

ADR Characteristics and Corporate Governance from the Greater China Region

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Abstract

We examine the relationship between firm performance and governance mechanisms, firm characteristics, and institutional factors of American Depositary Receipts (ADRs) in the greater China region listed on the NYSE, AMEX and NASDAQ. We find that Chinese ADRs have the highest market-to-book value followed by those of Hong Kong and Taiwan. It appears that Chinese firms with the poorest external governance environment stand to benefit the most by successfully listed under the ADR programs. Listing in the US which adopts more stringent regulations and disclosure rules may signal the firms' governance practices and thereby enhance their firm value. Among the governance mechanisms, CEO duality, institutional ownership, and insider ownership are positively related to firm valuation.

Keywords: Corporate governance; Chinese ADRs; CEO duality; Institutional ownership; Insider ownership.

1. Introduction

Good corporate governance mechanisms are value enhancing. Its importance on firm value has long been established since the pioneering work of Jensen and Meckling (1976) in a nexus of contracts or agency costs among various stakeholders. Under the rubrics of principal-agent conflicts, Shleifer and Vishny (1997) emphasize that investor protection is crucial. La Porta et al. (1998, 2000, and 2002) who examine the importance of external governance around the world show that countries with common laws provide better shareholder protection than those with civil laws. They document that the difference in the legal regimes and law enforcement has led to higher valuation of corporate assets in common law regimes.

In line with Gillan's (2006) comprehensive review on different aspects of internal and external governance systems, and their interactions, recent research has focused on the combined determinants of corporate governance on firm performance. In particular, board structure (Yermack (1996), Boone, Field, Karpoff, and Raheja (2007), and Linck, Netter, and Yang (2008)), CEO characteristics (Hermalin and Weisbach (1998), Basu, Hwang, Mitsudome, and Weintrop (2007), and Brookman and Thistle (2009)) and ownership structure (Lemmons and Lins (2003), and Ali, Chen and Radhakrishnan (2007)) have been

identified as key determinants of a firm's governance practices. Firms with more independent directors, less executive compensation, and higher managerial ownership are linked to stronger governance and better firm performance.

In this study, we contribute to the literature as we examine the effect of governance practices on firms from the greater China Region, namely China, Hong Kong, and Taiwan, under the American Depository Receipts (ADRs) programs. ADRs under type II and III listings are required to follow the same stringent requirements on governance, disclosure requirements, and accounting standards as those of the U.S. firms especially after the Sarbane-Oxley Act in 2002 (see Durnev and Kim (2005) and Doidge, Karolyi, and Stulz (2003)).¹ Coupled with the common law regime, stronger law enforcement, and investor protection in the U.S. (see La Porta et al. (1998)), ADRs from the greater China region benefit from higher market valuation.

Part of our interest in examining the impact of ADRs from the greater China region in relation to corporate governance on firm value is motivated by the contrasting external legal environment and the internal governance mechanisms (or the lack of it) among these markets. Although China's regulatory framework is evolving rapidly, its external and

¹ ADRs under Level 1 and 144A rules do not need to comply with the same U.S requirements.

internal governance remain the weakest in comparison to Hong Kong and Taiwan (see e.g. Sun and Tong (2003), Wei (2007), and Tian and Estrin (2008)).² According to La Porta et al. (1998), Taiwan which follows civil law regime and with weaker investor protection is related to poorer governance environment. Hong Kong with its historical ties to common law regime tends to enjoy stronger legal enforcement.

It follows that firms within greater China region while enjoy close business ties and trades but arriving from such diverse governance environments should provide a fertile ground to examine the differential impact of ADR listings on firm value. One would therefore hypothesize that Chinese ADRs with the weakest governance mechanism may on average benefit the most in the form of higher firm value followed by those from Taiwan and Hong Kong.

Our analysis confirms that Chinese ADRs have on average the highest market-to-book value after controlling for governance measures and firm characteristics. Hong Kong ADRs has the next high market valuation followed by Taiwan ADRs. It therefore suggests that Chinese firms coming from the poorest external governance environment tend to benefit the most out of the ADRs experience.

² The core regulatory framework consists of *The Company Law* since 1993, *the Securities Law* since 1998, and *the Code of Corporate Governance for Listed Companies in China* since 2002.

Among the governance measures, institutional investor ownership and insider ownership are important for relative higher market value. The results are consistent with prior studies (e.g. McConnell and Servaes (1990), Hartzell and Starks (2003), and Cornett et al. (2007)), that higher insider ownership reduces potential agency conflicts between insiders and minority shareholders, and institutional ownership seems to play an effective monitoring role for ADR firms. Our results complement Sun and Tong (2003) who document that share issue privatization in China is positively related while state ownership is negatively related to firm performance.

