РАЗДЕЛ 3 КОРПОРАТИВНОЕ УПРАВЛЕНИЕ В АЗИИ

SECTION 3 CORPORATE GOVERNANCE IN ASIA

GOVERNANCE OF LARGE FAMILY COMPANIES IN TRADITIONAL AND NEW ECONOMY INDUSTRIES IN INDIA: EFFECTS ON FINANCIAL PERFORMANCE

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Abstract

This study adds a new context to the body of empirical literature on relationships between corporate family ownership, governance and financial performance. The context is large family listed companies in India operating in traditional industries under succeeding generations of family management compared to companies operation in India's 'new economy' industries under first generation family entrepreneurs. Results reveal a negative relationship between family CEO and firm performance, and a positive relationship between family ownership and firm performance, which supports prior findings in other contexts. However, in this study of Indian family companies, the former relationship is found in 'new economy' industries only, whereas the latter relationship is found in traditional industries only. Additionally, in India, Boards that are more actively involved in management processes will record superior financial performance in companies in traditional industries, but Boards less actively involved achieve better financial performance in new economy industries. These results are interpreted in light of historical Indian family business practices and modern changes. Implications for the future of the traditional family business model, as India rapidly progresses towards 'new economy' industries, are drawn from the results.

Keywords: Family ownership, family CEO, board governance, 'new economy' industries, corporate financial performance, India.

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1. Introduction

The impacts of family control and governance on corporate financial performance have been studied in various contexts with inconsistent findings. Seminal agency theorists, Berle and Means (1932) and Jensen and Meckling (1976) posit that family control mitigates agency conflict, thereby leading to performance enhancement. Other researchers argue that family firms suffer from capital restriction, intergenerational squabbles, executive entrenchment and nepotism which would have a

negative impact on firm performance (e.g., Allen and Panian, 1982; Gomez-Mejia et al., 2003; Schulze et al., 2001, 2003). Empirical results from the US show that the composite financial performance measure, Tobin Q, of listed companies founded and controlled by a family is greater than other types of ownership and control (Anderson and Reeb, 2003a; Villalonga and Amit, 2006; Barontini and Caprio, 2006). In contrast, empirical studies conducted in Europe and Asia find that family firms have a negative effect on financial performance. These different conclusions about the influence of family on firm performance indicate that in different regions it would be expected that different cultural, economic and business environments play a role in the success of the family mode of business ownership and governance. Hence, findings need to be interpreted in a context-specific way.

India provides a rich context for a study of the effect of family on financial performance of large listed companies. Private sector business in India is highly dominated by family groups. As Dutta (1997) establishes from a survey conducted in 1993, out of 297,000 companies in India only 3,000 were non-family controlled businesses. He contends that family business is critically important for Indian society as it is a primary supplier of goods and services, user and creator of economic resources and major creator of jobs for the population. He argues that "for Indians, family business is not merely an economic structure but a social identity" (p.91). He explains that it is a social obligation on coming generations to successfully operate the business initiated by previous family generations, and this success earns social prestige for them in the community. He further argues that "family traditions, community restrictions, superiority of relationship and male dominance are some factors that make Indian family business different from western and other global counterparts." (p. 102).

This study contributes to a gap in the existing literature on the financial performance of large family companies by focusing on the context of India, one of the world's large economies that is fast growing and structurally shifting from traditional to non-traditional (i.e., 'new economy') industries. Research questions to be addressed in this study are tested on data from large listed companies on the Bombay Stock Exchange. They are:

RQ1: What is the current company profile of family owned and controlled companies listed in India?

RQ2: What family ownership and family management factors directly shape the Board's operating mode in listed companies in India?

RQ3: Do family ownership, family management control and Board operating mode have an impact on corporate financial performance of listed companies in India?

RQ4: Further to RQ3, is there a difference between companies in traditional industries and 'new economy' industries in India?

This paper will proceed in four parts. First, traditional control characteristics of Indian family businesses are historically traced and discussed. Second, the research literature on the impact of family governance variables on financial performance is reviewed. Third, the methods of collecting, measuring and modelling secondary data on Indian family companies are explained. Finally, the results are presented and interpreted and implications for the future of the traditional family business model in India are considered.

2. Listed Family Firms in India

2.1 Defining a listed family firm

For the purpose of this study, a sample of companies categorized as family firms is selected from the top 500 companies listed on the Bombay Stock Exchange. To select this sample, the issue is to identify firms that can be characterizes as family firms. The notion of a family firm refers to control by members of a nuclear or extended family over the appointment of top management/directors and the formulation of policies/strategies of the company. Family control over a firm is reflected in substantial family shareholdings and/or in the occupation of Board and top management positions by family members. However, empirical studies have varied in their application of this definition. Colli (2003) states that a single most useful applied definition of family firm has not yet been established despite its relevance in the business world. Previous studies have considered factors such as family shareholding, voting rights, presence of family members in the Board and a family member as CEO. Anderson and Reeb (2003, 2004) and Anderson et al. (2003) consider fractional equity ownership of the family founders, the number of family members in Board, and the founder or descendent of the founder as the CEO. In terms of ownership, Ang et al. (2000) characterises a family firm as one in which a single family controls more than 50% of the company's share; Barth et al. (2005) propose at least 33% family shareholding; Barontini and Caprio (2005) allow a 10% or more family shareholding provided family members have direct or indirect control over more than 51% of voting rights (e.g., through proxy votes to the family Chairperson of the Board). La porta et al. (1999) also uses family control of more than 20% of indirect and direct voting rights. Other studies define a family firm in term of a

combination of ownership and director/top management appointments. For example, Gomez-Mejia et al. (2003) categorize family firm to be control of at least 5% of voting rights and two or more family members on the Board of directors; Villalonga and Amit (2006) require the founder or member of the founding family to have at least 5% of equity and appointment as an officer or director. Likewise, both Miller et al. (2007) and Saito (2008) categorize family firms as having members from the same family as both shareholders and members of the Board or top management. There are also studies that focus on management or Board appointments. For example, Fahlenbrach (2009) and McConaughly et al. (1998) only consider founder, cofounder or family CEO in their classification of family firms; Morck et al. (1988) and Claessens et al. (2000) look for top positions held by those having blood or marriage relation with the dominant family to define a family firm.

