Under the microscope: An experimental look at board transparency and director monitoring behavior

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Research Summary: It is well known in corporate governance scholarship that independent directors differ in the vigilance with which they monitor corporate insiders. This difference depends largely on whether independent directors are concerned more with their public reputation or with their prospects in the director labor market. The explanation for this difference depends on an assumption of information asymmetry, however. In the present study, we relax the assumption of information asymmetry to examine how boardroom transparency affects directors’ monitoring behavior. Using a randomized experimental study of actual independent directors, we find that boardroom transparency amplifies the effect of directors’ inclinations toward either active or passive monitoring, with directors inclined toward vigilant monitoring becoming even more vigilant, and directors inclined toward passive monitoring becoming even more passive.

Managerial Summary: In most advanced economies, the board’s internal decision processes are either undisclosed or disclosed only to a very limited extent. It remains unknown, then, whether directors would behave differently if their behaviors were made public. We find that when their actions are disclosed to the public, directors concerned with their public reputations become more vigilant, whereas those concerned with their prospects for additional board seats become more passive in monitoring corporate insiders. Whereas regulatory bodies and corporate governance watchdogs have recently advocated for greater disclosure of the boardroom decision-making process, our study suggests that such mandatory disclosure
requirements can exacerbate, rather than alleviate, the problem of passive director monitoring.

**KEYWORDS**
dual labor market, ex-post settling up, independent directors, information asymmetry, monitoring behavior

**Boards are like subatomic particles—they behave differently when they are being observed.**

Nell Minow, editor and co-founder of The Corporate Library
(CFO Magazine, 2003)

1 | INTRODUCTION

Normative agency theory prescribes that independent directors act as vigilant monitors to keep powerful insiders in check (Eisenhardt, 1989; Fama & Jensen, 1983). Nevertheless, decades of research on boards of directors have revealed that while directors can be active and shareholder oriented, often they are passive and insider oriented (Westphal & Zajac, 1995; Zajac & Westphal, 1996). Scholars generally acknowledge that independent directors face conflicting incentives when choosing how vigilantly to monitor. On the one hand, independent directors may be “concerned about the effect of strategic decisions on their personal reputation and potential personal liability” (Deutsch, Keil, & Laamanen, 2011, p. 215). On the other hand, considerable research has shown that directors increase their opportunities for future board placement if they appear “sympathetic” to the interests of insiders, either indirectly through participation in conciliatory board decisions or directly through interpersonal assurances (Westphal & Stern, 2007; Westphal & Zajac, 1995; Zajac & Westphal, 1996).

Economic theory suggests that the labor market should punish independent directors for passivity and reward them for vigilance (Fama, 1980; Yermack, 2004). What prevents such ex-post settling up is the information asymmetry that exists between directors and external observers. Absent public knowledge of individual directors’ monitoring behavior, independent directors can demonstrate their passivity to insiders at other boards while keeping their public reputations intact. They can show their passivity through collective board actions, such as not challenging insiders when warranted, decreasing board control over insiders, or even providing insiders with unearned rewards (Zajac & Westphal, 1996).

Thus, information asymmetry is a crucial boundary condition for theory predicting director monitoring behavior. It remains unclear how directors’ monitoring behavior might change if information became more symmetric. Economic theory suggests that a reduction in information asymmetry would make the market more efficient, and as a result should incentivize directors inclined toward passivity to monitor insiders more vigilantly (Rose, Mazza, Norman, & Rose, 2013). In contrast, many corporate governance scholars have argued that the director labor market is bifurcated, with some boards seeking active directors and other boards seeking passive directors (see Withers, Hillman, & Cannella, 2012). According to Finkelstein, Hambrick, and Cannella (2009, p. 242), “the notion that there is a bifurcated market for directors changes the calculus of Fama’s (1980) ‘settling
up’ considerably” because it suggests the existence of a market that rewards what Zajac and Westphal (1996, p. 525) call “low-quality” directors. If the director labor market is bifurcated, a reduction in information asymmetry should actually amplify a director’s predilection toward either active monitoring or passive compliance, as the expanded information would simply serve to reinforce a director’s position in one of two possible markets (Levit & Malenko, 2016).

In the present research, we develop theory on the effects of board transparency on director monitoring behavior. Specifically, drawing on the concepts of ex-post settling up (Fama, 1980) and the bifurcated labor market (Levit & Malenko, 2016; Zajac & Westphal, 1996), we formulate competing hypotheses regarding how board transparency (i.e., a reduction in information asymmetry) alters the effect of directors’ public reputation and labor market concerns on their monitoring behavior. Economic theory on ex-post settling up suggests that board transparency will reduce the difference between reputation-focused and job-focused directors in terms of monitoring behavior, whereas the bifurcated labor market literature suggests that board transparency will increase the difference. Using a sample of 133 independent directors from publicly listed Chinese firms, we conducted a randomized, between-subjects experiment to test our hypotheses in two scenarios. Both scenarios simulate independent directors’ decision to monitor insiders; the first focuses on monitoring management, and the second focuses on monitoring a controlling shareholder. Across both scenarios, the results support the idea that directors respond to board transparency by signaling to a bifurcated labor market, rather than by uniformly engaging in vigilant monitoring behavior.

The present study makes several contributions to the theory and practice of corporate governance. First, we help to clarify existing theoretical ambiguity around the effects of board transparency. Two conflicting views of the director labor market—ex-post settling up and bifurcation—offer two conflicting predictions with regard to how a reduction in information asymmetry impacts directors’ monitoring behavior. Though we do not provide a complete test of these theories as we do not examine directors’ labor market consequences, we find that the dual labor market seems to weigh more heavily in directors’ minds when board transparency is high. We also contribute to theory by demonstrating that the effect of board transparency on director monitoring behavior applies to the principal–principal problem as much as to the principal–agent problem. By conducting a study using independent directors from Chinese firms, and asking them to make decisions on monitoring both principal–agent and principal–principal conflicts, we are able to demonstrate the power of the underlying theory across governance contexts. Furthermore, our experimental approach allows us to make contributions to theory that would not be possible with the correlational analysis of archival data that is far more common in corporate governance research. Our study examines the interaction of a construct that exists within a director’s mind (i.e., concern with reputation vs. job prospects) with a construct that exists most granularly at the board level, and in some cases only at the country level (i.e., board transparency). Experimental manipulation of these constructs and randomized assignment of current independent directors to experimental conditions enable us to test the causal effects of these constructs on monitoring behavior in a way that is likely impossible using archival or even survey data.