Interestingly, in contrast to standard agency theory, we find CEO duality is also positively important for ADR valuation. We argue that investors may generally be less favorable of high government ownership especially for Chinese firms. Stronger CEOs can perhaps reduce government interference with management. As a result, a CEO who is also serving in the capacity of the chairman may be beneficial to firm performance and shareholders.

The remainder of the paper is organized as follows. Section 2 provides an overview of the corporate governance environment in the greater China region. Section 3 and 4 discusses the sample and methodology respectively. Empirical results are reported in

Section 5 and Section 6 concludes the paper.

2. Corporate Governance in the Greater China Region

2.1 China

China's legal regime can inherently be traced to German's civil-law which is on average weaker than English's common-law in terms of investor protection (see La Porta et al. (1998)). Coupled with high proportion of state ownership and control for publicly listed firms, corporate governance environment in China is arguably the weakest of the three markets in the region (see Sun and Tong (2003), Wei (2007), and Tian and Estrin (2008)).³

China adopts a two-tier board structure, the board of directors and the supervisory board, since 1990s to improve governance. The aim is to impose a two-layer oversight on the duty and performance of senior management. That is, the supervisory board monitors and evaluates the performance of senior managers and the board of directors who in turn monitor senior managers. The governance of board structure has further been strengthened after *the Code of Corporate Governance for Listed Companies in China* was introduced in 2002 that requires some independence of directors on the board, and qualifications and

³The majority of shares outstanding in Chinese firms are non-tradable shares owned by governments or their affiliated entities.

knowledge of members of supervisory boards.

Despite putting these governance mechanisms in place, Wei (2007) contends that the board is still characterized by insider control and weak independence. Tam (2002), Lin (2004), and Wang (2007) also find that supervisory boards are ineffective in playing their roles of overseeing the performance of directors and managers.

The lack of independence of directors and supervisory members is however not surprising as the predecessors of Chinese listed firms are mostly state-owned enterprises (SOEs). Managers of these former SOEs are therefore likely to be appointed as directors. As a result, directors are rarely independent and managers tend to dominate the governance of the board. Similarly, most supervisory members are considered insiders because they tend to come from political office, labor unions, close friends, and allies of senior management (see Dahya et al. (2003)). Furthermore, the supervisory board has limited access to firm information and has no power in removing directors and managers (see Lin (2004) and Wang (2007)).

The partial privatization of SOEs has left the ownership structure of Chinese firms to be dominated by state ownership, with the majority of shares outstanding held by the state as non-tradable shares. It follows that institutional ownership may play a relatively more

important role on firm performance in China. Chen et al. (2006) examine the effect of outside directors on corporate fraud and document that Chinese firms with a higher percentage of outside directors such as those by institutional investors tend to reduce corporate fraud. Zhang et al. (2001) and Xu et al. (2005) show that foreign ownership is positively related to the efficiency of Chinese industrial firms.

2.2 *Hong Kong*

Unlike China, Hong Kong follows the common-law regime, or the Anglo-Saxon legal and corporate governance system. La Porta et al. (1998) show that common-law countries provide both shareholders and creditors the strongest legal protection compared to countries of other types of legal regimes. Within the common-law countries, Hong Kong scores well above the average in efficiency of judicial system, rule of law, and the level of corruption. Cheung et al. (2007) further suggest that stock market in Hong Kong shares similar characteristics and practices observed in developed economies. International rating agencies rank Hong Kong as one of the more advanced markets in the Asia-Pacific region.

However, Hong Kong firms are characterized by less diffuse ownership structure than firms in developed markets. They tend to be family owned and managed that are commonly

round in the region. As a result, the chairman of the board is more often the chief executive officer of the firm. Agency conflicts may arise from this particular type of ownership structure between insiders who are also owners and minority shareholders.

Since 2005, each publicly listed firm in Hong Kong is required to have a minimum of three independent non-executive directors on its board. Such requirement may therefore reduce agency costs of the firm as outsiders tend to play a more effective monitoring role in managers' behaviors and decisions. In sum, corporate governance external environment and governance practices in Hong Kong are arguably the strongest in comparison to China and Taiwan.

2.3 *Taiwan*

Similar to China, Taiwan's legal system is based on German civil law. Although average law enforcement of the German legal origin is only weaker than Scandinavian law but stronger than English common law or French civil law, La Porta et al. (1998) report that Taiwan's efficiency of judicial system and corruption are poorly ranked compared to those of other countries in German legal origin and weaker legal families. The overall poor

investor protection in Taiwan due to its legal environment suggests that corporate governance may be more crucial to firm value than that in Hong Kong.

