Independent Directors on China's Boards

More Business Experiences in Need

An analysis of 2,504 director profiles from CSI 300 companies found independent directors on China's top boards were more academic but less business oriented. Through the analysis in this article, Russell Reynolds Associates recommends cultivating a market system that attracts diversified talents to serve on Chinese companies boards.

It is common for board independence in China to be called into question, particularly on matters such as how independent directors were sourced and how they behaved on the board. Referring acquaintances is common practice when recruiting independent directors, but this often results in herd mentality, as those who join the board via a personal referral may not have the courage to dissent. They may also bring insufficient experiences to the role, limiting the governance benefits they can bring to Chinese companies.

But what do the independent directors in Chinese companies actually look like? What kind of experiences and backgrounds can be expected from them? And what kind of independent directors do Chinese companies need to improve their boards and governance?

To answer these questions, Russell Reynolds Associates conducted a data analysis of 2,504 Chinese board directors from CSI 300 companies (an index of top listed Chinese companies,) and compared their backgrounds with 5,917 board directors from S&P 500 companies. The analysis further compared the director profiles of CSI 300 companies in the private-owned enterprises (POE) to those in state-owned enterprises (SOE). The analysis included a brief description of Chinese board compositions, as well as director characteristics, including professional experiences, educational backgrounds, age distribution and compensation levels. Finally, we analyzed directors' gender diversity, ESG experience, digital experience, etc.

The study reveals the following key insights:

1. The overall distribution of independent directors on CSI 300 boards was barely larger than one third, the ratio required by regulations. This is much lower than the 79% ratio of independent directors on S&P 500 boards.
2. Independent directors on Chinese boards have fewer corporate experiences (e.g., serving as CEO, president, or chair) than S&P 500 board directors do, but bring more academic experiences (e.g., working as engineers, economists, or within research institutes).
3. Chinese independent directors hold significantly more master's or doctoral degrees than S&P 500 board directors, but fewer MBA degrees.
4. Compensation for CSI 300 independent directors is significantly lower than those for S&P 500 independent directors. (Analysis weighted compensation against GDP per capita in China and the USA respectively.)
5. Independent directors serving on SOE boards are compensated better, bringing a wider range of backgrounds and experiences than POE directors.

Knowing all this, Russell Reynolds also wanted to analyze why it's so difficult for Chinese companies to find the right independent directors. We found that the lack of incentives—due to high risk and low pay—makes it difficult to attract good leaders into this role. In order to help Chinese companies build better boards, **a market system for independent directors** needs to be cultivated. By attracting excellent leaders through the market system, Chinese companies can find the right independent directors for their boards and organizational strategy, to improve governance and business.

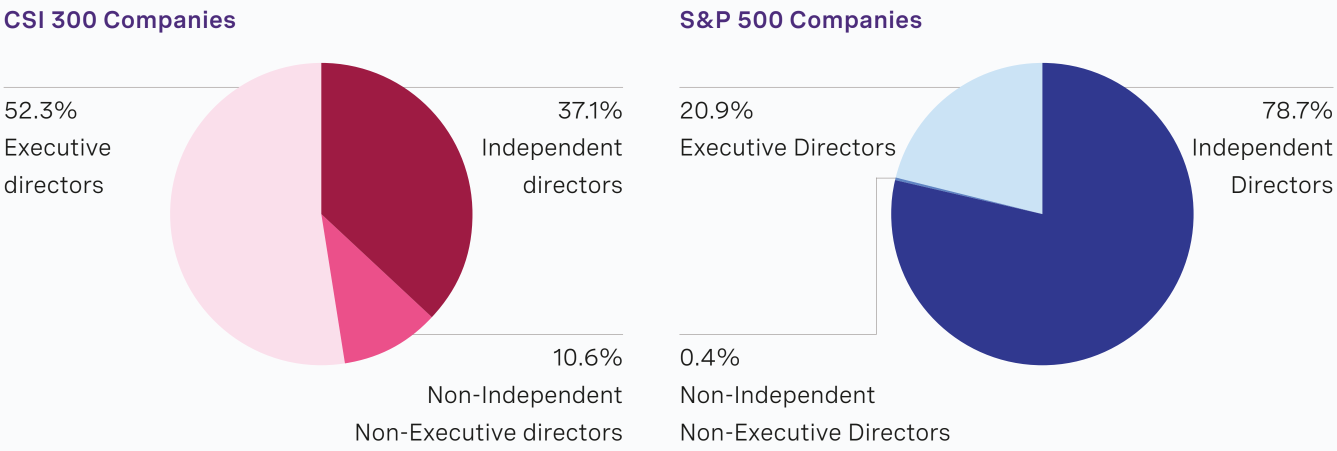
Table of Contents

A panoramic scan of the directors

China's typical board composition: independent directors are the minority

Our analysis verified that independent directors occupy only a little over one third of seats on Chinese boards. Only 37.1% of the seats on CSI 300 boards are held by independent directors, far lower than the 78.7% ratio on S&P 500 boards. On average, a CSI 300 board consisted of 10 directors, of which four are independent. More than half of board directors (52.3%) were executive directors; the rest were non-independent non-executive directors.

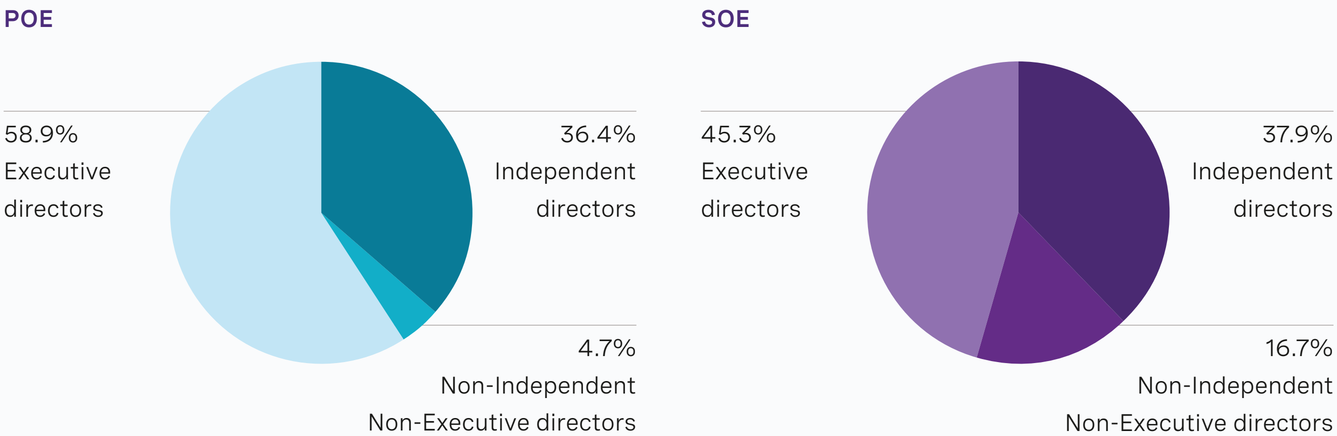
Figure 1: CSI 300 vs S&P 500 board composition



Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors, CSI 300 companies: n = 2,504; S&P 500 companies: n = 5,917

Among CSI 300 companies, POE and SOE boards have the similar ratio of independent directors as the CSI 300 boards—around 37%. However, there were more non-independent non-executive directors (16.7%) on SOE boards. This is because employee representatives and directors appointed by governmental entities (acting as the shareholder) also serve on SOE boards.

Figure 2: POE vs SOE board composition

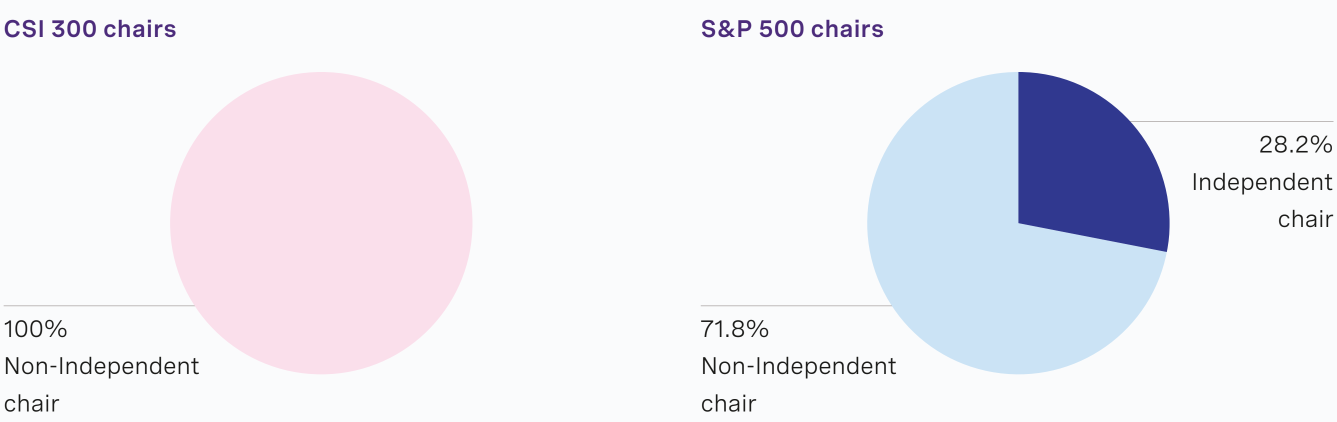


Source: Russell Reynolds analysis of POE and SOE board directors, POE, n = 1,286; SOE, n = 1,218

While the 37% rate shows that CSI 300 boards all meet the regulated requirements on board independence—which states that the board of directors should consist of at least three directors, and at least one third of which should be independent directors—independence in form does not necessarily mean independence in substance. If independent directors are the minority voice, they may feel uncomfortable or unsupported in driving meaningful change, and may be easily influenced by executives.

Independent directors may already be reluctant to give constructive feedback to boards in this environment. Not having an independent chair only exacerbates the situation.

Figure 3: Chair independence at CSI 300 vs S&P 500 companies



Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors, CSI 300, 264 companies, 256 chairs; S&P 500, 500 companies, 638 chairs

According to our analysis, none of the CSI 300 boards had independent chairs, while 28% of S&P 500 chairs were independent. This may not be surprising, as there are no explicit provisions on splitting the roles of CEO and chair in the current Corporate Law of China, nor are there regulatory guidelines for listed companies. In practice, CEOs and chairs are often the same person in Chinese companies.

