FAMILY PRESENCE AND FINANCIAL PERFORMANCE IN LARGE LISTED COMPANIES IN INDIA

Rakesh Pandey*, Dennis Taylor, Mahesh Joshi*****

Abstract

This study investigates the impacts of family presence and board independence on corporate financial performance in 131 large listed firms from India, an emerging economy dominated by the presence of large business groups having concentrated ownership. Family presence includes the extent of family ownership and appointment of family CEO and family chairperson. Employing a multiple linear regression model, this study first detects a positive relationship between family ownership and financial performance. Second, a negative relationship is found between family CEO and firm performance, indicating that family firms with non-family CEOs perform better than firms having family CEOs. Third, the proportion of Board outsiders ' (i.e. independent non-family directors) is found to have no significant relation to financial performance, thus challenging agency theory's need for independent monitoring in family firms to enhance performance. These results are interpreted in the context of historical Indian family business practices and modern changes.

Keywords: Family Ownership, Family CEO, Board Governance, 'new economy' Industries, Corporate Financial Performance, India

*School of Accounting, RMIT University, Australia
** School of Accounting, RMIT University, Level 15, 239 Bourke St., Melbourne 3000, Australia
Email: dennis.taylor@rmit.edu.au
Tel: +613 9925 5765
Fax: +613 9925 5741
***School of Accounting, RMIT University, Australia

1. Introduction

The impacts of family ownership and control on corporate financial performance have been studied in various countries with inconsistent findings. The country context is found to make a difference. This study adds to this literature by filling a gap in the evidence on the impacts of family presence in the ownership, the Board and the top executive on financial performance large family companies listed in 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.

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).

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.
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 impact of family presence (family shareholding, family CEO and family chair) on financial performance of large listed Indian family firms?

RQ2 : What is the impact of outsiders' presence on the Board on financial performance of large listed Indian family firms?

This paper proceeds in four parts. First, family businesses are defined and traditional control characteristics of Indian family businesses are historically traced and discussed. Second, the research literature on the impact of family governance variables and board outsiders' presence 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.

2.1 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 independence. 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 et 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 independence and financial performance

Traditionally, agency theory has been extensively used in past literature for investigating the relationship between board independence and financial performance. Theory argues that principal-agent conflicts would be minimised by better monitoring and effective supervision of management by board of directors (Fama and Jensen, 1983; Jensen and meckling, 1976; Shleifer and Vishny, 1997). Fama and Jensen (1983) further argue that boards dominated by independent directors are more effective in the monitoring and supervision of management. Past literature, dominated by agency theory has mainly concentrated on the monitoring role of board but more recently a number of researchers have started debating the advisory role of board. Proponents of resource dependency theory refer to the advisory role of outside directors and their role in providing access to resources needed by the firm (Dalton et al., 1999; Johnson et al., 1996). They further argue that outside directors impart 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”. Berghe and Levaru (2004) state that directors bring expertise and their experience impart more skill and knowledge to the Board.

Balasubramanian (2010) explains the difference between non- executive directors and independent directors in the Indian context. He states that in the developed world non -executive directors by definition are largely also independent. He further states that in India, due to domination of family ownership, provisions do exist for recognising non-independent, non-executive directors, which means a family member on the board can be non- executive but cannot be considered as independent. Clause 49 of the Indian listing agreement on corporate governance also refers to the difference between Independent and non-executive-non independent directors.

In India the concept of independent directors was introduced for the first time by the Confederation of Indian Industry, in ‘Desirable Corporate Governance: A Code’ (1998). The Code suggested that for any listed company with a turnover of INR 100 Crore or above should have at least 30 % independent directors on the board if the Chairman is a non-executive director and at least half of the board should be independent if the Chairman is an executive director. The revised Indian listing agreement Clause 49 also states that for a company with an executive chairman, at least half of the board should comprise of independent directors. For a company with a non-executive chairman, at least one-third of the board should be independent. The revised clause 49 also defines the meaning of ‘independent director’ as a non-executive director of the company who:

a. *apart from receiving director’s remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;*
b. *is not related to promoters or persons occupying management positions at the board level or at one level below the board;*
c. *has not been an executive of the company in the immediately preceding three financial years;*
d. *is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following: (i) the statutory audit firm or the internal audit firm that is associated with the company, and (ii) the legal firm(s) and consulting firm(s) that have a material association with the company.*
e. *is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director;*
f. *is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.*
g. *is not less than 21 years of age*