In this study, a family firm amongst the top 500 listed firms will be defined in terms of the more comprehensive approach of using a combination of family ownership and director/top management appointments, similar to Miller et al. (2007) and Saito (2008). Specifically, a listed firm is categorized as a family firm for purposes of sample selection if its founder and/or co-founder or descendent (by blood or marriage) holds a current position on the Board as Chairperson, CEO, Chairperson Emeritus or Promoter, and that person and his/her family members hold the largest shareholding in the company.

2.2 The family business heritage in India

Turning to the choice of the country as the setting for this study of corporate governance within listed family companies, India is the dominant democracy in the modern world with a heritage of family-based business that has been sustained from colonial times through to today's listed companies. According to Manikutty (2000), the private sector has been dominated by a few family groups in India, both before and after India's independence in 1947. Indian business history and its cultural setting make its large family firms distinguishable in important ways from other global family firms.

As Ray (1979) points out, at the time leading up to independence most of Indian manufacturing was dominated by the presence of leading family groups like the Tata, Birla, Thapar, Singhania families. This pre-independence situation is explained by the hypothesis of LaPorta et al. (1999) and Shleifer and Vishy (1997) that concentrated ownership offers significant benefits in the economies where property rights are not well defined and/or government has excessive powers in enforcing it. They further argue that during colonial years there was low confidence in the British Government's commitment to protect the property rights of Indians, resulting in more family ownership in order to reduce business risks compared to more dispersed types of ownership. Further, Gollakota and Gupta (2006) drawing on findings of Claessens and Fan (2002), point to the source of capital for growth of family businesses in India. They argue that strong trading communities in India such as Marwaris, Banias, Chettiars and Kammas established more dominant businesses because of a culture of frugality and high saving rate. These trading communities arose out of the caste system in India, which had allocated the task of business to Vaishya or trading communities.

After independence, Indian businesses experienced a liberalised or open system. In this reformed system, an important feature of family ownership in India was that family owners sought to maintain control over a company even if their actual equity contributions became diluted (Gollakota and Gupta, 2006). This family control was achieved in several ways. First, Gollakota and Gupta (2006) suggest that family firms in India had a reputation with non-family investors of emphasizing stability, thrift, conservatism and the achievement of superior financial performance while they remained under the management control of family members. Second, and related to the first point, family control of the company's management, even when family members held minority ownership, is perpetuated through succession planning. As explained by Dutta (1997), normal practice is that India family sons are given exposure to family business during their school/college days, absorbed into the business in their early 20s, and then transferred to general management by their late twenties. Eventually they succeed to the position of CEO, CFO, Chairman or Chairman Emeritus. Third, Rajagopalan and Zhang (2008) suggest that listed family firms in India have made use of pyramidal ownership structures, related party transaction and Board/management appointments of family allies as the means of maintaining family control. . In relation to this latter point, Dutta (1997) points out that contrary to their western counterparts, Indian family business have tendency to invite business solicitors, auditors and stockbrokers (who are family allies) to join the Board as directors in order to provide "business savvy" advice rather than be a strategist on the Board. Moreover, Dutta (1997) contends that the Board composition of listed family companies in India exists primarily to comply with corporate governance and other corporate regulations and for much of the time to rubber stamp family decisions.

In summary, families have sought to retained control of their listed firm(s) in India in the face of their declining equity ownership through the following means: perpetuating their reputation for being able to deliver relatively steady and superior

financial performance, ensuring longer-term succession planning for family members to move to top management/Board positions, making appointments of professionals who are family allies to the Board, and using related party structures and transactions that can facilitate family control. However, there are recent signs that these means of retaining family control may be diminishing. The rapidly growth 'new economy' industries in India and the continuing globalization of markets for Indian products and services is likely to pose new threats and opportunities for the control of firms by families. In particular, family firms moving into industries in fields such as telecommunications, IT and bio-technology may require the experience, networks and expertise of a non-family CEO and/or Board members to compete.

3. Literature Review on Family Governance Characteristics and Financial Performance

Among the more widely researched corporate governance characteristics are ownership structure, CEO/Chairperson backgrounds, and Board size and activity levels. In this section, attention is focused on reviewing these characteristics in the corporate governance literature where family is present.

3.1 Family ownership and financial performance

Greater concentration of family shareholding in a company will mean that the family ownership block can make greater demands on management, whether or not family members are insiders. This contention has been investigated by obtaining evidence on the relationship between family ownership or control and financial performance. For example, Anderson and Reeb (2003), Villalonga and Amit (2006), McConaughy et al. (1998) and Miller et al. (2007) report that family firms offer superior performance as compared to other types of firms. In contrast, Hu et al. (2010), Maury (2006), Barth et al. (2005), Cronqvist and Nilsson (2003) and Claessens et al. (2002) find that family firms are not superior performers. Morck et al. (1988) give a rationale for these conflicting findings – the alignment versus the entrenchment effect of insider ownership. They argue that the market value of a firm increases initially as the number of shares held by insiders increases because of an alignment effect. But then there is a negative impact on market value when shareholdings of insiders increase after a certain level because of an entrenchment effect. This non-linearity of the relationship between insider ownership and market value of a firm is also witnessed by Cho (1998), Short and Keasey (1999), Gugler et al. (2004) and Thomson and Pedersen (2000).