Director characteristics breakdown

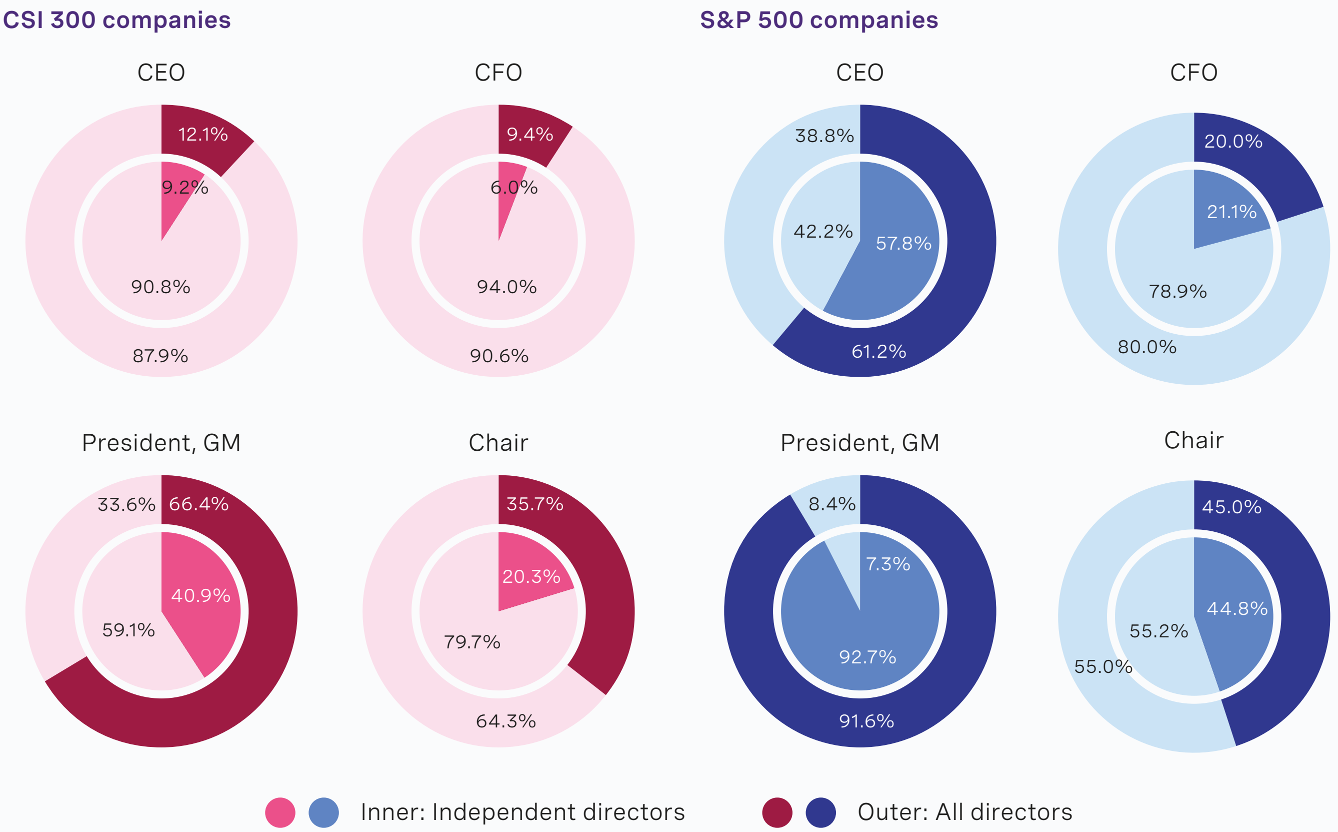
Both independent and non-independent directors on Chinese boards have less relevant professional experiences than those serving on S&P 500 boards. This applies to business experiences, educational backgrounds, and age distribution.

Our analysis on director biographies revealed that many independent directors on CSI 300 boards hold post-graduate degrees and worked at research institutes; however, few had accumulated real world business experiences as executives or other leadership roles in companies.

1. Chinese independent directors have less business oriented experiences

In terms of previous professional experiences, the proportion of independent directors in CSI 300 companies who have served as high-level executives (CEO, CFO, and president or general manager related positions) was significantly lower than that of S&P 500 companies.

Figure 4: Breakdown of board directors' professional experiences (CSI 300, S&P 500)

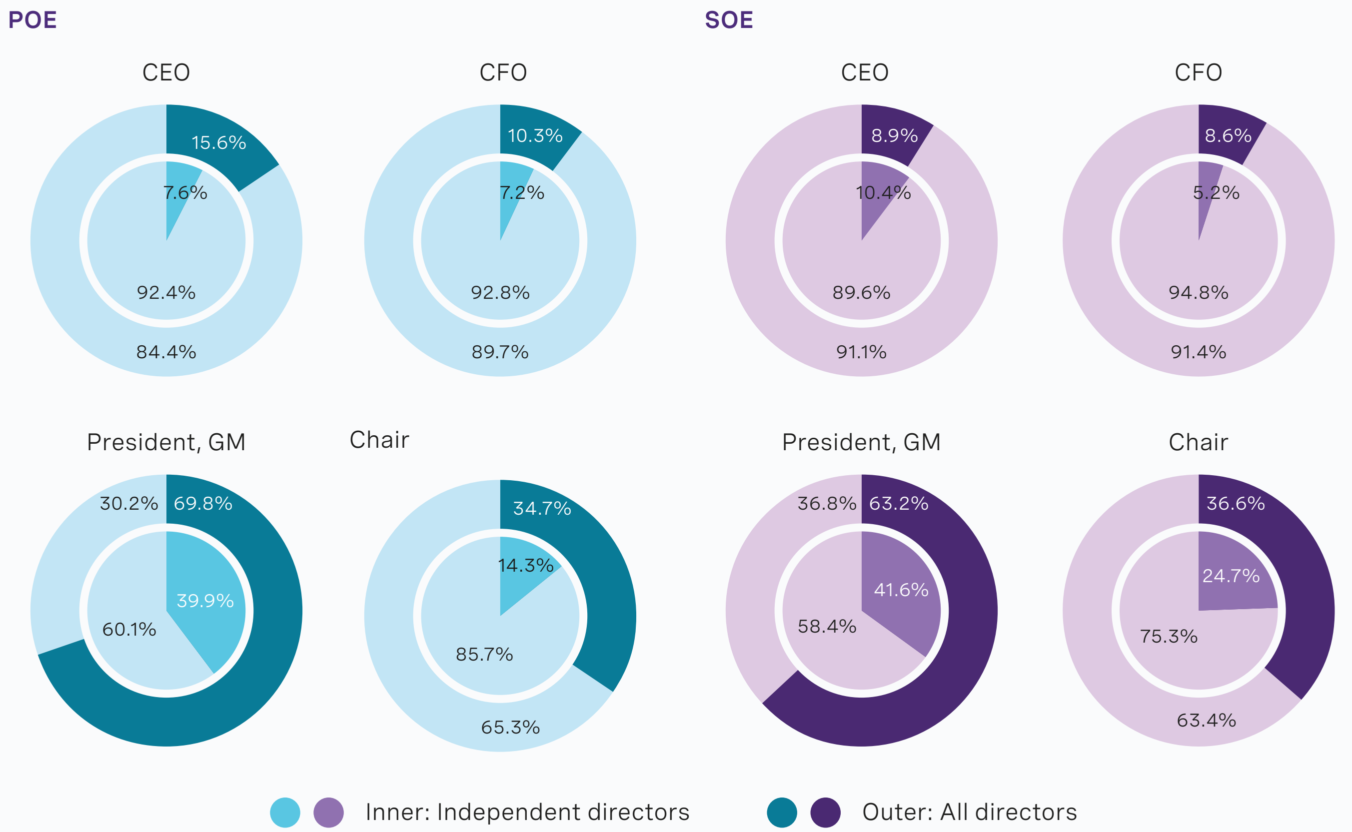


Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 1,657 "All directors" and 532 independent directors from CSI 300 companies; 5,888 "All directors" and 4,657 independent directors from S&P 500 companies

Among "all directors" (including independent directors, non-independent non-executive directors, and executive directors) on CSI 300 boards, only around 10% have CEO or CFO experience. The ratios of independent directors are even smaller, at 9.2% and 6.0% respectively. By contrast, 57.8% of independent directors on S&P 500 boards have served as CEOs, and 21.1% as CFOs.

Additionally, only 40.9% of independent directors at Chinese companies have held senior management positions such as president, and 20.3% had experiences as chairman of other boards. This is significantly lower than the "all directors," with ratios of 66.4% and 35.7% respectively. American company directors have obvious advantages in these two aspects, with 92.7% and 44.8% respectively bringing senior management experience.

Figure 5: Breakdown of board directors' professional experiences (POE, SOE)

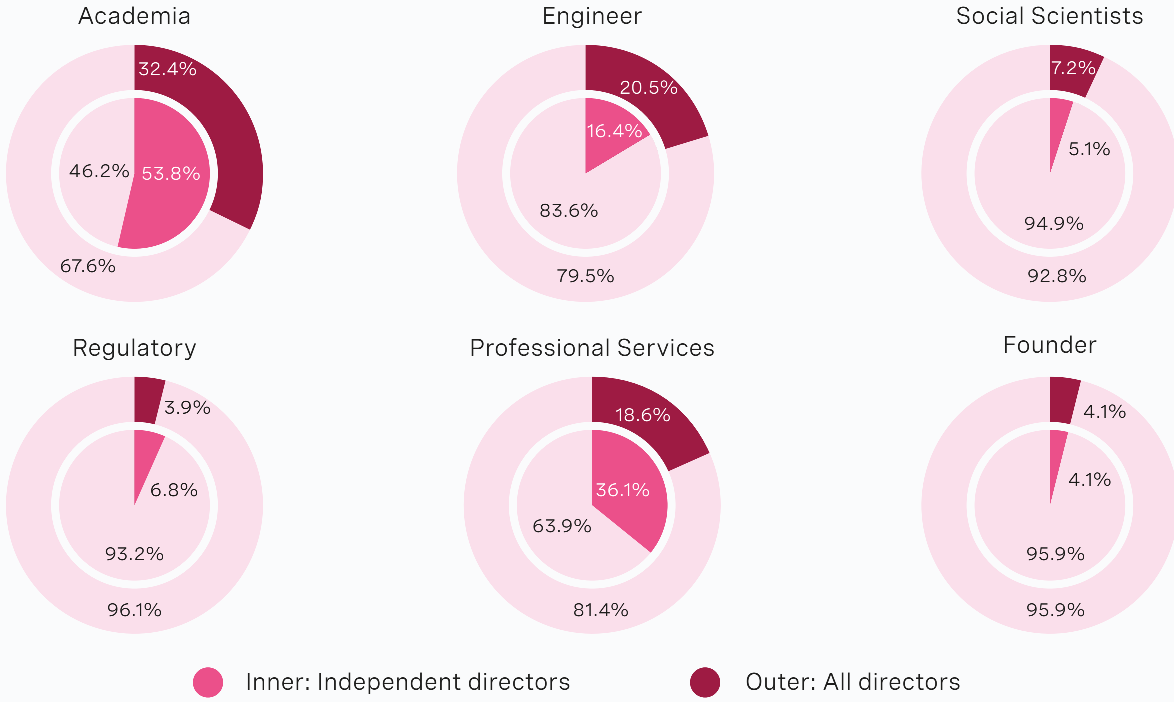


Source: Russell Reynolds analysis of POE and SOE board directors: 769 "All directors" and 224 independent directors from POE; 861 "All directors" and 308 independent directors from SOE

POE independent directors have less executive (CEO, president, other executive roles) and chair experience than SOE directors. This shows that the SOE independent directors have slightly stronger experience in business practice than POE ones.

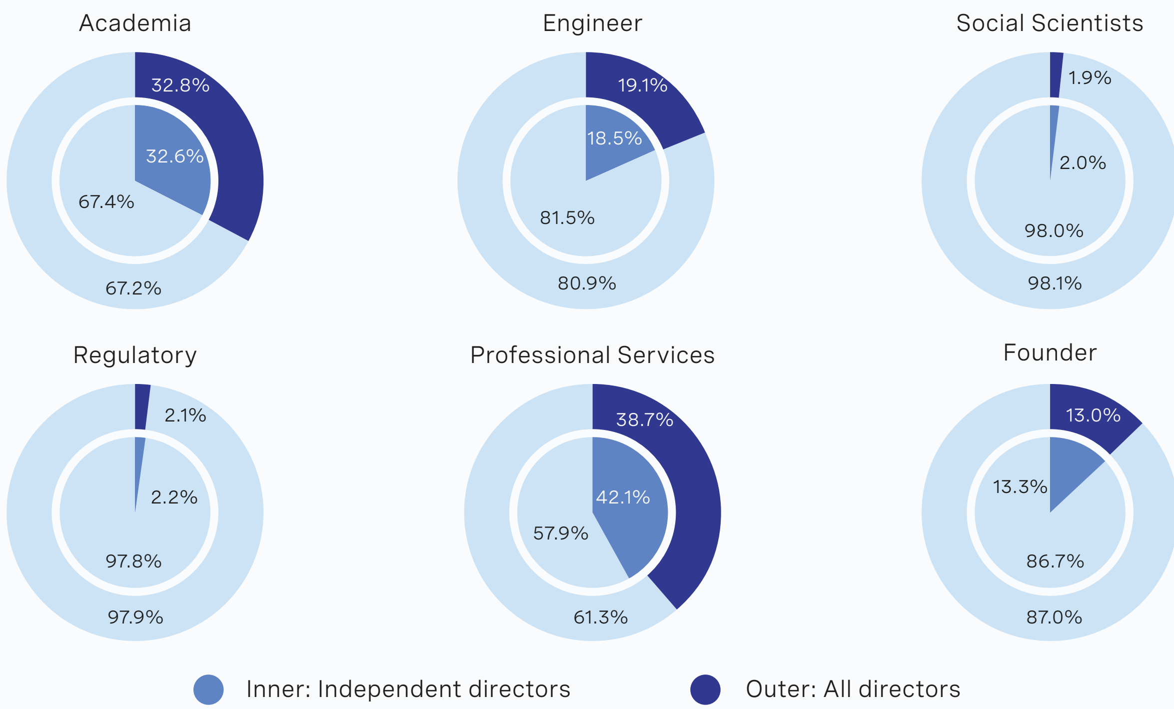
2. Chinese companies prefer academic independent directors

