Front. Bus. Res. China 2009, 3(3): 393–412
DOI 10.1007/s11782-009-0019-x

RESEARCH ARTICLE

ZHOU Fan, TAN Jinsong, JIAN Yuyin

Reputation incentive or economic incentive? An empirical study on job-hopping behavior of independent directors

Abstract This paper analyzes the real motivations behind independent directors' (IDs) job-hopping behavior based on 75 cases from 2001 to 2005. Relevant extant literature is reviewed and an analytical framework based on reputation incentive mechanism (such as company reputation, a company's position in the hierarchy of Chinese firms' administrative reporting relationships, and job risks) and economic incentive mechanism (including IDs' remunerations and HR costs) have been put forward. Results show that reputation-related factors, such as a listed company's reputation and job risks, are the main influencing factors of IDs' job-hopping behavior. This finding indicates that sole emphasis on IDs' remunerations may not able to motivate IDs effectively and the reputation mechanism is more effective in motivating IDs. Contributions of this paper include enrichment of the extant literature on corporate governance from a brand-new perspective and provision of empirical evidence for further improvement in the incentive mechanisms for IDs.

Keywords Independent directors, job selection, economic incentive, reputation incentive

Translated and revised from *Zhongguo Kuaiji Pinglun* 中国会计评论 (China Accounting Review), 2008, 6(2): 177–192

ZHOU Fan
School of Business, Sun Yat-sun University, Guangzhou 510075, China
E-mail: zhou87029518@163.com

TAN Jinsong
School of Business, Sun Yat-sun University, Guangzhou 510075, China
E-mail: china_tjs@263.net

JIAN Yuyin (✉)
School of Business, Sun Yat-sun University, Guangzhou 510075, China
E-mail: crighton@163.com

摘要 以 2001 年至 2005 年 75 个独立董事的“跳槽”事件为研究对象，分析独立董事任职选择的真实动机。首先，回顾了已有的研究成果，并提出了一个基于经济激励和声誉激励的分析框架。经济激励包括薪酬收入和现实成本付出；声誉激励包括企业知名度、企业隶属层级和任职风险。接着，对独立董事“跳槽”的真实动机进行实证检验。研究结果显示，独立董事“跳槽”更多地考虑了上市公司知名度和任职风险等声誉因素。最后，得出结论，片面的强调独立董事的薪酬并不能达到对独立董事的激励效果，声誉机制更能实现对独立董事的激励约束作用。独立董事制度要更好的发挥治理效果，首先要解决独立董事任职并改善公司治理的源动力问题，这就要求形成配套的独立董事绩效评估机制以及声誉激励约束机制，这样才会有培育独立董事市场、改善公司治理绩效的可能。研究不仅从一个全新的角度丰富了公司治理的文献，而且对完善独立董事的激励机制提供了一定的经验证据。

关键词 独立董事，任职选择，经济收益，声誉激励

1 Introduction

Since the introduction of the independent director (ID) system into China, abundant research achievements have been attained. At the beginning, Chinese scholars’ focuses were on the following fields: Development of research on the ID system in western countries (e.g., Lou, 2001); Discussion on the necessity of introducing the system into China, the defects and improvement of the system, and the possibility of implementing the system in China, etc. (Yu, 2003; Tan et al., 2003). Along with the deepening of the development in China’s ID system, most scholars have shifted their attention to testing the practical effects of the system.

Whether there are the so-called “governance effects” when IDs are introduced into listed companies’ board of directors? To answer this question, domestic scholars have studied from the perspectives of new changes in the performance and behavior of these companies. So far, no consensus has been reached. For example, a lot of researchers (e.g., Gao and Ma, 2002; Hu and Shen, 2002; Yu, 2003, etc.) have found no positive relationship between IDs and company performance. Other researchers, such as Wang et al. (2006), however, drew opposition conclusions. Gao et al. (2006) found there are no positive effects of ID system on big shareholders’ embezzlement of funds. On the contrary, Ye et al. (2007) found opposite evidence after controlled for the endogeneity of IDs.

Some scholars conducted studies from the perspective of IDs’ behavioral characteristics. Their study revealed an interesting phenomenon: Although the job of being an ID brings in both fame and gain, there has been an increase in the number of IDs resignations since 2001.[1] Why is that? Tan et al. (2006) studied 190 cases of IDs resignations in China's security market between November, 2001 and March, 2004, to explore the influencing factors of IDs resignations. Their results showed that an ID's tenure cost (as measured by the number of board meetings and the geographic location of the ID) and job risk (as measured by the number of major guarantees, lawsuits, related transactions and other important but risky events happened in the ID's company or the severity of audit report) are significantly and positively related to his/her resignation. However, they found that there is not such a significant relationship existing between IDs' remuneration and their resignations. In addition, Tan et al. collected no evidence showing static differences in corporate governance characteristics are the main influencing factors of ID resignation. By studying the reasons behind IDs resignations, we also found a very interesting phenomenon, that is, after resigning from their former companies, many IDs soon take up positions as IDs again in other listed companies. What are the real reasons behind IDs resignations? Do they resign out of economic reasons or reputation reasons? Little domestic research has focused on these topics. Therefore, we decide to fill this important gap. We collect cases in which IDs resigned from one listed company (the old company) and took up position of IDs in another listed company (the new company) by the end of 2005 and compare the characteristics of the old company with that of the new one. Results show that in selecting their new jobs, IDs pay special attention to the reputation-related factors such as company reputation and job risks. Such findings imply that the effects of economic incentives on IDs should not be overemphasized. Rather, decision makers need to take more notice of the motivation and constraint effects of reputation on IDs. In doing so, we provide empirical evidence for developing a reputation evaluation system for IDs and establishing a "talent market" for them.

