latter is defined as the accumulated industry-adjusted ROA from year $t-3$ to $t-1$ following Kim (1996), which is then interacted with board meetings in year $t-1$ for each topic (or with accumulated board meetings from year $t-3$ to $t-1$). The hypothesis is that the probability of CEO dismissal is more sensitive to long-term performance when there are more board meetings. Appendix C reports the estimation results. Panel A (Panel B) of Appendix C shows the results using accumulated ROA_{t-1} and its interactions with topic-specific meeting frequency (with accumulated topic-specific meeting frequency). All interactions are insignificant, so the results do not support this assertion.⁶ The evidence suggests that, although CEO dismissal is negatively related to long-term performance, board activities or accumulated board activities do not influence the relation between CEO dismissal and long-term performance.

Overall, our results imply that different types of board meetings may affect CEO turnover-performance sensitivity differently. Interestingly, the existence of board nomination meetings lessens the sensitivity of CEO dismissals to performance.

5.2 Compensation, Firm Performance, and Topic-specific Board Meetings

⁶ To obtain robust results, we also regress CEO dismissal on ROA, topic-specific meetings and their interactions from $t-3$ to $t-1$, and we find that the interactions from $t-3$ to $t-1$ are not significant for six types of meetings (Panel C). The joint significance test shows that CEO dismissal is negatively related to the long-term effect of ROA, but the long-term effects of interactions between meeting and ROA are not significant. The results are similar with those using accumulated industry adjusted ROA. These results should be treated carefully since the insignificant relationship could be caused by the smaller sample size.

Table 6A reports panel data estimates from equation (2) with fixed effects in which we examine the effects of topic-specific board meetings on the relationship between executive compensation and firm performance in China. Columns (A) to (F) represent the estimation results for each board meeting topic.

Insert Table 6A about here

Table 6A illustrates that there is a positive relationship between executive compensation and firm performance, suggesting that a CEO's pay is generally higher in firms with good performance. Our results coincide with prior research (Conyon and He, 2012; Firth *et al.*, 2006). The implication is that firm profitability is an important component of CEOs' compensation contracting in the Chinese market.

Executive compensation is positively related to meeting frequencies on the topics of Nomination (A) and Compensation (B). This implies these meetings are likely to be used by CEOs to increase their compensation level, while the boards of directors do not seem able to challenge their CEOs' demands for high payments at meetings. As for the interaction terms, the coefficient of ROA interacted with the frequency of meetings on growth strategy is positive and significant. This means CEO pay-performance sensitivity is higher when a firm has more meetings on growth strategies, which is consistent with our conjectures about the role of growth-strategy meetings. Meetings on growth strategies enable boards of directors to re-evaluate CEO capability and firm fundamentals in depth, and to reward CEO efforts towards enhancing firm performance (Dominguez-Martinez, Swank, and Visser, 2008). Moreover, the coefficient of the interaction term between nomination meeting frequency and

ROA is significantly negative, which suggests that the link between executive compensation and a firm's performance is likely to be weakened by such meetings. Lastly, none of the interactions between other meeting topics and firm performance is statistically significant.

Board size tends to have a positive effect on CEO compensation, as do the existence of a major shareholder, and firm size, which is consistent with Cao *et al.* (2011). Firms with state-controlled shareholders and higher levels of debt have lower levels of CEO compensation.

In the executive pay-setting process, companies probably employ several key firm characteristics to select benchmarks for peer-group comparisons in the US market (Bizjak, Lemmon, and Nguyen, 2011; Coles, Wang, and Li, 2018). Thus, we further construct another proxy for excess compensation, *Excess Compensation*, which is obtained using the residual from the regression of CEO compensation on other firm characteristics (size, performance, board size, board independence and ownership concentration) within the same industry and year.⁷ Table 6B displays the results of the regression of *Excess Compensation* on board meetings and meeting-performance interactions. The main results are consistent with others using industry-adjusted compensation.

Insert Table 6B about here

⁷ To obtain Excess Compensation, we estimate the following cross-sectional regressions for each industry classification within the fiscal year from 2005 to 2015: $Compensation_{jt} = \text{Log}(\text{firm size})_{jt} + ROA_{jt} + \text{Board size}_{jt} + \text{Independent director \%}_{jt} + \text{Ownership Concentration}_{jt} + \varepsilon_{jt}$. The firm-specific annual excess compensation for firm j (in a given industry) in year t , ε_{jt} , is the residual of the regression of the above equation for that particular industry.

Overall, the results signify that more meetings discussing firms' mergers and acquisitions and the use of IPO proceeds would improve the relationship between compensation and firm performance. In contrast, board nomination meetings weaken this relationship.

5.3 The Impact of Topic-Specific Board Meetings and Corporate Ownership in China

Chinese listed firms often have controlling shareholders who can nominate/appoint their preferred agents to the board and use their power to benefit themselves, sometimes at the expense of minority shareholders. Real control of the firm often lies with either the state or non-state controlling shareholders, who often have different goals from other shareholders, potentially having a huge impact on management motivations and actions. State owners such as SOEs or government agents have political, social, and economic goals (Allen *et al.*, 2005). Non-state controlling owners have a strong incentive to maximize firm value for their own interests, but they may also expropriate the income and assets of the listed firm away from the minority shareholders (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998). This differs from governance mechanisms in the US. We focus our examinations of nomination and growth-strategy meetings on two subsamples: state-controlled and non-state-controlled firms respectively.

The state-controlled firm subsample contains firms with state controlling shareholders, while the non-state-controlled firm subsample consists of firms with non-state controlling shareholders. Panel A of Table 7 presents estimation results for the effects of nomination meetings in the state-controlled and non-state-controlled firms respectively. For the CEO dismissal estimations, the interaction term $ROA_{t-1} \times \text{Nomination meeting frequency}_{t-1}$ is only significant in the non-state-controlled firm subsample. The sign of the interaction term in this subsample is positive (Column (2)), which contradicts the negative sign of the ROA effect on

CEO dismissal. Thus, board meetings on nominations decrease the sensitivity of CEO dismissal to performance in non-state-controlled firms.

For the CEO compensation estimation, the sign of the interaction term in the subsample of non-state-controlled firms is negative (Column (4) in Table 7 Panel A). This implies that nomination-related board meetings also weaken the relationship between CEO compensation and performance in non-state-controlled firms. In contrast, the coefficients of the interaction terms in the subsample of state-controlled firms are not significant (Column (3) in Table 7 Panel A). Therefore, we find that nomination-related meetings lessen the quality of corporate governance in non-state-controlled firms, but not in state-controlled firms. These findings suggest that, in privately controlled corporations, CEOs may have more power and may tend to appoint people who will conflict with them less, whereas CEOs in state-controlled firms may be less likely to manipulate personnel selection so as to entrench themselves through board meetings.

Insert Table 7 about here

Panel B of Table 7 shows estimation results for the effects of growth-strategy meetings in state-controlled firms and non-state-controlled firms respectively. In both subsamples, the interaction terms $ROA \times Growth\ strategy\ meetings$ are significantly and positively related to CEO compensation, and these signs are the same as those for firm performance (Column (1) and Column (2) in in Table 7 Panel B). This suggests that growth-strategy meetings enhance

the sensitivity of CEO compensation to performance, regardless of ownership structure. Overall, we find that a higher frequency of meetings on growth strategies enhances the quality of corporate governance in terms of improving CEO compensation-performance sensitivity.

5.4 Endogeneity Problem and Persistence

We use the GMM method to reduce endogeneity concerns regarding board meetings, CEO dismissal/compensation and performance. These endogeneity concerns include unobserved heterogeneity, simultaneity, and dynamic relation between board meetings and past firm performance concerns. Our endogenous variables are topic-specific board meetings, firm performance and their interaction terms.

Initially we perform the ‘difference-in-Sargan-statistic’ test to examine whether topic-specific meetings are endogenous in our models. If topic-specific meetings are diagnosed as being exogenous variables, there will be no need to estimate the models using the GMM method. In the CEO dismissal regressions, the F -statistics of the ‘difference-in-Sargan-statistic’ test are insignificant in all cases, meaning topic-specific meeting frequency can be treated as exogenous in the CEO dismissal model. However, topic-specific meetings should be treated as endogenous in the compensation model, based on the results of the ‘difference-in-Sargan-statistic’ test.

Following recent work (Conyon and He, 2012; Wintoki *et al.*, 2012), we use the dynamic panel data GMM estimator to estimate the compensation-performance model. Topic-specific meetings, performance and their interactions, and all of the firm-specific control variables are assumed to be potentially endogenous. One-year lagged compensation is also included in the main regression. We used up to five years of lagged dependent and endogenous variables as

instruments in both level and difference equations. To check validity of the instrumental variables, Hansen over-identification, AR(1), and AR(2) tests are reported in Appendix D.

