

Boardroom signals: Market reactions to director appointments and departures in Indian listed firms

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Abstract

Using event study methodology, this paper examines the stock market reaction to announcements of appointments and departures of executive, independent, and other directors in Indian listed firms. The appointment of independent directors generates significant positive abnormal stock returns, reflecting investor confidence in enhanced board independence and governance. In contrast, appointments of executive and non independent directors elicit weak or negative reactions. Departures of directors across all categories do not significantly impact stock prices, signalling that the market distinguishes between routine board turnover and changes with substantive implications for firm performance or governance. By disaggregating board changes into executive, independent, and other categories within the context of an emerging market characterised by concentrated family ownership, the study extends a literature largely focused on Western economies and offers a context specific understanding of how investors process governance signals in heterogeneous institutional settings. The findings highlight the informational value of board composition changes and carry policy implications for regulators seeking to strengthen board independence requirements and disclosure norms in emerging markets.

Keywords: Event Study, Capital Market, Firm Value, Corporate Governance, Independent Directors, Board Composition, India

JEL Classification: G14, G30, G32, G34

1. Introduction

Corporate boards play a pivotal role in shaping the strategic direction and governance of firms. The composition of a company's board, particularly the presence of skilled and independent directors, is often regarded as indicative of sound corporate governance. Investors may assume that such boards are more inclined to act in the best interests of shareholders by resolving agency conflicts. Directors also have a significant impact on major company decisions such as mergers and acquisitions, dividend policies, and capital allocation. These actions have a direct impact on a firm's financial performance and thus its stock price. Therefore, we expect changes in board composition due to appointments or departures of directors to convey important information to the stock market. A growing body of literature supports the notion that board changes influence investor perceptions. For example, director support for value-enhancing acquisitions is often linked to positive stock market reactions (Masulis et al., 2007). Positive market reactions are common when credible, high-profile, or industry-experienced directors are recruited, as they are expected to add value to the firm (Kaplan & Reishus, 1990). Agarwal & Knoeber (2001) find that the appointment of independent directors has a favourable impact on stock prices. Similarly, Daily et al., (2003) document that the announcement of independent director appointments generally results in positive abnormal returns. Rosenstein & Wyatt (1990, 1997) also discover positive market reactions to the appointment of independent directors because generally investors regard the appointment of independent directors, as monitors of top executives, to be in the interest of shareholders. In contrast, the departure of significant directors, particularly independents, may indicate governance instability, resulting in negative stock price changes. Unexpected resignations, particularly of independent directors, might elicit unfavourable stock market reactions, indicating potential governance issues (Fahlenbrach & Stulz, 2010).

In addition to independence, the time commitment and experience of directors are also under scrutiny. Busy directors, who hold multiple board seats, may be less effective monitors and are often associated with poor governance and negative stock performance (Fich & Shivdasani, 2006). Overcommitted directors may fail to provide proper monitoring, lowering board effectiveness and harming market reputation. Fich & Shivdasani (2006) show that the stock market reacts negatively to announcements of additional directorships taken on by existing board members, reflecting concerns about potential dilution of their effectiveness. Conversely, firms experience positive market reactions when busy directors leave the board, indicating that investors perceive busy directors as less beneficial to firm governance. However, Perry & Peyer (2005) find that the stock market responds positively to the appointment of executives who hold several board positions, especially when they bring relevant experience and connections. In contrast, the market discourages recruiting of overcommitted executives, indicating doubts about their efficacy.

The selection of executive directors induces opposing reactions from shareholders and the stock market. Kaplan & Reishus (1990) find that executive directors' experience improves decision-

making, especially in complicated or technical businesses. The market may react positively to such appointments, anticipating operational benefits. However, Shivdasani (1993) and Ferris et al. (2003) found that executive appointments might cause unfavourable stock market reactions, particularly when seen as weakening board independence or managerial entrenchment.

The relationship between CEOs and boards of directors can also influence the stock market reaction. Jensen (1993) argues that excessive CEO influence over the board impairs governance and may lead to value-destroying decisions. In contrast, balanced boards with strong independent directors are more inclined to question executive decisions, aligning activities with shareholder interests. Furthermore, Fahlenbrach & Stulz (2010) highlight the strategic importance of appointing CEOs as outside directors. Although such directors contribute industry expertise, their efficacy is dependent on their ability to put the interests of the appointing firm ahead of personal or competing duties. Borokhovich et al. (1996) investigate the purpose of outside directors in governance, focusing on CEO transitions. The stock market reacts positively when new outside directors are recruited, indicating better governance. Similarly, Weisbach (1988) investigates the impact of outside directors on CEO turnover decisions. He discovers that boards with a higher share of outside directors are more effective at replacing underperforming CEOs than those controlled by executives.