Prior research has acknowledged that independent directors face their own incentives, which potentially differ from those faced by insiders like managers or controlling shareholders (Deutsch et al., 2011; Lim & McCann, 2014). We contribute to this literature by relaxing the assumption of information asymmetry that is so prevalent in principal–agent models, and by exploring whether transparency weakens or amplifies the effects of these different director interests on director monitoring behavior. Levit and Malenko (2016) proposed in their theoretical model that increasing boardroom transparency might amplify a macro-governance system’s characteristics. That is, “improving boardroom transparency is likely to strengthen corporate governance if aggregate governance is already strong, but is likely to weaken governance further if aggregate governance is already weak”
Our study complements and extends Levit and Malenko’s conceptual proposition by theorizing and empirically demonstrating how increasing boardroom transparency changes board monitoring at the individual director level. That we find evidence for amplification suggests that light may not always be the best disinfectant, at least where board monitoring is concerned. As regulatory bodies consider board transparency initiatives (e.g., Jiang, Wan, & Zhao, 2016), they should also consider the possibility that transparency will actually exacerbate, rather than alleviate, the problem of passive director monitoring.

2 | THEORY AND HYPOTHESES

2.1 | Independent director monitoring: reputational concerns vs. labor market concerns

Agency theory is clear about the prescribed role of independent directors: monitor the behavior of insiders and protect shareholders’ interests from insider opportunism (Eisenhardt, 1989; Fama & Jensen, 1983). This theoretic prescription has motivated regulations from governments and listing exchanges mandating majority-independent boards and wholly independent board committees (Jones, Li, & Cannella, 2015; Monks & Minow, 2008), with many boards going even further and excluding from their membership all insiders other than the CEO (Joseph, Ocasio, & McDonnell, 2014). Agency theorists have argued that independent directors serve as a solution to the principal–agent problem inherent in the separation of ownership and control (see Dalton, Hitt, Certo, & Dalton, 2007).

Normative prescriptions notwithstanding, some independent directors engage in more vigilant monitoring behavior than others (Westphal & Stern, 2007; Zajac & Westphal, 1996). As many scholars have noted, it is problematic to assume that independent directors will all dutifully serve shareholders’ interests because independent directors are agents themselves, with their own interests and incentives (e.g., Arthurs, Hoskisson, Busenitz, & Johnson, 2008; Deutsch et al., 2011). Beyond the basic incentive effects of director compensation, agency theorists have identified two overarching concerns that drive an individual director’s decision to monitor insiders vigilantly or not. One is the director’s public reputation as a dutiful fiduciary of shareholders’ interests (Fama & Jensen, 1983; Gilson, 1990); the other is the director’s prospects for future board positions, nomination for which is heavily influenced by powerful insiders who prefer passive and compliant independent directors (Hermalin & Weisbach, 1998; Shivdasani & Yermack, 1999). Agency theory indicates that a director’s monitoring behavior will vary depending on the relative salience of these two conflicting concerns. We discuss each in turn.

Fama and Jensen (1983, p. 315) proposed that “outside directors have incentives to develop reputations as experts in decision control...They use their directorships to signal to internal and external markets for decision agents that they are decision experts.” Independent directors are typically very accomplished individuals, often well into or retired from high-level executive careers (Spencer Stuart, 2013), and reputation is one of their most valuable personal assets (Yermack, 2004). Given the information asymmetry that exists between boards and external observers, however, this reputation is based more on observable firm outcomes than on actual monitoring activities. Essentially, independent directors have an incentive to monitor insider activities in order to prevent the observable negative firm outcomes that can result from lax monitoring, such as poor financial performance, product recalls, or even fraud (Marcel & Cowen, 2014; Wowak, Mannor, & Wowak, 2015).

Considerable evidence exists to suggest that directors with reputations marred by such negative firm outcomes have trouble finding future board seats. Research has shown that independent
directors see a significant decline in additional board seats after serving on boards of companies that experience financial distress (Gilson, 1990), reject takeover offers despite poor performance (Harford, 2003), commit fraud (Fich & Shivdasani, 2007), illegally backdate stock options (Ertimur, Ferri, & Maber, 2012), and undergo proxy contests (Fos & Tsoutsoura, 2014). Independent directors with tarnished reputations are also more likely to lose their current board seats (Arthaud-Day, Certo, Dalton, & Dalton, 2006).

While the powerful insiders who influence board appointments want directors with strong reputations, they also seek directors who will not “rock the boat” (Finkelstein et al., 2009; Withers et al., 2012). Corporate insiders seek to maintain control over their firms by selecting and retaining independent directors who are sympathetic and friendly to corporate insiders, and by excluding independent directors who are vigilant monitors (Lorsch & MacIver, 1989; Westphal & Stern, 2007; Westphal & Zajac, 1995). Thus, independent directors looking to keep their options open in the director labor market face a dilemma: they must engage in enough monitoring to ensure that the firm’s reputation—and by extension, their own reputation—does not suffer, but also refrain from monitoring that is too vigilant, lest powerful insiders at their and other firms view them as “unsympathetic” (Finkelstein & Hambrick, 1989; Zajac & Westphal, 1996).

A number of studies have supported the idea that directors focused on their prospects in the director labor market likely curb their monitoring behavior. For example, Westphal and Stern (2007) found that directors increase their chances of gaining further board appointments by engaging in a low level of monitoring and control over management. In addition, Helland (2006) found that directors from firms accused of fraud only suffer negative labor market consequences if the accusations are large or high-profile enough to affect the director’s public reputation. Small private fraud accusations do not appear to harm directors’ prospects for additional board seats. Studies have repeatedly shown that directors actively demonstrate their cooperativeness to powerful insiders in order to secure future board seats (e.g., Stern & Westphal, 2010; Westphal & Shani, 2016; Westphal & Stern, 2006).

The above discussion thus suggests that directors have two potentially conflicting concerns, one over public reputation and one over prospects in the director labor market. Directors’ reputational and job market concerns likely vary in salience depending on the cues that they receive in the social context. According to the behavioral theory of corporate governance, directors are socially constituted, and what a director senses, considers, and acts upon is highly influenced by the social cues linked to sense-making and sense-giving (Westphal & Zajac, 2013). For example, Westphal and Shani (2016) demonstrated that when anticipating social interactions with a high-status colleague, directors tend to engage in a particular pattern of cognition (i.e., reflecting on characteristics shared with the colleague, and avoiding thoughts about characteristics that they do not share). Thus, following the behavioral theory of corporate governance, we assume that all directors have the capacity for concern with either public reputation or the director labor market, and that social cues can determine which they prioritize.¹

The question concerning the present research is: once a director has been cued toward concern with public reputation or job prospects, does boardroom transparency dampen or amplify the effect of that concern on the director’s actual monitoring behavior? In the next section we explore each possibility.