The rest of this article is organized as follows: Section 2 contains a review of relevant literature; Section 3 establishes an analyzing framework for ID job selection; Hypotheses and research design are included in Section 4 and 5, respectively; and Section 6 analyzes empirical results. Conclusion and discussion are presented in the last section.

2 Literature review

As above, earliest domestic literature on ID mainly focused on introducing and

[1] The annual number of IDs resigned during 2001–2005 was 17, 78, 153, 108, and 116, respectively.

discussing the ID system. In 2001, the ID system was officially implemented in China. Chinese scholars have shifted their attention to the practical effects of the system. Meanwhile, some scholars started to pay attention to the behavioral characteristics of IDs themselves.

2.1 Early introduction and discussion of the ID system

Originated in the common law countries, the ID system has been mainly used as an effective countermeasure to constrain and balance the power of executive directors and managers in the present corporate governance structure. Among the earliest Chinese scholars focused on the ID system, Lou (2001) first introduced to domestic scholars the present research development of ID studies in western countries. Kong (2002) was the first Chinese scholar to compare Chinese ID system with western ones. Other domestic scholars, such as Zhang (2003), Guo et al. (2003), Tan et al. (2003), and Yu (2003) also introduced and discussed the system from different perspectives.

2.2 Empirical study on the practical effects of the ID system

Extant domestic studies on the practical effects of the ID system can be divided into two subgroups: One focuses on the effects IDs on company performance; the other highlights the effects IDs on company behaviors.

There has been abundant research on the relationship between the ID system and company performance. However, no generally agreed conclusion has been reached for the relationship. Rosenstein and Wyatt (1990) found that when a listed company announces its new appointment of IDs, its share price tend to rise up. This finding was supported by Brickley et al. (1994) and Lee et al. (1999) in their studies. In China, Li and Chen (2002) also found appointment of IDs brings positive market responses. As for the relationship between IDs and company performance, some Western scholars found that the relationship is significant and positive (e.g., Baysinger and Butler, 1985). Some found no significant relationship (e.g., Hermalin and Weisbach, 1998; Mehran, 1995). Some even found the two negatively related (e.g., Agrawal and Knoeber, 1996). By comparison, Chinese researchers have mainly found that the ID system is not significantly and positively related to company performance (e.g., Gao and Ma, 2002; Hu and Shen, 2002; Yu, 2003). However, Wang et al. (2006) found the percentage of IDs on the board of directors is positively related to company performance.

There has been much more little research on the effects of IDs on company behaviors. A majority of Western research has shown that the ID system effectively constrains earnings manipulation (Beasley, 1996; Peasnell et al, 2005). Park and Shin (2004), however, found the opposite evidence. Likewise, domestic research has also failed to reach consistent conclusions (Wang, 2006). Particularly, due to the fact that there is always one dominant shareholder in China's security market, Tang and Zhou (2005) and Gao et al. (2006) found that IDs can not significantly constrain controlling shareholders from embezzling company funds. However, Ye et al. (2007) found a significant and negative relationship between IDs and controlling shareholders' embezzlement of funds after controlled the endogeneity of IDs.

2.3 Research on the behavioral characteristics of IDs

The behavioral characteristics of IDs mainly refer to their appointment and resignation. Zhi and Tong (2005) studied the relationships between changes in IDs and earnings management and transfer of control. They found that IDs can detect earnings management, which shows that IDs do function as expected. However, they also found that there is a positive relationship between changes in IDs and transfer of control, which shows that IDs are not really independent in China. They further argued that lack of independence is the key factor explaining the failure of ID system in corporate governance in China. Tan et al. (2006) analyzed the influencing factors of ID resignation. They found that job risk factors, such as the number of major guarantees, lawsuits, related transactions and other important but risky events happened in the IDs' companies or the severity of audit report, are the main determinants of ID resignation, while static differences in corporate governance characteristics have little impact on ID resignation.

As the above literature review shows, although the ID system has achieved certain practical effects, the overall governance effects of the system are not satisfactory. Possible explanations include: First, traditional emphasis on *guanxi* (the concept of drawing on connections in order to secure favors in personal relations) made it difficult for IDs to maintain their independence; second, many IDs hold posts in several different companies concurrently, making it difficult for them to have enough time and energy to fully display their roles in supervising the listed companies; third, IDs may not have the necessary expertise to detect some listed companies' rule-violating behaviors; fourth, ID' s remuneration itself is a "paradox in logic"; fifth, the positioning of IDs and the board of supervisions are unclear (Zhang, 2003). At present, domestic researchers tend to attribute the unsatisfactory effects of the ID system to the imperfect institutional environment. There have been few studies on IDs' behavioral motivations. We argue that as rational economic men, IDs also have the tendency towards opportunistic behaviors. As a result, the gaming between ID behavioral motivations and supervision mechanisms determines the final practical effects of the ID system. We thus attempt to further explore the topic.