Figure 6: Breakdown of CSI 300 board directors' expertise



Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 1,657 "All directors" and 532 independent directors from CSI 300 companies; 5,888 "All directors" and 4,657 independent directors from S&P 500 companies

Figure 7: Breakdown of S&P 500 board directors' expertise



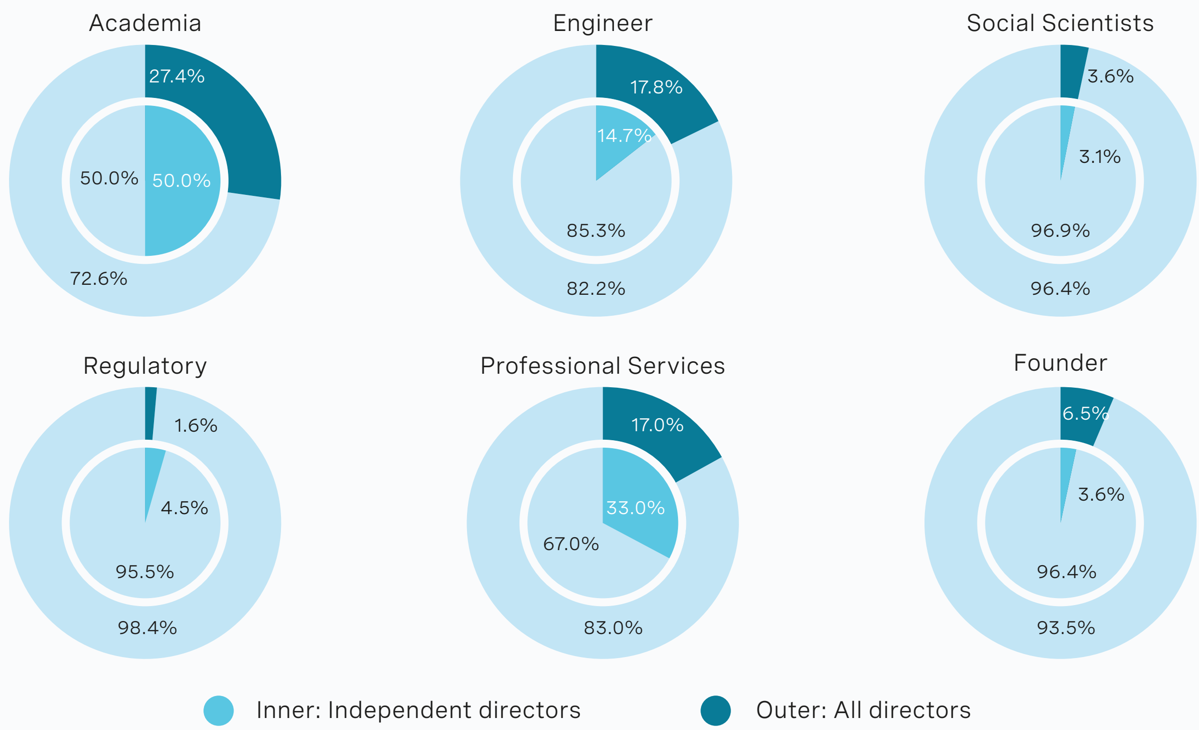
Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 1,657 "All directors" and 532 independent directors from CSI 300 companies; 5,888 "All directors" and 4,657 independent directors from S&P 500 companies

A detailed breakdown of the CSI 300 directors' experiences, compared with S&P 500 ones, highlights key insights:

- **Preference for academic backgrounds:** The majority (53.8%) of Chinese independent directors have academic backgrounds, bringing work experiences from universities, think tanks, or other research institutes. In contrast, 32.6% of independent directors on S&P 500 boards have academic backgrounds. This implies Chinese companies have more interest in hiring independent directors from academia.
- **Preference for social sciences expertise:** 16.4% of independent directors on CSI 300 boards had engineer experiences, slightly less that the 18.5% ratio on S&P 500 boards. Meanwhile, 5.1% of independent directors on CSI 300 boards were economists (no one worked as anthropologist, sociologist, psychologist, or political scientists), more than those serving as social scientists on S&P 500 boards (less than 2%). A combination of these two categories implies that, compared with American companies, CSI 300 companies have a slight preference for independent directors with social sciences in their background.
- **Developing business founders:** While 13.3% of S&P 500 directors are founders of their own business, only 4.1% of CSI 300 directors are founders. This is another demonstration of CSI 300 directors having fewer practical entrepreneurship experiences.
- **Emerging professional services experiences:** Over a third (36.1%) of independent directors on CSI 300 boards have experiences in professional services, such as law firms, auditors, and consulting companies. It's common to find chartered accountants and senior attorneys among independent directors in Chinese companies. About 40% of S&P 500 directors had professional services experiences.

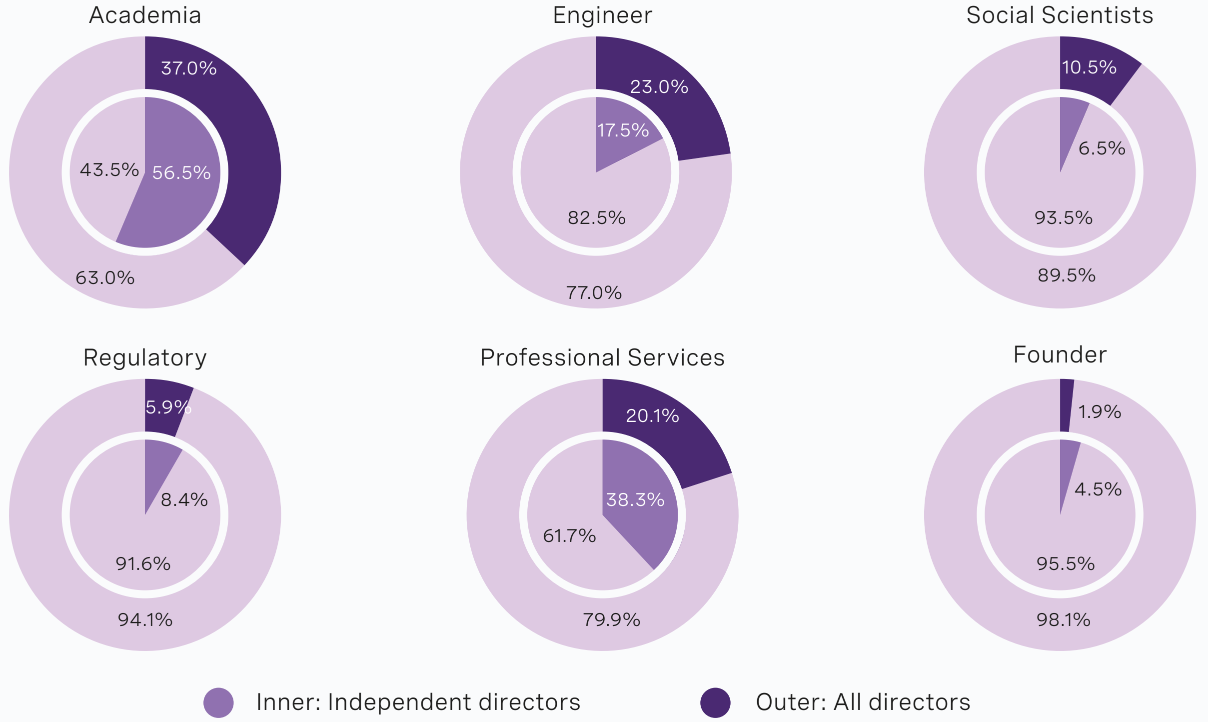
3. SOEs show more interest in academic backgrounds than POEs

Figure 8: Breakdown of POE board directors' expertise



Source: Russell Reynolds analysis of POE and SOE board directors: 769 "All directors" and 224 independent directors from POE; 861 "All directors" and 308 independent directors from SOE

Figure 9: Breakdown of SOE board directors' expertise



Source: Russell Reynolds analysis of POE and SOE board directors: 769 "All directors" and 224 independent directors from POE; 861 "All directors" and 308 independent directors from SOE

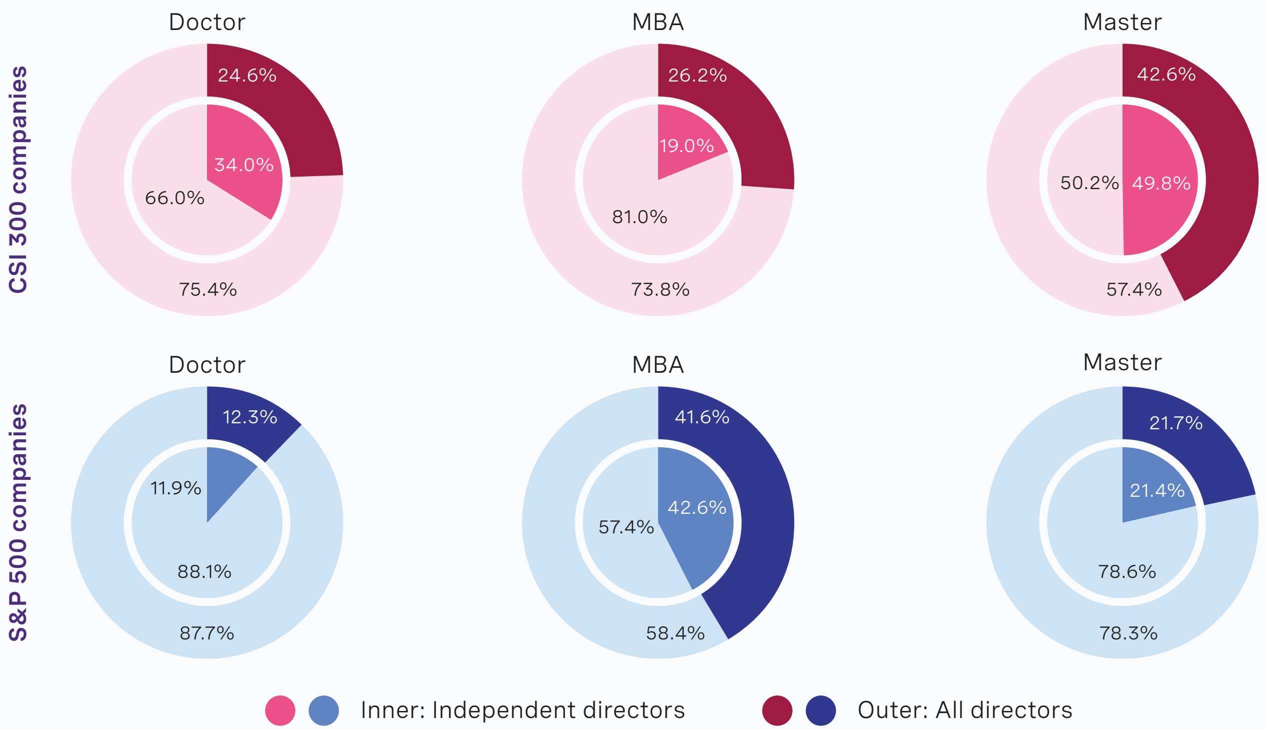
The expertise breakdown on POE and SOE boards among CSI 300 companies found that SOEs had even higher interests in employing directors from academia:

- SOE boards had higher percentages of independent directors (56.5%) and "all directors" (37.0%) with academic backgrounds, compared to private sector boards (50.0%, 27.4%).
- More directors from SOEs were engineers, while even more were social scientists, showing the preference of SOEs in recruiting independent directors.
- Interestingly, independent directors in **SOEs have more experiences** not only in professional services and academia, but also in practical entrepreneurship such as serving as CEO, presidents, chairs, and being business founders.

4. Educational backgrounds: More on scholarship, less on business

Again, our analysis suggests that CSI 300 independent directors are more academically oriented (and less business oriented) than S&P 500 directors.

