

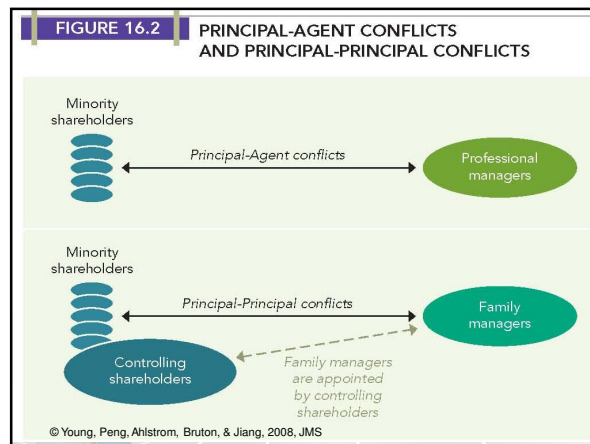
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PRINCIPAL-PRINCIPAL CONFLICTS

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Strategic Management Society
Extension Conference,
Charleston, South Carolina
September 2013


Published work on PP conflicts

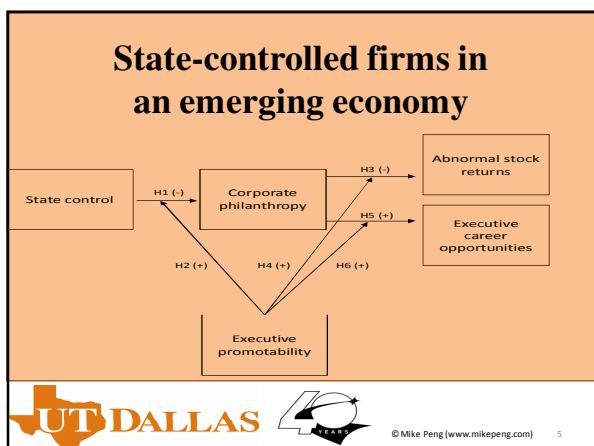
- with Mike Young, Dave Ahlstrom, Garry Bruton, and Yi Jiang (Young et al., 2008 JMS)
- with Yi Jiang (PhD 2006):
 - Peng & Jiang (2010 JMS)
 - Jiang & Peng (2011 APJM)
- with Steve Sauerwald (PhD 2014 expected)
 - Peng & Sauerwald (2013 chapter in Oxford Handbook of Corporate Governance)
 - Sauerwald & Peng (2013 APJM)

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Corporate philanthropy as expropriation


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Weiqiang Tan (Hong Kong Baptist University)
Stephen Cheung (Hong Kong Baptist University)
Mike Peng (University of Texas at Dallas)

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Context and data

- 873 of the 1450 listed firms in China are state controlled
- Corporate philanthropy in the wake of the 2008 Sichuan earthquake
- 533 of them engaged in corporate philanthropy
- Event study (CAR [0, +1])
- Promotion of the chairman of the board within 1 year (May 13, 2008—May 31, 2009)

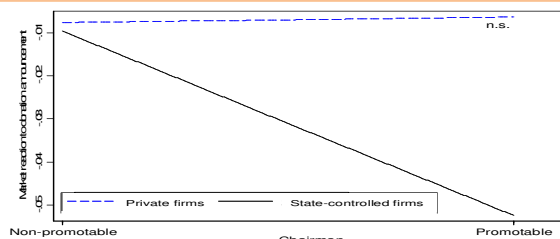
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Finding 1: Promotable chairmen of state-controlled firms are more likely to approve corporate philanthropy.