3 Job selection of IDs: An analyzing framework

In 1993, Tsingtao Brewery was listed on the Stock Exchange of Hong Kong. It was also the first company in mainland China to introduce IDs. In August, 2001, the China Securities Regulatory Commission (CSRC) issued officially *The Guideline of China Security Administration Committee for Establishing Independent Directors System in Listed Companies* (the Guideline), signifying the compulsory implementation of the ID system in China.

As rational economic men themselves, IDs are also believed to constantly pursue the self-interest maximization. Therefore, IDs must repeatedly compare and balance their benefits and costs before they decide to take or quit a "job" to maximize their utility. As people tend to have multi-dimensioned desires or motives simultaneously, there must be certain order[2], or certain mutually complementary or exclusive relationships among these desires or motives. As Maslow pointed out in his hierarchical of needs theory, which is, our needs can be divided into five hierarchical levels, namely, from the lowest one to the highest one, existence, security, social, self-esteem and self-actualization needs. He believed that only the needs at the lower levels are satisfied can the needs at the higher levels emerge (Maslow, 1987). It is generally believed that as IDs, they can obtain both economic returns and good reputations. However, being an ID is far from being perfect, as demonstrated by the frequently happened cases of ID job hopping. If IDs resign to avoid tenure risk, how do they explain their job-hopping behavior? Logically, we argue that IDs change companies to gain either higher economic or reputation returns. Specifically, economic returns include either higher remunerations or less practical HR costs; reputation returns refer to both improvement in company reputation or their companies' positions in the hierarchy of Chinese enterprises' administrative reporting relationships (administrative level) and "negative reputation" brought forth by job risks. Based on the above rationale, we establish an analyzing framework for IDs' job selection, as shown in Fig. 1.

[2] These different desires can be ranked in the order of their importance to individuals, or there are certain orders in satisfying them.

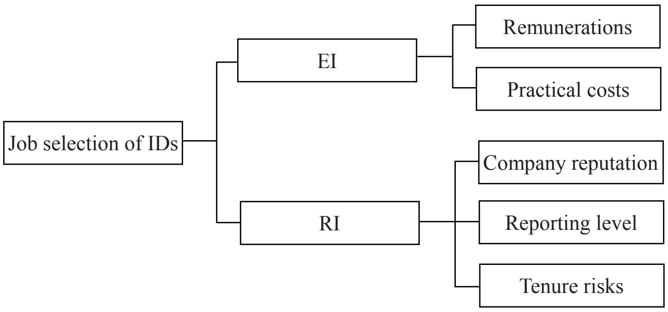

Fig. 1 Analysis framework for IDs' job selection

Note: EI=economic returns; RI=reputation returns. The same in tables below.

4 Hypotheses

As above, we can analyze IDs' job-hopping behavior from the perspectives of economic and reputation returns. The former refers to IDs' remunerations and job risks; the later refers to whether a listed company can enhance or impair the reputation of its IDs.

Salmon (2001) argued that although the "payment" for board directors are mostly returns in emotional and intelligent senses and experiences their gain from participating in different professional activities, IDs also work for their monetary remunerations. Under the hypothesis of rational man, people are not likely to take posts full of risks, without any compensation, and even, under some circumstances, may need to bear some responsibilities. Pound (2001) went even further to argue that board directors also need to be motivated and their remunerations shall connected reasonably with the services they provide. Otherwise, you can not expect them to take the responsibilities of making and questioning company policies. As remuneration is the most effective and direct economic returns, potential ID candidates, as economic men themselves, will firstly consider their economic returns when selecting their jobs. Therefore, we propose the following hypothesis:

H1a Job-hopping IDs are more likely to choose companies with higher economic returns.

Naturally, IDs will incur certain costs in fulfilling their responsibilities, including both direct and indirect costs, such as time consumption and intellectual work, etc. All these costs related to the job of ID are in nature certain types of negative returns. As the guideline required, an ID shall "have adequate time and energy to perform his duties". "Provided that an independent director who is absent from board of director meetings for two times without due reasons or do not present in person the board of director meetings three times in a row shall be proposed by the board of directors that he/she shall be replaced by the shareholders' general meeting". However, most social elites, many IDs are too absorbed in their own works to concentrate on the listed company they are concurrently holding posts of IDs. Therefore, we develop the following hypothesis:

H1b Job-hopping IDs are more likely to choose listed company with lower practical costs.

Some scholars pointed out that we have to count on sense of achievement and reputation to motivate IDs when economic incentive mechanisms or empowerment fail to function properly. As a large part of IDs' welfare is dependent on their "reputation", market reputation can be used as a substitute for optimal incentive contracts to a certain degree (Fama, 1998). Tan (2003) argued that there are no essential differences between economic and reputation incentives. Both bring benefits to IDs and motivate them to accept and continuously hold the posts of IDs.

As mentioned earlier, the improvement of an ID' s personal reputation is embodied as improvement in their companies' reputation and administrative reporting levels. For example, amidst fierce market competition, companies known as "century-old shops" are usually associated with positive thoughts, such as consistent development strategy, high profitability, stable market shares, outstanding managerial team, harmonious corporate culture and bright prospects, etc. Being an ID in these companies greatly enhances a person's reputation. In addition, a listed company's position in the hierarchical administrative reporting relationship is also positively related to its IDs' personal reputation: To be able to be an ID in a highest-leveled listed company greatly enhances IDs' personal reputation. We thus develop other two hypotheses as follows:

H2a Job-hopping IDs are more likely to choose listed companies with higher reputation.

