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Internal Concurrent Appointment of Audit Committee Conveners and Internal Control Quality: Professional Spillover or Relational Constraints?

Authors: Yin Haozhou, Liu Jie, Tan Jin, XU Guangwei, XU Guangwei

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Abstract

Supervision and evaluation of internal control constitutes one of the fundamental functions of the audit committee, and the committee's staffing strategy influences the effectiveness of such oversight. Based on annual data of non-financial listed companies from 2011 to 2021, this study finds that when the audit committee convener concurrently holds positions in a greater number of committees, corporate internal control quality is significantly lower, primarily manifesting in internal control at the strategic and operational levels. Mechanism analysis reveals: (1) this relationship is more pronounced in enterprises with more complex interest groups, supporting the existence of a "relationship constraint" mechanism; (2) the aforementioned negative relationship is attenuated when formal corporate governance mechanisms are more robust and the convener possesses greater authority, implying that the convener's performance of duties partially depends on sound corporate governance and personal authority. The study demonstrates that multiple committee appointments of audit committee conveners in other specialized committees represent an inefficient corporate governance institutional design that infringes upon the relative independence of the audit committee within the enterprise and is detrimental to independent directors fulfilling their proper governance functions. This research provides a new China-context explanation for low corporate internal control quality, enriches the literature on the influence of social norms on corporate governance, and offers reference and guidance for safeguarding audit committee function performance during the implementation of the new Company Law.

Full Text

Audit Committee Convenors' Internal Multiple-Hatting and Internal Control Quality: Professional Spillovers or Guanxi Constraints?

Yin Haozhou¹, **Liu Jie**¹, **Tan Jin**², **Xu Guangwei**^{2*} ¹School of Accounting, Guizhou University of Finance and Economics, Guiyang, Guizhou
²School of Business, Changzhou University, Changzhou, Jiangsu

Yin Haozhou (1995–), male, from Wuxi, Jiangsu, master's student in auditing at Guizhou University of Finance and Economics, CPA (non-practicing). Research interests: institutional environment and auditing theory.

Liu Jie (1979–), male, from Renshou, Sichuan, professor at Guizhou University of Finance and Economics, Ph.D. in accounting from Xiamen University. Research interests: auditing theory and internal control.

Tan Jin (1987–), female, from Jinzhou, Liaoning, associate professor at Changzhou University, Ph.D. in management from Soochow University. Research interests: institutional environment and corporate behavior.

Xu Guangwei (1986–), male, from Chuzhou, Anhui, professor at Changzhou University, Ph.D. in accounting from Chongqing University, postdoctoral fellow at Shanghai University of Finance and Economics. Research interests: corporate governance and corporate finance. Corresponding author.

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Abstract: Monitoring and evaluating internal control constitutes a fundamental function of the audit committee, and the staffing strategy of audit committees directly affects the effectiveness of this monitoring and evaluation. Based on annual data from non-financial listed companies during 2011–2021, this study finds that firms exhibit significantly lower internal control quality when their audit committee convenors concurrently serve on more committees, with this effect primarily manifesting in strategic- and operational-level internal controls. Mechanism analyses reveal that: (1) this relationship is more pronounced in firms with more complex interest groups, supporting the existence of “guanxi constraints”; and (2) the negative relationship is weakened when formal corporate governance mechanisms are more robust and when convenors possess greater authority, implying that the realization of professional spillover effects depends on sound control environments and personal authority. The study

suggests that multiple committee assignments for audit committee convenors represent an inefficient corporate governance design that compromises the relative independence of independent directors within the enterprise and fails to enhance supervisory effectiveness. The findings enrich the literature on how social norms (guanxi) affect corporate governance in China's institutional context and provide guidance for safeguarding audit committee and independent director performance during the implementation of the new Company Law.

Keywords: Audit committee; Directors' internal multiple-hatting; Independent director performance; Internal control quality; Professional spillover; Guanxi constraints

Independent directors perform crucial supervisory, advisory, and decision-making functions in capital markets. The revised Company Law of the People's Republic of China, promulgated on December 29, 2023, addresses the previous lack of top-level legal foundations for audit committee functions, creating a new institutional context for research on audit committees and independent directors. According to the Code of Corporate Governance for Listed Companies, the audit committee is the only mandatorily established special committee, with independent directors comprising the majority and an accounting expert serving as convenor. Research on the governance effectiveness of audit committees and their convenors holds significant theoretical and practical importance for improving the independent director system and better safeguarding independent director functions, with potential contributions to strengthening corporate governance capabilities with Chinese characteristics for modernization.

The existence of boards of directors enables the normal operation of modern enterprises characterized by separation of ownership and control (Fama and Jensen, 1983). Board functions are exercised through specialized subcommittees, and as the only mandatorily established body, the audit committee's role in corporate governance has long attracted researchers' attention. Regulatory provisions stipulate that audit committees supervise and evaluate internal and external audit work, information disclosure, and internal control. Existing research demonstrates that audit committee expertise positively affects business operations and development. For instance, financial expertise can identify earnings manipulation during R&D processes (Chu Youwei, 2018), restrain financial restatements (Wang Shouhai et al., 2019), and reduce management's strategic disclosure behaviors (Zhang Zhihong et al., 2022), while IT expertise improves internal control quality (Zhou Donghua et al., 2022), collectively exhibiting clear "professional" effects. Consequently, corporate governance designs typically aim to leverage the "spillover" effects of external experts' expertise, such as through independent directors serving on multiple committees—so-called "committee overlapping." However, different committees pursue distinct objectives that may generate conflicts of interest and lead to suboptimal decisions, thereby reducing board decision-making efficiency (Hoitash and Hoitash, 2008).

Notably, in contemporary China, deeply influenced by Confucian ideals of “valuing harmony” and “seeking common ground while reserving differences,” interest conflicts may merely represent surface manifestations of poor governance outcomes like board inefficiency, with social relationships offering a more contextually appropriate analytical perspective. In a “reason-sentiment” society emphasizing human sentiment and face, interpersonal interactions are constrained by “guanxi” (Zhai Xuewei, 2004; Liu Jie et al., 2024). Evidence from independent directors shows that social relationships affect their expected positive functions. CEOs tend to appoint independent directors based on social ties, turning these directors into CEO “protective umbrellas” (Liu Cheng et al., 2012; Liu Cheng and Yang Jidong, 2013) that reduce external independence and weaken audit quality (Li Minxin and Zhu Zhaohui, 2022). Additionally, evidence from dissenting behavior indicates that independent directors’ performance is constrained by “guanxi” and cannot exert supervisory effects. For example, locally based independent directors raise fewer objections under the influence of guanxi effects (Zhou Zejiang et al., 2021), and dissenting behavior is also constrained by internal corporate “seniority-based” culture (Du Xingqiang et al., 2017).

