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Yijun Meng, Michael P. Clements, Carol Padgett

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**Independent Directors, Information Costs and Foreign Ownership
in Chinese Companies[☆]**

Yijun Meng ^{a,*}, Michael P. Clements ^b, Carol Padgett ^b

^a Shanghai University of International Business and Economics, 1900 Wenxiang Road, Songjiang District, Shanghai, 201620, P.R. China

^b ICMA Centre, Henley Business School, University of Reading, Reading, RG6 6BA, UK

Abstract

This paper takes advantage of recent regulatory changes to estimate the effects of independent directors on company performance, taking into account information cost. Our data sample consists of 2,371 firm–year observations for China over the period 1999–2005. Independent directors have a significantly negative impact on return on assets (ROA) and earnings per share (EPS), and this negative effect is more pronounced when the ability of the directors to perform their monitoring and advisory activities is curtailed by high information costs. We also find that foreign ownership may contribute to an increased willingness of firms to appoint independent directors.

JEL Classification: G34, G38, K22

Keywords: Corporate Governance, Independent Directors, Information Costs, Foreign Ownership, Emerging Market

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* Corresponding author at: Shanghai University of International Business and Economics, 1900 Wenxiang Road, Songjiang District, Shanghai, 201620, P.R. China. Email address: almameng1120@hotmail.com

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