Existing research on stock market reactions to director appointments and resignations is limited and is primarily focused on Western countries, and is very limited in the context of Asia and India. India presents a unique governance environment, characterized by a large number of family-controlled firms, varying ownership structures, and evolving regulatory frameworks. This context offers a fertile ground for understanding how investors interpret board changes under different institutional and ownership conditions. This study addresses this gap by investigating the stock market reaction to the appointment and cessation of corporate directors in a large sample of 2,579 publicly listed Indian firms over the period from April 2023 to April 2024. Unlike previous studies that often treat director changes homogeneously, we examine whether the market reaction varies based on the type of director (executive, independent, or other).

We recognize that the stock market reaction associated with board appointments or cessations may not be uniform across all firms. Firms differ in their monitoring or advising needs. Therefore, the effects may be different among different subsamples of firms. Our view is that it is important to examine the effects of appointing or disengaging directors in the light of the board structure, organizational ownership, capital intensity, and growth opportunities of the firm. The share market's response to the appointment of executive or independent directors could be different if a firm already has a higher number of executive/independent directors on the board, respectively. Likewise, the effect of appointing more executive directors in a family firm with a very high family shareholding (which can exacerbate agency conflicts) could be different from that of a firm with low family shareholding. So, we examine the stock market reaction to announcements for sub-

samples of firms constructed on the basis of board structure, organizational ownership, capital intensity, and growth opportunities.

Our main results are as follows. Using the full sample, we find that the appointment of independent directors on the board, not executive directors, has a positive and significant market response. The CARs are significant only over 7 and 11-day windows. Appointments of other directors are associated with a weakly negative reaction over an 11-day window. The results do not change when we estimate cumulative abnormal returns vis-à-vis the Fama-French model as opposed to the Capital Asset Pricing Model. Notably, director cessations do not elicit a significant market response, suggesting that not all board changes are treated as informative by the investors. The rest of the paper is structured as follows. We present the data, sample, and methodology in Section 2. Empirical results are presented in Section 3. Section 4 concludes.

2. Methodology

2.1 Data and Sample

Our sample comprises 4384 appointments and 2582 cessations of corporate directors in 2579 Indian publicly listed firms from April 2023 to April 2024. We verify whether the announcing firms simultaneously released earnings results or guidance, or announced significant transactions such as mergers & acquisitions. Our final sample consists of a total of 6966 announcements of appointments and cessations of corporate directors.

We sourced the data on appointments and cessations of directors from Board Stewardship, an Indian database that provides board-related news and information. Historical stock price data were collected from the Bombay Stock Exchange website and the Prowess IQ database maintained by the Centre for Monitoring the Indian Economy (CMIE). Firm-level data for 2023–2024 were obtained from Prowess IQ.

2.1.1 Director Data

Our event analysis focuses on two key types of events: the removal of a director from the board, whether through cessation or resignation, referred to as *Cessation*, and the addition of a director to the board, whether through appointment or reappointment, referred to as *Appointment*. Using director data obtained from the Board Stewardship website, we classify directors into three primary compositions as outlined below:

Executive directors are full-time employees of the firm. They are senior executives of the firm.

Independent directors include all non-executive, outside, independent directors.

Other directors: Includes nominee director, part-time nominee, additional director, alternate director, non-executive non-independent, government official, part-time government director, public interest director, and non-official director.

2.2 Variable Construction

A description of the important variables used in this paper is provided in Appendix A. We will briefly examine some of the variables here. Control variables are measured annually, just before the announcement.

Cumulative Abnormal Returns (CAR): CAR is the sum of a firm's abnormal returns during the event window. Normal returns are calculated using an estimation window spanning 200 to 60 trading days before the event date. These normal returns are then utilised to compute abnormal returns for various event windows using the CAPM and the Fama-French three-factor model.

High and Low Executive director firms: A firm with more than 4 executive directors (median value) is classified as a high executive director firm, and those with less are low executive director firms.