The financial superiority of family firms has also been studied in terms of the number of family generations. Miller at al (2008) and Andres (2008) report that superior financial performance is not associated with all family firms, but it is strongly associated with lone founder businesses. This evidence of a decline in financial performance for succeeding family generations is supported by Cucculelli and Micucci (2008). They find for Italian family firms that founder-run companies are better performers, but inherited family owner-managers have an adverse impact on the profitability of the company.

The empirical literature on the relationship between family ownership and financial performance has its critics. First, endogeneity contaminates this relationship when inter-relationships with other governance mechanisms are considered. This puts the causal direction of the inter-relationships in dispute (Demsetz, 1983). Second, there is lack of agreement about a common acceptable definition of 'family firm'; therefore, samples used in studies of family firms are not comparable. Third, prior studies are usually country-specific which makes the generalization of the findings problematic.

3.2 Family CEO, family Chairperson and financial performance

When members of a family have both ownership and control the contention is that it reduces agency monitoring and bonding costs between the owners and managers. Fama and Jensen (1985) state that managerial decisions for these family firms are very different compared to firms where ownership and control are separated. As James (1999) points out, a family manager is deemed to have a broader and deeper owner (family)-oriented vista in his or her business perspective as compared to a non-family manager, thereby mitigating problems arising from ownership and control separation.

Prior studies have compared family CEOs with non-family CEOs on various criteria like corporate performance, compensation, and strategic and competitive advantage. Anderson and Reeb (2003) find that a family CEO improves accounting performance of a firm. In terms of share market-related performance, they find this to be positively associated with a founder CEO, but not succeeding generations of family CEOs. They conclude that inherited family CEOs (and non-family CEOs) have a less positive impact on share market performance of a firm than the founding CEO.

A chairperson's role is to provide effective leadership of the Board as well as "mentoring" of the CEO and executive management (Cadbury, 1992). On the other hand, Pearce and Zahra (1991) believe that powerful, independently minded Boards are more progressive and are associated

with superior financial performance than Boards dominated by the one chairperson. The emerging picture of the effect of a chairperson on Board effectiveness and, consequently corporate financial performance is inconclusive (Kakabadse and Kakabadse, 2004). Nevertheless, in the case of family companies, there is evidence of a family chairperson being associated with superior financial performance in certain circumstances. A study of listed companies in Hong Kong by Lam and Lee (2008) finds that a family chairperson is associated with higher financial performance of a family company when that chairperson has a separate non-family CEO. But financial performance is not higher when the family chairperson holds duality as the CEO or when the CEO and chairperson are two separate members from the same controlling family.

3.3 Board size and performance

There are alternative views and conflicting evidence on the effect of Board size on firm performance. Lipton and Lorsch (1992) and Jensen (1993) argue that larger Boards are less effective as compared to smaller Boards. They further argue that large Boards reduce communication and coordination among group members hence leading to agency problems. Yermack (1996) empirically tested this relationship on a sample of 452 large US industrial corporations between 1984 and 1991 and found the negative relationship between Board size and firm performance as suggested by Jensen (1993) and Lipton and Lorsch (1992). Hermalin and Weisbach (2003) review these findings of a negative relationship and argue that the increase in size of Board means the Board becomes more symbolic and less a part of management process. Eisenberg et al. (1998) study this relationship on a sample of 879 small and medium Finnish firms from 1992-1994 and find a significant negative correlation between Board size and performance. Similarly, the study by Conyon and Peck (1998) shows an inverse relationship between return on shareholders' equity and Board size for five European countries. Hu et al. (2010) also empirically suggest that ownership concentration creates a hindrance on the governance and supervision role of board of directors, making them unable to influence financial performance.

In contrast, a positive view of Board size is developed in several studies. Dalton et al. (1999) mention about the advisory role of a larger Board and argue that larger Board provides valuable advice to the CEO and outside directors, thereby imparting quality of advice to the CEO otherwise unavailable from internal corporate staff. Hermalin and Weisbach (1998), state that ''the CEO may choose an outside director who will give good advice and counsel, who can bring valuable experience and expertise to the Board". Agarwal and Knoeber (2001) contend that the number of outside directors depends upon the type of firm and its need. Berghe and Levaru (2004) state that directors bring expertise and their experience impart more skill and knowledge to the Board. Moreover, a larger Board can provide broader strategic thinking to the Board and reduces CEO domination on the Board (Forbes & Milliken, 1999; Goodstein et al., 1994). Balasubramanian (2010, p. 121)) states that traditionally, in India, corporate boards were compact in size due to the dominant ownership pattern, but after economic liberalisation in 1991, stricter regulatory requirements for listed companies forced Indian companies to have bigger boards. Coles et al. (2008) study the relationship on the sample of 8165 observations on Execucomp firm from 1992 to 2001 and find that in complex firms (those that are highly diversified across industries and either large in size or have high leverage) Tobin's Q increases with the increase in the Board size while for small firms there is a negative relationship between Board size and financial performance. Adam & Mehran (2005) test this relationship on the sample of 35 banks from 1959-1999 and find a positive relationship between Board size and financial performance. Bennedsen et al. (2008) study this relationship on the sample of 7000 closely held small medium corporations and find no performance effect when varying the Board size at levels below six directors and they also find a significant negative effect when increasing size of Board with six or more members. Finally, Jackling and Johl (2009) test this relationship on 180 top Indian companies and find a positive relation between Board size and firm performance as suggested by Dalton et al. (1999) and Berghe and Levarau (2004).