Following the German corporate governance structure, board members in a Taiwanese firm consist of both directors and supervisors. The role of supervisors is to monitor directors on their corporate decisions and to review and audit reports prepared for the shareholders. However, the supervisory board is not independent as in the German's two-tier system. Its members can be elected from family members of current employees and directors.

Furthermore, Lee and Yeh (2004) emphasize that controlling families may also set up nominal investment firms to increase their controls by sending family members or their designated persons to the board after the investment firms are elected for the positions of directors and/or supervisors. With these governance practices by controlling families, Young et al. (2008) confirm that board independence is negatively related to managerial ownership and family control. They find that 64% of firms in Taiwan do not appoint an independent director and another 21% of firms hire only one independent director despite the mandatory requirement of two independent directors for IPO firms in 2002.

After considering the legal regime and internal governance mechanisms in Taiwan, the overall corporate governance in Taiwan is stronger than China but is weaker than Hong Kong.

3. Data and Variable Definitions

3.1 Sample

Sample ADRs from China, Hong Kong, and Taiwan listed on NYSE, AMEX, and NASDAQ and their financial data are obtained from Factset database. We manage to collect 48 Chinese ADRs, 18 Hong Kong ADRs, and 8 Taiwan ADRs after removing observations that do not meet our data requirement. The final sample includes 222 firm-year observations from 2005 to 2007. All of the sample firms belong to type II and III ADRs which are required to adopt the US disclosure and governance rules. As a result, these ADRs may enhance firm value after listing in an environment with more stringent governance requirements.

3.2 Market-to-Book Ratio

Following Chen et al. (2006), Harford et al. (2008), Cheung et al. (2008), and Linck et

al. (2008), we use market-to-book value ratio (M/B) for measuring firm performance. Demsetz and Villalonga (2001) suggest that market-based measures such as M/B are more preferable than accounting-based profit ratios (i.e. ROA and ROE) because the former are forward looking measures of corporate performance whereas the latter are backward looking constrained by accounting standards and practices. For example, accounting rules may apply differently to valuing tangible and intangible capitals and taxation systems may vary with firms of different ownership structure. In contrast, M/B should fairly reflect future profitability of a firm by markets without the accounting constraints. Furthermore, M/B tends to capture markets' views on governance mechanisms as a means to reduce agency costs and enhance corporate performance.

For explanatory variables of M/B, we categorize measures of governance mechanisms, firm characteristics, and institutional factors into 6 groups as follows: board structure, CEO characteristics, ownership structure, firm characteristics, country dummies, and stock exchange dummies. These measures are defined in Appendix I.

3.3 Board Structure

Board structure includes percentage of independent directors, CEO duality, and

non-executive chairman when the chairman is not an executive member of the company. Independent directors are non-executive or non-employee directors who may play a more effective role in monitoring management to meet shareholders' expectations. Borokhovich et al. (1996), Krivogorsky (2006), and Adams and Ferreira (2007) show that independent directors lower monitoring cost that in turn enhance firm performance.

When the CEO is also the chairman of the board, Fama and Jensen (1983) contend that it may impede the effectiveness of board monitoring as the decision making and control is endowed within one individual. Rechner and Dalton (1991), and Bhagat and Bolton (2008) show that non-duality firms outperformed duality firms. Bai, Liu, Lu, Song, and Zhang (2004) also report a negative relationship between CEO duality and market value for Chinese firms.

3.4 CEO characteristics

CEO characteristics refer to the number of years that a CEO has held the position. Hermalin and Weisbach (1991) suggest that CEO tenure does not seem to affect firm profitability for shorter CEO tenures but firm profitability declines when CEO tenure is more than 15 years. In a follow-up study, Hermalin and Weisbach (1998) conclude that

board independence will generally decline with CEO tenure. When a CEO has worked for the company for a longer period of time, they tend to have more influence on the directors of the board, which is detrimental to board independence and the effectiveness of monitoring.

On the other hand, CEO tenure may proxy for board leadership and measures the extent of CEO experience that may help companies to tackle difficulties and increase profits. This argument is supported by Linck et al. (2008) and Brookman and Thistle (2009) who show that CEO tenure has a positive effect on firm performance.

3.5 Ownership Structure

Insiders refer to employees, directors, and managers who enjoy information advantage about the firm over the market. McConnell and Servaes (1990) suggest that insider ownership may also perform a monitoring role for the firm. It follows that as the share ownership of insider ownership increases and that their interests are more aligned with those of shareholders, the cost of monitoring tends to be lowered.

