Effects of controlling family status, family-impacted governance and top management characteristics on financial and social performance of listed companies in India

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DECLARATION

I certify that except where due acknowledgement has been made, the work is that of the author alone; and the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of this thesis is the result of work which has been carried out since the official commencement data of the approved research program; any editorial work paid or unpaid, carried out by a third party is acknowledged; and, ethics, procedures and guidelines have been followed.

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ACKNOWLEDGMENTS

After finishing my Master’s degree in Electronics, I never thought even in my dreams that one day I will be writing my thesis in Accounting and Finance. But, this has come true. Although only my name appears on the title page of this thesis but many people have helped me in producing this thesis. I thank them for their continuous support over the course of this journey and I owe my gratitude to all of them to make this journey possible.

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ABBREVIATIONS

BIMTECH  
Birla Institute of Management Technology

BSE  
Bombay Stock Exchange

CEO  
Chief Executive Officer

CEP  
Council for Economic Priorities

CII  
Confederation of Indian Industries

COO  
Chief Operating Officer

CSP  
Corporate Social Performance

CSR  
Corporate Social Responsibility

FDI  
Foreign Direct Investment

FOC  
Family Ownership and Control

FTSE  
Financial Times Stock Exchange

GMI  
Governance Metrix International

KLD  
Kinder, Lydenberg, Domini Research & Analytics

NSE  
National Stock Exchange

NYSE  
New York Stock Exchange

OECD  
Organization for Economic Co-operation and Development

ROA  
Return on Assets

ROE  
Return on Equity

ROS  
Return on Sales

S&P ESG  
Standard and Poor's Environmental, Social and Governance Index

SEBI  
Securities and Exchange Board of India

UK  
United Kingdom

USA  
United States of America
ABSTRACT

The aim of this thesis is to develop models and provide evidence about the impacts of family-related ownership, governance and powerful management players’ characteristics on corporate performance, both financial and social, of listed companies in India. In relation to financial performance, some, but not all of these impacts have been studied in various contexts with inconsistent findings. The country context is found to make a difference. Although there is a substantial body of literature on the relationships between family control and other governance characteristics and corporate financial performance, there is much less prior research on how these factors relate to corporate social (including environmental) performance.

This thesis makes an original contribution to the existing literature on corporate governance in family businesses by filling several gaps in the evidence currently available, especially concerning effects on corporate social performance. It does so by designing and testing a comprehensive set of models. These models contain several aspects lacking from prior empirical research about family controlling status, family-impacted governance mechanisms and family-positioned key management players and their effects on financial and social performance. The thesis also provides first-time evidence in the context of a large emerging economy, India. Large listed family-controlled companies in India have the distinctive characteristics of a dominance of family business groups owned by culturally-identified ‘trading communities’, and for several mega-size corporations, the presence of a long family succession with fourth or fifth generation family members establishing their unique management culture that emphasises the recruitment of loyal executives and strict control of powerful patriarchs over both the family and business. Using over 12000 observations collected from a sample of the 300 largest family-controlled companies listed on the Bombay Stock Exchange in 2010, this thesis applies several quantitative techniques including regression analysis to investigate the abovementioned relationships. Results reveal a number of significant effects on financial as compared to effects on social performance. First, in terms of family control through ownership or status, the family shareholding is positively related to financial performance but has a significant negative effect on social performance. For family status, its reputation significantly relates to financial performance but has no impact on social performance. The family founder’s presence on the board has a negative impact on both
financial and social performance. However, family companies owned by longer succeeding generations are significantly associated with better social performance. Second, in terms of family-impacted board governance mechanisms, this thesis finds that outsiders’ presence on the board have a significant positive impact on social performance. Further, higher numbers of board committees are positively related to both financial and social performance. Third, in terms of the impacts of normative influences of family-positioned powerful management players, this thesis finds that demographic characteristics of family chairpersons have more impact on financial and social performance as compared to family CEOs. Also those chairpersons and CEOs with greater outside connections and holding a foreign qualification have a positive influence on social performance, where as those holding an MBA qualification have a negative impact on both financial and social performance.

After cautioning for the modelling and measurement limitations underlying these findings, there are several insights provided by them that can have implications for controlling family members, as well as corporate governance regulators in India. First, controlling family members need to address the issue of better integration of company performance since companies with higher family ownership are found to have significantly poorer social performance relative to financial performance. Family members should also question the need for the family founder to have a presence on the board since this is found to negatively affect both financial and social performance. Second, corporate governance regulators, when reviewing guidelines and regulations, should consider requiring an increase in the number of board committees, since this is found to positively affect both financial and social performance of listed family-controlled companies. Further, regulators might consider guidelines on the educational qualifications of chairpersons and CEOs that encourage a foreign qualification, but not an MBA.
CHAPTER 1
INTRODUCTION

1.1 Background and statement of the problem

The purpose of this chapter is to introduce the background and motivation for this thesis. The chapter sets out objectives of this study and provides a discussion leading to the research questions to be investigated. It also provides justification for selecting India and large family-controlled businesses as the context of the study.

The chapter is divided into four sections. The first section covers background information and a statement of the problem. The second section discusses the motivation and significance of this study. This section also contains a justification for the choice of context. The third section presents objectives of this study and also discusses research questions to be investigated for achieving these objectives. Finally the fourth section briefly outlines the structure of the body of the thesis followed by conclusion.

As a scholarly field of inquiry, the area of family business research is relatively new despite the fact that family businesses have been the backbone of corporate life across nations around the globe (Poutziouris et al. 2006). One of the biggest issues which have retarded the pace of family business research is the problem of finding a universally accepted definition of family business. The family business research area is large and diverse. Past researchers (mainly quantitative) have studied several issues related to the accounting discipline in this area such as family business and governance, family business and financial performance and family business and accounting conservatism. Recently some studies have started looking at the social and environmental performance of family businesses.

Firm ownership structure and its impact on financial performance have been addressed widely in the family business and governance literature predominantly in the context of developed economies, particularly the US and UK (Demsetz 1983; McConaughy et al. 1998; McConnell & Serveas 1990; Shleifer & Vishny 1986). From an agency theory perspective, prior studies drawing on Berle and Means (1932) and Jensen and Meckling (1976) hypothesize that family control reduces agency cost, thereby leading to better financial performance. In contrast, other
behavioural studies draw conclusions that family firms suffer from capital restriction, intergenerational squabbles, executive entrenchment and nepotism which would have a negative impact on firm financial performance (e.g. Allen & Panian 1982; Gomez-Mejia et al. 2003; Schulze et al.2001, 2003). Empirical results primarily from the US show that the composite financial performance measure, Tobin’s Q, of listed companies founded and controlled by a family is greater than other types of ownership and control (Anderson & Reeb 2003; Villalonga & Amit 2006; Barontini & 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 financial 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.

The impact of family control on corporate ‘social’ performance (defined in the wider sense of social responsibility-related performance that includes both social and environmental dimensions) is a relatively new area of research. There is a paucity of systematic empirical evidence about the effect of family ownership/control and governance on corporate social performance. Large Indian family businesses have a long tradition of involvement with communities through social charity, religious affiliation and environmental concern. But minimal theory or evidence has been published about those characteristics of large Indian family businesses that can explain the level of social responsibility performed by those companies. Hence, this literature has several unresearched aspects of the relationships between family-related control, board governance and top management characteristics and corporate social performance. This makes it a fertile ground for a research contribution.

In order to address gaps in aspects of this literature, this thesis seeks to develop a comprehensive set of models on the effects of family control (through ownership and status), family-impacted governance mechanisms and family-positioned key management’s characteristics on corporate performance, both financial and social, of listed companies in India. Furthermore, this thesis develops a schema of the way these family-related factors contribute to the integration or decoupling of the firm’s financial and social performance.

1.2 Motivation and significance

The first motivation for conducting this research is that there has been very little prior research on Indian family businesses despite their strong national and global economic
contribution. Prior studies have consistently recognised the lack of research in the area. Ramachandran (2007) states that Indian family businesses are still like a black box and lack quality investigations for explaining particular behaviours displayed by these family businesses. He further states that most of the research literature available for Indian family businesses is in the form of biographies and consultant impressions (Piramal 1997, 1998; Dutta 1997) and lacks more generalizable empirical evidence on the impact of family-related factors on financial performance. Therefore, the context of India as a rapidly emerging economy with historically unique family values and culture will provide a contribution to the existing literature on financial performance of family businesses.

The second reason for conducting this research is to investigate family influences on corporate governance practices in Indian family businesses and how these governance practices affect company performance. Governance of family owned companies can be different from governance of companies with other forms of ownership. Sir Adrian Cadbury (2000a, p.5) also recognises this fact and states “It is essential at the outset to recognise that the governance of a family firm is in many ways more complex than the governance of a firm with no family involvement. Family relationships have to be managed in addition to business relationships”.

Although the relationships between family-impacted governance and financial performance have been studied in developed economies primarily in the US and Europe, these results are country and culture specific as family values and family networks differs across different cultures. Therefore, investigating the effects of family-impacted governance factors on financial performance in a large emerging economy will be a contribution to the existing corporate governance literature.

Third, there has been very little empirical research investigating the role of corporate governance for achieving social and environmental performance. The present era of corporate philanthropy and triple bottom line reporting has broadened the corporate governance definition used in the past. Sir Adrian Cadbury (2000b, p.6) describes this broadened definition of corporate governance as “Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The aim is to align as nearly as possible the interests of individuals, corporations, and society.” Levy (1999) takes a similar view and argues that corporate philanthropy and social initiatives taken by organisations for the welfare of society are the heart and soul of business. Similarly, other researchers such as Dilling (2010) and Painter-Morland (2006) have also recognised the
importance of corporate governance in achieving goals of corporate social responsibility (CSR). Although the past literature has conceptually addressed the link between governance variables and financial performance, the effects of governance on the interrelation between financial, economic and social performance do not appear to have been empirically investigated. No study could be found that provides empirical evidence on the relationship between governance variables and corporate performance in the combined dimensions of financial, social and environmental performance. This thesis seeks to provide such empirical evidence on the relationships between corporate board governance mechanisms and both financial and social (including environmental) performance in the context of large listed Indian family businesses.

Fourth, relatively less attention has been paid by past research on the relationship between ownership structure and social or environmental performance. The available literature is dominated by conceptual or normative arguments on this topic, with a lack of consensus on the expected direction of the relationship between family ownership and social-environmental performance. Indian family businesses have a long tradition of involvement with communities through social charity, religious affiliations and environmental concerns, but the motivation of Indian family businesses for their involvement with the community is not well understood. Recently, Indian family businesses have changed their focus from local charity to wider philanthropy and have added many new philanthropic activities such as environmental conservation and preservation of history and art in their portfolio of corporate social responsibilities (Ramachandran and Jha, 2009). This study seeks to provide new evidence on the relationship between Indian family ownership and a composite corporate social and environmental performance index, derived from broad international criteria.

Fifth, prior studies have largely neglected the impacts of powerful actors on financial, social and environmental performance. In the Indian context family patriarchs are accorded a powerful role in both the family and business, and have additional responsibility to look after both family and business welfare. Therefore, normative influences of these powerful actors on financial, social and environmental performance are expected to be significant. Prior studies have conducted cross-disciplinary research (mainly based on organisational behaviour and psychology literature) to explain how the cognitive processes of key players in the upper echelons of management can affect their firm’s financial and social performance. These cognitions are proxied by demographic and experiential characteristics of the upper echelons players. However, findings from this upper echelons theory have differed in different contexts.
This thesis invokes upper echelons theory to add to its modelling of family-related influences on firm performance by investigating the effects of demographic characteristics of the family/non-family Chairperson and CEO.

Finally, minimal attention has been given by governance researchers to providing evidence on the family-related factors affecting the ability of a firm to integrate rather than decouple its financial and social performance. Integrated and decoupled performance at the workplace level from the perspective of the management of internal organisational processes and policies has been addressed widely in the management literature (Weaver et al.1999; Grayson & Hodges 2004; Porter & Kramer 2006). This thesis extends the application of concepts of integrated and decoupled performance beyond the field of internal management to the field of corporate-wide governance and performance.

1.3 India as a context for the study

India provides a rich context for a study on the effects of a controlling family on the financial and social performance of large listed companies. Private sector business in India is heavily 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). These peculiar characteristics of Indian family business make them different from their Western counterparts on which most of the family business research has been conducted. In India importance has not been given to this area of research despite the fact that 60-70% of Indian GDP is generated by Indian family businesses. Therefore, this thesis seeks to redress some of this deficiency in evidence about family-related control and governance effects on the financial and social performance of these large firms in India.
Although India inherited its corporate governance framework from British company law, serious corporate governance reforms started taking place after economic liberalisation in 1991. Corporate governance became a well-known term in India after a series of scandals in 1992 and 1993 (Goswami 2000). In India, corporate governance reforms are comparatively new compared to developed economies where most of the corporate governance research has been conducted. Moreover, in India, implementation of corporate governance regulation has also been influenced by the existence of excessive concentration of ownership, a slow and tedious Indian court system, and relatively high corruption. Gollakota and Gupta (2006) call for the urgent conduct of research that enables better understanding of governance structures and practices in India. This thesis seeks to respond to this urgent call. In doing so, it first needs to review the history of development of the corporate governance system in India. Then the modelling and testing of family-related governance structures and practices will be pursued.

The choice of India as the context of this study can also be supported by its current and growing economic importance. The Indian economy along with Brazil, Russia and China has a major influence on the world economy. Family businesses are important drivers of the Indian economy contributing to 60-70% of Indian GDP1. Data released by the Reserve Bank of India (RBI) in the year 2010 reveals a strong flow of foreign direct investment in the Indian capital market dominated by the presence of family businesses. Therefore, India as a context for this study can help foreign institutional and individual investors to understand corporate governance mechanism in listed Indian family controlled businesses.

1.4 Objectives

This thesis has four primary objectives.

(1) To investigate the relationship between family control (based on ownership and status) and financial and social performance of listed Indian family controlled firms.

(2) To investigate the relationship between family-impacted governance (mainly board) mechanisms and financial and social performance of Indian listed family controlled firms.

(3) To investigate the influence of cognitive pre-dispositions of key powerful management players (i.e., Chairperson and CEO) on the financial and social performance of listed Indian family controlled firms.

(4) To extend the workplace and internal management studies on the phenomenon of integrating and decoupling financial and social performance, to a study that provides findings at the firm-wide governance and performance level.

The overall objective of this thesis is to develop models and provide findings from which inferences can be drawn about the effects of family controlling status, family-related governance and power management players’ demographic characteristics on financial and social performance of listed family-controlled companies in India.

1.5 Research Questions

In order to achieve the above objectives this thesis addresses the following research questions:

RQ 1: What is the impact of family controlling status (family reputation, family shareholding, family generation, family business group affiliation, family social background) on financial and social performance, whether as decoupled or integrated performance, of listed family firms in India?

RQ 2: What is the impact of family-related and other board governance characteristics (family CEO, family chair, founder on board, family members on board, gender diversity, insiders’ involvement, outsiders’ involvement, insiders’ reputation, outsiders reputation, board size, board independence, board philosophy, CEO duality, total no. of committees, board meeting frequency) on financial and social performance, whether as decoupled and integrated performance, of listed family firms in India?

RQ3: What is the impact of the normative influences of powerful management players, namely, the CEO and Chairperson, (their reputation, extent of education, holding an MBA, humanities/science-engineering/business qualification, foreign qualification, age, career experience, and tenure) on financial and social performance, whether as decoupled or integrated performance, of listed family firms in India?

1.6 Organisation of this thesis

This thesis comprises of seven chapters given below:
Following chapter 1 Introduction, Chapter 2 reviews family business definitional ambiguities and peculiar characteristics of Indian family businesses which distinguish them from their global counterparts. This chapter also aims to provide a brief history and current state of the corporate governance environment in India.

Chapter 3 reviews past studies in detail, identifies the gaps in the literature and provides theoretical constructs and the scope of the investigation to be pursued. This chapter also addresses the theories which have been used to rationalize the expected relationships between family ownership, board governance and family managers’ demographic characteristics and the financial, social and environmental performance of family owned and managed firms.

Chapter 4 proposes a conceptual framework aimed at investigating the impacts of family control, board governance and top managements’ demographic characteristics on financial and social performance of listed Indian family firms. This chapter also poses research questions arising from the research gaps identified in chapter 3. It also discusses the theoretical basis of the relationship between variables covered in the research questions.

Chapter 5 explains the research methods used in this thesis for modelling and gathering data about the impacts of family control, board governance and powerful managers’ demographic characteristics on financial and social performance of listed Indian family firms. It covers a detailed discussion of sample selection, data sources, research models and quantitative techniques used in this thesis.

Chapter 6 provides the results of data analysis. This chapter also contains a detailed discussion on the findings and compares the findings with prior literature. It also contains a detailed discussion on the research contribution of this thesis.

Chapter 7 summarizes overall findings, highlights the limitations of these findings, and draws implications for theory and practice. This chapter also covers the contribution of this thesis and suggests directions for future research.
CHAPTER 2
CONTEXT OF FAMILY BUSINESSES AND CORPORATE GOVERNANCE IN INDIA

2.1 Introduction

The aim of this chapter is to explore family business definitional ambiguities and peculiar characteristics of Indian family businesses which distinguish them from their global counterparts. This chapter also aims to provide a brief history and the current status of corporate governance in India.

There is a large body of literature in family businesses, but most of the prior studies are conducted in Western countries particularly in the USA and UK. Recently, empirical studies have been emerging on Asian family businesses (mainly from China, Japan and Taiwan) covering the family impact on financial performance. Ramachandran (2007) states that Indian family businesses are still like a black box because there is a lack of systematic rigorous research about the governance and management behaviour that can explain the success of family businesses in India. He further states that most of the research literature available for Indian family businesses is in the form of biographies and consultant impressions (Piramal 1997, 1998; Dutta, 1997) and this research lacks availability of empirical evidence on the impact of Indian family businesses on financial performance.

