

Internet Appendix for

Governance by One-Lot Shares

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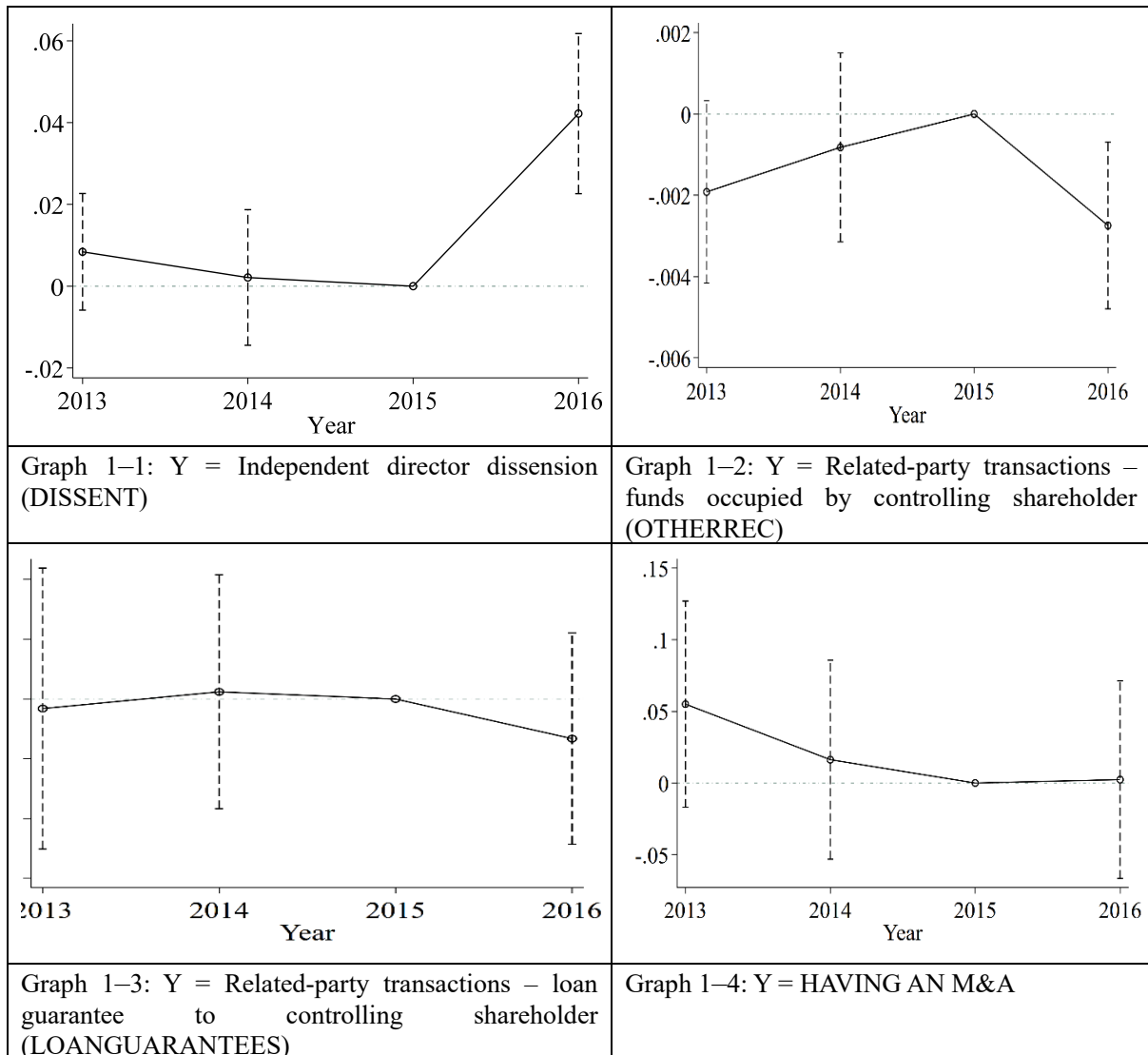
Hong Zou