Appendix D demonstrates that Compensation is significantly related to ROA. The interaction term between nomination meetings and ROA (Column (A) of Appendix D) is still negatively significant, while the interaction term between growth-strategy meetings and ROA is positive (Column (F) of Appendix D). The GMM estimates are similar to our earlier findings. In addition, the lagged compensation (i.e. the lagged dependent variable) is positive and significant in each of the regressions. This indicates that CEO compensation is highly persistent and takes time to adjust to its long-run equilibrium, with consist with the finding of Conyon and He (2012).

5.5 The informativeness of issuing topic.

The content of reports may reveal useful information to stakeholders. Importantly, some reports may be exhaustive, while others may be brief. The more detailed reports can also represent greater oversight of meetings by directors. Approximate 40% of reports in the dataset includes multiple topics. The narratives of topics in multiple-topic reports are overlapping. For example, the open and ending wordings of reports could make up to one third of the total words (such as “according to Principle XX in Company Law.....”). It causes the difficulty to obtain an ideal proxy for the number of words for each topic.

Panel A in Appendix E shows the average words of each topic based on reports with only one topic covered. The average number of words is around 250 for the topic of nomination and the topic of financial reports and audit, and the number of words is around 350 for the other four topics. It may suggest that directors disclose less information on nomination and financial report meetings. We however cannot rule out the probability that the word difference is due to relative simplicity of nomination and financial report and audit topic.

Considering the difficulty to differentiate/isolate the number of words for each topic in multiple-topic reports and the variations in number of words for each topic among firms and years, for each firm-year, we use the number of words of any single topic report to proxy for the number of words of that topic across all reports (single-topic and multiple-topic). We regress CEO dismissal and compensation module with the number of words substituting the frequency of meetings for each topic. Firm and year fixed effects are included. Panel B and C of Appendix E report the regression results. The interaction between words of nomination meetings and ROA is positively (negatively) significant in CEO dismissal model (CEO compensation model). Also the interaction between words of firm growth meetings and ROA is positively significant in CEO compensation model. These results are similar to our main regression results in Table 5 and Table 6. It should be aware that this method could suffer sample selection bias, i.e. excluding firm year observations without single-topic reports.

Besides the number of words, the content of topics may reveal director's opinion about corporate decisions. We notice that only less than 2% of reports denote *strong* negative opinions against management or controlling shareholder's proposals. We suppose directors may reveal some information in the positive reports, so the tone of reports using textual analysis may be used as the direction. Because there is no widely accepted financial word dictionary for Chinese language, it is not easy to get a *reliable* tone measure to proxy for the direction of reports. Also for reports that have multiple topics, director's opinions on the meeting are often overlapped, so we cannot obtain the tone of each topic. Ignoring the tone may underestimate the efforts of board in corporate decisions.

5.6 Additional Checks

5.6.1 Alternative measures of CEO dismissal and compensation. Our *CEO dismissal* measure is based on available public information (on forced or unforced dismissals). However, using public information to classify CEO dismissals may be problematic. Following previous research (e.g. Kaplan and Minton, 2012; Kato and Long, 2006b), we employ a binary variable that equals one for any type of CEO personnel change, regardless of the reason for the dismissal. We re-estimate the logit equation (1) using this new definition of CEO dismissal as the dependent variable. Our results are qualitatively similar to those obtained using forced CEO dismissal.

We also use the individual-level CEO payment data available from the year 2005 as a robustness check. Approximately 40% of CEOs did not receive any compensation from the listed firms during the period in question. These CEOs are likely to have received their salaries from the parent company, or to have held a large proportion of shares. The sample includes 3,454 listed-firm-year observations over the period 2005-2010. The untabulated results based on the individual data are similar to those based on aggregate compensation. The coefficient on the interaction term (nomination meeting frequency \times ROA) is significantly negative, which suggests that the link between executive compensation and a firm's accounting performance is likely to be weakened by such meetings. Unreported results for ROE and the profit margin are similar to those for ROA.

5.6.2 Eleven meeting topics recorded in the CSMAR database. In order to test whether our results are affected by our grouping of meeting topics, we re-estimate equations (1) and (2) using meeting frequencies for eleven topics recorded in the CSMAR database (see Column 1 of Table 1). Except for meetings on nominations, the interactions are found not to be significant for CEO dismissal and performance sensitivity. Regarding CEO compensation sensitivity to firm performance, the interactions between meetings on mergers and

acquisitions (6) and on the use of IPO proceeds (9) and firm performance are positively significant, while the other interactions are not significant. Meetings on mergers and acquisitions (6) and the use of IPO proceeds (9) were combined into meetings on growth strategies in the main analysis. Therefore, the unreported results for the eleven meeting topics are consistent with our main analysis based on the six major topics.

5.6.3 China-specific control variables. As our study is based on Chinese listed firms, we further add more control variables so as to consider the special institutional and economic environment in China. Stemming from the introduction of the US board system to China in 2001, the supervisory board of directors still exists there. Thus, we add the size of the supervisory board to control for the potential effect of monitoring from supervisors (Ding *et al.*, 2010). Regarding the regional imbalances in economic growth, we add the Chinese government transparency index (or regional dummies) accordingly. Our key results remain unaltered after we consider these characteristics of the Chinese market.

6. Discussion and Conclusions

The purpose of this paper is to provide a better understanding of how board activity affects board effectiveness in linking CEO compensation/dismissal to firm performance. In our empirical examination, to measure board activity we move beyond the mere frequency of board meetings and target their agendas. We exploit a unique dataset on board meeting agendas of Chinese listed firms over the period 2005-2015, and show that there are six major meeting topics: management and directors' nominations, their compensation, management routines, firm control transactions, changes in equity structure, and growth strategies.

To provide evidence of board effectiveness in China, we examine the influences of topic-specific meetings on the relationship between CEO-dismissal and performance, and on that between CEO-compensation and performance. The rationale behind this is that discussing certain topics could enhance the informativeness of the board, thus helping directors to assess and monitor CEOs, and thereby strengthen these relationships (in other words, improve internal corporate governance).

Our results reveal that CEO dismissal is significantly negatively, and compensation positively, correlated to all of the accounting-based performance measures. Hence, a firm's profitability is the main criterion used to evaluate the CEO's performance in China. We also find that the frequencies of meetings on major topics are diverse, as are the roles of such meetings in monitoring the top management. In particular, the sensitivity of CEO compensation to performance is stronger when there are more board meetings on growth strategies, such as mergers and acquisitions and applying IPO proceeds. When directors discuss firm growth strategies, they could obtain comprehensive information about firm performance, CEO capability, and future strategies. Our results suggest the soft information captured in board meetings is likely to influence directors' evaluations of the CEO's capability, leading them to change the CEO's compensation scheme accordingly, so as to motivate the CEO and other managers. Meanwhile, most of the major topics of board meetings are not likely to affect the sensitivity between CEO turnover and performance. In fact, meetings on nominations could even reduce both turnover-performance and pay-performance sensitivity.

In China, the majority of listed firms have dominant state shareholders or non-state shareholders. These two types of shareholders have distinct goals, which may influence managerial incentives, and the selection and activities of board members. Using subsample analyses, we find that board meetings on growth strategies could enhance CEO

compensation-performance sensitivity in both types of firms. However, meetings on nominations reduce both turnover-performance and pay-performance sensitivity in firms controlled by dominant non-state shareholders.

While our results are consistent with different effects of director monitoring activities on the quality of corporate governance, we acknowledge that there are limitations to this study. Our measure for director's effort based on board meeting activities on different topics could be more accurate. Besides our discussion on the number of words in the reports, the direction about message provided by reports could reveal more information about board efforts on corporate decisions.

Despite these limitations, the findings of our study suggest there are differences in the effects of meeting topic on CEO pay/dismissal-to-performance sensitivities, and highlight the need for more tailored approaches to board requirements. In the countries that carry out good 'corporate governance guidance' policies, regulators' agendas stay concentrated on board composition and structure, and the total number of annual meetings, as the means to allow boards to best perform their duties. A sound board structure following such guidance alone, however, does not 'make great boards great' (Sonnenfeld, 2002). To a certain degree, our study reflects the complexities involved in the board decision-making process. Thus, it calls for a reconsideration of the current one-size-fits-all approach taken by the regulators. Particularly in China, the regulators should consider introducing regulations to prevent potentially self-interested behaviour from the CEO and non-state controlling shareholders when making nominations and personnel changes to the directors and top management.