India has inherited its corporate governance framework from British company law and is considered having a sounder governance system compared to other major emerging economies such as Brazil, China and Russia (Chakrabarti et al. 2008). The Indian corporate governance framework makes provision for best investor protection on paper but the Satyam scandal of 2009 raised a number of weaknesses in the implementation of corporate governance rules and regulations in India because of slow and overburdened courts, and significant corruption (GMI governance ratings 2011; Chakrabarti et al. 2008). But rapid economic change inducing record growth in foreign direct investment and expansion of Indian companies into Western markets is pushing both the Government of India and Indian companies to have international standing in their governance systems.

The rest of this chapter is divided into three sections. The first section covers a literature review of prior research related to the nature and definition of family firms. The second
section gives an insight into the history of family business in India and peculiar characteristics of Indian family businesses which differentiate them from family firms in other countries. The final section covers the regulatory and enforcement environments of corporate governance in India.

2.2 Definition of family firms

Handler (1989) includes ‘defining the family firm’ as one of the five methodological issues critical to the development of family firms’ research. He argues that “defining the family firm is the first and most obvious challenge facing the family business researcher” (p.258). Limited research was conducted in this area before 1975 as only three theorists Christensen (1953), Donnelley (1964) and Levinson (1971) were involved in conducting active research in this area (Handler 1989). Littunen and Hyrsky (2000) and Colli (2003) also mention the lack of a widely accepted definition of family firms.

Fig 2.1: Shankar and Astrachen’s (1996) criterion to define family firm

<table>
<thead>
<tr>
<th>Broad</th>
<th>Middle</th>
<th>Narrow</th>
</tr>
</thead>
</table>
| • effective control of strategic direction | • founder DESCendant runs company  
• legal control of voting stock | • multiple generations 
• family directly involved in running and owning 
• more than one member of owners family having significant management responsibility |
| intended to remain in family | Some family involvement | A lot of family involvement |

Little direct family involvement

Some family involvement

A lot of family involvement

(Source: Shankar & Astrachen 1996)

Shankar and Astrachen (1996) have also commented about the definitional ambiguities in prior research in defining family firms. They indicate that most of the research in the family business area is less than 10 year old and there is no standard or formula for distinguishing a family firm from non-family firm. They classify the criteria used in defining family firms into three groups: broad, middle and narrow. Narrow and middle definitions only classify firms as family firms if a founder or descendants or a founder’s family members are directly involved in the business. Broader definitions add those firms where family is not directly involved in the business but they have effective control in decision making through stock ownership or board involvement. Fig 2.1, illustrates Shankar and Astrachen’s (1996) classification scheme.
Generally, the term family firm refers to those firms where a family has significant control over formulation of policies and management of a company. Family control over a firm is associated with a large family shareholding and/or top management position occupied by family members. Literature on the definition of a family firm is widely diverse and there is little consensus among researchers. Researchers in the past have considered factors such as family shareholding, voting rights, presence of family members on the board and family CEO. Anderson and Reeb (2003) and Anderson et al. (2003) consider fractional equity ownership of the founding family, family members in the board, and the presence of the founder or descendent of the founder as CEO. Ang et al. (2000) characterise a firm as a family firm if a single family controls more than 50% of the company’s shares while Barth et al. (2005) propose at least 33% control. Barontini and Caprio (2006) classify a firm as family firm if the largest shareholders have more than 10% of ownership rights and control more than 51% of voting rights. They also consider issues such as family Chief Operating Officer (COO), family members on the board and the founder’s presence. In contrast Gomez-Mejia et al. (2003) consider control of at least 5% of voting rights and two or more related directors on the board. La Porta et al. (1999) consider control of more than 20% of indirect and direct voting rights. Fahlenbrach (2009) and McConaughy et al. (1998) consider the presence of the founder or cofounder or family CEO to characterise a firm as a family firm. Other researchers such as Morck et al. (1988) and Claessens et al. (2000) consider top positions held by family members or those having blood or marriage relationship with the dominant family to define family firm. Villalonga and Amit (2006) characterise a family firm by the founder or member of the founding family being an officer or director or an owner with more than 5% of firm equity. Miller et al. (2007) define a family firm by the numbers of members from same family that are involved in the firm as managers or owners during the same period of time or over time. Saito (2008) define a firm as family firm if the founder or descendent is president or Chairperson and/or the family has largest shareholding in the firm.

Table 2.1 illustrates a number of definitions of family businesses used by past researchers
Table 2.1: Definitions of family businesses

<table>
<thead>
<tr>
<th>SN</th>
<th>Researcher</th>
<th>Year</th>
<th>Definition of family firm</th>
</tr>
</thead>
</table>
| 1  | Burch                           | 1972 | Criteria for defining family firms-  
|    |                                 |      | 1-  4-5% or more voting stocks are held by a family or group of families or one affluent individual  
<p>|    |                                 |      | 2- Inside and outside representation of family on the board of directors, over a period of time |
| 2  | Barry                           | 1975 | An enterprise, which in practice, is controlled by the members of a single family”. Includes both private (where single family owns all the shares) and public limited firms (where family have effective control). |
| 3  | Barnes and Hershon              | 1976 | A business where controlling ownership is in the hands of an individual or members of a single family. |
| 4  | Alcorn                          | 1982 | A profit making concern that is either a proprietorship, a partnership, or a corporation. If part of the stock is publicly owned, the family must also operate the business |
| 5  | Davis                           | 1983 | Businesses whose policy and direction are subject to significant influence by one or more family units. It is an interaction between two sets of organisations, family and business |
| 6  | Dyer                            | 1986 | A firm in which decisions regarding ownership or management are influenced by a relationship to a family or families. |
| 7  | Ward                            | 1987 | A business in which owners’ intend to pass ownership to one or more other family members |
| 8  | Lansberg, Perrow and Rogolsky   | 1988 | A business in which members of a family have legal control over ownership. |
| 9  | Morck, Shleifer and Vishny      | 1988 | Firms in which the founder or a member of the founding family is a top officer |
| 10 | Ward and Aronoff                | 1990 | A business in which owner and at least one family member works |</p>
<table>
<thead>
<tr>
<th>S N</th>
<th>Researcher</th>
<th>Year</th>
<th>Definition of family firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Daily and Dollinger</td>
<td>1992</td>
<td>A business owned and managed by family members</td>
</tr>
<tr>
<td>12</td>
<td>Beeher, Drexler and Faulkner</td>
<td>1997</td>
<td>Follow same definition given by Ward and Aronoff (1990)</td>
</tr>
<tr>
<td>13</td>
<td>Dutta</td>
<td>1997</td>
<td>A firm or company in which the family has a strong influence in the day to day running of the business</td>
</tr>
<tr>
<td>14</td>
<td>McConaughy, Walker, Henderson</td>
<td>1998</td>
<td>Public corporations whose CEOs are either the founder or related to founder’s family</td>
</tr>
<tr>
<td></td>
<td>and Mishra</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>La Porta, Lopez-de-Silanes and</td>
<td>1999</td>
<td>A firm is classified as a family firm if a family or individual owner controls more than 20% of indirect and direct voting rights</td>
</tr>
<tr>
<td></td>
<td>Shleifer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Smith and Amoako-Adu</td>
<td>1999</td>
<td>Businesses run by an individual or a group related by family ties that holds the largest voting block and hold at least 10% of voting power</td>
</tr>
<tr>
<td>17</td>
<td>Ang, Cole and Lin</td>
<td>2000</td>
<td>Controlling family is the one who owns more than 50% of the firm’s equity.</td>
</tr>
<tr>
<td>18</td>
<td>McConaughy, Matthews, and</td>
<td>2001</td>
<td>Public corporations whose CEOs are either the founder or relative of the founder</td>
</tr>
<tr>
<td></td>
<td>Fialko</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Anderson and Reeb</td>
<td>2003</td>
<td>Criteria for defining family firms- 1- Fractional equity ownership of the founding family and (or) 2- Presence of family members on the board of directors</td>
</tr>
<tr>
<td>20</td>
<td>Anderson, Mansi &amp; Reeb</td>
<td>2003</td>
<td>Those firms where family holds at least 1% of fractional equity in the firms</td>
</tr>
<tr>
<td>21</td>
<td>Gomez- Mejia, Larraza-Kintana</td>
<td>2003</td>
<td>A firm is defined as a family firm if: 1- two or more directors have family relationship, and 2- family members owned and controlled at least 5% of voting stocks</td>
</tr>
<tr>
<td></td>
<td>and Makri</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Schulze et al.</td>
<td>2003</td>
<td>Businesses that are privately held, have greater than $ 5 million annual sales and listed as a family business by Arthur Anderson</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2001</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Barth, Gulbrandsen and Schone</td>
<td>2005</td>
<td>A firm in which at least 33% of shares are owned by one person or by one family</td>
</tr>
<tr>
<td>S N</td>
<td>Researcher</td>
<td>Year</td>
<td>Definition of family firm</td>
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</tr>
<tr>
<td>24</td>
<td>Barontini and Caprio</td>
<td>2006</td>
<td>A firm is defined as a family firm if- 1- Family hold more than 10% of ownership rights and, 2- Either the family controls 51% of direct voting rights, or control more than the double of the direct voting rights of the second largest shareholder</td>
</tr>
<tr>
<td>25</td>
<td>Villalonga and Amit</td>
<td>2006</td>
<td>Firms in which the founder or a member of his or her family by either blood or marriage is an officer, director, or the owner of at least 5% of the firm’s equity, either individually or as a group.</td>
</tr>
<tr>
<td>26</td>
<td>Maury</td>
<td>2006</td>
<td>1- If the largest controlling shareholder holding at least 10 % of voting rights is a family, an individual or an unlisted firm 2- If the largest shareholder is an identified family member 3- If the controlling shareholder is a family or an individual family member who holds the CEO, honorary chairman, chairman or vice chairman’s position</td>
</tr>
<tr>
<td>27</td>
<td>Miller et al.</td>
<td>2007</td>
<td>Firms in which multiple members of the same family are involved as major owners or managers, either in the same period of time or over time.</td>
</tr>
<tr>
<td>28</td>
<td>Saito</td>
<td>2008</td>
<td>Firms in which the founder or descendent is a president or chairman and/or the family has the largest shareholding in the firm</td>
</tr>
<tr>
<td>29</td>
<td>Pandey et al.</td>
<td>2011</td>
<td>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/or that person and his/her family members hold the largest shareholding in the company.</td>
</tr>
</tbody>
</table>
As evidenced from Table 2.1, different definitions have been used by prior researchers. Although prima facie these approaches look different but in depth, most of these approaches are similar, as they consider dominance of family using various perspectives, including shareholding, voting rights, presence in board, holding dominant positions in the firm. Following the approach of Miller et al. (2007), Saito (2008) and Pandey et al. (2011), this thesis defines a family firm as those in which founder or descendent or their blood or marriage relative is Chairperson or Chairperson emeritus or CEO or Promoter (s) and/or the founder’s family is largest shareholder in the firm. Therefore, this study adopts the definition of a family business from the perspective of the family member(s) holding a dominant position in the firm and/or holding the largest shareholding in the firm.

2.3 Evolution and cultural heritage of family business in India

Concentrated ownership is quite widespread in India (Balasubramanian 2010) and has been an important feature of India’s private business sector in the past seven decades (Khanna & Palepu 2004). Manikutty (2000) also reports that the private sector of Indian industries is dominated by family groups since Indian independence in 1947. Khanna and Palepu (1997) state that institutional voids and the absence of specialized intermediaries in capital markets are the main reasons for existence of concentrated ownership at any point in time. Balasubramanian (2010) suggests two reasons for the existence of concentrated ownership in India: first, the weaker legal system in India as compared to international standards and second, a relatively higher level of private benefits available to controlling shareholders in India. He further states that managing the agency system evolved under the British period in the late eighteenth to mid twentieth centuries also contributed to the growth and continuance of large proportions of concentrated ownership in India.

The existence of leading family groups in the Indian private sector has also been explained by Gollakota and Gupta (2006) within the hypothesis proposed by La Porta et al. (1999) and Shleifer and Vishny (1997). This hypothesis suggests that concentrated ownership offers significant benefits in economies where property rights are not well defined and/or government has excessive powers in enforcing it. Gollakota and Gupta (2006) further argue that during pre-independence phase there was low confidence in the British Government’s commitment to protect the rights of Indians that resulted in more family ownership in order to reduce risk as compared to other types of ownership.
Fig 2.2: Evolution of concentrated ownership over the years in India

<table>
<thead>
<tr>
<th>Origin of concentrated ownership over the years</th>
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<td><img src="https://via.placeholder.com/150" alt="Table" /></td>
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<tr>
<td><img src="https://via.placeholder.com/150" alt="Table" /></td>
</tr>
</tbody>
</table>

(Source: Khanna and Palepu, 2004)

Gollakota and Gupta (2006) also explain the existence of a high number of family firms in India by considering the hypothesis proposed by Claessens and Fan (2002). They argue that existence of typical trading communities such as Marwaris (ethnic group of traders from Western Rajasthan), Banias (trading caste), Chettiar (trading community from Tamil Nadu), Parsis (a trading community from Gujarat and Maharashatra who migrated from Iran many centuries ago), Khatri (trading caste from Punjab) and Kammas (trading community from Andhra Pradesh) are traditionally responsible for the existence of high number of family firms in India. These trading communities have a strong culture of frugality and high saving rate, which helped them in establishing their own businesses. Raychaudhary and Habib (1982) state that despite the odd circumstances during British and Muslim rule in India these communities survived as Sahukar (moneylenders in small villages) and as shopkeeper. These communities were capable enough to provide a source of capital; the risk of lending money within the community was rectified by community pressure (Khanna & Palepu, 2004). The caste system in India, which had allocated the task of business to Vaishya or trading communities, has also played a significant role in development of these communities as skilled business communities.

Modern industries mainly around Bombay and Calcutta started taking shapes under the British from the mid-nineteenth century. Initially Indian industries were limited to the cotton and textile industry and later on, especially during first world war, when British investment became scarce, Indian trading communities filled this vacuum and started investing in other sectors such as cement, sugar, steel and engineering firms (Dutta 1997, p.54). Reviews of Indian business history after independence describe the journey of Indian businesses from socialistic environment to liberalised or open system. The coverage of a wide history of
The evolution of Indian family businesses is beyond the scope of this thesis. But for understanding traditional family governance this study concentrates on the typical characteristics of Indian family firms which distinguish them from other global family firms.

### 2.4 Typical Characteristics of Indian Family Businesses

Unlike in the West, where family business management and comparison of family ownership with other types of ownership structures has been an established topic of research, in India almost no importance has been given to the research of family businesses despite the fact that 60-70% of Indian GDP\(^2\) is generated by family operated businesses. Dutta (1997) who wrote the first book on Indian family businesses also supports this statement “In 1989, when I set out to unravel the complexities of the Indian business scene, I found little documented information, just much lore” (p.8). He further states “Since the culture of family business in India is still based on confidentiality and secretiveness, sanitised memoirs and authorised or ghosted biographies apart, the genre of hard hitting story is entirely absent in the Indian industrial and corporate world” (p.8)

Global researchers (most of them are foreign academics having Indian background) started looking at Indian family businesses from a research point of view after the evolution of India as a strong emerging economy post-economic liberalisation of 1991. Most of these studies are empirical, not addressing peculiar characteristics of Indian family businesses but mainly emphasising on data analysis techniques and comparing their findings with existing family ownership studies from the West. Unlike prior studies, this thesis conducts an in-depth analysis of typical characteristics of Indian family businesses on the basis of information mainly available from biographies, autobiographies, newspaper articles and available academic research articles. Thorough analyses of these sources refer to the following characteristics of Indian family businesses.

#### 2.4.1 Joint families

Most of the business families in India are extended families having four or five generations living under the same roof (Dutta 1997), but this trend is changing in recent times due to a change in Indian society as most of the business families have been nuclear families, staying in different locations and independently looking after their businesses.

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Figure 2.3 shows Birla family tree as an illustration of change in business families. Figure depicts that G.D. Birla started family business with his brothers J.K. Birla, R.D. Birla and B.M. Birla in 1919. Since then the Birla family has become one of the richest families in India owning businesses in diversified industry sectors. Most of the Birla companies were managed by managing agencies until its abolition in 1970, after that company supervision was passed to the Board. In the first generation of founders, the Birla family was a joint family of brothers, but in the later generations it turned into a set of nuclear families where each family controlled one or more independent companies of the Birla Group.
2.4.2 Traditional communities

Most of the business families in India belong to trading communities and these communities have dominated Indian businesses over a millennium (Dutta 1997). Any study of Indian family businesses start from the fact that most of these businessmen are from trading communities which strongly dominate Indian business environment (Lamb 1955). She identifies main business communities as Marwari, Gujrati, Parsi, Punjabi Hindu Khatri, Chettiar, Naidu and Kayastha. The table below clearly indicates that these trading communities still dominate Indian business environment as out of 10 top businessmen 90% belong to these trading communities.

