Essays on institutional determinants of firm behaviour

Essay-I Abstract

International tax differences create opportunities and incentives for multinational firms to shift profits internationally. This results in conflict of interest between the insider and outsider shareholders and hence has detrimental consequences for corporate governance. In this paper, we investigate the nature and extent of influence of host-country institutions of economic governance on such earnings shifting. Demonstrating novel application of a robust methodology, we discern the extent of shifting by measuring the focal firm's sensitivity to exogenous earnings shock. We empirically test our conceptual framework in a large emerging economy host country using a sample representing 23 different home countries. In alignment with the predictions of the framework, we find that better institutions of property rights and contracting accentuate the proclivity to shift, while superior quality of institutions supporting collective action and transparency restrains firms from profit shifting. Further consistent with the predictions of Principal-Principal agency the ory we find that an increase in ownership of FII's reduces earnings shifting, whereas, an increase in diffused public ownership worsens shifting. In line with extant empirical work, we also find that the more vigilant FII's are also more effective vis-á-vis the domestic institutional investors in containing earnings shifting.

Essay-II Abstract

We measure firm-level productivity changes in the Indian electricity sector during a period that witnessed several pro-market regulatory changes. Using information collected from multiple sources we construct a unique panel of generating firms and transmission and distribution utilities spanning the years 2000 to 2009. We employ a recently developed improvement in the Stochastic Frontier panel method that allows controlling for timeinvariant unobserved heterogeneity. Using the method we jointly estimate inefficiency and exogenous determinants of inefficiency like asset vintage, ownership, competition and unbunbling. We estimate a flexible translog production model and compute decomposition of productivity into components of changes in technology, efficiency, scale and price effect. During this period, especially post Electricity Act 2003, we observed a general decline in firm-level productivity at the mean rate of −1.6% per year. A key observation is that of a positive and large technical change in the sector at the rate of 8% per year, attributable possibly to newer capacity addition. Except for smaller gas based generators, inefficiency is observed to be increasing at the mean rate of 3.1% per year in the sector. Consistent with extant findings we also document no significant impact of un-bundling on firm-level efficiency.

Essay-III Abstract

We use a non-parametric Malmquist index method to study the dynamics of firm-level productivity changes in the Indian power sector during the period 2000 to 2009. The Malmquist index method requires not functional specification for the production technology and therefore complements the parametric SFA technique employed in Essay-II. Estimates based on the alternative method validates the central finding in Essay-II that productivity change in the sector is predominantly on account of technology change, or addition of newer plants, while there has been negligible operating efficiency change. We observe a mean productivity change of 0.3% in general in the sector. An increasein ineffieincy of 0.3% is observed in the sector while a improvement in effiency of 0.2% is observed for coal based generators. While these results are qualitatively along the measurements obtained using the SFA method, we anticipate the smaller magnitute of changes to be due to the deterministic nature of the Malmquist index method.