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TABLE 1 Specific topics of board meetings in Chinese public firms

| CSMAR code (According to CSRC requirements) | Major topics | Notes |
|------------------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Personnel – 1 | Nomination (A) | Director and officer selection, appointment, and turnover |
| Compensation - 2 | Compensation (B) | Emolument of directors and executives |
| Financial report and pay out policies - 3 | Financial reports and audit (C) | Approval of financial reports, profit distribution, amendments and supplements of reports, etc.; switches of auditors, audit opinion; accounting treatment and information disclosure |
| Audit - 7 | | |
| Related-party transactions - 4 | Corporate control transactions | Loan guarantees are promises by the listed firm (the guarantor) to assume the debt obligation of a borrower if that borrower defaults; disposal of assets means the gain or loss calculated as the net disposal proceeds, minus the asset's carrying value. |
| Loans Guarantees - 5 | (D) | |
| Disposal of assets - 10 | | |
| Ownership changes - 8 | Change of equity structure (E) | |
| Split share structure reform – 11 | | |
| Mergers and acquisitions - 6 | Growth strategies (F) | |
| Use of IPO proceeds and financing - 9 | | |

This table reports the specific major topics discussed in the board meetings of Chinese listed firms. The eleven categories (by CSMAR code) of meetings are based on the *Code of Corporate Governance* in China (2001). We combine some topics as they have similar effects.

TABLE 2 Sample distribution and descriptive statistics for six types of meetings across industries

| | | | Obs | (A) Nomination | | (B) Compensation | | (C) Financial reports and audit | | (D) Corporate control transactions | | (E) Change of equity structure | | (F) Growth strategies | |
|-------|-------|-------|--------|----------------|-------|------------------|-------|---------------------------------|-------|------------------------------------|-------|--------------------------------|-------|-----------------------|-------|
| | Firms | % | | Mean | Std | Mean | Std | Mean | Std | Mean | Std | Mean | Std | Mean | Std |
| A | 37 | 2.05 | 290 | 0.945 | 1.230 | 0.134 | 0.415 | 0.314 | 0.553 | 1.362 | 1.542 | 0.103 | 0.376 | 0.469 | 1.069 |
| B | 70 | 3.88 | 446 | 1.018 | 1.342 | 0.215 | 0.556 | 0.453 | 0.698 | 2.085 | 2.300 | 0.043 | 0.233 | 0.390 | 0.821 |
| C | 903 | 50.00 | 8,180 | 0.919 | 1.261 | 0.240 | 0.665 | 0.421 | 0.680 | 1.778 | 1.993 | 0.120 | 0.432 | 0.374 | 0.878 |
| D | 92 | 5.09 | 733 | 1.063 | 1.310 | 0.205 | 0.498 | 0.419 | 0.655 | 2.064 | 2.224 | 0.116 | 0.420 | 0.319 | 0.733 |
| E | 50 | 2.77 | 343 | 0.819 | 1.130 | 0.289 | 0.799 | 0.399 | 0.593 | 1.956 | 2.609 | 0.102 | 0.424 | 0.359 | 0.778 |
| F | 165 | 9.14 | 1,156 | 0.966 | 1.234 | 0.234 | 0.651 | 0.416 | 0.629 | 1.559 | 1.857 | 0.103 | 0.398 | 0.283 | 0.706 |
| G | 83 | 4.60 | 716 | 0.997 | 1.326 | 0.187 | 0.483 | 0.297 | 0.581 | 1.647 | 1.888 | 0.073 | 0.335 | 0.228 | 0.619 |
| H | 11 | 0.61 | 96 | 1.344 | 1.672 | 0.115 | 0.380 | 0.688 | 0.685 | 1.896 | 1.462 | 0.125 | 0.391 | 0.469 | 0.962 |
| I | 62 | 3.43 | 409 | 0.951 | 1.346 | 0.386 | 0.920 | 0.408 | 0.662 | 1.257 | 1.648 | 0.132 | 0.440 | 0.340 | 0.863 |
| J | 159 | 8.80 | 1,101 | 1.018 | 1.252 | 0.291 | 0.755 | 0.480 | 0.697 | 1.917 | 2.323 | 0.079 | 0.333 | 0.262 | 0.848 |
| K | 24 | 1.33 | 155 | 0.929 | 1.249 | 0.174 | 0.444 | 0.426 | 0.654 | 1.394 | 1.753 | 0.148 | 0.532 | 0.374 | 0.815 |
| L | 31 | 1.72 | 122 | 0.984 | 1.178 | 0.385 | 0.922 | 0.672 | 0.886 | 1.508 | 1.750 | 0.172 | 0.585 | 0.484 | 0.998 |
| M | 24 | 1.33 | 115 | 1.261 | 1.481 | 0.365 | 0.753 | 0.626 | 0.789 | 1.896 | 1.739 | 0.026 | 0.208 | 0.835 | 1.249 |
| N | 95 | 5.26 | 497 | 0.710 | 1.129 | 0.177 | 0.509 | 0.374 | 0.626 | 1.262 | 1.598 | 0.193 | 0.542 | 0.165 | 0.476 |
| Total | 1,806 | 100 | 14,359 | | | | | | | | | | | | |

The table shows the distribution of sample firms in 2005-2015 across industries based on *the Guidance on the Industry Category of Listed Companies* issued by the CSRC (2012 version). A = Agriculture, B = Mining, C = Manufacturing, D = Electricity, gas and water, E = Building and construction, F = Wholesale and retail trade, G = transportation and logistics, H = Accommodation and Catering Industry, I = Information technology, J = Real estate, K = Commerce, L = Water, environment and public facilities management, M = Culture, sports and entertainment, N = Synthesis.

TABLE 3 CEO dismissal, compensation and board meetings*Panel A: Annual CEO dismissal rate, executive compensation and board meeting frequency*

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Obs. | 1,245 | 1,272 | 1,247 | 1,249 | 1,255 | 1,307 | 1,334 | 1,354 | 1,352 | 1,367 | 1,368 | 14,359 |
| CEO dismissal rate | 0.189 | 0.189 | 0.167 | 0.166 | 0.163 | 0.176 | 0.164 | 0.14 | 0.182 | 0.2 | 0.219 | 0.178 |
| Compensation (RMB 000s) | 230.904 | 259.874 | 357.544 | 397.479 | 440.288 | 524.065 | 598.143 | 637.598 | 684.047 | 738.408 | 802.093 | 528.059 |
| Annual meeting frequency | 7.504 | 8.227 | 9.874 | 9.768 | 8.712 | 9.01 | 9.388 | 9.806 | 9.158 | 9.703 | 10.711 | 9.277 |

Panel B: Meeting frequencies on major topics

| Observations = 14,359 | Mean | Median | Std | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------------|-------|--------|-------|------|------|------|------|------|------|------|------|------|------|------|
| (A) Nomination | 0.942 | 0.000 | 1.267 | 397 | 450 | 512 | 695 | 687 | 1169 | 1223 | 1312 | 1716 | 2061 | 2305 |
| (B) Compensation | 0.240 | 0.000 | 0.656 | 96 | 45 | 35 | 103 | 95 | 255 | 316 | 344 | 548 | 688 | 915 |
| (C) Financial reports and audit | 0.420 | 0.000 | 0.669 | 355 | 296 | 186 | 147 | 232 | 369 | 374 | 643 | 808 | 1202 | 1418 |
| (D) Corporate control transactions | 1.743 | 1.000 | 2.011 | 1381 | 1337 | 1531 | 1815 | 1834 | 2293 | 2142 | 2818 | 3138 | 3240 | 3502 |
| (E) Change of equity structure | 0.113 | 0.000 | 0.418 | 180 | 1055 | 121 | 63 | 58 | 37 | 11 | 38 | 20 | 8 | 26 |
| (F) Growth strategies | 0.346 | 0.000 | 0.840 | 119 | 106 | 147 | 209 | 294 | 303 | 474 | 466 | 696 | 817 | 1342 |