¹It should be noted that though we distinguish public reputation concern from job prospects concern, directors’ reputations can of course have consequences for the board seats they can gain. However, this is a more indirect connection than what we are conceptualizing.
2.2 | Boardroom transparency and monitoring behavior

2.2.1 | Boardroom transparency

Agency theorists generally advocate greater disclosure and transparency on the assumption that information asymmetry is what gives rise to the principal–agent problem (e.g., Abrahamson & Park, 1994; Diamond & Verrecchia, 1991). While some aspects of corporate governance have become more transparent over time, such as financial reporting (Leuz & Verrecchia, 2000), boardroom deliberation remains mostly hidden from public view (Jiang et al., 2016; Rose et al., 2013). In most advanced economies, the board’s internal discussions are either undisclosed or disclosed only to a limited extent. In the United States, for example, publicly traded firms’ boardroom transparency requirement is a 2004 Securities and Exchange Commission (SEC) rule mandating that firms disclose when a director resigns from the board due to a disagreement (Levit & Malenko, 2016). Short of a resignation, directors’ individual boardroom actions remain private. Lack of transparency is not ubiquitous, however. Since 2004, the Chinese government has mandated that publicly traded firms disclose in a timely manner details related to individual directors’ votes on board proposals (Jiang et al., 2016; Ma & Khanna, 2016), and many corporate governance observers have argued that other nations should implement similar transparency measures (e.g., Wilcox, 2011).

Though prior research on the director labor market has interpreted collective board action as a signal of individual directors’ monitoring proclivities (e.g., Ertimur et al., 2012; Zajac & Westphal, 1996), this is problematic because the board of directors is not “a monolithic entity that shares a common agenda on all matters” (Ma & Khanna, 2016, p. 1548). Without board transparency, both scholars and practitioners have little choice but to assume that the actions of a board reflect the behavior and concerns of its individual members. With board transparency, however, individual directors’ behavior is made public, raising the question of whether their behavior converges due to public scrutiny or differentiates due to the increased ability to signal their intentions (Levit & Malenko, 2016). The extant literature offers two different answers to this question, derived from competing views of the director labor market. In the next section, we articulate each of these perspectives and develop competing hypotheses from them.

2.2.2 | Ex-post settling up

When initially developing agency theory in the context of corporate governance, scholars conceptualized the director labor market as efficient, with a process of ex-post settling up to reward active directors and punish passive directors (e.g., Fama, 1980; Fama & Jensen, 1983). In this model, if an independent director fails to meet his or her fiduciary responsibilities to shareholders, the labor market will process this information and the independent director will enjoy fewer opportunities to sit on boards in the future (Brickley, Linck, & Coles, 1999; Harford & Schonlau, 2013). Several studies have provided evidence of such ex-post settling up, but notably, the market discipline studied is almost always a response to highly visible manifestations of lax monitoring (e.g., Coles & Hoi, 2003; Gilson, 1990). While the insiders who nominate independent directors would likely prefer passive monitors, they cannot nominate people who have tarnished public reputations (Fich & Shivdasani, 2007).

One of the critical assumptions in the ex-post settling up model is that the labor market perfectly processes information about directors (Fama, 1980). Of course, directors’ reputations are based on their observable behavior and outcomes, so perfect information is never available. As a result of information asymmetry, a director might refrain from active monitoring behavior while still maintaining a strong public reputation. Zajac and Westphal (1996) noted that external boards interpret a potential new director’s experience on an active board as indicative of the new director’s predilection toward active monitoring. Thus, for example, if a director wants to signal his or her passivity
without hurting his or her individual reputation, the director might vote against separating the CEO and board chair positions (Krause & Semadeni, 2014). Signaling requires information asymmetry, wherein meaning is communicated implicitly from a sender to a receiver (Connelly, Certo, Ireland, & Reutzel, 2011). Because individual director votes are not publicly known, it should not adversely impact his or her reputation. If the director sends out such a signal, insiders at other boards can then select independent directors from boards that have avoided overt challenges to insider power without violating the normative expectations of their own shareholders (Zajac & Westphal, 1996).

If board transparency measures are introduced, however, the information asymmetry that exists between boards and external observers decreases, reducing a director’s ability to signal passivity and bringing the director labor market closer to the efficient model Fama (1980) describes. Based on existing theory, the process of ex-post settling up should strengthen (i.e., rewards and punishments should match more closely with behavior) when information asymmetry is reduced (Helland, 2006). Some evidence exists to support this argument. In a study of director voting among Chinese independent directors, Jiang et al. (2016) found that during the post-2004 era of board transparency, the labor market rewarded directors who dissented from insiders with additional future board positions. Moreover, dissenting independent directors with strong reputations were better able to avoid reputational stigma in the event their home firm was sanctioned (cf. Fich & Shivdasani, 2007).

If the ex-post settling up perspective holds, and the director labor market responds to individual director behavior more efficiently when information asymmetry is reduced, how then will board transparency impact the effect of directors’ reputational and labor market concerns on monitoring behavior? We predict that the reduction in information asymmetry will lead directors concerned with public reputation and those concerned with the director labor market to converge in their monitoring behavior. Specifically, we expect that directors concerned with their public reputation will continue engaging in active monitoring behavior, but that directors concerned with their opportunities in the labor market will also engage in active monitoring. This convergence should reduce the difference in monitoring behavior between reputation-concerned and labor market–concerned directors.

Jiang et al. (2016) provide some empirical support for this argument. In addition to the ex-post labor market consequences of individual director voting, Jiang et al. found that in a transparent environment, both directors with strong career concerns (i.e., young directors) and directors with strong reputation concerns dissented from insiders more frequently. While this evidence lends credence to the ex-post settling-up perspective, it remains inconclusive for several reasons. For one, because data on individual director actions are only available in a transparent environment, Jiang et al. could not test any effects of boardroom transparency on director monitoring behavior. In addition, because they relied on archival data, Jiang et al. could only measure proxies for directors’ reputation and labor market concerns. These limitations notwithstanding, the study from Jiang et al. indicates that ex-post settling up in the director labor market may be stronger when boardroom transparency is high, leading to a convergence in monitoring activity between directors concerned with personal reputation and directors concerned with their prospects in the labor market. Therefore, we offer the following hypothesis:

**Hypothesis 1a (H1a):** The difference in monitoring behavior between directors concerned with public reputation and directors concerned with the director labor market is smaller when director behavior is made public than when it is kept private.