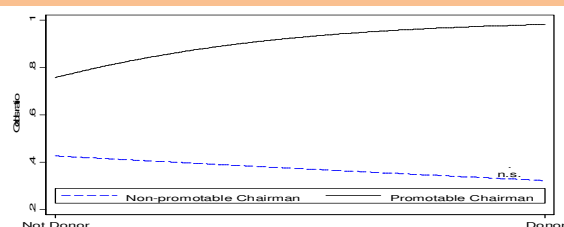
- Promotion age cut-off: 50



Finding 2: (Minority) shareholders—and the market—hate it



Finding 3: But the chairman is promoted anyway (odds ratio approaching 1)



Contributions

- Extending PP conflicts research from family firms to state-owned firms
- Highlighting institutional differences between developed and emerging economies on philanthropy
- Perhaps Friedman's (1970) contention that corporate philanthropy represents expropriation of shareholder value is right—at least in this context



Diffusion of agency models to China: A meta-analysis

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Research Questions & Motivation

- How do board composition, leadership structure, and managerial incentives affect firm performance in China?
- How do these relationships evolve as China adopts international standards in its corporate governance mechanisms?
- Growing interest in corporate governance research in China due to institutional transitions and paced corporate governance reforms (Clarke, 2003; Peng, 2004).
- As an extension of this growing interest, we conduct a meta-analysis of the available studies on China using a database of 82 studies.



Methods

- Four search strategies:
 - Prior review articles (e.g. Clarke, 2003; Claessens and Fan, 2002; Peng et al., 2001; Tam, 2000).
 - Five electronic databases: (1) ABI/INFORM Global, (2) EconLit, (3) Google Scholar, (4) JSTOR, and (5) SSRN.
 - Manual search for 25 economics, finance, and management journals.
 - References of the retrieved studies, as well as all articles citing them using Google Scholar and ISI Web of Knowledge.
- These strategies yielded a final sample of 82 primary studies that include years from 1991 to 2008.
- We use HOMA (Hedges & Olkin, 1985) and MARA (Lipsey & Wilson, 2001) meta-analytical regression analysis to test our hypotheses.

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Hypotheses

Due to institutional transitions and corporate governance reforms (see Appendix Table 1), we expect to see a convergence to the agency model in terms of the effects of board independence, CEO duality, and managerial incentives on firm performance in China.

Board composition & leadership structure

- Hypothesis 1. Board independence is positively related to firm performance.
- Hypothesis 2. CEO duality is negatively related to firm performance.

Managerial incentives

- Hypothesis 3. CEO pay is positively related to firm performance.
- Hypothesis 4. Insider ownership is positively related to firm performance.

Temporal effects

- Hypothesis 5. The effects of board independence, CEO duality, and managerial incentives on firm performance become *stronger* over time.

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Findings

| | Performance | Accounting Performance | Market Performance | Hypothesis 5 Temporal Effects |
|---|-----------------|------------------------|--------------------|-------------------------------|
| Board independence | Supported | Supported | Not Supported | Supported |
| <i>H1. Board independence is positively related to firm performance.</i> | <i>0.039***</i> | <i>0.079***</i> | <i>-0.009</i> | <i>0.052**</i> |
| CEO duality | Not Supported | Not Supported | Not Supported | Supported |
| <i>H2. CEO duality is negatively related to firm performance.</i> | <i>0.004</i> | <i>0.008</i> | <i>0</i> | <i>-0.01*</i> |
| CEO pay | Supported | Supported | Supported | Data not available |
| <i>H3. CEO pay is positively related to firm performance.</i> | <i>0.098***</i> | <i>0.074*</i> | <i>0.13***</i> | |
| Insider ownership | Supported | Supported | Supported | Not Supported |
| <i>H4. Insider ownership is positively related to firm performance.</i> | <i>0.027***</i> | <i>0.014*</i> | <i>0.0364***</i> | <i>-0.01***</i> |
| Temporal effects | - | - | - | Partial support (above) |
| <i>H5. The effects of board independence, CEO duality, and managerial incentives on firm performance become stronger over time.</i> | | | | |

Partial linear correlation ($r_{w,2}$) mean significance is reported in italics for performance measures. Median year of effect size is reported for temporal effects.

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Conclusion

- We report that the agency perspective prevails as corporate governance reforms continue in China.