Panel C: The differences of topic focused meeting frequencies between groups based on firm size

| | Small firms (S) | | Median firms (M) | | Large firms (L) | | Two sample mean t-test | | |
|------------------------------------|-----------------|-------|------------------|-------|-----------------|-------|------------------------|---------------------|---------------------|
| | Obs. = 4,738 | | Obs. = 4,737 | | Obs. = 4,882 | | Diff (S – M) | Diff (M – L) | Diff (S – L) |
| | Mean | Std | Mean | Std | Mean | Std | <i>t</i> statistics | <i>t</i> statistics | <i>t</i> statistics |
| (A) Nomination | 0.849 | 1.222 | 0.928 | 1.223 | 1.046 | 1.342 | -3.165 *** | -4.474 *** | -7.515*** |
| (B) Compensation | 0.129 | 0.438 | 0.245 | 0.653 | 0.342 | 0.804 | -10.199 *** | -6.472 *** | -16.092 *** |
| (C) Financial reports and audit | 0.423 | 0.683 | 0.413 | 0.657 | 0.424 | 0.667 | 0.747 | -0.836 | -0.074 |
| (D) Corporate control transactions | 1.228 | 1.464 | 1.727 | 1.821 | 2.26 | 2.465 | -14.700 *** | -12.025 *** | -24.868 *** |
| (E) Change of equity structure | 0.170 | 0.505 | 0.118 | 0.43 | 0.052 | 0.282 | 5.378 *** | 8.867 *** | 14.136 *** |
| (F) Growth strategies | 0.171 | 0.562 | 0.393 | 0.888 | 0.471 | 0.978 | -14.537 *** | -4.092 *** | -18.376 *** |

(continued on next page)

Table 3 (Continued)

Panel D: Meeting frequencies on all eleven topics in CSMAR database

| Type of meeting | Mean | Median | Std | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| M1 | 0.942 | 0.000 | 1.267 | 397 | 450 | 512 | 695 | 687 | 1,169 | 1,223 | 1,312 | 1,716 | 2,061 | 2,305 |
| M2 | 0.240 | 0.000 | 0.656 | 96 | 45 | 35 | 103 | 95 | 255 | 316 | 344 | 548 | 688 | 915 |
| M3 | 0.383 | 0.000 | 0.620 | 337 | 211 | 112 | 130 | 192 | 326 | 331 | 606 | 755 | 1,136 | 1,365 |
| M4 | 1.150 | 1.000 | 1.394 | 1,054 | 966 | 1,120 | 1,435 | 1,154 | 1,589 | 1,381 | 1,866 | 1,988 | 1,957 | 1,999 |
| M5 | 0.478 | 0.000 | 1.128 | 235 | 321 | 352 | 347 | 601 | 564 | 635 | 815 | 872 | 959 | 1,168 |
| M6 | 0.117 | 0.000 | 0.431 | 64 | 57 | 93 | 89 | 133 | 107 | 166 | 176 | 176 | 190 | 424 |
| M7 | 0.037 | 0.000 | 0.203 | 18 | 85 | 74 | 17 | 40 | 43 | 43 | 37 | 53 | 66 | 53 |
| M8 | 0.032 | 0.000 | 0.205 | 179 | 54 | 38 | 19 | 43 | 36 | 9 | 35 | 16 | 8 | 26 |
| M9 | 0.230 | 0.000 | 0.686 | 55 | 49 | 54 | 120 | 161 | 196 | 308 | 290 | 520 | 627 | 918 |
| M10 | 0.115 | 0.000 | 0.400 | 92 | 50 | 59 | 33 | 79 | 140 | 126 | 137 | 278 | 324 | 335 |
| M11 | 0.080 | 0.000 | 0.361 | 1 | 1,001 | 83 | 44 | 15 | 1 | 2 | 3 | 4 | 0 | 0 |

This table reports the rate of CEO dismissal, the executive compensation (the average of the three highest-paid executives' compensation), the annual number of board meetings, and the frequencies of board meetings on major topics, in Chinese public firms from 2005 to 2015. In panel A, the CEO dismissal rate refers to the percentage of CEO dismissals in the single year. Executive compensation (000s RMB) is the average compensation of the three highest-paid executives and directors, including basic salary, bonuses, and other benefits. Annual number of board meetings expresses the average frequency of board meetings. Panel B shows the frequencies of meetings on the six major topics individually: nomination (A), compensation (B), financial reports and audit (C), corporate control transactions (D), change of equity structure (E) and growth strategies (F). Panel C illustrates that topic-specific meeting frequencies vary with firm size. Firm year observations have been grouped into small firms (S-the lower third of the distribution), median firms (M-the median third) and large firms (L-the higher third). *T*-statistics (two-tailed test) for differences between groups are reported. Panel D demonstrates the frequencies of meetings on original 11 topics in CSMAR database individually, where M1 = Personnel, M2 = Compensation, M3 = Financial report and pay out policies, M4 = Related-party transactions, M5 = Loans Guarantees, M6 = Disposal of assets, M7 = Audit, M8 = Ownership changes, M9 = Use of IPO proceeds and financing, M10 = Disposal of assets, M11 = Split share structure reform.

TABLE 4 Descriptive statistics for main variables

| | Definition | Mean | Median | Std | Q1 | Q3 | N |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|--------|--------|--------|--------|
| ROA | Net profit divided by total assets | 0.039 | 0.040 | 0.058 | 0.021 | 0.065 | 14,359 |
| Industry adjusted ROA | The firm' ROA minus the mean of ROA in the same industry | 0.000 | 0.002 | 0.057 | -0.017 | 0.025 | 14,359 |
| Age | CEO age | 51.515 | 51.000 | 6.999 | 47.000 | 56.000 | 12,490 |
| Female | A dummy variable equals one if CEO is female | 0.036 | 0.000 | 0.186 | 0.000 | 0.000 | 14,359 |
| Board size | Logarithm of number of directors | 9.194 | 9.000 | 1.928 | 8.000 | 10.000 | 14,246 |
| Duality | An indicator equals one if the same person acts as CEO and chairman, and zero otherwise | 0.139 | 0.000 | 0.346 | 0.000 | 0.000 | 13,645 |
| Independent directors % | Fraction of independent directors on board | 0.365 | 0.333 | 0.053 | 0.333 | 0.375 | 14,246 |
| Largest shareholding% | Shares held by largest shareholders | 31.692 | 29.445 | 17.625 | 17.718 | 44.050 | 13,577 |
| State-owned enterprises | Dummy equals one if the firm is controlled by the state or government agencies, and zero otherwise | 0.656 | 1.000 | 0.475 | 0.000 | 1.000 | 14,359 |
| Ownership Concentration | <i>Herfindahl_index</i> - Sum of squares of shareholding percentage of top five shareholders | 0.175 | 0.141 | 0.128 | 0.073 | 0.252 | 14,359 |
| Leverage | Total liability over total assets | 21.983 | 21.870 | 1.410 | 21.032 | 22.804 | 14,359 |
| Log(firm size) | Log value of firm's total assets | 7.614 | 7.690 | 1.527 | 6.774 | 8.559 | 14,315 |
| Log(employees) | Logarithm of number of employees in the firm | 0.039 | 0.040 | 0.058 | 0.021 | 0.065 | 14,359 |
| Industry adjusted compensation | The firm's compensation minus the average of compensation in the same industry based on CSRC industry code in the fiscal year | 0.000 | 0.015 | 0.747 | -0.463 | 0.463 | 14,294 |
| Excess Compensation | The residual from the regression of CEO compensation on more firm characteristics (e.g. size, performance) within the same industry and year (see details in Footnote 7) | 0.000 | 0.0270 | 0.668 | -0.415 | 0.418 | 14,140 |

The table provides definitions and descriptive statistics for the main variables. The sample contains firm-years from 2005 to 2015.

TABEL 5 The effects of meetings on the six major topics on the sensitivity of CEO dismissal to firm performance