Conversely, firms whose managers have high levels of control rights (relative to cash flow rights) experience lower stock returns. Lemmon and Lins (2003) show that ownership

structure of firms in eight East Asian countries plays an influential role in wealth expropriation of insiders from minority shareholders. Examining the relation between ownership and market value among Chinese firms, Bai et al. (2004) find high concentration of ownership is positively related to market value.

We therefore include percentage of institutional ownership and insider ownership as proxies for ownership structure. However, McConnell and Servaes (1990) suggest that when the percentage of insider ownership reaches a threshold, an increase in insider ownership may decrease firm value. Hence, we also include a squared term of insider ownership as a measurement of the potential non-linear relationship between percentage of insider ownership percentage and firm profitability.

3.6 Firm Characteristics and Institutional Factors

We further include firm-specific and institutional control variables to isolate the effect of governance measures on firm performance. They include debt-to-equity ratio, trading volume, company age, and firm size (natural log). Country dummies (CHINA, HONGKONG, and TAIWAN) as discussed in Section 2, and stock exchanges dummies (NYSE, AMEX, and NASDAQ) to control for the fixed effects of the countries and stock

exchanges.

4. Empirical Results

4.1 Summary Statistics

We first present the summary statistics of the sample ADRs in Table 1. Panel A reports the aggregate statistics for the whole sample, and Panel B, C, and D report for individual market of China, Hong Kong, and Taiwan respectively.

We first find that the average market-to-book value (M/B) ratio is 3.60 for the whole sample, a high market valuation relative to book value. It indicates that they tend to be high growth firms which are perhaps seeking external funding and/or increasing investor base beyond their local markets by listing in the U.S. stock exchanges. Within the ADRs, those from China enjoy the highest market-to-book ratio of 4.23, followed by those from Taiwan of 2.59 and Hong Kong of 2.24. Firms from the weakest external governance environment (i.e. China) seem to be related to highest relative market valuation after listing in the US.

Consistent with the literature that CEO duality is more common in the region than in the US or UK, twenty eight percent of the sample ADRs designate their CEOs as the chairman of the board (CEO_DUALITY) and only four percent have non-executive

chairman (NONEXE_CHAIR). As discussed in Section 2, firms in Hong Kong and Taiwan are more likely to be family-controlled such that CEOs who tend to be a family member also serve as chairman of the board. Although CEO duality is lower in Chinese ADRs with one-quarter of the firms, it remains high by western standards.

The average age of ADRs is 17 years within which Hong Kong ADRs are on average more mature (19 years) than their counterparts (16.44 and 16.25 years for China and Taiwan respectively). Surprisingly, the average CEO tenure is only 3 years that range from 2.59 years of Chinese ADRs to 4.67 years of Taiwan ADRs, suggesting frequent CEO turnovers.

Since regulations in all three markets require mandatory independent directors, the average percentage of independent directors is relatively high at 20 percent. The variability appears to be small between the three markets, with Taiwan ADRs having the highest percentage of independent directors of 25 percent.

Insider ownership on average exceeds 50 percent. This high insider ownership is driven by those of China and Hong Kong ADRs. In contrast, Taiwan ADRs which are skewed towards computer-related firms are characterized by more diffused ownership. As a result, its average insider ownership of 21% is relatively low.

Finally, institutional investors seem to take a keen interest in the ADRs. They hold an average of 18.5% of total shares outstanding. In particular, Taiwan ADRs tend to attract relatively more institutional investors especially compared to those of Hong Kong (22.38% and 14.34% for Taiwan and Hong Kong respectively).

4.2 Univariate Results

Table 2 reports the results of differences in means of M/B, governance measures, and firm characteristics among Chinese, Hong Kong, and Taiwan ADRs discussed in Table 1. The results show that Chinese ADRs have higher M/B than Hong Kong and Taiwan ADRs. The higher market valuations of Chinese ADRs do not seem to be related to firm characteristics such as size and volume for which they are larger than Hong Kong ADRs but smaller than Taiwan ADRs.

At the first glance, it appears that share ownership of insiders (INSIDER_PCT) may be a potential candidate in explaining the difference in M/B as Chinese ADRs have the highest insider ownership than their neighboring counterparts. Nevertheless, the country of domicile where external governance environment differs significantly among the three markets remains the prime candidate to explain the extent of the firm valuation differences.

Before we perform multivariate regression analysis on the effect of governance measures on firm performance, we investigate the correlations between governance measures. Table 3 presents the correlations using both Pearson (in upper diagonal) and Spearman rank (in lower diagonal) estimates for robust checks.