Table 2.2: Top 10 Businessmen from India- community-wise classification

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name</th>
<th>Business Name</th>
<th>Trading community</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mukesh Ambani</td>
<td>RIL</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Lakshami Mittal</td>
<td>Mittal Ispat</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Aziz Premji</td>
<td>Wipro</td>
<td>No</td>
</tr>
<tr>
<td>4</td>
<td>Shashi and Ravi Ruia</td>
<td>Essar Energy</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>Savitri Jindal</td>
<td>Jindal Group</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Sunila Mittal</td>
<td>Bharti Enterprises</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>Gautam Adani</td>
<td>Adani group</td>
<td>Yes</td>
</tr>
<tr>
<td>8</td>
<td>Kumar Mangalam Birla</td>
<td>Aditya Birla Group</td>
<td>Yes</td>
</tr>
<tr>
<td>9</td>
<td>Pallonji Mistry</td>
<td>Shapoorji Pallonji Group</td>
<td>Yes</td>
</tr>
<tr>
<td>10</td>
<td>Adi Godrej</td>
<td>Godrej Group</td>
<td>Yes</td>
</tr>
</tbody>
</table>

2.4.3 Unique management culture and paternalistic approach towards employees

Family businesses run by these communities are highly distinct and unique. For example, Herdeck and Pirmal (1985) report that Birlas use a ‘referral system’, a system of recruiting management based on family background and similar cultural values, means they preferred appointing their own Marwari people as managers. Those recruited are given rigorous training and for promotion they have to display loyalty, results, complete financial integrity and acceptance of principle of the accountability. Age is not a bar for gaining senior positions in the Birla Group, if a young manager is innovative and proves himself he is given a senior executive position. Loyal and efficient employees are accepted as family members. There is no retirement age for senior Birla executives, this approach helps Birla group to retain valuable experience within the family (Herdeck & Pirmal 1985, p.80). Piramal (1997, p.193) reports that most of the senior managers in the Birla joined organisation in the 60’s and today these experienced managers are Kumar Mangalam Birla’s (fourth generation Birla) five star generals.

There is no boss-subordinate relationship between family owners and employees in Indian family business. Employees are considered as family members and the attitude of founder towards his employees and their families is paternalistic. Piramal (1997, p.81) states that Dheeru Bhai Ambani (founder of Reliance group) was highly concerned about his employees and their families welfare for example, if any employee’s child is sick he used to send his own car to drop him to hospital.

Similarly, Aditya Birla, founder of Aditya Birla Group, used to say that for becoming a successful business you need capable and trustworthy people, you need to give them tremendous powers and independence while monitoring their performance (Piramal 1997, p.193).

2.4.4 Powerful patriarchs

Dutta (1997, pp. 65-67) states that the presence of a patriarch is quite critical for Indian business families and family businesses. He mentions about three types of patriarchs, (a) the entrepreneur patriarch, who is accepted in the family for being founder of the business (b) the eldest son of a successful businessman, who inherits patriarchy after retirement or death of his father and (c) extraordinary family member who become head of the business due to his capabilities. He further states that the third type of patriarchy is very rare in India, is against
traditional social hierarchy in Indian family system and often leads to a family split due to shifting of the balance of power.

Family patriarchs are undisputed leaders of the family and business both. Their responsibility is to expand business and create opportunities for coming generations. As a head of the family and business both, they are very powerful and take most of the crucial business decisions. The following statement by Piramal (1997) shows patriarch’s power in Indian family business set up:

“While G D⁴ was alive, individuals couldn’t, or did not dare, express their real feelings. His word was law” (Piramal 1997, p.143)

2.4.5 Family tight control over business

Dutta (1997, p.13) argues that although the Indian way of running businesses seems to be similar to Western businesses because of the inherited Anglo Saxon legal framework but the process of running business is uniquely Indian based on traditions. Gollakota and Gupta (2006) mention one of the important features of family ownership in India that owners can maintain control over a company even if their actual equity contributions are low; this is possible in part because for growth companies often use debt and their equity bases are low. They further argue that family firms in India emphasise stability, thrift, conservatism, prefer family member to be CEO and realize high performance under the combined and overall control of family. Rajagopalan and Zhang (2008) state that dominant shareholding of family, use of pyramidal ownership structure to control large business group, related party transaction and families or allies appointment in the board as main characteristics of Indian family business.

2.4.6 Strong motivation for family sons to join family business

Preferences for family sons over family daughters in India also have an impact on Indian family businesses. As Dutta (1997, p.74) states that in India family sons are given exposure to family business during their school/college days and later on they are absorbed in the business in their early 20s and transferring general management control of the business to them in their late twenties. He further states that if family business has potential for growth then normally family sons work in their business.

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⁴G.D. Birla, founder of Birla Group
Business families in India motivate their sons to join their own businesses, most of the time families expand their businesses and make their sons as independent in charge of these new businesses under the supervision of experienced older generation. For example, when Aditya Birla returned to India after completing his qualification from MIT in the United States, his father handed over a big project of INR 8 million to him with complete freedom to run the project. In an interview B.K. Birla, a leading industrialist, recalls the moment of handing over “I wasn’t worried. If, in this process my son lost INR 1-1.5 million, it wouldn’t matter. If he profited from failures and learnt the right lessons, it would be a small price to pay for through training” (Piramal 1997, p.149)

Similarly, in an interview with Gita Piramal, Anil Ambani, CEO Reliance Power and MBA from Wharton School of Management, talks about his induction in his family owned company ‘Reliance Industries Limited’. He shares “I left America in four hours flat after writing my last examination paper. When I came home and said “Dad, I’ve graduated.” He said, “No big deal, come on, let’s go to office” (Piramal 1997, p.48). Likewise, Piramal (1997, p.42) reports that for launching a new INR 100 Crores ( 202 Million USD) Poly Fibre Yarn plant, Dheeru Bhai Ambani, founder of the Reliance Group, pulled out his son from Stanford University where he was enrolled for MBA and told him “You do it. If you think you’re going wrong you come back to me but go ahead and do it”.

2.4.7 Dummy board

Dutta (1997, p.109) states that most of the business communities in India are orthodox and conservative and follow traditional religious practices more as compared to professional middle class families. Dutta (1997, p.162) further points out that contrary to their Western counterparts Indian family businesses have tendency to invite business solicitors, auditors and stockbrokers to join their boards as directors because they think that these will provide sound business advice related to the business and board appointment is business savvy rather than strategist. He further states that most of the outside directors are close to family and preserve internal family and financial interest. Moreover he states that board exists just to follow mandatory requirements imposed by regulation and in most of the cases board rubber stamp is approval of family decisions. Family keeps overall control on the business as a CEO or Chairperson where mostly eldest family member remain associated with business as Chairperson or Chairperson emeritus to provide valuable advice to younger family member who works as CEO. Recently, the implementation of Clause 49 Listing Rule and New
Company Act has granted more powers to the Board, but still board independence is a major issue in Indian corporate governance.

2.4.8 Women’s underrepresentation

Traditionally family women were not encouraged to participate in the family businesses in India. Trading communities are highly gender biased; mainly sons are given best education and exposure to prepare them for joining family business at some stage in the future. Aditya Birla in response to a question asked about the possibility of his daughter joining family business “I would not object to my daughter joining the business, but I would advise her that there are better things she could do…..Bringing up the family, they can contribute to cultural, social and so many other aspects of life” (Piramal1997, p.97). Ramachandran (2007) also mentions about unwritten rule of not involving daughters and daughters-in-law in the family business activities in India. He states that most of the big business groups run charities through independent entities within groups and ladies are given opportunity to be in charge of these charitable trusts. Ramachandran (2007) further explains that it is the method of giving recognition and occupation to ladies who are not actively involved in business.

But scenario is changing very rapidly; modern family businesses have started appointing female members in senior management positions.

2.5 The Evolution of corporate governance in the Indian environment

Corporate governance as an area of research has been very widely investigated in the past decade. However, most of studies are concentrated in Europe and North America. Limited research has been conducted in the Indian context. Gollakota and Gupta (2006) state that there is an urgent need to understand governance structures and practices in India, a large emerging economy and financial market.

Corporate governance practices and regulations are country-specific in terms of particular culture, history and technological background affecting the way they are developed (Rubach and Sebora 1998). In the past, researchers have compared Anglo-American and Continental-European models of corporate governance (Becht & Roel 1999; La Porta et al. 1998). These two models are characterised in terms of organising finance, ownership type and flexibility of labour markets (Aguilera&Jackson 2003). They further state that this dichotomisation can be applied only partially to other geographical locations. Rubach and Sebora (1998) compare corporate governance systems in the USA, Japan and Germany and report differences in the
primary focus of governance in these countries. They state that the US system emphasizes the role of free market to control corporate owners, while the Japanese system gives emphasis to the role of business networks and mutual self-interest to keep check on each other, whereas the German system takes corporations as a system of wealth creation where incentives and controls are provided by the mutual self-interest of corporate employees and creditors. They further argue that in the US, effectiveness of the governance system is measured in terms of returns on invested financial capital, in Japan it is measured by returns on social capital and by returns on human capital in Germany.

In India, the development of corporate governance regulations would expect to be influenced by its British colonial past, but its governance practices would arise from its own cultural, social and economic context. This thesis reviews the background in which corporate governance in India was evolved and developed over the time, especially after the economic liberalisation. Although a sociological review of the cultural and social environment’s effects on the development of corporate governance systems in India will not be undertaken. This chapter will provide a detailed review of the development of corporate governance regulations in India as affected by economic and political environments.

Gollakota and Gupta (2006) divide the evolution of corporate governance in India into following four phases:

Phase I. Pre-independence (until 1947) - eco-centrism and family ownership

Phase II. The License Raj (1947-1981) - social altruism and public enterprises

Phase III. Knowledge professionalism (1981-1991) - social justice and professional ownership

Phase IV. Liberalisation (1991 onwards) - ego centrism and foreign ownership

The focus of review will be on Phase I and IV.

The first company in India was the East India Company established by the British, which eventually controlled a vast Indian trade. The industrial sector containing joint stock liability companies came into existence after 1870s. The first stock exchange, Bombay Stock Exchange, was incorporated in 1875. By independence in 1947, India had 800 listed companies and many of these had significant floats (Goswami 2000). The following statement by Goswami (2000, p.3) reflects a picture of the Indian corporate environment in 1947:
At the time of independence in 1947, India was one of the poorest nations in the world with a per capita income of less than $30. Yet, manufacturing accounted for almost a fifth of the country’s national product, and half of that (10% of GDP) was contributed by the modern factory sector which included cotton textile mills, jute mills and collieries, iron and steel mills, nascent engineering units and foundries, cement, sugar and paper.

Goswami (2000) states that in 1947 at the time of independence India had a well-functioning stock market and a significant body of law to deal with the conduct of companies, trusts and stock markets. But this system was not sufficient to provide effective protection to minority shareholders.

Traditionally in India, the majority of corporations were managed by managing agencies, which were a closely held company or partnership acting like a holding company. These agencies floated shares in the market for expansion and distributed their shares in such a manner that only they remain the largest shareholder and keep control on the company by their presence on board. Thus Goswami (2000, p.4) states:

*From the corporate governance point of view, the tendency for management in India to enjoy control rights that are disproportionately greater than residual cash flow rights goes back to the early years of the 20th century.*

After independence India adopted a socialistic approach and government implemented the *1951 Industries (Development and Regulation) Act* and *1956 Industrial Policy Resolution*. These acts cultivated a culture of licensing, protection, red-tapism, corruption, nepotism and inefficiency in the Indian corporate governance system. These traits became hallmarks of Indian corporate sector (Chakrabarti et al. 2008).

Prior to economic liberalisation of 1991 in India, the heavy industry sector was monopoly of state. For opening businesses in other industries, it was necessary to cross tedious, tiring and time-taking bureaucratic channels to get a license from government. Goswami (2000) states that the licensing system before economic liberalisation of 1991, required manufacturing firm to obtain government permission to establish a new unit, to expand its capacity, import goods or change its location. This process is reflected by the statement made by Aditya Vikram Birla (Industrialist from one of the famous business empire in India) in an interview given to Piramal (1997):

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5. Reference is made to Indian Companies Acts of 1866, 1882, 1913, Reserve bank of India Act, 1934.
Bureaucrats took eleven long years to clear the Mangalore Refinery Project, nine for sponge iron one, six for the Polyester filament yarn plant, three for the one making argon gas and hydrogen peroxide, and two for the fertilizer unit. Bilra abandoned the glass shell project because the government dragged its feet for so long that business conditions changed and it became unviable. There are many projects which he could not get cleared at all (p.177).

An excerpt from the Asian Development Bank report on corporate governance reforms in India also provides a real picture of business environment prior to economic liberalisation:

The tight control of the government on industry was aptly captured by a leading cartoonist in a 1980s comic strip showing the industry minister tell his staff, “We shouldn’t encourage big industry—that is our policy, I know. But I say we shouldn’t encourage small industries either. If we do, they are bound to become big.... (Panigariya 2001).

However, the business environment has changed a lot in last the two decades. State monopoly has abolished, licensing system is a story of past (Panigariya 2001) and ownership has transferred from state to private owners and foreign investors. Transfer of ownership to private owners and managers may lead to expropriation of minority shareholders by large blockholders, which can be characterised as Principal-Principal conflict (Described as agency problem 2 by Maury, 2006). This need of designing governance mechanisms and safeguard to protect minority shareholders’ from expropriation by large shareholders (Rajagopalan & Zhang, 2008) led to corporate governance reforms in India.

Although India inherited British company law and modern industries in India have been planned under the English common law of joint stock liability, corporate governance as a term was unknown until 1993. Before the existence of any specific listing rules for corporate governance, the Companies Act of 1956 was responsible for maintaining good governance across both the public and private sectors. This Act continues to be important for corporate governance after a series of amendments (Companies Amendments Act. 1996 and 2006) made due to the changing environment of Indian business sector. This Act mainly covers issues related to company incorporation, roles, responsibilities and compensation of board of directors, allotment of shares and debentures, shareholders’ rights and prevention of oppression and mismanagement. Balasubramanian (2010) classifies the Companies Act 1956 as a mother document of corporate governance system in India.

Goswami (2000) explains that “corporate governance” became a well-known phrase in India in 1993 after a series of corporate scandals in the aftermath of economic liberalisation in
1991. He mentions particularly about a major security scam of 1992 and a scandal involved disappearing companies in 1993-94 which led to the need for good corporate governance. Rajagopalan and Zhang (2008) examine the evolution of corporate governance reforms in India and China, stating that privatisation and globalisation are two major driving forces pushing for corporate governance in emerging economies like India and China. They further state that evolution of a new diversified ownership structure in the emerging economies due to globalisation, liberalisation and privatisation has put more pressure on governing bodies to make laws to protect minority shareholders’ interest. Chakrabarti et al. (2008) state that after economic liberalisation in 1991, there has been a major change in both laws and regulations. They argue that the single most important development in the field of corporate governance was the establishment of SEBI (Securities and Exchange Board of India) under the Act of parliament in 1992. The preamble of SEBI describes the basic objective of SEBI as “to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith or incidental thereto”6

2.6 The Development of a Corporate Governance Code and Regulations

2.6.1 Initiatives by the Confederation of Indian Industries

Surprisingly the first initiative towards establishing corporate governance regime in India was taken by industry itself, not by the Indian Government. In 1996 the Confederation of Indian Industries (CII) appointed a committee for the development of a code for corporate governance under the chairmanship of Rahul Bajaj, a leading family businessman from India. In 1998, CII released its Desirable Corporate Governance Code to promote a code for corporate governance to be adopted by private and public sector Indian companies, banks and financial institutions. CII’s Desirable Corporate Governance Code defines minimal corporate governance as follows;

Corporate governance deals with laws, procedures, practices and implicit rules that determine a company’s ability to take informed managerial decisions vis-à-vis its claimants-in particular, its shareholders, creditors, customers, the state and employees. There is a global consensus about the objective of ‘good’ corporate governance: maximising long-term shareholder value.

6 Source: [http://www.sebi.gov.in/sebiweb/stpages/about_sebi.jsp](http://www.sebi.gov.in/sebiweb/stpages/about_sebi.jsp), retrieved on 5th Feb, 2012
The Desirable Code of Corporate Governance made seventeen recommendations on the role of board of directors, desirable disclosures, capital market issues and creditors’ rights. The following are the main issues covered by these recommendations:

- **a)** composition of Board of directors
- **b)** roles and responsibilities of non-executive and independent directors and payment to non-executive directors
- **c)** board meetings and directors attendance
- **d)** maximum cross directorships held by directors
- **e)** audit committee and internal audit
- **f)** board composition, role of non-executive and independent directors, maximum cross directorships by directors, Board meetings, Board committees
- **g)** list of documents that should be given to the board before meeting
- **h)** nominee directors of foreign investors

### 2.6.2 Kumar Mangalam Birla Committee Report

In early 1999, the Securities and Exchange Board of India appointed a committee under the chairmanship of Kumar Mangalam Birla, a family business tycoon, for promoting and raising standards of corporate governance in India. The committee states its primary objective as “to view corporate governance from the perspective of the investors and shareholders and to prepare a code to suit the Indian corporate environment, as corporate governance frameworks are not exportable”\(^7\). The committee identifies the shareholders, the board of directors and the management as key elements of corporate governance. Some of the mandatory recommendations\(^8\) made by the committee are as follows:

- **a)** optimal combination of executive and non-executive directors on board with not less than 50% non-executive directors, remuneration of non-executive directors, appointment and reappointment of the directors
- **b)** minimum number of independent director on board
- **c)** non-executive chairman and office bearing expenses
- **d)** an independent audit committee with minimum three members with at least one director with finance and Accounting knowledge.