(Clause 49 of listing agreement)

The relationship between board independence and financial performance has been widely addressed in the past literature with inconsistent findings. Chung et al (2003) and Hossain et al. (2000) both find a positive relationship between board independence and financial performance. Gani and Jermias (2006) investigate the impact of board independence on financial performance across different strategies and find more a positive impact of board independence on financial performance for firms following a strategy of cost efficiency as compared to firms following a strategy of innovation. In contrast, Bathala and Rao (1995), Agrawal and Knoeber (1996) and Daily and Johnson (1997) find a negative relationship between board independence and financial performance. Bhagat and Black (2001) find that low-profitability firms adopt a strategy of increasing independence of their board of directors, but they find no evidence suggesting the success of this strategy. They further argue that firms having a more independent board do not perform better than other firms. Similarly, other researchers such as Prevost et al. (2002), Vafeas and Theodorou (1998), Hermalin and Weisbach (1991) have reported no significant relationship between board independence and financial performance.

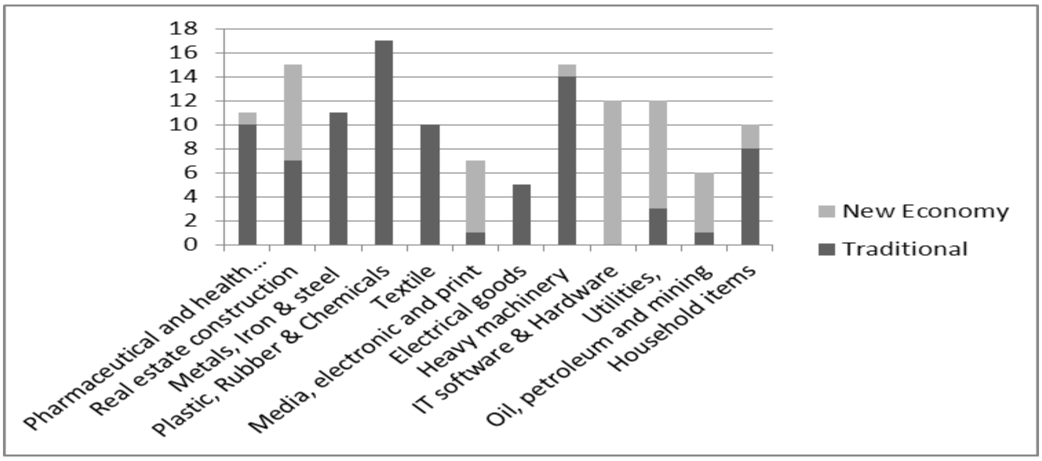
Evident from these past studies about the relationship between board independence and financial performance for different profiles of companies in different country jurisdictions has come to different conclusions. So each study contributes its own conclusion for its own context. Various studies conducted in different geographical locations for diversified group of companies have come to different findings. This study will provide evidence in the Indian family firm context of the impact of board independence as defined in clause 49 of the listing agreement on financial performance.

4. Method

4.1 Sample

Secondary data is obtained from a sample of 131 family firms 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 outsiders' 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 the fig 1.

Fig 1. Industry Profile



4.2 Model

To address research questions RQ1 and RQ2, the following models of the impacts of family governance and ownership variables on corporate financial performance are used:

Model 1

$$\textit{Tobin's } Q = a + b_1(FCEO) + b_2(FCHAIR) + b_3(FSHOLD) + b_4(BINDEP) + +b_5(COSIZE) + b_6(COAGE) + e$$

Model 2

$$\textit{Tobin's } Q = a + b_1(FCEO) + b_2(FCHAIR) + b_3(FSHOLD) + b_4(BINDEP) + +b_5(COSIZE) + b_6(COAGE) + b_7(INDUS) + e$$

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 a control variable for one set of regression analysis (Model 2) to investigate the impact of industry on financial performance. 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 gives the measures and data sources for the dependent, independent and control variables used in this study.

Table 1. 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)
FSHOLD	Percentage of family shareholding in the firm on 31st March 2008. (source: shareholding pattern disclosed by companies in annual reports)
BINDEP	Percentage of independent directors on board (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 is presented in this sub-section. Table 2 summarizes the descriptive statistics for dependent, independent and control variables used in this study. As noted in Table 2, 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 2 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 2 also indicates that on average sampled firms have 54% independent directors on board.