As evident from the past studies an unambiguous conclusion cannot be drawn about the dependency of firm performance on Board size. Various studies conducted in different geographical locations for diversified group of companies have come to different findings. Even the studies done in the same country for different samples has come with different results. It would seem that there are different known factors (firm size, firm age, CEO domination, industry, local governance regulation and corporate culture) and unknown factor that affect the relationship between corporate financial performance and Board size.

3.4 Board meeting frequency and firm performance

Past literature addressing this relationship reveals a contrasting association between Board meeting frequency and financial performance of the firm. A common belief is that more frequent Board meetings equate to Board diligence and should have

a positive impact on financial performance. Lipton and Lorsch (1992) argue that frequent meetings of Boards of directors lead to effective governance, which eventually results in improved financial performance. Conger et al. (1998) suggest that directors need sufficient and well organised periods of time to make effective strategic decisions for company welfare, hence Board meetings help in improving the effectiveness of Board. There is also an opposite view which suggests that Board meetings have no real impact on Board effectiveness or performance of the firms. Jensen (1993) argues that Board meetings are a routine task in which the CEO sets the agenda, and maximum time of the Board meetings is spent on these tasks which provide less opportunity for outside directors to exercise meaningful control over management of the company. He also suggests that a Board should show higher activities in the presence of problems and it should be relatively inactive in normal situations. Jensen (1993) further argues that while the consequences of higher Board activity are unclear, higher Board activity is a likely corporate response to poor performance. Vafeas (1999) argues that Board-meeting frequency is related to the corporate governance and ownership characteristics in line with agency and contracting theory. He finds in his empirical study that Boards that meet more frequently were valued less by the market. He also found that years with an abnormally high meeting frequency are followed by better performance, however the improvement in the performance was more significant for the firms experiencing poor performance and firms not engaged in corporate control transactions. Balasubramanian (2010, p.121), states that traditionally in India, boards were considered as legal necessities with limited usefulness of fulfilling compliance requirement , therefore, had little impact on the company performance. A recent study by Jackling and Johl (2009) on a sample of 180 Indian firms finds that the frequency of Board meetings has no impact on corporate performance.

Existing literature on this relationship contains mixed conclusions about the impact of Board meeting frequencies (or activity level) on a firm's financial performance. Board effectiveness depends not only on meeting frequencies, but also on factors such as the openness of the Board and the power of the CEO over the Board. If outside directors actively participate in the Board meetings and there are two-way exchanges of views rather than routine talk on set agenda, then these meetings may enhance the Board effectiveness.

4. Method

4.1 Sample

Secondary data is obtained from a sample of 131 biggest family firms (in terms of total assets) selected from the top 500 firms listed on the Bombay Stock Exchange (BSE) as on 31st March 2008. Financial and corporate governance data for the year ending 31st March 2008 is collected from annual reports of the companies available from company websites. The information such as company history, Board of directors, directors' family link and family presence on the Board is collected either from companies' websites or directorsdatabase, a comprehensive database maintained by the BSE. Banks and financial institutions owned by families are excluded from the sample due to problems in calculating a comparable Tobin's Q performance measure from a composite of accounting and market-based data. The sample contains a good spread of Indian industries as indicated in Table 1.

Table 1. Industry classification of the sample

Industry	No. of companies in sample			Percentage
	Traditional	New Economy	Total	
Pharmaceutical and health care	10	1	11	8.40
Real estate construction, cement & building material	7	8	15	11.45
Metals, Iron & steel	11	0	11	8.40
Plastic, Rubber, chemical & Fertilizers	17	0	17	12.98
Textile	10	0	10	7.63
Media, electronic and print	1	6	7	5.34
Electrical goods and equipments	5	0	5	3.82
Heavy machinery and equipments	14	1	15	11.45
IT software & Hardware	0	12	12	9.16
Utilities, Telecom, Hotel, Transport & other services	3	9	12	9.16
Oil, petroleum and mining	1	5	6	4.58
Household & personal consumption items	8	2	10	7.63
Total	87	44	131	100

For the purpose of this study, the whole sample is divided into 'Traditional' and 'New Economy' industries. The concept of traditional industries goes beyond those small scale industries traditionally existed in India, such as handloom, handicrafts, spices as mentioned by Sarngadharan

et al. (2007). They include traditional manufacturing such as metal, textile, cement and print media that have been operating pre economic reforms of 1991. New economy industries refer to those emerging in India as a result of economic liberalisation and globalisation after 1991. These include electronic media, Business process outsourcing, IT and medical tourism. As an example of the classification, in health care sector, pharmaceutical manufacturing companies are considered as traditional industries in this sample, but quality five star hospitals, which attract medical tourism are considered as new economy. Table 1 illustrates classification of companies in the sample into traditional industries (87 companies) and 'new economy' industries (44 companies).

4.2 Model

To address research questions RQ3 and RQ4, the following model of the impacts of family governance and ownership variables on corporate financial performance is used:

$$\textbf{Tobin's Q} = a + b_1(FCEO) + b_2(FCHAIR) + b_3(BSIZE) + b_4(BMEET) + b_5(FSHOLD) + b_6(FDUAL) + b_7(COSIZE) + b_8(COAGE) + e$$

The dependent variable, Tobin's Q, is a composite measure of accounting and share market-based financial performance. Past researchers has extensively used Tobin Q as a measure of financial performance (Morck et al.,1988 ; Lang et al.,1989 ;Yermack,1996). To calculate Tobin Q, this study uses 'approximate Q' approach developed by Chung and Pruitt (1994).

