



# Synthesis Report

Fourth International Conference on Corporate  
Governance in Emerging Markets

Hyderabad, India, August 23–24, 2013

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The Group brings together staff from investment support and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

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## INTRODUCTION

*The Fourth International Conference on Corporate Governance (CG) in Emerging Markets was organized by the IFC Global Corporate Governance Forum (later merged into IFC CG Group), the Indian School of Business (ISB), and the Indira Gandhi Institute of Development Research (IGIDR). The two-day conference brought together academicians from various prestigious institutions across the world, fostering constructive discussions on methodological issues, data issues, and research challenges in general. The fourth edition of the conference has reinforced the legacy of being a forum of high-quality research and interaction between scholars and practitioners.*

Papers presented in 10 technical sessions over the two-day period addressed, among other issues, CG disclosure in emerging markets and its relationship to firm value, determinants of ownership structure, gender diversity in boards, the effects on business performance of regulatory intervention in insider trading, the role of analysts, and the importance of social ties in determining corporate actions.

In addition to the thematic sessions, a special paper dealt with ways to determine causality, which is a source of major concern in empirical CG research across the world. The paper surveyed the various methodologies that researchers use to draw causal inferences in CG studies and highlighted the importance of identifying exogenous shocks.

Similar to its predecessors, the fourth conference featured two keynote lectures: The first, delivered by eminent scholar Viral Acharya (C. V. Starr Professor of Economics, New York University Stern School of Business), revisited the question of what determines the optimal ownership structure of a firm and, at equilibrium, how much the insider and the outsider will own. Acharya presented a model of ownership structure for firms and theorized on how improvement in governance can lead to an increase in public ownership. The second keynote lecture, delivered by Steve Lydenberg (partner, Strategic Vision, Domini Social Investments LLC), discussed the current state of corporate social responsibility data and disclosure practices. He has extensive experience in corporate accountability research as a practitioner and has authored books on socially responsible investment. The relevance of corporate social responsibility in the broad framework of CG in the present world is well understood, and Lydenberg's experience in this field made him the ideal speaker for the occasion.



Participant discussion during the coffee break.

The conference concluded with a roundtable discussion of the CG scenario in India that provided a synthesized view based on the findings from academic research and the practitioners' wisdom. The panel consisted of eminent scholars, independent directors, auditors, governance consultants, and policymakers.

The conference series is an undertaking of the Emerging Markets Corporate Governance Research Network, which is supported by IFC and chaired by Stijn Claessens of the University of Amsterdam and the International Monetary Fund. For questions about the network and its activities, please contact the network coordinator, Melsa Ararat, at [melsaararat@sabanciuniv.edu](mailto:melsaararat@sabanciuniv.edu).

For more information about the event, please visit <http://www.igidr.ac.in/iccgem2013/index.htm>.

## DAY 1

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The conference began with welcome speeches by Ajit Rangnekar, dean of ISB, and S. Mahendra Dev, director of IGIDR, emphasizing the different CG challenges faced by emerging markets in the presence of ill-developed institutions, the modest quality of accounting and disclosure standards, and the interlinked nature of businesses. Both speakers noted that hosting the conference in India was timely, as the New Companies Act awaits presidential approval. Furthermore, the enactment of legislation on corporate social responsibility has permanently changed the landscape of CG in India and has generated immense interest among academics, practitioners, and policymakers.

The day continued with two parallel technical sessions—*Corporate Governance and Disclosure-I* and *Ownership and Control Structures*—that featured three papers each.

### Corporate Governance and Disclosure-I

This session comprised three papers primarily focusing on the quality of CG in emerging markets (including Turkey, Brazil, India, Russia, Republic of Korea, and Bangladesh), its determinants, and its association with firm value.

The first paper, *Corporate Governance, Business Groups, and Market Value: Time-Series Evidence from Turkey*, by Melsa Ararat, Bernard Black, and Burcin Yurtoglu, constructed a broad CG index for Turkish firms from 2006 to 2011. The study found that governance is related to an increase in firm value and that this relationship is mostly driven by the disclosure sub-index. Further, affiliation of firms with a particular business group can predict their governance structure, and different groups follow a variety of governance practices. The paper's findings led to a discussion of the need to understand the group-specific factors that may explain different governance structures of various groups.