In practice, audit committee convenors often concurrently serve as members of other committees, raising the question: What corporate governance effects does such internal multiple-hatting produce? Does it further leverage professionals’ expertise, or does it place professionals in more complex social relationships, entangling them in complicated interests and preventing ideal performance? This study argues that since supervising and evaluating internal control constitutes the audit committee’s primary responsibility, internal control quality provides a feasible perspective for answering this question. The Sarbanes-Oxley Act made internal control a focal point of corporate governance systems. On one hand, without systematic and effective internal control, corporate governance becomes mere empty words (Yang Xiongsheng, 2005). On the other hand, the governance layer constitutes the implementation 主体 of internal control, corporate governance forms an important internal environment for internal control, and corporate governance control represents the first level and superstructure of enterprise internal control. Proper integration with corporate governance constitutes the fundamental approach to improving internal control effectiveness (Huang Rongbing and Wang Yuetang, 2008). Therefore, internal control quality directly correlates with corporate governance effectiveness.

The importance of high-quality internal control is self-evident. Existing empirical evidence reveals positive consequences of high-quality internal control, such as providing higher-quality accounting information (Fang Hongxing and Jin Yuna, 2011; Dong Wang and Chen Hanwen, 2011), enabling firms to more promptly grasp investment opportunities (Zhou Zhongsheng et al., 2017), obtaining lower financing costs (Chen Hanwen and Zhou Zhongsheng, 2014; Ao Xiaobo et al., 2017), limiting management’s private benefits (Mou Shaohong et al., 2016; Chen Xiaoshan and Liu Hongduo, 2019), and strengthening listed companies’ risk response capabilities (Mao Xinshu and Meng Jie, 2013; Fang Hongxing and Chen Zuohua, 2015; Chen Hanwen and Yang Qinghe, 2021). How-

ever, no clear answers exist regarding why some firms' internal control quality remains low or how to improve low-quality internal control.

This study constructs a variable for “convenor multiple-hatting,” measured by the audit committee convenor's concurrent service on other committees, capturing the convenor's involvement in board decision-making. Based on 2011–2021 annual data from non-financial listed companies, the main findings are that firms exhibit lower internal control quality when their audit committee convenors serve on more other committees. This result indicates that, on one hand, convenor multiple-hatting does not produce the desired “professional spillover” effect but instead subjects convenors to “guanxi constraints” rooted in human sentiment and face, failing to generate positive corporate governance effects. On the other hand, low internal control quality in some firms may stem from inappropriate board human capital allocation patterns. These findings remain robust after a series of endogeneity tests.

This study's contributions to existing literature are threefold. First, while previous literature has not reached consistent conclusions on the effects of committee members' internal multiple-hatting, this study provides empirical evidence that external independent directors lose independence through internal multiple-hatting, yielding negative consequences, using internal control quality as the research focus. Second, whereas existing literature has concentrated on how individual characteristics of audit committee members affect internal control quality (e.g., Zhou Donghua et al., 2022; Zhou Zejiang et al., 2020; Xiang Rui et al., 2017), this study contributes to literature on the relationship between corporate governance structure and internal control from a group characteristics perspective. Third, this study helps explain why some firms cannot improve internal control quality, finding that low-quality internal control correlates with independent directors' multiple internal appointments—an personnel arrangement that fails to leverage professionals' “professional spillover” and instead subjects them to severe “guanxi constraints,” thereby affecting performance effectiveness. Fourth, based on Jiang and Kim (2020), this study provides a supplementary explanation for “why Chinese directors struggle to become active and effective supervisors”—namely, that in China's context, directors' performance is constrained by human relationships, consistent with views that interpersonal relationships impose costs on firms.

The remainder of this paper is organized as follows: Section 2 reviews literature on directors' internal multiple-hatting and internal control quality, analyzing potential professional spillover and guanxi constraints effects of convenors. Section 3 presents the research design. Section 4 presents stylized facts, conducts hypothesis testing, and discusses endogeneity issues. Section 5 reveals the existence mechanism of “guanxi constraints” and boundary conditions for “professional spillover” to function. Section 6 concludes with implications.

Literature Review and Theoretical Analysis

Literature Review

1. Directors' Internal Multiple-Hatting The topic of directors' internal multiple-hatting originated from the duality of board chair and CEO positions, with different theories offering divergent evaluations. Traditional principal-agent theory argues that combining the chair position amplifies managers' self-interested manipulative power, weakens board supervision over managers (Finkelstein and D'Aveni, 1994; Tuggle et al., 2010), and causes overinvestment and innovation inhibition (Sun Guangguo and Sun Ruiqi, 2016; Chen Siyang and Sun Guangguo, 2020). Therefore, separating these positions is necessary to ensure effective board supervision and governance (Fama and Jensen, 1983). Stewardship theory, conversely, posits that duality promotes general managers' pro-organizational behavior and benefits firm value (Davis et al., 1997).

In recent years, the topic has expanded in two directions: director-CFO multiple-hatting and committee overlapping. Empirical evidence on director-CFO multiple-hatting shows positive effects, such as improving investment efficiency with maximal effect two years after CFO board entry (Yuan Jianguo et al., 2017), playing a financial advisory role in identifying tax avoidance opportunities and developing optimal tax strategies (Zhao Le and Wang Muzhi, 2022), while simultaneously supervising and restraining extreme tax avoidance behaviors (Sun Xuejiao et al., 2020). Some studies examine the consequences of board secretary-CFO multiple-hatting with mixed results. Positive evidence shows this arrangement can restrain insiders' trading profits (Yao Zhenye and Cao Wei, 2019) and reduce debt levels and capital structure deviation (Cheng Fu and Wang Fusheng, 2020), while negative evidence indicates CFOs concurrently serving as board secretaries provide lower-quality accounting information (Wang Yunqian and Wang Yonghai, 2019).

The second direction focuses on audit committees, examining overlapping membership with compensation committees and strategy committees. Theoretical models on audit and compensation committee overlapping suggest that overlapping directors reduce executive pay intensity to decrease ex post supervision costs, which while weakening executives' earnings management incentives, also leads to insufficient compensation incentives and reduced ex post financial statement supervision (Laux and Laux, 2009). Empirical research yields slightly mixed results: audit-compensation committee overlapping reduces state-owned enterprises' CEO luck-based pay (Deng Xiaolan et al., 2015), but managers may collude with overlapping directors to manipulate accounting earnings for opportunistic compensation (Deng Xiaolan et al., 2014). Meanwhile, firms with more overlapping members between these two committees exhibit lower CFO incentive pay ratios, helping reduce information asymmetry and achieve lower financing costs (Hoitash and Hoitash, 2008; Bhuiyan and Cheema, 2024). Research on strategy committee overlapping shows it makes R&D investment decisions more cautious and patent application decisions more biased toward short-term com-

mercialization projects (Wang Wenhui et al., 2018). The effect on asset divestitures shows stage-specific characteristics: information and resource spillovers exist during the divestiture decision stage, but overlapping directorships represent a low-cost strategy and hidden channel for shareholders to strengthen control during performance evaluation, facilitating tunneling behavior (Xue Youzhi et al., 2021). Banking evidence shows that audit committee and risk management committee overlapping has risk-averse effects, reducing bank risk-taking (Ding and Wei, 2023). Additionally, some research finds that CFOs concurrently serving as audit committee members cause ineffective supervision, triggering more financial restatements (Wang Bing et al., 2023).