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\(^7\)[http://web.sebi.gov.in/commreport/corpgov.html]
\(^8\)[http://web.sebi.gov.in/commreport/corpgov.html]
e) frequency of audit committee meetings, power of audit committee and functions of audit committee
f) a compensation committee
g) full disclosure of remuneration package of the directors
h) board meetings minimum four times in a year with a maximum time gap of four months between the meetings
i) inclusion of a management analysis and discussion report as a part of annual report
j) in relation to shareholders’ rights, the preparation of quarterly and half yearly financial statements and formation of a shareholders’ grievances committee under the chairmanship of a non-executive director

Based on the recommendations of Kumar Mangalam Birla Committee, in 2000 SEBI implemented “Clause 49 of Listing Agreement”, a milestone in the development of corporate governance in India. Prior to the implementation of Clause 49 Listing Rules, India was considered as a laggard in corporate governance (Black & Khanna 2007)

Table 2.3: Journey of corporate governance in India

<table>
<thead>
<tr>
<th>Industry Initiatives</th>
<th>SEBI Initiatives</th>
<th>Ministry of Corporate Affairs Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clause 49 of Listing Agreement 2000 (2.6.5)</td>
<td>Naresh Chandra Committee Report 2002 (2.6.3)</td>
<td></td>
</tr>
<tr>
<td>Narayan Murthy Committee Report 2003 (2.6.4)</td>
<td>Dr J J Irani Committee Report on Company Law, 2005</td>
<td></td>
</tr>
<tr>
<td>Amended Clause 49 of Listing Agreement 2006 (2.6.5)</td>
<td>Corporate governance voluntary guidelines 2009 (2.8)</td>
<td></td>
</tr>
<tr>
<td>Amended Clause 49 of Listing Agreement 2008 (2.6.5)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.6.3 Naresh Chandra Committee Report

Although Clause 49 of the Listing agreement came into existence in 2000, both SEBI and Ministry of Corporate affairs kept on making serious efforts for improving corporate governance rules in India. The Ministry of Corporate Affairs appointed a high level committee under the chairmanship of Naresh Chandra. This committee submitted its report ‘Corporate Audit and Governance’ in 2002.

Naresh Chandra committee report on corporate governance widely covers issues related to disqualification of auditors, prohibition of non-audit services, auditors’ rotation, auditor’ independence, board independence and board procedures.

2.6.4 Narayan Murthy Committee Report

Later in 2002, in order to assess current governance practices and for further improvement, SEBI constituted the Narayan Murthy Committee under the chairmanship of N.R. Narayan Murthy, chairman emeritus and founder of Infosys Technologies Limited. The main task given to the committee was to evaluate clause 49 and suggest further improvements for achieving a sound corporate governance regime. Following are key mandatory recommendations:

a) Audit committee effectiveness, bigger roles and responsibilities for empowering audit committees

b) Financial disclosures related to related party transactions and fund raised through initial public offerings

c) Management report on business risk, and measures taken to minimise such risks. Disclosure of risk analysis report as a part of annual report

d) A Code of conduct for all board members and senior management of the company and board’s responsibilities to make sure that code is being followed both in the letter and spirit

e) The appointment and responsibilities of nominee directors

f) Shareholders’ approval on the compensation paid to non-executive directors and proper disclosures of details of compensation

g) Placement of whistle blower policy in the company

The Narayan Murthy Committee submitted its report to SEBI in February 2003. SEBI adopted some of the recommendations made by the committee and issued a modified clause
49 ‘the revised clause 49’ on 29th October 2004 which came into operation on 1st January 2006. Clause 49 has been a major landmark in the history of Indian corporate governance. Since this thesis analyses the impact of governance on the firm performance in the context of Indian family controlled businesses, it will make considerable reference to Clause 49 listing rules in India.

2.6.5 Revised Clause 49 Listing Rules

2.6.5.1 Listing Rules related to the Board of Directors

Companies listed on any Indian stock exchange have to comply with the following requirements of clause 49\(^9\) in respect of the Board of Directors:

**Board composition**

The requirement is to have optimum combination of executive and non-executive directors with no less than fifty per cent directors as non-executive directors. If the chairman of the board is non-executive then at least one third of directors should be independent and in case he is executive then at least half of the board should be independent.

**Meaning of independent directors**

Clause 49 defines independent director as a non-executive director of the company who:

- **a** Apart from receiving director’s remuneration does not have any material pecuniary relationship or transaction with the company, its promoters, its directors, its senior management, or its holding company, its subsidiaries and associates.
- **b** Has not been an executive of the company in the past three years, is not a material supplier, service provider or customer or a lessor or lessee of the company and is not a substantial shareholder of the company
- **c** is not less than 21 years of age and is not a partner or an executive or was not partner or an executive during the past three years of any statutory audit firm or internal audit firm and legal and consulting firms associated with the company

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\(^9\) This part of thesis has been drawn heavily from revised clause 49 issued by SEBI
Board meetings

Board should meet at least four times in a year, with maximum time gap of four months between any two consecutive meetings.

Cross directorships

Any director should not be a member of more than 10 committees or act as a chairman of more than five committees across all companies in which he is a director.

Board’s responsibility regarding law compliance

The responsibility of board to periodically review compliance reports of all laws applicable to the company and steps taken by the company to minimise possibilities of non-compliances.

Code of conduct

The board has responsibility to laydown code of conduct for board members and senior management of the company. All board members and senior management personnel should affirm compliance with the code on yearly basis and code of conduct should be available on the company’s website and a declaration to this effect signed by the CEO should be included in the annual report of the company.

Other sections in clause 49 are summarised in the Appendix 1.

2.6.5.2 Listing rules related to the disclosures

Related party transactions

Related party transactions in the ordinary course of business, out of ordinary course of business and transactions not at arm’s length basis should be disclosed to the audit committee.

Disclosure of accounting treatment

Any deviation from prescribed accounting standards, in the preparation of financial statement should be disclosed in the financial statement, together with management’s justification of using alternate approach.

Board disclosures- risk management

The company should lay down procedures to inform board members about the risk assessment and rectification procedures.
Proceeds from public issues, rights issues, preferential issues etc.

Management should disclose to the audit committee about the use/application of money raised through various types of share issued on quarterly basis. Company should also prepare a statement of funds utilised, on an annual basis, for purposes other than stated in the offer document/prospectus.

**Table 2.4: Format of quarterly compliance report on corporate governance**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Clause of Listing agreement</th>
<th>Compliance Status Yes/No</th>
<th>Remarks</th>
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</thead>
<tbody>
<tr>
<td>I. Board of Directors</td>
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</tr>
<tr>
<td>(A) Composition of Board</td>
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<tr>
<td>(B) Non-executive Directors’ compensation &amp; disclosures</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(C) Other provisions as to Board and Committees</td>
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<td></td>
<td></td>
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<tr>
<td>(D) Code of Conduct</td>
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<td></td>
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<tr>
<td>II. Audit Committee</td>
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<td></td>
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<tr>
<td>(A) Qualified &amp; Independent Audit Committee</td>
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</tr>
<tr>
<td>(B) Meeting of Audit Committee</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(C) Powers of Audit Committee</td>
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<tr>
<td>(D) Role of Audit Committee</td>
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<td></td>
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</tr>
<tr>
<td>(E) Review of Information by Audit Committee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>III. Subsidiary Companies</td>
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</tr>
<tr>
<td>IV. Disclosures</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(A) Basis of related party transactions</td>
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<td>V. CEO/CFO Certification</td>
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<td>VI. Report on Corporate Governance</td>
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<td>VII. Compliance</td>
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(Source: [www.primedirectors.com](http://www.primedirectors.com))
Management

Management discussion and analysis report should be part of the annual report and should include discussion on (a) industry structure and development (b) opportunities and threats (c) segment-wise and product-wise performance (d) outlook (e) risk and concerns (f) internal control system and their adequacy (g) discussion on financial performance with respect to operational performance and (h) material development in Human Resources/ Industrial Relations front.

Senior management is also required to make disclosures to the board about their material, financial and commercial transactions, that may have potential conflict with the interest of the company.

Shareholders

In case of the appointment of new director or reappointment of director, a detailed information about the directors e.g. brief resume, nature of expertise, shareholdings, relationship with other directors should be disclosed to the shareholders. The company should also form a committee ‘Shareholders/ Investors Grievance Committee’ under the chairmanship of a non-executive director to specially look into the redressal of shareholders and investors complaints like transfer of shares, non-receipt of declared dividends etc. The company should also delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents for speeding up the process of share transfers.

CEO/CFO Certification

The CEO/ Managing Director/ Manager appointed in terms of Companies Act, 1956 and the CFO or equivalent should certify that financial statement and disclosures are “True and Fair” and do not contain any material information which might be misleading. They should also accept in writing their responsibility for establishing and maintaining internal controls. They should also certify that information related to changes in accounting policies, significant changes in internal control, significant deficiency in the internal control system and instances of significant fraud has been communicated to the auditors and the audit committee.
Report on corporate governance

The Company should provide a separate section on corporate governance in the annual report of the company, with a detailed compliance report on corporate governance. The company should also disclose the reasons for non-compliance of any mandatory requirements and should highlight the extent to which the non-mandatory requirements have been adopted by the company. The company is also required to submit a quarterly compliance report on corporate governance signed by the compliance officer or the CEO, to the stock exchanges within 15 days from the close of quarter.

Compliance

The Company is also required to obtain a certificate from either Auditors or practising company secretaries regarding compliance with mandatory requirements of clause 49.

Non Mandatory Requirements

Clause 49 also mentions about non mandatory requirements related to non-executive chairman’s office expenses, maximum tenure of 9 years for independent directors, obligation on the company to ensure requisite qualification and experience of independent directors, the constitution of remuneration committee, half yearly reporting of financial performance to the shareholders, moving towards a regime of unqualified financial statements, board members training, performance evaluation of non-executive directors and establishment of whistle blower policy.

The company is also required to provide disclosure on the adoption/non adoption of the non-mandatory requirements in the section on corporate governance of the annual report.

2.7 Impact of clause 49 on Indian corporate governance mechanism

Chakrabarti et al. (2008) consider Clause 49 as equivalent to Sarbanes- Oxley Act (SOX Act) in the USA and classify it as a mirror image of SOX Act in the Indian perspective. They further state that in some areas like certification compliance Indian clauses are stricter as compared to SOX requirements. The adoption of Clause 49 Listing rules was a historical event in the history of corporate governance in India, as it was the first serious attempt to standardise corporate governance reporting to protect minority shareholders and other investors.
The question is whether implementation of Clause 49 succeeded in providing additional confidence to shareholders and other investors in the market. Black and Khanna (2007) conducted an event study on the impacts of corporate governance reforms on market valuation and found that implementation of Clause 49 by SEBI witnessed a 4% increase in the share prices of large public firms as compared to smaller public firms on a two day event window and a 7% increase over a five day event window. They further compared the positive response of Clause 49 on the Indian share market with the mixed response found in the US market on SOX Act’s adoption. They concluded that the impact of mandatory governance rulings on the market may also depend on a country’s prevailing institutional environment.

In 2008, KPMG conducted a poll to study impacts of implementation of clause 49 on corporate governance in India and the steps to be taken to make Clause 49 more effective. The respondents were mainly CEOs, CFOs, independent directors and similar leaders predominantly from private equity firms, financial services and the manufacturing sector. In total 60 respondents participated in this study. Respondents were asked about the improvement in corporate governance in India after implementation of Clause 49. Some 19% of respondents believe that there has been a significant improvement, 68% of respondents think that significant improvement opportunity will exist in the future and 13% of respondents are of the view that there has not been any significant improvement in corporate governance after the implementation of Clause 49. There was a mixed response to KPMG’s survey question about the need to further strengthen Clause 49. 46% of respondents felt that Clause 49 only required a few changes while 44% thought that it needed a significant revision. Only 10% of respondents felt that existing clause was sufficient.

Majority of respondents (71%) to the KPMG survey believed that penalty levels in India for punishing bad and unethical governance are low as compared to other developed countries and 80% of the respondents were of the view that corporate governance should be principle based with moderate regulations. Respondents also nominated the five biggest challenges to effective governance in India, in order of their weightage as follows: (a) weak oversight and monitoring mechanism (b) management override (c) inadequate board independence (d) lack of respect for shareholder community and (e) low financial discipline.

Regarding the role of independent directors’ on the board, the majority of respondents felt that inclusion of independent directors on a board was just a process to meet the 50% independence requirement. The respondents were of the view that often independent directors do not challenge the decisions made by the executive directors and management in the
process of discharging their governance responsibilities. A majority of respondents (72%) strongly believed in implementing an independent and transparent process to evaluate board members’ performance for improving corporate governance at the firm level. They also suggested that for improving corporate governance, the board should conduct exclusive sessions with independent directors. Also the board members related to the promoter group should not participate in the process of appointing directors related to their group.

Regarding the appropriate protection for minority shareholders, majority of respondents felt that significant changes are required in the corporate governance laws to protect minority shareholders’ interests. 12% of respondents reported that sometimes minority shareholders’ issues are discussed during board meetings but for personal interest rather than in the best interests of the company.

2.8 Recent developments in corporate governance

The Ministry of Corporate Affairs, a body mainly responsible for the administration of the Companies Act 1956, has also been actively involved in the process of designing regulations and guidelines for achieving better governance. For providing better governance and more protection to shareholders in the changing business environment, the Ministry made two amendments to the Companies Act 1956, namely, The Companies Amendment Act, 1996 and 2006.

In relation to the specific initiatives taken by the Ministry for improving corporate governance, in 2009 the Ministry released the ‘Corporate Governance- Voluntary Guidelines 2009’ based on the recommendations of the task force set up by the CII under the Chairmanship of Shri Naresh Chandra. These guidelines are recommendatory in nature and the Ministry expects companies to make sincere efforts to consider adoption of these guidelines. Some of the main recommendations of these guidelines, which are not included in the Clause 49 but may be helpful in maintaining better governance are:

- **a) Separation of the roles and responsibilities of Chairman and CEO, to promote balance of power**
- **b) Formation of a nomination committee comprising of a majority of independent directors, including its chairman**
c) **Maximum cross directorships held by the managing director or whole time director is restricted to seven. There is no cap on cross directorship held by non-executive and independent directors**

d) **A clear cut policy for specifying positive attributes of independent directors such as integrity, experience and expertise, foresight, managerial quality and ability to read and understand financial statements**

e) **Maximum tenure of six years for independent directors and an adequate sitting fee based on the twin criteria of net worth and turnover of companies**

f) **Audit partner should be rotated once every three years and the audit firm to be rotated once every five years and a cooling off period of three years before a partner can resume the same audit assignment, and five years before the audit firm can resume.**

g) **Secretarial Audit for checking robustness of the Board processes and compliance mechanisms**

The role of good governance is also mentioned in ‘National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business’ released by Ministry of Corporate Affairs recently in 2011. The first principle states that Businesses should conduct and govern themselves with ethics, transparency and accountability. It further states that businesses should develop governance structures, procedures and practices for ensuring ethical running of businesses.

The above discussion clearly indicates serious efforts made by Indian regulatory bodies for achieving the goal of good corporate governance in publicly listed firms. But, recently conducted survey results by KPMG provide a feeling that firms are complying with the mandatory regulations in letter only, rather than in spirit, as most of the top executives has raised concern about the role of independent directors, their qualification and appointment procedure. Even after the implementation of Clause 49 in 2006, management override, lack of respect for shareholders community and inadequate protection for minority shareholders are major on-going issues faced by Indian corporate governance. Therefore, it can be concluded that clause 49 is still far from achieving its objectives. Although Clause 49 as a regulation is on a par with Western regulations on corporate governance, there is a perception that its implementation is poorer in India and it is limited to fulfilling disclosure requirements as a ritual.
2.9 Conclusion

This chapter outlines ambiguity in the definition of family businesses, characteristics of Indian family businesses and the evolution and current state of corporate governance in India.

There has been extensive research on family businesses but still there is no consensus among researchers for a single definition of family firms. Some definitions use a narrow meaning of family businesses and consider only a few aspects of family businesses. Others have focussed on wider definitions of family businesses. The difference in the approach has been a major problem in family business research. The major concern is the increase in definition variance arising from growing number of studies in this area. Past researchers have used major factors such as family shareholding percentage, control in terms of acquiring major positions (family CEO/ Chair), voting rights and domination of family members on board. This thesis adopts the wider definition of family firms and defines a family firm as those in which the founder or descendent or their blood or marriage relationship is Chairperson or Chairperson emeritus or CEO or Promoter and/or the founder’s family is the largest shareholder in the company.

There have been only a few studies on family businesses in India. Most of the material available for Indian family business research is biographies, autobiographies and journalists’ perception of story inside the family and business. Other studies have covered Indian family businesses in an historical context such as evolution of ownership and big business groups. Family business governance and its impact on overall performance of a family-owned and managed firm is a relatively new area of research. Some of the recent empirical studies treat Indian family businesses similar to its Western counterparts; therefore, they explain its behaviour on the basis of Western literature. This thesis emphasizes the uniqueness of Indian family businesses and explains family business behaviour on the basis of distinct trading community/caste characteristics.

This chapter also provides a detailed insight into the history and current status of corporate governance in India. On paper, Indian corporate governance listing rules are on a par with governance listing rules in Western countries and provide ultimate protection to shareholders from exploitation by big business groups. But anecdotal evidence suggests a slow and tedious Indian court system, backlogged with a huge number of cases and weaker implementation of existing governance law due to high corruption. This pushes India into the category of a country having weak corporate governance. But, the Government of India and other regulatory agencies are seeking to promote good governance practices among Indian corporates to attract foreign investors.
CHAPTER 3
LITERATURE REVIEW

3.1 Introduction

The objective of this chapter is to review the literature related to the impacts of family controlling status, family impacted governance characteristics and powerful management players’ normative influences on financial and social performance of family controlled firms. This chapter reviews past studies in detail, identifies the gaps in the literature and provides both theoretical constructs and the scope of new knowledge to be explored. This chapter also covers the theories used by prior researchers that develop a rationale for the expected impacts of the above mentioned characteristics on financial and social performance.

Family control is common in publically listed firms around the globe (Burkart et al. 2003). La Porta et al. (1999) report that families’ control 53% of publicly listed firms in 27 countries with total market capitalisation of $500 million. Anderson and Reeb (2003) also find that family ownership is quite widespread and is of world-wide significance. They argue that one third of the firms in the Standard and Poor’s 500 can be classified as family firms. Other researchers have looked at the degree of dominance of family firms in different geographical locations. La Porta et al. (1999) and Faccio and Lang (2002) state that most of the publicly listed firms in Western Europe are family firms, while in the Asian context, Claessens et al. (2000) report that more than two thirds of firms in East Asia are family firms, controlled by a single shareholder. India, one of the largest emerging economies with an average GDP growth rate of 7.45% in the last decade, has the highest percentage (67%) of family businesses in Asia and these businesses account for 46.8% of market capitalisation10. Dutta (1997) also mentions family firms’ domination in India and reports, on the basis of a survey conducted in 1993, that out of 297,000 companies in India only 3000 were non-family controlled businesses.