High and low independent director firms: A firm with more than 8 independent directors (median value) is classified as a high independent director firm and those with less than 8 independent directors are classified as low independent director firms.

High and Low Family Shareholding: Firms with family shareholding more than the median (52.2%) are classified as high family shareholding firms.

High and Low Capital Expenditure (CapEx): Firms with greater than Rs 18.35 million investment in annual capital expenditure (median value) are classified as high CapEx firms.

High and Low Market-to-book (M/B): A firm with an M/B ratio greater than 19.93 (median value) is classified as a high M/B firm.

2.3 Descriptive Statistics

Panel A of Table 1 shows the breakdown of director appointments and cessation announcements based on director type. In total, we examine announcements of 1300 appointments and 505 cessations of executive directors; 2765 appointments and 1741 cessations of independent directors; and 319 appointments and 336 cessations of other directors.

Panel B of Table 1 reports the mean, median and standard deviation of variables used in our analysis. On average a firm has approximately 4 executives and 8 independent directors. On average, families own 46.62% of a firm's shares, suggesting significant involvement of founding families in the governance of Indian firms. The average capital expenditure per firm is Rs 1459 million and the average market-to-book ratio is 75.26. However, the median values are significantly different, suggesting large variability in our data.

In Panel C, we report the number of directors for sub-samples of firms formed on the basis of executive directors, independent directors, family shareholding, capital expenditure and market-to-book ratio. Firms with low a proportion of executive directors, on average, have 2 executives,

Table 1. Descriptive Statistics

Panel A: Sample Distribution

In this panel, we tabulate the sample distribution of announcements of appointments and cessations of directors in different categories.

Director Type	Appointments	Cessation
<i>Executive/ Executive</i>	1300	505
<i>Independent</i>	2765	1741
<i>Others</i>	319	336
Total	4384	2582

Panel B: Descriptive Statistics

This table reports descriptive statistics of variables used in this paper. We report the, mean, median and standard deviations. The definitions of all variables are presented in Appendix A.

Variable	Observations	Mean	Median	Std. Dev.
Executive directors (#)	2473	4.43	4	2.57
Independent directors (#)	2544	8.40	8	3.39
Family Shareholding %	2555	46.62	52.2	24.37
Capital Expenditure INR m	2560	1459	18.35	12999.58
Market-to-book (x)	2560	75.26	19.93	339.59

Panel C: Summary Statistics of Sub-samples

This table reports the mean and median number of directors in different categories for sub-samples of firms, which include High/low executive director firms, high/low independent director firms, firms with high/low family shareholding, high/low Capital expenditure, high/low M/B. For a description of variables, refer to Appendix A.

Sub- Sample	Mean				Median			
	<i>Executive</i>	<i>Independent</i>	<i>Others</i>	<i>Board Size</i>	<i>Executive</i>	<i>Independent</i>	<i>Others</i>	<i>Board Size</i>
High Executive directors	5.87	9.12	3.74	17.85	5	9	3	16.5
Low Executive directors	2.18	7.34	4.51	13.58	2	7	4	13
High Independent directors	5.07	10.55	4.46	19.18	4	10	4	18
Low: Independent directors	3.56	5.48	3.62	11.97	3	6	3	12
High Family Shareholding	4.49	8.42	3.99	16.10	4	8	4	15
Low Family Shareholding	3.84	8.20	5.03	16.22	3	8	4	16
High Capital Expenditure	5.15	9.78	4.64	18.72	4	9	4	18
Low Capital Expenditure	3.7	7.01	3.54	13.48	3	7	3	13
High Market-to-book	4.67	8.92	4.17	17.05	4	8	4	16
Low Market-to-book	4.19	7.88	4.03	15.16	4	7	3	14

7 independents and 4 other directors whereas firms with high proportion of executive directors have 5 executives, 9 independent, and 3 other directors. Firms with low proportion of independent directors, on average, have 3 executives, 6 independent, and 3 other directors whereas firms with high proportion of independent directors have 4 executives, 10 independents and 4 other directors on board. There is not much variation in the number of directors in different categories between high and low family shareholding firms. Firms with high capital expenditure, on average, have bigger boards with more executive and independent directors.