Contributions

- With this study, we provide meta-analyses for the effects of board composition, leadership structure, and managerial incentives on firm performance in China.
- We endeavor to contribute to the ongoing debate between control versus collaboration perspectives by highlighting the role of managerial incentives in the special context of China.
- We include both accounting and market-based measures of firm performance to distinguish between different performance outcomes in our analyses.

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APPENDIX

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Evolution of Corporate Governance in China

Table 1. 3 stage framework of institutional transitions of corporate governance in China

| | Period | Key events | Implications |
|---------|-------------|--|--|
| Stage 1 | 1980 - 1989 | - Enterprise reform, privatization of SOEs - Introduction of SOE law to clarify property rights and to implement incentive contracts (1988) | - Ownership and control problems still constrained the effectiveness of the incentive contracts between the government and the management. - The need for a basic corporate governance framework emerged. |
| Stage 2 | 1990 - 1999 | - Launch of Shanghai and Shenzhen Stock Exchanges - Launch of the Company Law (1994) and the Security Law (1999) | - Structural changes such as the formation of board of directors, the supervisory board, and mandatory annual meetings were introduced. - The establishment of a modern corporate governance system speeded up. |
| Stage 3 | 2000 - 2011 | - Revision of corporate laws (e.g. company law, accounting law, securities law) - Introduction of the Code of Corporate Governance of Listed Companies (2002) - The 2005 non-tradable share reform | - Improvements in the quality of disclosures and transparency. - Convergence to international standards (e.g. rules about having independent directors on board). - Corporate governance framework has improved. |

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HOMA Results on Firm Performance

TABLE 2: HOMA Results: Corporate Governance & Firm Performance^{a,b}

| Predictor | Partial Linear Correlation (ry _{1.6}) | | | | | | Pearson Product-Moment Correlation (r) | | | | | | | |
|--------------------------|---|-------|-----------------|-------|--------------|------------------|--|----|-------|-----------------|-------|----------------|------------------|-------|
| | K | N | Mean | SE | CI 95% | Q Test | F | K | N | Mean | SE | CI 95% | Q Test | F |
| Board Independence | 50 | 4050 | 0.837*** | 0.003 | -0.020,0.04 | 105.77*** | 0.71 | 44 | 31277 | -0.109 | 0.024 | (-0.160,0.04) | 730.32*** | 0.94 |
| CEO Duality | 34 | 4047 | -0.08 | 0.008 | -0.020,0.08 | 37.82 | 0.12 | 27 | 15076 | 0.014 | 0.012 | (-0.010,0.04) | 49.35*** | 0.44 |
| CEO Pay | 3 | 4319 | 0.208*** | 0.026 | 0.050,0.15 | 24.3*** | 0.78 | 4 | 5612 | -0.142** | 0.048 | (-0.21,0.04) | 85.40*** | 0.92 |
| Inside Ownership | 91 | 11097 | 0.827*** | 0.005 | 0.010,0.037 | 231.82*** | 0.41 | 97 | 43310 | 0.034 | 0.010 | (-0.005,0.03) | 226.48*** | 0.78 |
| Inside Controlling Owner | 21 | 21967 | 0.867*** | 0.006 | 0.000,0.07 | 12.37 | 0.62 | 7 | 8851 | 0.8912** | 0.034 | 0.025,0.137 | 59.99*** | 0.90 |
| Inside Specific Owner | 70 | 8706 | 0.816** | 0.006 | 0.000,0.027 | 166.29*** | 0.59 | 50 | 34459 | 0.004 | 0.009 | (-0.010,0.021) | 114.09*** | 0.57 |
| Management Ownership | 67 | 82761 | 0.814* | 0.006 | 0.000,0.026 | 158.17*** | 0.58 | 44 | 33617 | 0.024 | 0.008 | (-0.004,0.029) | 90.64*** | 0.53 |
| CEO Ownership | 8 | 5386 | 0.0231 | 0.026 | -0.020,0.074 | 28.87*** | 0.66 | 4 | 1800 | 0.007 | 0.024 | (-0.040,0.03) | 0.39 | -0.49 |
| Top Executive Ownership | 47 | 43301 | 0.822** | 0.008 | 0.007,0.06 | 125.14*** | 0.63 | 15 | 11517 | 0.012 | 0.014 | (-0.020,0.04) | 28.14* | 0.52 |

^a p < 0.001 ** p < 0.01 *** p < 0.0001
^b K = number of samples, N = firm observations, SE = the standard error of the mean correlation, CI 95% = 95 percent confidence interval around the meta-analytic mean.
 Mean = Hedge & Olkin (1985) chi-square test for homogeneity, F = scale-free index of homogeneity.