| CEO dismissal | (A) Nomination | | (B) Compensation | | (C) Financial reports and audit | | (D) Corporate control transactions | | (E) Change of equity structure | | (F) Growth strategies | |
|-----------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|---------------------------------|----------------------|------------------------------------|----------------------|--------------------------------|----------------------|-----------------------|----------------------|
| | Number (1) | Dummy (2) | Number (1) | Dummy (2) | Number (1) | Dummy (2) | Number (1) | Dummy (2) | Number (1) | Dummy (2) | Number (1) | Dummy (2) |
| ROA _{t-1} | -3.277*** (0.709) | -3.419*** (0.712) | -2.400*** (0.621) | -2.301*** (0.626) | -2.408*** (0.679) | -2.410*** (0.667) | -2.133*** (0.763) | -2.426*** (0.704) | -2.603*** (0.617) | -2.655*** (0.615) | -2.694*** (0.627) | -2.735*** (0.636) |
| Topic-focused meeting _{t-1} | -0.180*** (0.029) | -0.291*** (0.065) | -0.174*** (0.067) | -0.327*** (0.103) | 0.097* (0.056) | 0.164* (0.085) | -0.005 (0.018) | -0.011 (0.066) | 0.044 (0.076) | -0.053 (0.128) | -0.138*** (0.050) | -0.269*** (0.086) |
| ROA _{t-1} × topic-Focused meeting _{t-1} | 0.649* (0.388) | 2.364** (1.096) | -0.894 (1.398) | -1.974 (1.869) | -0.253 (0.676) | -0.504 (1.306) | -0.259 (0.309) | -0.312 (1.115) | 0.631 (1.294) | 2.260 (2.345) | 0.765 (0.998) | 1.244 (1.576) |
| Age _{t-1} | 0.061*** (0.006) | 0.061*** (0.006) | 0.062*** (0.006) | 0.061*** (0.006) | 0.062*** (0.006) | 0.062*** (0.006) | 0.062*** (0.006) | 0.062*** (0.006) | 0.062*** (0.006) | 0.062*** (0.006) | 0.062*** (0.006) | 0.062*** (0.006) |
| Female _{t-1} | -0.452** (0.208) | -0.431** (0.207) | -0.452** (0.207) | -0.450** (0.207) | -0.430** (0.207) | -0.431** (0.207) | -0.438** (0.207) | -0.439** (0.207) | -0.438** (0.207) | -0.435** (0.207) | -0.427** (0.207) | -0.426** (0.207) |
| Board size _{t-1} | -0.024 (0.030) | -0.026 (0.030) | -0.027 (0.030) | -0.026 (0.030) | -0.027 (0.030) | -0.027 (0.030) | -0.028 (0.030) | -0.028 (0.030) | -0.028 (0.030) | -0.028 (0.030) | -0.026 (0.030) | -0.027 (0.030) |
| Duality _{t-1} | -0.327** (0.158) | -0.342** (0.157) | -0.346** (0.156) | -0.345** (0.157) | -0.361** (0.157) | -0.360** (0.157) | -0.347** (0.156) | -0.350** (0.156) | -0.351** (0.156) | -0.349** (0.156) | -0.345** (0.157) | -0.349** (0.157) |
| Independent directors % _{t-1} | 1.186 (0.840) | 1.184 (0.839) | 1.144 (0.835) | 1.156 (0.835) | 1.099 (0.835) | 1.108 (0.835) | 1.089 (0.834) | 1.089 (0.834) | 1.077 (0.835) | 1.079 (0.834) | 1.116 (0.835) | 1.104 (0.835) |
| Largest shareholding% _{t-1} | -0.004 (0.005) | -0.004 (0.005) | -0.003 (0.005) | -0.003 (0.005) | -0.003 (0.005) | -0.003 (0.005) | -0.003 (0.005) | -0.003 (0.005) | -0.004 (0.005) | -0.004 (0.005) | -0.003 (0.005) | -0.003 (0.005) |
| State-owned enterprises _{t-1} | 0.153 (0.149) | 0.152 (0.149) | 0.152 (0.149) | 0.155 (0.149) | 0.165 (0.149) | 0.163 (0.149) | 0.164 (0.149) | 0.163 (0.149) | 0.161 (0.149) | 0.163 (0.149) | 0.147 (0.149) | 0.148 (0.149) |
| Ownership Concentration _{t-1} | -0.618 (0.662) | -0.636 (0.660) | -0.743 (0.658) | -0.706 (0.658) | -0.706 (0.658) | -0.723 (0.658) | -0.688 (0.658) | -0.700 (0.658) | -0.690 (0.658) | -0.711 (0.658) | -0.814 (0.661) | -0.800 (0.660) |
| Log(employees) _{t-1} | -0.021 (0.057) | -0.021 (0.057) | -0.015 (0.056) | -0.015 (0.056) | -0.008 (0.056) | -0.010 (0.056) | -0.012 (0.056) | -0.013 (0.056) | -0.011 (0.056) | -0.013 (0.056) | -0.012 (0.056) | -0.010 (0.056) |
| Log(firm size) _{t-1} | -0.171** (0.074) | -0.172** (0.074) | -0.166** (0.074) | -0.167** (0.074) | -0.176** (0.074) | -0.175** (0.074) | -0.174** (0.074) | -0.177** (0.074) | -0.176** (0.074) | -0.173** (0.074) | -0.155** (0.075) | -0.157** (0.074) |

| | | | | | | | | | | | | |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Leverage $t-1$ | 0.348* | 0.373* | 0.320 | 0.315 | 0.347* | 0.346* | 0.338* | 0.338* | 0.334* | 0.333* | 0.286 | 0.282 |
| | (0.202) | (0.202) | (0.202) | (0.202) | (0.202) | (0.202) | (0.202) | (0.202) | (0.202) | (0.202) | (0.203) | (0.203) |
| Firm FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year&Industry FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Wald χ^2 | 266.436 | 253.032 | 233.729 | 237.701 | 229.431 | 230.207 | 226.866 | 226.207 | 226.685 | 227.218 | 234.922 | 237.079 |
| Firm-years | 8,174 | 8,174 | 8,174 | 8,174 | 8,174 | 8,174 | 8,174 | 8,174 | 8,174 | 8,174 | 8,174 | 8,174 |

This table presents series of logistic regressions with fixed effects. CEO dismissal is the dependent variable, which equals one if the CEO is dismissed, and zero otherwise over the period 2005-2015. ROA is an industry-adjusted ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Topic-specific meetings are defined as (1) is the annual meeting frequency for each topic and (2) a dummy variable indicating whether the annual meeting frequency above the median for distribution within the same year for each topic from Column (A) to (F). The interaction terms between firm performance and topic-focused meeting frequency capture the meetings' moderate effects on the relationship between CEO dismissal and firm performance. Other variable definitions are provided in Table 4. *p < .10, **p < 0.05, ***p < 0.01.

TABEL 6A The effects of meetings on the six major topics on the sensitivity of industry adjusted compensation to firm performance

| <i>Industry adjusted Compensation</i> | (A) Nomination | | (B) Compensation | | (C) Financial reports and audit | | (D) Corporate control transactions | | (E) Change of equity structure | | (F) Growth strategies | |
|-----------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|---------------------------------|----------------------|------------------------------------|----------------------|--------------------------------|----------------------|-----------------------|----------------------|
| | Number (1) | Dummy (2) | Number (1) | Dummy (2) | Number (1) | Dummy (2) | Number (1) | Dummy (2) | Number (1) | Dummy (2) | Number (1) | Dummy (2) |
| ROA _{t-1} | 1.195*** (0.139) | 1.201*** (0.141) | 1.076*** (0.124) | 1.058*** (0.126) | 1.171*** (0.136) | 1.172*** (0.133) | 1.000*** (0.150) | 0.999*** (0.139) | 1.027*** (0.124) | 1.046*** (0.124) | 0.987*** (0.127) | 0.995*** (0.084) |
| Topic-focused Meeting _{t-1} | 0.008** (0.003) | 0.015* (0.008) | 0.040*** (0.010) | 0.056*** (0.014) | 0.010 (0.009) | -0.017 (0.012) | 0.002 (0.003) | 0.007 (0.009) | -0.002 (0.013) | 0.016 (0.018) | 0.007 (0.007) | 0.015 (0.010) |
| ROA _{t-1} × topic-focused-meeting _{t-1} | -0.140** (0.068) | -0.391** (0.175) | -0.280 (0.192) | -0.136 (0.271) | -0.263 (0.145) | -0.523 (0.336) | 0.034 (0.054) | 0.156 (0.195) | 0.208 (0.258) | 0.075 (0.430) | 0.309*** (0.119) | 0.399** (0.193) |
| Board size _{t-1} | 0.010* (0.006) | 0.011* (0.006) | 0.011* (0.006) | 0.011* (0.006) | 0.010* (0.006) | 0.010* (0.006) | 0.011* (0.006) | 0.011* (0.006) | 0.011* (0.006) | 0.011* (0.006) | 0.011* (0.006) | 0.011*** (0.004) |
| Duality _{t-1} | -0.007 (0.022) | -0.007 (0.022) | -0.010 (0.022) | -0.010 (0.022) | -0.008 (0.022) | -0.008 (0.022) | -0.008 (0.022) | -0.008 (0.022) | -0.008 (0.022) | -0.008 (0.022) | -0.009 (0.022) | -0.009 (0.015) |
| Independent directors % _{t-1} | 0.241 (0.154) | 0.242 (0.154) | 0.247 (0.154) | 0.247 (0.154) | 0.242 (0.154) | 0.241 (0.154) | 0.243 (0.154) | 0.242 (0.154) | 0.243 (0.154) | 0.244 (0.154) | 0.244 (0.154) | 0.243** (0.105) |
| Largest shareholding% _{t-1} | 0.003** (0.001) | 0.003** (0.001) | 0.003** (0.001) | 0.003** (0.001) | 0.003** (0.001) | 0.003** (0.001) | 0.003** (0.001) | 0.003** (0.001) | 0.003** (0.001) | 0.003** (0.001) | 0.003** (0.001) | 0.003*** (0.001) |
| State-owned enterprises _{t-1} | -0.091** (0.037) | -0.091** (0.037) | -0.088** (0.037) | -0.089** (0.037) | -0.090** (0.038) | -0.091** (0.037) | -0.091** (0.038) | -0.092** (0.038) | -0.091** (0.038) | -0.091** (0.038) | -0.090** (0.038) | -0.090*** (0.019) |
| Ownership Concentration _{t-1} | -0.044 (0.170) | -0.041 (0.170) | -0.022 (0.169) | -0.029 (0.170) | -0.038 (0.170) | -0.037 (0.170) | -0.041 (0.170) | -0.041 (0.170) | -0.039 (0.171) | -0.037 (0.171) | -0.031 (0.171) | -0.031 (0.085) |
| Log(employees) _{t-1} | -0.010 (0.013) | -0.010 (0.013) | -0.010 (0.013) | -0.010 (0.013) | -0.010 (0.013) | -0.011 (0.013) | -0.010 (0.013) | -0.010 (0.013) | -0.011 (0.013) | -0.011 (0.013) | -0.011 (0.013) | -0.011 (0.007) |
| Log(firm size) _{t-1} | 0.195*** (0.019) | 0.194*** (0.019) | 0.191*** (0.019) | 0.192*** (0.019) | 0.196*** (0.019) | 0.195*** (0.019) | 0.194*** (0.019) | 0.194*** (0.019) | 0.195*** (0.019) | 0.195*** (0.019) | 0.192*** (0.019) | 0.193*** (0.009) |
| Leverage _{t-1} | -0.201*** (0.046) | -0.201*** (0.046) | -0.198*** (0.045) | -0.197*** (0.045) | -0.201*** (0.046) | -0.201*** (0.045) | -0.200*** (0.046) | -0.201*** (0.046) | -0.201*** (0.046) | -0.201*** (0.046) | -0.198*** (0.046) | -0.198*** (0.024) |
| Firm FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year and Industry FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Adj. R ² | 0.109 | 0.109 | 0.110 | 0.110 | 0.109 | 0.109 | 0.108 | 0.108 | 0.108 | 0.108 | 0.108 | 0.108 |

