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## Relations between the professional backgrounds of independent directors in state-owned enterprises and corporate performance<sup>1</sup>

Yong Wang Pengjian Jin Chongsheng Yang

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

**JEL classification:** G34; L22; J44;

**Key words:** State-owned enterprises (SOEs), independent directors (IDs), corporate performance, corporate governance

### I. INTRODUCTION

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

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

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