Alternative measures of corporate financial performance have been used by researchers e.g. ROA, ROE, EPS, ROI, EVA and share price movement. According to Richard et al. (2011) mixed marketing/accounting measures are better able to balance risk against operating performance risk that are often lost in market measures. They point out that Tobin's Q is the earliest and most popular hybrid measure of firm performance.

The size of the firm (COSIZE) and age of the firm (COAGE) are included as control variables. The impact of firm age and firm size on financial performance of a firm has been extensively investigated in the past. Ang et al. (2000) argue that older firms are expected to perform better as compared to younger firms due to the learning curve and survival bias effects. Allayannis and Weston (2001) find in their study that larger firms are associated with lower value of Tobin's Q as compared to smaller firms. This study also uses INDUS (industry) as control variable for one set of regression analysis (Panel B, table 6) to investigate the impact of industry on financial performance. Table 2 illustrates dependent, independent and control variables used in this study.

Table 2. Definitions of Variables and Sources of Data

Varible	Definition (data source)
Tobin's Q	The ratio of firm's market value to the book value and calculated as (MVE (market value of equity)+ (current liabilities- current assets)+ long term debt+ liquidating value of preferred stock)/ total assets (Chung and Pruitt (1994)) (Source: Annual reports)
FCEO	A binary variable, 1 indicates family CEO (Source: corporate governance reports, Director database)
FCHAIR	A binary variable, 1 indicates family Chairperson (Source: corporate governance reports, Directorsdatabase)
BSIZE	Total number of board of directors (Source: Corporate governance reports issued by company)
BMEET	Board meetings in a financial year (Source: Corporate governance report issued by company)
FSHOLD	Percentage of family shareholding in the firm on 31st March 2008. (source: shareholding pattern disclosed by companies in annual reports)
FDUAL	A binary variable, 1 indicates executive family chairperson who is also working as CEO (Source: Corporate governance reports issued by company)
COSIZE	Natural logarithmic of Total assets (Source: annual report)
COAGE	age of the firm (Source: company history available from company website)
INDUS	Industry classification, traditional and new economy industries

5. Results and Discussion
5.1 Descriptive statistics

Data of relevance to the current profile of listed family companies in India, RQ1, is presented in this sub-section. Table 3 summarizes the descriptive statistics for dependent, independent and control variables used in this study. As noted in Table 3, family shareholding is quite high (mean = 49.26) in Indian family firms. Further around 25% (on average) of the promoters are Board members. They are immediate family members or relatives of the family which represents control by family on the Board. In terms of management leadership, Table 3 reveals that the sampled firms are managed by a family member (either founder or successor) as the CEO in 71% of firms, as the Chairperson in 88% of firms and as dual CEO/Chair in 36% of firms. Table 3 also indicates that on average firms have 10 directors on the Board and Board meets five to six times in a financial year.

Table 3. Descriptive statistics

Variables	Mean	Median	Min	Max	Standard deviation
Tobin Q	1.65	1.09	0.19	8.84	1.46
FCEO	0.71	1	0	1	.454
FCHAIR	.88	1	0	1	.329
BSIZE	10.06	10	5	19	2.98
BMEET	5.77	5	1	20	2.21
FSHOLD	49.26	49.42	12.33	89.91	1.77E+01
FDUAL	.36	.00	0	1	.481
COAGE	38.45	31	8	124	23.17
COSIZE (INR mill)	5683.01	1883.10	50.85	149278.18	14860.92

In considering the effects of the control variables, age of firm and size of firm, on the family variables, independent samples t-tests are given in Table 4. Panel A of Table 4, reveals that family ownership and the presence of a family CEO are not significantly different between newer and older firms. However, there are significantly more older firms with a family Chairperson than newer firms. Nevertheless, the number of newer firms with a family Chairperson remains high at 84%.

The picture from Panel A is that the newer listed firms in India, many with first generation family ownership and first generation family promoters (or entrepreneur) have established the same level of ownership and executive management control as older firms in India with third and fourth generation family involvement. Only in the appointment of a family member as Chairperson, newer listed family firms consider non-family to a greater extent than older firms.

Table 4. Comparison of Means for Age and Size of Firm

Panel A: Age of Firm	Mean	Mean Difference	t	Significance
Family Shareholding				
Newer Firms	49.6359	.97212	.298	.767
Older Firms	48.6637			
Family CEO				
Newer Firms	.74			
	.70	.045	.531	.596
Older Frms				
Family Chairman	.84			
Newer Firms		-.121	-2.382	.019
	.96			
Older Firms				
Panel B: Size of Firm	**Mean**	**Mean Difference**	**t**	**Significance**
Family Shareholding				
Smaller Firms	50.3642			
		2.10376	.678	.499
Larger Firms	48.2604			
Family CEO				
Smaller Firms				
	.77			
Larger Firms		.109	1.352	.179
	.66			
Family Chairman				
Smaller Firms	.82			
		-.105	-1.805	.074
Larger Firms	.93			

Panel B of Table 4, which compare family shareholding, family CEO and family chairperson with firm size reveals pattern exactly similar to Panel A. That is, family ownership and the presence of a family CEO are not significantly different between smaller and larger listed firms. Family Chairperson is significantly more evident, however, in larger firms, probably because more of the larger firms are also the older firms.

5.2 Cross-tabulations relating family factors to board size and board meetings

This sub-section identifies the impact of family influence on Board structure and Board activity level in order to address RQ2. Cross-tabulation analysis is presented in Table 5. In terms of family ownership above or below 50% of shares, the results in Panel A of Table 5 reveal that ownership makes no significant difference in the choice of Board operating mode (i.e., in Board size or meeting frequency).

