Impact of Women Directors &Board Independence on Family Firm Performance: Evidence from India

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After the announcement of mandatory quota in 2013 for women directors and independent directors on board, the Indian listed companies have undergone tremendous changes in their board structures. This study undertakes a pre-announcement and post-announcement comparative analysis of the relationship between women directors and firm performance and independent directors and family firm performance measured by return on assets (ROA) and Tobin's Q, by employing a multiple linear regression on a sample of 163 publicly listed family firms over a 10-year period. Findings reveal that women directors have a negative effect on ROA and a positive effect on Tobin's Q, while independent directors have a positive effect on ROA and mixed effects on Tobin's Q.

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Introduction

In 2013 India became the first developing country in the world to enforce a mandatory quota for listed companies to have at least one Woman Director on the board[1]. This policy change through Companies Act, 2013 was brought in to address the issue of underrepresentation of women on corporate boards (Chapple& Humphrey, 2014). The presence of Women Directors is advocated in 16 countries, out of which 14 countries have a specific mandatory quota for females (Terjesen et al., 2016). In addition to the Women Directors, the Companies Act, 2013 also enforced a quota of having at least one-third Independent Directors on the board of listed companies. The extant literature states that both Women Directors (for example, Campbell & Antonio, 2008; Carter et al., 2010) and Independent Directors (for example, Dalton et al., 1998) can have a significant effect on firm performance.

[1] https://m.economictimes.com/news/company/corporate-trends/india-first-developing-country-to-have-quota-mandating-at-least-one-woman-director-on-board-of-listed-companies-report/articleshow/66633533.cms

Prior studies on the effect of Women Directors and Independent Directors on firm performance have yielded mixed results. Some studies (for example, Catalyst, 2004; Erhardt et al., 2003) posit that there is a positive relationship between Women Directors and firm performance, on the other hand, some (for example, Bohren & Strom, 2007; Adams & Ferreira, 2009; Ahern &Dittmar, 2012) contend that there is a negative relationship. Further, there are studies (for example., Kim & Lim, 2010; Pombo & Gutiérrez, 2011; Terjesen et al, 2016) that evince a positive effect of Independent Directors on firm performance, while others (for example, Bebchuk & Cohen 2005; Shan & McIver, 2011; Faleye et al., 2011) observe that there is a negative association. The mixed results hint that there is need to collect more evidence to establish the relationship between Women Directors and firm performance as well as Independent Directors and firm performance.

Thus, in this study, we aim to evaluate the effect of Companies Act, 2013 on firm performance by analyzing the data on Women Directors and Independent Directors before and after the announcement of mandatory requirement was made, thus filling in the gap stated by Das and Dey (2016). We also investigate whether the mandatory requirement has had a positive effect or a negative impact on firm performance. Therefore, we compare the five-year period each, before (2010-14) and after (2015-19) the announcement in August 2013. In this article, we focus on family firms only since their corporate governance has garnered tremendous attention in financial economics literature (Villalonga et al., 2015). Additionally, in family businesses it is likely that women family members or female relatives are involved in the board of directors due to family ties to artificially enhance the gender diversity, in order to comply with the norm (Samara et al., 2019). However, these women might not bring fresh perspectives since they belong to or are related to the same family (Aggarwal et al., 2019). The presence of women insiders in the board may be mere tokenism (Sanan, 2016). Also, it is common among the family firms to appoint people, who are on friendly or contractual terms with the founding family as independent directors (García-Ramos & García-Olalla, 2011). Thus, these directors are not completely independent. Therefore, in this article, we would investigate the impact of women directors and independent directors on firm performance and check if the mandated quota is a boon or bane. Two main contributions of this study are: first, we heed the call from Das and Dey (2016) to undertake a comparative analysis between before and after effects of Companies Act, 2013 and second, we enhance the corporate governance literature in family firms by examining the role of women family directors and independent directors in firm performance.

