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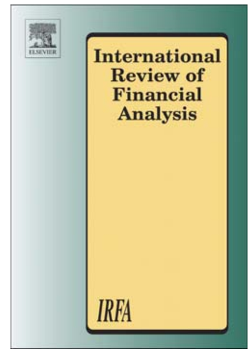

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Board Independence, Ownership Concentration and Corporate Performance – Chinese Evidence*

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Abstract

This paper exploits two sequential exogenous regulatory reforms in China (2001 board independence and 2005 share restructure) to study the incremental effect of the board independence on firm performance as ownership concentration declines. We examine this effect in the 2003-2008 period when independent directors' ratio was relatively stable but ownership concentration declined significantly among Chinese publicly listed firms. We find that the impact of board independence on firm performance increases as ownership concentration declines but this effect varies by the types of ownership. Private-controlled firms exhibit statistically and economically significant positive board effectiveness, whereas state-controlled firms have insignificant effects, irrespective of whether they are state or locally controlled. The results are robust to a battery of endogeneity checks and are stronger with market-based (Tobin's Q) performance measure compared to accounting-based measure (ROA). Our results support the notion that high ownership concentration has a moderating influence on board effectiveness but the effect also depends on ownership types and the country's institutional environment.

***JEL Classification*:** G32, G34
Keywords: Independent directors; Ownership concentration; Corporate performance; Ownership type; private-controlled firms; state-controlled firms; Chinese share structure reform; Institutional environment

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