| | | | | | | | | | | | | |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Firm-years | 11,874 | 11,874 | 11,874 | 11,874 | 11,874 | 11,874 | 11,874 | 11,874 | 11,874 | 11,874 | 11,874 | 11,874 |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|

This table reports results from panel data regressions with fixed effects over the period 2005-2015. Compensation is the industry adjusted compensation. ROA is an industry-adjusted measure of ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Topic-focused meeting are define as (1) is the annual meeting frequency for each topic and (2) whether the annual meeting frequency above the median for distribution within the same year for each topic. Interaction terms between firm performance and the topic-focused meeting frequency capture the meetings' moderating effects on the relationship between compensation and firm performance. Other variable definitions are provided in Table 4. *p < .10, **p < .05, ***p < .01

TABEL 6B The effects of meetings on the six major topics on the sensitivity of excess compensation to firm performance

| <i>Excess Compensation</i> | (A) Nomination | (B) Compensation | (C) Financial reports and audit | (D) Corporate control transactions | (E) Change of equity structure | (F) Growth strategies |
|-----------------------------------------------------------|---------------------|---------------------|------------------------------------|---------------------------------------|-----------------------------------|--------------------------|
| ROA _{t-1} | 0.760*** (0.147) | 0.621*** (0.129) | 0.672*** (0.137) | 0.655*** (0.155) | 0.558*** (0.125) | 0.561*** (0.086) |
| Topic-focused meeting _{t-1} | 0.016*** (0.005) | 0.034*** (0.010) | 0.011 (0.009) | 0.000 (0.003) | -0.001 (0.016) | -0.000 (0.007) |
| ROA _{t-1} × topic-focused meeting _{t-1} | -0.155** (0.075) | -0.247 (0.211) | -0.161 (0.130) | -0.037 (0.060) | 0.353 (0.245) | 0.188* (0.113) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Year and Industry FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Adj. R ² | 0.245 | 0.245 | 0.244 | 0.244 | 0.244 | 0.244 |
| Firm-years | 11,765 | 11,765 | 11,765 | 11,765 | 11,765 | 11,765 |

This table reports results from panel data regressions with fixed effects. *Excess Compensation* is obtained by using the residual from the regression of CEO compensation on more firm characteristics (size, performance, board size, board independence and ownership concentration) within the same industry and year (details in Footnote 7). Firm performance is an industry-adjusted ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Topic-focused meeting is the frequency of annual meetings for each topic. Interaction terms between firm performance and the topic-focused meeting capture the meetings' moderating effects on the relationship between compensation and firm performance. Other variable definitions are provided in Table 4. Models are estimated over the period 2005-2015. *p < .10, **p < .05, ***p < .01

TABEL 7 The effects of meeting frequencies on nomination and growth strategy under different ownership structure.

Panel A: The Effects of Nomination Meeting Frequency under Different Ownership Structure.

| | CEO dismissal | | Compensation | |
|------------------------------------------------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|
| | (1) State controlled firms | (2) Non-state-controlled firms | (3) State controlled firms | (4) Non-state-controlled firms |
| ROA _{t-1} | -2.901*** (0.912) | -4.338*** (0.912) | 1.482*** (0.119) | 0.737*** (0.152) |
| Nomination meeting frequency _{t-1} | -0.151*** (0.033) | -0.061 (0.042) | 0.005 (0.005) | 0.020*** (0.006) |
| ROA _{t-1} × Nomination meeting frequency _{t-1} | 0.530 (0.524) | 0.910* (0.509) | -0.038 (0.064) | -0.191** (0.080) |
| Control variables _{t-1} | Yes | Yes | Yes | Yes |
| Firm FE | Yes | Yes | Yes | Yes |
| Year and Industry FE | Yes | Yes | Yes | Yes |
| Wald χ^2 | 217.759 | 139.543 | | |
| Adj. R ² | | | 0.110 | 0.142 |
| Firm-years | 5,844 | 4,155 | 7,728 | 4,146 |

Panel B: The Effects of Meeting Frequency on Growth Strategies under Different Ownership Structure.

| | Compensation | |
|----------------------------------------------------------------|----------------------------|--------------------------------|
| | (1) State controlled firms | (2) Non-State controlled firms |
| ROA _{t-1} | 1.356*** (0.107) | 0.484*** (0.136) |
| Growth strategies meetings _{t-1} | -0.009 (0.009) | 0.012 (0.012) |
| ROA _{t-1} × Growth strategies meetings _{t-1} | 0.311** (0.141) | 0.455** (0.182) |
| Control variables _{t-1} | Yes | Yes |
| Firm FE | Yes | Yes |
| Year and Industry FE | Yes | Yes |
| Adj. R ² | 0.497 | 0.530 |
| Firm-years | 7,728 | 4,146 |

Panel A of this table reports panel data regression (with firm fixed effects) results of models linking the interaction terms of nomination meeting frequencies with firm performance to CEO dismissal and compensation from 2005 to 2015. CEO dismissal is the dependent variable, which equals one if the CEO is dismissed, and zero otherwise. ROA is an industry-adjusted measure of ROA. Nomination meeting frequency is the number of annual meetings on nomination. Interaction terms between ROA and the nomination meeting frequency capture the meetings' moderating effects on the relationship between CEO dismissal/compensation and firm performance. Panel B of this table shows panel data regression (with firm fixed effects) results of models linking the interaction terms of meeting frequency on growth strategies with firm performance to compensation. Compensation is the industry adjusted compensation. Meeting frequency of growth strategies is the number of annual meetings on growth strategies. Interaction term between ROA and the meeting frequency of growth strategies captures the meetings' moderating effects on the relationship between CEO compensation and firm performance. Other variable definitions are provided in Table 4. The state controlled firms contain firms with state controlling shareholders, while non-state-controlled firms consists of firms with non-state controlled shareholders.

Appendix A

An Examples of Independent Director' Reports. Compensation (2) and Loan Guarantees (5) were discussed on 27 April 2007 in board meeting of Wuhan Zhongnan Commercial Group Co., Ltd (WHZS, 000785).

Stock trading code: 000785 (SHE)

Company name: Wuhan Zhongnan Commercial Group Co., Ltd (WHZS)

Announcement date: 27 April 2007

Independent directors: Tan, Liwen; Li, Yanping; Xie, Huobao

Topic code: 2-Compensation; 5- Loan Guarantees

Opinion type: unqualified opinion

Content:

Pursuant to the "Guiding Opinions on Establishing Independent Directors in Listed Companies", "Shenzhen Stock Exchange Listing Rules", "Articles of Association", and other related regulations, we would like to issue the following opinion on WHZS's following two following issues passed at the fourth meeting of the sixth session of the board of directors:

First, to our best knowledge, we agree that compensations of directors and senior management in 2006 have meet the plan requirements-" the implementation plan of company directors and senior management compensation in 2006" approved by the annual General Meeting (2005).