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Women Directors &Firm Performance

According to the gender role theory (Eagly, 1987), an individual's gender determines his/her behavior and its effectiveness with respect to influence. Furthermore, the theory suggests that males' and females' behaviors are assessed in terms of how they converge or diverge from expectations of the respective gender. Individuals who use tactics that are aligned to their gender tend to be perceived better by others (Eagly et al., 1995). Gender role theory describes how men and women have different behaviors with respect to communication, including influence tactics. For instance, women are expected to do more feminine roles such as sympathy and gentility (Eagly, 1987). Conversely, men are expected to take up more assertive and aggressive roles. Another gender role associated with women is flexibility which leads to a greater ability to manage ambiguous situations (Rosener, 1995). Gender roles are particularly significant in male-dominated areas (Alderfer & Smith, 1982) such as the board of directors where esteem is critical to effectiveness (Forbes & Milliken, 1999).

Further, based on the resource dependency theory, women directors provide unique and valuable resources and relationships to the board. With respect to networking, female managers outperform male managers as they generally boast of more diverse networks (Ibarra, 1992; 1993). In addition, women may have a better understanding of certain markets and consumers than men (Arfken et al., 2004). This could be because female directors are more likely to have diverse backgrounds other than business (Hillman et al., 2002; Singh et al, 2008). This diversity of perspectives offered by the women on board can improve overall creativity and innovation that is required for problem solving.

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Women directors tend to bring fresh perspectives (Smith, 2006) on complicated issues which help to overcome informational biases in strategy formulation and problem solving (Francoeur et al., 2008). Virtanen (2012) in a study on Finnish companies reported that female board members compared to their male counterparts were more likely to take active roles on the company boards. Women are more likely to ask questions (Bilimoria & Wheeler, 2000), debate issues (Ingley & Van der Walt, 2005), exhibit participative leadership and collaboration skills (Eagly & Johnson, 1990), and follow ethical standards in the organization (Pan & Sparks,2012). Female board members are more active as they come prepared for meetings (Pathan & Faff, 2013) and attend more board meetings than their male counterparts (Adams &Ferreira, 2009). Gul et al. (2011) found out that boards with higher proportion of women directors have greater levels of public disclosure, accurate management reporting that enhances earnings quality

(Srindhi et al., 2011), and higher number of board development evaluations and programs (Nielsen & Huse, 2010). A woman's ability to influence board decisions increases with increasing number of female directors on the board, particularly boards with more than one woman (Fondas & Sassalos, 2000) or three women (Konrad & Kramer, 2006; Torchia et al., 2011).

Studies on gender diversity and firm performance yield mixed results (Catalyst, 2004; Erhardt et al., 2003; Farrell & Hersch, 2005; Bohren &Strom, 2007; Adams & Ferreira, 2009). Farrell and Hersch (2005) conclude that women on the board result in neither creation nor destruction of value. Some studies find that gender diversity adversely impacts the board's decision-making process (Bohren & Strom, 2007; Adams & Ferreira, 2009) due to increased conflict and lack of cohesion. Pearce and Zahra (1991) in their work on whether and how boards with female directors differ from that with only male members posit that a representation of diverse interests, including the number of females, is an important characteristic of an effective board. Bilimoria (2000) suggests that Women Directors enhance the boardroom discussions given that they possess better listening skills and are more sensitive towards others. This increased quality of board room interaction improves decision-making which leads to improved firm performance (Catalyst, 2004). Erhardt et al. (2003) found that the percentage of female directors' is positively related to two accounting measures namely return on assets and return on investments for large firms in the USA.

In a different kind of a study, Ahern and Dittmar (2012) examined the influence of gender quota legislation on firm performance in Norway, and found that announcement of the law was negatively related to firm performance since quota enforcement allowed younger, less experienced females to join boards, which led to a significant negative relationship with firm performance.