2.4 Methodology and Measurement of Cumulative Abnormal returns

We use a conventional event study approach to analyse the market's perspective of the relevance of director appointments and terminations. Our methodology is similar to that in Field & Hanka (2001) and Doidge & Dyck (2015). The announcement date (AD) corresponds to the dates when

circulars announcing specific events (appointment or cessation of any director type) were issued by the respective firms in our sample. To calculate abnormal returns, we employ CAPM and the Fama-French three-factor model using a 140-trading-day (AD-200, AD-60) estimation window. Cumulative Abnormal Returns are commonly used to measure abnormal returns. CAR is the cumulative abnormal return, which assumes compounding in each period (Brav et al., 2000; Marisetty & Subrahmanyam, 2010). We measure returns over multiple event windows ranging from -5 days to +5 days from the event date. We define CAPM and the Fama-French model adjusted returns as:

$$CAPM AbR_{it} = R_{it} - \alpha_i - \beta_i(R_{mt} - R_{ft}) \quad (1)$$

$$FFM AbR_{it} = R_{it} - \alpha_i - \beta_i(R_{mt} - R_{ft}) - \beta_{i2}HML_t - \beta_{i3}SMB_t \quad (2)$$

Where $CAPM AbR_{it}$ denotes the CAPM adjusted abnormal return for firm i on day t , and $FFM AbR_{it}$ denotes the Fama-French 3-factor model-adjusted abnormal return for firm i on day t . R_{it}

is the firm's return on day t relative to the announcement date, whereas R_{mt} represents the market benchmark return (S&P BSE Sensitive index, SENSEX). $R_{mt} - R_{ft}$ denotes the extra return on the market portfolio, the intercept (α_i) and slope (β_i) are estimated based on the pre-event window. HML_t (high minus low) measures the book-to-market effect, whereas SMB_t (small minus large) shows the firm size effect in Fama French Model. CAR is defined as follows:

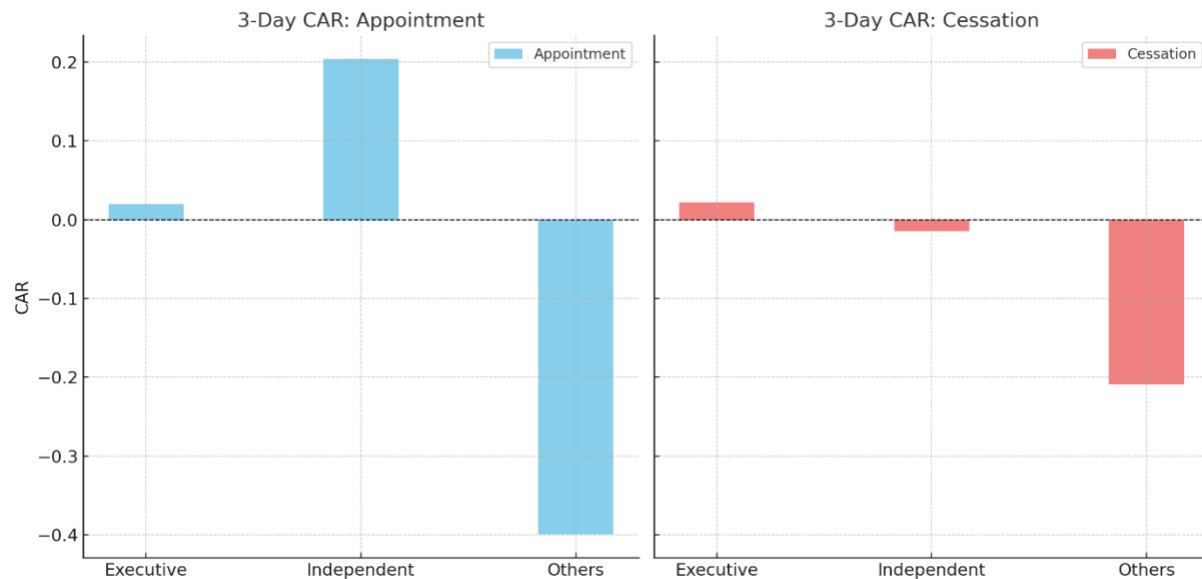
$$CAR_i = \sum_{t=-N}^M AbR_{it} \quad (3)$$

Here, AbR_{it} is the abnormal return of stock i on trading day t estimated from equations (1) and (2).