Table 5. Cross-tabulations of family ownership and control to Board size and meetings

Panel A, Family Shareholding	**Board Size**		**Board Meeting**	
	< 10	≥10	<5	≥5
Family shareholding less than 50%	30	37	33	34
	47.60%	54.40%	47.10%	55.90%
Family shareholding ≥50%	33	31	37	27
	52.40%	45.60%	52.90%	44.10%
	Chi square= .752, sig. = .245, N=131		Chi square= .995, sig.= .206, N=131	
Panel B, Family CEO				
Non family CEO	19	18	19	20
	30.20%	26.50%	27.50%	38.90%
Family CEO	44	50	50	42
	69.80%	73.50%	72.50%	35.80%
	Chi square = .229, Sig. = .390, N=131		Chi square= .297, Sig. = .365, N= 131	
Panel C, family Chairperson				
Non family Chairperson	11	4	5	11
	17.50%	5.90%	7.20%	17.70%
Family Chairperson	52	64	64	51
	82.50%	94.10%	92.80%	82.30%
	Chi square= 4.200, **Sig. = .037**, N=131		Chi square = 2.793, **Sig. = .081**, N=131	

In terms of family management, the presence of a family member as Chairperson has a significant influence on the Board's operating mode. Panel C in Table 5 reveals that family Chairperson is significantly associated with a larger Board and with less frequent meetings, whereas a non-family Chairperson is associated with a smaller Board and more frequent meetings. However, Panel B in Table 5 reveals that an appointed family CEO does not have the same significant influence as the family Chairperson in determining the Board's operating mode.

What is the overall inference from results in Table 5? Even though the extent of family ownership in the sampled companies ranged widely from 12.33% to 89.91% (as shown in Table 3), it is interesting that family ownership is not a factor that directly shapes the Board's operating mode. Rather it is the family management factor, specifically the appointed family Chairperson, that has the effect on shaping the operating mode of the Board. Family Chairpersons are likely to be the chosen by the family's patriarch in India. It has been the practice for Indian family sons to be groomed as the 'heir apparent' to succeed to Chairman after being absorbed into the business and progressed through levels of management in the business (Dutta, 1997). Such a family Chairman is likely to invite business solicitors, auditors and stockbrokers (who are family allies) to join the Board as directors in order to provide business advice about regulatory compliance and facilitation of investment opportunities rather than be a strategist on the Board (Dutta, 1997; Rajagopalan and Zhang, 2008). Such non-family professional allies on the Board would tend to give professional advice to management outside of Board meetings and act as a rubber stamp on strategic matters at Board meetings. This practice would underlie the result in Table 5 that family Chairpersons are associated with larger Boards and less frequent Board meetings.

5.3 Regression Analysis: determinants of corporate financial performance

To address RQ3 concerning the effects of family ownership, family management and Board operating mode on corporate financial performance, regression results for the whole-of- sample data are presented in Table 6. Table 6 reveals a satisfactory model explanatory power of Adjusted R-square of .173 (sig.= .000) and .133 (sig=.002) for both the panels A and B. Further, there is not a problem of multicolinearity between the independent variables as shown in the VIF (variable inflation factor) column of Table 6. The control variables, company size (COSIZE) and company age (COAGE) do not have a significant effect on corporate financial performance (measured by Tobin's Q). However, the control variable, industry sector (INDUS) is significant. This industry effect will be analysed in the next section.

Table 6. Regression of family factors on corporate financial performance: whole sample

Independent Variable	**Panel A-Dependent Variable, Tobin Q (without taking industry as control variable)**					**Panel B-Dependent Variable, Tobin Q (Taking industry as control variable)**				
	β	T	**sig**	**Tol**	**VIF**	**β**	T	**sig**	**Tol**	**VIF**
FCEO	-0.224	-2.287	**0.024**	0.756	1.323	-0.191	-1.987	**0.049**	0.743	1.346
FCHAIR	0.007	0.075	0.94	0.807	1.239	-0.016	0.17	0.94	0.799	1.251
BSIZE	0.219	2.363	**0.02**	0.841	1.189	0.184	2.004	**0.047**	0.821	1.218
BMEET	-0.077	-0.869	0.387	0.926	1.08	-0.116	-1.327	0.187	0.896	1.116
FSHOLD	0.266	3.058	**0.003**	0.957	1.045	0.205	2.327	**0.022**	0.887	1.128
FDUAL	0.005	0.053	0.958	0.718	1.392	0.005	0.027	0.978	0.718	1.392
COSIZE	0.103	1.092	0.277	0.811	1.234	0.103	1.278	0.204	0.807	1.239
COAGE	-0.124	-1.387	0.168	0.897	1.114	-0.018	-0.184	0.855	0.729	1.371
IND						-0.246	-2.531	**0.013**	0.73	1.37
CONSTANT		-1.323	.188				-0.63	.53		
MODEL SUMMARY	**R =.437, R^2=.191, Adj R^2 = .133 ANOVA Sig F= .002, N=131**					**R= .484,R^2 =.235, Adj R^2 = .173 ANOVA Sig F= .000, N=131**				