The second paper, *Methods for Multicountry Studies of Corporate Governance*, by Bernard Black, Antonio Carvalho, Vikramaditya Khanna, Woonchan Kim, and Burcin Yurtoglu, examined the effect of firm-level CG on market value in BRIKT<sup>1</sup> countries by constructing country-specific indexes. The paper identified and addressed some of the issues of cross-country CG studies, including endogeneity. The authors used a broad governance index in a panel data setup, with firm fixed and random effects to address the endogeneity, and omitted variable bias in the specification. The authors also tried to tackle the challenge of lack of data availability in emerging markets by constructing indexes based mostly on data collected by hand. The study found that common governance indexes have negligible power in predicting firm value; however, country-level indexes incorporating country-level institutional factors have predictive power.

*Corporate Governance and Its Determinants in Emerging Countries: A Case Study of Bangladesh*, by Pallab Kumar Biswas, constructed a CG quality index for firms in Bangladesh using 138 elements. It identified mostly the subsidiaries of foreign firms as among the first to adopt governance practices. The paper found that such factors as firm size, growth opportunities, stock return volatility, and leverage can explain the changes in governance practices over time and that, on the other hand, factors such as institutional ownership and liabilities-to-assets ratios affect governance practices across firms during a given period.

### Ownership and Control Structures

The session featured three research papers on the effect of concentrated ownership structure on firm outcomes. Two papers were dedicated to the study of the effect of concentrated ownership structure in Indian firms, and the third paper focused on the effect of governance reform in the strategic decisions made by insiders in Korean firms.

The paper by Sung Woonk Joh and Young Kyung Ko, *How Do Corporate Insiders React to Governance Reform: Strategic Reactions to Opening of Takeover Markets*, analyzed the effect of change in the external governance environment on firms' strategic reactions in Korea. The study found that firms with high ownership concentration and control rights are more likely to distribute cash dividends. Firms with low control rights, which make them vulnerable to takeover threats, are more likely to engage in share repurchase programs to retain control rights.

<sup>1</sup> Brazil, Russia, India, Republic of Korea, and Turkey.

The paper by Kinshuk Saurabh and Ajay Pandey, *Ownership and Control Structures, Private Benefits, and Firm Value*, analyzed 500 Indian listed firms from 2001 to 2011 and found that ownership is positively related to the firms' valuation. The study found that active family firms perform poorly, compared to passive family firms, and firms managed by outsiders perform better than those managed by founders and heirs. The authors also found that related-party transactions have a positive correlation with ownership and a negative correlation with firm value. Large related-party transactions are associated with the expropriation of minority shareholders. The post-presentation discussion brought out the need to design empirical studies that focus on the role of within-family conflicts in the determination of firm value surrounding the issue of succession and also whether the survival of family firms relative to non-family firms itself should be considered as an indication of these firms' past performance.

*Financial Decisions by Business Groups in India: Is it "Fair and Square"?*, the paper by Debarati Basu and Kaustav Sen, analyzed Indian business group firms and found that group firms in India make financial decisions based on their own private benefits and not on the investors' interests. The study found that firms with higher insider ownership make lower investments in group firms and pay lower dividends and that these firms receive capital even if they are incurring losses or have lower growth opportunities. Also, firms with higher insider ownership engage in income smoothing and transfer their performance volatility to other group firms. The paper methodically tried to rule out various alternate explanations that could drive the results.

## Keynote Speech

The keynote address, *Private Firms, Public Firms, and the Financing of Innovation*, by Viral V. Acharya analyzed the interactions of firms and their managers with the markets; why private, family, or inside ownership is higher; and what limits high public ownership. The firms' insiders are assumed to know more than the other shareholders as well as the board of directors. The insiders take firm-level actions based on which market forms expectations, and the insiders again revise their expectations about market reactions after observing the market reaction in the first period. Thus the insiders are involved in managing market expectations in addition to their prime objective of creation of value for the firm. The board of directors infers the nature of the insiders' available information, based on actions taken by the insiders, and then analyzes the firm's performance. In cases where the insiders' actions do not generate the required rate of return, the board initiates governance mechanisms such as changing management. The model suggested that excessive public ownership can lead to a situation where insiders are continually involved in managing market expectations and have no time left for value creation. This can be detrimental for the firm and its shareholders. High insider ownership increases the insiders' interests in ensuring optimal production, and hence, at the equilibrium, public ownership is expected to be low.

Drawing attention to the agents of external CG, the speaker emphasized that auditors of good quality have the same effect as increasing the stake of insiders in the firm. A very high-quality audit ensures that large stakes of the firms can be sold to the outsiders without a decline in firm value. This in turn can lead to a larger equity market where the value of each firm is higher. Therefore, ensuring the presence of high quality auditors, in addition to improving the quality of board governance, can improve governance as a whole in emerging markets.



