

## Research on Factors of Attention of Chinese Investors to Independent Director System in company by Analytic Hierarchy Process analyses

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**Abstract** — In recent years Taiwan businessmen have constantly come to the mainland of China to invest and open subsidiaries, and the economic and trade relations between the mainland and Taiwan have been closer and a relationship with mutual influence and intergrowth is established between them. Investors from the mainland believe that integrity, supervision and decision, ability of handling emergencies and responsibility of information disclosure are relatively important. In conclusion, the suggested laws and regulations above shall enhance the responsibility of supervision on the independent director system to improve the significance of corporate governance. However, understanding of the people in the mainland of China about laws in Taiwan is far better than that about the legal system in the mainland, and it's hoped that the comparative analysis in this article can make the differences between the mainland and Taiwan clearer. [1, 2, 5]

**Keywords** - corporate governance, independent director, equity structure

### I. INTRODUCTION

In 1997, a financial crisis occurred in Asia, in which the economy in many countries have sharply declined, and enterprises faced with great financial crisis. In the mainland of China, Hongguang Industry in 1998 and the listed Guangxia (Yinchuan) in 2001 overrated the income of sales through false sales business. Then, the independent director system is introduced from America to the mainland, with the purpose of making the original supervisor system more perfect, and in the mainland, the control of substantial shareholders in state-owned enterprise dominates. Hence, they develop different control modes. For this, this article focuses on the independent director system in the mainland of China, with corporate governance as the subsidiary topic, so as to find the optimal combination corporate governance and the independent director system that is suitable for the mainland of China, and provide references for further academic research. [1, 9].

### II. LITERATURE REVIEW

Research on the independent director system in the mainland started from 2000, and few researches on independent director can be found before that. Qian Yingyi(2001), scholar from the mainland of China, thinks that the corporate governance structure is a set of institutional arrangement used for governing the organizations having great stakes with the company, such as the relationship between the investors (shareholder and borrower) and managers and staff, and realizing economic

interests from this kind of relationship. The corporate governance structure includes the way of deployment and exercise of control power, way of supervising the board of directors, managers and staff, and way of designing and implementing incentive mechanism. Wang Yuetang (2003), scholar from the mainland of China has observed the motivation and effect of the voluntary establishment of independent director by the listed companies in the mainland before the China Securities Regulatory Commission (CSRC) promoted the independent director system, and results indicate that the equity structure of company and bonus system have been the major factors for setting the independent director system. [3,4]

The Company Law in the mainland stipulates that the listed company shall establish the general meeting of stockholders, board of directors and board of supervisors. Both the board of directors and board of supervisors shall attach to the general meeting of stockholders. Under this mode, law is used to keep the balance and restriction of the powers of the company. According to §28 and §37 of Corporate Governance Criterion, the listed company shall stipulate standard and transparent procedure of recruiting and selecting directors in the articles of incorporation, and guarantee the publicity, fairness, justice and independence. And §42 and §43 of Corporate Governance Criterion require that board of directors shall be responsible for the general meeting of stockholders, the governance structure of the listed company shall guarantee the board of directors is capable of exercising official powers according to the regulations of law, regulations and articles of incorporation. The board of directors shall carefully execute the responsibilities stipulated in the related laws, regulations and articles of

incorporation, ensure that the company conforms to the regulations of laws, regulations and articles of incorporation, fairly treat all shareholders and pay attention to the interests of other stakeholders. [6,7].

### III. RESEARCH METHOD

In this research, dimensional factors of investors on the establishment of the independent director system in the mainland of China can be classified as below based on the six dimensions of evaluation of corporate governance and four dimensions of balanced score card (BSC). That is to say, the indicator of investors includes the degree of satisfaction of independent director, quality and professional ability of independent directors and responsibilities of independent directors.

1. The subdivision of evaluation criterion for the degree of satisfaction of independent director includes prevention against infringement act, company performance, confirmation of external chances and threats and internal advantages and disadvantages.
2. The subdivision of the quality and professional ability of independent directors consists of integrity, profession, regular education and independence.
3. The subdivision of responsibilities of independent directors comprises ability of handling emergencies and responsibilities of supervision and decision and information disclosure.

