Can Corporate Governance Reforms Increase Firm's Market Values: Event Study Evidence from India
Black & Khanna

India's Financial System Conference

The Wharton School, University of Pennsylvania

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April 19, 2007

General remarks

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- *Important step in the literature of quantifying the effect of corporate governance reforms on firm value (SOX – type reforms – a bane or a blessing).*

- *Adding India to a moderately significant list of countries outside of the "usual suspect' large markets where event studies on governance reforms have been conducted.*

- *Harbors promising potential for extensions to explore the effects of specific reforms, such as audit committees, independent directors, financial statement certification.*

Further suggestions

- *Main hypothesis: small vs. big?*
  - *Which control group: small or very small firms (below $75 million market cap)? Pros: Clause 49 does not apply at all to very small firms; Cons: they are illiquid and price data is scarce.*
  - *Clause 49 was based on a pre-existing CII Code from 1998. Compare firms who had adopted some / all provisions of Clause 49 vs. those who hadn't, at the time of the event? (price reaction found smaller)*
- *SOX vs. Clause 49 – reasons for contrasting results?*
  - *Could we have benefits of strict governance larger than costs in markets with weak governance? Some evidence of that in Doidge, Karolyi and Stulz (2004), where the "cross-listing premium" is larger for firms located in weak investors' protection countries.*
- *Event date choice: Aggregate all dates to see cumulative effect? What if expectations are that it is doubtful that Clause 49 will be adopted in spite of SEBI announcement? Minor practical point (just theoretical), because authors report the effect for the last several dates is insignificant .*

Further suggestions, continued

- *Market model estimation: B2EW (small firms) versus BSE 200* (large firms) – Using the methodology of Fama (1990) and Schwert (1990) as extended by Flannery et al. (2002) permits testing the impact of a legal reform on the market as a whole, using an expected market return model.

- *Clustering (here, solved via portfolio aggregation), alternatively: allow the intercept to shift around event days, using data both prior to and during the event period (Schipper and Thompson (1983)). Pros: accommodates the alternative hypothesis where some firms have abnormal returns and some don't; Cons: poor finite sample properties; poor power.*

- *Further work on the deviations of the CARs from the normal distribution: Ivy Xiying Zhang (2005) computes both bootstrapped p-values (using Lo(2003)) and asymptotic p-values to improve inferences.*

- *Possible robustness test – regress individual CARs on firm characteristics, including various governance provisions; another hypothesis: is it signaling, or each element has its own value added?*