Viral V. Acharya

## Post-Luncheon Paper

Given that establishing causality in empirical CG research has been a topic of concern among academics and policymakers alike, the paper, *Shock-Based Causal Inference in Corporate Finance Research*, by Vladimir Atanasov and Bernard Black, proved to be timely and pertinent for conference participants. The paper discussed the different methods for credible causal inference used by researchers in corporate finance research, based on a survey of 22 major accounting, economics, finance, law, and management journals consisting of more than 13,000 research papers. The authors cited several obstacles in establishing causal inference, ranging from the issue of reverse causation with firm value, omitted variable bias, measurement error, simultaneity of firm value, governance, and other control variables, to heterogeneity in firms and such other factors. Mostly studies have used fixed effects, dynamic panel models, instrumental variables, exogenous events that affect few firms under consideration, and the use of difference-in-difference approach to tackle the issue of endogeneity. The paper analyzed and found that external shock-based analysis is the most credible method of establishing causal relation in CG research. The discussion during the session indicated that, in the presence of a database of shocks, research in CG can become richer. Further, the discussion revealed that event studies can also establish causation in cases where a good control group is identifiable. The major highlight of the session was the use of shocks to establish causation and to suggest robust policy implications in CG. This session was followed by two parallel technical sessions: *Debt and Corporate Governance* and *Management Behavior and the Dominant Shareholder*.

## Debt and Corporate Governance

This session comprised two papers: one on the relationship of CG on debt outcome of debt maturity and the other on cost of debt.

The paper by Radhakrishnan Gopalan, Abhiroop Mukherjee, and Manpreet Singh, *Legal Enforcement and Debt Maturity Structure: Evidence from a Natural Experiment*, found that the reduction in enforcement cost after the establishment of debt recovery tribunals in India led to a reduction in the proportion of short-term debt of Indian firms and also led to a decline in the number of banks from which the firms could borrow. The authors tackled the identification problem by introducing an external shock in the system in the form of the staggered statewide introduction of debt recovery tribunals in India. They also conducted placebo tests to rule out any alternative explanations.

*Malaysian Corporate Board Ethnic Diversity, Political Connections, and the Cost of Debt*, a paper by F. A. Gul and Sa'adiyah Munir, studied the effects on cost of debt of the ethnic diversity of Malaysian corporate boards. The authors found that the cost of debt falls with a rise in board diversity at lower levels; however, at very high levels, the relation becomes positive. Also the relation was valid only for firms that were not politically connected, indicating that lenders consider these firms to be riskier.

## Management Behavior and the Dominant Shareholder

The two papers in this session mainly focused on management-level outcomes, given regulatory requirements and the presence of a dominant shareholder.

Jeff Ng, Albert Tsang, and Yong George Yang presented their paper, *Mandatory IFRS Adoption and Management Forecasts*, which highlighted changes in a firm's voluntary disclosure behaviors in an environment characterized by mandatory IFRS adoption. Using a cross-country difference-in-difference analysis, the study found that firms were more likely to provide management forecasts in countries mandated to follow IFRS, and this tendency appears to be permanent. Even though the implementation of IFRS and its positive impacts have been established by many studies, this paper looked into the specific channels of such improvement.

*Can Other Shareholders Constrain the Largest Shareholder? An Examination of Board Independence in Chinese Companies*, by Charles P. Cullinan, Fangjun Wang, Peng Wang and Xi Yu, analyzed the relationship between ownership of the non-largest shareholders and board independence in China. The authors found that Chinese firms

can elect more independent directors when the ownership of the non-largest shareholders increases relative to the largest shareholder. If the largest shareholder owned less than 30 percent, then the other large shareholders were found to have increased voting power through a larger percentage of independent directors. The findings of the paper suggested the need to conduct further studies focusing on the identity of other large shareholders to better understand whether they are expected to collude or monitor the largest shareholder.

The day concluded with two more parallel sessions: *Corporate Governance and Disclosure-II* and *Managerial Labor Market*, comprising three papers each.

## Corporate Governance and Disclosure-II

The three papers in this session focused on the construction of CG disclosure indexes for emerging markets and tracing the evolution of firms' governance practices.

*The Evolution of CG in Brazil*, by Bernard Black, Antonio Gledson de Carvalho, and Joelson Oliveira Sampaio, took a closer look at the CG practices followed by Brazilian firms, using survey data during 2004–2009. The authors' analysis suggested that governance practices improved in Brazil on account of growth in Novo Mercado and Level 2 listings, with the entry of new firms with superior CG practices, and improvement in the governance standards of already listed firms.