2.2.3 | Dual labor market

Beginning with the work of Westphal and Zajac (1995), scholars have suggested that “rather than...a single efficient labor market that rewards directors for monitoring and providing resources, there
exists a bifurcated market in which some firms seek directors to provide rigorous monitoring whereas other firms seek directors who acquiesce” (Withers et al., 2012, p. 260). The dual market concept is a direct challenge to Fama’s (1980) ex-post settling up theory, because it implies that the market rewards both active and passive monitoring with future board positions (Finkelstein et al., 2009; Zajac & Westphal, 1996). Levit and Malenko (2016, p. 777) recently formalized the dual market hypothesis into a theoretical model, postulating that “an equilibrium in which aggregate governance is strong and the labor market rewards directors for being shareholder-friendly coexists with a weak governance equilibrium, in which management-friendly reputation is more valuable.”

Just as empirical evidence exists to support the ex-post settling up perspective, several studies have produced evidence supporting the dual labor market hypothesis. Most notably, Zajac and Westphal (1996) showed that a given board’s interest in active or passive directors varies directly with the relative power of the board and CEO, respectively. They found that a director’s experience on a board that publicly exhibited aggressive monitoring made the director more (less) attractive to boards with less (more) powerful CEOs. Similarly, Westphal and Zajac (1995) found that firms with powerful boards appointed new directors who were more demographically similar to the board than to the CEO, whereas firms with powerful CEOs appointed new directors who were demographically similar to the CEO. These studies, as well as subsequent research from Westphal and colleagues (e.g., Stern & Westphal, 2010; Westphal & Stern, 2006, 2007), demonstrate the empirical validity of the coexisting equilibria to which Levit and Malenko (2016) refer: boards with strong governance appoint directors likely to further strengthen governance, and boards with weak governance appoint directors likely to further weaken governance (see also Bouwman, 2011).

As with research on ex-post settling up in the director labor market, extant research on the dual labor market has examined contexts marked by information asymmetry. Directors concerned with their public reputation can engage in active monitoring and signal their attractiveness to the market for active directors, while directors concerned with corporate insiders’ willingness to appoint them to additional boards can engage in passive monitoring and signal their attractiveness to the market for passive directors. The latter group can only send such signals, however, if passive monitoring will not also tarnish their public reputation, making them ineligible for future directorships, regardless of how attractive insiders might find them. In other words, the director’s specific contribution to a board’s passive monitoring must remain opaque.

Board transparency illuminates individual director contributions to board monitoring, and thus removes information asymmetry. The question then arises as to how board transparency would impact directors’ monitoring behavior if the dual market hypothesis is correct. We argue that in contrast to the ex-post settling up perspective, which implies that board transparency should weaken the difference in monitoring behavior between reputation-concerned and job-concerned directors (Jiang et al., 2016), the dual labor market hypothesis suggests that board transparency should strengthen the difference. The existence of an equilibrium market for passive directors implies that the damage to a director’s public reputation that might arise from the publication of his or her cooperation with insiders may not adversely affect his or her future job prospects. On the contrary, publication of passive monitoring would send a clearer signal to those insiders looking for passive directors, thereby improving the director’s chances in the labor market. Whereas it is relatively difficult to signal their passivity in situations of low boardroom transparency, increasing boardroom transparency enables directors to demonstrate their passivity, such as by avoiding challenging insiders when a challenge is warranted, giving more control to the insiders, or providing insiders with unearned rewards (e.g., decreasing CEO compensation contingency). In addition, publication of active monitoring behavior reinforces a director’s public reputation, making him or her more attractive in the market for active directors.
In developing their theoretical model of corporate governance externalities in the director labor market, Levit and Malenko (2016) acknowledge the role of information asymmetry in the dual labor market and account for the effects of board transparency. They argue that “transparency strengthens the link between a director’s individual vote and his reputation” (Levit & Malenko, 2016, p. 795). If this is the case, directors focused on their public reputation will engage in even more active monitoring behavior, and directors focused on their prospects with insiders will engage in even more passive monitoring behavior. Levit and Malenko even note that board transparency may lead to “strategic substitutability” within boards. They argue that when directors’ individual actions are made public, directors can no longer rely on board-level decisions to send signals about their individual proclivities, and thus will likely try to differentiate themselves. Therefore, we offer the following hypothesis based on the dual labor market perspective to compete directly with Hypothesis 1a:

**Hypothesis 1b (H1b)** The difference in monitoring behavior between directors concerned with public reputation and directors concerned with the director labor market is larger when director behavior is made public than when it is kept private.

3 | METHODS

To test our hypotheses, we conducted a scenario-based experiment using a sample of current independent directors from publicly listed firms in China. In the experiment, each participant was asked to assume the role of an independent director and to vote on two board proposals. The use of scenario-based experimental designs has become commonplace in strategy research, as they enable scholars to test causal hypotheses in a way that is not possible with correlational data (e.g., Bigelow, Lundmark, Parks, & Wuebker, 2014; Cain, Moore, & Haran, 2015; Krause, Whitler, & Semadeni, 2014).

3.1 | Participants

Our sample was drawn from China Stock Market and Accounting Research (CSMAR), a comprehensive database containing the names and demographic information of independent directors at publicly listed firms in China. In 2014, the most recent year for which information was available at the time of data collection, there were 7,458 independent directors in the database. From this population, we randomly selected 3,000. From this random subset, research assistants identified 770 with available valid personal email addresses. It should be noted that an independent director can serve as director for multiple companies. We wrote to these 770 independent directors to invite them to participate in our study. We employed two procedures to ensure that the directors themselves were responding to the questions. First, we checked the emails that we received from the directors who submitted their responses, and found that all of them responded to the emails personally. Second, participants received no material reward for participation, so directors had little incentive to have someone else respond; they could merely ignore the request. Furthermore, to encourage candor, participants’ anonymity was guaranteed. Prior research has shown that when anonymity is more assured, data are generally less impacted by social desirability (Nederhof, 1984, 1985; Wiseman, 1972). Of these 770 independent directors, 133 submitted usable responses, for an overall response rate of 17.3%. The final sample of 133 directors represented 228 different company boards, and there was only one case in which two directors sat on the board of the same company.