Table 2. 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
FSHOLD	49.26	49.42	12.33	89.91	1.77E+01
BINDEP	54.05	54.00	14	88	12.94
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 3. Panel A of Table 3, 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 3. 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	.045	.531	.596
Older Firms	.70			
Family Chairman				
Newer Firms	.84	-.121	-2.382	.019
Older Firms	.96			
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	.109	1.352	.179
Larger Firms	.66			
Family Chairman				
Smaller Firms	.82	-.105	-1.805	.074
Larger Firms	.93			

Panel B of Table 3, 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 Regression Analysis: determinants of corporate financial performance

To address Research questions 1 &2 concerning the effects of family ownership, family management and outsiders' presence on corporate financial performance, regression results for the whole-of- sample data are presented in Table 4. Table 4 reveals a satisfactory model explanatory power of R-square of .144 (sig.= .005) and .194 (sig=.001) for both 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 4.

Table 4. Regression of family factors on corporate financial performance

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	-0.200	-2.267	**0.025**	0.952	1.050	-0.167	-1.925	**0.057**	0.733	1.071
FCHAIR	0.015	0.167	0.867	0.894	1.118	0.007	0.081	0.936	0.893	1.120
FSHOLD	0.253	2.937	**0.004**	0.995	1.005	0.196	2.272	**0.025**	0.936	1.068
BINDEP	-0.066	-0.765	0.497	0.988	1.012	-0.039	-0.456	0.650	0.974	1.027
COSIZE	0.161	1.779	**0.078**	0.903	1.059	0.164	1.856	**0.066**	0.902	1.108
COAGE	-0.044	-0.503	0.616	0.944	1.108	-0.042	-0.452	0.652	0.829	1.206
IND						-0.250	-2.682	**0.008**	0.807	1.240
CONSTANT		-1.323	.188				-0.63	.53		
MODEL SUMMARY	**R =.379, R^2=.144, Adj R^2 = .100 ANOVA Sig F= .005, N=131**					**R= .441,R^2 =.194, Adj R^2 = .145 ANOVA Sig F= .001, N=131**				

The test variables that have a significant positive effect on the corporate performance measure Tobin's Q are seen in Table 4 to be larger family ownership and non-family CEO. 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 4 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) argument 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.

Table 4 also reveals that outsiders' presence on the board has no significant impact on financial performance of Indian family firms. This result supports the findings of Bhagat and Black (2001), Prevost et al. (2002), Vafeas and Theodorou (1998) and Hermalin and Weisbach (1991). Results indicate that inclusion of independent directors on the board does not add fianncial value to the firm. Moreover, the significance of independent directors in family firms depends on the way family members include them in the actual leadership of the firm. Findings of this study raise two questions for discussion. The first question is whether independent directors on the board of family controlled firms are truly independent. The second question is whether independent directors are appointed as a token to merely comply with corporate governance listing rules.

Findings of the study support the arguments of Dutta (1997) who argue that 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. Balasubramanian (2010, p.121), also argues that traditionally in India, boards have been considered as legal necessities with limited usefulness other than fulfilling compliance requirements , therefore, having little impact on the company performance.

A final observation from Table 4 is that a family Chairperson (FCHAIR) does not significantly affect Tobin's Q. Panel A and B provide suggest 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 4 (panel B) INDUS (i.e., the grouping of companies into traditional industries and new economy industries) and COSIZE (measured in terms of total assets) are also significant determinants of Tobin's Q. Industry grouping adds a noticeable improvement in explanatory power of the model (R^2 increased from 0.144 to 0.194). Further research by the authors on governance difference in family companies in India operating in traditional versus 'new economy' industries is found in Pandey et al. (2011).

6. Conclusions

This study adds to the body of literature on relationships between corporate family ownership, family management, outsiders' board presence 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 examination of the impact of outsiders' board presence on financial performance.

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.

This study also finds that outsiders' presence on the Board does not have a significant impact on financial performance of family firms in India. The inference is that Outside directors tend to be appointed as a token to meet corporate governance compliance requirements of the BSE. Nevertheless, the practice in India is for family firms to appointment outside directors who are solicitors, auditors and stockbrokers who are family allies that bring independent " business savvy" advice to the board, but defer to family directors on strategic decision making process.

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. 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.

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.

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