It is observed that family firms tend to have unqualified women on board due to two reasons, first being family ties and second, meeting the gender quota requirement (Samara et al., 2019). By having more women on the board, it is likely that they will artificially enhance the gender diversity, however it is possible that they might not bring in any new perspectives since they belong to or are related to the same family (Aggarwal et al., 2019). The presence of non-independent women directors may be just symbolic (Sanan, 2016). Moreover, with the rising trend witnessed in women securing leadership and ownership positions in family firms (Cole, 1997; Martinez Jimenez, 2009; Nelton,1998), they face many hindrances due to conventional perspectives on the role that a woman has in the business. For example, they encounter problems with invisibility or not being treated in the same way as men (Cole, 1997; Martinez Jimenez, 2009), "glass ceiling" (Songini & Gnan, 2009) and primogeniture in succession (Vera & Dean, 2005). This particular gender stereotyping could also exist in the boardroom, which may result in male versus female sub-group-

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ings (Vandebeek et al., 2016). These factors could thus adversely impact firm performance. Cruz et al. (2018), on the other hand, find out that female directors have a positive effect on corporate social performance measured using company's sustainability ratings. Thus we hypothesize:

H1: In family firms, number of Women Directors has a negative effect on firm performance

Independent Directors &Firm Performance

There are three key theoretical perspectives that suggest how Independent Directors may positively influence firm outcomes: agency theory, resource dependency theory, and upper echelons theory (Ruigrok et al., 2006). First, agency theory emphasizes on the inherent conflicts between owner's interests and management interests. An agency theoretical perspective suggests that Independent Directors (from outside the corporation) have fewer potential conflicts of interest and can thereby provide greater integrity and offer impartial judgment (Fama, 1980; Rosenstein & Wyatt, 1997). The Independent Directors also value their personal reputations and can go to great lengths to preserve their reputation. Fama (1980) argues that concern for his reputation will cause an agent to act more in his principal's interests than standard approaches to agency might suggest. Second, as per the resource dependency theory (Pfeffer & Salancik, 2003), Independent Directors offer valuable know-how and social relationships which can be used in their roles on the board (Hillman et al., 2002). Furthermore, Independent Directors' unique experiences gained in other companies can be leveraged in important decision-making (Finkelstein et al., 2009). Thus, the Independent Directors, who are well-educated and well-qualified (Becker,1994) can provide insightful knowledge to the company boards and contribute to the firm's success. Third, upper echelons theory describes how executives' behavior may be explicated by personal experiences and values (Hambrick &Mason, 1984). Executives' prior experiences are important in board roles (Hambrick, 2007) such that Independent Directors should be able to capitalize on their vast and diverse sets of expertise and thereby enhance performance.

Prior studies on board independence and firm performance have yielded mixed results (Dalton et al. 1998; Kang et al., 2007). Studies by Brickley et al. (1997), Luan and Tang (2007), Florackis and Ozkan (2009), Kim and Lim (2010), Jackling and Johl (2009), and Pombo and Gutiérrez (2011) reveal that there is a positive association between the percentage of independent directors and firm performance. Conversely, Agrawal and Knoeber (1996), Bebchuk and Cohen (2005), and Shan and McIver (2011) report that there is a negative relationship. Moreover, Hermalin and Weisbach (1991), Barnhart and Rosenstein (1988), Bhagat and Black (2002), Vafeas and Theodorou (1998), Klein (1998), and Arosa et al. (2010) find that Independent Directors do not increase firm value.

The Independent Directors might have a friendly or contractual relationship with the company, thus compromising the board independence.

Similarly, in case of family firms the relationship between the presence of Independent Directors on the board and firm performance is theoretically debated and there are mixed empirical findings (Samara et al., 2018). Anderson and Reeb (2004) suggested that Independent Directors play an important part in reducing conflicts between shareholder groups and alleviating family's power. They also observed that family-owned firms with higher levels of board independence tend to perform better. Conversely, García-Ramos and García-Olalla (2011) reported a negative relationship between board independence and family firm performance, especially when the business is run by the descendants. Due to fear of loss of control, the descendants tend to choose people as Independent Directors who are neither family members nor completely independent. The Independent Directors might have a friendly or contractual relationship with the company, thus compromising the board independence which leads to ineffective performance.