We examined whether respondents and nonrespondents differed significantly on individual characteristics and firm characteristics by using the Kolmogorov-Smirnov test (Westphal, 1999). This test assesses
whether significant differences exist in the distribution of respondents and nonrespondents for a particular variable. The results provided consistent evidence across multiple variables that respondents and nonrespondents come from the same population. These variables include firm size, firm age, firm performance, director age, director gender, director compensation, number of directorships, and number of years as a director (p values ranged from .165 to .754). The final sample was distributed evenly across experimental conditions: 32 (director labor market concern and nontransparent boardroom), 36 (public reputation concern and nontransparent boardroom), 32 (director labor market concern and transparent boardroom), and 33 (public reputation concern and transparent boardroom).

In our sample, 18.1% of respondents were female. The average age and education were 45.9 and 20.1 years, respectively. On average, their tenure as an independent director in listed firms was 6.5 years. As independent directors, their expertise areas included accounting/finance (42.3%), management (24.8%), law (10.5%), and industry (9.0%). The relatively high proportion of accounting/finance experts is due to the fact that the China Securities Regulatory Commission requires that boards have at least one independent director who is an accounting professional.

3.2 Experiment design and procedure

Upon agreeing to participate in the study, independent directors were randomly assigned to one of four experimental conditions: public reputation concern with low boardroom transparency, public reputation concern with high boardroom transparency, director labor market concern with low boardroom transparency, and director labor market concern with high boardroom transparency. In the following sections, we articulate how we manipulated directors’ monitoring concerns and boardroom transparency.

3.2.1 Manipulations of independent directors’ concern

The concern manipulations were designed according to our theoretical conceptualization of independent directors’ concerns when voting (e.g., Jiang et al., 2016; Zajac & Westphal, 1996) and previously validated experimental priming methodology (e.g., Skarlicki & Rupp, 2010; Zhong, 2011). Though independent directors may have relatively stable concerns over public reputation or labor market prospects, experimental priming has been found to effectively trigger similar concerns, even more so than simple recognition memory (Tulving, Schacter, & Stark, 1982). Recent social psychological research demonstrates that even factors or constructs traditionally regarded as structural and heavily determined by long-term factors (e.g., regulatory focus, creativity, psychological entitlement, and self-esteem) can be manipulated in experiments (e.g., Dimotakis, Davison, & Hollenbeck, 2012; Galinsky, Gruenfeld, & Magee, 2003; Gino & Ariely, 2012; Zitek & Vincent, 2015). This prior research suggests that directors’ concerns can be activated temporarily through experimental priming. We primed director labor market concern with the following instructions (i.e., instructing participants to read some findings of studies on independent directors’ voting), modeling our language on the language used by Skarlicki and Rupp (2010) in their priming of processing frames2:

Studies show that when the board votes, an independent director should mainly consider the impact of the vote on his or her prospects in the director labor market. Specifically, independent directors should carefully consider whether their votes will increase, maintain, or decrease their future opportunities to be reappointed by their current company, or to be appointed by other listed companies.

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2Instructions have been translated to English from the original Chinese. The instructions were revised according to the results of a pre-test among several independent directors for feedback and suggestions before we conducted the main experiment.
According to these studies, when voting on board decisions, an independent director should avoid sacrificing his or her future opportunities in the director labor market for other purposes.

We primed public reputation concern with the following instructions:

Studies show that when the board votes, an independent director should mainly consider the impact of the vote on his or her public reputation. Specifically, independent directors should carefully consider whether their votes will increase, maintain, or decrease their individual public reputation.

According to these studies, when voting on board decisions, an independent director should avoid sacrificing his or her public reputation for other purposes.

3.2.2 | Scenarios and manipulations of boardroom transparency

After reading one of the two passages above, participants were presented with two scenarios. Each scenario required participants to vote on a board proposal. The two proposal scenarios were adapted from proposals faced by actual boards and revised according to the suggestions of several independent directors and insights from the relevant literature (e.g., Djankov, La Porta, Lopez-De-Silanes, & Shleifer, 2008). Instructions for both scenarios were as follows:

You are an independent director of a listed company—M. In Company M, the board consists of nine directors, including three independent directors. Company M, a medium-sized non-SOE food company, is currently publicly traded on the Shanghai Stock Exchange (SSE). Its products include food, raw materials of food, food machinery and spare parts.

By December 31, 2015, Company M’s assets totaled RMB 905 million, with net assets of RMB 512.97 million. Sales achieved RMB 232.33 million in 2014 and RMB 189.02 million in 2015. Net profit was RMB -15.60 million in 2014 and RMB -30.82 million in 2015. Company M’s net profit ranked relatively low in its industry.

Company M is holding a board meeting and the board members have been invited to vote on the following two proposals. As an independent director, you need to vote “for,” “against,” or “abstain” on each proposal.

All the independent directors participating in this study received the same background information about the fictional firm. Hence, it is unlikely that the participants’ monitoring behavior was affected by firm characteristics. We then manipulated boardroom transparency with the following instructions:

It should be noted that each director’s vote (including yours) will [not] be made public. That is, the general public and the public shareholders will [not] know how each director voted.

3.2.3 | Two types of proposals

Participants were then instructed to read two proposals. Proposal 1 involves a principal–agent problem. The proposal recommends increasing the salary and decreasing the incentive compensation of the firm’s top managers. As incentive compensation aligns executives’ interests with those of
shareholders (Eisenhardt, 1989), increasing salary and decreasing incentive compensation constitutes a principal–agent problem. Moreover, given that the fictional firm has incurred a net loss in the previous 2 consecutive years, as evidenced by the decline in net income, an increase of management compensation, particularly the base salaries, reflects a principal–agent conflict. To wit, research has shown that vigilant board monitoring is negatively associated with executive salary and positively associated with variable compensation (e.g., Boyd, 1994; Westphal & Zajac, 1995).

Proposal 2 is similar to Proposal 1, but differs in that it involves a principal–principal problem. The proposal recommends acquiring a real estate firm owned by the spouse of the focal firm’s controlling shareholder. As the proposed offer price is orders of magnitude greater than the target firm’s net assets, and as real estate investing in China was highly risky in 2015, this proposed related-party transaction clearly benefits the controlling shareholder at the expense of minority shareholders. This type of transaction, known as tunneling, is a commonly identified principal–principal conflict in emerging economies, particularly in China (e.g., Chen, Jian, & Xu, 2009; Cheung, Jing, Lu, Rau, & Stouraitis, 2009). In Proposal 2, the principal–principal problem is particularly severe given that the firm experienced a net loss in the previous 2 years.