The second paper, *The Extent of Corporate Governance Disclosure and Its Determinants in the Gulf Countries*, by Narmeen F. Shehata, developed a CG disclosure index for Gulf countries, using 232 items. The study found that the general level of CG disclosure in Gulf countries is low, because disclosure is voluntary. The proportion of independent directors and foreign members on boards, the proportion of foreign members in management positions, firm profitability, and auditor type were found to be positively related to the level of CG disclosure.

The post-presentation discussion emphasized that, to establish a causal relationship, there is a need to identify legal shocks (introduction of governance codes) in Gulf countries, the sudden death of directors, or dramatic changes in revenue due to commodity shocks.

*Corporate Governance Disclosures and Firm Performance: A Study of the Indian Corporate Sector*, by Rajnish Kumar, constructed a CG disclosure index for 200 listed firms in India before and after the introduction of CG regulations in the country and analyzed the relationship between the index and firm performance. The study found that, over time, the level of the index indicated an upward trend, although there was wide variation among firms. Even though there are costs of complying with regulation, there is a positive relationship between the level of the disclosure index and overall firm performance.



Bernard Black

## Managerial Labor Market

The three papers in this session looked at various dimensions, including factors affecting gender diversity in the boardroom, how additional meetings discourage director attendance, and the importance of social ties in determining corporate actions.

*Making It to the Top: From Female Labor Force Participation to Boardroom Gender Diversity*, by Renee Adams and Tom Kirchmaier, revisited the gender debate on women on boards and found that the actual number of women directors is fewer than that reported in various other studies. Using data from 22 countries during 2001–2010, the paper argued that female labor force participation, cultural norms, and boardroom quotas affect the gender diversity of corporate boards. The study highlighted the importance of understanding the obstacles to female representation in the boardroom as a way to make possible the designing of effective gender-related policies. Discussions surrounding the results suggested that in emerging markets family firms may make themselves appear to have gender-friendly boardroom policies by appointing female members from the family to board positions (as non-independent directors). Thus it might be important to formulate gender-related boardroom policies specifically targeted toward independent directors.

The paper, *Do CEOs and Directors Get “Sick” of Attending Meetings?*, by Stephen Gray and John Newland, analyzed the effect of additional board and audit committee meetings on CEO and director attendance, using hand-collected Australian data. The study found a negative relationship between the number of meetings and the attendance rate of inside as well as outside directors. The attendance rate falls even if the meetings are arranged to discuss major issues such as poor firm performance, mergers and acquisitions, and CEO turnover, indicating that the benefit of holding an additional meeting is offset by a decrease in director attendance. The results of the study suggested the need to further explore such issues as the relation between short and long notices and directors’ attendance and whether remuneration in the form of sitting fees may not be a sufficient incentive for independent directors to attend meetings.

*Congruence within the Top Management: How the “Old Boy Network” Affects Executive Appointment and Performance*, by Daemin Ahn, Woojin Kim, and Kyung Suh Park, looked at the role of interpersonal relationships in determining firm-level outcomes. The study empirically found that executives are more likely to share the same school and regional ties with the CEOs of Korean firms that are small, in which foreign ownership is low, and in which the CEO is a family member of the controlling shareholder. Congruence positively influences the performance of young firms with high foreign ownership, indicating effective transmission of soft information through ties. On the other hand, congruence aggravates the agency problem by lowering firm value for firms controlled by family-member CEOs. The study noted that, since congruence is an important factor in corporate relations, there is a need to look into the extent of congruence between the chairman of group companies and the CEOs of group firms in emerging markets.



## DAY 2

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The day commenced with the keynote lecture by Steve Lydenberg on *Emerging Trends in Corporate Social Responsibility Data and Disclosure: Challenges and Opportunities*.

### Keynote Speech 2

Corporate social responsibility is the notion that firms are accountable not only to the shareholders but also to all the stakeholders, including customers, suppliers, employees, and the community as a whole. The understanding that firms are not isolated economic agents and that they interact with and affect society at various stages has led to an increase in demand for business accountability.

Steve Lydenberg discussed the history of corporate social responsibility (CSR) reporting by corporations and the major driving factors that led to mandatory CSR reporting. He went on to discuss how these developments have changed the way corporations function and plan their investment practices. For years, firms have mostly reported CSR activities based on anecdotal and subjective evidence, but now more systematic disclosure of corporate social and environmental data is mandated in financial reporting. With greater transparency in CSR data and the availability of more information to investors, customers, and regulators, corporations are expected to put greater weight on their CSR goals. (Read Steve Lydenberg's paper, *Emerging Trends in Environmental, Social, and Governance Data and Disclosure: Opportunities and Challenges*, at <http://bit.ly/1gGATik>).