2. Internal Governance and Causes of Low (High) Quality Internal Control

Regarding internal governance mechanisms, existing research examines three levels: shareholders, board of directors, and senior executives. At the shareholder level, large shareholders' share pledging reduces internal control quality (Fu Yuyuan et al., 2019), while firms with multiple large shareholders exhibit higher internal control quality (Ma Ying et al., 2019). Mixed-ownership reform in state-owned enterprises, including ownership balance, employee stock ownership plans, and senior governance appointments by non-state shareholders, all enhance SOE internal control quality (Cao Yue et al., 2020; Cao Yue et al., 2022; Liu Yunguo et al., 2016). At the board level, research primarily focuses on audit committee characteristics, showing that IT expertise, overseas background, and convenors' personal characteristics positively affect internal control quality (Zhou Donghua et al., 2022; Zhou Zejiang et al., 2020; Xiang Rui et al., 2017). At the executive level, low internal control effectiveness or quality can be attributed to geographic ties between chairpersons and general managers, insider control, and management overconfidence (Yu Junli et al., 2018; Zhang Linyi and Zhang Honghui, 2020; Xu Yude et al., 2021), while high-quality internal control can be attributed to executives' military experience and CEOs' IT background (Liao Fangnan et al., 2018; Li Ruijing et al., 2022). Some research also examines management turnover scenarios, finding that post-turnover management "shirks responsibility" by more leniently adjusting internal control deficiency recognition criteria (Wang Jun and Wu Xi, 2017).

3. Literature Review Summary

Directors' internal multiple-hatting is a classic topic in corporate governance research. While director-CEO and director-CFO multiple-hatting have achieved relatively consistent results, the consequences of committee overlapping remain unclear and require further, multi-perspective empirical evidence. Early research on internal control quality focused on revealing positive consequences of high-quality internal control to motivate firms to improve quality proactively. Recent research supplements this by examining indirect consequences and investigating causes of low (high) quality internal control. At the board level, studies have noted audit committee members' individual characteristics but paid insufficient attention to group characteristics.

Theoretical Analysis

Theoretically, convenor multiple-hatting can exert two distinct effects on internal control quality: professional spillover and guanxi constraints.

1. Professional Spillover Effect of Convenor Multiple-Hatting First, as accounting professionals, audit committee convenors attach greater importance to internal control system construction and emphasize design effectiveness. Imprinting theory posits that environmental characteristics during specific stages significantly affect individuals or organizations with persistent, dynamic effects (Marquis and Tilcsik, 2013). For audit committee convenors, continuous immersion in accounting knowledge from early learning through later practice in accounting-related fields (including theoretical research and practical application) engenders deep understanding of using accounting to provide decision-useful information and improving organizational construction through system design. Compared with other personal background characteristics, accounting professional convenors better understand internal control systems' importance and requirements for good design. This technical expertise provides a professional foundation for convenors to perform supervisory and evaluative duties regarding internal control.

Second, by serving on other specialized committees, audit committee convenors have more opportunities to ensure internal control systems' execution effectiveness. Upper echelons theory posits that managers determine corporate behavior, with organizational strategic measures reflecting managers' cognitive patterns and behavioral habits (Hambrick and Mason, 1984). During the process of convenors' concurrent service on other committees, they can convey internal control concepts—risk management, process control, compliance awareness, and supervisory inspection—through formal channels like collective meetings or decision opinions, or informal channels like casual conversations before/after meetings or social media viewpoint sharing, guiding the overall board to emphasize internal control process management and system implementation. For example, they can promote internal control as a systematic project throughout business management and risk control, rather than mere window dressing.

Finally, by ensuring both design and execution effectiveness through an integrated pathway, audit committee convenors' overlapping committee service can exert a "professional spillover" effect. On one hand, by shaping board members' collective consciousness, convenors transform their personal imprinting emphasizing internal control into collective imprinting, safeguarding the key control environment for internal control system execution at the governance level. On the other hand, convenors' deep involvement in governance layers enables them to gather information about internal control execution from other committees' responsibilities, judge potential or defect-causing business links *ex ante* and *in medias res*, or play timely supervisory or advisory roles from an internal control perspective in other committees' decision matters, thereby implementing internal control systems across all management levels, aspects, and business

processes. This leads to Hypothesis H1:

H1: When audit committee convenors serve on more other committees, firms' internal control quality is higher.

2. Guanxi Constraints Effect of Convenor Multiple-Hatting Chinese society and economic operations exhibit personalized “relationship-based transaction” characteristics (Li Zengquan, 2017). A contract environment based on relationships rather than markets constitutes the institutional reality Chinese enterprises face. As an informal governance mechanism, relationships often serve as substitute mechanisms for enforcing commercial contracts (Wong, 2016). It can be expected that if internal control formulation and execution are viewed as contracts, their effectiveness will be weakened by relationship-based transactions.

Embeddedness theory posits that economic activities are influenced by social factors, with actors embedded in their social relationships and their rationality and preferences formed through social interaction processes (Macneil, 1982; Granovetter, 1985). Relationship governance involves both transactions among insiders within the network and how insiders as a group transact with outsiders (Li Zengquan, 2017). Theoretically, only by integrating into the firm's social relationship network can one obtain authentic information, but external insiders' involvement in internal relationship networks faces independence threats (Granovetter, 1995; Li Zengquan, 2017). When audit committee convenors serve on more committees, they face more interest parties and must balance more complex interest groups. Greater concern for social relationships increases susceptibility to interest relationship constraints, preventing them from exerting expected or originally possible positive governance effects. For example, although an audit committee may identify internal control execution defects, it may ultimately fail to optimize them due to coordination and interest conflicts involving multiple functional departments—beyond just specialized committees. Therefore, concurrent service on other specialized committees may weaken audit committee convenors' independence, limiting effective performance due to the performance environment.

In reality, Chinese society is one that emphasizes human sentiment (renqing) and face (mianzi). Such human sentiment represents an emotion in a “private relationship” state (Zhai Xuwei, 2004). As a core concept in Chinese culture, human sentiment's basic meaning contradicts formal institutions and regulations to some extent, but those who emphasize human sentiment hope to exploit institutional loopholes, margins, and humanized aspects to return to human sentiment while acknowledging and complying with institutional necessity (Zhai Xuwei, 2014). In China's contractual environment, even perfect institutional design yields to human relationships. Meanwhile, supervising and implementing internal control system requirements is strict and serious, often affecting some interest groups' face. This means that in Chinese society, audit committee convenors' “knowledge” and “action” regarding internal control

design and execution effectiveness may be inconsistent.

Individuals who deviate from human sentiment and face become isolated from their networks (Zhai Xuewei, 2021). The cost of deviating from relationship networks is typically enormous. Therefore, to maintain relationship networks and their own embedded existence—at least “surface politeness”—accounting professionals serving on more specialized committees lack motivation to instill internal control importance into other committee members and form collective imprinting, and cannot thoroughly supervise internal control execution effectiveness due to concern for human sentiment and face. Internal control is a mandatory rule that cannot self-implement; once lacking strict supervision or regulation, even perfectly designed systems become formalistic, with execution efficiency and compliance substantially reduced. Firms advocating “guanxi” often suffer severe agency problems (Cai et al., 2011; Shen Yu and Zhao Jingmei, 2016). Convenors serving on more committees may be utilized by insiders—such as executives attempting to override internal controls—to circumvent standardized internal control processes. In other words, in a human-sentiment society, “professional spillover effects” may be overshadowed by “guanxi constraints effects.” This leads to the competing Hypothesis H2:

H2: When audit committee convenors serve on more other committees, firms’ internal control quality is lower.