Figure 10: Educational backgrounds of board directors (CSI 300, S&P 500)

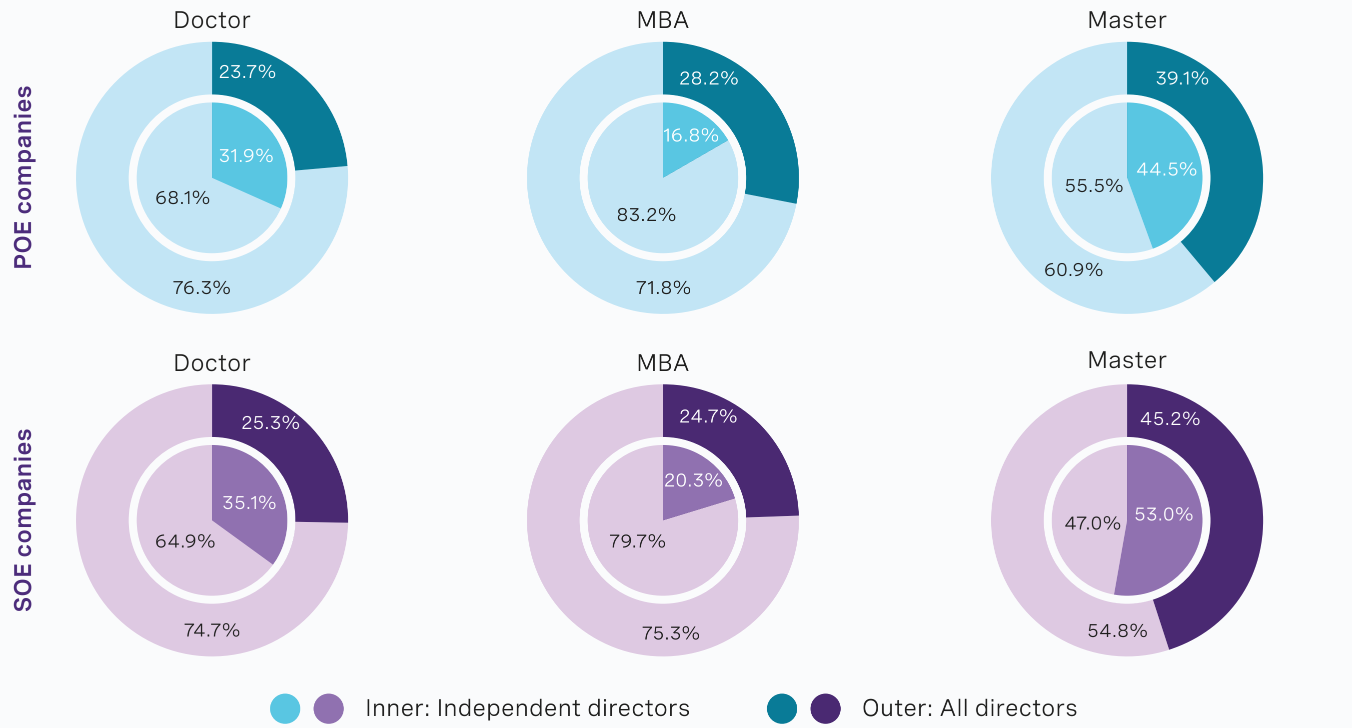


Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 901 "All directors" and 321 independent directors from CSI 300 companies; 5,344 "All directors" and 4,321 independent directors from S&P 500 companies

Directors serving on CSI 300 boards have more master's and doctoral degrees than their S&P 500 counterparts, while fewer MBA degrees. This is particularly evident among independent directors. Almost half of independent directors on CSI 300 boards have a master's degree or higher, and 34.0% of them hold doctor level degrees. In contrast, 21.4% of S&P 500 board directors have a master's degree, and only 11.9% have a doctoral degree. This indicates that scholars seized a significant portion of independent seats on Chinese boards.

However, only 19.0% of independent directors on CSI 300 boards held MBA degrees, significantly lower than the 42.6% ratio on S&P 500 boards. This indicates Chinese directors, especially the independent ones, might lack professional knowledge on practical business management.

Figure 11: Educational backgrounds of board directors (POE, SOE)



Source: Russell Reynolds analysis of POE and SOE board directors: 379 "All directors" and 119 independent directors from POE; 522 "All directors" and 202 independent directors from SOE

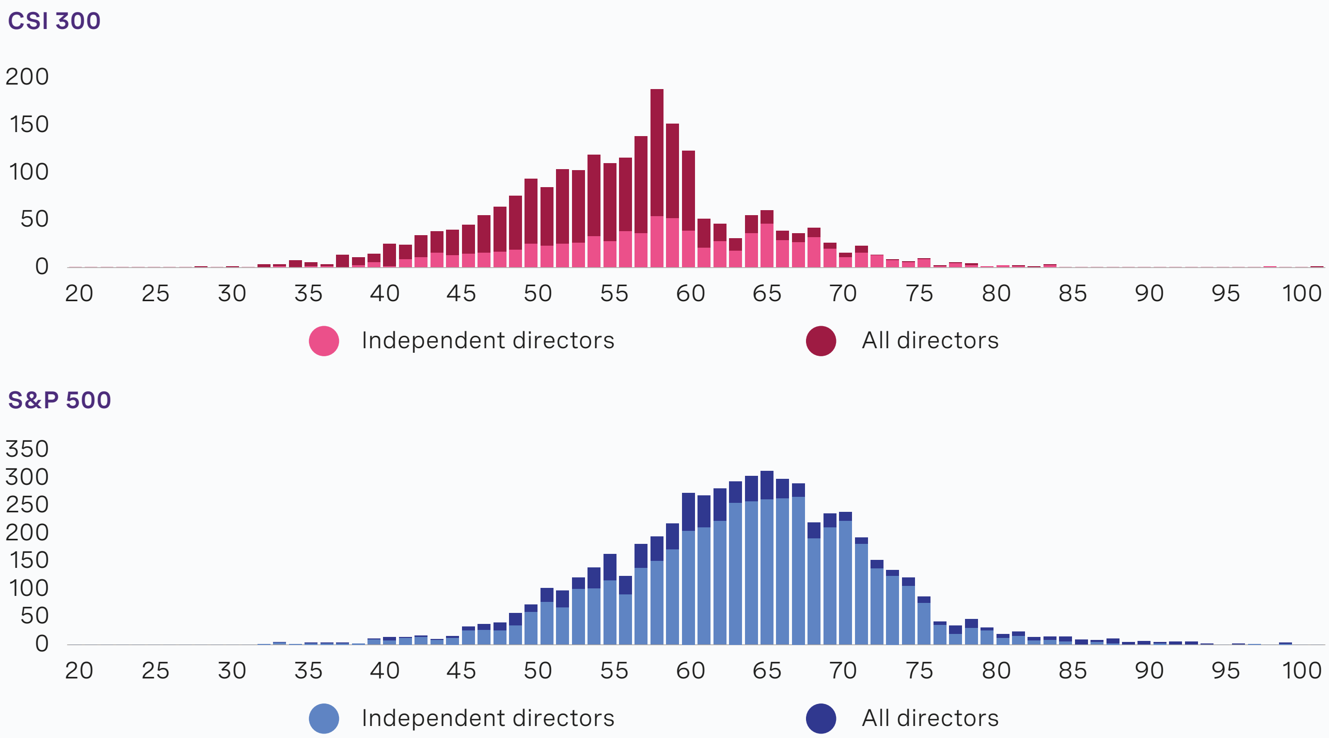
We further analyzed the educational backgrounds of POE and SOE directors separately. This analysis shows that there is an even higher percentage of scholars serving on SOE boards. But it also illustrates there were more independent directors holding MBA degrees on SOE boards than those on POE boards (20.3% vs 16.8%).

Overall, independent directors from SOEs hold more advanced degrees than those from POEs.

5. Age distributions: More independent directors in the retired group

Beyond professional experiences and educational backgrounds, our analysis also found that in China, independent director roles are less attractive to younger leaders looking to build their careers.

Figure 12: Age distribution of board directors



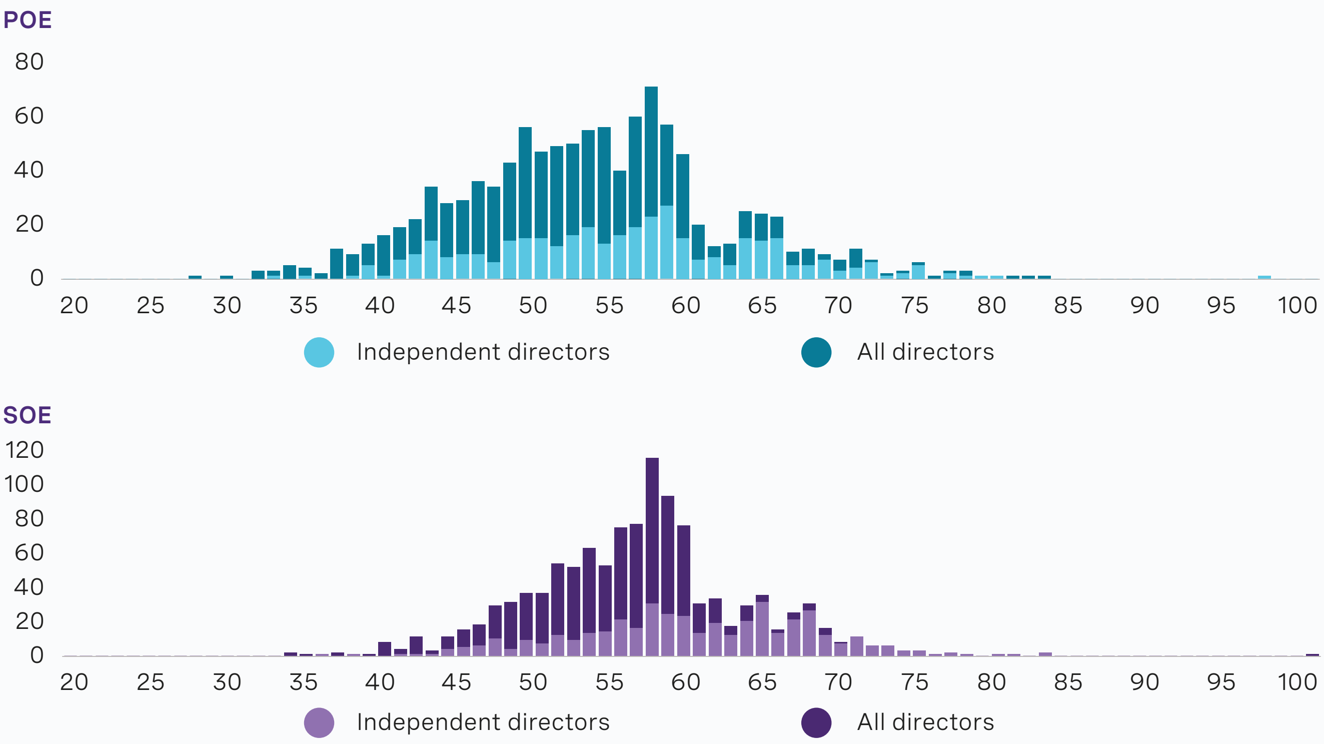
Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 2,231 "All directors" and 806 independent directors from CSI 300 companies; 5,725 "All directors" and 4,647 independent directors from S&P 500 companies

The average age of CSI 300 "all directors" was 54.7, and that of independent directors was 57.7, younger than those in S&P 500 companies (the average ages of "all directors" and independent directors were 62.4 and 62.5). Chinese directors were younger than American ones, while their age distributions were unbalanced:

- Unlike the age distribution of S&P 500 directors, which was close to a normal distribution, there is a marked dent in the distribution of CSI 300 directors. The dent happens after 60, coinciding with two factors. One is that the official retirement age in China is 60, and most executives follow this rule. The other is from the feature of China's corporate governance. The directors appointed by major shareholders (governmental bodies in the case of SOEs) usually join the board by the age of 54, and would retire after two terms, each of three years.
- There is a surge of board occupations from ages 55 to 60, especially of non-independent directors. This implies in Chinese companies, senior leaders were more likely to be selected as executives, before their retirement. In contrast, most directors on S&P 500 boards are between 60 to 70. As there is no sudden increase in the number of directors, it means age doesn't provide obvious advantages when serving on boards.
- In spite of the overall 37.1% ratio on CSI 300 boards, **independent directors did not evenly distribute across every age group**. They were not only minorities but also occupying less than one third of the seats in the age group younger than 60, but suddenly became the majority over age 60. In contrast, in the age distribution of directors of S&P 500 companies, independent directors make up the majority of all age groups.

