Global Corporate Governance Colloquia 2019

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House of Finance

Goethe University Frankfurt

8th June 2019

Protocol – Session 1
Value of Politically Connected Independent Directors: Evidence from the Anti-Corruption Campaign in China

Speaker: Chang Zhang
Discussant: Luh Luh Lan

Chang Zhang is a third-year PhD student at Warwick Business School, University of Warwick. His research interests are empirical corporate finance and asset pricing with a focus a China's market.

Luh Luh Lan holds a joint position as an Associate Professor with both the NUS Business School and Law School. She specializes in company finance law and corporate governance and has published in journals like the Academy of Management Review, Harvard Business Review, American Journal of Comparative Law and Law Quarterly Review. She is the author of Essentials of Corporate law and Governance in Singapore published by Sweet & Maxwell. She is currently the Academic Director for the UCLA-NUS EMBA Programme and a Board Member of the Charity Council advising the Singapore Commissioner of Charity on regulatory and governance issues.

<u>Protocol of Session 1, Saturday 8 June (09.00 a.m. – 10.00 a.m.)</u>

In the first part of the session, a paper by Chang Zhang is presented. The paper researches the effect of the exclusion of politically connected independent directors (PCIDs) from boards of Chinese firms on firms' performance. As part of China's anti-corruption campaign initiated in 2013 by the Communist Party, Regulation No 18 mandates the departure of PCIDs (current as well as recently retired government officials) from corporate boards of directors. Utilizing this quasi-natural experiment, a Difference-in-Difference regression is applied to estimate effects on the performance of the treatment group which includes firms that experienced departures of PCIDs. Compared to a control group of firms unaffected by the regulation, treated companies experience negative cumulative abnormal returns (CAR) around the release of Regulation No. 18. State-Owned Enterprises' (SOEs) as well as non-SOEs' operating performance appear to be unaffected by the event. However, non-SOEs' political risk decreases after PCIDs' actual resign, resulting in a surge in firm values. Additionally, corporate governance of treated firms improves.

During the second part, the discussion, Luh Luh Lan first expressed her appreciation for the paper's high quality. Afterwards, she briefly summarized the content and strategy of the paper, and discussed opportunities for potential improvements. Among others, a more proper definition of the term 'politically-connected' was demanded. Moreover, peculiarities of the intertwinedness of China's political elite and the economic sectors were suggested to be pointed out. It was further stated that companies included in the treatment group were de facto affected by two separate events: the announcement of Regulation No. 18 as well as the subsequent departure of PCIDs. In order to disentangle the corresponding effects, a different approach was recommended. According to this approach, firms experiencing the departure of PCIDs from their boards are supposed to be compared to firms that face a departure of non-PCID during the same period.