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Relationship between Independence Directors and Performance of Firms During Financial Crisis

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Abstract : The global credit crisis of 2008 aroused renewed interest in the effectiveness of corporate governance mechanisms to safeguard investor interests. In this paper, we measure the effect of the crisis from 2008 to 2009 on the stock performance of 976 Hong Kong-listed companies and examine its link to corporate governance mechanisms. It is evident that the crisis and the economic downturn affected different industries. Empirical results show that firms with an independent board and a high concentration of ownership and management ownership had lower abnormal stock returns, but a lower price volatility during the global financial crisis. These results highlight that no single corporate governance mechanism is fit for all types of financial crises and time frames. To strengthen investors' confidence in the ability of companies to deal with such swift financial catastrophes, companies should enhance the dynamism and responsiveness of their governance mechanisms in times of turbulence.

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