Research Design

Model Specification

This study specifies the following model to test hypotheses. When β_1 is significantly positive, it supports H1; when significantly negative, it supports H2.

$$IC_{i,t} = \beta_0 + \beta_1 \text{Overlap}_{i,t} + CVs_{i,t} + FE + \varepsilon_{i,t}$$

The dependent variable is internal control quality (IC), the independent variable is convenor multiple-hatting (Overlap), CVs represents a series of firm-level control variables, and FE denotes time (year) and space (industry) fixed effects.

Variable Definitions

1. Dependent Variable Following Cao Yue et al. (2020), Zhou Zejiang et al. (2020), and Zhang Qincheng and Yang Mingzeng (2022), this study uses the DIBO Internal Control Index score as a proxy for internal control quality, dividing by 100 in regressions to eliminate scale differences. Higher values indicate higher internal control quality.

2. Independent Variable Drawing on Hoitash and Hoitash (2008), Deng Xiaolan et al. (2014; 2015), Wang Wenhui et al. (2018), and Xue Youzhi et

al. (2021) regarding committee overlapping research, this study counts the number of committees on which the audit committee convenor concurrently serves, standardized by the total number of committees established excluding the audit committee. Higher values indicate the convenor serves on more committees and higher committee overlapping.

3. Control Variables Referencing relevant model specifications in internal control and committee research, this study selects control variables from two dimensions: firm financial characteristics and governance institutional characteristics. Financial characteristics include firm size (Emp), leverage risk (Lev), tangible asset ratio (Tangible), cash flow level (Cashflow), and book-to-market ratio (BM). Governance characteristics include ownership structure change (Change), independent director ratio (ID), CEO duality (Dual), Big 4 auditor (Big4), state ownership (SOE), region (Area), plus time fixed effects (Year) and industry fixed effects (Industry) as dummy variables. Details are shown in Table 1 .

Table 1 Variable Definitions

Variable Type	Variable Name	Definition
Dependent Variable	IC	DIBO Internal Control Index score divided by 100
Independent Variable	Overlap	Number of committees convenor serves on / (Total committees - 1)
Firm Financial Characteristics		
	Emp	Firm size, natural logarithm of employee count
	Lev	Leverage risk, asset-liability ratio
	Tangible	Tangible assets (fixed assets and inventory) standardized by total assets
	Cashflow	Cash flow level, operating cash flow standardized by total assets
	BM	Book-to-market ratio
Governance Institutional Characteristics		

Variable Type	Variable Name	Definition
Change		Equals 1 if ownership structure changed, 0 otherwise
ID		Independent director ratio
Dual		Equals 1 if CEO duality exists, 0 otherwise
Big4		Equals 1 if audited by Big 4, 0 otherwise
SOE		Equals 1 if state-owned, 0 otherwise
Area		Equals 1 if registered in eastern region, 0 otherwise
Industry		Dummy variable based on CSRC 2012 industry classification
Year		Dummy variable based on year

Sample Description

China's internal control system construction originated with the establishment of the Corporate Internal Control Standards Committee (CICSC) in 2006. The Basic Norms of Enterprise Internal Control issued by five ministries in 2008 and supporting guidelines issued in 2010 marked initial regulatory perfection. Accordingly, this study's sample period is 2011–2021, comprising Shanghai and Shenzhen listed companies. After removing observations with zero or missing internal control index scores, excluding financial firms and ST firms during the sample period, and dropping missing control variables, the final sample contains 24,715 firm-year observations. All variables except the internal control index (from DIBO) are processed from CSMAR database sub-databases. Audit committee convenor overlapping information comes from “Governance Structure—Committee Member Files,” where convenor information (some firms use “director” or “chair”) is obtained from the “Position” field, aggregated by firm-year to count convenor name appearances, with overlapping count equal to total appearances minus one. Descriptive statistics and regressions use winsorization at the 1% level.

Empirical Analysis

Descriptive Statistics and Stylized Facts

Table 2 presents winsorized descriptive statistics for basic regression variables. The mean value of audit committee convenor overlapping is 0.475, indicating that on average, convenors serve on nearly half of other committees. Both the 25th percentile and median are 0.333, making one-third overlapping the most common situation, though cases of no overlapping and full overlapping also exist. Binary variable results show 27% of samples have CEO duality, 5.6% are audited by Big 4, 37.4% are state-owned, and 71.5% are located in eastern regions. Descriptive statistics for conventional variables are consistent with existing research.

Table 2 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Overlap	24,715	0.475	0.289	0.000	1.000
IC	24,715	6.542	0.431	5.466	6.966
Tangible	24,715	0.170	0.141	0.000	0.472
Cashflow	24,715	0.048	0.073	-0.131	0.256
Change	24,715	0.201	0.401	0.000	1.000

Large-sample regressions after extreme value winsorization cannot provide case evidence, which nevertheless offers partial insights into basic trends and hypothesis verification. Based on 2021 data, this study manually examines annual reports to count audit committee convenors' overlapping committee service for firms with the lowest and highest internal control scores within each industry. Results are shown in Table 3. Among 21 industry classifications, three patterns emerge: first, in industries where low internal control scores coincide with higher convenor overlapping; second, where low scores coincide with lower overlapping; and third, where low scores show no overlapping or equal overlapping. Table 3 shows that only 7 of 21 industries provide clear evidence of positive correlation (H1) from extreme cases. Interestingly, in industries K and L, firms with the highest internal control scores have audit committee convenors who are authoritative theoretical experts in accounting academia, making these cases unable to refute the existence of guanxi constraints, as expert authority can exert professional spillover despite relationship constraints. In other words, convenors' personal characteristics may mitigate the low internal control quality phenomenon caused by overlapping appointments.

Table 3 Stylized Facts (I)

Industry	Lowest IC Score	Highest IC Score
C1	Fucheng Co. (0.333)	Yuegui Co. (0.000)

Industry	Lowest IC Score	Highest IC Score
C2	Hangzhou High-Tech (0.500)	San Sheng Co. (0.500)
...

Table 3 provides results comparing overlapping status while controlling for score differences. Based on Table 3, Table 4 presents results comparing score differences while controlling for overlapping status. Statistics are calculated by overlapping proportion ranges and extreme value directions, comparing internal control scores across different scenarios. Two key findings emerge: First, comparing highest and lowest overlapping levels, firms with the lowest (highest) internal control scores have mean scores of 312.61 (873.16) when convenors serve on no other committees, significantly higher than 267.37 (787.47) when serving on all other committees. Second, in pairwise adjacent comparisons, seven of ten groups show that higher overlapping accompanies lower internal control scores.

Overall, Tables 3 and 4 provide preliminary evidence of a negative relationship (H2) between audit committee convenor overlapping and internal control quality using extreme score differences across industries.

Table 4 Stylized Facts (II)

Panel A: Lowest IC Score Group	Panel B: Highest IC Score Group
Overlap Range	Mean IC Score
0.000	312.61
0.001-0.250	298.45
...	...

Correlation Analysis

Table 5 presents correlation analysis for baseline regression variables. Under both correlation measures, convenor overlapping (Overlap) and internal control quality (IC) are significantly negative at the 1% level. Building on industry cases, Table 5 further demonstrates large-sample evidence of their negative relationship (H2). Other correlation results are not elaborated; overall, correlation coefficients do not exceed 0.4, indicating weak multicollinearity.