The talk triggered animated discussion on the important role that social media can play to foster CSR activities. Lydenberg emphasized that for consumers to value CSR there needs to be a fundamental change in their thinking. He also pointed out that the current measures of accounting are ill-suited to measure forward-looking socially responsible investment activities and that it is imperative that governments set the ground rules for markets to work efficiently. Lydenberg suggested that, even though CSR data and their disclosure have a long way to go, in the long run they can help the economy traverse a path where firms become more accountable as well as sustainable.

Lydenberg's speech was followed by two parallel sessions: *Debt, Equity, and Corporate Governance* and *Boards of Directors*, featuring a total of four research papers.

### Debt, Equity, and Corporate Governance

The session featured two papers: One was a cross-country study analyzing the effect of legal origin in determining bank loans. The other looked at factors affecting ownership in a single country over a period of time.

*Legal Origin, Creditor Protection, and Bank Lending around the World*, a paper by Rebel Cole and Rima Turk Ariss, analyzed the relationship among legal origin, creditor protection, and bank behavior. The authors studied a set of developed and developing countries and found that banks allocate fewer assets to risky loans in French civil-law-



Steve Lydenberg

type countries where creditors' rights are strong, banks are smaller, and the capitalized and controlling shareholder is a foreign entity or the state itself. Banks in developing countries allocate a larger share of their assets to risky loans when the creditors' rights are more efficient.

The paper by Kinshuk Saurabh and Ajay Pandey, *Private Benefits, Wealth Risk, Conglomeration Lifecycle, and Family Particularities as Determinants of Ownership*, examined the effect of wealth risk of the owner, a family's urge to build an empire, private benefits given by related-party transactions, and family particularities of control on the ultimate equity ownership of the controlling owner. Analyzing a set of 500 nonfinancial firms in India, the study found that concentration of ownership is positively related to related-party transactions and firm value and negatively related to an increase in conglomeration and wealth-risk sensitivity of the controlling shareholder.

## Boards of Directors

The two papers in this session focused on the functioning of board of directors in China. The first paper examined the effect of implementation of regulatory requirements on the behavior of directors. The other paper revisited the debate on board size and firm performance.

Julan Du, Qing He, and Oliver M. Rui presented their paper, *Inside the Black Box of the Board Room? China's Corporate Governance Reform Experiment with the Independent Director System*, which analyzed the effectiveness of the introduction of mandatory opinion issuance in China to prompt independent directors to conduct monitoring. The study found that directors mostly remain silent in cases of misdeeds. Even if an independent director issues a negative opinion, the firms do not seem to take corrective policy actions. However, issuance of a negative opinion was found to be negatively related to the performance of the concerned firm. The paper applied the control-group method, the difference-in-difference approach, and the instrumental variable approach to address the possible endogeneity issue and found that the decline in firms' performance following the issuance of negative comments by the directors is robust to all the specifications. The findings of the paper suggested that it might be important to analyze whether issuing a negative opinion often can jeopardize the career advancement of the independent director, which in turn could limit the extent to which a director issues those opinions.

In their paper, *Uncertainty and Effectiveness of the Board: The China Experience*, Jing Liao and Martin Young analyzed whether larger boards were effective in neutralizing the effects of uncertainty in the firm's operating environment, which managers may use strategically for self-serving decisions. The study found that in firms that faced higher uncertainty, the benefits of the connections and advice provided by a larger board indeed outweighed potential agency costs, thereby leading to an increase in the value of the firm. This relationship was found to be stronger in firms with high state ownership, suggesting that connections with the state can provide access to important information. The study considered various definitions of macroeconomic uncertainty, firm-level uncertainty, and also the interaction of uncertainty with board size.

The day continued with two more parallel sessions: *External Monitoring* and *Law and Enforcement*, featuring two papers in each session.

## External Monitoring

The two papers presented in this session focused on the role of external CG instruments/agents (such as the market of corporate control and analysts) in affecting firm behavior in emerging markets. One paper looked at corporate misconduct after a firm is acquired in a market characterized by poor investor protection. The other paper looked at the role of analysts in reducing firms' audit risks.

*Acquire to Kill: Evidence from "Real" Corporate Raiders*, a paper by Hee Sub Byun, Woojin Kim, Eun Jung Lee, and Kyung Suh Park, explained that, in an environment of poor investor protection, the market for corporate control may lead to expropriation of the target firm's resources. The authors analyzed events of corporate misconduct in a set of Korean firms that have been recently acquired. The results indicate that, unlike in the United States, in emerging economies with lenient judicial oversight the market for takeover may not be able to discipline managers of targeted

firms. However, interestingly, investors still continue to invest in these firms, indicating the possibility that emerging-market investors behave more like gamblers.