Both proposals were designed in such a way that active independent directors would vote “against” or “abstain.” At the same time, neither proposal carries any legal liability for the directors; so voting “for” is a legitimate option for a passive independent director. Both proposals are shown in Appendix S1. We randomly assigned the order in which the two proposals were presented to study participants. After reading both proposals, participants were asked to vote on each and answer several additional questions to validate the experimental manipulations.

3.3 | Measures

3.3.1 | Dependent variable

We operationalize independent directors’ monitoring behavior as their voting choices on the two proposals. As mentioned above, the corporate insiders in these two proposals will extract private benefits if these proposals pass. As such, the independent directors who do not vote for the proposal are engaging in active monitoring behavior. We thus measured independent directors’ monitoring behavior with a dummy variable indicating dissent. In line with prior empirical work on independent director voting in China (e.g., Jiang et al., 2016), it was coded as 1 if the independent directors voted “against” or “abstain” and was coded as 0 if they voted “for.” Voting “against” and “abstain” are both considered forms of dissent voting for three main reasons. First, the disclosure requirement is identical. Second, the Companies Law of China regards both “against” and “abstain” votes as nonsupport, a majority of which will prevent a proposal from passing. Third, regulators typically consider these two voting choices as similar and comparable. Specifically, “abstain” and “against” votes provide directors with the same protection from legal liability in the event that the firm’s actions prove illegal (Jiang et al., 2016).

3.3.2 | Independent variables

Our independent variables were measured as two dichotomous indicators reflecting the experimental manipulations described above. Public reputation concern took a value of 1 if the participant was assigned to the public reputation concern condition and a value of 0 if the participant was assigned to the labor market concern condition. Transparent board took a value of 1 if the participant was assigned to the transparent condition and a value of 0 if the participant was assigned to the nontransparent condition.

4 | ANALYSIS AND RESULTS

4.1 | Manipulation checks

We conducted manipulation checks before testing our hypotheses. To validate the public reputation concern and director labor market concern manipulations, we asked participants the following questions, respectively: “I was instructed to mainly consider the impact of my vote on my public reputation” and “I was instructed to mainly consider the impact of my vote on my future opportunities in the director labor market.” Participants answered these questions on a 5-point scale ranging from Strongly Disagree to Strongly Agree. Participants in the director labor market concern condition rated a higher degree of agreement with the director labor market manipulation check item ($M = 3.55$, $SD = 0.13$) than did participants in the public reputation concern condition ($M = 2.20$, $SD = 0.11$), $t(131) = 7.80$, $p < .001$. Similarly, participants in the public reputation concern condition rated a higher degree of agreement with the public reputation manipulation check item ($M = 3.93$, $SD = .11$) than did participants in the director labor market concern condition ($M = 2.80$, $SD = .15$), $t(131) = 6.19$, $p < .001$.

We also validated the board transparency manipulation using two items: “After the voting, the vote choice of each board director (including your voting choice) will not be made public,” and “After the voting, the public and the public shareholders will not know the voting choice of each board director (including your voting choice).” Participants answered these questions on a 5-point scale ranging from Strongly Disagree to Strongly Agree, and we averaged the rating from the two items to create one scale ($\alpha = .97$). Participants in the nontransparent boardroom condition rated a higher degree of agreement that the vote was nontransparent ($M = 4.20$, $SD = .14$) than did participants in the transparent boardroom condition ($M = 1.49$, $SD = .10$), $t(131) = 15.70$, $p < .001$. Thus, we are confident that the experimental manipulations used in this research are valid.

4.2 | Hypothesis testing

As our dependent variables are dichotomous, we used logistic regression to test our hypotheses. Table 1 reports the means, standard deviations, and correlations among the focal variables in this study, and Table 2 reports the logistic regression models used to analyze the results of the vote on both Proposal 1 and Proposal 2.

Hypotheses 1a and 1b propose two competing predictions on the moderating role of boardroom transparency. Hypothesis 1a predicts that boardroom transparency will weaken the difference between public reputation–concerned directors and labor market–concerned directors, whereas Hypothesis 1b predicts that boardroom transparency will strengthen the difference. As shown in Table 2, the two-way interaction between public reputation concern and boardroom transparency predicting independent directors’ dissent voting exhibited a high coefficient and very low $p$ value for both Proposal 1 ($\beta = 2.879$, $p = .001$) and Proposal 2 ($\beta = 3.517$, $p < .001$). To illustrate the

<table>
<thead>
<tr>
<th>Variable</th>
<th>$M$</th>
<th>$SD$</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Public reputation concern</td>
<td>0.519</td>
<td>0.502</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Boardroom transparency</td>
<td>0.489</td>
<td>0.502</td>
<td>−0.022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Dissent voting choice in Proposal 1</td>
<td>0.669</td>
<td>0.472</td>
<td>0.154</td>
<td>−0.016</td>
<td></td>
</tr>
<tr>
<td>4. Dissent voting choice in Proposal 2</td>
<td>0.744</td>
<td>0.438</td>
<td>0.195</td>
<td>−0.082</td>
<td>0.504</td>
</tr>
</tbody>
</table>

Note. $N = 133.$
exact nature of the interaction, we plotted the predicted probabilities of dissent voting for Proposal 1 in Figure 1 and for Proposal 2 in Figure 2.