Table 5 Correlation Analysis

	Overlap	IC	Tangible	Cashflow	Change	...
Overlap	1.000	-0.019***	0.031***	0.142***	-0.016**	...
IC	-0.019***	1.000	0.201***	0.173***	-0.128***	...
...

Note: , , represent significance at 10%, 5%, and 1% levels respectively. Same for subsequent tables.

Table 6 presents univariate tests of internal control quality grouped by convenor overlapping using 0.5 as the cutoff. Both mean and median tests show that firms whose audit committee convenors serve on more committees have significantly lower internal control quality, with a significant negative correlation.

Table 6 Univariate Tests

	Overlap \leq 0.5	Overlap $>$ 0.5	Difference
Mean IC	6.542	6.288	0.254***
Median IC	6.566	6.212	0.354***

Regression Results Analysis

Correlation analysis cannot account for time and space fixed effects. Table 7 presents regression results with fixed effects, showing results without control variables, with only financial characteristics, with only governance characteristics, and with the full model. The coefficients on convenor overlapping (Overlap) are -0.048 significant at 1%, -0.037 significant at 5%, -0.047 significant at 1%, and -0.036 significant at 5%, respectively. The economic interpretation is that when audit committee convenors serve on more committees, firms' internal control quality is lower, supporting H2.

Table 7 Hypothesis Testing

	(1)	(2)	(3)	(4)
Overlap	-0.048*** (-2.64)	-0.037** (-2.10)	-0.047*** (-2.63)	-0.036** (-2.09)
Tangible		0.170*** (35.76)		0.153*** (31.08)
...
Constant	6.542*** (653.10)	5.466*** (165.90)	6.288*** (161.18)	5.362*** (106.86)
Industry & Year FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.031	0.285	0.042	0.298
Observations	24,715	24,715	24,715	24,715

Subcategory Tests of Internal Control

The DIBO Internal Control Index comprises five sub-indices: strategic level, operational level, reporting reliability, legal compliance, and asset security, collected since 2013. This study sets Strategy, Operation, Reliability, Compliance,

and Security as dependent variables to examine heterogeneous scenarios of baseline conclusions. Table 8 presents relevant tests. Due to different sample periods, the study first re-runs regressions for the new period, with the significantly negative result for convenor overlapping unchanged. The last five columns show that convenor overlapping is significantly negative at 5% for strategic- and operational-level internal control indices, consistent with baseline conclusions, while coefficients for reporting reliability, legal compliance, and asset security are less significant. This suggests that for non-strategic and non-operational internal control matters, overlapping convenors are not significantly affected by guanxi constraints when supervising and evaluating. The likely reason is that independent directors play more advisory roles with weaker supervisory voice for strategic and operational matters, making related internal control more dependent on governance and management attitudes. As Chen Hanwen and Wang Weicheng (2014) found, chairpersons play a greater role than audit committees in internal control construction. However, for reporting reliability, legal compliance, and asset security matters, professional requirements grant independent directors greater supervisory voice, enabling them to escape guanxi constraints to some extent.

Table 8 Subcategory Tests of Internal Control

	Strategy	Operation	Reliability	Compliance	Security
Overlap	-0.043** (-2.29)	-0.105** (-2.44)	-0.057** (-2.47)	-0.032* (-1.79)	-0.011 (-0.71)
Constant	5.386*** (100.33)	1.997*** (16.15)	2.600*** (39.44)	8.150*** (98.12)	8.604*** (75.93)
CVs & FE	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.285	0.198	0.342	0.421	0.376
Observations	22,135	22,135	22,135	22,135	22,135

Discussion and Tests of Endogeneity Issues

1. Discussion of Alternative Explanations Independent directors' performance relates to their inter-firm multiple-hatting, with quality and busyness hypotheses (Li Zhihui et al., 2017; Jiang Xinfeng et al., 2020). An alternative explanation for the negative relationship between audit committee convenor overlapping and internal control quality is that director busyness leads to poor performance. This study argues this alternative explanation is unlikely for two reasons. First, independent directors can autonomously decide whether and how to accept concurrent positions. If anticipating that overlapping will affect performance, rational actors would decline to protect their reputation. Second, while senior managers can determine internal control system design, specific implementation mechanisms, execution processes, and ultimate effectiveness evaluation depend on the entire firm, especially middle- and lower-level coordination.

The impact of busy external directors on internal control will be overshadowed by strategic-level factors.

This study conducts corresponding tests. First, it introduces the number of convenors' external concurrent positions, dividing samples into busy and non-busy groups. Following Jiang Xinfeng et al. (2020), convenors serving on 2+ listed companies or 3+ companies are defined as busy. Results in Table 9 columns (1)-(4) show Overlap is insignificantly positive in busy groups but significantly negative in non-busy groups, indicating that externally busier convenors are not subject to guanxi constraints, thus rejecting the busyness hypothesis and supporting the quality hypothesis consistent with Jiang Xinfeng et al. (2020).

Second, this study introduces the business strategy index and its sub-item employee volatility (Employee) constructed by Bentley et al. (2013), commonly used to measure strategic aggressiveness or transformation (Transform). Strategy is determined by internal senior managers, and turbulent internal environments hinder both independent director performance and internal control system implementation. Adding these variables to the baseline regression yields Table 9 columns (5)-(6), where Overlap coefficients are -0.036 and -0.038 (both significant at 5%), similar to baseline results, while Employee and Transform are significantly negative. This indicates that firms in transformation stages indeed have poorer internal control quality, but baseline conclusions remain unaffected after considering internal managers' strategic behaviors.

Table 9 Tests of Alternative Explanations

	(1) Busy (Listed)	(2) Non-busy (Listed)	(3) Busy (Total)	(4) Non-busy (Total)	(5) Trans- form	(6) Em- ployee
Overlap	0.021 (0.45)	-0.059*** (-2.80)	0.018 (0.57)	-0.056*** (-2.76)	- 0.036** (-2.04)	- 0.038** (-2.12)
Employee						- 0.082*** (-3.70)
Transform					- 0.011*** (-7.99)	
Constant	5.501*** (60.27)	5.316*** (88.24)	5.578*** (56.83)	5.297*** (90.45)	5.305*** (105.93)	5.270*** (104.83)
CVs & FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	7,527	17,187	6,493	18,221	24,075	24,073
Adjusted R ²	0.042	0.301	0.038	0.298	0.299	0.301

Note: (1) and (3) group by listed company concurrent positions, with $Bdiff = 0.073$; (2) and (4) group by total concurrent positions, with $Bdiff = 0.076$.

2. Discussion of Reverse Causality At the normative level, this study faces minimal reverse causality concerns because internal control quality or effectiveness depends on corporate governance mechanisms—better (worse) governance design yields higher (lower) internal control quality. Moreover, board personnel or specialized committee arrangements do not depend on internal control quality.

3. Econometric Tests **First, measurement error.** Lu Dong et al. (2015), Li Ruijing et al. (2022), and Zhou Donghua et al. (2022) logarithmically transform internal control quality scores. While logarithmic transformation can eliminate heteroskedasticity and scale differences, it also represents nonlinear transformation. This study presents it only as a robustness check. Table 10 column 1 shows the coefficient remains significantly negative (at 10%). Using the grouping variable from univariate analysis as an alternative independent variable yields column 2, also significantly negative.

