

# Discussion of Chakrabarti & Subramanian

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# What does the paper do?

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- Had a causal impact on quality of independent directors
- Implications: Need to think more carefully about what the legal system does
- The sort of paper that I really like.

## Another example: Events after resignation of director

- A former director of Apparel Export Promotion Council, accused in a cheque bouncing case
- He left the board in 1998, cheque was written in 2004.
- The Delhi High Court had refused to quash the criminal proceedings!
- On 2011-11-10, the Supreme Court quashed the criminal proceedings, saying: *This court has repeatedly held that in case of a director, complaint should specifically spell out how and in what manner the director was in-charge of or was responsible to the accused company for conduct of its business and mere bald statement that he or she was in-charge of and was responsible to the company for conduct of its business is not sufficient.*
- Note: This is not about D&O insurance.

## Another example: Prosecution of directors

- Fire at AMRI: Police arrested seven directors,
- Mob gathered outside
- Court remanded them to 10 days police custody, charged with homicide.
- Note: This is not about D&O insurance.

## Other anecdotes

- Fame India
- FFSL
- GSFC.

## Concern : It was not a surgical shock to IDs only

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## Concern : It was not a surgical shock to IDs only

- India has always had a weak legal system layered with a patina of common sense; certain things were just not done.
- In recent years, that common sense has been under attack.
  - Difficulties faced by SEBI members
  - *Caravan* magazine and IIPM; defamation cases more generally
- Now that we can't count on a layer of common sense, we have no alternative but to go fix the foundations.
- This perspective is reshaping many things – not just the behaviour of IDs. Example: Academic appointments and promotions.
- These problems are beyond insurance.



## Concern: Implications for corporate governance

- Implicit in our reading of the paper is the idea that reducing the quality of IDs damages corporate governance
- It might
- It might not.
- Results on event date for Satyam.

# Unpersuaded by the difference-in-difference

- What we really need is treated units and controls
- Here all firms were treated
- There is endogeneity between choices of IDs and EDs.

# Suggestions

- Focus only on the months after Satyam.
- What happened to the firms where ID exit took place? Use matching technology.
- Special significance of post-Satyam exit by member or chairman of audit committee?

# Don't agree on the policy implications

- D&O insurance is just not the issue.
- I think this has roughly zero implications for the US.
- The real story lies in unpredictable and extreme behaviour of the laws, police and the courts, and their interaction with the mob.
- This paper should not be located in the US literature on IDs; it should be located in the governance literature, of the economic consequences of low quality laws – police – courts.

# Conclusion

- The best research projects look hard at the world around us, describe phenomena and explain them.
- Need to do more to tell the surrounding story.

Thank you.