H2b Job-hopping IDs are more likely to choose listed companies at higher administrative levels.

To avoid risks, ID candidate will pay a lot of attention to possible reputation loss when deciding to accept or reject the post of IDs. Their possible risks mainly come from rule-violating behavior of their companies, such as “tunneling” or “propping” behavior through related transactions. As a whole, these rule-violating behaviors are embodied as earnings management. The higher level of earnings management, the more likely listed companies to violate rules or laws. We therefore develop the last hypothesis:

H2c Job-hopping IDs are more likely to choose listed companies with lower job risks.

5 Research design

We collect data (disclosed before year 2006) of all resigned and appointed IDs in Chinese listed companies. We also collect from annual reports data of the characteristics of corresponding companies and their IDs. Except a small fraction collected by ourselves, most of the data used are obtained from the SINOFIN, WIND and CSMAR databanks. SPSS 11.5 software package is used to analyze the above data.

5.1 Sample selection

Analysis of ID data in China’s A-share companies during 1993–2005 shows that few companies appointed IDs before 2000. After 2000, more companies started to introduce IDs into their boards of directors, particularly in 2002 and 2003. Such a change in the number of IDs clearly demonstrates the effects of compulsory implementation of the ID system. However, contrary to the prevalence of IDs among Chinese listed companies, some IDs resigned after their tenures, or even before their tenures. Some of these IDs soon accepted posts of IDs in other listed companies. Table 1 summarizes all relevant data by December 31, 2005.

Companies from the financial and security industry or with incomplete data or extreme values are eliminated. A total of 75 sample companies with resigned IDs and 130 with job-hopping IDs are obtained.

Table 1 Relevant data on IDs (1994–2005)

Year	1994–2000	2001	2002	2003	2004	2005	Total
No. of listed companies with IDs	56	323	1 175	1 258	1 306	1 348	5 466
No. of IDs	103	438	2 662	4 006	4 473	4 426	16 108
No. of resigned IDs	0	17	78	153	108	116	472
No. of job-hopping IDs	0	4	24	34	12	1	75

5.2 Variable design

5.2.1 Economic returns

As we have pointed out that economic factors influence IDs' job selection. As a rule, IDs' remuneration from listed companies includes fixed allowances (including annual allowances and meeting attendance allowances), bonuses, and options. To motivate IDs to devote more time and energy to the listed companies they holding ID posts, some American companies have shifted the traditional remuneration means of fixed allowances to stock options. The guideline requires listed companies to pay their IDs with suitable remunerations. It also requires that IDs should not receive other undisclosed payments from their listed companies, the main shareholders in the listed companies or other institutes or personnel having interests in their listed companies. Therefore, we use IDs' annual remuneration disclosed in listed companies' annual reports to measure IDs' economic returns.

Generally, IDs' practical costs refer to the number of board of directors meetings and shareholders meeting in a year and the places of these meetings. However, since IDs do not know exactly how many meetings they are expected to attend before taking the posts, we use "sameness of places" as a proxy for IDs' practical costs. In other words, since listed companies choose their IDs based on their specific needs, many of their IDs may not come from the same regions. However, whether IDs are from the same place as their employing companies influences directly the total amount of time spent in company affairs, which in turn increases the practical costs of these IDs. Therefore, we use the "sameness of places" as a proxy variable for practical costs for IDs in their selection of jobs.

5.2.2 Reputation incentives

As IDs' reputation improvement mainly comes from their employing companies' reputation, we choose company reputation and administrative reporting levels as proxy variables for IDs' reputation returns.

5.2.2.1 Company reputation

It is a comprehensive index. The commonly used company reputation indicator is company rankings. "Bigness" and "strength" are usually used to rank different companies. The former refers to a company's size: The bigger the company's size, the higher its reputation. The latter refers to a company's profitability: The stronger the company's profitability, the higher its reputation.

Different lists may adopt different indexes in ranking companies. For example, Fortune Magazine uses total revenues to rank world companies; Business Week adopts market values; Warton Economic Institute, China Business Time and China Enterprise Reform & Development Society employ net profit. Based on these ranks, we concurrently use a listed company's prime operating revenue, total market value, and total profit as indicators of its reputation. Due to the strong correlation among these variables, we combine them into one integrated indicator (named company reputation indicator) to comprehensively reflect a listed company's reputation by means of principal component analysis (PCA).

5.2.2.2 Administrative levels

Liu et al. (2003) found that 84% of China's listed companies are ultimately controlled or owned by governments at various levels. Based on this finding, they developed a hypothesis of ultimate ownership in Chinese market. Following the line, Xia and Fang (2005) divided listed companies into five subtypes, namely non-government controlled companies, companies controlled by county-level governments, companies controlled by city-level governments, companies controlled by province-level governments, and companies controlled by the central government. Generally, the higher status of a listed company's ultimate controller, the higher the company's reputation, the greater the improvement to its IDs' reputation. We thus use the administrative level of a listed company's ultimate controller as a proxy for its administrative level.