HOMA Results on Firm Accounting Performance

TABLE 3: HOMA Results: Corporate Governance & Firm Accounting Performance^{a,b}

| Predictor | Partial Linear Correlation (ry _{1.6}) | | | | | | Pearson Product-Moment Correlation (r) | | | | | | | |
|--------------------------|---|-------|-----------------|-------|--------------|-----------------|--|----|-------|-----------------|-------|----------------|-----------------|-------|
| | K | N | Mean | SE | CI 95% | Q Test | F | K | N | Mean | SE | CI 95% | Q Test | F |
| Board Independence | 30 | 2252 | 0.879*** | 0.008 | 0.064,0.09 | 35.15 | 0.17 | 27 | 15876 | 0.828** | 0.009 | 0.068,0.09 | 38.36 | 0.92 |
| CEO Duality | 22 | 4661 | 0.06 | 0.012 | -0.040,0.03 | 21.42 | 0.02 | 31 | 1466 | 0.011 | 0.017 | (-0.020,0.06) | 42.97*** | 0.53 |
| CEO Pay | 4 | 3465 | 0.0738* | 0.031 | 0.010,0.14 | 16.76* | 0.72 | 4 | 2542 | 0.239** | 0.062 | 0.100,0.31 | 12.08** | 0.73 |
| Inside Ownership | 46 | 6105 | 0.816* | 0.007 | 0.000,0.027 | 97.87*** | 0.54 | 37 | 24040 | 0.019 | 0.011 | (-0.010,0.034) | 91.44*** | 0.61 |
| Inside Controlling Owner | 7 | 8091 | 0.842* | 0.018 | 0.007,0.079 | 9.15 | 0.34 | 4 | 4952 | 0.059 | 0.063 | (-0.050,0.12) | 26.09*** | 0.69 |
| Inside Specific Owner | 39 | 5593 | 0.008 | 0.007 | -0.005,0.02 | 80.82*** | 0.53 | 33 | 19108 | 0.002 | 0.011 | (-0.020,0.03) | 41.80*** | 0.48 |
| Management Ownership | 39 | 5593 | 0.008 | 0.007 | -0.005,0.02 | 80.82*** | 0.53 | 27 | 18264 | 0.8237** | 0.009 | 0.060,0.04 | 35.79 | 0.27 |
| CEO Ownership | 6 | 3128 | 0.050 | 0.040 | -0.020,0.13 | 19.18** | 0.74 | 3 | 1298 | 0.001 | 0.028 | (-0.050,0.06) | 0.36 | -4.56 |
| Top Executive Ownership | 21 | 31132 | 0.061 | 0.009 | -0.000,0.036 | 54.96*** | 0.59 | 8 | 4726 | 0.060 | 0.019 | (-0.000,0.074) | 9.77 | 0.28 |

^a p < 0.001 ** p < 0.01 *** p < 0.0001
^b K = number of samples, N = firm observations, SE = the standard error of the mean correlation, CI 95% = 95 percent confidence interval around the meta-analytic mean.
 Mean = Hedge & Olkin (1985) chi-square test for homogeneity, F = scale-free index of homogeneity.

