6

Women on Boards, Governance Structures and Firm Performance: Evidence from Family Firms in India

Jayati Sarkar, Ekta Selarka[9]

1. Introduction

This study investigates the effects of gender diversity in corporate India by analysing the relationship between women directors on boards and firm performance with respect to corporate governance structures prevalent across family firms. By corporate governance structure we refer to two characteristics which are specific to the family firms. First is family ownership concentration and second is family control of management and/or board by holding positions of CEO, Chairmanship or both. We observe that while there is a growing empirical literature on the subject of women on corporate boards, much of it is limited to widely-held firms where shareholding is distributed among numerous investors resulting in separation of ownership and control, but little is known about the effectiveness of women on the boards of family firms with concentrated ownership and control in the hands of a promoter.

Given that ownership structure and governance environment of family firms are distinctly different from those of non-family firms, the evidence on the relationship between women on board and firm performance in the context of widely held firms may not apply in the context of family firms. For example, in family firms, board positions are often held by promoters and/or persons related to promoters. To contribute in this area of research, we focus on the Indian corporate sector to draw inferences on the role and effects of women directors. India provides an ideal and timely setting for analyzing this research objective as the presence of family firms is pervasive. In

---

9 This paper was prepared as part of the National Stock Exchange of India (NSE) and the Indira Gandhi Institute of Development Research (IGIDR) Initiative on Corporate Governance. We thank the participants of the NSE-IGIDR International Conference held at Mumbai for their helpful comments. The usual disclaimer applies. Jayati Sarkar (corresponding author) is a Professor of Economics at IGIDR and can be reached at: jayati@igidr.ac.in and Ekta Selarka is Associate Professor of Economics at Madras School of Economics and can be reached at ekta@mse.ac.in.

addition, with the advent of new Companies Act (2013), India has instituted gender quotas on corporate boards. Juxtaposing the literature on gender attributes to that of characteristics of family firms and governance, this study develops the underlying argument as follows. Women directors, vis-à-vis men directors, may have comparative advantage in monitoring and advising the management of family firms in some aspects and disadvantage in others, but in ways that could be different from their roles in widely held firms. Considering the dominant attributes of women in general and women directors in particular, this study argues further that attributes such as universalism and benevolence, along with issues related to ascension of women beyond the glass ceiling can have a positive effect on firm performance which is opposite to the theoretical prediction of succession when it comes to women directors. In contrast to the theoretical literature on male ascension, institutional settings which give rise to governance structures prevalent in emerging markets; characterized by concentrated ownership structure and dominance of controlling owners on board, ascension of women may have a negative effect on firm performance. In such a scenario, the effect of having women on board becomes an empirical question to provide implications for the monitoring and advising mechanisms of board of directors when governance structures differ.

2. Methodology

We use panel data estimation, instrumental variable estimation and difference-in-difference estimation to investigate the effects of women on Indian boards on firm performance. Using a sample of all manufacturing firms listed on National Stock Exchange during 2005-2015 which have complete information at director level, we arrive at a data-set of 10,218 firm year observations over an eleven year period from 2005 to 2015 which spans the pre-quota and post-quota years of observations.

3. Findings

We find robust evidence that women directors on corporate boards positively impact firm value and that this effect increases with the number of women directors on board. Further, when we disentangle the effect of women directors by type of director, we find that women independent directors have a positive effect whereas woman grey directors have no effect (The term "independent director" generally refers to nonexecutive directors (NEDs) who are free from personal or economic ties with the firm and its management. NEDs who have such ties are classified as non-independent NEDs and are also known as "grey" directors).

This positive effect of independent woman directors is also confirmed by the difference-in-difference analysis where the higher valuation of firms post the enactment of the gender quota in India in 2013 came from the appointment of a woman independent director, and not a grey director. The positive results with respect to women directors in general and independent directors in particular that we obtain with respect to market value are also confirmed with respect to profitability, where the coefficients of all gender diversity measures are statistically significant. Grey directors again have no effect on profitability.

We re-estimated all of our empirical models by including two types of governance structures defined on the basis of promoter control in terms of ownership and board positions respectively. Our first governance structure captures if promoters hold more than 20% of share ownership in the firm. Our second governance structure is classified across four sub-categories namely, a) whether promoter holds a chair position, b) whether promoter holds a CEO position, c) whether promoter holds both CEO and chair position and d) whether promoter holds neither CEO nor chair position of the board. The objective of these governance structures is to capture the insider control through ownership as well as through board which may have ultimate impact on corporate strategy and operations.

Interestingly, we find that the positive effect of gender diversity on firm performance weakens with the extent to which the promoter exerts control through occupying key management positions on the board. Another interesting result is the accentuating effect of appointing independent woman director post draft bill in 2011 but before the mandate in 2013 when promoter has full control over the board i.e. holds both CEO and Chair positions.

4. Conclusion

One of the important contributions of this study is how the effectiveness of women directors changes with changes in firm governance structures. While this issue has received some attention in the literature, there is little formal evidence on it. Given that family firms in India vary in the extent to which family members are present in key management positions, we exploit this variation to test if the effectiveness of women directors vary with the extent of promoter's control. We find robust evidence that this is indeed true and the effect of women director on firm performance is inversely related to the extent of operational and strategic control exerted by the promoter. Notwithstanding the negative effects of family control, the net effect of women directors on board on market valuation is positive. Our results suggest that women attributes while beneficial for governance as such, is discounted by the market in settings where decision making is controlled by family.

Finally, the findings in our study provide support to instituting gender quotas in emerging economies like India with dominance of family firms. Given the mandate of appointing at least one woman director on board, our study finds that firms which have at least one woman director on the board has higher market valuation and higher profits compared to boards with none. What is interesting is that this result is driven by independent woman directors and not by grey directors with the latter being a reflection of mere tokenism. The strong and consistent effect of woman independent directors in our study, in our opinion, is perhaps a combination of the comparative advantages of women as outside directors in family firms and the stronger forces of selection that takes place in developing countries like India whereby women have to overcome more obstacles and bear higher costs when they make their choices for a high-profile career path.

Taken together, our results suggest that though gender diversity on corporate boards may positively impact firm performance of family firms in general, the extent of family control can have a significant bearing on this relationship. The findings from this study could be instructive for many other emerging economies like India which are considering promoting gender-based quotas on corporate boards.