Calculate the weight of indicators from the three dimensions (degree of satisfaction of independent director, quality and professional ability of independent directors and responsibilities of independent directors) through questionnaire based on AHP, and learn and analyze the difference between the indicators cared by the investors, so as to provide information to more personnel and enterprises for further understanding based on the weight of indicators. [8,9].

### IV. RESULTS AND DISCUSSION

#### A. Handling of AHP suggested by experts

The weights of the target items of investors in the mainland can be indicated as the table below. The rank ordering of the three indicators has shown the responsibility of independent directors (0.453) is the first one, quality and professional ability of independent directors (0.351) ranks second, and the degree of satisfaction of independent director (0.197) is at the last. It can be seen that the investors from the mainland mainly focus on the responsibilities of independent directors. The coincidence indicator (C.I.) of the target items is 0.00045,  $C.I. \leq 0.1$ , indicating that the degree of consistency of the matrix is within the acceptable scope.

In this weight, the investors regard that the responsibility of the independent directors is extremely important. When enhancing the power of independent director, the legal responsibilities that the independent directors shall bear shall also be stipulated. The responsibilities of the independent directors have been made in Article Five and Six in the Guidance, mainly including right of recognition of major relevant trade, proposal of employment or fire of accountant firm; proposal of calling extraordinary general meeting; proposal of calling the general meeting of shareholders; independently hiring external audit office and advisory body; public collection of right to vote from the shareholders; expression of independent suggestions to the board of directors or general meeting of stockholders about nomination, appointment and dismissing of directors, employment or fire of senior manager, remuneration of the directors and senior managers, current or newly occurred loan or other capital correspondence with amount more than 3 million Yuan of the shareholder or the actual controller of the listed company or the affiliated enterprise, or with amount more than 5% of the net assets value of the listed company through audit, the fact whether the company has adopted effective measures to take back debts, matters that are thought to cause damage to the rights and benefits of the minority shareholders by the independent directors and other matters stipulated in the articles of incorporation. For the realization of supervisory role of independent directors, they must have professional quality from all respects, and they shall have excellent integrity and responsibility, in addition to the basic understanding about the company business.

Independence refers to the fact that the independent director must be independent in the respect of personality, procedure of selection, and exercise of power, and shall not be constrained by the controlling shareholders and management of the company. At present, most of the listed companies are state-owned enterprises, and the corporate governance structure contains serious problems itself, such as insider control and manipulation of the board of shareholders by substantial shareholders, so it's hard for it to ensure the independence of the independent directors. Moreover, now many independent directors are "directors from relationship" brought or hired by the leaders or management of the company, and both the power and responsibilities of them are not so clear. In the listed companies in the mainland of China, the role of independent directors has not been well played, and the reason for that is that the independent directors account a low proportion in the board of directors of the listed company, and no agency of power exercise is established in the corporate governance structure of the listed company.

Profession refers to the professional quality and ability of the independent directors. They shall be capable of

independently judge and express suggestions about the relevant problems of the company based on their own professional knowledge and experience. Currently, independent directors in many enterprises in the mainland of China hold several posts simultaneously, so they have little time to fully understand the listed company.

TABLE I. WEIGHT RATIO OF FACORS CARED BY INVESTORS IN THE MAINLAND OF CHINA ON THE INDEPENDENT

Priorities with Respect to:		Combined
Goal: Factors cared by investors in the mainland of China on the independent director system	Weight	Order
Degree of satisfaction of independent director	0.197	3
Quality and professional ability of independent directors	0.351	2
Responsibilities of independent directors	0.453	1
C.R.	0.00077	
C.I.	0.00045	C.R.*R.I.
$\lambda_{max}$	3.0009	$m+(C.I.*(m-1))$

Data source: collection in this research

The weight of criteria of the investors from the mainland of China is indicated as the table below. Under the object of degree of satisfaction of independent director, the weight of four criteria is as the table below, respectively prevention against infringement act, confirmation of external chances and threats, company performance and internal advantages and disadvantages in proper order. In this dimension, the prevention against infringement act attracts more attention from the investors from the mainland of China. The C.I. of it is 0.0032,  $C.I. \leq 0.1$ , indicating the consistency of matrix is within the acceptable scope.