As Figures 1 and 2 show, public reputation–concerned directors exhibit a predicted probability of dissent that is double the predicted probability of dissent for labor market–concerned directors when the voting is transparent for both Proposal 1 ($\chi^2 = 17.84$, $p < .001$) and Proposal 2 ($\chi^2 = 23.30$, $p < .001$). By contrast, when the voting is nontransparent the difference between public reputation– and labor market–concerned directors actually changes direction and becomes nonsignificant for both Proposal 1 ($\chi^2 = 1.55$, $p = .213$) and Proposal 2 ($\chi^2 = 1.52$, $p = .217$). Indeed, as presented in Model 2 and Model 4 of Table 2, the simple main effect of public reputation concern is insignificant, indicating that when there is no transparency, directors with public reputation concern and those with labor market concern tend to act similarly. These results are consistent

<table>
<thead>
<tr>
<th>Variables</th>
<th>Proposal 1</th>
<th>Proposal 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>Constant</td>
<td>0.407</td>
<td>1.099</td>
</tr>
<tr>
<td></td>
<td>(0.198)</td>
<td>(0.007)</td>
</tr>
<tr>
<td>Public Reputation Concern</td>
<td>0.661</td>
<td>-0.647</td>
</tr>
<tr>
<td></td>
<td>(0.077)</td>
<td>(0.225)</td>
</tr>
<tr>
<td>Transparent Boardroom</td>
<td>-0.054</td>
<td>-1.350</td>
</tr>
<tr>
<td></td>
<td>(0.884)</td>
<td>(0.013)</td>
</tr>
<tr>
<td>Public Reputation Concern ×</td>
<td>2.879</td>
<td>3.597</td>
</tr>
<tr>
<td>Transparent Boardroom</td>
<td>(0.001)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>133</td>
<td>133</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-82.823</td>
<td>-76.170</td>
</tr>
<tr>
<td>Psuedo $R^2$ squared</td>
<td>0.019</td>
<td>0.098</td>
</tr>
</tbody>
</table>

$p$ values in parentheses.

![FIGURE 1](image-url) Interaction of boardroom transparency and director monitoring concern (Proposal 1)
with our theorizing that, in situations of low transparency, it is difficult, if not impossible, for directors to signal or show their passivity or vigilance, because the outsiders cannot observe the monitoring behavior of directors. As a result, even if directors have concerns over their public reputation or director labor market, they may not be motivated to act accordingly. Therefore, we conclude that the data provide strong support for Hypothesis 1b, and no support for Hypothesis 1a.

As a robustness check, we conducted supplementary analyses in which we added control variables to our models. Control variables should ideally be superfluous in an experimental study involving random assignment, but it is possible that some systematic variation exists in the data in spite of the random assignment. After including controls for independent directors’ demographic characteristics (e.g., gender, age, and education) and job characteristics (e.g., tenure, number of independent directorships), the results remained highly consistent with the results reported here, indicating that our findings are robust.

We further conducted analyses to test for differences between those directors who abstained from voting and those who actively voted against proposals (see Appendix S1). Examining just the sample of dissenting directors, we coded each vote as 1 if the independent director voted “against” and as 0 if he or she voted “abstain.” The results for both proposals showed that our independent variables had no main or interactive effect on the likelihood that a dissenting vote manifested as either “abstain” or “against.” We also ran the analyses excluding the “abstain” votes, predicting dissent as solely consisting of “against” votes, and the results were similar to those reported in our main text. These results suggest that it is reasonable to combine “abstain” and “against” votes into a single dissent category.

5 | DISCUSSION

5.1 | Contributions to theory and practice

Our study has important theoretical and practical implications. First, through our experimental design, we take independent director monitoring behavior research in a new direction. The experimental method we used enabled us to examine the interaction of a construct that varies at the director level (i.e., monitoring concern) with a construct that varies at the board, industry, or even
country level (boardroom transparency). The experimental approach eliminates confounding effects through randomized assignment of current independent directors to experimental conditions and helps us to establish causal direction for the relationships studied. Using archival data sources to study independent director monitoring behavior, one could at best use proxy variables indicating whether an independent director has a concern over public reputation or labor market prospects.

We see great opportunity for corporate governance researchers to gain insights through experimental approaches. For example, recent behavioral corporate governance research has highlighted group-level social-psychological biases in board decision making (Westphal & Bednar, 2005; Zhu, 2013). Prior studies on these group-level biases rely mainly on archival data and survey data to provide indirect evidence for such biases. Experimental approaches can provide additional insights into how and why such biases occur among a group of directors. Furthermore, whereas extant corporate governance research suggests that corporate insiders have higher power over directors mainly because insiders determine what information directors receive (Joseph et al., 2014), relatively little is known about exactly how corporate insiders manipulate information that they supply in order to decrease directors’ monitoring and control. We encourage corporate governance scholars to consider experimental approaches and examine whether and how the manipulated information supplied by corporate insiders can have an impact on the directors’ interpretation of the information, and in turn their monitoring behavior.

Second, our study contributes to theory in the corporate governance literature by relaxing the assumption of information asymmetry that is prevalent in principal–agent models (e.g., Fama, 1980; Jensen & Meckling, 1976). Economic theory suggests that a reduction in information asymmetry should inform the principal about what the agent is actually doing, and thus should curb agent opportunism (Eisenhardt, 1989; Fama & Jensen, 1983). In this study, we show that reducing information asymmetry by increasing boardroom transparency could, under some conditions, even increase agent opportunism. Indeed, the independent directors that have a concern over their labor market prospects engage in even less vigilant monitoring behavior when information asymmetry is reduced, as they are trying to signal their passivity to other insiders who might appoint them to future boards. With these findings, we contribute to a more nuanced understanding of how information asymmetry influences director monitoring behavior.

Third, our study adds to agency theory research by examining its contextual generalizability. Previous research has indicated that the primary form of agency problem differs by institutional context. For example, the primary form of agency problem in the United States is principal–agent conflict; whereas in emerging economies, principal–principal conflicts have been identified as a major corporate governance concern (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). To gain an understanding of how independent directors might behave when faced with different types of agency conflicts, we simulated independent directors’ decisions on monitoring both principal–agent and principal–principal conflicts. Our experimental results reveal that independent directors from China behave similarly in making decisions across different types of agency problems. As such, we contribute to the agency literature by confirming that the relevant theoretical arguments apply in different institutional contexts.

Fourth, our study also contributes to an understanding of the micro-mechanisms by which independent directors change their monitoring behaviors as a result of increased boardroom transparency. Much of the agency literature assumes that independent directors are equally motivated to exercise monitoring and control over corporate insiders. However, independent directors might behave differently as a result of both individual differences and external environmental shifts. Hence, our study complements the corporate governance literature by examining individual directors’ behavioral changes resulting from the interactive effect of their individual concerns and boardroom transparency. Whereas our study suggests that directors have dual concerns, one over public reputation and one over the director labor market, future research could examine whether directors
with certain characteristics may be more inclined toward active or passive monitoring, and thus are more likely to change their monitoring behavior as a result of increased transparency. For example, it is possible that young directors have stronger career concerns (Jiang et al., 2016), and are thus more likely to decrease their monitoring behavior when there is higher boardroom transparency.