The impact of family control and ownership on financial performance is currently a topic of intense debate (Anderson & Reeb 2003; Villalonga & Amit 2006) and there has been considerable research on family firms in recent years (Bertrand & Schoar 2006). Past literature has been highly sceptical about the successes of the family firm as a form of

organisation. Some researchers consider that family controlled businesses are prone to suffering from capital restrictions, executive entrenchment and nepotism, intergenerational squabbles and expropriation of minority shareholders (Allen & Panian 1982; Chandler 1990; Gomez-Mejia et al. 2003; Perez-Gonaflez 2006; Schulze et al. 2001, 2003; Morck & Yeung 2003) which can have negative impacts on performance. In contrast empirical studies conducted mainly on samples primarily taken from large firms in the United States, found that family firms had superior performance compared to other types of ownership structures (Anderson & Reeb 2003; Villalonga & Amit 2006). In addition, a group of researchers have also investigated the founder effects in the family business. They report that firms, in which a founding family is actively involved in the management of the firm, perform better than other types of ownership structure in terms of firm valuation (Adams et al. 2009; Anderson & Reeb 2003; Palia & Ravid 2002; Villalonga & Amit 2006). A detailed review of past literature provides empirical evidence in favour of and against the concept that family ownership enhances profitability and is associated with better financial performance.

Turning to studies on the impact of family control on social performance, this is a relatively new area of research and lacks a body of systematic empirical studies. The impacts of family ownership, control and governance on social and environmental performance have not been widely tested to date. But this literature review gives consideration to both conceptual and empirical studies addressing this relationship.

The rest of the chapter is organised into three sections. The first section discusses theoretical issues related to the impacts of family ownership and control on financial and social performance. This section provides a detailed discussion of the impacts of family shareholdings, family CEOs, family Chairpersons, family members’ presence on boards and family succession on the financial performance of family controlled firms. The second section covers the impact of family governance on financial and social performance. This section discusses in detail the impacts of board size, board independence, board meetings, cross directorships and family presence on the board, on the financial and social performance of family owned firms. The third section discusses impacts of demographic characteristics of the CEO and Chairperson on financial and social performance followed by a brief literature review on integrated and decoupled performance. Conclusions are provided at the end of this chapter.
3.2 Family ownership and performance

3.2.1 Family ownership and financial performance

The debate about the relationship between large ownership and financial performance was started after the publication of a famous book *The Modern Corporation and Private Property* by Berle and Means (1932), who suggest a negative correlation between diffused ownership and firm performance. They argue that diffused ownership makes shareholders powerless, thus providing opportunity for managers to take decisions on behalf of shareholders. They further state that managers’ interest might not coincide with the interest of shareholders; therefore, there is a possibility that firm resources are not used for enhancing shareholders’ profit. Demsetz (1983) challenges the viewpoint of Berle and Means (1932) and claims that there is no systematic relationship between ownership structure and financial performance; the best ownership structure should evolve endogenously. Demsetz and Lehn (1985) empirically test a sample of 511 US corporations over the period 1976-80 to provide evidence of the endogeneity of this relationship and conclude that ownership structure is influenced by the profit maximising interest of shareholders.

Agency theory has been used predominantly to explain the relationship between ownership structure and financial performance. The separation of ownership and management in publicly-listed firms leads to the agency problem as explained by Jensen and Meckling (1976) and Fama and Jensen (1983). They suggest that in family firms, family has both ownership and control which reduces the agency cost of monitoring, thus leading to performance enhancement. Fama and Jensen (1985) state that managerial decisions for these firms are very different compared to firms where ownership and control are separated, they further argue that when ownership and control resides with the same individual then there is no need for costly monitoring by outside parties leading eventually to increased firm value. DeAngelo and DeAngelo (1985) also emphasise the role of family in monitoring and disciplining managers. Similarly, Shleifer and Vishny (1997, 1986) state that large shareholders play an active role in corporate governance mechanisms as they have a strong financial incentive to reduce agency cost and they have the power to collect information and monitor management.

The impact of family ownership on firm performance has been studied extensively with inconsistent findings. Researchers have responded to this issue in two ways: by studying the impact of ownership structure on performance (Berle & Means 1932) or by declaring the endogeneity of the relationship between ownership structure and performance (Demsetz
Seminal agency theorists, Berle and Means (1932) and Jensen and Meckling (1976) posit that family control mitigates agency conflict, thereby leading to performance enhancement. In contrast, several 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 & Panian 1982; Gomez-Mejia et al. 2003; Schulze et al. 2001, 2003). Other researchers find no relationship between family ownership and financial performance (Demsetz 1983; Demsetz & Lehn 1985). How can these studies come to such conflicting conclusions? One explanation has been offered by Cucculelli and Micucci (2008), who identify two major weaknesses in the studies to date. The first one is ambiguity in the definition of family firms and the second is the weak applicability of research results obtained in one country to explain firm performance in other countries.

Morck et al. (1988) investigate the relationship between managerial ownership and market performance (measured by Tobin’s Q) in a sample of 371 Fortune-500 firms and find evidence of a non-monotonic relationship between ownership and performance. They suggest two conflicting effects of insider ownership, namely, alignment and entrenchment. They report that the market value of a firm increases initially with the increase in the number of shares held by insiders (alignment effect) but decrease when insiders’ shareholding increases after a certain level which leads to entrenchment effect. Their results suggest a positive relationship between ownership and Tobin’s Q for 0-5% ownership, negative relationship in the 5-25% range and further positive relationship beyond 25% ownership.

Similarly to Morck et al. (1988), McConnell and Servaes (1990) report a curvilinear relationship between insider ownership and firm performance, they state that Tobin’s Q increases with an increase in insider ownership until it reaches 40-50% and decreases after that. This non-linearity of relationship is also witnessed by Cho (1998), Short and Keasey (1999) and Gugler et al. (2004) in their studies. Claessens et al. (2002) provide an interpretation of these findings. They suggest that with the increase in managerial ownership, the firm value also increases (alignment or monitoring effect). But beyond certain percentage of ownership, managers become entrenched and promote their own interest at the expense of other shareholders (entrenchment or expropriation effect). Fig. 3.1 shows the combined effect of the monitoring and expropriation processes that have been discussed above.
The wider body of literature on the relationship between family ownership/control/influence and financial performance has investigated a range of characteristics as depicted in Figure 3.2. A review of key articles from this body of literature is given below.

Daily and Dollinger (1992) conduct a field survey to compare family owned and managed firms with professionally managed firms in terms of structure, process and performance dimensions. They find that family owned and managed firms perform better as compared to the professionally managed firm because of the amalgamation of ownership and control in such firms, thus providing empirical support for an agency theory argument.

Beehr et al. (1997) conducted a study on a sample of 45 small family-owned businesses by measuring performance in five dimensions defined as conflict, expectations and advantages, individual outcomes, organisational outcomes and family outcomes. They report that family firms perform better than non-family firms on these five performance measuring dimensions.

McConaughy et al. (1998) investigate the impact of founding family ownership on financial performance by conducting univariate and multivariate analysis and find that founding family controlled firms are more valued (in terms of the ratio of the market value of equity to the book value) and more efficient as compared to non- founding family controlled firms of the same size, in the same industry and with similar managerial ownership.
Claessens et al. (2000) investigate the separation of ownership and control in 2,980 publicly traded companies in nine East Asian countries (Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand). They report that in a group owned by a controlling family, the family control the firm through a pyramid structure and cross holdings among firms. They also report that separation of ownership and management is very rare in family firms in these geographical locations as about 60% of top management is related to the controlling family. These circumstances provide incentives for the expropriation of minority shareholders’ wealth, later on described by some researchers as Agency Problem 2 (Maury 2006; Villalonga & Amit 2006).

Claessens et al. (2002) conducted a further study on the impact of family ownership on financial performance by using data of 1,301 publicly listed corporations from eight East Asian countries. They find that with an increase in the cash flow to the ownership of the largest shareholder, the firm value also increases. This finding supports the positive incentive effect. But when the controlling rights of the largest shareholder exceed cash flow ownership, then firm value is found to decrease, thus supporting the entrenchment effect.
Anderson and Reeb (2003) investigate the impact of family control on financial performance (measured by Tobin’s Q, ROA and ROE) in a sample of 403 firms selected from Standard and Poor’s 500 from 1992 to 1999 and find that family firms performed better than non-family firms. They further report that firms with continued founding family presence exhibit better performance than non-family firms. They also witness a non-monotonic relationship between founding family ownership and performance; initially performance increases with increasing family ownership but later on decreases with further increase in family ownership. They report that the positive impact of family ownership on financial performance vanishes when family ownership increases above 30%.

Barontini and Caprio (2006) investigate the impact of ownership structure on firm performance in a sample of 675 publicly-traded corporations from 11 countries in continental Europe and find that family control enhances firm value and operating performance. They also find that founder controlled firms outperform descendent controlled firms in terms of operating performance and firm valuation.

Villalonga and Amit (2006) mention about two types of agency problems related to the impacts of family ownership on financial performance. The first one they name Agency Problem 1. It refers to agency theory explaining the vindication of classical owner-manager conflict in the presence of large shareholders as described by Berle and Means (1932) and Jensen and Meckling (1976). The second agency problem they name Agency Problem 2. This problem is said to appear when large shareholders use their controlling power to expropriate minority shareholders’ wealth for their private benefits. This problem is explained by Faccio et al. (2001) for East Asian economies. They state that a single family or an individual has more incentives for both expropriation and monitoring. On the other hand, if the largest shareholder is an institution or a widely-held corporation, then incentives for both expropriation and monitoring will be small, leading to Agency Problem 1 (Faccio et al. 2001).

Villalonga and Amit (2006) examine the impact of family ownership in a sample of Fortune 500 firms over the period 1994-2000 and find that family ownership creates value only when the founder serves as the CEO of the family firm or as its Chairman with a hired CEO. They further report that firm value is destroyed when the descendants serve as CEOs. They find evidence of reduction in agency cost in founder-CEO firms as compared to non-family firms, and higher agency cost in descendant-CEO firms as compared to non-family firms.
Cheung and Wei (2006) examine the relationship between the percentage of insider ownership and corporate performance measured by Tobin’s Q for a sample of 1,430 firms over the period 1991 to 2000. Similar to Demsetz (1983), Demsetz and Lehn (1985) and Demsetz and Villalonga (2001), they do not find any evidence of relationship between insider ownership and corporate performance. They further argue that ignoring adjustment costs could give an indication of a false relationship between insider ownership and firm performance. To test this issue, they empirically analyse this relationship by analysing two models. In the first model they ignore the adjustment cost and find a positive relationship between insider ownership and corporate performance. In the second model they take adjustment cost into consideration, and find that the relationship no longer exists. In a supporting study, Klein et al. (2005) find no relationship between family ownership and firm performance for a sample of 263 Canadian firms.

Miller et al. (2007) empirically analyse data of 896 Fortune 1000 companies for the period 1996-2000. They find that superiority of family businesses over other types of businesses depends on the way family businesses are defined as well as on the nature of the sample being selected. They further report that after removing lone founder businesses from the sample, the superiority of family businesses vanishes.

Using panel data on 275 listed German companies, Andres (2008) also finds that family firms outperform firms of other types of blockholders, but that performance is better only in the firms in which the founding family is still active in the executive or the supervisory board. He further reports that family involvement in the business successfully balances the two agency problems as explained by Villalonga and Amit (2006). Similar to Andres (2008), Cucculelli and Micucci (2008) also witness that superior performance of family firms comes mainly from the founder’s effort. They further report that family characteristics typically related to better financial performance (such as reduction in agency costs, long term focus, and stewardship etc.) seems to disappear when many family members are involved in the business.

Arosa et al. (2010) investigate the impact of family ownership on profitability, measured by ROA (based on EBIT) of a sample of 586 small and medium size family businesses from Spain. They report no significant relationship between family ownership concentration and the profitability of firms. They also investigated the possibility of a non-linear relationship between ownership concentration and profitability as suggested by various authors (e.g. Morck et al.1988; Claessens et al.2002; McConnell & Servaes 1990; Gedajlovic & Shapiro
Their study does not find any evidence of a non-linear relationship between family ownership and firm profitability for the whole sample. But they find that splitting of the sample provides evidence of a non-linear relationship (U shaped relationship) for first generation ownership. Their results support the monitoring and expropriation hypothesis for first generation family firms and indicate that first generation family firms in Spain have more concentrated ownership and unchallenged control as compared to successive generations where the ownership is more dispersed. They further report that up to 49% of ownership by the first generation family the monitoring hypothesis (alignment effect) prevails and beyond 49%, the expropriation hypothesis (entrenchment effect) prevails.

Pandey et al. (2011) investigate the relationship between family ownership and firm performance measured by Tobin’s Q for 131 largest family firms listed on the BSE and find a positive relationship between family ownership and firm performance. They further state that this positive relationship is only true for family firms operating in traditional industries. They do not find any empirical evidence of a significant relationship between family ownership and firm performance in the firms operating in new economy industries.

O’Boyle et al. (2012) conducted meta-analysis by summarising prior empirical findings of 78 articles, reporting 95 samples with a total sample size of 80,421. They report that empirical findings explaining the relationships between family ownership or involvement and financial performance are highly conflicting. The meta-analysis conducted by them suggests no relationship between family involvement and firm’s financial performance.

Therefore, to conclude it can be stated that 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. The past literature on the relationship between family ownership, governance and financial performance is dominated by US based studies where ownership is diversified and governance laws are stricter as compared to India and other Asian countries where ownership can be highly concentrated and securities laws can be weak, at least in their implementation and enforcement.
3.2.1.1 Impact of the legal environment on the relationship between family ownership and financial performance

Does the legal environment of a country from where the sample is taken have the potential to influence the relationship between family control and financial performance? Anderson and Reeb (2003) state that publicly-listed but family-controlled firms operating in well-regulated and transparent financial markets will achieve reduced agency cost. On the other hand, Faccio et al. (2001) raise the issue of the difference between agency problems in economies which are well regulated with a transparent financial market and dispersed ownership (e.g. USA), compared to those economies that have a relatively weak regulatory system and concentrated ownership (e.g. parts of East Asia). They argue that most corporate governance research has been focused on the USA, where the agency problem is the conflict between shareholders and managers. This is not, they argue, the major agency problem for economies with large family shareholdings. The salient agency problem in these countries is expropriation of funds away from outside shareholders by the controlling shareholders.

Maury (2006) empirically compares the performance of family controlled firms with non-family controlling shareholders in a sample of 1672 non-financial firms from Western Europe. He finds that family control that is active leads to higher profitability as compared to non-family firms even in different legal regimes, while passive family control has no effect on profitability. Maury (2006) further states that only non-majority held firms are benefitted by family ownership. His findings support the theory of agency cost reduction in family owned and managed firms given by Berle and Means (1932) and Jensen and Meckling (1976). His results also support Faccio et al.’s (2001) viewpoints on conflict between controlling family and minority shareholders in a legal regime where shareholder protection is low and family control is high. In the context of emerging economies like India, Martin-Reyna and Duran-Enclada (2012) state that weak shareholder protection and concentration of ownership in the hands of large shareholders have detrimental impacts on minority shareholders. Therefore, in summary, it can be said that the legal and institutional environments have an impact on the relationship between family ownership and financial performance.

3.2.1.2 Family ownership and performance: theoretical explanation

In the debate about the theoretical perspective to apply to explanations of the relationships between family ownership or control or influence and firm performance, a distinction has been drawn between the perspectives of agency and stewardship theory. Figure 3.3 depicts this theoretical distinction.
3.2.1.2.1 Stewardship theory viewpoint

In addition to the reduction of agency cost, families will transfer knowledge and experience from one generation to the next. Therefore, descendants who grow up in the family business environment acquire firm and market specific knowledge at a young age and can build a relationship of trust and confidence with firm’s customers, suppliers, employees and other stakeholders (Andres, 2008).

Stewardship proponents argue that family owners and managers have deep emotional bonding with the firm and they frequently want to contribute to their organisation’s sustainable economic development. Families are said, in general, to be deeply concerned about their businesses and take these businesses as an asset to be passed to later generations rather than consumed during their lifetime (Casson 1999; Chami 1999); therefore, families are inclined to give preference to longevity and sustainable growth of business and take long term investment decisions. James (1999) points out that a family manager tends to have a broader vista in his or her business perspective compared to a non-family manager. This broader vista is believed to help in resolving problems associated with ownership and control separation. Andres (2008) states that families are a unique type of investors who have exceptional concerns over their firm’s survival and strong incentives to monitor management closely.
Ward (1988) states that trust and loyalty created by families in their working environment leads to lower turnover and lesser recruitment cost as compared to other types of firms. Barth et al. (2005) also support Ward’s viewpoint by arguing that family relations are largely based on altruism, loyalty and trust.

Andres (2008) states that the nature of family shareholdings helps families to build a reputation with their customers and external capital providers in the long term. Anderson and Reeb (2003) also support this viewpoint. They report that family firms are able to fetch debt financing at a lower rate as compared to the other types of ownership structures, as the bondholders have a feeling in general that families provide better protection of their interests. These stewardship qualities promote operational flexibility and effective decision making, which may have a positive impact on firms’ productivity (Pollack 1985; Coleman 1990).