The cross correlations between the six correlations are generally low with the exception between institutional and insider ownership. These two measures are however expected to complement each other because a higher proportional of insider ownership implies a lower outsider ownership including institutional ownership. Institutional investors also become less important in monitoring managers if insiders hold a higher proportion of share ownership. It is also interesting to note that nonexecutive chairman (NONEXE_CHAIR) is more likely to associate with higher percentage of independent directors (INDEP_PCT). This positive correlation is consistent with the overall independence of the board of directors. To ensure our empirical results are robust to the potential multicollinearity problems in regressions, we apply principal component analysis to create a reduced number of independent and non-correlated factors.

4.3 Regression Results

We run the following regressions to examine the effect of governance measures on firm performance,

$$M / B_i = \alpha + \beta_1 BS + \beta_2 CEO + \beta_3 OS + \beta_4 CC + \beta_5 CD + \beta_6 SD + \varepsilon_i \quad (1)$$

where M / B_i is market-to-book value ratio for firm i ; BS , CEO , OS , and CC are vectors of board structure variables, CEO characteristics, ownership structure, and company characteristics respectively; CD and SD are dummy variables for countries and stock exchanges respectively; ε_i is the error term.

To address the potential endogeneity effects of governance measures documented in Himmelberg et al. (1999), Cho (1998), and Bhagat and Bolton (2008), we use firm size, debt-to-equity ratios, and return on equity as instrument variables for institutional ownership. We then use the predicted institutional ownership in the regression analysis. Furthermore, we consider lagged market-to-book ratio, lagged leverage, and lagged board structure. Results using these instruments are robust to those reported in this section and are therefore not tabulated. We also follow Black, et al. (2006) and Petersen (2008) by applying adjusted standard errors due to the correlations between the same companies in different

years.

Sequel to the univariate results discussed earlier, we run multivariate regressions on the relationship between firm performance and governance measures, firm characteristics, and institutional factors according to equation 1.

Column 1 and 4 of Table 4 report the effect of board structure along with firm characteristics, country dummies, and exchange dummies on market-to-book value ratio (M/B). Among the measures for board structure, only CEO duality (CEO_DUALITY) is significantly and positively related to M/B. We suspect that U.S. investors are generally wary of high government ownership especially for Chinese firms and tend to view CEO duality positively. Stronger CEOs can counteract government interfering with management. It follows that serving in the capacity of both the CEO and the chairman may be beneficial to firm performance and shareholders. Surprisingly, the percentage of independent directors (INDEP_PCT) among the three measures of board structure is significantly but negatively related to M/B. It contradicts the standard agency theory which posits that an increase in the proportion of independent directors reduces principal-agent conflicts. Subsequent test (i.e. column 4 in Table 4) however reveals that the importance of independent director is absorbed by other governance measures.

When we examine CEO tenure (see column 2 and 4), it seems to carry little consequence on ADR performance. We find that as the number of years of CEO tenure ranges from one to four years with an average of less than three years (see Table 1), the short CEO tenure and its lack of variability may be a potential reason why it fails to capture variations in firm performance.

For the effect of ownership structure, we include the percentage of institutional and insider ownership. Since the effect of insider ownership may be curvilinear, we also include a square term. Column 3 and 4 of Table 4 show that these two governance mechanisms are positively related to M/B ratio. The relation between insider ownership and M/B ratio appears to be linear as the significance of square term drops out after including other governance measures. Similarly, high insider ownership varies positively with high market valuation. These results are consistent with the standard finance theory that higher insider and institutional ownership lower agency conflict between management and minority shareholders. Our results highlight that ownership structures appear to be the most consistent governance measures for the ADRs.

Above the importance of some of the governance mechanisms, country of domicile accounts for variations in M/B ratio. Reported in Table 4, the negative signs in the dummy

variables for Hong Kong and Taiwan confirm that Chinese ADRs have on average the highest M/B ratio. However, unlike the univariate results reported in Table 2, Hong Kong ADRs have relative higher market valuation than Taiwan ADRs after controlling for governance measures and firm characteristics.

It is interesting to note that ADRs listed in NASDAQ enjoy higher M/B ratio than listed in either NYSE or AMEX. We find that NASDAQ ADRs are more likely to be high-tech or computer-related firms that associate with higher growth opportunities and therefore higher M/B ratio.

5. Conclusion

This paper examines ADR characteristics in relation to governance mechanisms on firm valuation from the Greater China region. In particular, we investigate the relationship between firm performance and board structure, CEO characteristics, and ownership structure for firms from China, Hong Kong, and Taiwan listed on NYSE, AMEX, and NASDAQ.