3. Empirical Results

We present the results of our event study in this section. In Figure 1, we plot the average 3-day CAPM-adjusted CARs around the announcement of appointments and cessations of executive, independent, and non-independent and non-executive directors. Appointment of independent directors generates a positive CAR, while appointments of other types of directors elicit an insignificant or negative CAR. The right half of the graph displays the mean 3-day CARs for director cessations. Cessations of executive directors elicit a small, positive CAR, whereas for independent and other directors, it is negative.

Figure 1. 3-day CARs for director appointments and cessation



In this graph we plot the mean of 3-day CARs surrounding the announcements of appointments and cessations of executive, independent, and other types of directors.

The CAPM adjusted abnormal returns around the announcements of appointments and cessations of directors in different categories are presented in Table 2. We report cumulative abnormal returns for the announcement day and for 3, 7, and 11 days surrounding the event date. We find that appointments and cessations of executive directors elicit an insignificant stock market reaction over the 11-day window.

Table 2. CARs Relative to the Capital Asset Pricing Model

Event Window	Executive Directors		Independent Directors		Other Directors	
	Appointment	Cessation	Appointment	Cessation	Appointment	Cessation
Day 0	0.026 (0.89)	-0.006 (-0.67)	0.111 (0.99)	-0.008 (-1.46)	-0.091 (-0.46)	-0.19 (-1.31)
Day -1 to +1	0.036 (0.70)	0.013 (0.26)	0.181 (1.15)	-0.016 (-1.30)	-0.351 (-1.49)	-0.198 (-0.84)
Day -3 to +3	0.046 (0.61)	0.046 (0.61)	0.596** (2.47)	0.01 (0.51)	-0.439 (-1.10)	0.063 (0.18)
Day -5 to +5	0.04 (0.43)	-0.114 (-0.94)	0.773*** (2.66)	-0.004 (-0.35)	-0.96* (-1.95)	-0.071 (-0.16)

This panel reports the results of our event study of the appointment and cessation of executive, independent, and other directors from April 2023 to April 2024. The table reports Cumulative

Abnormal Returns relative to the Capital Asset Pricing Model. The asterisk superscripts ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

The appointment or departure of executive directors may not significantly impact stock prices if the market perceives these events as routine. Unless the executive is a key figure, the market might assume business continuity. For example, Fama (1980) suggests that executive directors' roles are internal and operational, and their changes may not immediately signal shifts in the strategic direction. This interpretation is consistent with the limited reaction observed in our sample, suggesting that unless executive movements coincide with major strategic signals, they are not treated as informative by the market. Next, we examine independent director appointments. We find statistically significant CARs over 7-day and 11-day windows, although the announcement day and 3-day CARs are insignificant. This indicates that the market perceives independent director appointments as value-enhancing. Market reaction to independent director cessations is mostly negative but insignificant. Our findings align with Rosenstein & Wyatt (1990, 1997), who report positive market reactions to the appointment of independent directors because investors usually view independent directors as effective monitors of top executives, acting in the best interest of shareholders. Outside directors bring expertise, oversight, and a fresh perspective that can challenge managerial decisions and reduce agency costs. The market reaction implies that shareholders value governance reforms, particularly the addition of independent directors. Gupta (2005) also finds that firms experience an average 1.74% loss in market value over a three-day period surrounding the announcement of an outside director's resignation. Our results further support the importance of board independence in investor sentiment, particularly in emerging market contexts like India, where the agency problem between controlling shareholders and minority investors is more pronounced.

Finally, appointments of other directors generate mostly negative market reactions, though statistically insignificant except for the 11-day window, which is significant at the 10% level. Cessations of these non-executive, non-independent directors have no notable market reaction. These directors may be viewed as less critical of a firm's governance or strategy. Their appointments lack focus on governance. Hermalin & Weisbach (2003) suggest that the appointment of non-independent directors can sometimes be perceived negatively, especially if the market sees them as aligned with management rather than shareholders. This modest negative response suggests that the market may interpret such appointments as symbolic or influenced by internal power dynamics, rather than substantive enhancements to governance. Overall, when we compare CARs across all event windows and director categories, we observe that there is no immediate market reaction on the announcement day, and that abnormal returns tend to accumulate over longer windows. This delayed response suggests that investors may need time to assess the implications of board changes or that the initial announcement may not contain sufficient detail about the appointee's background.