Second, based on the annual report 2006 of WHZS, the audit report 2006 (2007-421), and the "Special statement of controlling shareholders and other related parties possessing fund of the listed firm"(2007-148) provided by Wuhan Zhonghuan Accounting Firms, we have carefully examined the incurred and accumulative amount of loan guarantees, we believe the loan guarantees for subsidiary companies in 2006 was 160 million RMB, accumulated to 260 million. No other loan guarantees for related parties happened in 2006.

Appendix B
Correlation of Main Variables.

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | |
|----------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|---------|--------|--------|----|--|
| 1 CEO dismissal | 1 | | | | | | | | | | | | | | | | | | | | |
| 2 Compensation | -0.07** | 1 | | | | | | | | | | | | | | | | | | | |
| 3 Nomination meeting | 0.23** | 0.10** | 1 | | | | | | | | | | | | | | | | | | |
| 4 Compensation meeting | 0.00 | 0.22** | 0.21** | 1 | | | | | | | | | | | | | | | | | |
| 5 Financial reports and audit meeting | 0.03** | 0.05** | 0.27** | 0.22** | 1 | | | | | | | | | | | | | | | | |
| 6 Corporate control transactions meeting | 0.04** | 0.15** | 0.21** | 0.14** | 0.23** | 1 | | | | | | | | | | | | | | | |
| 7 Change of equity structure meeting | 0.01 | -0.15** | -0.08** | -0.06** | -0.04** | -0.06** | 1 | | | | | | | | | | | | | | |
| 8 Growth strategies meeting | -0.01 | 0.14** | 0.16** | 0.20** | 0.19** | 0.21** | -0.06** | 1 | | | | | | | | | | | | | |
| 9 ROA | -0.08** | 0.25** | -0.06** | 0.05** | -0.10** | -0.01 | 0.00 | -0.01 | 1 | | | | | | | | | | | | |
| 10 Age | -0.13** | 0.24** | -0.02+ | 0.07** | 0.00 | 0.02* | -0.05** | 0.05** | 0.10** | 1 | | | | | | | | | | | |
| 11 Female | 0.00 | 0.01 | 0.00 | 0.00 | -0.02** | -0.02* | 0.01 | 0.00 | 0.01 | -0.03** | 1 | | | | | | | | | | |
| 12 Board size | -0.04** | 0.11** | 0.00 | -0.01 | -0.09** | 0.02* | 0.03** | -0.02+ | 0.05** | 0.06** | -0.01+ | 1 | | | | | | | | | |
| 13 Duality | 0.01 | -0.02+ | 0.01 | 0.05** | 0.08** | -0.03** | 0.00 | 0.03** | -0.03** | -0.01 | -0.01+ | -0.12** | 1 | | | | | | | | |
| 14 Independent directors % | 0.02** | 0.07** | 0.03** | 0.06** | 0.06** | 0.03** | -0.06** | 0.07** | -0.02** | 0.02** | -0.02* | -0.32** | 0.05** | 1 | | | | | | | |
| 15 Largest shareholding% | 0.02* | 0.08** | 0.00 | -0.01 | -0.07** | 0.02+ | -0.03** | 0.01 | 0.10** | 0.09** | -0.01 | 0.06** | -0.12** | 0.06** | 1 | | | | | | |
| 16 State-owned enterprises Ownership Concentration | 0.05** | 0.00 | -0.04** | -0.13** | -0.11** | 0.02** | 0.01 | -0.08** | -0.02* | 0.06** | -0.03** | 0.20** | -0.17** | -0.05** | 0.39** | 1 | | | | | |
| 17 Log(employee) | 0.02+ | 0.07** | 0.00 | -0.02** | -0.08** | 0.04** | -0.02* | -0.02* | 0.13** | 0.07** | -0.01 | 0.08** | -0.12** | 0.03** | 0.76** | 0.24** | 1 | | | | |
| 18 Log(firm size) | -0.05** | 0.31** | 0.00 | 0.08** | -0.05** | 0.13** | -0.05** | 0.09** | 0.13** | 0.20** | -0.04** | 0.26** | -0.07** | 0.02** | 0.22** | 0.24** | 0.25** | 1 | | | |
| 19 Leverage | -0.04** | 0.54** | 0.05** | 0.13** | -0.02** | 0.20** | -0.11** | 0.12** | 0.17** | 0.24** | -0.02** | 0.25** | -0.10** | 0.10** | 0.34** | 0.23** | 0.35** | 0.68** | 1 | | |
| 20 | 0.05** | -0.09** | 0.00 | -0.04** | 0.02* | 0.08** | 0.01 | -0.07** | -0.18** | -0.09** | 0.00 | 0.01 | 0.01 | 0.02* | -0.05** | -0.02* | -0.04** | -0.01 | 0.04** | 1 | |

CEO dismissal is a dichotomous variable, which equals one if the CEO is dismissed, and zero otherwise. Compensation is equal to the nature logarithm of the average of the three highest-paid executives' compensation. Other variables are lagged values. Meetings definitions are provided in Table 1, and other independent variable definitions are shown in Table 2. †p < .10, *p < .05, **p < .01

Appendix C CEO dismissal, board meetings and firm long-term performance

Panel A: The Effects of Meetings on the Six Major Topics on the sensitivity of CEO Dismissal to firm long-term Performance.

| | (A) | (B) | (C) | (D) | (E) | (F) |
|--------------------------------------------------------------------------------|----------------------|----------------------|-----------------------------|--------------------------------|----------------------------|----------------------|
| | Nomination | Compensation | Financial reports and audit | Corporate control transactions | Change of equity structure | Growth strategies |
| Accumulated ROA _{t-3 to t-1} | -1.519*** (0.522) | -1.404*** (0.478) | -1.160** (0.502) | -0.963* (0.562) | -1.425*** (0.470) | -1.442*** (0.485) |
| Topic- specific meeting _{t-1} | -0.184*** (0.032) | -0.140* (0.075) | 0.071 (0.068) | -0.003 (0.021) | -0.037 (0.158) | -0.132** (0.055) |
| Accumulated ROA _{t-3 to t-1} × topic-specific -meeting _{t-1} | -0.002 (0.249) | 0.220 (0.647) | -0.553 (0.484) | -0.225 (0.170) | 1.091 (1.318) | 0.310 (0.488) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm, Industry and Year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Wald χ^2 | 238.345 | 205.030 | 204.289 | 203.123 | 202.176 | 207.582 |
| Firm-years | 5,666 | 5,666 | 5,666 | 5,666 | 5,666 | 5,666 |

Panel B: The Effects of Accumulated Meetings on the Six Major Topics on the sensitivity of CEO Dismissal to firm long-term Performance.

| | (A) | (B) | (C) | (D) | (E) | (F) |
|---------------------------------------------------------------------------------------|----------------------|----------------------|-----------------------------|--------------------------------|----------------------------|----------------------|
| | Nomination | Compensation | Financial reports and audit | Corporate control transactions | Change of equity structure | Growth strategies |
| Accumulated ROA _{t-3 to t-1} | -1.557*** (0.594) | -1.423*** (0.483) | -1.283** (0.531) | -1.390** (0.640) | -1.513*** (0.493) | -1.467*** (0.504) |
| Accumulated topic- specific meeting _{t-3 to t-1} | -0.122*** (0.021) | -0.073 (0.045) | 0.050 (0.042) | -0.006 (0.012) | -0.000 (0.069) | -0.070** (0.033) |
| Acted.ROA _{t-3 to t-1} × Acted. topic-specific-meeting _{t-3 to t-1} | -0.006 (0.146) | 0.180 (0.361) | -0.087 (0.260) | 0.001 (0.085) | 0.398 (0.464) | 0.129 (0.302) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm, Industry and Year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Wald χ^2 | 236.436 | 204.283 | 203.183 | 201.639 | 202.111 | 205.977 |
| Firm-years | 5,666 | 5,666 | 5,666 | 5,666 | 5,666 | 5,666 |