The test variables that have a significant positive effect on the corporate performance measure Tobin's Q are seen in Table 6 to be larger family ownership, non-family CEO, and larger Board size. First, the result of a positive effect of family ownership on corporate financial performance supports the results obtained by Anderson and Reeb (2003), Villalonga and Amit (2006), McConaughy et al. (1998), and Miller et al. (2007), who get a similar finding in different contexts of family companies. It seems that in India, as in the other studies where family ownership results in superior financial performance Morck et al.'s (1988) alignment effect tends to be more dominant than the entrenchment effect of insider ownership. That is, in India the Tobin's Q of a firm increases initially as the number of shares held by insiders (family members) increases because of an alignment effect. The subsequent negative impact on Tobin's Q due to an entrenchment effect when shareholdings of insiders increase after a certain level, does not noticeably occur in India. Perhaps the long-held cultural values of India's 'vaishya' caste of business/trading families towards thrift, conservatism and the achievement of superior financial performance (Gollakota and Gupta, 2006) overcomes any negative financial performance arising from issues of family entrenchment. Second, Table 6 shows that a family CEO has a significant negative effect on Tobin's Q (or alternatively, a non-family CEO has a positive effect). This result is supported by Burkart et al.'s (2003) arguement that large and complex firms demand CEOs with high managerial, professional and technical capability. Such CEOs can be more often found from non-family circles. Miller et al. (2007) and Andres (2008) find that founder CEOs and non-family CEOs are more effective than descendent family generations of CEOs.

In this study, the sample of family companies in India comprises of some big multinational firms and many from advanced manufacturing or high technology firms, all of which need highly professionally and technical knowledge and diverse skills to manage. The inference from this result in Table 6 is that the best expert CEOs who can bring about stronger financial performance, are found outside family members.

Third, Table 6 reveals that larger Board size is associated with the achievement of higher Tobin's Q. This result supports the argument of Dalton et al. (1999) that a larger Board will have a bigger talent and network pool and will assume a stronger advisory role to the Chairperson and CEO. As mentioned earlier, the family companies with larger Boards in India have a practice of appointing non-family professionals who are engaged by the company group as its stockbroker, lawyer or accountant and who can provide "business savvy" advice.

A final observation from Table 6 is that family Chairperson (FCHAIR) does not significantly impact Tobin's Q. Although, Table 5 provides evidence of the influence of family Chairperson on the Board's operating mode, Table 6 shows no significant relationship between FCHAIR and Tobin's Q. The influence of family Chairperson on financial performance has not been empirically tested before; therefore, this study provides a platform for further studies on this issue.

Returning to the result in Table 6 (panel B) that INDUS (i.e., the grouping of companies into traditional industries and new economy industries) is a significant determinant of Tobin's Q, the sample is split into these two industry sector groups, so regression results can be compared for these two groups. Table 7 presents the results in Panels A and B.

RQ4 concerns differences between family companies in traditional and new economy industries in India in terms of effects of family ownership, family management and Board operating mode on corporate financial performance. The results in Table 7 reveal three areas of contrast between these industry sectors. First, in respect to family ownership, companies in traditional industries achieve a higher Tobin's Q when their family ownership is higher (β=.282, sig=.015) but companies in new economy industries show no relationship between the extent of family ownership and Tobin's Q (β=.170, sig=.337) . What is the reason for higher family ownership resulting in higher Tobin's Q in traditional industries? In India, families in traditional industries that have been able to preserve high ownership of their companies are likely to have a long-established family 'name' that signals quality and access to government (e.g., Reliance or Tata). The value of the company group in capital markets would decline if the family in question reduces its control over the company group (Bhaumik and Gregoriou, 2010). That is, the value of shares in the company might be higher (and hence, Tobin's Q would be higher) when the family retains higher percentage ownership. Moreover, tightly held family companies in traditional industries in India are known to appropriate a disproportionate share of the firm's current and future cash flows, at the expense of the minority shareholders, while at the same time engaging in earnings management to ensure the reporting of strong profitability (Johnson et al., 2000). This accounting-based reported performance again generates a higher Tobin's Q for companies with long-standing high family ownership in traditional industries in India.

Second, in respect to family management, Table 7 reveals that companies in new economy industries perform significantly better financially (i.e., have higher Tobin's Q) when they have a non-family CEO (β= -0,236, sig=.040). No significant

relationship (β=.004, sig=.980) is found in traditional industries. The reason for the success of non-family CEO in new economy industries can be traced to the deregulation of markets by the government of India throughout the 1990s and opening business to new competition. The heads of business families of the earlier generation generally lacked formal management or technical education. In contrast, the newer generations who head family businesses tend to be well educated, often from foreign universities. Non-family competent professional managers are inducted at various management levels. The entrepreneurial family owners of new economy business in India have led the way in moving away from being family-centered to being business-centered in their management (Manikutty, 2000).

Table 7. Regression of family factors on corporate financial performance: comparison of industry sectors

Independent Variable	Panel A-Traditional Dependent Variable, Tobin Q					Panel B-New Economy Dependent Variable Tobin Q				
	β	T	sig	Tol	VIF	β	T	sig	Tol	VIF
FCEO	0.004	0.025	0.98	0.858	1.152	-0.236	-2.087	**0.040**	0.868	1.166
HAIR	-0.077	0.664	0.509	0.821	1.218	-0.183	-1.067	0.294	0.745	1.342
BSIZE	0.164	1.431	0.157	0.852	1.173	0.083	0.445	0.66	0.625	1.6
BMEET	0.187	1.721	**0.091**	0.936	1.068	-0.43	-2.633	**0.013**	0.824	1.213
FSHOLD	0.282	2.479	**0.015**	0.863	1.159	0.17	0.974	0.337	0.725	1.38
COAGE	0.002	0.02	0.984	0.818	1.222	-0.001	-0.004	0.997	0.742	1.347
COSIZE	0.06	0.49	0.626	0.748	1.338	0.214	1.172	0.25	0.662	1.511
CONSTANT		-1.832	**0.010**				0.205	0.839		
MODEL SUMMARY	**R=.430,R^2 =.185, Adj R^2 = .106, ANOVA Sig F= .031, N=87**					**R=.544,R^2 =.296, Adj R^2 = .142, ANOVA Sig F= .099, N=44**				

Third, in relation to the Board's operating mode, Table 7 shows a clear contrast between traditional and new economy industries. For family companies in traditional industries, more frequent Board meetings result in higher Tobin's Q (β= .187, sig=.091), whereas in new economy industries, less frequency of Board meetings results in higher Tobin's Q (β= - 0.43, sig=.013). Vafeas (1999) suggests a rational way of explaining this result. He argues that companies in traditional industries will be more effective if they emphasize the benefits of having more frequent Board meetings to enable more time for directors to confer, set strategy, and monitor management. On the other hand, companies in new economy industries will be more effective if they emphasize the costs of managerial time, directors' meeting fees and slowing down decision-taking, by having too many Board meetings.