In Figures 2 and 3, we plot the CARs over 11 days surrounding the announcements of appointments and cessations of different categories of directors.

Figure 2. CARs surrounding director appointments

In this figure, we plot the daily Cumulative Abnormal Returns (%) relative to the Capital Asset Pricing Model over an 11-day event window for executive, independent, and other director appointments.

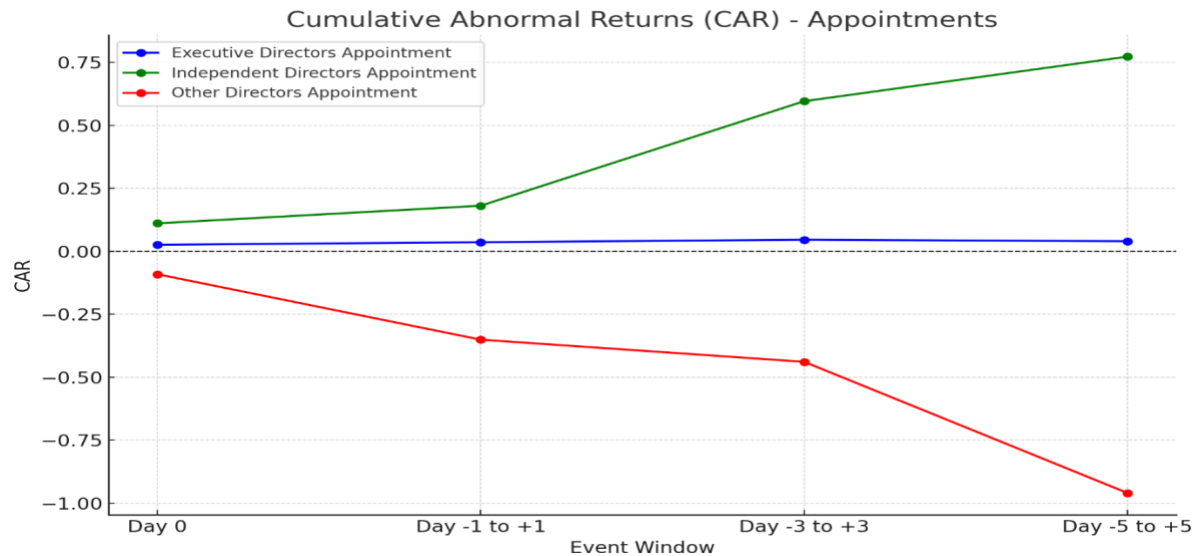
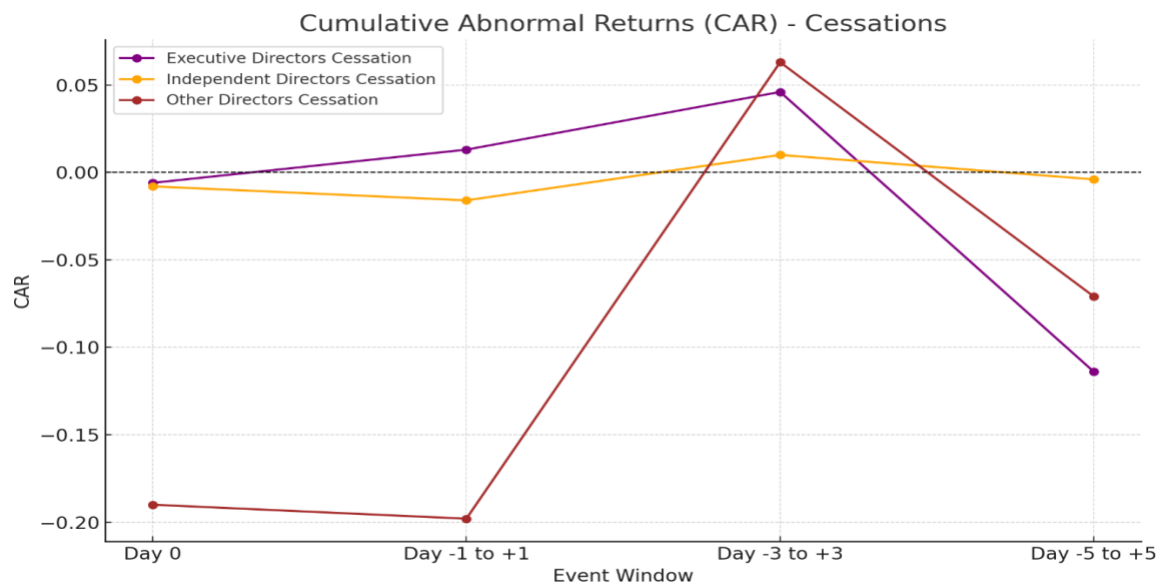


Figure 3. CARs surrounding Director Departures

In this figure we plot the daily Cumulative Abnormal Returns (%) relative to the Capital Asset Pricing Model over a 11-day event window for executive, independent and other director cessations.