3.2.1.2.2 Theory of self interest

But there are drawbacks as well. As Shleifer and Vishny (1986) state, large shareholders have their own interests which are quite different from the interests of other investors, employees and managers. Anderson and Reeb (2003) state that controlling families have incentives and powers to act in their private self-interest at the expense of the firm’s performance. They contend that controlling families can expropriate wealth from the firm through excessive compensation, related party transactions and special dividends. In relation to the skills of family business successors, Morck et al. (2000) state that descendants tend to have less business skill and expertise compared to founders, which negatively impacts firm performance. Barclay and Holderness (1989) state that the holding of large ownership stakes reduces the chance of bidding by other agents which negatively impacts the value of the firm. Perrow (1972, pp. 8-10) argues that family firms are inherently inefficient. These firms follow particularism which means there is no criterion for recruitment. Top positions are not offered on a competence basis but given as a gift to family members and relatives. This practice of particularism leads to poorer performance in the long term. Holderness and Sheehan (1988) also report a tendency of weaker performance of firms’ majority-controlled by a family as compared to firms with diffused ownership.

A summary of the two sides of the argument about the consequences of having a firm under the control of a family is given in Figure 3.4.
The conclusion is that a significant number of prior studies have sought to establish a relationship between family ownership and firm financial performance but have ended up with different findings. Villalonga and Amit (2006), McConaughy et al. (1998), Miller et al. (2007) report that family firms offer superior financial performance as compared to other types of firms while other researchers like Maury (2006), Barth et al. (2005), Cronqvist and Nilsson (2003) and Claessens et al.(2002) find contrasting results.

3.2.1.3 Family CEO and financial performance

In firms where families have the largest shareholding, a family CEOs is very powerful and can use his or her powerful status to unilaterally take major decisions. In contrast, other types of firm’s CEOs are not so powerful and decisions are more or less made by consensus among the members of the board of directors and executive committee. Researchers have recognised the powerful status of a family CEO and have extensively compared the performance of the family CEO with non-family CEO, as well as the founder CEO compared to the descendent CEO.
When members of a family have both ownership and executive management roles, 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. James (1999) also points out that 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.

Shivadasani and Yermack (1999) state that involvement of a CEO in nominating board members makes the CEO more powerful as it is less likely that members nominated by him counter-attack his decisions or will be interested in monitoring him. This provides the CEO more power to influence board decisions. Adams et al. (2009) investigate the impact on the firm performance of family CEOs ability and power to influence decisions in a sample of 336 firms from the Fortune 500 database over the period from 1992-1999. They find that founder CEOs are positively related to financial performance but CEOs’ involvement in nominating board members does not have a significant impact on firm performance.

Barth et al. (2005) state that the ownership and management of a firm by the same family may have a negative influence on a firm’s performance because being restricted to selecting managers from the family might lead to the appointment of inefficient, incapable and lower quality managers. This situation can have a disastrous impact on the firm’s productivity (Coleman 1990; Burkart et al. 2003). They investigate the impact on performance of family-owned firms managed by an insider. In a sample of 438 firms associated with the Confederation of Norwegian Business and Industry (NHO) in the year 1996, they find that family owned firms managed by an insider are less productive as compared to non-family owned firms.

Prior studies have compared family CEOs with non-family CEOs on various criteria like corporate performance, compensation, strategic and competitive advantage. Anderson and Reeb (2003) find that a family CEO improves accounting-based performance of a firm. In terms of share market-related performance, they find this to be positively associated with a founder CEO, but not with 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 compared to the founding CEO.
Barontini and Caprio (2006) investigate the impact of family succession on financial performance and the role of founders and descendants in running family business. They find that the presence of a founder either as a CEO or a non-executive director is positively reflected in higher firm valuations and operating performance. They do not find evidence of the weaker performance of descendent-controlled firms as compared to non-family firms. Their findings also suggest that later-generation family firms perform better than non-family firms if descendants only contribute to the firm as non-executive directors but not as CEOs.

Villalonga and Amit is (2006) findings strongly support the differential (positive) effect of family ownership, control and management on firm value under certain conditions. They find that family ownership only creates value for shareholders when the founder is still active in the firm as a CEO or a Chairperson with a non-family CEO. They also report that descendent CEOs are worst for minority shareholders, even if the founder is present as a Chairperson of the family firm. They further report that the presence of founders in the family firm enhances the value of the firm only in the absence of control enhancing mechanisms such as multiple share classes with differential voting rights, pyramids, and crossholdings or voting agreements which facilitate expropriation away from non-family shareholders.

Fahlenbrach (2009) argues that a founder CEO is different in approach from successor CEOs. He states that founder CEOs invest more in research and development, have higher capital expenditure and are involved more in focused mergers and acquisitions. He reports that 11% of the largest publicly traded firms in the USA are headed by founder CEOs. He further suggests that founder CEOs have better organisation-specific skills and, due to their controlling shareholdings and entrepreneur status, they have better influence and decision making power. Fahlenbrach (2009) investigates the impact of founding family CEOs’ on firm valuation and stock market performance in a sample of 2,327 large publicly listed U.S. firms during the 1992-93 period and finds that founder CEOs are positively associated with higher valuation and better stock market performance compared to successor CEOs. Similarly, other researchers report empirical evidence of a positive relationship between founder family CEO and corporate performance (McConaughy et al. 1998; Palia & Ravid, 2002; Villalonga & Amit 2006).

Pandey et al. (2011) investigate the impact of a family CEO on financial performance in the context of large family-controlled listed companies in India operating in traditional and new economy industries. They report a negative relationship between family CEOs and financial performance. Their analysis further reveals that this negative relationship is only found in
family firms operating in new economy industries in India. They do not find any significant impact of family CEO on financial performance in family firms operating in traditional industries in India.

As is evident from past studies, an unambiguous conclusion cannot be drawn about the impact of family CEO on financial performance. Various studies conducted in different geographical locations have come to different conclusions about the role of a family CEO in achieving better performance. Therefore, the relationship between family CEO and financial performance is an open empirical question which needs to be explored further to explain the factors influencing this relationship.

3.2.1.4 Family Chairperson and financial performance

Although prior literature has extensively addressed the impacts of family CEOs on both financial and accounting performance, but there is a paucity of empirical evidence explaining the impacts of family Chairpersons on financial performance. One strong reason for the lack of systematic empirical research on this topic is the existence of one-tier boards in the USA, the geographical region where most of the past studies on this topic have been conducted and separate board chair position is recognised as more ceremonial, symbolic and less powerful as compared to the CEO position. But in the Indian family business scenario family chairpersons are very powerful and indirectly play an active role in the firms’ strategic decision making. Piramal (1997, p.218) describes the role of R.P. Goenka, founder and Chairman Emeritus of Goenka Group: “As chairman emeritus, legally he is a figurehead. He rarely attends board meetings, and does not receive monthly progress reports of group companies………In reality, nothing happens without his nod”. Therefore, the family Chairpersons’ role in the Indian family business context and its impact on performance needs to be explored.

Cadbury (1992) states that a Chairperson’s role is to provide effective leadership of the Board as well as “mentoring” of the CEO and executive management. On the other hand, Pearce and Zahra (1991) believe that boards with a number of powerful, independently minded members are more progressive and are associated with superior financial performance compared to boards dominated by the Chairperson. In India, Clause 49 mandatory recommendations are silent about the role of the Chairperson but the Birla Committee’s non mandatory recommendations state that the role of a Chairperson is to ensure that the board meetings are conducted in a manner which secures the effective participation of all directors and maintain a balance of power in the board. This Committee’s report further states that the Chairperson’s
role should be different from the CEO’s role, although the same individual is allowed to perform these roles. Similar to USA and UK, Indian corporate governance listing rules and the Companies Act 1956 allow public limited companies to have a single tier board.

In India, it is a common practice that a founding family member, a patriarch, holds the position of non-executive Chairperson or Chairman emeritus after his retirement, but technically he is still involved with the company in a role which is beyond that of a visionary and strategist (Piramal, p.14). For example, Piramal (1997) reports that although Dheeru Bhai Ambani, founder of Reliance Group, passed the baton to the next generation in the 1990s, in practical terms he was still working as the CEO of the company. When asked about his retirement, he responded “Never. Till my last breath I will work. To retire there is only one place-the cremation ground”. Therefore, especially in the Indian context, the impact of the role of the chairman is expected to be significant.

The emerging evidence on the effect of a Chairperson on board effectiveness and, consequently corporate financial performance is inconclusive (Kakabadse & 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. Pandey et al. (2011) studied the impact of the family Chairperson on financial performance in large listed family controlled firms in India. They report a non-significant impact of the family Chairperson on financial performance. However, they find evidence that the family Chairperson significantly influences the Board’s operating mode.

In conclusion, the role of a Chairperson in achieving financial performance has been relatively neglected in the prior literature. Moreover, studies conducted to explore the impact of a family chairperson on financial performance provide mixed results. The literature also suggests that in Indian family firms it is common practices that founder CEOs at the age of retirement join their organisation as a board Chairperson and play a mentoring role for the coming generation. Therefore, these Chairpersons roles and their impact need to be investigated in the context of family businesses in India.
3.2.1.5 Family succession and financial performance

Family business researchers in different countries have identified family succession as one of the major issues faced by family businesses (Gollakota & Gupta 2006; Handler 1994). Succession means transfer of the family business from the previous generation to the next generation. There is a growing body of research that investigate the founder’s and the descendant’s impacts on the value and profitability of a family firm.

The US based empirical studies give consistent evidence about the superiority of founder-run and controlled firms over descendent-controlled firms (Anderson & Reeb 2003; Villalonga & Amit 2006). Miller et al. (2007) also state that the superiority of family businesses over non-family businesses is due to the founder’s presence. They further state that after removing lone founder firms from the sample, the superiority of family firms over non-family firms vanishes. Morck et al. (2000) find that family CEOs who inherit their position from previous generations are associated with lower operating performance. Similarly, McConaughy et al. (1998) also find evidence of a positive relationship between the founder CEO and firm performance.

The proponents of the ‘positive founder effect’ argue that founder-run firms perform better than descendent-run firms because founders are more closely associated with their firm and take the betterment of the firm as their achievement. Turning to the succession, Gollakota and Gupta (2006) argue that families usually overlook the most competent executives in order to appoint family executives or those who have close ties with the family, thus giving preference to incompetent executives over competent professional managers from outside. Cucculelli and Micucci (2008) find that inherited management within a family negatively affects financial performance. They further state that this impact is highly significant in more competitive sectors, where the founder has a specific talent to run the business. Perez-Gonzalez (2006) investigates the impact of management succession on performance in a sample of 335 firms and finds that family CEOs who inherit their positions underperform outsider CEOs. His findings further suggest that the cost of nepotism is very high in family businesses and more often minority shareholders are burdened by this cost.

In contrast, another group of researchers believe that family successors have better firm specific knowledge as compared to outsiders because of specific implicit training provided to them by families (Cadbury 2000a). Smith and Amoako-Adu (1999) find that family
transitions lead to negative performance at the time of appointment but in the long term inherited managers perform better than outsiders.

Slovin and Sushka (1993) investigate the impact of death of a large equity holder on share price and find that the founder’s death has no significant impact on share price. On the other hand, Johnson et al. (1985) report that sudden death of a founder CEO is related to an increase in share price.

Although most of the evidence from prior literature suggest founders’ superiority over descendants in achieving better financial performance, this relationship still need to be investigated over different geographical regions for a deeper insight into the dynamics that can be at play in diverse circumstances. This study will contribute to the growing body of literature by providing evidence of founder vs descendent effects in the Indian family business context.

### 3.2.2 Family ownership and social performance

The previous section addresses the impacts of family ownership on financial performance. This section specifically reviews the literature addressing the impacts of family ownership on social and environmental performance. The literature examining this later relationship is considerably less well developed than the literature focusing on the financial performance issue.

The existing literature on family businesses has widely addressed the impact of family control on financial performance by taking performance measures as Return on Assets, Return on Sales, Tobin’s Q, and Share Price movement (Anderson & Reeb, 2003; Villalonga & Amit 2006; Beehr et al 1997), but little attention has been paid to determining the impact of family presence on social and environmental performance.

Past literature dominated by conceptual research on this topic provides conflicting views on the relationship between family ownership and social-environmental performance. To date researchers have studied family firms from two opposite perspectives. A group of researchers have used the theory of self-interest to explain the direction of the relationship between family ownership and social-environmental performance. In his classic book, *The Moral Basis of a Backward Society*, Banfield (1958) states that families mainly concentrate on self-interest and are less likely to be involved in socially responsible behaviour. He states this phenomenon as ‘amoral familism’. Other researchers have also identified peculiar family characteristics such
as excessive nepotism, lack of professionalism, secretiveness, and power games in succession (Rosenblatt et al. 1985; Handler & Kram 1998; Schulze et al. 2001; Donelly 1988), which may have a negative impact on social responsibility performance.

There is however little empirical evidence to support these viewpoints. Kassinis and Vafeas (2002) empirically compare the corporate profile of 209 environmental laws violators as the basis for investigating the impact of insider ownership on the likelihood of environmental litigation. They find that an increase in the number of environmental violations is positively associated with an increase in insider ownership.

Uhlaner et al. (2004) conducted 42 interviews with the owners of small and medium sized Dutch family firms in order to investigate corporate social responsibility in family businesses. They report that family business owners prefer to have a good working relationship with employees, clients and suppliers, and treat them as a sort of extended family. They also report that Dutch SME family businesses are involved in some form of corporate social responsibility.

Morck and Yeung (2004) empirically investigate the relationship between the concentration of family firms and various dimensions of societal progress. They find that the countries dominated by family firms are backward in a number of dimensions (e.g. physical infrastructure, quality of education, economic inequality, infant mortality etc.) due to the self-interest dominance of family firms. But this study does not look specifically at how family ownership relates to social-environmental performance.

Li and Zhang (2010) examine the impact of ownership structure on corporate social responsibility in China, dominated by the presence of state-owned businesses. They find that for non-state owned businesses, the dispersion of corporate ownership is positively associated with corporate social responsibility while in state-owned firms they find the opposite relationship. The point to be noted here is that their research does not specifically address family ownership and its impact on corporate social responsibility.

Dam and Scholtens (2012) consider whether ownership type is linked to corporate social responsibility. They use data of 600 European firms from 16 countries and 35 industries and find that ownership by employees, individuals and other firms is associated with poor corporate social policies of the firms they invest in. Although this study investigates the influence of individual shareholders on social and environmental friendly investments, it does not specifically address the impacts of family ownership on corporate social responsibility.
Some researchers (Chua et al. 1999; Whetten & Mackey 2005; Godfrey 2005) have attempted to explain the link between family control and social and environmental performance by using institutional theory proposed by Scott (1995). Scott (1995) defines an institution as a collection of “cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour”. He further states that the cognitive element guides behaviour through the construction of social identity, the normative element guides behaviour through the less explicit system of social norms, and the values and regulative element provides guidance to members of an institution through its rules, controls, rewards and sanctions. Leaptrott (2005) states that the construction of social identity, mental scripts and templates guide organisational members to adopt those behaviours which are associated with positive outcomes and the avoidance of negative outcomes.

In a more structured institutional theory framework, DiMaggio and Powell (1983) identify three mechanisms through which institutional isomorphic changes take place: “1- Coercive isomorphism that stems from political influence and problem of legitimacy; 2- Mimetic isomorphism resulting from standard response to uncertainty; and 3- Normative isomorphism, associated with professionalization”. They further refer to Hawley’s (1968) description of isomorphism as a constraining process that forces one unit in the population to resemble other units that face the same set of environmental conditions.

According to Collins et al. (2000), in family businesses members usually share norms and values which pressurise family members to conform to normative standards. Scott (1995) states that normative business influences can originate from both inside (within family) and outside of a family (social networks, government, or professional organisations). According to Leaptrott (2005), normative isomorphism results from an organisational need to obtain and maintain legitimacy. Similarly, DiMaggio and Powell (1983) argue that when an organisation enhances its social acceptance or legitimacy, it helps to increase its access to resources and exchange possibilities with other organisations. This eventually can increase its livelihood for survival.

Proponents of institutional theory argue that a family firm not only acts for self-interest but has concern for social welfare as well (Chua et al. 1999). Whetten and Mackey (2005) and Dyer and Whetten (2006) provide evidence that family firms are more socially responsible compared to non-family firms as they are more concerned for their organisational identity, image and reputation. Schein (1983) and Dyer (1992) also suggest that founders of family firms see their business operations as an extension of themselves and their identity, and their
vision is to pass on a legacy to their coming generations. Therefore, it is contended that families are more interested in doing good or being seen to do good for societies.

In summary, it can be argued on the basis of institutional theory that family businesses might be expected to achieve better social and environmental performance in order to obtain social acceptance and a better business image for coming generations and, it might be expected that later generations will keep these behaviours alive by following family norms and values. Gopal Srinivasan, head of the famous TVS group, mentions the institutional loyalty of later generations in multigenerational Indian family businesses: “The best way to think about a multi-generational family business is as a flow across time. Someone asked me, what would your forefathers have thought of your decisions in terms of the values they created? In some sense, this defines the family business; it is the whole idea of ‘flow’. Flow from the past, the present and inheritance of the legacy you are passing to the future! So, in many ways, good families have this strong sense of what I call institutional loyalty versus individual loyalty. It is loyalty to what TVS stands for; the reputation we have; the way it opens doors: You want to leave it a little bit better than where you got it! It is a very tough job because a lot of discomfort and insecurity for the family members comes from having to live up to that reputation!” (Source: Forbes India, Oct 21, 2011)

Overall, it can be concluded that the impact of family ownership on social performance is a comparatively new area of research and lacks empirical evidence for defining the direction and causation of this relationship. Prior studies have explained this relationship by using theories of self-interest and institutional theory which provide contrasting arguments about the expected impacts of family ownership on firm social performance.

**3.2.2.1 Indian family firms and social performance**

Indian family firms have a long tradition of donating for social causes. Business families in India have a tradition of donating for constructing temples and opening schools in areas of high poverty. It is quite common in India to observe temples and rest houses established by family business owners with free food and lodging facilities for pilgrims in pilgrimage cities. Therefore, it can be said that traditionally Indian family businesses have focussed on charity for society as their primary way of expressing social responsibility. However, Ramachandran and Jha (2009) state that recently Indian family businesses have changed their focus from local charity to wider forms of philanthropy and have added many new philanthropic
activities such as environmental conservation and preservation of history and art into their corporate social responsibilities.

