

Not Agreeing Isn't the Same as Disagreeing:
How Directors Try to Balance Competing Stakeholder Demands
(By Jyun-Ying Fu et al.)

a. What is the question (of the paper)?

The paper deals with the behaviors of the independent directors on how to equipoise rival requisitions when faced with various influential parties.

b. Why should we care about it?

A director of an organization may be in dilemma since in order to maximize personal interests, the goals vary from the manager(s) to the shareholder(s) that are both significant for the organization. The director will be trapped in a lose-lose situation if simply selecting one of the two choices. Therefore, a balance between the options may exist theoretically, which should be paid attention to, so that we may obtain to a feasible selection to alleviate the disagreement.

Real Word Example: In a corporation, the stakeholders pursue for higher value of their equity holdings, while the managers focus on their benefits as well as their free will. If the director chooses to be in accord with the wish of the shareholders without consideration of the managers, the managers will not be motivated since their expectation can not be satisfied; by contrast, if the demands of the shareholders are ignored, the shareholders will not be willing to provide adequate money for the company. There is some trade-offs between the diverse options, where the director needs to balance the requisitions of both parties. From this perspective, the question in research deserves attention.

c. What is your (or the author's) answer?

(1) Aiming at balancing the different opinions of separated effective parties, the directors are likely to abstain or take part in some other exertions.

(2) If a director has some relationship with one of the influential parties, such party may impact on the director to keep an eye on the processes with some limited circumstances within the association.

(3) Directors may utter disagreements to show some representative obedience in terms of the requirements of the government, which at least incompletely reflects kind of balance, though usually not too strong to infuriate the others in the director market.

(4) Directors with political backgrounds are likely to express diverse opinions in a symbolic instead of substantial way, which actually would be so superficial that people fail to recognize inactivity of the directors' monitoring.

d. How did you (or the author) get there?

To begin with, some literatures related to the question are reviewed, according to which, some hypothesis are put forward. Then, a group of endogenous, exogenous, and control variables are defined for the sample data from *CSMAR Solution* database. Next, some econometric models are established, followed by some robustness checks. Finally, the research is concluded with some discussion on practical implications, limitations, and perspectives.

Notations

H1 Politically connected independent directors are more likely to dissent in comparison to directors who are not politically connected.

H2 Politically connected independent directors are less likely to issue substantive dissents in comparison to directors who are not politically connected.

H3 A dissenting independent director is less likely to be reappointed than a non-dissenting director.

H4 A dissenting independent director gains more new board seats than a non-dissenting independent director.

H5 Among dissenting independent directors, those issuing substantive dissents will be less likely to be reappointed than those issuing weak dissents.

H6 Among dissenting independent directors, those issuing substantive dissents gain fewer new board seats than those issuing weak dissents.

$Dissent_{i,j,k,t}$ Equal to 1 if independent director i dissents on proposal j in firm k at time t ; otherwise, equal to 0.

$Directorfactors_{i,j,k,t}$ Other director-level characteristics that describe independent director i dissents on proposal j in firm k at time t .

$e_{i,j,k,t}$ The residual of independent director i dissents on proposal j in firm k at time t . $e_{i,j,k,t} = \eta_j + \varepsilon_{i,j,k,t}$

η_j The proposal fixed effect. $\eta_j = \lambda(\overline{Directorfactors}_j) + \delta_j$, where

$$\lambda(\overline{Directorfactors}_j) = \frac{\sum_{i \in j} Directorfactors_{i,j,k,t}}{\sum_{i \in j} i}$$

δ_j A true random effect not correlated with the covariates.