Panel C: The Accumulated Effects of Meetings on the Six Major Topics on the sensitivity of CEO Dismissal to firm Performance

| | (A) | (B) | (C) | (D) | (E) | (F) |
|----------------------|----------------------|----------------------|-----------------------------|--------------------------------|----------------------------|----------------------|
| | Nominatio n | Compensation | Financial reports and audit | Corporate control transactions | Change of equity structure | Growth strategies |
| ROA _{t-1} | -0.949 (0.946) | -0.893 (0.815) | -0.151 (0.891) | -0.191 (1.020) | -1.047 (0.805) | -1.166 (0.835) |
| ROA _{t-2} | -2.054** (0.904) | -2.372*** (0.782) | -2.298*** (0.838) | -2.792*** (0.964) | -2.554*** (0.783) | -2.309*** (0.799) |
| ROA _{t-3} | -1.722** (0.869) | -0.993 (0.755) | -0.658 (0.811) | -1.425 (0.940) | -0.588 (0.763) | -1.231 (0.771) |
| Topic _{t-1} | -0.205*** (0.032) | -0.128* (0.076) | 0.059 (0.068) | -0.005 (0.021) | -0.025 (0.163) | -0.120** (0.055) |
| Topic _{t-2} | -0.145*** (0.034) | -0.076 (0.081) | 0.114 (0.071) | 0.014 (0.021) | 0.175* (0.091) | -0.085 (0.061) |

| | | | | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|
| Topic _{t-3} | -0.012 (0.033) | 0.015 (0.090) | -0.081 (0.078) | -0.034 (0.023) | -0.156* (0.091) | 0.006 (0.068) |
| ROA × Topic _{t-1} | -0.335 (0.534) | -0.729 (1.665) | -1.945 (1.859) | -0.514 (0.367) | 3.085 (3.396) | 0.907 (1.167) |
| ROA × Topic _{t-2} | -0.632 (0.566) | 0.579 (1.765) | -0.618 (0.888) | 0.246 (0.364) | 1.579 (1.510) | -0.134 (1.218) |
| ROA × Topic _{t-3} | 0.727 | 2.276 | -0.554 | 0.431 | -1.043 | 3.252 |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm, Industry and Year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Wald χ^2 | 236.436 | 204.283 | 203.183 | 201.639 | 202.111 | 205.977 |
| Firm-years | 5,666 | 5,666 | 5,666 | 5,666 | 5,666 | 5,666 |
| Joint significant test: whether coefficients on $(X_{t-3}, X_{t-2}, X_{t-1}) = \text{zero}$ simultaneously (p-value are reported here) | | | | | | |
| (ROA _{t-1} , ROA _{t-2} , ROA _{t-3}) | 0.026 | 0.009 | 0.043 | 0.018 | 0.007 | 0.008 |
| (Topic _{t-1} , Topic _{t-2} , Topic _{t-3}): | 0.000 | 0.271 | 0.198 | 0.460 | 0.034 | 0.065 |
| (ROA × Topic _{t-3} , ROA × Topic _{t-2} , ROA × Topic _{t-1}) | 0.286 | 0.639 | 0.155 | 0.286 | 0.450 | 0.166 |

This table reports results from panel data regressions with fixed effects. CEO dismissal is the dependent variable, which equals one if the CEO is dismissed, and zero otherwise over the period 2005-2015. ROA is an industry-adjusted ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Accumulated ROA is the running average of ROA from t-3 to t-1. Accumulated topic-specific meetings are the running average of topic-specific meetings from t-3 to t-1. Here *p < .10, **p < .05, ***p < .01

Appendix D

Dynamic Panel Data Analysis on the Effects of Meetings on the Six Major Topics on the sensitivity of CEO compensation to firm Performance.

| | (A) | (B) | (C) | (D) | (E) | (F) |
|----------------------------------|----------------------|---------------------|-----------------------------|--------------------------------|----------------------------|---------------------|
| | Nomination | Compensation | Financial reports and audit | Corporate control transactions | Change of equity structure | Growth strategies |
| Compensation t-1 | 0.352*** (0.049) | 0.259*** (0.071) | 0.153* (0.081) | 0.344*** (0.104) | 0.259*** (0.052) | 0.256*** (0.075) |
| ROA t | 0.709*** (0.157) | 1.022** (0.462) | 1.556*** (0.596) | 1.913** (0.748) | 0.704* (0.402) | 0.083 (0.457) |
| Topic-focused meeting t | 0.011** (0.005) | -0.019 (0.049) | 0.031 (0.038) | 0.003 (0.019) | -0.191** (0.077) | 0.256*** (0.037) |
| ROAt × topic-focused-meetings t | -0.188*** (0.070) | -0.130 (0.510) | -0.531 (0.387) | 0.302 (0.245) | 1.282 (1.030) | 1.268** (0.580) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Obs. | 9,774 | 9,774 | 9,774 | 9,774 | 9,774 | 9,774 |
| AR(1) p-value | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| AR(2) p-value | 0.13 | 0.13 | 0.61 | 0.07 | 0.09 | 0.30 |
| Over-identification test p-value | 0.13 | 0.11 | 0.152 | 0.26 | 0.26 | 0.21 |

The table reports the regression results with dynamic GMM estimator. Compensation is the industry adjusted compensation. ROA is an industry-adjusted measure of ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Topic-focused meeting frequency is the frequency of annual meetings on each topic. Interaction terms between firm performance and the topic-focused meeting frequency capture the meetings' moderating effects on the relationship between compensation and firm performance. Other variable definitions are provided in Table 3. Models are estimated over the period 2005-2015. *p < .10, **p < .05, ***p < .01

Appendix E

The number of words for each topic and quality of corporate governance.

| Panel A The number of words for each topic | | | | | | |
|-----------------------------------------------------------------------------------------|------------------------|-----------------------|------------------------------------------|---------------------------------------------|-----------------------------------------|-----------------------------|
| | (A) Nomination | (B) Compensation | (C) Financial reports and audit | (D) Corporate control transactions | (E) Change of equity structure | (F) Growth strategies |
| Number of words | 244.52 | 361.45 | 250.30 | 366.74 | 370.61 | 352.13 |
| Panel B The number of words and the sensitivity of CEO dismissal to firm performance | | | | | | |
| | (A) Nomination | (B) Compensation | (C) Financial reports and audit | (D) Corporate control transactions | (E) Change of equity structure | (F) Growth strategies |
| ROA _{t-1} | -3.1537*** (0.8531) | -2.6923 (1.6938) | -3.1818** (1.3601) | -2.0055** (0.7884) | -1.7858** (0.9093) | -2.8619*** (1.0177) |
| Topic-focused words _{t-1} | -0.0004*** (0.0001) | 0.0003 (0.0002) | -0.0005 (0.0005) | 0.0001** (0.0000) | 0.0001 (0.0001) | -0.0000 (0.0001) |
| ROA _{t-1} × topic- Focused words t-1 | 0.0032** (0.0016) | -0.0013 (0.0052) | -0.0022 (0.0064) | -0.0003 (0.0005) | -0.0024 (0.0039) | 0.0049 (0.0031) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm and year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Wald × 2 | 153.52 | 68.12 | 48.21 | 142.15 | 88.65 | 81.12 |
| Firm-years | 5,389 | 1,151 | 1,439 | 5,474 | 3,776 | 2,852 |
| Panel C The number of words and the sensitivity of CEO compensation to firm performance | | | | | | |
| | (A) Nomination | (B) Compensation | (C) Financial reports and audit | (D) Corporate control transactions | (E) Change of equity structure | (F) Growth strategies |
| ROA _{t-1} | 1.1770*** (0.1100) | 1.5942*** (0.3353) | 0.8023*** (0.1880) | 1.0632*** (0.1042) | 1.1324*** (0.1193) | 1.2312*** (0.1381) |
| Topic-focused words _{t-1} | 0.0000*** (0.0000) | 0.0001** (0.0000) | 0.0000 (0.0001) | -0.0000 (0.0000) | -0.0000 (0.0000) | -0.0000 (0.0000) |
| ROA _{t-1} × topic- Focused words t-1 | -0.0004** (0.0002) | -0.0008 (0.0007) | 0.0004 (0.0010) | 0.0000 (0.0001) | 0.0001 (0.0004) | 0.0004* (0.0003) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm and year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Adj-R ² | 0.100 | 0.178 | 0.091 | 0.098 | 0.106 | 0.117 |
| Firm-years | 8,717 | 2,164 | 2,392 | 8,830 | 6,015 | 4,838 |

This table presents the average number of words for main topics and the regression results for CEO dismissal and compensation models using the number of words. CEO dismissal is the dependent variable, which equals one if the CEO is dismissed, and zero otherwise over the period 2005-2015. ROA is an industry-adjusted ROA. Compensation is the industry adjusted compensation. ROA is an industry-adjusted measure of ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Other variable definitions are provided in Table 3. Models are estimated over the period 2005-2015. *p < .10, **p < .05, ***p < .01