*Positive Externality of Analysts Following Audit Services: Evidence from China*, by In-Mu Haw, Veicheng Yu, and Xu Zhang, analyzed the role of analysts in reducing the audit risk of Chinese firms. The study found that firms that are less frequently followed by analysts tend to be charged higher audit fees, and the effect is greater for smaller firms, firms with auditors not affiliated with the Big Four, or less-educated auditors. The study showed the importance and consequences of analysts in the market and found justification for policies like the Singapore Stock Exchange's sponsored analyst coverage.

## Law and Enforcement

The papers in this session used empirical evidence to address the question of whether regulatory intervention in insider trading can improve the production of information in the market in the context of a single-country or multicountry setup.

Using the Indian stock market regulator's intervention on insider trading as a natural experiment, the paper, *Do Insider Trading Laws Work? Evidence from an Emerging Market*, by Yogesh Kumar Chauhan, Kiran Kumar Kotha, and Vijaya B. Marisetty, analyzed whether regulatory intervention enhanced insider-trading transparency and whether market imperfections limited uniform effects across firms. The study found that regulatory intervention indeed improves the availability of information on insider trading; however, the extent of impact depends on organizational structures such as business group affiliations and product-market competition. Information production is higher for markets characterized by low product-market competition, and information is produced mostly for stand-alone firms. The paper pointed out that, for organizations structured like a business group, the regulatory impact on firm outcomes in emerging markets is limited.

*Insider Trading Restrictions and Insiders' Supply of Information: Evidence from Reporting Quality*, by Ivy Zhang and Yong Zhang, analyzed the effect of insider-trading laws on improving the supply of information in a cross-country setup. Using earnings management and earnings quality as proxies for information supply, the study found that the introduction of insider-trading laws improved information supply, and this effect was higher in developed countries with a strong legal environment. The study also found that improvements in earnings quality occurred mostly in firms that are not characterized by a concentrated ownership structure. Exploiting the setting of regulatory intervention in some countries, the paper also suggested that weak insider-trading laws may motivate managers to distort corporate disclosures for personal gains.

## Roundtable

The conference concluded with a roundtable: *Corporate Governance in India—Success and Challenges*, moderated by Sanjay Kallapur (Indian School of Business). It included a panel of well-known Indian practitioners: Mirza Baig (founder and managing director, HIKMA Governance Consulting), Rajeev Batra (partner and co-head, Governance, Risk and Compliance Services, KPMG), Shyamala Gopinath (chairperson, Clearing Corporation of India Ltd. and former deputy governor, Reserve Bank of India), and Nawshir Mirza (independent director and former partner, Ernst and Young India).

Mirza Baig discussed the international investor's perspective on India. He emphasized that, even though many Indian corporations are currently more profitable than their counterparts in many of the developed countries, some of the issues that deter investment in Indian markets include widespread corruption, divergent interests of the controlling and other shareholders, fragmented market of auditors, inconsistent government policies, and lack of infrastructure. Baig pointed out that CG in India appears to be moving in the right direction with improvements in disclosure, inclusion of items unique to the Indian market, and heightening of the responsibility of nonexecutive directors. He urged that the business media need to function responsibly, which can complement the role of analysts in the market. He underscored the need to regulate auditors in India, as India and Hong Kong are the only remaining Asian economies where auditors are not regulated.

According to Rajeev Batra, CG is becoming important as businesses are becoming complex, and CG can be viewed as a symbol of corporate culture. One of the issues of sound risk management is that it is perceived as a mechanical procedure leading to requisite certification and that the board of directors is essentially concerned with only short-run risks faced by the corporation in the current period. He emphasized that auditors generally audit the hard controls of the organization, but any audit finding is incomplete without auditing the soft controls or the culture of the organization. He suggested that interviewing various stakeholders of the organization over time can help with understanding the state of soft controls.

Shyamala Gopinath discussed the CG challenges specific to banks in India. She observed that the market for corporate control is far from being mature, because the takeover laws of banks are difficult. There exist severe conflicts of interests in banks, and recently cross-selling of various financial products by banks has been penalized. The Reserve Bank of India has announced that it will issue new bank licenses; however, it has not prohibited big industrial houses

from applying for licenses. This can lead to serious governance issues in the Indian banking sector in the future. Also, as market price is not a good indicator of CG for banks, regulatory vigilance over the banking sector is needed, leading to a constructive tension between the regulator and the regulated.