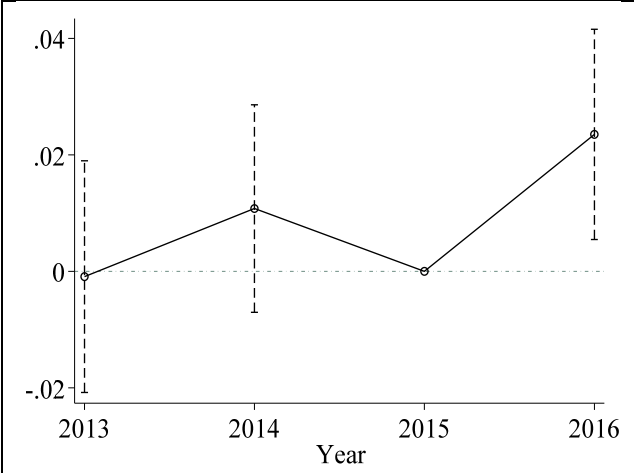
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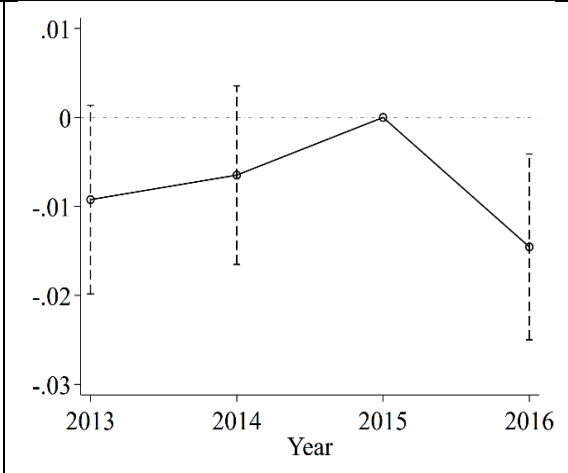
FIGURE 1:
**Dynamic Treatment Effects of the ISC Pilot on the Dissension of Independent Directors
and Firms' Financial Policies**

This figure illustrates the dynamic treatment effects of the pilot on firms' financial policies and the 90% confidence intervals for these effects. Graph 1–1 displays the coefficient estimates of the dynamic DID analysis reported in column 1 of Table 3 Panel B. Graphs 1–2 and 1–3 display the coefficient estimates of the dynamic DID analysis reported in columns 1 and 2 of Table 5 Panel B, respectively. Graphs 1–4 and 1–5 display the coefficient estimates of the dynamic DID analysis reported in columns 1 and 2 of Table 6 Panel B, respectively. Graphs 1–6 and 1–7 display the coefficient estimates of the dynamic DID analysis reported in columns 1 and 2 of Table 7 Panel B, respectively.

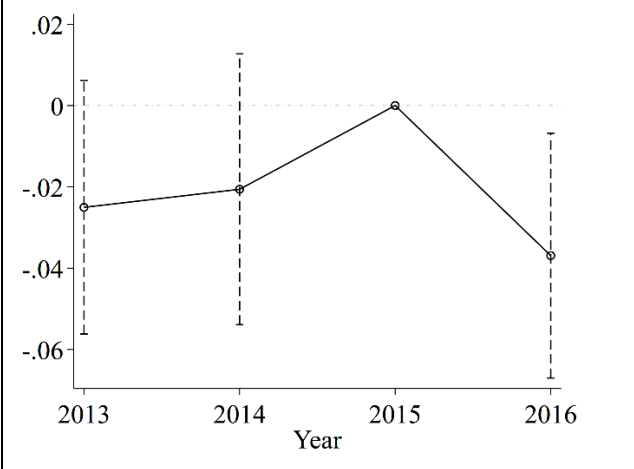




Graph 1-5: Y= Deal announcement return (CAR[-2,+2])



Graph 1-6: Y = Abnormal discretionary accruals (ABNACCRUALS)



Graph 1-7: Y= Narrow-beat earnings (NARROWBEAT)