As an alternative to CAPM, we use the Fama-French 3-factor model to estimate CARs. The findings, presented in Table 3, exhibit a qualitative similarity to those in Table 2. This robustness check enhances the reliability of our results and indicates that the observed market responses are not sensitive to the choice of risk-adjustment model.

Table 3. CARs Relative to the Fama-French 3-factor Model

Event Window	Executive Directors		Independent Directors		Other Directors	
	Appointment	Cessation	Appointment	Cessation	Appointment	Cessation
Day 0	0.03 (1.01)	-0.002 (-0.22)	0.081 (0.71)	-0.012 (-1.63)	-0.052 (-0.26)	-0.218 (-1.47)
Day -1 to +1	0.01 (0.20)	0.01 (0.20)	0.141 (0.89)	-0.022 (-1.61)	-0.376 (-1.59)	-0.192 (-0.82)
Day -3 to +3	0.028 (0.37)	0.028 (0.37)	0.6** (2.50)	0.007 (0.40)	-0.443 (-1.12)	0.098 (0.28)
Day -5 to +5	0.035 (0.38)	-0.1 (-0.91)	0.779*** (2.70)	-0.002 (-0.22)	-0.953* (-1.90)	-0.071 (-0.16)

This panel reports the results of our event study of the appointment and cessation of executive, independent, and other directors from April 2023 to April 2024. The table reports CARs relative to the Fama-French Three Factor Model. The asterisk superscripts ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

As pointed out earlier, we recognize that the stock market reaction also depends on other firm characteristics. For instance, appointing executive directors in firms that already have more executive directors or are owned by powerful family shareholders may lead to entrenchment. Therefore, we would expect a negative reaction. On the other hand, increasing board independence may have a positive impact. Similarly, when the advising needs of a firm are high (e.g., high M/B firms or firms with large capital expenditures), appointing executive directors who have intricate knowledge of the firm's operations may be beneficial. So, we would expect a positive stock market reaction. To test these conjectures, we divide our sample into sub-samples on the basis of the number of executive directors, number of independent directors, extent of family shareholding, level of capital expenditure, and market-to-book ratio, with the cut-off at the median. Table 4 reports the 3-day CARs for the sub-samples. We find an insignificant reaction to appointments and cessations of executive and independent directors for the aforementioned sub-samples.

This lack of significant heterogeneity suggests that the market may not be fully incorporating contextual firm-level characteristics into its reaction to board changes, or that such characteristics

may interact in more complex, nonlinear ways than simple median splits can capture. Alternatively, it may reflect investor uncertainty or information asymmetry in emerging markets, where details about the rationale for director changes or the qualifications of appointees may be less transparently communicated.

Table 4. Sub-Sample Results

	3-Day CARs		3-Day CARs	
	<i>Executive Directors</i>		<i>Independent Director</i>	
	<i>Appointments</i>	<i>Departures</i>	<i>Appointments</i>	<i>Departures</i>
High Family Shareholding	0 (1.22)	0 (-1.04)	0 (-0.82)	0 (0.02)
Low Family Shareholding	0 (-0.47)	0 (0.68)	0 (0.47)	0 (-1.0)
High Executive Firms	-0.02 (-0.08)	0.14 (0.42)	0 (-0.25)	0 (0.39)
Low Executive Firms	0 (1.45)	0 (0.13)	0 (-0.87)	0 (-0.89)
High Independent Firms	0 (0.52)	0 (-0.91)	0 (-0.61)	0 (-0.10)
Low Independent Firms	0 (0.88)	0 (0.22)	0 (0.42)	0 (-0.45)
High CapEx Firms	0 (0.42)	0 (-1.30)	0 (-1.17)	0 (-0.36)
Low CapEx Firms	0 (0.95)	0 (0.42)	0 (0.77)	0 (-0.31)
High M/B Firms	0 (0.99)	0 (-0.89)	0 (-0.65)	0 (0.43)
Low M/B firms	0 (0.92)	0 (0.28)	0 (-0.19)	0 (-0.85)