Ramachandran and Jha (2009) further state that during the early stage of industrialisation in pre-independence India, philanthropy was limited to initiatives taken by individuals and organisations for helping the freedom movement, exemplified by the Birla and Godrej families’ donations to the freedom struggle and for eradication of the caste system in India.

Previously these family groups were donating to charitable organisations. But now most of the big family businesses have their own foundations and trusts. These foundations and trusts are responsible for philanthropic activities run by these businesses e.g. Tata trust, Aditya Birla foundation. Ramachandran and Jha (2009) explain the reason of this phenomenon. They state that in Indian philosophy, service to mankind is believed to bring God’s blessings; therefore, business families prefer to directly supervise philanthropic activities. They further state that non-working family members, particularly women, take an active part in running philanthropic activities.

One of the most well-known family business groups in India, Tata group strongly believes that a business thrives on social capital and the group treats the community not simply as a stakeholder but a force behind its business existence. J.R.D. Tata, founder of the Tata group always used to say: “If you make lots of money you must give it back to society as you have received so much love from it”. The Tata group recognises both fiduciary and philanthropic commitments and tries to achieve both economic and social goals of their business. Gopalakrishnan, an executive director of Tata Sons Limited, describes the philosophy: “We are hard-nosed business guys, who like to earn an extra buck as much as the next guy, because we know that extra buck will go back to wipe away a tear somewhere”.11 (Source: Tata group website).

Similarly, another business group, the Aditya Birla Group donates 3% of its net profit to charity. The group also believes in the philosophy of social and economic development of the communities around its operations for the betterment of weaker sections of the society. The group is actively involved in community work across 3000 villages focussing on healthcare, education, sustainable livelihood, infrastructure and other social causes. The group spends in

11http://www.tata.com/company/Articles/inside.aspx?artid=HCy+RNqd0vk=
excess of INR130 crores\textsuperscript{12} annually, and runs 18 hospitals and 42 schools (Source: Aditya Birla Group website)\textsuperscript{13}

Traditionally in the Hindu philosophy charity is treated as an act of purifying the inner self and is included in one of the ‘Ten Inyalas (Observances) in Hinduism’. The third observance of Hinduism speaks about Dana (Charity) without having thought of reward. Therefore, family businesses owned by Hindu owners prefer not to publicise charities run by their organisations. Kumar Managalam Birla, Chairperson of the Aditya Birla Group, also recognises this religious aspect of the Hindu culture. He states “The culture of caring and giving permeates many Indian families. In their own way, they are engaged in philanthropic pursuits. Several corporates are doing a lot in this space, but they are quiet about it” (Source: Times of India). Similarly, Gopal Srinivasan, founder Chairperson and CEO of the TVS group also emphasises the need for making strong social connections when running a successful business.

Indian family businesses have a long tradition of involvement with communities through social charity and religious affiliations, but little research has been undertaken in the past to explain the motivations of Indian family businesses concerning their involvement with communities. Moreover, most of the research to date has examined the relationship between family ownership and financial and social performance in the context of Western family businesses, mainly from the USA and Europe. However, the special characteristics of Indian family businesses mainly dominated by trading communities, the caste system, and the strong influence of the Hindu philosophy differentiate Indian family businesses from their global counterparts. Therefore, there is a strong need to study Indian family business, its particular characteristics and their impact on both financial and social performance. This thesis addresses this gap and makes an original contribution to the existing literature on family businesses by investigating the impacts of family ownership and involvement on social performance for listed family controlled firms in India.

\textsuperscript{12} 1 Crore = 10 million
\textsuperscript{13}http://www.adityabirla.com/social_projects/overview.htm
3.3 Board Governance and performance

3.3.1 Board governance and financial performance

The role of the board in implementing good governance in publicly listed firms has been a topic of discussion in the media and corporate governance research. This role has been widely recognised by major agencies involved in promoting and implementing good corporate governance practices around the globe. The OECD’s Principles of Corporate Governance (2004) clearly refers to the supervising and monitoring roles of boards of directors and their need to act in the best interest of the company and shareholders. The Cadbury Report (1992) states that boards of directors are responsible for the governance of their companies and their responsibilities include setting the company’s strategic aims, providing the leadership to achieve these aims, supervising management and reporting to shareholders and stakeholders.

In India, the Desirable Code of Corporate Governance (1998) also recognises the importance of effective and efficient boards and states that a well-functioning, informed board of directors is the key for achieving a good corporate governance system. The Kumar Mangalam Birla Committee report (2000) also highlights the roles and responsibilities of the board: “the board directs the company, by formulating and reviewing company’s policies, strategies, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestitures, change in financial control and compliance with applicable laws, taking into account the interests of shareholders” (Source: SEBI).

Therefore, it can be concluded that corporate governance guidelines and codes in many countries emphasise the supervisory and management monitoring roles of boards of directors in providing protection to shareholders, stakeholders and the general public interest. But the issue is, if the boards are actively deciding companies’ strategic policies and monitoring firm performance in the best interests of the company and wider interests, then there should be some relationship between the board governance characteristics and firm financial and social performance. Hermalin and Weisbach (1991) argue that effective board monitoring is related to positive financial performance as it reduces agency cost. Gompers et al. (2003) argue that poor board governance causes agency cost such as managerial shirking, over-investment and perquisite consumption. As discussed in the Chapter 2, the corporate governance reforms in India are comparatively new as compared to developed economies where most of the
governance research has been conducted. This study explores the impact of board governance on financial performance in the context of family businesses in India.

3.3.2 Board governance and social performance

The present era of corporate philanthropy and triple bottom line reporting has broadened the corporate governance definition used in the past. Sir Adrian Cadbury (2000b) describes this broadened definition of corporate governance as “Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The aim is to align as nearly as possible the interests of individuals, corporations, and society”. Levy (1999) takes this view further and argues that corporate philanthropy and social initiatives taken by organisations for the welfare of society are the heart and soul of the business. Dilling (2010) argues that corporate social responsibility (CSR) is not a standalone concept and its goal is not achievable until or unless it is integrated with mission, vision and strategy of the organisation. Similarly, Painter-Morland (2006) also argues that CSR cannot provide competitive advantage unless organisational CSR activities are aligned with the corporate governance framework of the organisation. Spitzeck (2009) also shares a similar view and states that corporations act responsibly, in a consistent way, only if corporate responsibility issues are integrated in their governance system and decision making process. Therefore, it can be argued that corporate governance can play a pivotal role in achieving the goals of CSR.

Corporate governance and its role in achieving the goal of sustainable development has lately been recognised as a topic of research and several researchers have tried to integrate these two concepts (e.g. Paine 1994; Blair 1995; Bird 2001; Manville & Ober 2003; Ricart et al. 2005; Aguileria et al. 2006; Elkington 2006; White 2006; Aras & Crowther 2008; Dilling 2010; Spitzeck 2009). Moreover, corporate governance guidelines issued by different agencies for achieving best corporate governance practices (e.g. AS 8000 Corporate governance standard, ASX Corporate Governance practices, and OECD guidelines), either directly or indirectly refer to social responsibility issues such as community engagement, human rights and environmental sustainability (Mallin, 2002).

In India, government is also seriously concerned about bringing sustainability into the board room. The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Businesses released by the Government of India in 2011, recognise social
and environmental responsibilities of businesses. The following are principles outlined in these national voluntary guidelines:

1- Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.

2- Businesses should promote well-being of all employees.

3- Businesses should respect the interest of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised.

4- Business should respect and promote human rights.

5- Business should respect, protect and make efforts to restore the environment.

Although these guidelines are voluntary, it is expected that boards and senior managements will take the necessary steps to make sure these guidelines are properly understood and executed across their organisations.

Empirical studies conducted by Ricart et al. (2005) and Mackenzie (2007) witness that corporate boards have started integrating social responsibility issues into their governance mechanism and their decision making process. Cartwright and Craig (2006) demonstrate seven pathways for aligning corporate governance with global sustainability and state that initiation of the operation of these pathways depends on strategic innovation by the corporate board. Martineli and Midttun (2010) focus on the impact of the recent global financial crisis on governance regulations. They state that this crisis has increased demand for corporations to include social and environmental responsibility issues in their governance agenda. Morgan et al. (2009) talk about “next generation” corporate citizenship which puts more emphasis on the relationship between business and society and they provide advice for inclusion of contemporary social and environmental issues in the governance and operation of a firm.

Therefore, it can be argued, on the basis of above discussion that good governance practices need to play a dominant role if better social and environmental performance is to be achieved. However, it should be noted that the majority of studies mentioned above are conceptual and lack empirical evidence. This study fills this gap by empirically analysing the relationships between corporate governance mechanism and social and environmental performance in the context of large listed family firms in India.
In order to study the impact of corporate governance on financial and social performance, prior researchers have covered, to different degrees, the effects of board size, board composition, board process and board meeting frequency on financial and social performance. Next section addresses those studies that have considered the impacts of board governance factors on financial and social performance.

3.4 Board size and performance

3.4.1 Board size and firm performance

What should be an adequate board size to bring about good performance? Leading corporate governance guidelines and regulations are silent on recommending a particular board size for attaining best governance practices. Principle VI of the OECD Principles of Corporate Governance (2004) broadly covers the responsibilities of the Board for protecting shareholders rights but does not mention board size. The latest UK Corporate Governance Code (2010) which replaced the UK’s Combined Code 2003 and 2006 does not specifically mention the ‘board size’. But it does refer to the board needing an appropriate balance of skills, experience, independence and knowledge of the company to enable it to discharge its respective duties and responsibilities effectively.

Similarly, Clause 49 of the Listing Agreement in India does not refer to any specific board size but suggests an optimum combination of executive and non-executive directors on the board. The Indian Companies Act 1956, the principal legislation providing a formal structure for corporate governance, specifically covers the minimum board size requirement for public limited companies in India. According to the provisions of s252 of the Indian Companies Act 1956, all public companies having capital of INR five crores or more and one thousand or more shareholders should have at least three directors on the board. All other companies should have at least two directors.

The research literature is far from unanimous about the relationship between board size and firm performance. Researchers supporting smaller boards argue that larger boards are less cohesive (Shaw 1981), hard to coordinate (Gladstein1984) and vulnerable to group conflict (O’Reilly et al 1989), thus reducing the chances of reaching consensus on critical matters (Goodstein et al.1994). On the other hand, researchers who support larger boards (Dalton et al.1998) argue this on the basis of Resource Dependency Theory, developed by Pfeffer and
Salancik (1978), which discusses organisational dependence on external environment for critical resources both financial and physical.

Lipton and Lorsch (1992) argue in favour of a smaller board size as they state that bigger boards (bigger than 10) hinder meaningful discussion. They further state that a board is a group of individuals and to be effective they should communicate with each other and discuss complex company information to reach a consensus before taking a decision, but bigger board size reduces the possibility that this can be achieved. Similarly, Jensen (1993) argues in the favour of smaller boards. He states that increasing board size beyond seven or eight members reduces board effectiveness and provides opportunity for the CEO to override the board. In summary these researchers hold that larger boards reduce communication and coordination among group members leading to agency problems.

The first empirical evidence of the relationship between board size and firm performance was found by Yermack (1996). In a sample of 452 large U.S. public corporations observed over the period 1984 to 1991, Yermack finds negative relationship between board size and firm market value measured by Tobin Q. He also reports a negative relationship between board size and accounting measures of profitability. To prove the robustness of this relationship, he conducted a variety of tests by taking a number of control variables such as firm size, industry type, board composition, insider stock ownership etc. and all the tests reach a similar conclusion that smaller boards are valued highly in the stock market. The point to be noted here is that the average size of corporate board in the sample used by Yermack (1996) was 12.

Huther (1997) investigates the impact of board size on variable costs for firms governed by the Rural Electric Cooperatives in 45 states of the United States and finds that larger boards are significantly correlated with higher costs and supports the theory that larger boards are ineffective in making decisions.

Eisenberg et al. (1998) investigate the relationship between board size and firm performance in a random sample of 900 Finnish firms from 1992-1994 and find that board size is negatively related to firm’s profitability measured by industry adjusted return on assets. They further report that this relationship is not only robust to controls for firm size, industry, firm age and the change in assets but also robust to endogeneity problems arising from taking industry adjusted ROA as a proxy for measuring profitability. They also do not find any empirical evidence of increase in the board size as a consequence of poor performance in the past.
Conyon and Peck (1998) oppose the viewpoint that larger boards are associated with effective monitoring hence reduced agency cost. They argue that monitoring advantages of larger boards are outweighed by problems related to (a) informal asymmetries between the CEO and the board (b) communication issues and (c) decision making. They empirically test the relationship between board size and firm performance for a sample from five major European countries and find a negative relationship between board size and firm performance measured by return on equity. They further report that this negative relationship is less clear for a market-based performance measure (Tobin’s Q). Similarly, Andres et al. (2005) also find a negative relationship between board size and firm performance in a sample taken from 10 OECD countries.

Vafeas (2000) empirically investigates the relationship between board size and earning informativeness for a sample of 307 US public firms over the period 1990-1994 and finds that earnings are more informative for firms having smaller boards (with a minimum of five board members). He concludes that board size is inversely related to board monitoring quality. Bennedsen et al. (2008) empirically investigate the impact of board size on performance on a sample of 7496 small and medium-sized firms from Denmark and find a significant negative impact of board size on performance when increasing board size above six or more members. They do not find any performance effect when varying board size below six directors. Similarly, Cheng (2008) investigates the impacts of board size on different measures of performance and reports that board size is negatively related for a sample of 1252 U.S. firms over the period of 1996-2004 and find that larger boards are associated with lower annual accounting return on assets (ROA) and Tobin Q.

Linck et al. (2008) argue that firms decide their board size on the basis of cost and benefits of monitoring and advising. Using a sample of 7000 U.S. firms over the period 1990 to 2004; they empirically find that firms with high growth opportunities, high R & D expenditures, and high stock return volatility have smaller boards, while the large firms have larger boards.

In contrast, a positive view of Board size is developed in several studies discussed further. Van den Berghe and Levaru (2004) state that a greater number of directors on board bring more expertise as larger boards are more likely to have better knowledge and skills as compared to smaller boards. Dalton et al. (1999) talk 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. He finds systematic evidence of a positive relationship between board size and
performance by conducting meta-analysis of 20620 observations from 131 samples collected from 27 relevant studies. Similarly, Kiel and Nicholson (2003) examine the relationship between board demographics and corporate performance in a sample of 348 largest publicly listed Australian companies and find that after controlling firm size; board size is positively related to financial performance.

Coles et al. (2008) challenge the notion that smaller board size increases firm value. They argue that complex firms need larger boards as they need more expertise and greater advising as compared to the smaller firms. Using a sample of 8165 firm year observations over the period 1992-2001, they report a U shaped relationship between board size and firm performance. They further explain that Tobin’s Q is positively related to board size in complex firms and is negatively related to board size in smaller firms.

Jackling and Johl (2009) also support resource dependency theory to explain the impact of board size on financial performance. They empirically test relationship between board size and firm performances for the top 180 companies listed at the Bombay Stock Exchange and find a positive relation between board size and firm performance measured by Tobin’s Q.

A limited number of studies have specifically looked into the relationship between board size and firm performance in the family owned firms. Hu et al. (2010) empirically suggest that ownership concentration in family firms hinders the governance and supervision role of board of directors, making them unable to effectively influence financial performance. Gracia-Ramos and Gracia-Olalla (2011) examine the impact of the founder effect on the relationship between board size and firm performance. Using a sample of European publically traded family firms they find a positive relation between board size and firm performance in non-founder led businesses and negative relationship in founder led businesses.

Pandey et al. (2011) empirically analyse the relationship between board size and firm performance for a sample of 131 of the largest (in terms of total assets) family firms listed at Bombay Stock Exchange. They find positive relationship between board size and financial performance measured by Tobin’s Q. They argue in the favour of the application of resource dependency theory in the Indian family firms’ context as most of the largest family firms are highly complex and diversified hence they need a big set of board members having expertise in different businesses held by family firms. Their findings support the findings of Dalton et al. (1999) and Coles et al. (2008).
Although most of the reviewed studies investigating this relationship show a negative association between board size and financial performance, two recent studies conducted in Indian context evidence contradictory findings (Jackling and Johl 2009; Pandey et al. 2011). Although Balasubramanian (2010) states that boards in India are mainly considered as legal necessities and are constituted only to meet compliance requirements, recent studies support the application of resource dependency theory in the Indian context. It has been found that Indian businesses, owned and managed by families gain benefit when board bring in additional skills and expertise.

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 have obtained 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 no doubt as yet unknown factors that affect the relationship between corporate board size and financial performance. Moreover very little research has been done to find out the impact of board size on firm performance in the special case of family firms, hence studying this relationship in the context of Indian family firms will be a real contribution.

**3.4.2 Board size and corporate social performance**

Corporate social performance refers to firm’s social and environmental performance from a variety of perspectives such as community involvement, product safety, philanthropy and impact of firm on the environment (Dunn & Sainty 2009). Board of directors are one of the most important elements of the corporate governance mechanism and they play a dominant role in the supervision of agents running company business (Said et al. 2009). Although in the past agency theory has been dominantly used by the researchers to explain principal-agent conflict from the financial aspect, the triple bottom line concept and the role of business for protecting society and environment has forced researchers to adopt a widened interpretation of agency theory which talks about protecting stakeholders interests and suggest that boards can play a dominant role in protecting stakeholders interest by overseeing the way management is conducting business.

Researchers in the past have studied the impact of the board composition on the financial performance of firm. This study extends financial performance literature to explain
relationship between board size and social-environmental performance. The literature review on the impact of board size on financial performance has already been discussed in depth under the heading board size and financial performance.