5.2.2.3 Job risks

Listed companies' earnings management behaviors bring in job risks to their IDs. Zhi and Tong (2005) adopted modified Jones Model to calculate a company's degree of earnings management and used as a proxy for ID job risk. We use the modified DD model (Dechow and Dichev, 2002) to estimate accruals (Ball and Shivakumar, 2005).

$$ACC_t = \alpha_0 + \alpha_1 CF_t + a_2 CF_{t-1} + a_3 CF_{t+1} + a_4 DCF_t + a_5 DCF_t * CF_t + e_t$$

Variable definitions:

ACC_t=a company's total accruals at time t divided by its average total assets at time t. Total accruals is net profit minus operating cash flows.

CF_t=a company's total operating cash flow at time *t* divided by its average total assets.

CF_{t-1}=a company's total operating cash flow at time t–1 divided by its average total assets at time t.

CF_{t+1}=a company's total operating cash flow at time t+1 divided by its average total assets at time t.

DCF_t=1, if changes in a company's cash flow at time t smaller than 0 (CF_t–CF_{t-1}<0), equals 0 otherwise.

e_t = error term.

The error term e_t represents unexpected part in the total accruals. The absolute value of the model's residual is used as the proxy variable for earnings management for accruals might be either positive or negative. A higher residual value implies a higher level of earnings management or lower level of earnings quality.

As below, we design the following variables for logic regression. Some proxy variables are also added for a sensitivity test. In addition, we introduce into the regression as control variables dummy variables of year and industry.

Table 2 Definitions of independent and dependent variables

Variables	Abbreviations	Definition of variables
Resignation choice	Change	An ID resigns，Change=0; He/she takes up post of ID in another company，Change=1
ID remuneration	Pay	An ID's annual remuneration
Sameness of places	Distract	An ID and his/her employing company are from the same place，Distract =1, 0 otherwise
Company reputation	Famous	A combined indicator of prime operating revenue, total market value, and total profit
Administrative levels	Subject	4, 3, 2, 1 and 0 *
Earnings management	EM	Earnings management data calculated with the DD Model
Yearly dummy variable	Year	Four yearly dummy variables are used to stand for the five observation years
Industrial dummy ariable	Industry	11 industrial dummy variables are used to stand for the 12 (without financial industry) industries classified by CSRC

Note: The data for company reputation and earnings management indexes are obtained from the previous year. Other indexes use data from the present year.

* Companies controlled by governments at the central, provincial, city, county levels and non-government-controlled companies are represented by 4, 3, 2, 1 and 0, respectively.

5.3 Model establishment

What factors determine IDs' job selection? How do these factors influence IDs' job selection? To explore these questions, a binary logistic regression model is established as below.

$$ln\frac{p(\text{change})}{1-p(\text{change})} = \beta_0 + \beta_1 Pay + \beta_2 Distract + \beta_3 Famous + \beta_4 Subject + \beta_5 EM + \beta_6 Year + \beta_7 Industry + \varepsilon$$

6 Results and analysis

Our data show that by December 31, 2005, there were 75 IDs resigned and then retook the post of ID in a new listed company. Altogether, these IDs resigned from a total of 75 companies and employed again as new IDs in a total of 130 companies. What are the common characteristics of these 75 job-hopping IDs? What are the differences between the former companies they resigned from and new companies they were appointed as new IDS? What are the determinants of these IDs' job selection? Below, we first briefly describe these entire IDs' demographic characteristics and then compare the differences between the "old" and "new" listed companies. After that, we obtain determinants of IDs' job selection through regression analysis. A sensitivity test is conducted in the end.

6.1 Demographic characteristics of IDs

We collect IDs' data on IDs gender, age, education level, professional title, specialization, professional background and compare these data with that of in population. Specifically, most job-hopping IDs are male (male IDs also consist of the majority of population), smaller in age (under 50), higher in educational level (about 62.67% job-hopping IDs hold master degrees or above, higher than that of in the population) and higher in professional titles. In addition, about 74.67% of the job-hopping IDs are professionals, lower than that of in population (82.24%), indicating that non-professionals are more likely to change their jobs. As for professional background, about 73.33% job-hopping IDs are from the academic world, a percentage much higher than that of in population (48.70%), indicating that IDs with academic background are more likely to change their jobs.

Table 3 Demographic characteristics of IDs

Gender					Professional title				
	Observed sample		Population			Observed sample		Population	
Classification standards	No.	Percentage	No.	Percentage	Classification standards	No.	Percentage	No.	Percentage
Male	68	90.67%	14 536	90.23%	Senior title	62	82.67%	10 927	78.58%
Female	7	9.33%	1 574	9.77%	Below	13	17.33%	2 979	21.42%
Total	75	100%	16 110	100%	Total	75	100%	13 906	100%

(*To be continued*)

(*Continued*)

Age					Specialization				
	Observed sample		Population			Observed sample		Population	
	No.	Percentage	No.	Percentage	Classification standards	No.	Percentage	No.	Percentage
Under 50	50	66.67%	8 956	55.60%	Professionals[3]	56	74.67%	10 943	82.24%
Above 50	25	37.33%	7 145	44.40%	Others	19	25.33%	2 363	17.76%
Total	75	100%	16 101	100%	Total	75	100%	13 306	100%
Educational level					**Professional background**				
	Observed sample		Population			observed sample		Population	
	No.	Percentage	No.	Percentage	Classification standards	No.	Percentage	No.	Percentage
Master degree	47	62.67%	8 122	56.49%	Academics[4]	55	73.33%	7 756	48.70%
Under master degree	28	37.33%	6 256	43.51%	Practitioners	20	26.67%	8 200	51.30%
Total	75	100%	14 378	100%	Total	75	100%	15 926	100%

6.2 Characteristic analysis of the "old" and "new" listed companies

We first deal with the extreme values in the samples.[5] Then we conduct independent sample T test on all variables of IDs' "old" and "new" companies to compare the variances of the two samples and to confirm the T test results.