Unlike on typical firms, we find that CEO duality has a positive effect on ADR value. Our conjecture is that the positive impact may largely be driven by the positive view of

stronger CEOs especially for Chinese firms. They may be more effectively in counteracting from the government interference. Such view is also consistent with the positive impact of institutional ownership, and insider ownership on market-to-book value in addition to the standard agency theory.

Above all, our results show that Chinese firms in the weakest governance environment may gain the most under the ADR programs as they are subject to the stringent regulations and disclosure rules in the U.S. In addition to the benefits of raising external capitals in the US, Chinese ADRs firms may also signal and enhance its corporate value with stronger governance by participating in the ADR programs. The impact of ADR listings also applies to Hong Kong and Taiwan firms except the extent of the benefits may be less than those of Chinese ADRs due to their relatively stronger external governance environment at home.

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Table 1. Summary Statistics of the Sample Firms

This Table presents the summary statistics of ADRs in the greater China region during 2005-2007. M/B is the stock price per share divided by book value per share. CEO_DUALITY is a dummy variable that equals one when the CEO is also the chairman of the board, and zero otherwise. NONEXE_CHAIR is a dummy variable that equals one when the chairman of the board is not an executive member, and zero otherwise. INDEP_PCT is the percentage of independent directors on the board. CEO_TENURE is the number of years the CEO has held his/her title. INST_PCT is the number of shares held by institutional investors as a percentage of the current total shares outstanding. INSIDER_PCT is the number of shares held by insiders as a percentage of the current total shares outstanding. DEBT_EQUITY is the long-term debt-to-equity ratio; SIZE is the natural log of market capitalization, where the firm's market value is measured in millions of dollars. AGE is the number of years since the company starts (up to 2007). VOLUME is the 52-week average of the volume of shares traded.

Variables	Mean	P25	P50	P75	SD
Panel A: Whole Sample					
M/B	3.60	1.42	2.38	4.15	3.85
CEO_DUALITY	0.28	0.00	0.00	1.00	0.45
NONEXE_CHAIR	0.04	0.00	0.00	0.00	0.20
INDEP_PCT	0.20	0.00	0.00	0.38	0.24
CEO_TENURE	2.96	1.00	2.00	4.00	3.28
INST_PCT	18.55	13.97	18.34	23.62	7.96
INSIDER_PCT	50.17	21.58	51.22	74.31	27.76
DEBT_EQUITY	27.29	0.00	2.20	24.45	87.40
AGE	17.04	8.00	11.00	21.00	14.99
VOLUME	0.64	0.05	0.21	0.71	1.42
SIZE	6.61	4.89	6.26	8.22	2.46
Panel B: China ADRs					
M/B	4.23	1.54	2.74	5.24	4.41
CEO_DUALITY	0.25	0.00	0.00	0.50	0.43
NONEXE_CHAIR	0.02	0.00	0.00	0.00	0.14
INDEP_PCT	0.19	0.00	0.00	0.37	0.25
CEO_TENURE	2.59	0.00	2.00	4.00	2.60
INST_PCT	18.16	2.98	8.94	18.23	23.33
INSIDER_PCT	54.24	31.84	53.35	79.35	28.47

DEBT_EQUITY	29.02	0.00	0.54	19.73	104.95
AGE	16.44	8.00	11.00	19.00	16.00
VOLUME	0.43	0.05	0.20	0.54	0.62
SIZE	6.38	4.93	5.99	7.77	2.25
Panel C: Hong Kong ADRs					
M/B	2.24	0.80	1.50	3.16	2.08
CEO_DUALITY	0.33	0.00	0.00	1.00	0.48
NONEXE_CHAIR	0.11	0.00	0.00	0.00	0.32
INDEP_PCT	0.18	0.00	0.10	0.40	0.20
CEO_TENURE	3.15	0.00	2.00	4.00	4.11
INST_PCT	14.34	7.11	9.48	22.26	12.80
INSIDER_PCT	53.80	31.03	64.41	70.19	23.10
DEBT_EQUITY	23.14	0.00	8.60	30.04	35.67
AGE	19.00	9.00	12.50	30.00	14.72
VOLUME	0.30	0.02	0.10	0.25	0.58
SIZE	6.32	4.14	5.79	8.83	2.92
Panel D: Taiwan ADRs					
M/B	2.59	1.88	2.44	3.06	1.15
CEO_DUALITY	0.38	0.00	0.00	1.00	0.49
NONEXE_CHAIR	0.00	0.00	0.00	0.00	0.00
INDEP_PCT	0.25	0.00	0.24	0.41	0.24
CEO_TENURE	4.67	2.00	3.50	5.00	4.10
INST_PCT	22.38	13.85	22.33	30.12	9.00
INSIDER_PCT	21.09	11.03	19.46	32.08	11.51
DEBT_EQUITY	25.54	0.05	6.94	42.21	34.88
AGE	16.25	9.50	15.50	23.00	7.53
VOLUME	2.67	0.68	1.34	2.59	3.36
SIZE	8.53	7.22	8.83	9.65	1.63