Nawshir Mirza expressed his concerns about the responsibilities of independent directors as outlined in the New Companies Bill, which is awaiting presidential approval. The revised version of the bill states that the independent director should not only safeguard the interests of all stakeholders but also balance their conflicting interests. Also, the provisions state that independent directors will not be held responsible for fraud unless they already had knowledge of the misconduct and did not act or should have been diligent enough to act on that knowledge. He observed that such sweeping and subjective clauses can unnecessarily complicate the efficient functioning of the board of directors.



Mirza Baig and Shyamala Gopinath during the panel discussion

The roundtable discussion brought to the forefront many concerns in the area of CG in India, such as the risks perceived by international investors, drawbacks of the current risk management systems followed by Indian firms, severe conflicts of interest in the functioning of banks, and the ambiguity of certain provisions in the New Companies Bill.

## LIST OF PAPERS BY SESSIONS

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### Session 1A: Corporate Governance and Disclosure-I

1. *Corporate Governance, Business Groups, and Market Value: Time-Series Evidence from Turkey*

Authors: Melsa Ararat (Sabanci University, School of Management and Corporate Governance Forum of Turkey), Bernard Black (Northwestern University), and Burcin Yurtoglu (WHU-Otto Beisheim School of Management and Corporate Governance Forum of Turkey)

Discussant: Woochan Kim (Korea University Business School)

2. *Methods for Multicountry Studies of Corporate Governance (and Evidence from the BRIKT Countries)*

Authors: Bernard S. Black (Northwestern University), Antonio Gledson de Carvalho (Fundacao Getulio Vargas School of Business), Vikramaditya Khanna (University of Michigan Law School), Woochan Kim (Korea University Business School), and Burcin Yurtoglu (WHU-Otto Beisheim School of Management and Corporate Governance Forum of Turkey)

Discussant: Stijn Claessens (International Monetary Fund)

3. *Corporate Governance and Its Determinants in Emerging Countries: A Case Study of Bangladesh*

Author: Pallab Kumar Biswas (University of Dhaka)

Discussant: Burcin Yurtoglu (WHU-Otto Beisheim School of Management and CG Forum of Turkey)

### Session 1B: Ownership and Control Structures

1. *How Do Corporate Insiders React to Governance Reform: Strategic Reactions to Opening of Takeover Markets*

Authors: Sungwook Joh (Seoul National University) and Young Kyung Ko (Universiti Tunku Abdul Rahman)

Discussant: Sumya Prabhat (Indian School of Business)

2. *Ownership and Control Structures, Private Benefits and Firm Valuation*

Authors: Kinshuk Saurabh (Indian Institute of Management Ahmedabad) and Ajay Pandey (Indian Institute of Management Ahmedabad)

Discussant: Ekta Selarka (Madras School of Economics)

3. *Financial Decisions by Business Groups in India: Is it "Fair and Square"?*

Authors: Debarati Basu (Indian Institute of Management Calcutta) and Kaustav Sen (Indian Institute of Management Calcutta and Pace University)

Discussant: Abhiroop Mukherjee (Hong Kong University of Science and Technology)

### Keynote Speech 1

Viral V. Acharya, C.V. Starr Professor of Economics, Department of Finance, New York University Stern School of Business:

*Private Firms, Public Firms, and the Financing of Innovation*

### Post Luncheon Paper

1. *Shock-Based Causal Inference in Corporate Finance Research*

Authors: Vladimir Atanasov (College of William and Mary) and Bernard S. Black (Northwestern University)

### Session 2A: Debt and Corporate Governance

1. *Legal Enforcement and Debt Maturity Structure: Evidence from a Natural Experiment*

Authors: Radhakrishnan Gopalany (Washington University), Abhiroop Mukherjee (Hong Kong University of Science and Technology), and Manpreet Singh (Hong Kong University of Science and Technology)

Discussant: Vijaya B. Marisetty (RMIT University)

2. *Malaysian Corporate Board Ethnic Diversity, Political Connections, and the Cost of Debt*

Authors: Ferdinand A. Gul (Monash University) and Sa'adiyah Munir (Monash University)

Discussant: Shashwat Alope (Indian School of Business)

## Session 2B: Management Behavior and Dominant Shareholder

### 1. *Mandatory IFRS Adoption and Management Forecasts*

Authors: Jeff Ng (The Chinese University of Hong Kong), Albert Tsang (The Chinese University of Hong Kong), and Yong George Yang (The Chinese University of Hong Kong)

Discussant: Hariom Manchiraju (Indian School of Business)

### 2. *Can Other Shareholders Constrain the Largest Shareholder? An Examination of Board Independence in Chinese Companies*

Authors: Charles P. Cullinan (Bryant University), Fangjun Wang (Xi'an Jiaotong University), Peng Wang (Xi'an International Studies University), and Xi Yu (Xi'an Jiaotong University)