Table 4 Descriptive statistical results of job-hopping IDs' "old" and "new" companies

Items	Abbreviations	Mean of the old company（61）	Mean of the new company（124）	T value
Annual remuneration	Pay	3.92	4.66	–1.86*
Sameness of places	Distract	0.44	0.43	0.20
Prime operating revenue	Income	95 678.09	260 377.10	–2.52**
Total market value	MV	313 963.80	496 227.60	–1.12
Total profit	Profit	1 451.86	27 804.30	–2.21**

(*To be continued*)

3 We define here IDs from accounting, law and economic management backgrounds as professionals and IDs from other backgrounds as "others".
4 We define here IDs from universities and scientific research institutions as "academics" and IDs from other intermediary organizations or other companies as "practitioners".
5 All samples with variable values three times bigger or smaller than the means of major indexes (i.e. IDs' annual remuneration, prime operating revenue, total market value, total profit, and earnings management) are eliminated.

(*Continued*)

Items	Abbreviations	Mean of the old company（61）	Mean of the new company（124）	T value
Company reputation indexes[6]	Famous	–0.20	0.12	–2.06**
Administrative level	Subject	1.93	2.21	–1.13
Earnings management	EM	0.09	0.03	1.99*

Note: ** and * mean significant at 0.05 and 0.1 levels, respectively.

As Table 4 shows, there are significant differences between the "old" and "new" companies in terms of ID remunerations, company reputation and earnings management. However, differences in "sameness of places" and "administrative levels" are not significant. Specifically, the means of IDs' remunerations in the "old" and "new" companies are 39 200 and 46 600 Yuan, respectively, significant at the 0.10 level. The means of IDs' "old" and "new" companies' reputation are –0.20 and 0.12, respectively, significant at 0.05 level. The DD means of earnings management in the "old" and "new" companies are 0.09 and 0.03, respectively, significant at 0.05 level. However, there are no significant differences in the variables of "sameness of places" and "administrative levels".

The above results show that in selecting jobs, IDs pay more attention to remunerations, personal reputation improvement and job risks, while pay less attention to their practical costs and companies' administrative levels.

6.3 Logistic regression analysis

Correlation coefficient tests for all independent variables show that the biggest coefficient is 0.263, indicating a low correlation level. As for the logic regression test, we first regress respectively the variables of ID's annual remuneration, sameness of place, company reputation, administrative level and earnings management. We then enter these variables into the regression model.

[6] The smallest correlation coefficient of the three major indexes (i.e. prime operating revenue, total market value, and total profit) is 0.744. Although the KMO value（Kaiser-Meyer-Olkin）is only 0.686 (not suitable for factor analysis according to Kaiser's viewpoint) , concomitant probability obtained from the Bartlett Test of Sphericity Tests is 0.000, showing that factor analysis is still feasible. PCA results show that the loading coefficients for prime operating revenue, total market value, total profit are 0.828, 0.955 and 0.890, respectively, explaining 89.05% of the total variance.

Table 5 Results of logic regression on job choice of IDs

Variables	Expected signs	1	2	3	4	5	6
(Constant)		–0.109 (0.092)	0.736*** (12.465)	0.908*** (20.66)	0.475* (3.424)	1.068*** (22.26)	–18.436 (0.000)
Pay	+	0.142* (3.23)					0.102 (1.396)
Distract	+		–0.062 (0.039)				–0.108 (0.086)
Famous	+			1.53* (5.35)			1.281* (2.764)
Subject	+				0.113 (1.27)		0.078 (0.331)
EM	–					–8.325* (4.521)	–6.930* (2.998)
Year	controlled	controlled	controlled	controlled	controlled	controlled	controlled
Industry	controlled	controlled	controlled	controlled	controlled	controlled	controlled
–2log likelihood		230.65	234.54	224.45	233.30	226.97	193.44
Con&Snell R^2		0.021	0.000	0.053	0.007	0.040	0.199
Nagelkerke R^2		0.029	0.000	0.074	0.010	0.056	0.277
Chi-square		3.93	0.038	10.13	1.27	7.61	41.13
Predicted		0.67	0.67	0.68	0.67	0.71	0.74
Obs.		185	185	185	185	185	185

Note: ***, ** and * mean significant at 0.01, 0.05 and 0.1 levels, respectively. Two-tailed.

As shown in Table 5 above, the Nagelkerke *R* Square equals 0.28 and the overall predictive accuracy reaches a satisfactory 74%. The logic regression results show that, in choosing a listed company, an ID usually pays more attention to the positive effects the company's reputation brings on his/her personal reputation and job risks brought in by the company's earnings management behaviors. Remuneration, sameness of places, and administrative levels do not have significant impacts on an ID's job-hopping behavior. Specifically,

(1) Quite contrary to our expectation, we find that there is a positive yet insignificant relationship between IDs' remuneration and their job selection, implying that job-hopping IDs do not focus on economic returns. Possible explanation might be that most IDs are economically successful social elites so that they are less likely to pay more attention to remuneration differences when change their jobs.