Fifth, our theory and findings extend an intuition posited in a recent study by Levit and Malenko (2016), which suggests that increased boardroom transparency might amplify a macro-governance system’s characteristics. Whereas Levit and Malenko’s model assumed the existence of a dual labor market for directors, and thereby arrived at a prediction similar to our Hypothesis 1b, we explicitly introduce the dual labor market as one of two competing director labor market theories—the other being Fama’s (1980) ex-post settling up—that have both received empirical support, and we offer competing hypotheses for the moderating effect of board transparency based on those theories. We support the dual labor market explanation by finding results consistent with Levit and Malenko’s suggested relationship. Further, whereas Levit and Malenko’s) work was purely conceptual, we show the robustness of the theory by demonstrating empirical support for our Hypothesis 1b. Moreover, we extend their model by incorporating principal–principal conflicts.

Sixth, the findings could potentially have implications for research on signaling theory. Signaling theorists have typically emphasized the role of information asymmetry in determining an actor’s incentives to signal its underlying ability to fulfill the needs or demands of outsiders (Connelly et al., 2011). The results of this study suggest that information asymmetry may reduce the observability and effectiveness of a signal, which may in turn discourage the actors from sending signals. Thus, information asymmetry may shape an individual’s or an organization’s motivation for sending signals. In this sense, our study adds nuanced understanding to the signaling phenomenon.

Finally, this study complements and extends recent research on independent director voting behavior. In recent studies, Ma and Khanna (2016) and Jiang et al. (2016) examined when independent directors are more likely to dissent during board meetings. Neither study controls for the nature of the proposals discussed, however. It is possible that some independent directors vote abstain or against simply because the proposals being discussed were those associated with agency problems. Moreover, because these authors used archival data from the same institutional context, they were not able to assess the impact of boardroom transparency on director voting. In this study, we address these concerns by asking independent directors to vote on the same proposals and to do so under experimentally manipulated conditions.

The results of this study have important implications for practitioners and regulators as well. Regulators and corporate governance watchdogs have recently advocated for greater boardroom transparency in the interests of promoting more vigilant director monitoring behavior (e.g., Wilcox, 2011). The results of the present research indicate, however, that increasing boardroom transparency can have unintended consequences for corporate governance. Essentially, directors inclined toward aggressive monitoring will monitor even more aggressively under the microscope, and directors inclined toward passive monitoring will monitor even more passively. Policymakers should be aware that mandating boardroom transparency is unlikely to produce a systematic improvement in corporate governance quality.

5.2 Limitations and future research directions

The limitations of this study offer opportunities for future research. First, one of the drawbacks of an experimental design is that the results are less generalizable, because it is conducted in a controlled setting. We addressed this limitation by conducting our study in a manner that more accurately simulates boardroom voting, recruiting real independent directors with actual boardroom
experience to participate in the study. In addition, the proposals voted on by the independent directors were adapted from actual proposals discussed in the listed firms. Still, we have manipulated our independent variables in order to assess their causal impact. Such manipulation is not necessarily ecologically valid, however, as boardroom transparency and director monitoring concerns are not randomly assigned to directors in the real world. We hope that future research will explore the extent to which the causal relationships identified here manifest in a natural setting.

Another drawback regards contextual generalizability. The theoretical framework we propose in this article is not limited to one specific institutional context, but our study participants consisted of only independent directors in a single country. It is possible that participants in other institutional settings have a different understanding of proposals discussed in board meetings. For example, the conflict between controlling shareholders and minority shareholders is more prevalent in emerging economies such as China. As a result, independent directors in our study might be more sensitive to the proposals concerning principal–principal conflicts. We addressed this limitation somewhat by asking the participants to vote on two distinct proposals, one on a principal–agent conflict, which is more common in developed economies, and the other on a principal–principal conflict, which is more common in emerging economies. Even so, scholars should seek to expand this research by studying director behavior in other institutional settings.

Moreover, limiting the participants to independent directors in a single country also constrains the study’s capacity to incorporate institutionally contingent variables. For instance, although we propose in Hypothesis 1b that there is a bifurcated director labor market, the relative importance of the active and passive segments of the labor market might affect the magnitude of the effect of board transparency. When the active segment of the director market is more important in a society, and thus when there are more firms seeking active directors, it is possible that those with a public reputation concern are more likely than directors concerned with the director labor market to change their monitoring behavior as a result of increased transparency. Similarly, when the passive segment of the director market is more important, it is possible that directors concerned with the labor market are more likely than those concerned with public reputation to respond to the increased boardroom transparency. Hence, future research could address this limitation and extend our theoretical framework by comparing findings based on samples from societies where the relative importance of the active and passive segments of the director labor market differ.

In addition, conducting the study with independent directors from Chinese firms was advantageous because these independent directors are more familiar with the issue of board transparency. At the same time, we cannot be certain that directors in the United States or other countries without the same board transparency statutes would respond to the transparency manipulations in the same way. Additional studies using directors from alternative governance systems, ones with less board transparency, would help clarify how much of a boundary condition the national context of our study constitutes.

Finally, another research question that merits attention is how the parties with the power to select directors (e.g., nominating committee members, CEOs who are more powerful than their boards of directors, the controlling shareholders in firms with concentrated ownership) may behave differently as a result of increased boardroom transparency. Our empirical study mainly tests the implications of boardroom transparency for independent directors’ monitoring behavior, and does not touch upon how the director labor market may react as a result of increased boardroom transparency. Future work thus can extend our line of inquiry to consider whether boardroom transparency actually increases the likelihood of the active (passive) directors gaining more board seats from shareholder-oriented (insider-oriented) companies, as the dual labor market hypothesis would suggest. Scholars might conduct cross-country studies examining how the director labor market reacts in countries with different levels of boardroom transparency. They may also conduct experiments manipulating
boardroom transparency, and investigate how participants may behave differently in different experimental conditions.

6 | CONCLUSION

In this study, we develop competing hypotheses predicting that boardroom transparency will either dampen or amplify the differences in monitoring behavior between public reputation–concerned and labor market–concerned independent directors. Using an experimental research design, we demonstrate support for the amplification hypothesis, finding that public reputation–concerned directors are more likely to engage in monitoring behavior than are labor market–concerned directors, but only when director behavior is made public. Our research helps to advance understanding of how information asymmetry affects independent directors’ monitoring and control.

7 | ACKNOWLEDGEMENTS

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SUPPORTING INFORMATION

Additional Supporting Information may be found online in the supporting information tab for this article.

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