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Board independence and firm performance in China

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Abstract

We provide the first comprehensive and robust evidence on the relationship between board independence and firm performance in China. We find that independent directors have an overall positive effect on firm operating performance in China. Our findings are robust to a battery of tests, including endogeneity checks using instrumental variables, the dynamic generalized method of moments estimator, and the difference-in-differences method. The positive relationship between board independence and firm performance is stronger in government controlled firms and in firms with lower information acquisition costs. We also document that Chinese independent directors play an important role in constraining insider self-dealing and improving investment efficiency.

JEL: G34, G38, K22

Keywords: Independent directors, Firm performance, Monitoring costs, Tunneling, Investment efficiency, China

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