HOMA Results on Firm Market Performance

TABLE 4: HOMA Results: Corporate Governance & Firm Market Performance^{a,b}

| Predictor | Partial Linear Correlation (ry _{1.6}) | | | | | | Pearson Product-Moment Correlation (r) | | | | | | | |
|--------------------------|---|-------|-----------------|-------|----------------|------------------|--|----|-------|----------------|-------|----------------|------------------|--------|
| | K | N | Mean | SE | CI 95% | Q Test | F | K | N | Mean | SE | CI 95% | Q Test | F |
| Board Independence | 30 | 18630 | -0.109 | 0.014 | (-0.160,0.038) | 63.19*** | 0.70 | 17 | 15401 | -0.0058 | 0.052 | (-0.170,0.04) | 658.24*** | 0.98 |
| CEO Duality | 12 | 12032 | 0.0002 | 0.011 | (-0.020,0.022) | 15.88 | 0.31 | 6 | 6452 | 0.0153 | 0.014 | (-0.010,0.043) | 6.46 | 0.23 |
| CEO Pay | 3 | 2851 | 0.13*** | 0.036 | 0.060,0.20 | 7.24* | 0.72 | 4 | 3070 | 0.0477 | 0.082 | (-0.110,0.21) | 0.882** | -35.64 |
| Inside Ownership | 45 | 4922 | 0.834*** | 0.007 | 0.020,0.05 | 102.82*** | 0.57 | 20 | 19270 | 0.024 | 0.019 | (-0.010,0.062) | 133.92*** | 0.86 |
| Inside Controlling Owner | 14 | 1887 | 0.862*** | 0.007 | 0.050,0.079 | 1.3 | 0.90 | 3 | 3919 | 0.163** | 0.022 | 0.120,0.21 | 3.63 | 0.45 |
| Inside Specific Owner | 31 | 3304 | 0.8219* | 0.009 | 0.000,0.034 | 77.65*** | 0.61 | 17 | 13351 | -0.0021 | 0.015 | (-0.010,0.026) | 49.81*** | 0.68 |
| Management Ownership | 28 | 28743 | 0.0186 | 0.010 | -0.000,0.039 | 73.43*** | 0.63 | 17 | 13351 | -0.002 | 0.015 | (-0.010,0.03) | 49.81*** | 0.68 |
| CEO Ownership | 2 | 2258 | -0.0183 | 0.021 | (-0.060,0.023) | 0.24 | -3.17 | 1 | 502 | 0.000 | - | - | - | - |
| Top Executive Ownership | 24 | 21960 | 0.8252* | 0.012 | 0.000,0.046 | 66.2*** | 0.63 | 9 | 6791 | -0.009 | 0.019 | (-0.050,0.03) | 13.87* | 0.56 |

^a p < 0.001 ** p < 0.01 *** p < 0.0001
^b K = number of samples, N = firm observations, SE = the standard error of the mean correlation, CI 95% = 95 percent confidence interval around the meta-analytic mean.
 Mean = Hedge & Olkin (1985) chi-square test for homogeneity, F = scale-free index of homogeneity.

Temporal Effects

TABLE 5: Results of Mixed-Effects WLS Regression Partial Correlation Results

| | Model 1 CEO duality – firm performance (0.04 (0.03)) | Model 2 Board independence – firm performance 0.19 (0.04)** | Model 4 Inside ownership – firm performance 0.07 (0.01)*** |
|--------------------------------|--|--|---|
| Constant | | | |
| Measurement predictors | | | |
| Market performance | 0.00 (0.02) | -0.09 (0.02)*** | -0.00 (0.01) |
| Accounting performance (ret) | | | |
| State controlling owner | | | |
| State specific owner (ret) | | | |
| Financial controlling owner | | | |
| Financial specific owner (ret) | | | |
| Inside controlling owner | | | 0.03 (0.01)*** |
| Inside specific owner (ret) | | | |
| Methodological predictors | | | |
| Published | -0.05 (0.02)* | -0.03 (0.01)* | -0.00 (0.01) |
| Panel | -0.04 (0.02)** | -0.01 (0.01) | -0.02 (0.01)* |
| Median year of effect size | -0.01 (0.00)* | 0.052 (0.00)** | -0.01 (0.00)** |
| R ² | 0.18 | 0.40 | 0.46 |
| K | 34 | 50 | 91 |

Both GS3E and GB3E are now available