Table 2. Sample Comparison among Chinese, Hong Kong, and Taiwan ADRs

This table provides sample mean comparisons and t-test values for Chinese, Hong Kong and Taiwan ADRs listed during 2005-2007. *** and ** denote significance levels of 1% and 5% respectively. ^a reports difference in means in the following order: between Chinese ADRs and Hong Kong ADRs, between Hong Kong ADRs and Taiwan ADRs, and between Chinese ADRs and Taiwan ADRs.

Variable	Country	Mean	SE	Difference ^a	N
M/B	Chinese ADRs	4.23	0.38	2.00***	134
	Hong Kong ADRs	2.23	0.30	-0.35	47
	Taiwan ADRs	2.59	0.25	1.64***	21
CEO_DUALITY	Chinese ADRs	0.25	0.04	-0.08	144
	Hong Kong ADRs	0.33	0.06	-0.04	54
	Taiwan ADRs	0.37	0.10	-0.12	24
NONEXEC_CHAIR	Chinese ADRs	0.02	0.01	-0.09**	144
	Hong Kong ADRs	0.11	0.04	0.11***	54
	Taiwan ADRs	0.00	0.00	0.02**	24
INDEP_PCT	Chinese ADRs	0.19	0.02	0.01	144
	Hong Kong ADRs	0.18	0.03	-0.06	54
	Taiwan ADRs	0.25	0.05	-0.05	24
CEO_TENURE	Chinese ADRs	2.60	0.25	-0.55	111
	Hong Kong ADRs	3.15	0.59	-1.5	48
	Taiwan ADRs	4.67	0.97	-2.1*	18
INST_PCT	Chinese ADRs	18.16	2.08	3.82	126
	Hong Kong ADRs	14.34	1.79	-8.04***	51
	Taiwan ADRs	22.38	1.84	-4.22	24
INSIDER_PCT	Chinese ADRs	54.24	2.54	0.44	126
	Hong Kong ADRs	53.80	3.23	32.71***	51
	Taiwan ADRs	21.09	2.35	33.15***	24
DEBT_EQUITY	Chinese ADRs	29.02	9.20	5.89	130
	Hong Kong ADRs	23.13	5.34	-2.41	44
	Taiwan ADRs	25.54	7.12	3.48	24
AGE	Chinese ADRs	16.44	1.33	-2.56	144
	Hong Kong ADRs	19.00	2.00	2.75	54
	Taiwan ADRs	16.25	1.54	0.19	24
VOLUME	Chinese ADRs	0.43	0.05	0.13	144
	Hong Kong ADRs	0.29	0.08	-2.37***	54
	Taiwan ADRs	2.68	0.68	-2.24***	24
SIZE	Chinese ADRs	6.38	0.19	0.05	136
	Hong Kong ADRs	6.32	0.40	-2.21***	52
	Taiwan ADRs	8.53	0.33	-2.15***	24

Table 3. Cross Correlations of Governance Measures

This table presents the correlation coefficients between the governance measures. The Pearson correlation coefficients are above the diagonal and the Spearman rank correlation coefficients are below the diagonal. ***, **, *, denote significance levels of 1%, 5%, and 10%, respectively.

	CEO_DUALITY	NONEXE_CHAIR	INDEP_PCT	CEO_TENURE	INST_PCT	INSIDER_PCT
CEO_DUALITY		-0.20***	0.02	0.12*	-0.09	0.15**
NONEXE_CHAIR	-0.23***		0.33***	-0.06	0.00	-0.14*
INDEP_PCT	0.06*	0.35***		-0.09	0.06	-0.02
CEO_TENURE	0.11*	0.02	-0.14		0.05	-0.22***
INST_PCT	-0.14**	0.11	0.08	0.08		-0.57***
INSIDER_PCT	0.13*	-0.20**	-0.06	-0.13*	-0.59***	

Table 4. Regressions of Firm Performance on Governance Measures

This Table presents the regressions results of firm performance as proxy by Market-to-Book ratio on governance measures. CEO_DUALITY is a dummy variable that equals one when the CEO is also the chairman of the board, and zero otherwise. NONEXE_CHAIR is a dummy variable that equals one when the chairman of the board is not an executive member, and zero otherwise. INDEP_PCT is the percentage of independent directors on the board; CEO_TENURE is the number of years the CEO has held his/her title. INST_PCT is the number of shares held by institutional investors as a percentage of the current total shares outstanding. INSIDER_PCT is the number of shares held by insiders as a percentage of the current total shares outstanding. INSIDER_PCT² is the square of the insider ownership percentage. DEBT_EQUITY is the long-term debt-to-equity ratio; SIZE is the natural log of market capitalization in millions of dollars. AGE is the number of years the company has been in existence (up to 2007); VOLUME is the 52-week average of the volume of shares traded; Country dummies are dummy variables to indicate the country of domicile for the firm. Exchange dummies are stock exchange dummy variables where the stock is traded. ***, **, *, denote significance levels of 1%, 5%, and 10%, respectively. *P*-values are presented in the parentheses.