However, as previously discussed traditional Indian family business have a practice of inviting business solicitors, auditors and stockbrokers to join the Board as directors to mainly give regulatory compliance advice rather than be a strategist on the Board. The frequency of meetings does not necessarily reveal the Board processes of decision-making activities, formality of board proceedings and board culture on evaluation of executive management's performance. In traditional Indian family businesses Boards that meet regularly with formal proceedings, including regular input from Board committees, enable the family Chairperson and family directors to closely monitor non-family professional management and financial performance (Kohli & Saha, 2008).

In new economy industries in India, the mode of operation of financially successful family companies appears to be more nimble, allowing greater freedom to professionally and technically competent executives. The Board fulfills regulatory compliance requirements, whereas the CEO and top management is empowered by the Board to take strategic decisions. Manikutty (2000) describes this changing approach wrought by new economy companies in India: "Along with the induction of well educated and professionally qualified family members, are competent (non-family) professional managers at the top. Manikutty (2000) further explains that "in the traditional family businesses, induction of professional managers has been difficult because of a culture that was seen as autocratic, sycophantic, emphasizing personal loyalties rather than professionals." (p. 286)

6. Conclusions

This study adds to the body of literature on relationships between corporate family ownership, family management, board governance and financial performance. Its contribution is to test these relationships in the economically important and culturally unique context of family companies listed in India, with particular focus on the differences between companies operating in traditional industries (many under succeeding generations of family ownership/management) compared to companies operation in India's 'new economy' industries (mostly under first generation family entrepreneurs).

From a sample of 131 listed family firms drawn from the top 500 companies on the Bombay Stock Exchange, the findings of a negative relationship between family CEO and corporate financial performance, and a positive relationship between family ownership and financial performance, are consistent with prior findings in other contexts. The first inference is that following market deregulation and increased business competition in India in the 1990's, the best-experienced and knowledgeable CEOs who could bring about stronger corporate financial performance, were often found outside family members. Their induction as the CEO tended to lead to better financial performance. The second inference is that in India, as in the other studies where family ownership results in superior financial performance; Morck et al.'s (1988) alignment effect of family members tends to be more dominant than the entrenchment effect of insider ownership.

Turning to the findings that compare family companies in traditional and new economy industries in India, the positive relationship between the extent of family ownership and financial performance is significant in traditional industries only, while the positive relationship between non-family CEO and financial performance is significant in new economy industries only. Underlying these results is picture of the different means by which family companies in India achieve superior financial performance. On the one hand, in traditional industries, the conditions that continue to enable long-established Indian family companies to retain high family ownership and achieve superior financial performance are deemed to be twofold: their value in capital markets is upheld by the present of the family 'name' in controlling the company, and their reported earnings meets expected targets with the aid of their ability to continue the accounting practices of tunnelling and earnings management. On the other hand, in new economy industries, the newer generations of entrepreneurial family owners in India have embraced professionalisation of management. They recruit the most competent talent as CEOs and other levels of management, often with foreign education and experience. Non-family recruits are given autonomy to operate but are expected to be loyal to the family owners. Through such management, superior corporate financial performance is achieved in new economy industries in India.

A supplementary finding in this study is that a more active Board (i.e., more frequent meetings) achieves superior financial performance in traditional industries, but a less active Board achieves it in new economy industries. The inference is that Boards in traditional industries tend to be more financial effective by meeting regularly and more often to enable the family Chairperson and family directors to closely monitor the professional management and financial performance of the company group. This higher level of Board activity tends to be less financially effective in new economy industries where professional management is less closely monitored.

In general, the different directions which family companies in these two industry sectors take with their ownership concentration, appointment of CEO and Board activity level in order to be financially successful, is a matter of complexity that has implications for securities and corporate governance regulators in India.

Limitations of this study need to be recognized. First, there are limitations in the proxy measures of concepts. The determination of a family company for purposes of sample selection in this study could have been based on any of several definitions. The dichotomization of companies into traditional and new economy industry groupings is subjective and contains overlapping elements. The computation of Tobin's Q fails to include a replacement cost of intellectual capital that is not recorded in book value of assets. The use of Board size and frequency of meetings as proxies for the mode of Board operation are unable to identify the "quality" of Board meetings, such as the processes of free exchange of ideas or inputs to agenda setting. Second, the year of data collection was 2008-09, which may be atypical of economic conditions in India due to the effects of the global financial crisis, although the financial performance of family companies in India was only moderately impacted. Third, the sample size is small in relation to some individual cell counts in the cross-tabulation analysis and in the sampling adequacy of the regression analysis when the sample was split into industry sectors.

Future research of a comparative case study nature would provide richer insights into the complexities of control and governance structures and behaviours in large family businesses in traditional versus new economy industries. Moreover, the emerging literature on the

relationship between corporate ownership and governance mechanisms and corporate social and environmental performance could be investigated in this same industry context for family businesses in India.

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