TABLE II. WEIGHT RATIO OF DEGREE OF SATISFACTION INDEPENDENT DIRECTOR IN THE MAINLAND CHINA

Priorities with Respect to:		Combined
Goal: Degree of satisfaction of independent director	Weight	Order
Prevention against infringement act	0.486	1
Company performance	0.163	3
Confirmation of external chances and threats	0.196	2
Internal advantages and disadvantages	0.155	4
C.R.	0.0036	
C.I.	0.0032	C.R.*R.I.
$\lambda_{max}$	4.0096	$m+(C.I.*(m-1))$

Data source: collection in this research

The weight of criteria of the investors from the mainland of China is indicated as the table below. Under the object of quality and professional ability of independent director, the weight of three evaluation criteria is as the table below, respectively integrity,

independence and professional and regular education in proper order. In this dimension, integrity attracts more attention from the investors from the mainland of China, and the weight is far larger than that of independence and professional and regular education. The C.I. of it is 0.02,  $C.I. \leq 0.1$ , indicating the consistency of matrix is within the acceptable scope.

TABLE III. WEIGHT RATIO OF QUALITY AND PROFESSIONAL ABILITY OF INDEPENDENT DIRECTOR IN THE MAINLAND OF CHINA

Priorities with Respect to:		Combined
Goal: Quality and professional ability of independent director	Weight	Order
Integrity	0.526	1
Professional and regular education	0.231	3
Independence	0.243	2
C.R.	0.035	
C.I.	0.02	C.R.*R.I.
$\lambda_{max}$	3.04	$m+(C.I.*(m-1))$

Data source: collection in this research

The weight of criteria of the investors from the mainland of China is indicated as the table below. Under the object of responsibility of independent director, the weight of four evaluation criteria is as the table below, respectively supervision and decision, ability of handling emergencies and responsibility of information disclosure in proper order. In this dimension, supervision and decision attract more attention from the investors from the mainland of China. The C.I. of it is 0.0038,  $C.I. \leq 0.1$ , indicating the consistency of matrix is within the acceptable scope.

TABLE IV. WEIGHT RATIO OF RESPONSIBILITY OF INDEPENDENT DIRECTOR IN THE MAINLAND OF CHINA

Priorities with Respect to:		Combined
Goal: Responsibility of independent director	Weight	Order
Ability of handling emergencies	0.37	2
Supervision and decision	0.382	1
Responsibility of information disclosure	0.248	3
C.R.	0.0066	
C.I.	0.0038	C.R.*R.I.
$\lambda_{max}$	3.0076	$m+(C.I.*(m-1))$

Data source: collection in this research

The integral weight of factors cared by investors from the mainland of China on the independent director system is indicated as below. The first four are respectively integrity, supervision, ability of handling emergency and prevention against infringement act.

TABLE V. INTEGRAL WEIGHT RATIO IN THE MAINLAND OF CHINA

Name of Object	Weight of Object	Name of Criterion	Weight of Criterion	Integral weight	Integral order
Degree of satisfaction of independent director	0.197	Prevention against infringement act	0.486	0.095742	5
		Company performance	0.163	0.032111	9
		Confirmation of external chances and threats	0.196	0.038612	8
		Internal advantages and disadvantages	0.155	0.029535	10
Quality and professional ability of independent directors	0.351	Integrity	0.526	0.184626	1
		Professional and regular education	0.231	0.081081	7
		Independence	0.243	0.085293	6
Responsibilities of independent directors	0.453	Ability of handling emergencies	0.37	0.16761	3
		Supervision and decision	0.382	0.173046	2
		Responsibility of information disclosure	0.248	0.112344	4

Data source: collection in this research

## V. SUMMARY

The performance indicator includes two types, quality and quantity. Quantity refers to the basic requirements like quantized data such as the times and time of attendance of independent directors and times of advisory suggestions. Quality is a higher requirement, for example, the contribution to the corporate governance and management. In the questionnaire conducted in this research, integrity, supervision and decision, ability of handling emergencies and responsibility of information disclosure account for higher weight, and they are listed into the reference factor for performance of corporate governance.

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