**Table IA1:
Comparison of Corporate Boards and Directors between China and the US**

	China	The US
The primary role of independent directors	Independent directors focus on safeguarding the interests of minority shareholders by providing written independent opinions and votes on the fairness of business transactions to minority shareholders and the truth and completeness of financial reports (Source 1).	Independent directors are primarily tasked with monitoring the management and have fiduciary duties to all shareholders.
Definition of “independence”	An independent director is a director who does not hold any position in the firm other than being a director, and who has no relationship with the listed firm and its major shareholders that may hinder his independent and objective judgment (Source 1).	Both the NYSE and Nasdaq rules define an independent director as a person other than an officer or employee of a firm or its subsidiaries and a person who, in the opinion of the board of directors, has no relationship that interferes with the exercise of independent judgment in carrying out the responsibilities of a director (Sources 4 and 5).
Proportion of independent directors on the board	At least one-third of the board members of a listed firm should be independent, and independent directors need to account for over 50% of members of the compensation, audit, nomination, and other board committees (Source 1). The mean % of independent directors is 37% in 2015 for all Chinese firms issuing A-shares.	NYSE: a majority of the board of directors of a listed firm should be independent; all members of the audit, nominating, and compensation committees should be independent (Source 4). NASDAQ: a majority of the board of directors of a listed firm and the board’s nominating and compensation committees should be independent; all members of the audit committee should be independent (Source 5). The mean % of independent directors is 81% in 2015 for S&P 1500 firms
Board size	A listed firm’s board should have 5 to 19 directors (Source 2). The mean number of directors is 8.58 in 2015 for Chinese firms issuing A-shares.	This is governed by the corporate charter of a firm. The mean number of directors is 9.40 in 2015 for S&P 1500 firms.
Service terms	The duration of each term is up to 3 years; an independent director cannot continuously serve more than two terms (i.e., 6 years) (Source 2). Each independent director should not sit on more than five boards as an independent director (Source 1).	For a non-classified board, the duration of each term is one year; for a classified board, the duration of each term is often three years; there is typically no term limit. In practice, many independent directors of US boards serve a long time.
Classified board	Not allowed	Allowed

Nomination of independent directors	The board of directors, the supervisory board, and shareholders with at least 1% of ownership can nominate candidates for independent director election (Source 1).	This is governed by the corporate charter of a firm. Neither the <i>Delaware General Company Law</i> nor the Model Business Corporation Act explicitly stipulates the subject of nomination of directors. In practice, the board of directors or its nominating committee nominates candidates for election and the extent to which shareholders can nominate varies and is subject to debate (Source 6).
Appointment of independent directors	A nominee is elected if the nominee obtains the simple majority of the votes represented by shareholders present in the shareholder meeting (Source 2).	Traditionally, a nominee is elected by a plurality of the votes represented by shareholders present in the shareholder meeting; since 2006, more and more S&P 500 firms have shifted from plurality voting to majority voting (Sources 7 and 8).
Cumulative voting	Cumulative voting is encouraged and is mandatory when a firm has a shareholder with at least 30% of ownership (Source 3).	Cumulative voting is allowed by <i>Delaware General Corporation Law</i> and is stipulated by the corporate charter of a firm and is common in practice (Source 7).

Source 1: *Guiding Opinions on the Establishment of an Independent Director System in Listed Companies* (2001)

Source 2: *Company Law* (2013; 2018)

Source 3: *Governance Rules of Listed Companies* (2018)

Source 4: *NYSE American Company Guide Rules* 802, 803, 804, 805

Source 5: *NASDAQ Corporate Governance Rules*

Source 6: Hamermesh, L. A. (2014). Director Nominations. *Delaware Journal of Corporate Law*, 39, 117–159

Source 7: *Delaware General Corporation Law*

Source 8: Walkling, R. (2016). Majority vs. Plurality: Disruption Ahead? (available at <https://www.directorsandboards.com/articles/singlemajority-vs-plurality-disruption-ahead>)

Table IA2: The Sample Selection Process

This table presents the step-by-step process of sample formation for our DID analysis in Tables 3-7.

Step	Filter	Firms that are deleted	Firms that remain
1.	All 521 A-share firms at the end of 2015 incorporated in the treatment regions (Shanghai, Guangdong excluding Shenzhen, Hunan) plus all 561 A-share firms at the end of 2015 incorporated in the control regions (Jiangsu, Shenzhen, Hubei)		1082
2.	Delete firms that do not have a full financial year after listing in the pre-event period	89	993
3.	Delete firms that are financial firms in 2015	21	972
4.	Delete firms that become financial firms in 2016	3	969
5.	Delete firms that are delisted in 2016	1	968
6.	Delete firms with year-long trading suspension in 2015 or 2016 and so have missing book to market value ratios	3	965
7.	Delete firms without financial statement data in 2016	2	963
8.	Delete firms that change the type of ultimate owner (state-controlled or not) in the period from 2014 to 2016	13	950

