

## **Systemic Impact of Accounting Scandals on Corporate Governance in Emerging Markets: Evidence from India**

Krishnamurthy V. Subramanian, Indian School of Business; Rajesh Chakrabarti, O.P. Jindal Global University

**Abstract** In this study, we examine the systemic spillovers from an accounting scandal on corporate governance in an emerging market, India. Though accounting failures proliferate across the world, their systemic effects have been examined only in developed markets. Yet, given legal and market failures, systemic effects can be more pronounced in emerging markets. We study the systemic effects of an accounting scandal on board independence and monitoring by independent directors (IDs) in other firms unrelated to the scandal. For identification, we undertake difference-in-differences tests that utilize cross-sectional differences in the probability of a hidden accounting fraud. Following the prominent accounting scandal in India in January 2009, IDs resigned in large numbers. The percentage of IDs and expert IDs on boards decreased significantly, which affected *de jure* and *de facto* board independence respectively. On the positive side, board monitoring as measured by number of board meetings and attendance of independent directors increased

**Key Words:** Boards, Corporate Governance, Directors, Independent Directors, Firm Value, Spillover