- It suggests that **younger professionals in China were less likely to consider serving as independent directors as their "real job,"** or a role that positively contributes to their career development.

Figure 13: Age distribution of POE and SEO board directors



Source: Russell Reynolds analysis of POE and SOE board directors: 1,096 "All directors" and 383 independent directors from POE; 1,135 "All directors" and 423 independent directors from SOE

Directors in POEs were younger than those in SOEs. The average ages of POE and SOE "all directors" were 53.1 and 56.2, and 55.4 and 59.7 for independent directors respectively. Aligning with the general CSI 300 trend, in both types of companies, there were more independent directors over the age of 60, the retirement age in China.

The age distribution of directors in POEs is less spiky than that of SOEs, which peaks from 55 to 60. This implies that age, which is considered dubbing qualification of executives, is a more superior factor in state-owned enterprises.

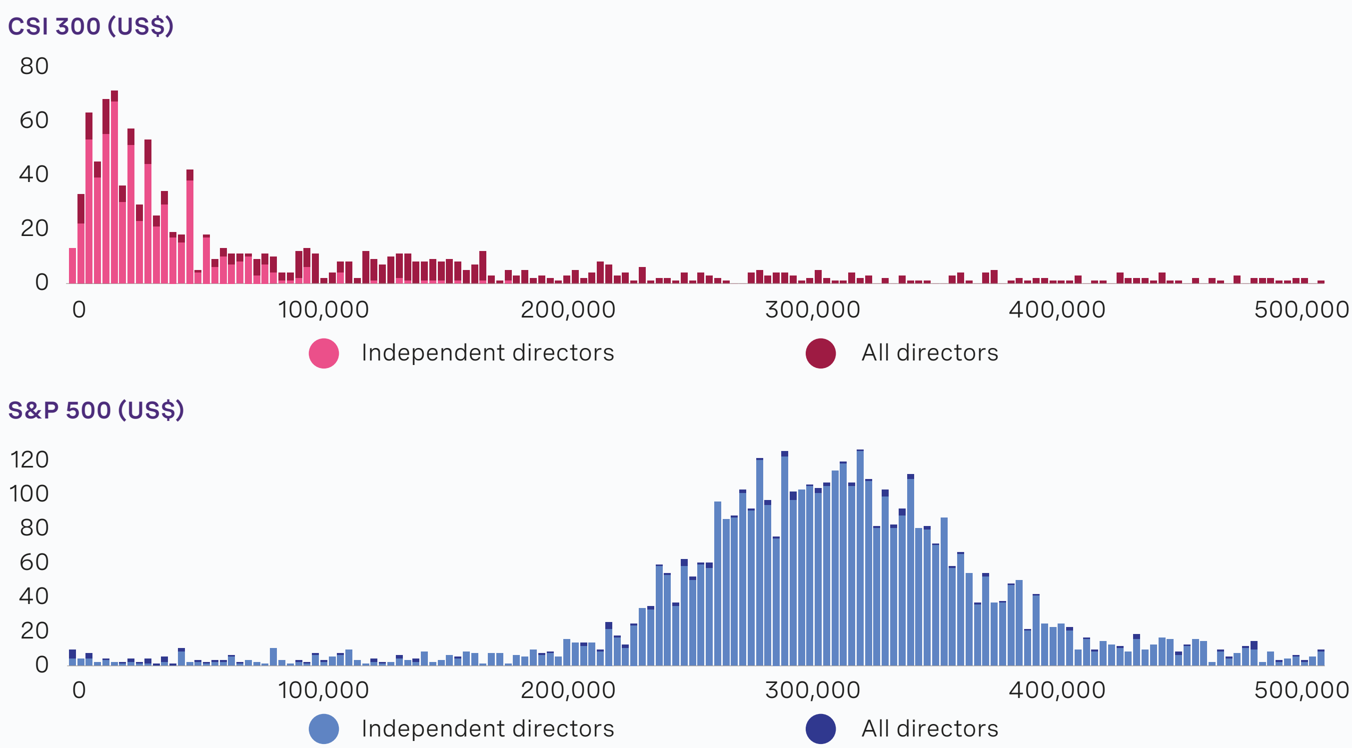
Incentives matter: why it is hard for Chinese companies to find the right independent directors

Our analysis paints a typical image of CSI 300 boards directors. Many of the people guiding governance of top listed companies in China, especially the independent directors, hold post-graduate degrees and had been working at research institutes or professional service firms. However, compared with their American counterparts, they had less practical management or governance experiences, and were less educated in business administration. Only a small portion of them had experience founding their own business. Fewer young independent directors see the role as a promising career step.

The combination of these factors could result in independent directors being less effective on boards.

However, it is hard for Chinese companies to find independent directors with the skill sets exactly fitting their business needs. For the companies, the search base for independent directors were limited, and they had to heavily rely on acquaintance referrals. On the director side, there are weak incentives for people with rich business experiences to become independent directors. Considering the job's risky nature, most independent directors in Chinese companies were rather underpaid compared with executive directors on the same boards.

Figure 14: Compensation distribution CSI 300 / S&P 500



Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 1,280 "All directors" and 618 independent directors from CSI 300 companies; 5,205 "All directors" and 4,422 independent directors from S&P 500 companies

By analyzing compensation data of 1,280 CSI 300 directors (618 independent) and 5,205 S&P 500 directors (4,422 independent), we found that the former was significantly less compensated than the latter.

- The average total compensation for the "all directors" in CSI 300 companies was $210,695, while the median was significantly lower at only $61,243, The compensation for many directors fell below $50,000.
- Independent directors were compensated even less. The average and median compensations received by independent directors of CSI 300 companies were $34,248 and $24,458.
- The highly unaligned mean and median values, and the huge gap between the numbers, suggest that **the majority of independent directors were underpaid.**
- In contrast, the average compensation received by "all directors" of S&P 500 companies was $2,245,901, while the median was $314,982. The average and median compensation for independent directors on S&P 500 boards were $313,142 and $305,657 respectively.
- On S&P 500 boards, the average compensation of "all directors" was an order of magnitude higher than that of independent directors.
- For independent directors, the median compensation did not fall far behind the average number of "all directors". These means the compensations of independent directors and most executives followed the same healthy distribution.

$24,458 vs $305,657

Median compensation, CSI 300 and S&P 500 independent directors

To make it more obvious, the compensations of CSI 300 and S&P 500 directors could be divided by GDP per capita of China and USA (China: $19,338.20; USA: $69,287.50; PPP, current international US dollars, 2021).[3] The compensation multipliers could illustrate how large the pay gaps were between "all directors" and independent directors in both markets.

As shown in Table 1, the multipliers of the average compensation of "all directors" of CSI 300 companies and S&P 500 companies are 10.87 and 32.41 respectively, which means that the average compensation of "all directors" is 10.87 times and 32.41 times of GDP per capita of China and the United States. However, taking into accounts the uneven distributions of compensation, the multiplier of the median is even more informative. The multipliers of the median compensation of "all directors" of CSI 300 companies and S&P 500 companies are 3.17 and 4.55 respectively. There is a gap between the two, but no significant difference, indicating that the compensation levels of "all directors" of Chinese and American companies are similar in the two economies.

However, the median compensation multiplier of independent directors of CSI 300 companies dropped sharply to 1.26, which is less than 40% of the "all directors" multiplier value. That compares with a multiplier of 4.41 for the independent directors of S&P 500 companies, not far off the 4.55 for their "all directors."

The rapid drop in compensation multipliers for independent directors of CSI 300 companies forms sharp contrast with the value of the S&P 500 companies, reflecting the disparity in the status of independent directors in China and the US. This also reflects the lack of recognition of the value of independent directors by Chinese companies.

1.26 vs 4.41

Median compensation over GDP per capita, CSI 300 and S&P 500 independent directors

Table 1: Compensation multipliers (CSI 300, S&P 500)

Index	Director type	Statistics	Compensation (USD)	Multiplier
CSI 300	All directors	average	210,695	10.87
		median	61,243	3.17
	Independent directors	average	34,248	1.77
		median	24,458	1.26
S&P 500	All directors	average	2,245,901	32.41
		median	314,982	4.55
	Independent directors	average	313,142	4.51
		median	305,657	4.41

A further breakdown on the compensations of 662 POE directors (280 independent) and 618 SOE directors (338 independent) found that independent directors in SOEs were better paid. This coincides with our earllier findings that SOE independent directors generally have more experience than POE directors.

However, the breakdown reveals that independent directors on both POE and SOE boards were still quite underpaid.