(2) Whether a company is located in the same area does not affect an ID's job-hopping behavior significantly: Advances in IT and transportation might help

to reduce inconvenience and costs caused by geographic distances.

(3) There is a positive and significant relationship between company reputation and IDs' job-hopping behavior (significant at 0.1 level), showing that job-hopping IDs attach great importance to the positive effects company reputation has on their personal reputations. This result is consistent with our expectation. As above, most of job-hopping IDs have senior professional titles are social elites. They have stronger motivation for social esteem and self-actualization. Reputation improvement thus becomes a good incentive mechanism.

(4) There is a positive yet insignificant relationship between IDs' job selection and listed companies' administrative levels. This result is inconsistent with the above descriptive statistical result. We assume that because most listed companies in China are large-sized famous enterprises, therefore, although IDs are more inclined to accept posts in companies with higher administrative level, such a factor does not play a decisive role in IDs' job selection.

(5) There is a negative and significant relationship between a listed company's level of earnings management and its IDs' job-hopping behavior (significant at 0.1 level), showing that IDs pay close attention to a company's earnings management behavior. This result is consistent with our expectation. Listed companies involved in earnings management are more likely to bring more risks to their IDs. In addition, the regression results for yearly and industrial dummy variables imply that year and industry also affects the IDs' job-hopping behavior.

6.4 Robustness test

To further improve the credibility of our conclusions, a robustness analysis is conducted on the above model. Major variables in the above model are replaced as follows: (1) As a company's total assets is also a commonly used company size index, we combine the four variables of a company's total assets, prime operating revenue, total market value and total profit into one new comprehensive company reputation index. (2) Administrative level variable is changed as a dummy variable. A company equals 1 if it is controlled by the central government and 0 otherwise. (3) Modified Jones Model is adopted to calculate the earnings management index. The results of the robustness test (not reported here due to space limitation) show that, except for some minor changes, the overall predictive power and the explanatory power of other variables remain more or less unaffected, indicating a satisfactory stability of our regression model.

7 Conclusions

As supported by our descriptive statistical results, IDs tend to job-hop from listed companies characterized with lower annual remunerations, lower company reputation and higher job risks to listed companies characterized with the opposite characteristics. However, after controlling yearly and industrial variables, we find out that there is no significant relationship between economic returns and IDs' job-hopping behavior. On the contrary, they change their employing companies in pursuit of higher personal reputation.

Empirical results show that emphasis of remunerations alone can not motivate IDs effectively. As above, CSRC requires in the Guideline that listed companies shall pay IDs a certain amount of allowances. We argue that the allowances would not be enough without implementation of other complementary incentive mechanisms. Fama (1998) pointed out that the majority of full time IDs' welfare consists of reputation improvement. Therefore, market reputation can be used as a substitute for optimal incentive contracts for IDs to a certain degree. However, the precondition of such substitute effects is full-developed professional managers market and capital market. We thus argue to further improve the practical effects of the ID system, it is needed to focus on the "fountainhead" of IDs' positive effects on corporate governance. In doing so, we need to establish supplementary mechanisms for ID performance evaluation and reputation incentive and constraint so as to increase the possibilities of cultivating ID market and improving corporate governance performance.

Acknowledgements This work is supported by the Major Program of the National Natural Science Foundation of China (No. 70532002) and the Program for New Century Excellent Talents in University of the Ministry of Education (NCET–07–0882). Special thanks go to the following for their valuable comments and suggestions in the development of this paper: Anonymous reviewers, attendees of the Second Symposium on Corporate Governance for Young Scholars held by the Chinese University of Hong Kong (Nov. 2006, Shanghai), Prof. Hong Jianqiao (Fudan University), Dr. Xia Lijun (Shanghai University of Finance and Economics), attendees of the Fifth International Symposium on Empirical Research in Accounting & Auditing (Dec. 2006, Beijing), and Dr. Xu Haoping (Fudan University).

References

Agrawal A, Knoeber C (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. Journal of Finance and Quantitative Analysis, 31: 377–397

Ball R, Shivakumar L (2005). Earnings quality in U.K. private firms: Comparative loss recognition. Journal of Accounting & Economics, 38: 83–128

Baysinger B D, Butler N H (1985). Corporate governance and the board of directors: Performance effects of changes in board composition. Journal of Law, Economics and Organization, 1: 101–124

Beasley M (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. Accounting Review, 71: 443–465

Brickley J, Coles J, Terry R (1994). Outside directors and the adoption of poison pills. Journal of Financial Economics, 35: 371–332

Dechow P, Dichev I (2002). The quality of accruals and earnings: The Role of accrual estimation errors. The Accounting Review, 77: 35–59

Fama E (1980). Agency problems and the theory of the firm. Journal of Political Economy, 88: 288–307

Fama E, Jensen M C (1983). Separation of ownership and control. Journal of Law and Economics, 26: 301–325

Hermalin B, Weisbach M (1998). Endogenously chosen boards of directors and their monitoring for the CEO. American Economic Review, 88(March): 96–118

Lee Y S, Rosenstein S, Wyatt J G (1999). The value of financial outside directors on corporate boards. International Review of Economic and Finance, 8: 421–431

Mehran H (1995). Executive compensation structure ownership and firm performance. Journal of Financial Economics, 38: 163–184