Discussant: Jing Liao (Massey University)

## Session 3A: Corporate Governance and Disclosure-II

### 1. *The Evolution of Corporate Governance in Brazil*

Authors: Bernard S. Black (Northwestern University), Antonio Gledson de Carvalho (Fundacao Getulio Vargas School of Business), and Joelson Oliveira Sampaio (Fundacao Getulio Vargas School of Business)

Discussant: Could not be present

### 2. *The Extent of Corporate Governance Disclosure and Its Determinants in the Gulf Countries*

Author: Nermeen Shehata (Cairo University)

Discussant: Vladimir Atanasov (College of William and Mary)

### 3. *Corporate Governance Disclosures and Firm Performance: A Study of the Indian Corporate Sector*

Author: Rajnish Kumar (Indira Gandhi Institute of Development Research)

Discussant: Antonio Gledson de Carvalho (Fundacao Getulio Vargas School of Business)

## Session 3B: Managerial Labor Market

### 1. *Making It to the Top: From Female Labor Force Participation to Boardroom Gender Diversity*

Authors: Renée Adams (The University of New South Wales) and Tom Kirchmaier (University of Manchester and Financial Markets Group, LSE)

Discussant: Ji-Woong Chung (Korea University Business School)

### 2. *Do CEOs and Directors get "Sick" of attending meetings?*

Authors: Stephen Gray (University of Queensland) and John Nowland (City University of Hong Kong)

Discussant: Yong Zhang (Hong Kong Polytechnic University)

### 3. *Congruence within the Top Management: How the "Old Boy Network" Affects Executive Appointment and Performance*

Authors: Daemin Ahn (Korea University Business School), Woojin Kim (Seoul National University), Eun Jung Lee (Hanyang University), and Kyung Suh Park (Korea University Business School)

Discussant: Renée Adams (The University of New South Wales)

## Keynote Speech 2

Steve Lydenberg, partner, Strategic Vision, Domini Social Investments LLC

*Emerging Trends in Corporate Social Responsibility Data and Disclosure: Challenges and Opportunities*

## Session 4A: Debt, Equity, and Corporate Governance

### 1. *Legal Origin, Creditor Protection, and Bank Lending around the World*

Authors: Rebel Cole (DePaul University) and Rima Turk Ariss (Lebanese American University)

Discussant: Bernard S. Black (Northwestern University)

### 2. *Private Benefits, Wealth Risk, Conglomeration Lifecycle, and Family Particularities as Determinants of Ownership*

Authors: Kinshuk Saurabh (Indian Institute of Management Ahmedabad) and Ajay Pandey (Indian Institute of Management Ahmedabad)

Discussant: Rajib Doogar (Indian Institute of Management, Calcutta)

## Session 4B: Boards of Directors

1. *Inside the Black Box of the Board Room? China's Corporate Governance Reform Experiment with the Independent Director System*

Authors: Julan Du (Chinese University of Hong Kong), Qing He (Renmin University of China), and Oliver M. Rui (China Europe International Business School)

Discussant: Charles P. Cullinan (Bryant University)

2. *Uncertainty and Effectiveness of the Board, the China Experience*

Authors: Jing Liao (Massey University), and Martin Young (Massey University)

Discussant: Julan Du (Chinese University of Hong Kong)

## Session 5A: External Monitoring

1. *Acquire to Kill: Evidence from "Real" Corporate Raiders*

Authors: Hee Sub Byun (Korea University Business School), Woojin Kim (Seoul National University), Eun Jung Lee (Hanyang University), and Kyung Suh Park (Korea University Business School)

Discussant: Rajat Tayal (Indira Gandhi Institute of Development Research)

2. *Positive Externality of Analysts Following Audit Services: Evidence from China*

Authors: Xu Zhang (Texas Christian University), Veicheng Yu (Asian Institute of Management), and In-Mu Haw (University of Macau)

Discussant: Kaustav Sen (Indian Institute of Management Calcutta and Pace University)

## Session 5B: Law and Enforcement

1. *Do Insider Trading Laws Work? Evidence from an Emerging Market*

Authors: Yogesh Kumar Chauhan (ICFAI Foundation for Higher Education), Kiran Kumar Kotha (National Institute of Securities Markets), and Vijaya B. Marisetty (RMIT University)

Discussant: Amir Licht (Radzyner School of Law)

2. *Insider Trading Restrictions and Insiders' Supply of Information: Evidence from Reporting Quality*

Authors: Ivy Zhang (University of Minnesota) and Yong Zhang (Hong Kong Polytechnic University)

Discussant: Young Kyung Ko (Universiti Tunku Abdul Rahman)

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