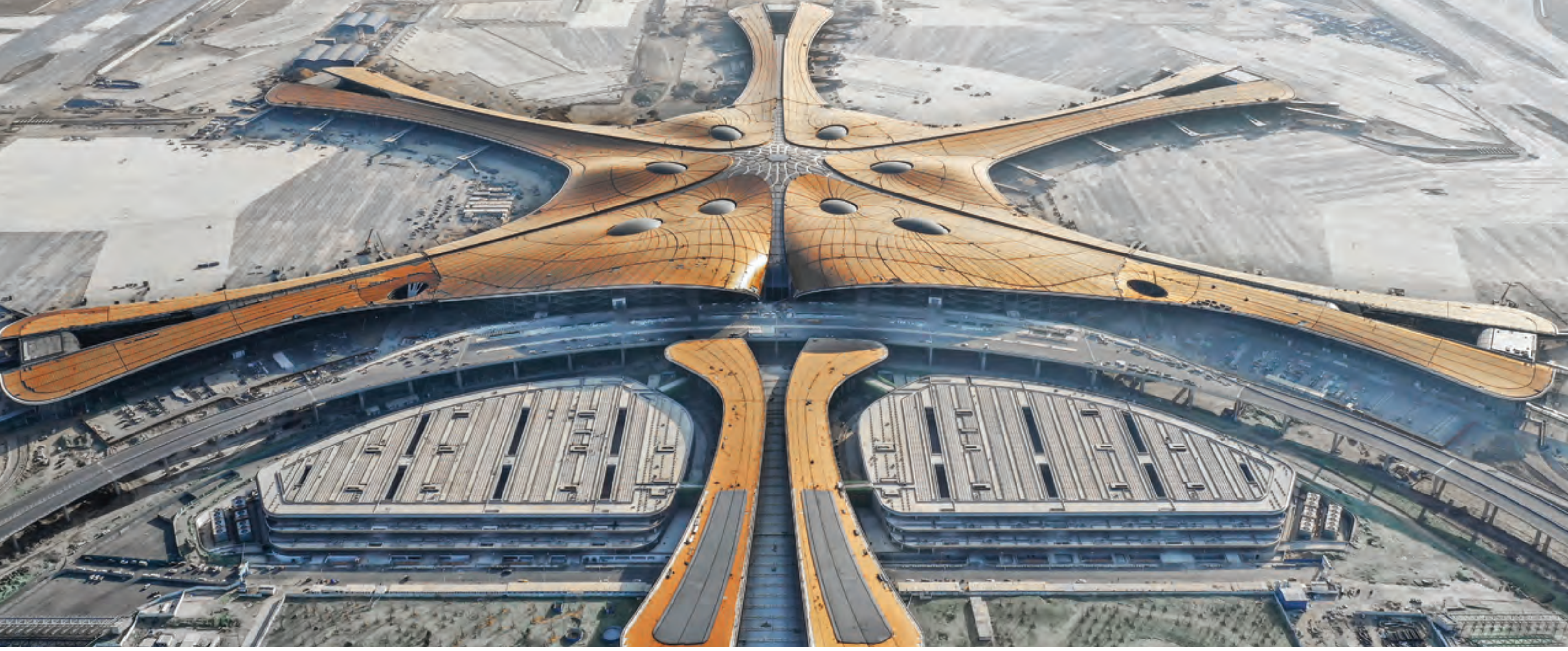
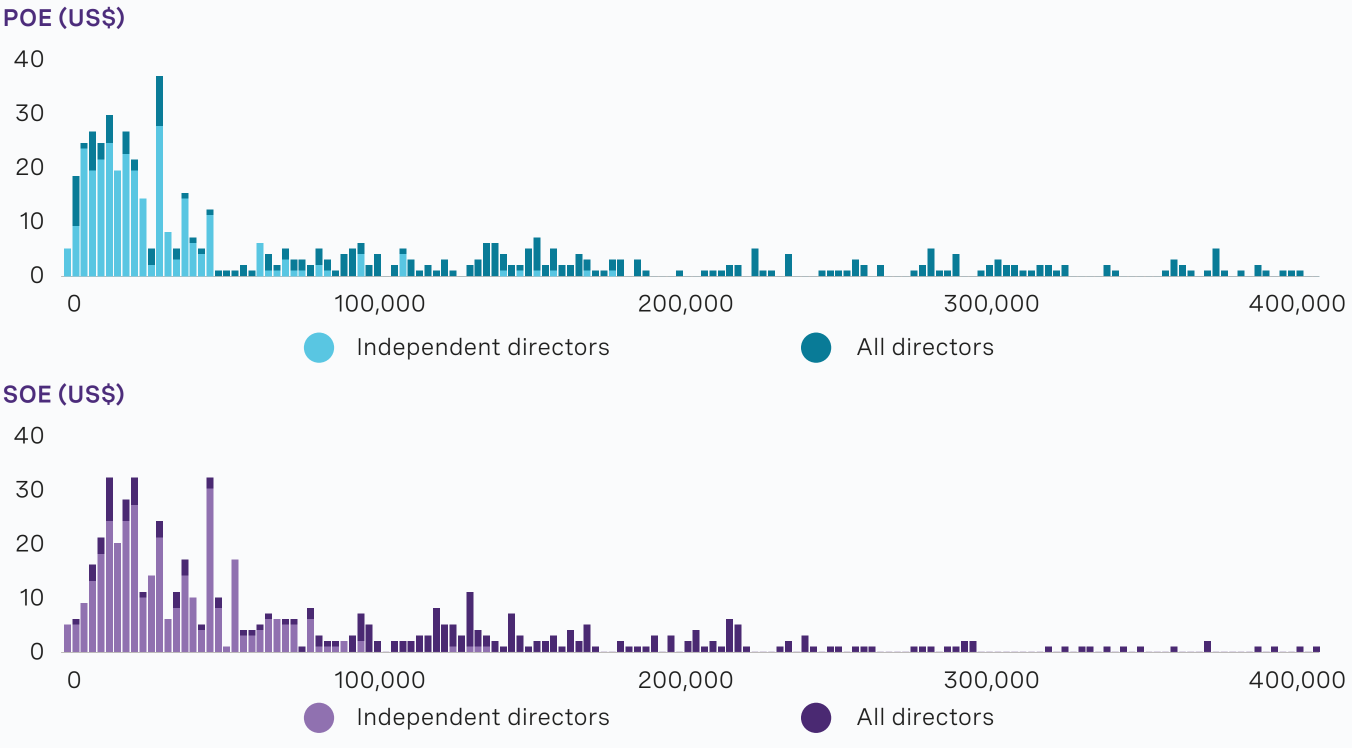


Figure 15: Compensation distribution POE/SOE



Source: Russell Reynolds analysis of POE and SOE board directors: 662 "All directors" and 280 independent directors from POE; 618 "All directors" and 338 independent directors from SOE

- The average total compensation for the "all directors" in POE was $246,649, while the median was only $80,125.
- The average and median compensations for **independent directors** in POE were $29,137 and $20,338.
- On average, the "all directors" of SOE received a compensation of $172,182, while the median was $51,160. It may be because of the salary limit for SOE executives, as these two numbers are both lower than the "all directors" in POEs.
- The average and median compensations for SOE **independent directors** were $38,481 and $29,343, both higher than POE ones.

Compensation multipliers showed that the median compensation for POE independent directors (multiplier 1.05) were slightly higher than the GDP per capita of China in 2021. It gives us a sense of how little the independent directors were paid in this economy. Independent directors serving on SOE boards were better paid (multiplier of 1.52).

In the "China Listed Company Quality Index Report No.1 (2021)" edited by Professor Gao Minghua of Beijing Normal University, we see that the index of state-owned holding companies in terms of corporate governance (51.5663) is slightly higher than that of non-state-owned holding companies (50.8833). It confirms the benefit for SOEs of recognizing the importance of independent directors.

1.05 vs 1.52

Median compensation over GDP per capita, POE and SOE independent directors

Table 2: Compensation multipliers (POE, SOE)

Ownership	Director type	Statistics	Compensation (USD)	Multiplier
POE	All directors	average	246,649	12.75
		median	80,125	4.14
	Independent directors	average	29,137	1.51
		median	20,338	1.05
SOE	All directors	average	172,182	8.90
		median	51,160	2.65
	Independent directors	average	38,481	1.99
		median	29,343	1.52

Cultivate a market system of independent directors

Since the Kangmei Pharmaceutical fraud case at the end of 2021, there has been a growing consensus in China that serving as an independent director in a Chinese company has become a high-risk profession, and the responsibilities it entails are several times the compensations received, while the "directors liability insurance" does not eliminate all risks for independent directors who fail to do their due diligence. To avoid risk, independent directors delivered a wave of resignations in late 2021, automatically removing some underqualified or incompetent people from Chinese boards.

That said, there is still a significant gap between CSI 300 board needs and what their independent directors can offer. These boards need independent directors with more efficient and practical management and governance experiences to better guide the business. But many existing independent directors bring insufficient experience, and potential candidates with relevant skills are not sufficiently incentivized to join the boards.

The current world is full of uncertainties, and companies increasingly need excellent leaders to bring diverse and flexible strategic guidance to help companies gain the ability to catch up with and even lead the latest market trends. In an uncertain market environment, bridging this gap is crucial for building stronger boards in Chinese companies, as well as guiding their business success to a next level, making the companies more competitive.

To achieve this, the proportion of independent directors on boards needs to be increased in order to make room for attracting independent directors with more diversified backgrounds (taking into account age, gender, digital experiences, ESG expertise, etc.) A diversified board can provide richer insights and guidance on the company's strategy.

Additionally, the selection of independent directors should include a third-party evaluation system to reduce non-objectivity and avoid the influence of nepotism. This will expand the number of candidates and search channels, and use market power to offset the drawbacks of acquaintance referrals.

Russell Reynolds Associates recommends cultivating a market system of independent directors in China. A supply-and-demand equilibrated director market can broaden the search base of independent directors, allowing boards to recruit the right talent for their organizations, attract distinguished, up-and-coming talent, and enable professional directors to be better compensated, hedge independent directors' risks with appropriate compensation.

It does not necessarily mean the existing independent directors on CSI 300 boards will receive a pay raise, but raising the compensation might attract leaders with richer, more diversified experiences onto boards. As Professor Zheng Zhigang of Renmin University of China said, in order for the market mechanism to play a role, "an effective independent director system should be like that, outstanding independent directors are proud to have served excellent companies. Conversely, an excellent company should be proud to hire outstanding independent directors." Also, as observed in this analysis, SOE independent directors brought stronger experiences in either academic backgrounds or business practices and were better paid on average than POE directors.

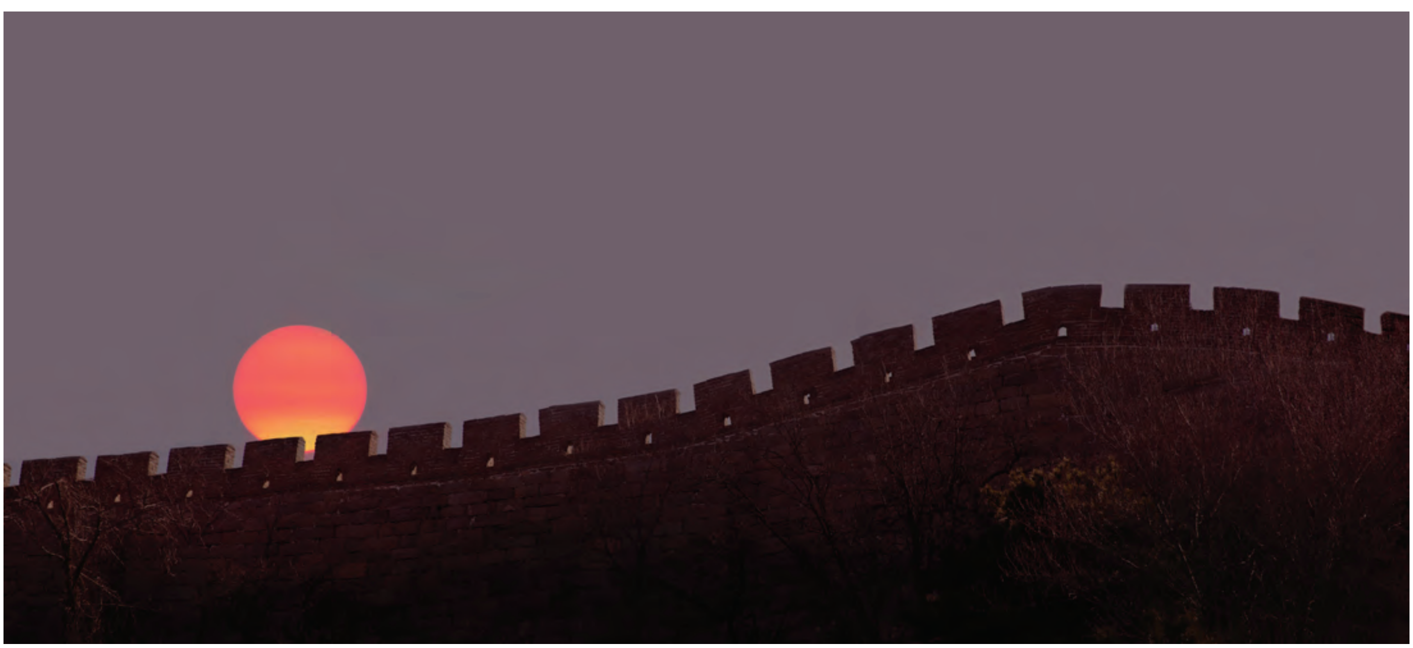
Another benefit of establishing this market system is that it can apply a reputation-based mechanism onto independent directors: they are compensated not only by their existing experiences, but also by their performance on current board roles. Under transparent observation of the market, it can encourage due diligence of the independent directors, and let them deliver constructive advice to the board.

As Professor Zheng Zhigang said,

> "Independent director compensation is determined more from the degree of due diligence and the degree of risk sharing, rather than the importance of the position you held before you became an independent director."

The characteristics of both incentives and constraints of the market system encourage independent directors to dare to make decisions, take responsibility, encourage action, tolerate failure, and encourage innovation, which can stimulate the enthusiasm of independent directors to serve in a business.

For this market system to work, Chinese companies need to believe that better independent directors and more effective governance will bring positive improvements to their businesses. While it may take time, reciprocal evolving progress between enterprises, regulators, the market, and directors themselves, can advance China's corporate governance to the next level.