4. Conclusion

Our finding that the stock market responds positively to the appointment of independent directors aligns with a substantial body of literature emphasizing the importance of board independence in enhancing corporate governance. Independent directors are regarded favourably because of their role in improving monitoring and governance. In the context of Indian firms, where ownership structures often involve concentrated family holdings, our results underscore the informational role such appointments play in signalling improved governance standards and a commitment to transparency. The statistically significant positive CARs over extended event windows further suggest that investors view these changes not merely as symbolic but as potentially value-enhancing moves.

In contrast, the market's muted or negative reaction to the appointment of non-independent (other) directors implies concern over board entrenchment or ineffectiveness. These appointments may be interpreted as driven by managerial self-interest or nepotism, especially when not accompanied by a clear strategic justification. Similarly, changes in executive directors, including appointments and cessations, do not elicit strong market reactions unless tied to key strategic functions. This is consistent with the notion that the market differentiates between routine board turnover and changes with substantive implications for firm performance or governance.

A key contribution of this study lies in its context-specific insight into how Indian capital markets interpret board-level changes. While prior research on this topic has largely focused on Western economies, this study extends the literature to an emerging market where governance norms, investor expectations, and ownership patterns differ substantially. By disaggregating board changes into executive, independent, and other categories, and further examining cross-sectional firm characteristics, we provide a nuanced understanding of how investors process governance signals in heterogeneous settings.

The findings carry important policy implications. Regulators and policymakers seeking to strengthen corporate governance in emerging economies should continue to promote board independence as a credible governance mechanism. Mandatory requirements on the proportion of independent directors, alongside disclosure norms on board appointments and their qualifications, may enhance investor confidence and improve market efficiency. Our results suggest that market participants actively monitor such governance signals, and hence, strengthening institutional frameworks around board structure may yield both governance and capital market benefits.

Despite these contributions, the study is not without limitations. First, our event study framework captures short-term market reactions, which may not always reflect the long-term impact of board changes on firm value. Future research could complement this approach with long-horizon performance metrics or qualitative analysis of director backgrounds. Second, while we account for some firm-specific characteristics, other potentially influential factors, such as political connections, director reputation, or institutional investor pressure, remain unexplored. Future research could explore the differential impact of director appointments based on gender, age, professional background, or board tenure. It would also be valuable to assess whether similar market responses are observed in private firms or in response to regulatory changes affecting board composition. A more granular approach, perhaps using text analysis of appointment announcements, could also shed light on the nature of the information conveyed to the market.

In summary, this study provides empirical evidence that board appointments, particularly of independent directors, serve as important informational events in financial markets. Our findings affirm the market's responsiveness to governance-enhancing actions and emphasize the need for firms to carefully consider both the composition and the signalling effect of their board structures.

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Conflict of interests declaration

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Appendix A. Description of Variables and Data Sources

Variables	Description	Source
<i>Cumulative Abnormal Returns (CAR)</i>	CAR is the sum of a firm's abnormal returns over the event window. Normal returns are measured using an estimation window from 200 trading days to 60 trading days prior to the event date. These normal returns are then used to calculate abnormal returns for different event windows using the CAPM and the Fama-French three-factor model.	Author computation
<i>Executive or Executive directors</i>	Board of directors who are also part of a firm's management team.	CMIE Prowess Database, Board Stewardship
<i>Independent directors</i>	Non-executive members of board who are not a part of the management team and have no significant personal or business ties with the company.	CMIE Prowess Database, Board Stewardship
<i>Other directors</i>	All other directors (who are neither executive nor independent) are classified under other directors.	Board Stewardship
<i>Family Shareholding (%)</i>	Percentage of shares held by the founding family in a firm.	CMIE Prowess Database/Author computation
<i>Capital Expenditure/ CapEx</i>	Annual expenditure by a firm on long term assets, denoted in INR Million.	CMIE Prowess Database
<i>Market-to-book Ratio</i>	The market value of equity divided by the book value of equity	CMIE Prowess Database