In the present literature, there are some studies (for example, Anderson and Reeb 2004; Arosa et al. 2010; Kuo and Hung, 2012) which report a positive relationship, while some (for example, Agrawal and Knoeber 1996; García-Ramos and García-Olalla 2011) observe a negative effect and a few (for example, Cuadrado-Ballesteros et al. 2015; Dalton et al. 1998; Gnan et al. 2015) find no effect. The extant competing arguments and mixed findings hint that Independent Directors may sometimes, but not always, affect family business performance (Samara et al. 2018).

Thus, we hypothesize:

H2: In family firms, there is positive association between Independent Directors and firm performance

Sample

The sampling frame is the National Stock Exchange (NSE) 500 index of India's largest companies. This index consists of top 500 companies listed with NSE based on their market capitalization. The selected companies represented 96.1% of the free float market capitalization of the stocks listed on NSE as of March 29, 2019, the date of sample selection. Banking and financial firms have been excluded because board structure in these companies is highly regulated (Sanan, 2016) and there are different set of capital structure requirements for these companies (Aggarwal et al., 2019). We also drop the non-family firms, i.e. firms that are not owned and managed by families (Swoboda & Olejnik 2013).

After excluding the aforementioned companies and the firms with missing data, we have a final sample of 163 family businesses. This study draws on select financial as well as board composition data of sample firms for ten financial years FY 2009-10 to FY 2018–2019. The board composition data and financial data are procured from PROWESS, a database of Centre for Monitoring Indian Economy (CMIE).

Independent Variables

Number of Women Directors and percentage of Independent Directors are the two independent variables used in the study. Number of Women Directors is measured by taking the absolute number of women present in the board. Percentage of Independent Directors is calculated by taking their ratio to total board of directors.

Dependent Variables

Financial performance is the dependent variable which is measured using ROA, an accounting-based profitability measure and Tobin's Q, a market-based measure. ROA tracks historical financial performance while Tobin's Q predicts future financial performance (Hoskisson et al. 1994; Keats & Hitt 1988). These two measures are used extensively in corporate governance literature. ROA is the ratio of net income to book value of assets. Tobin's Q is measured by dividing aggregate of market value of equity, book value of preferred stock and book value of debt by book value of total assets (Chung & Pruitt, 1994).

Control Variables

Based on prior studies (for example, Campbell & Mýnguez-Vera, 2008; Sanan, 2016), three control variables are used. They are: 1) firm size measured by natural logarithm of total assets, 2) leverage measured by debt to equity ratio, and 3) board size measured by the number of directors on the board.

Results

We have run two separate multiple regressions, one for each dependent variable, using SPSS. Table 1 presents the summary statistics of the sample. The average ROA for the sample over the 10 year-period is 7.41 percent which indicates that most of the companies in the sample are profitable and have been making good use of their assets. The second indicator of financial performance used is Tobin's Q. The mean Tobin's Q of 1.78 indicates that majority of the firms in the sample are worth more than the cost of their assets. The average board size is 11.04 and average firm size is 10.84. The mean leverage is more than 1 which indicates that the companies in the sample are highly levered.

Table 2 exhibits the correlation among dependent, independent and control variables. With the highest correlation of .233, there is no problem of multi-collinearity in the data. In addition, we also checked the variance inflation factor (VIF) of independent variables and control variables in Table 3, and found out that the VIF is less than 10, which confirms that multi-collinearity is not a problem (Neter et al., 1989).