Second, omitted variables. The primary omitted variable concern involves internal control or internal audit effects. For example, weak internal control environments tolerate “incompatible position overlapping,” simultaneously leading to lower internal control scores. Adding controls for internal control report disclosure, internal audit report disclosure, and internal control audit location characteristics to the baseline model yields column 3, with reduced sample size but unchanged significantly negative result for convenor overlapping.

Third, reverse causality. The previous section discussed reverse causality at the normative level; this section uses instrumental variables to address it technically, specifically employing the regional average number of full professors per university ($ProfessorLn_{\{Sch\}}$). This variable is relevant because academics are the most important supply source for independent director appointments in practice. Existing research shows scholar independent directors account for about 45% of independent directors on average (Xiang Rui and Song Congmin, 2019; Jiao Yuehua and Sun Yuan, 2022), with more recent research reporting 56.7% (Li Laifang et al., 2022). Firms typically select directors from nearby universities, creating a complex supply-demand relationship between academic supply and independent director/specialized committee composition. Part of the reason for internal overlapping may be supply shortage. Thus, when supply is greater and demand is satisfied, overlapping should significantly decrease. The exogeneity lies in that regional scholars affect corporate behavior only through independent director appointments. Especially for internal control as an outcome variable, the control environment—the foundation of the internal control framework—depends on governance and management layers. Therefore, only when scholars are appointed as corporate directors with power to express opin-

ions on corporate decisions can they affect internal control. Table 10 columns 4-5 present two-stage IV results, showing regional average full professors per university is significantly negatively related to convenor overlapping at 1%, supporting expectations. After IV correction, convenor overlapping remains significantly negative at 5%, consistent with baseline conclusions.

Fourth, sample selection. The internal control index does not cover all listed companies, with some samples lacking scores or having zero scores for various reasons. Removing these during data processing creates sample selection issues. Using Heckman two-stage with internal control evaluation report disclosure as the selection variable, including the IV and control variables, yields Table 10's final column, where convenor overlapping remains significantly negative.

Table 10 Robustness Tests

	(1)	(2) Over-	(3)	(4) First	(5) IV	(6)
	Log(IC)	lap_{dummy}Vars	Omitted	Stage	2SLS	Heck-
						man
Overlap	0.006*	-0.047**	-0.046**		-0.019*	-
	(-1.70)	(-2.32)	(-2.30)		(-1.90)	0.018***
						(-3.14)
ProfessorLn_{Sch}				-0.211***		
				(6.88)		
Lambda						0.278***
						(2.83)
Constant	6.271***	5.352***	5.418***	0.662***	6.966***	-
	(584.37)	(108.16)	(79.22)	(22.22)	(10.60)	2.471***
						(31.96)
CVs	Yes	Yes	Yes	Yes	Yes	Yes
&						
FE						
Observations	24,715	24,715	18,496	24,715	24,715	24,715
Adjusted	0.031	0.298	0.301	0.042	0.299	0.298
R ²						

Mechanism Analysis

Existence Mechanism of Guanxi Constraints

The preceding analysis explains the phenomenon of lower internal control quality when audit committee convenors serve on other committees from a guanxi constraints perspective. However, “guanxi” and its resulting constraints cannot be measured directly and must be tested indirectly through multiple contextual variables. As noted, part of the reason guanxi constraints form is that internal overlapping exposes audit committee convenors to more and more complex interest groups. Therefore, we can test the mechanism indirectly by distinguishing

scenarios representing more complex interest groups, specifically around shareholder and management levels.

First, shareholder level. Multiple large shareholders represent a globally common ownership structure that may create either balance and supervision or collusion among shareholders (Jiang Fuxiu et al., 2018; Jiang and Kim, 2020). On one hand, balance reflects inconsistent interests to some extent. If multiple large shareholders play a supervisory role, external independent directors face more complex interest relationships. On the other hand, if multiple large shareholders collude, it implies implicit “substantive” rather than explicit “formal” connections among shareholders that are harder for external independent directors to detect, placing them at greater information disadvantages. Thus, regardless of which effect dominates, multiple large shareholder structures imply stronger guanxi constraints that hinder audit committee convenors’ performance, predicting a more significant negative relationship between convenor overlapping and internal control quality under multiple large shareholders. Second, whether the top ten shareholders are related represents an explicit “formal” connection. Observing the same results from implicit “substantive” connections can further corroborate the guanxi constraints mechanism. Finally, group control and listing strategy represent a frequently overlooked research scenario. When a group is not listed as a whole, the listed entity must coordinate relationships with capital market stakeholders while also facing pressure from the controlling group, encountering more stakeholders than wholly listed groups. This study uses the existence of brother listed companies as a proxy for whole-group listing.

Grouping regressions are performed based on multiple large shareholders, related top ten shareholders, and brother listed companies. Multiple large shareholders are defined following Jiang Fuxiu et al. (2018) and Sun Zeyu and Qi Baolei (2021), using a 10% ownership threshold after considering concerted actors. Results in Table 11 show the negative relationship between convenor overlapping and internal control quality is more significant when multiple large shareholders exist, top ten shareholders are related, and brother listed companies exist, consistent with expectations. Notably, evidence shows multiple large shareholders’ supervisory balance can improve internal control quality (Ma Ying et al., 2019), while this study finds audit committee characteristics negatively correlate with internal control quality under multiple large shareholder structures. A possible explanation is that although multiple large shareholders can improve internal control quality, the two types of agency problems create divergences or games between shareholders and other shareholders or management, reducing management’s—especially specialized committees’—internal control governance effectiveness.

Table 11 Guanxi Constraints Mechanism: Shareholder Level

	Multiple Large Share- holders	No Multiple Large Shareholders	Related Top 10	Unrelated Top 10	Brother Listed	No Brother Listed
Overlap	0.054** (-2.44)	-0.040 (-1.30)	-0.054* (-1.66)	-0.035 (-1.07)	- 0.059** (-2.48)	-0.032 (-1.22)
Constant	5.697*** (93.68)	5.290*** (50.42)	5.306*** (64.15)	5.430*** (85.16)	5.543*** (90.61)	5.150*** (55.29)
CVs	Yes	Yes	Yes	Yes	Yes	Yes
&						
FE						
Bdiff	0.021***		0.051***		0.027**	
Econsig	Yes	No	Yes	No	Yes	No
Observations	18,746	5,969	8,886	15,829	16,803	7,702

Second, management level. Consistent with group control and listing strategy, when directors, supervisors, and senior executives are appointed by or concurrently serve in controlling shareholder units (vertical multiple-hatting), they must weigh and balance interests more extensively, facing greater guanxi constraints. Second, related party transactions within groups represent important manifestations of relationship-based transactions (Li Zengquan, 2017). When firms have more related party transactions, it means individual firms and their management are more constrained by controlling shareholders and other related parties, losing some autonomy. Thus, more related party transactions can represent higher guanxi constraints. Finally, firms must invest in relationship maintenance for business continuity. During periods of imperfect market economic institutions, relationship investment is a shortcut for resource acquisition (Cai et al., 2011; Zhang Xuan et al., 2017). On one hand, more relationship investment signals poor corporate governance, as such firms and managers advocate “guanxi” accompanied by more severe agency problems (Cai et al., 2011; Shen Yu and Zhao Jingmei, 2016). On the other hand, when firms invest more in relationships, it means they intentionally enter more complex relationship networks, where external directors face greater guanxi constraints. Relationship investment captures management-level guanxi constraints from the side. Specifically, the negative effect of convenor overlapping on internal control quality should be more significant when directors/supervisors/senior executives are vertically multiple-hatted, related party transactions are higher, and relationship investment is greater. Related party transactions are measured as related transaction amounts standardized by total assets. Both relationship investment and related party transaction grouping criteria are industry-year medians. Relationship investment is measured as entertainment and travel expenses standardized by operating revenue, as expenses for building relationships with suppliers and customers are recorded in these items (Cai et al., 2011).

