BOARD OF DIRECTORS AND STOCK PRICE CRASH RISK: EMPIRICAL EVIDENCE FROM INDIA

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ABSTRACT

Nominee directors on board are expected to bring forth financial expertise due to their pecuniary relationship with the firm and employment at a financial organisation. Independent directors enhance transparency and thus lower information advantages of the management. Alongside, promoters have best knowledge about the business, its functioning and wellbeing. In conjunction, if all these forces collectively and effectively work together, the question that arises is whether they impact the stock price crash risk faced by the firm. More importantly, do firms with nominee directors, board independence and promoter control face a lower crash risk.

This is tested using the data of listed manufacturing firms for the years 2008 to 2019. Application of the concept of Ordinary Least Squares (OLS) and Quantile Regression (QR) revealed that on an average, presence of nominee director, the level of board independence and promoter control do not affect the stock price crash risk faced by the firm. However, it was also found that nominee directors may influence the crash risk when it is low. This study shows that there is not significant relationship between stock price crash risk and board composition, although there are several limitations to this study. For better understanding, further research may be done to discover the relationship between stock price synchronicity, board composition, promoter ownership and crash risk, if any.