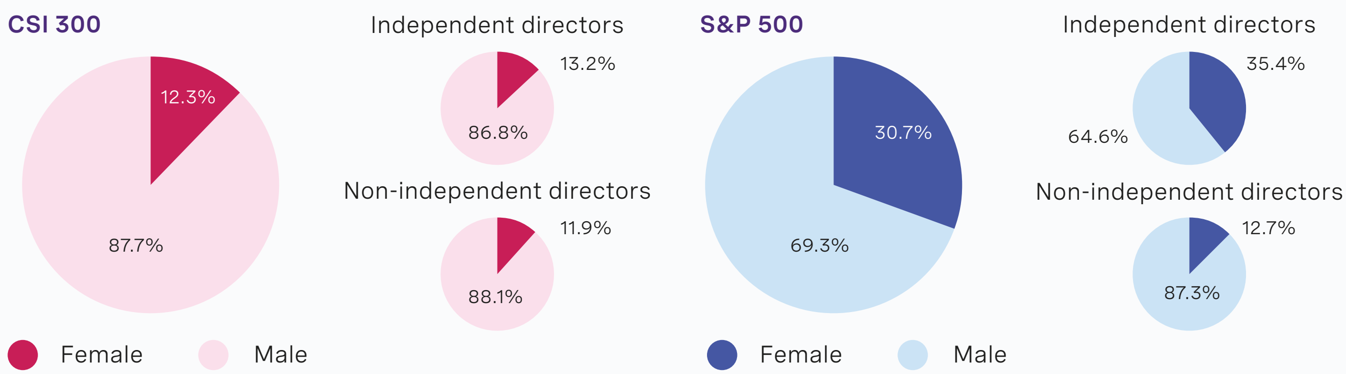
Appendix I: other analysis

1. Limited gender diversity on CSI 300 boards

Our analysis also studied the gender diversity on CSI 300 boards. Among these directors, 12.3% of CSI 300 boards were women (203), less than the 30.7% on S&P 500 boards. On average, there was less than one women director serving on each CSI 300 board.

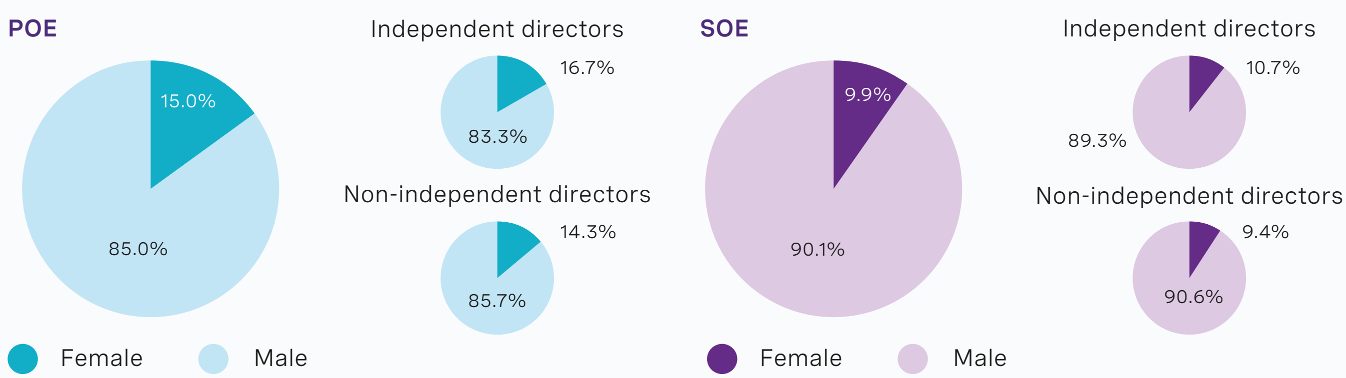
The women ratio of either independent or non-independent directors on CSI 300 boards was quite similar to the proportion of "all directors." However, this did not apply to S&P 500 boards, where the female ratio was only 12.7% for non-independent directors, much lower than the 35.4% found among independent ones. Considering non-independent directors were only a very small portion of S&P 500 boards, it means females rarely served as executives.

Figure 16: Deep dive into gender diversity across boards



Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 1,648 "All directors" and 530 independent directors from CSI 300 companies; 5,882 "All directors" and 4,656 independent directors from S&P 500 companies

Figure 17: Deep dive into gender diversity across SOE/POE boards



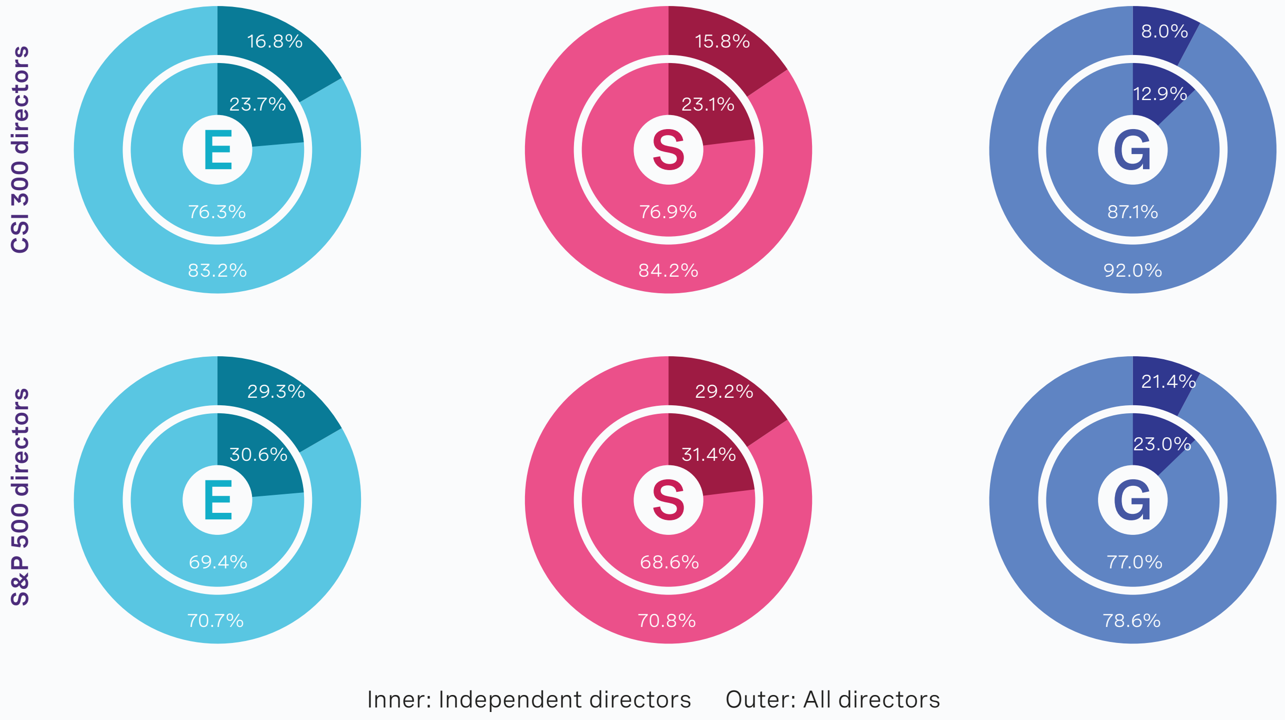
Source: Russell Reynolds analysis of POE and SOE board directors: 788 "All directors" and 222 independent directors from POE; 860 "All directors" and 308 independent directors from SOE

A further analysis of 788 directors on POE boards (222 independent) and 860 on SOE boards (308 independent) found that there were more women directors on POE boards, although not drastically different from the general CSI 300 ratio.

2. ESG experiences: emerging on Chinese boards, with room to develop

From their biographies, we learned that independent directors had richer ESG-related experiences than non-independent directors, although there were some gaps between CSI 300 and S&P 500 directors in all categories of environment, social, and governance.

Figure 18: ESG experiences

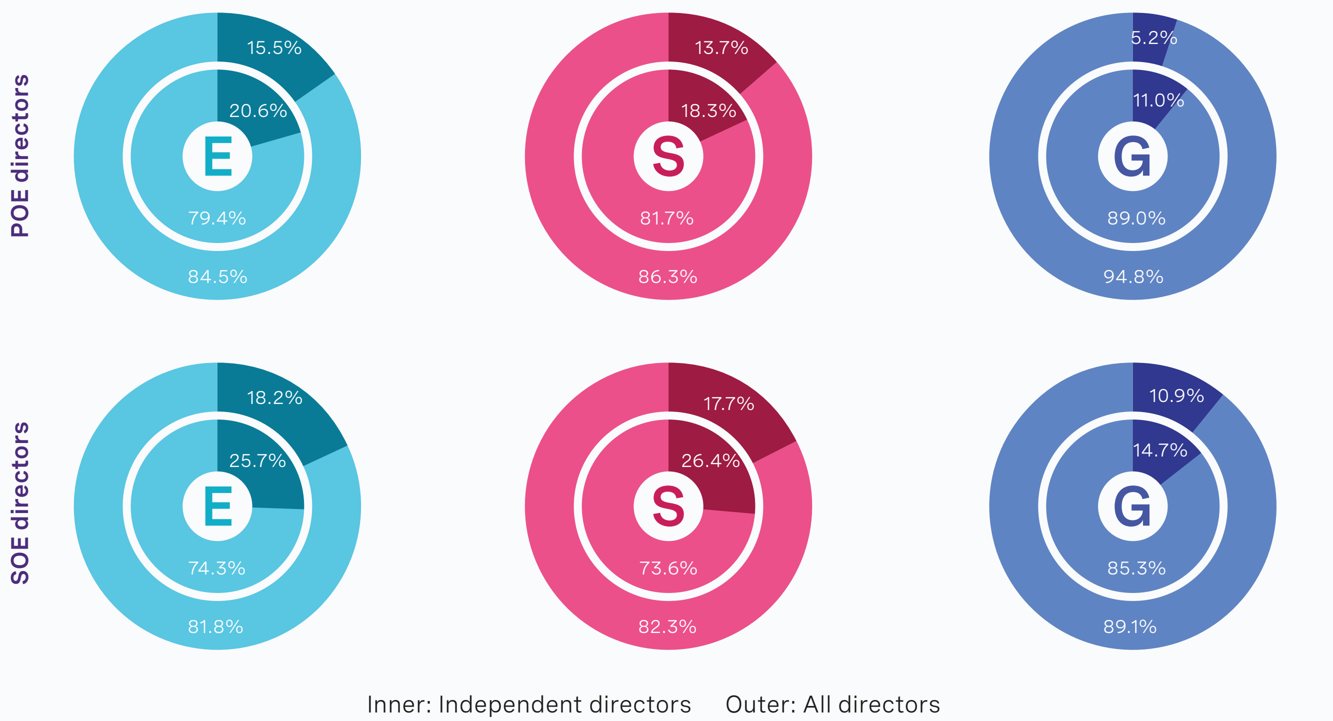


Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 1,605 "All directors" and 502 independent directors from CSI 300 companies; 4,940 "All directors" and 3,810 independent directors from S&P 500 companies

- **Environment:** Both independent and non-independent directors on CSI 300 boards shared energy and water conservation related experiences, while S&P 500 directors had more sustainability and climate experience.
- **Social:** CSI 300 and S&P 500 directors shared experiences related with economic development, education, non-profit organization, and human recourses, while the latter had more exposure in diversity and philanthropy.
- **Governance:** The most common experiences falling in this category were regulatory and risk related ones, on both CSI 300 and S&P 500 boards. The latter had more cyber security experiences.

The independent and non-independent directors serving on SOE boards also had richer ESG experiences than those on POE boards. Nonetheless, there were no significant differences in detailed experiences in each category.

Figure 19: ESG experiences in SOE/POE board directors



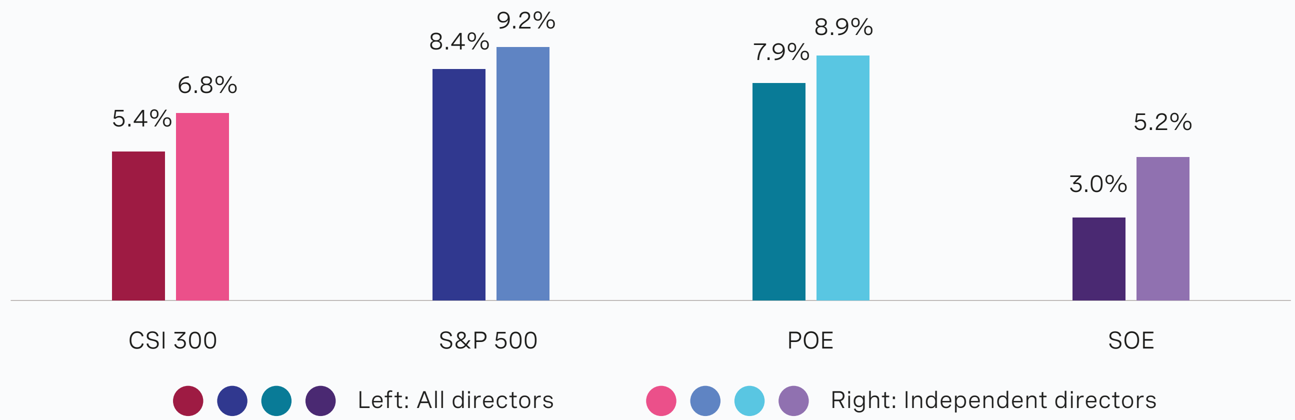
Source: Russell Reynolds analysis of POE and SOE board directors: 783 "All directors" and 218 independent directors from POE; 837 "All directors" and 292 independent directors from SOE

3. POE directors have more digital experience

Experiences on digitalization or information technology are taking a place on boards. 5.4% of CSI 300 "all directors" and 8.4% of S&P 500 "all directors" had digital experiences (6.8% and 9.2% for independent directors respectively.)