Grouping regression results by vertical multiple-hatting, relationship invest-

ment, and related party transactions are shown in Table 12 . The negative effect of convenor overlapping on internal control quality is significantly negative under vertical multiple-hatting, high relationship investment, and high related party transactions, but insignificant otherwise, consistent with expectations.

Table 12 Guanxi Constraints Mechanism: Management Level

	Vertical Multiple-Hatting	No Vertical Multiple-Hatting	High Rel. Investment	Low Rel. Investment	High Related Trans.	Low Related Trans.
Overlap	0.040** (-2.02)	-0.035 (-1.47)	-0.044* (-1.71)	-0.029 (-1.22)	-0.043* (-1.81)	-0.031 (-1.30)
Constraints	5.332*** (49.75)	5.332*** (93.93)	5.584*** (82.57)	5.237*** (70.35)	5.336*** (73.21)	5.496*** (77.78)
CVs & FE	Yes	Yes	Yes	Yes	Yes	Yes
Bdiff	0.042**		0.038*		0.041*	
Econsig	Yes	No	Yes	No	Yes	No
Observations	5,165	19,149	12,418	12,297	12,394	12,321

Beyond directly observable statistical significance differences, this study further calculates between-group coefficient differences (Bdiff) and economic significance (Econsig) based on Mitton (2024). Results show that among six scenarios identified as having stronger “guanxi constraints,” four have significantly larger coefficient values, and all six have higher economic significance. Tables 11 and 12 collectively indicate that audit committee convenors fail to improve internal control quality because their performance environment faces more severe guanxi constraints.

Mitigation Mechanisms of Guanxi Constraints

The preceding analysis demonstrates the existence of guanxi constraints. The subsequent question concerns how to mitigate these constraints to release the knowledge expertise effects of accounting expert convenors. On one hand, within the interaction framework of informal and formal institutions, if “guanxi” is viewed as an informal institution, mitigation mechanisms can be explored from formal corporate governance perspectives. On the other hand, the industry K and L cases in Table 3’s stylized facts suggest a possible mitigation mechanism: convenors’ authoritative status.

1. Formal Corporate Governance Institutions Since the control environment determines internal control quality by setting the tone for enterprise

internal control, formal corporate governance institutions are prerequisites for internal control design and execution effectiveness. This study expects that corporate governance institutions safeguarding independent director performance can effectively improve the guanxi constraints situation faced by audit committee convenors. Digital transformation degree is used as a proxy for formal corporate governance mechanisms for three reasons. First, common corporate governance evaluation indicators are highly endogenous with the core variable, requiring relatively exogenous variables to avoid econometric issues. Second, under current digital economy development, the two have high relevance: digital transformation requires IT- or academic-background executives to drive (Wu Yuhui et al., 2022; Yang Zhen et al., 2022), while digital transformation can optimize governance by transferring control to intellectual capital and restraining executive corruption (Ma Lianfu et al., 2022; Shao Jianbing and Wang Luye, 2023). Third, existing research considers corporate digital transformation an important reason for improving internal control quality by creating collaborative internal governance environments and reducing human fraud and errors (Zhang Qincheng and Yang Mingzeng, 2022; Zhang Ruichen et al., 2023).

This study introduces digital transformation degree as a moderating variable into Model (1). DT1 and DT2 are digital transformation degrees measured using digital dictionaries based on MD&A text from Wu Fei et al. (2021) and Zhao Chenyu et al. (2021), respectively. Digintan measures digital transformation using digital asset inputs following Yao Youfu and Zhou Lan (2023).

Table 13 presents results. Two findings emerge: First, digital variables are significantly positively related to internal control quality (1% level for DT1 and DT2, 5% level for Digintan), consistent with Zhang Ruichen et al. (2023), but Digintan based on asset items is significantly negative (-3.740 at 1%). The likely reason is that current internal control implementation rules lag behind corporate asset digitalization practices, challenging original supervision mechanisms, and the “digital divide” increases risk assessment difficulty, thus failing to capture positive effects of asset-level digital transformation on internal control. Second, even columns show that although digital variables have different relationships with internal control quality, the interaction terms between convenor overlapping and all three digital variables are significantly positive (0.025 at 10% for DT1, 0.027 at 5% for DT2, 3.530 at 5% for Digintan), significantly opposite in sign to convenor overlapping. This has statistical meaning: higher digital transformation degree weakens the negative effect of convenor overlapping on internal control quality. Economically, more formal corporate governance institutions help mitigate guanxi constraints faced by audit committee convenors, better leveraging expertise to achieve professional spillover and improve internal control quality.

Table 13 Mitigation Mechanism of Guanxi Constraints (I): Formal Governance

	(1)	(2)	(3)	(4)	(5)	(6)
Overlap	-0.032* (-1.86)	-0.029* (-1.66)	-0.036** (-2.06)	-0.032* (-1.86)	-0.036** (-2.06)	-0.036** (-2.06)
DT1	0.029*** (5.63)	0.029*** (5.63)				
Overlap×DT1	0.025* (1.70)					
DT2			0.044*** (9.26)	0.044*** (9.19)		
Overlap×DT2			0.027** (2.02)			
Digintan					-3.740*** (-7.74)	-3.575*** (-7.33)
Overlap×Digintan					3.530** (2.44)	
Constant	5.367*** (108.79)	5.371*** (108.80)	5.409*** (109.03)	5.412*** (109.05)	5.328*** (108.52)	5.331*** (108.53)
CVs & FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	24,703	24,703	24,703	24,703	24,715	24,715
Adjusted R ²	0.299	0.299	0.301	0.301	0.298	0.298

2. Informal Convenor Authority External directors' voice in internal corporate decisions depends on social capital. Social capital has radiating spillover effects; higher independent director social capital leads to stronger personal social capital penetration into corporate-level influence (Gao Fenglian and Wang Zhiqiang, 2016). This endows external independent directors with authority. Social capital typically originates from status in social networks. Existing research shows that centrally positioned independent directors in relationship networks can leverage social capital to perform supervisory functions, such as improving information disclosure quality (Chen Yunson, 2012; Zhang Chuan et al., 2022; Lu Qiaoshan et al., 2022). It can be expected that, based on social capital governance effects of independent directors, if audit committee convenors possess authority, they can better supervise internal control and their performance will be less affected by “guanxi constraints.”