(Treatment firms: 447, Control firms: 503)

**Table IA3: The Effect of ISC Shareholding on Dissenting Votes of Independent Directors
(Firm-Director-Year-Level Analysis)**

This table presents the OLS results of firm-director-year-level DID regressions regarding the effect of the pilot on the dissenting votes of independent directors. DIRECTOR DISSENT is a dummy variable that equals one if there is at least one dissenting vote by an independent director in a firm-year, and zero otherwise. Firm-level control variables are lagged by one period relative to the dependent variable, and they are defined in detail in Appendix 2. Director-level control variables are measured at the time of voting, and they include the natural logarithm of a director's age, director gender, the total number of board seats (excluding the current firm), and dummy variables indicating whether the director has a master's degree or above, has an overseas education or working background, and is an academic, respectively. The testing window is years 2015-2016, where 2015 is the year before the pilot and 2016 is the pilot period. Standard errors are clustered at the director level. ***, **, and * represent significance at the 1%, 5%, and 10% level (two-tailed), respectively.

Y = DIRECTOR DISSENT	1	2	3	4
TREAT×POST	0.019*** (3.84)	0.019*** (3.92)	0.017** (2.29)	0.016** (2.31)
SIZE		-0.004 (-0.50)		-0.003 (-0.24)
LEV		0.086** (2.33)		0.085 (1.55)
ROA		0.108 (1.42)		0.085 (0.74)
BM		-0.054* (-1.88)		-0.052 (-1.30)
LN(AGE)		-0.004 (-0.53)		-0.148 (-0.22)
OTHERBOARDSEATS		-0.001 (-1.49)		-0.004 (-0.63)
MALE		-0.002 (-0.65)		
MASTERDEGREE OR ABOVE		0.003 (0.70)		
OVERSEAS		0.001 (0.27)		
ACADEMIC		-0.002 (-1.05)		
Year FEs	Yes	Yes	Yes	Yes
Firm FEs	Yes	Yes	Yes	Yes
Director FEs	No	No	Yes	Yes
N	7539	7529	6122	6119
Within-director R^2	0.228	0.230	0.059	0.062

Table IA4: Pre-to-Post Change in Routine Board Activities

This table presents the results from OLS pre-to-post change regressions for treatment firms regarding the effects of the pilot on the number of board meetings (column 1) and the absence ratio of independent directors in attending board meetings (column 2). Control variables are lagged by one period relative to the dependent variables, and they are defined in Appendix 2. LN(NUMBOARDMEETING) is the natural logarithm of the number of board meetings held by a firm in a year. ABSENCERATIO is the ratio of the total number of board meeting absence by all independent directors in a year to the total number of board meetings that all independent directors should attend in a year. POST is a dummy variable that equals one for the pilot period and zero otherwise. Standard errors are clustered at the firm level. ***, **, and * represent significance at the 1%, 5%, and 10% level (two-tailed), respectively.

Y =	1	2
	LN(NUMBOARDMEETING)	ABSENCERATIO
POST	0.010 (0.35)	-0.001* (-1.75)
SIZE	-0.028 (-0.54)	0.002 (1.18)
LEV	0.261 (1.25)	-0.004 (-1.28)
ROA	0.328 (0.79)	-0.012 (-1.27)
BM	-0.201 (-1.26)	-0.010 (-1.36)
Firm FEs	Yes	Yes
N	894	894
Within-firm R^2	0.017	0.008

Table IA5: Sample Selection for the Analysis of the ISC’s Activism Events

This table shows the sample construction process for the analysis of the ISC’s activism events in Table 10 of the paper.

	# of events lost	# of events left
The raw number of the ISC’s activism events collected for the period 2016-2019		410
Less: 2 targeted firms that are not A-share firms (836102 & 3333)	2	408
Firms that are listed in or after 2015	34	374
Normal information inquiry and does not involve identified issues	4	370
The event day is not a trading day and the gap between the event day and the next trading day is over 5 calendar days (over 80% of such cases are firms under extended trading suspension due to ongoing major M&As or reorganizations)	58	312
Firms that have < 50 trading days in the estimation window [-210,-11]	2	310
The day before the event day is not a trading day and the gap between the most recent trading day before the event day and the event day is over 5 calendar days	15	295
Firms with missing financial information in the year end before the event day	23	272
Final event sample		272