	(1)	(2)	(3)	(4)
INTERCEPT	-1.76 (0.45)	-0.79 (0.75)	-5.77 (0.01)	-3.54 (0.12)
Board Structure				
CEO_DUALITY	1.06 (0.22)			2.56** (0.02)
NONEXE_CHAIR	1.14 (0.24)			0.37 (0.67)
INDEP_PCT	-2.88* (0.08)			-1.84 (0.34)
CEO Characteristics				
CEO_TENURE		0.05 (0.79)		0.05 (0.80)
Ownership Structure				
INST_PCT			0.08** (0.05)	0.11** (0.04)
INSIDER_PCT			0.11*** (0.01)	0.08* (0.09)
INSIDER_PCT ²			-0.11*** (0.01)	-0.07 (0.11)
Company Characteristics				
DEBT_EQUITY	0.00*** (0.00)	0.01* (0.07)	0.01*** (0.00)	0.01*** (0.00)
SIZE	0.58 (0.16)	0.46* (0.06)	0.60*** (0.00)	0.32* (0.06)
AGE	0.00 (0.92)	-0.02 (0.47)	0.01 (0.46)	-0.01 (0.68)
VOLUME	0.10 (0.56)	0.05 (0.77)	-0.22 (0.23)	-0.19 (0.19)
Country Dummies				

Hong Kong	-1.43** (0.02)	-1.56** (0.05)	-0.98 (0.14)	-1.48* (0.07)
Taiwan	-1.93** (0.04)	-1.87** (0.05)	-1.93** (0.02)	-2.37* (0.07)
Exchange Dummies				
NASDAQ	3.42*** (0.00)	3.50*** (0.01)	3.21*** (0.00)	2.86*** (0.00)
AMEX	2.59* (0.07)	1.89 (0.22)	2.25** (0.02)	1.71 (0.11)
Year Dummies	Yes	Yes	Yes	Yes
N	189	154	163	132
Adj. R^2	0.15	0.12	0.18	0.21

Appendix 1

Variables are classified into seven categories: performance measures, board structure, CEO characteristics, ownership structure, company characteristics, country dummies, and stock exchange dummies.

Variable	Definition
Performance Measure	
<i>M/B</i>	Price per share of common stock divided by book value per share of common stock, measured in percentage
Board Structure	
<i>CEO_DUALITY</i>	Dummy variable equals one when the CEO is also the chairman of the board, and zero otherwise
<i>NONEXE_CHAIR</i>	Dummy variable equals one when the chairman of the board is not an executive member, and zero otherwise
<i>INDEP_PCT</i>	The percentage of independent directors in the board
CEO Characteristics	
<i>CEO_TENURE</i>	The number of years the CEO has held his/her title
Ownership Structure	
<i>INST_PCT</i>	The number of shares held by institutional investors as a percentage of the current total shares outstanding
<i>INSIDER_PCT</i>	The number of shares held by insiders as a percentage of the current total shares outstanding
Company Characteristics	
<i>DEBT_EQUITY</i>	Debt to equity ratios, which is long term debt divided by total equity measured in percentage
<i>SIZE</i>	The natural log of market cap, where the market cap is measured in millions of U.S. dollars
<i>AGE</i>	The number of years the company has been in existence (up to 2007)
<i>VOLUME</i>	The 52-week average of the volume of shares traded, which is measured in millions of shares
Country Dummies	
<i>CHINA</i>	Dummy variable to indicate which country a firm is from, one is China and zero otherwise

HONGKONG Dummy variable to indicate which country a firm is from, one is Hong Kong and zero otherwise

TAIWAN Dummy variable to indicate which country a firm is from, one is Taiwan and zero otherwise

Stock Exchange Dummies

NYSE Dummy variable which equals one if a firm's stock is listed on NYSE, and zero otherwise

AMEX Dummy variable which equals one if a firm's stock is listed on AMEX, and zero otherwise

NASDAQ Dummy variable which equals one if a firm's stock is listed on NASDAQ, and zero otherwise