Table 1 Descriptive Statistics

Particulars	Mean	S.D.
Return on Assets	7.41	8.96
Tobin's Q	1.78	2.55
Board size	11.04	2.94
Log of Total Assets	10.84	1.85
Debt to Equity	1.10	.55
Number of Women Directors	.96	.85
Percentage of Independent Directors	53.87	9.91

Table 2 Correlation Matrix

	1	2	3	4	5	6	7
1. ROA	1	.119**	.039	-.103**	-.139**	-0.32	.071**
2. Tobin's Q	.119**	1	-.028	-.187**	-.080**	.151**	.023
3.Board size	.039	-.028	1	.233**	.043	.267**	-.198**
4. Total Assets	-.103**	-.187**	.233**	1	.095**	.104**	-.033
5. Leverage	-.139**	-.080**	.043	.095**	1	-.002	-.066**
6. Women Directors	-0.32	.151**	.267**	.104**	-.002	1	-.061*
7. % Independent Directors	.071**	.023	-.198**	-.033	-.066**	-.061*	1

*p<.05, **p<.01

Table 3 Collinearity Diagnostics

Variable	VIF
Board size	1.170
Total assets	1.068
Leverage	1.013
Women Directors	1.079
% Independent Directors	1.045

There is a rise in the number of companies having atleast one Woman Director.

Table 4 shows the number of companies with no or atleast one Woman Director. We can see that there is a rise in the number of companies hav-

Table 4 Number of Women Directors Across Years

	Companies with less than 1 Women Director	Companies with atleast 1 Women Director
2010	95	68
2011	89	74
2012	93	70
2013	88	75
2014	78	85
2015	17	146
2016	11	152
2017	9	154
2018	9	154
2019	8	155

ing atleast one Woman Director, the highest being in 2015, 146 from 85 in 2014. This sudden increase can be attributed to SEBI's announcement regarding a mandatory requirement of atleast one Woman Director in August 2013.

Table 5 provides the number of companies having less than one-third of total directors as Independent Directors and number of companies with at least one-third of total directors as Independent Directors over the last 10 years. We can see that throughout the period under study, majority of the companies had more than one-third Independent Directors.

Table 5 Number of Independent Directors Across Years of Observation

	Companies with less than one-third as Independent Directors	Companies with atleast one-third as Independent Directors
2010	7	156
2011	3	160
2012	2	161
2013	2	161
2014	4	159
2015	2	161
2016	2	161
2017	1	162
2018	3	160
2019	1	162

Presence of Women Directors on the board has a significant negative effect on ROA in the post-announcement period.

Table 6 and Table 7 present the regression results. From Table 6, we can see that the presence of Women Directors on the board has a significant negative effect on ROA (beta = -.078, $p<.05$) in the post-announcement period, while in the pre-announcement period, there is negative insignificant relationship (beta = -.007). Board independence measured by the percentage of Independent Directors on the board has a significant positive impact on ROA in both the periods of comparison (beta = .097, $p<.01$ in pre-announcement period and beta = .060, $p<.05$ in post-announcement period). From Table 7, it is evident that women directors have a significant positive impact on Tobin's Q in both the periods (beta = .165, $p<.01$ in pre-announcement period and beta = .078, $p<.05$ in post-announcement period), while the miniscule negative effect of board independence on Tobin's Q in 2010-14 (beta = -.001) is shifted to positive effect (beta = .036) in 2015-19.

Discussion & Conclusion

Findings of this study evince that there is a negative impact of Women Directors on ROA, while they have a positive relationship with Tobin's Q. The reason for the negative relationship be-

Table 6 Regression Results: ROA, Women Directors &Board Independence

	Return on Assets	
Variables	Pre-announcement (2010-14)	Post-announcement (2015-19)
Board size	.159***	.037
Total assets	-.077**	-.119***
Leverage	-.142***	-.138***
Women directors	-.007	-.078**
% independent directors	.097***	.060*

*p<.1, **p<.05, ***p<.01

Table 7 Regression Results: Tobin's Q, Women Directors &Board Independence

	Tobin's Q	
Variables	Pre-announcement (2010-14)	Post-announcement (2015-19)
Board size	-.030	-.009
Total assets	-.170***	-.219***
Leverage	-.056	-.089***
Women directors	.165***	.078**
% independent directors	-.001	.036