The proportion of "all directors" and independent directors of POEs with digital experience is slightly higher than those of SOEs. If only looking at the directors of POEs, the proportion of digital experience is almost the same as that of the directors on the S&P 500 boards.

Figure 20: Digital experiences in board directors



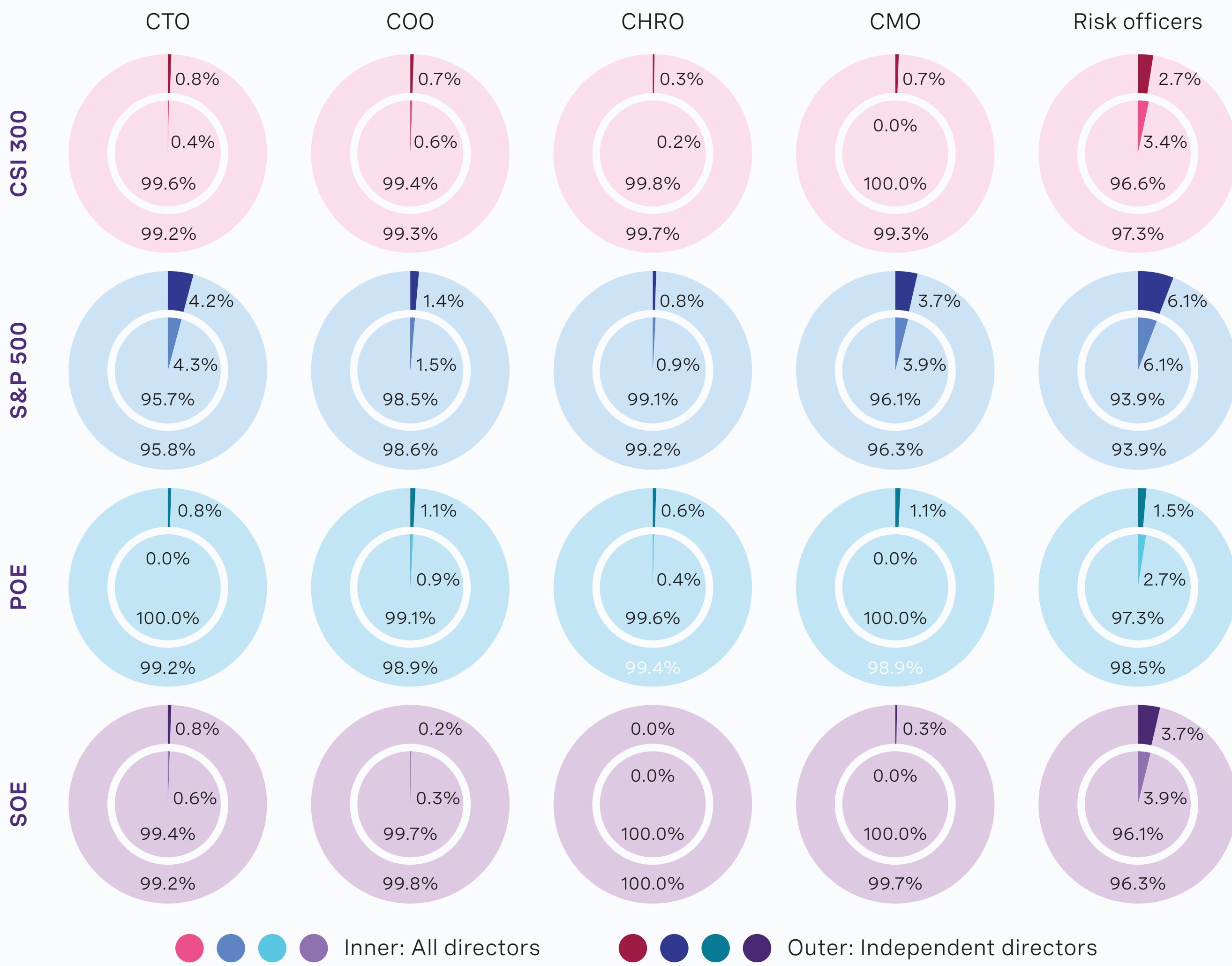
Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 1,657 "All directors" and 532 independent directors from CSI 300 companies; 5,888 "All directors" and 4,657 independent directors from S&P 500 companies; Russell Reynolds analysis of POE and SOE board directors: 769 "All directors" and 224 independent directors from POE; 861 "All directors" and 308 independent directors from SOE

4. Other executive experiences: not popular on boards

Other executive experiences, including CTO, COO, CHRO, CMO, and risk officers, were less popular on both CSI 300 or S&P 500 boards, though the latter had a slightly larger portion of directors with executive experiences.

The difference in the proportions of POEs and SOEs directors in these roles are very small, although the proportion of SOE independent directors with risk experience is slightly higher.

Figure 21: 4. Other executive experiences



Source: Russell Reynolds analysis of CSI 300 and S&P 500 board directors: 1,657 "All directors" and 532 independent directors from CSI 300 companies; 5,888 "All directors" and 4,657 independent directors from S&P 500 companies; Russell Reynolds analysis of POE and SOE board directors: 769 "All directors" and 224 independent directors from POE; 861 "All directors" and 308 independent directors from SOE

Appendix II: data and methodology

This study used data exported from S&P Global Market Intelligence, which was mined and organized from annual reports of those listed companies. Illustrations on board compositions, educational backgrounds, age distributions, and compensation distributions were induced from relevant fields in the original data. Professional experience, gender diversity, and ESG experiences were excavated from director biographies by relevant keywords.

The whole dataset, due to data availability and integrity, includes 2,504 directors from CSI 300 companies (246 companies due to data availability) and 5,917 directors from S&P 500 companies. CSI 300 data includes 1,286 directors from 133 POEs and 1,218 directors from 113 SOEs.

Due to differences in data availability and completeness, the sample size for each part of this study varies:

- **Experiences breakdown:** 1,657 "all directors" and 532 independent directors from CSI 300 companies; 5,888 "all directors" and 4,657 independent directors from S&P 500 companies. 769 "all directors" and 224 independent directors from POE; 861 "all directors" and 308 independent directors from SOE.
- **Educational backgrounds:** 901 "all directors" and 321 independent directors from CSI 300 companies; 5,344 "all directors" and 4,321 independent directors from S&P 500 companies. 379 "all directors" and 119 independent directors from POE; 522 "all directors" and 202 independent directors from SOE.
- **Age distribution:** 2,231 "all directors" and 806 independent directors from CSI 300 companies; 5,725 "all directors" and 4,647 independent directors from S&P 500 companies. 1,096 "all directors" and 383 independent directors from POE; 1,135 "all directors" and 423 independent directors from SOE.
- **Compensation distribution:** 1,280 "all directors" and 618 independent directors from CSI 300 companies; 5,205 "all directors" and 4,422 independent directors from S&P 500 companies. 662 "all directors" and 280 independent directors from POE; 618 "all directors" and 338 independent directors from SOE.
- **Gender diversity:** 1,648 "all directors" and 530 independent directors from CSI 300 companies; 5,882 "all directors" and 4,656 independent directors from S&P 500 companies. 662 "all directors" and 280 independent directors from POE; 618 "all directors" and 338 independent directors from SOE.
- **ESG experiences:** 1,605 "all directors" and 502 independent directors from CSI 300 companies; 4,940 "all directors" and 3,810 independent directors from S&P 500 companies. 783 "all directors" and 218 independent directors from POE; 837 "all directors" and 292 independent directors from SOE.
- **Digital experiences:** 1,657 "all directors" and 532 independent directors from CSI 300 companies; 5,888 "all directors" and 4,657 independent directors from S&P 500 companies; 769 "all directors" and 224 independent directors from POE; 861 "all directors" and 308 independent directors from SOE.
- **Other executive officers:** 1,657 "all directors" and 532 independent directors from CSI 300 companies; 5,888 "all directors" and 4,657 independent directors from S&P 500 companies; 769 "all directors" and 224 independent directors from POE; 861 "all directors" and 308 independent directors from SOE.

The supervisory board members in CSI 300 companies were not included in our analysis. Under the Corporate Law of China, a two-tiered board structure can be adopted by Chinese companies. For day-to-day management, a board of directors and a board of supervisors must be appointed by the shareholder assembly respectively, and report to the assembly separately. In this case, it was not a real two-tiered system in Chinese companies, and board of supervisors were excluded from board of directors.

References

- Data source: S&P Global Market Intelligence is the source of data but not the source of the analysis in this article
- International Comparison Program, World Bank | World Development Indicators database, World Bank | Eurostat-OECD PPP Programme
- Rules for Independent Directors of Listed Companies (2022)
- Opinions of the State Council on Further Improving the Quality of Listed Companies (2020)
- The Corporate Law (2018, the forth amendment)
- The 2022 amendment of the Corporate Law (draft)
- Wang, Jiangyu. (2008). The Strange Role of Independent Directors in a Two-Tier Board Structure of China's Listed Companies. Compliance and Regulatory Journal. 3. 10.1057/9780230595156_9
- Grace Cheng, Lu, Yuebing. Effective Board: The Global Best Practices. China Economic Publishing House, 2021(3)
- Gao Minghua. Board governance of state-owned enterprises should be more substantive than formal. State-owned Enterprises, 2019(5):3
- Gao Minghua "China Listed Company Quality Index Report No.1 (2021)"
- Cheng Fengchao, Wang Jingda, Zhang Qiusheng. China Listed Companies Health Index Report 2022. China Financial and Economic Press, 2022 (9)
- Daily Economic News: The risk and return of independent directors of listed companies are asymmetric. Can high salary and liability insurance break the situation? (Decade 2021)
- Zheng Zhigang: China's independent director system, from supervision to rule of law (Nov 2021)

Authors

Grace Cheng leads Russell Reynolds Associates' operations in China, is a senior member of the firm's Board and CEO Advisory Partners. She is based in Beijing.

Chensong Li is a member of Russell Reynolds Associates' China Accounts Knowledge team. He is based in Shanghai.

Stephen Langton leads Russell Reynolds Associates' Board and CEO Advisory Partners in the APAC region. He is based in Sydney.

Special Thanks

Marieke van der Drift is a member of Russell Reynolds Associates' Industrial & Natural Resources consulting team. She is based in Singapore.

Justine Qin is a member of Russell Reynolds Associates' China Accounts Knowledge team. She is based in Beijing.

Joy Tan is a senior specialist of Russell Reynolds Associates' Insight & Analysis team. She is based in New York.

About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 600+ consultants in 47 offices work with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic and political trends that are reshaping the global business environment. From helping boards with their structure, culture and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

www.russellreynolds.com

Global offices

Americas

- Atlanta
- Boston
- Buenos Aires
- Calgary
- Chicago
- Dallas
- Houston
- Los Angeles
- Mexico City
- Miami
- Minneapolis/St.Paul
- Montreal
- New York
- Palo Alto
- San Francisco
- São Paulo
- Stamford
- Toronto
- Washington, D.C.

EMEA

- Amsterdam
- Barcelona
- Brussels
- Copenhagen
- Dubai
- Frankfurt
- Hamburg
- Helsinki
- Istanbul
- London
- Madrid
- Milan
- Munich
- Oslo
- Paris
- Stockholm
- Warsaw
- Zürich

Asia/Pacific

- Beijing
- Hong Kong
- Melbourne
- Mumbai
- New Delhi
- Shanghai
- Shenzhen
- Singapore
- Sydney
- Tokyo