Park Y W, Shin H H (2004). Board composition and earnings management in Canada. Journal of Corporate Finance, 10: 431–457

Peasnell K V, Pope P F, Young S (2005). Board monitoring and earnings management: Do outside directors influence abnormal accruals? Journal of Business Finance and Accounting, 32: 1311–1346

Rosenstein S, Wyatt J G (1990). Outside directors, board independence and shareholder wealth. Journal of Financial Economics, 26: 175–191

Weisbach M (1998). Outside directors and CEO turnover. Journal of Financial Economics, 20: 431–460

高雷，何少华，黄志忠 (Gao Lei, He Shaohua, Huang Zhizhong) (2006). 公司治理与掏空 (Corporate governance and tunneling). 经济学(季刊), (7): 1157–1178

高明华，马守莉 (Gao Minghua, Ma Shouli) (2002). 独立董事制度与公司绩效关系的实证分析——兼论中国独立董事有效行权的制度环境 (A Positive study of the relationship between independent director system and corporate performance). 南开经济研究, (2): 64–68

郭强，蒋东生 (Guo Qiang, Jiang Dongsheng) (2003). 不完全契约与独立董事作用的本质及有效性分析 (Analysis of incomplete contract and the nature and effectiveness of the functions of independent directors). 管理世界, (2): 78–89

胡勤勤，沈艺峰 (Hu Qingqing, Shen Yifeng) (2002). 独立外部董事能否提高上市公司经营业绩 (Can independent director improve the listed companies' performance?) 世界经济, (7): 55–62

孔翔 (Kong Xiang) (2002). 中外独立董事制度比较研究 (Comparative research into independent director system of both domestic and foreign enterprises). 管理世界, (8): 88–96

李善民，陈正道 (Li Shanmin, Chen Zhengdao) (2002). 独立董事制度与股东的财富变化 (The institution of independent directors and shareholder wealth). 中山大学学报（社会科学版), (5): 92–99

刘芍佳，孙霈，刘乃全 (Liu Shaojia, Sun Pei, Liu Naiquan) (2003). 终极产权论、股权结构及公司绩效 (Principle of ultimate ownership, ownership structure and corporate performance). 经济研究, (4): 51–62

娄芳 (Lou Fang) (2001). 国外独立董事制度的研究现状 (Review of Western literature on independent director institution). 外国经济与管理, (12): 24–30

谭劲松 (Tan Jingsong) (2003). 独立董事与公司治理——基于我国上市公司的研究 (Independent Director and Corporate Governance: Evidence from China). 北京: 中国财政经济出版社

谭劲松，李敏仪，黎文靖，郑珩，吴剑琳，梁羽 (Tan Jingsong, Li Minyi, Li Wenjin, Zheng Heng, Wu Jianlin, Liang Yu) (2003). 我国上市公司独立董事制度若干特征分析 (Analysis of the characteristics of the independent director system of Chinese listed companies). 管理世界, (9): 110–121

谭劲松，郑国坚，周繁 (Tan Jingsong, Zheng Guojian, Zhou Fan) (2006). 独立董事辞职的影响因素：理论框架与实证分析 (Influencing factors of independent director resign: Theoretical framework and empirical analysis). 中国会计与财务研究, (2): 119–162

谭劲松，周繁 (Tan Jingsong, Zhou Fan) (2005). 独立董事与公司治理：中国证券市场实证研究述评 (Independent director and corporate governance: Review of relevant empirical study from China’s security market). 中山大学工作论文

王兵 (Wang Bing) (2006). 独立董事监督了吗 (Have independent directors ever supervised?) 中山大学工作论文

王跃堂，赵子夜，魏晓雁 (Wang Yuetang, Zhao Ziye, Wei Xiaoyan) (2006). 董事会的独立性是否影响公司绩效 (Does the independence of board of directors affect corporate performance?) 经济研究, (5): 62–73

夏立军，方铁强 (Xia Lijun, Fang Tieqiang) (2005). 政府控制、治理环境与公司价值 (Government control, institutional environment and firm value). 经济研究, (5): 40–51

叶康涛，陆正飞 (Ye Kangtao, Lu Zhengfei) (2007). 独立董事能否抑制大股东的“掏空”？(Can independent directors stop controlling shareholders from tunneling?) 经济研究, (4): 101–111

于东智 (Yu Dongzhi) (2003). 独立董事与公司治理：理论、经验与实践 (Independent director and corporate governance: Theory, experience and practice). 会计研究, (8): 8–14

张凡 (Zhang Fan) (2003). 关于独立董事制度几个问题的认识 (On several fundamental problems of the independent director system). 管理世界, (2): 90–99

支晓强，童盼 (Zhi Xiaoqiang, Tong Pan) (2005). 盈余管理、控制权转移与独立董事变更——兼论独立董事治理作用的发挥 (Earnings management, transfer of control rights and changes in independent directors: How to implement the independent director system in a better way?) 管理世界, (11): 137–144

Fama (1998). 代理问题与企业理论，见：所有权、控制权与激励——代理经济学文选 (Agency problem and corporate theories, In: Ownership, Control and Management Incentive—Selections from Agent-Based Economics). 上海：上海三联书店、上海人民出版社

Salmon W J et al.(2001). 哈佛商业评论精粹译丛——公司治理 (Havard Business Review on Corporate Governance). 北京：中国人民大学出版社、哈佛商学院出版社