*p<.1, **p<.05, ***p<.01

tween Women Directors and ROA, an accounting-based measure of firm performance, could be the inclusion of women family members or female relatives of the founding family in the board due to their family ties, who may not have the required qualification but are still involved in the management just to satisfy the mandatory requirement (Samara et al., 2019). As such, with their limited knowledge and experience, they are not able to contribute much to the company. Also, since they belong to the same family or are related to the founding family, there is negligible board diversity (Das & Dey, 2016). It is important to note that in the post-announcement period the negative effect has increased as well as become significant hinting that the family firms are possibly bringing in inside women on board to comply with the mandatory requirement. Having more women on the board is likely to enhance the gender diversity however they may not bring in different perspectives since they belong to or are related to the same family (Aggarwal et al., 2019). The presence of non-independent Women Directors may be just perfunctory (Sanan, 2016). Our findings are similar to Ahern and Dittmar (2012), who also observed that gender quota legislation was negatively related to firm performance. With respect to Tobin's Q, a market-based measure of firm performance, the results are different. There is positive association between Women Directors and Tobin's Q. This result em-

Gender quota legislation was negatively related to firm performance.

phasizes that the market perception of the firms with Women Directors is better than those without Women Directors. Moreover, the presence of women in the board of directors communicates a strong message to the public that the company follows good corporate governance practices and exhibits ethical behavior. Thus, the SEBI's mandate to have at least one Woman Director on the board can have mixed repercussions. Instead, specifying that the companies should have at least one Independent Women Director can have a positive effect on firm's ROA. The announcement regarding the same has been made in 2018. Thus, it will be interesting to see the effect of Independent Women Directors on firm performance, especially after 2018.

There is a positive relationship between Independent Directors and ROA throughout the last 10 years.

Regarding board independence, there is a positive relationship between Independent Directors and ROA throughout the last 10 years. The reasons for the positive effect could be due to their tremendous knowledge, expertise, social networks (Hillman et al., 2002) and unique experiences (Finkelstein et al., 2009) that help in powerful decision-making which ultimately help in better performance. With respect to Tobin's Q as well, there is a positive relationship in the post-announcement period which elucidates that the market perception about the companies with independent boards is favorable. Also, the fact that the regulations generally do not permit the appointment of family members as Independent Directors (Aggarwal et al., 2019) ensures heterogeneity in the board. However, it is important to note that though a miniscule, there was a negative effect of Independent Directors on family firm performance, which is similar to the findings of García-Ramos and García-Olalla (2011). This could be due to inappropriate selection of Independent Directors prior to Companies Act, 2013, wherein the family firms would have encouraged inclusion of people in the company board who are neither family members nor completely independent, but somewhere in between.

Our study makes two main contributions. First, it undertakes a comparative analysis on board data and performance before and after the announcement of Companies Act, 2013, and second, it enriches the corporate governance literature in family business by examining the role of women directors and Independent Directors in firm performance.

Just like any other research, this study is subject to certain limitations. First, board diversity can be expanded by taking into consideration educational background, skill set, work experience, etc. of the board apart from the gender, independence and age that has been studied in this paper. Second, a cross country comparison can be made to gain further insights into the relationship between board diversity and firm performance. Third, different performance measures like sales growth, profit growth, earnings per share, etc. can be used to measure the firm performance, in addition to the commonly used measures like ROA (accounting measure) and Tobin's Q (market-based measure). Fourth, only publicly traded family firms are studied, therefore the results cannot be generalized across other firms. Taking into cognition the limitations of this study, there is ample scope of future research. Researchers can be ambitious and undertake a cross country analysis that will provide a better understanding of the relationship between board diversity and firm performance. Additionally, board diversity can be looked at not only from gender and independence perspective but also from educational qualification, skills and work experience of the board. Apart from this, the firm performance can be measured using a more robust approach that includes employing a multi-dimensional performance metric consisting of growth in sales, growth in market share, growth in profitability, return on equity, return on total assets, and profit margin on sales (Debicki et al., 2017). Finally, there is scope to undertake a similar study on a bigger sample including large, medium and small-sized companies.

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