This study introduces four types of variables to capture convenor personal authority based on social capital theory. First, independent director network centrality (NetHole). Since independent directors comprise the majority of audit committees and serve as convenors, this study uses independent director authority as a proxy for convenor authority, following Li Zhisheng et al. (2018) for network centrality calculation. Second, the number of convenors' external concurrent positions used in alternative explanations: the number of concurrent director or executive positions in other listed companies (PJ_{Listed})

and other companies (PJ_{Compa}). More external concurrent positions indicate higher reputation and social capital, thus greater internal voice. Third, consistency between convenors' and listed companies' work locations. Local information advantages based on local social relationships are important foundations for local independent director performance. Existing research generally shows locally based independent directors perform better, such as firms hiring local accounting expert independent directors having higher earnings quality than those hiring non-local accounting experts (Zhou Jun et al., 2019). Fourth, convenors' academic experience. Traditional Chinese concepts of "respecting teachers and valuing education" endow scholars with higher social status. Unlike local independent directors' "spatial" characteristics, academic experience brings "temporal" persistent social capital.

This study tests convenor personal authority mitigation mechanisms using interaction and grouping methods based on variable characteristics. Theoretical expectations suggest that independent director network centrality and external concurrent positions should significantly weaken the main effect, while the main effect should be more significant in non-local and non-academic experience groups. Results are presented in Tables 14 and 15. Table 14 shows authority-representing variables are significantly positive, while interaction terms are significantly opposite in sign to Overlap. This means that from an informal governance perspective, convenors' social capital helps improve internal control quality by weakening guanxi constraints during performance. Table 15 shows Overlap is insignificant in groups where convenors work locally and have academic experience, but significant in non-local and non-academic experience scenarios. These results are consistent with theoretical expectations.

Overall, Tables 13–15 collectively indicate that when convenors face performance threats, sound corporate governance mechanisms and personal authority can liberate convenors from guanxi shackles to some extent, providing governance guarantees for convenors to exert expertise. In other words, the important governance foundation for external independent director convenors to perform duties in listed companies is sound internal institutional arrangements and strong personal social capital.

Table 14 Mitigation Mechanism of Guanxi Constraints (II): Informal Governance—Independent Director Network Centrality and External Concurrent Positions

	(1)	(2)	(3)	(4)	(5)	(6)
Overlap	-0.036** (-2.05)	-0.036** (-2.04)	-0.035** (-2.01)	-0.036** (-2.05)	-0.035** (-2.01)	-0.036** (-2.05)
NetHole	0.037*** (2.74)	0.037*** (2.74)				
Overlap×NetHole	0.011** (2.11)					

	(1)	(2)	(3)	(4)	(5)	(6)
PJ_{Listed}			0.013*** (3.28)	0.013*** (3.29)		
Overlap×PJ_{Listed}			0.039*** (2.89)			
PJ_{Compa}					0.012*** (4.08)	0.012*** (4.14)
Overlap×PJ_{Compa}					0.021** (1.97)	
Constant	5.347*** (108.74)	5.350*** (108.74)	5.344*** (108.78)	5.348*** (108.79)	5.348*** (108.82)	5.352*** (108.81)
CVs & FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	24,715	24,715	24,715	24,715	24,715	24,715

Table 15 Mitigation Mechanism of Guanxi Constraints (III): Informal Governance—Grouping by Work Location and Academic Experience

	Local	Non-local	Academic Experience	No Academic Experience
Overlap	-0.029 (-1.47)	-0.040* (-1.71)	-0.031 (-1.22)	-0.043* (-1.81)
Constant	5.558*** (72.53)	5.245*** (78.49)	5.323*** (72.24)	5.392*** (78.40)
CVs & FE	Yes	Yes	Yes	Yes
Bdiff	0.038*		0.041*	
Econsig	No	Yes	No	Yes
Observations	10,024	14,578	11,315	13,400

Conclusion and Implications

Research Conclusions

Motivated by compliance requirements, listed companies often hire independent directors merely to meet minimum regulatory thresholds. Since specialized committees require independent director majorities, this creates internal overlapping phenomena across committees. This study focuses on the phenomenon of audit committee convenors—the only mandatory specialized committee—serving on other committees, examining its impact on internal control quality. Through industry-specific stylized cases and large-sample empirical tests, this study finds that firms have lower internal control quality when their audit committee convenors serve on more committees. Mechanism tests reveal that overlapping exposes audit committee convenors to more complex interest environments, preventing them from exerting professional expertise due to “guanxi constraints.” Meanwhile, better corporate governance mechanisms and audit committee convenors’ authoritative status can mitigate these “guanxi constraints.”

Research Implications

Future research can deepen understanding in several aspects:

First, this study finds that in China's human-sentiment, face, and guanxi-oriented social atmosphere, internal director multiple-hatting cannot exert positive governance effects. Therefore, although some overlapping situations are not prohibited by regulations and overlapping helps directors obtain multi-party information beneficial for advisory functions, it should be noted that advisory and supervisory functions have certain conflicts. Especially for audit committee design and member performance, how to balance the boundary between advisory and supervisory functions, overcome the performance paradox, and participate in decision-making without affecting external director independence remains an important topic for future research.

Second, since audit committee convenors are independent directors, this study provides partial insights for improving independent director performance. Unlike previous research revealing concrete personal relationships between independent directors and managers or auditors, this study finds that independent directors' performance in decision-making and advisory roles is negatively affected by "tacit" abstract social relationships. Under China's relationship-based transaction institutional background, to ensure independent director performance effectiveness, "guanxi research" still needs to provide multi-dimensional evidence distinguishing different relationship types or scenarios that constrain independent director performance, enabling targeted weakening of potential social relationship constraints.

Third, overall, audit committee research does not occupy mainstream status in corporate governance theory research. However, with the new Company Law's implementation, audit committees are expected to assume more important governance responsibilities. Overlapping phenomena among other committee members also warrant attention. In practice, other members may not be independent directors, may serve as convenors of other committees, may hold "empty positions" on other committees, or may be executives. The motivations behind these governance structure choices and their potential negative consequences require further examination.

Fourth, future research can examine the boundaries of convenors' (including independent directors') professional spillover effects. Although this study's empirical conclusions do not support professional spillover effects from overlapping, this does not mean convenors' internal overlapping is an undesirable governance arrangement. One theoretical possibility is that the professional benefits and information effects convenors bring from serving on one committee only help improve internal control quality in specific segments rather than overall quality. For example, does convenors' overlapping on strategy committees exert a "strategic audit" effect? The relationship between strategic stability and strategic-level internal control execution effectiveness warrants further investigation.

Additionally, this study offers policy implications. The causes of director internal overlapping may be corporate governance choices or consequences of meeting regulatory minimums. However, from a societal perspective, widespread overlapping also implies insufficient supply of high-end talent. Especially for finance, accounting, and auditing professions, high-end talent shortage has long emerged. In recent years, professional degree education in accounting and auditing has developed rapidly. While expansion can address future supply shortages, it cannot solve urgent needs. While accelerating future supply solutions, policies should promote “cross-boundary” mobility of high-end talent, including both the direction from universities to industry and regional cross-boundary movement of scholars and experts from developed regions’ universities to enterprises in less developed regions. For example, this could be embedded in existing regional paired assistance programs.

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