Lipton and Lorsch (1992), Jensen (1993), Yermack (1996), Eisenberg et al. (1998), Conyon and Peck (1998) find in their empirical studies that larger boards are less effective as compared to smaller boards, they use agency theory to explain their findings that larger boards reduce communication and coordination among group members hence leading to agency problems. Agency theory highlights the monitoring and supervisory roles of board of directors over management (Jensen and Meckling, 1976). Goodstein et al. (1994) suggest that larger boards are less participative and cohesive as compared to smaller boards. Other researchers such as, Dalton et al. (1999), Hermalin and Weisbach (1998), Van den Berghe and Levaru (2004), Coles et al. (2008) suggest that larger boards bring multi skills and expertise to the board, provide broader strategic thinking and reduce CEO domination on board. This study follows agency theory presumption that effective boards with better communication and clear strategic thinking lead to better social performance.

There are only few studies which have directly addressed the relationship between board size and corporate social performance. Kassinis and Vafeas (2002) empirically examine the impact of board size on the number of environmental lawsuits in a sample of 209 US firms between 1994 and 1998. They find that smaller boards are more effective in monitoring and motivating managers to comply with environmental regulations compared to larger boards.

Said et al. (2009) empirically examine the relationship between board size and the level of CSR disclosures in a sample of 150 Malaysian listed firms for the year ended 2006. They do not find any evidence of a negative relationship between board size and the level of CSR disclosures.

Sahin et al. (2011) empirically investigate the relationship between board size and corporate social performance measured by a corporate social responsibility index in sample of 165 Turkish firms listed in the Istanbul Stock Exchange (ISE) in 2007 and find no significant relationship between board size and corporate social performance.

There is a small but growing body of research explaining the impact of board size on corporate social performance and sustainability disclosures with inconsistent findings. Moreover, there is a lack of research explaining the mechanism by which board size impacts on corporate social performance. This thesis addresses this gap by collecting empirical
evidence of the impact of board size on corporate social performance in the context of Indian family businesses.

3.5 Board independence and firm performance

3.5.1 Board independence and financial performance

Traditionally, agency theory has been extensively used in the past literature for investigating the relationship between board independence and financial performance. This theory argues that principal-agent conflicts would be minimised by better monitoring and effective supervision of management by board of directors (Fama & Jensen 1983; Jensen & Meckling, 1976; Shleifer & Vishny 1997). Fama and Jensen (1983) further argue that boards dominated by independent directors are more effective in the monitoring and supervision of management.

The literature, dominated by agency theory, has mainly concentrated on the monitoring role of the board but more recently a number of researchers (Dalton et al.1999; Johnson et al. 1996; Hermalin & Weisbach 1998) have started debating the advisory role of the board where the skills and knowledge held by the board becomes critical. 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 advice to the CEO that otherwise would be 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”. Van den Berghe and Levaru (2004) also state that suitable external directors bring their expertise and experience 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. However 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 an 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 suggests that a listed company with a turnover of INR 100 Crores 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

(Source: Clause 49 of listing agreement)

The relationship between board independence and financial performance has been widely addressed in past research but 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 show that board independence has more positive impact on financial performance of firms following a strategy of cost efficiency as compared to firms following a strategy of innovation. Similarly, other researchers such as Prevost et al. (2002), Choi et al. (2007) and Lefort and Urzua (2008) in other country context report a positive relationship between board independence and financial performance.

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 (2002) 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 (mostly from the US) such as Vafeas and Theodorou (1998), Hermelin and Weisbach (1991), Dalton et al. (1998), Bhagat and Black (2002), Erickson et al. (2005), Beiner et al. (2006) and Bhagat and Bolton (2008) have reported no significant relationship between board independence and financial performance.

In the context of India, Jackling and Johl (2009) studied the impact of outside directors presence on financial performance measured by Tobin’s Q and ROA for a sample of 180 Indian firms, and they found that presence of outsiders on board have positive impact on financial performance but the relationship was only marginally significant. Moreover, they also report that when ROA is selected as a performance measure then significance disappears. They suggest that this weaker association may be attributed to possible lack of independence due to strong existence of family firms in India.

In another study in the same context, Pandey et al. (2011) investigated the impact of board independence on financial performance for a sample of 131 of the largest family firms in India and find that the inclusion of independent directors on the board of family owned firms does not add financial value to the firm. They suggest that either the independent directors on the boards of family controlled firms were not truly independent or that they were only appointed as a token to comply with the listing rules.

These studies about the relationship between board independence and financial performance for different profiles of companies in different country jurisdictions have come to different conclusions. Therefore it can be argued that each study contributes its own conclusion for its
own context. This thesis 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.

3.5.2 Board Independence and social performance

The influence of independent directors on social performance can be explained on the basis of agency theory as independent directors can provide better monitoring and more likely to challenge management as compared to inside directors who are members of senior management team (Dunn & Sainty 2009). They further argue that independent directors may promote broader stakeholder orientation by providing diverse inputs into strategic decision making process within the board which have potential to monitor and motivate management.

Webb (2004), who studied board composition of socially and non-socially responsive firms, find that socially responsive firms have more independent directors as compared to non-socially responsive firms. Ibrahim and Angelidis (1995) also find evidence of an enhanced level of social responsiveness of board having a higher percentage of independent directors. Wang and Dewhrist (1992) find that independent directors are often more sensitive to the needs of multiple stakeholders groups and are more socially aware as compared to dependent directors. Coffey and Wang (1998) and Johnson and Greening (1999) find that firms having higher number of independent directors have better social performance ratings. Kassinis and Vafeas (2002) suggests that independent directors pay more attention for long term performance and make sure that management comply with environment laws. Their empirical analysis reveals that larger numbers of independent directors reduce the chances of environmental lawsuit against the firm. Similarly, Huang (2010) argues that the presence of independent director on the board has greatest impact on social performance of firm’s worker, customer, supplier, community and society dimensions.

Mckendall et al. (1999) investigate the impacts of board structure on environmental violations in a sample of 159 largest companies in US and find no significant relationship between the presence of outsiders on board and the incidence of environmental violations.

In contrast, Dunn and Sainty (2009) investigate the relationship between board independence and corporate social performance in a sample of the 50 best companies in Canada for the four year period (2002&2004-2006) and find that number of independent directors is positively related to social performance. Barako and Brown (2008) examine the relationship between number of independent directors and quality of corporate social reporting disclosures by
Kenyan banks. They also report a positive relationship between number of independent directors and corporate social disclosure. Similarly, Sahin et al. (2011) empirically investigated the relationship between board independence and social responsibility performance of Turkish firms and find that higher proportion of independent directors on board leads to better corporate social performance.

Although the impact of board independence on financial performance has been widely addressed in the past literature but a limited number of systematic empirical studies address the influence of board independence on social performance. Past literature provide mixed opinion on the impact of board independence on corporate social performance. In conclusion, given mixed evidence on board independence, the impact of board independence on financial and social performance is an open empirical question.

3.6 Board meeting frequency and firm performance

3.6.1 Board meeting frequency and financial performance

The impacts of board activity on firm performance have been a topic of extensive debate in recent corporate governance literature. The number of board meetings held in a year has frequently been used as a proxy for measuring board activity or board activeness. Garcia-Ramos and Garcia-Olalla (2011) argue that a higher frequency of board meetings enables better monitoring by the board which reduces agency cost and eventually enhances firm performance. Vafeas (1999) draws attention to costs associated with organising board meetings such as travel expenses, managerial time and directors sitting fees and argue that fewer board meetings would lead to better financial performance. Other groups of researchers believe that abnormal business activity in a particular business year is driven by past performance (Vafeas 1999; Adams 2005; Brick & Chidambaram 2010).

Corporate governance guidelines, listing rules and regulations throughout the globe have emphasised the importance of holding regular board meetings for efficient governance. OECD Principles on Corporate Governance (2004) states that board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. OECD Principles do not suggest a minimum number of board meetings that should be held by the board in a year. Similarly, the UK Combined Code on Corporate Governance (2010) and the New York Stock Exchange Rules (2006) do not mention a minimum number of board meetings. But, in India both Clause 49 Listing Rules
and the Companies Act 1956 have a mandatory requirement of a minimum number of board meetings to be held in a year. Clause 49 Listing Rules states that the board shall meet at least four times a year, with a maximum time gap of four months between any two meetings. Similarly, s 285 of the Companies Act 1956 also state that the board should meet at least once in three calendar months.

Prior 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) state that the most widely shared problem faced by directors in carrying out their responsibility is a lack of time. They propose that the boards should meet at least bimonthly for a whole day meeting for committee sessions and other related activities and once a year for a two or three day session for deciding company strategy. They argue that frequent meetings provide dialogue opportunity among directors which lead to effective monitoring and governance, eventually results in improved financial performance. Conger et al. (1998) suggest that directors need sufficient, 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 routine board meetings make only a small contribution to board effectiveness or have little real impact on the performance of the firm. Taking this view, Jensen (1993) argues that standard board meetings are a routine task in which the CEO sets the agenda and most of the board meeting time is spent on these tasks, providing little opportunity for outside directors to exercise initiative leading to meaningful control over the company management. He suggests that boards should be more active when there are problems and 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 empirically examines the impact of board meeting frequency on financial performance for a sample of the 350 largest firms listed in the Forbes Compensation Survey over the period 1990-94 and finds that boards that meet more frequently are valued less by the market. He also reports that abnormally high meeting frequency leads to better performance in subsequent years, however.
the improvement in the performance was more significant for the firms experiencing poor performance and firms not engaged in corporate control transactions.

Brick and Chidambaram (2008) expect that boards will increase their activities to insulate them from the allegations of inactiveness if the company performs poorly in the future. They further state that the boards will be meeting more frequently in response to corporate events such as mergers and acquisitions. Brick and Chidambaram (2010) examine the impact of board activity on financial and accounting performance in a broad panel of 5,228 firm year observations over a six year period 1999 to 2005 and they support the findings of Vafeas (1999) and Adams (2005) that board activity is driven by past performance. They also show that higher board monitoring leads to better financial performance but have no impact on accounting performance, thus proving the concept that higher investment opportunity leads to more frequent board meetings.

Jackling and Johl (2009) study the impact of board activity, measured by board meeting frequency, on financial performance in a sample of 180 top Indian companies listed in the Bombay Stock Exchange and find no significant relationship between board meeting frequency and financial performance. A possible reason for this finding has been explained by Balasubramanian (2010, p.121), who states that traditionally in India, boards were considered as legal necessities fulfilling compliance requirements but with limited practical usefulness of fulfilling compliance requirement, therefore, they operated in a way that had little impact on company performance.

There is still a scarcity of empirical research analysing the impact of board meeting frequency on family owned businesses. Nielsen and Frishkoff (1991) compare the data of family firms with non-family firms and state that family business directors meet significantly less often than directors serving on non-family business boards, they conclude that higher number of board meetings are organised by those boards having no active participation of family members. Van den Berghe and Carchon (2002) analyse questionnaires received from 325 Belgian companies and report that family boards hold fewer meetings compared to non-family boards. They further compare person-owned family Business (where a person owns more than 50% share) and family-owned family Business (where family owns more than 50% share) and find that family-owned family business holds more meetings and the frequency of these meetings increases over generations.
Garcia-Ramos and Garcia-Olalla (2011) examine the impact of board governance on financial performance in public founder and non-founder-led Spanish, Italian and Portuguese listed family businesses during 2001-2007. Their findings support the agency theory proposition and show a positive relationship between frequency of board meetings and firm performance. They further show that founder-led family businesses hold less frequent board meetings as compared to non-founder-led family businesses. They explain their findings on the basis of Dana and Smyrnios’s (2010) argument that in founder-led family businesses informal meetings such as meal and family gatherings are perceived by external investors as a replacement for formal board meetings.

Pandey et al. (2011) empirically examine the relationship between board meeting frequency and financial performance in a sample of 131 top listed Indian family firms and find no significant relationship between board meeting frequency and financial performance. They further subdivide the whole sample into traditional and new economy industries and demonstrate a positive relationship between board meeting frequency and financial performance for traditional industries. However, for new economy industries, they find a negative relationship between board meeting frequency and financial performance. 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 that would be caused by having too many board meetings.

In summary, the literature suggests some ambiguity in the relationship between board meeting frequency and financial performance. Moreover, there have not been enough studies to explain this relationship in the context of emerging economy such as India. This study addresses this issue and provides empirical support to define the direction of relationship between board meeting frequency and financial performance in the context of an emerging economy.

3.6.2 Board meeting frequency and social performance

Although the frequency of board meetings and its impact on financial performance has been widely discussed in corporate governance literature, there is a scarcity of systematic empirical research to address the impact of board meeting frequency on corporate social performance.
This thesis extends available literature on the impact of board meeting frequency on financial performance in the context of social performance.

Prior literature explaining the impact of board meeting frequency on financial performance suggests that the board of directors may influence financial performance. The question is whether board of directors can influence corporate social performance and whether board meeting frequency has any bearing on this. The literature suggests that the boards have responsibility of monitoring and supervising management, designing strategies and allocating resources. Therefore, it is a reasonable hypothesis that boards will play a dominant role in improving corporate social performance.

Ricart et al. (2005) conduct an in depth analysis of the governance system of the 18 leading corporations in the market sectors included in the Dow Jones Sustainability World Index and they report that sustainability is usually discussed informally during every board meeting because sustainable development has been integrated into the core strategy of these businesses. They find that the frequency of meetings where sustainability policies are formally discussed varies from one to four times in a year.

Zahra (1989) conduct interviews of CEOs and board members of 72 manufacturing companies to analyse the relationship between board process and corporate social responsibility performance. She measures efficiency of board process by evaluating directors’ responses to five items, (a) level of meetings attended (b) frequency of board meetings (c) quality of board deliberations (d) thoroughness of board deliberations and (e) boards’ effectiveness in making decisions. She reports that effective internal board processes are positively related to corporate social responsibility performance.

In summary, the literature strongly conveys that there is still scarcity of empirical studies connecting board meeting frequency and social performance. Therefore, the relationship between board meeting frequency and its impact on social performance is an open empirical question which needs to be analysed further to make contribution to the existing literature. This thesis addresses this gap and investigates the impact of board meeting frequency on social performance of listed family controlled firms in India.
3.7 CEO duality and firm performance

3.7.1 CEO duality and financial performance

CEO duality and its impact on firm performance is one of the widely addressed topics in the corporate governance research. Duality refers to a situation when the same person holds the position of a CEO and Chairperson in an organisation. The duality exists in those countries which follow single-tier board system (e.g. USA) where both executive and supervisory power is held with a single board. OECD principles (2004) recommend a separation between the posts of the CEO and Chairperson to achieve an appropriate balance of power, to increase accountability and to improve the board’s independent decision making. The UK Corporate Governance Code (2010) does not directly mention the term ‘duality’ but emphasises on a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company’s business. It further states that no one individual should have unfettered powers over decisions.

In India, none of the committees appointed to recommend best governance practices suggest a separation between the CEO and Chairperson’s role. The Desirable Corporate Governance Code by CII (1998) advocates the importance of single-tier board for maximising long term shareholder value and suggests that there is no need to implement two-tier board system. The Kumar Mangalam Birla Committee Report (2000) suggests in its non-mandatory recommendations that the Chairperson’s role in principle should be different from the CEO’s role but recognises that same individual might perform both these roles. Clause 49 of Listing Rules is silent about the possibility of the CEO also holding the Chairperson’s role in the public limited corporations in India.

Prior literature offers contrasting evidence on the relationship between CEO duality and its impact on firm performance. Studies conducted in the past have used a wide range of terminology for the separation of the CEO and Chairperson’s role. Researchers have used terms such as duality and non-duality (Lam & Lee 2008; Baliga et al. 1996; Finkelstein and D’Aveni 1994), board leadership and CEO power (Jackling and Johl, 2009), unitary and dual leadership (Brickley et al.1997) and dual and non-dual structure (Abdullah, 2004).

Prior researchers have adopted two different views for explaining the impacts of CEO duality on firm performance. Researchers opposing duality argue that separation of the CEO and Chairperson’s role and the assignment of the roles to different people enhances the board’s
ability to monitor managerial behaviour, therefore, it is argued that this is or should be associated with better financial performance (Jackling & Johl 2009; Millstein 1992; Lorsch & MacIver 1989). They further argue that combining the role of the CEO and Chairperson can be compared to a situation where the CEO is marking his own exam papers (Dedman 2002). This situation makes the CEO more powerful, enhances the possibility of CEO entrenchment and makes the board less independent and ineffective in monitoring selfinterested behaviour by management (Rhoades et al. 2001; Finkelstein & D’Aveni 1994; Daily & Dalton 1993; Jensen 1993).

Counterposed to this, advocates of the value of CEO duality suggest that a single person holding both the CEO and Chairperson’s post has more power and greater authority to take and implement decisions, which eventually leads to better financial performance (Donaldson & Davis 1991; Anderson & Anthony 1986). They further argue that the CEO non duality can lead to the dilution of the CEO power as a leader, can cause a rivalry between the CEO and the Chair, create confusion due to lack of clear-cut leadership and may limit CEO innovation and intrapreneurship skills, which may negatively affect performance (Baliga et al. 1996; Alexander et al. 1993).

Rechner and Dalton (1991) conduct a multiple year comparison of financial performance between firms with CEO duality and those with independent boards for a sample of 141 firms (21.3% of the firms with non-dual leadership structure and 78.7% dual structures) over the period 1978-1983. Using ROE, ROI and profit margin for measuring financial performance, they show that firms with a dual leadership structure outperform those with non-dual structure. However, this study does not control variables such as ownership structure, industry type, firm size and environment which may also have a significant impact on financial performance and might create quite different environments that could change the balance of the advantages and disadvantages of dual and non-dual structures.

Pi and Timme (1993) argue that combining the roles of the CEO and Chairperson aggravates principal-agent conflict because of the amalgamation of control and monitoring processes. They study the impacts of board leadership structure on financial performance measured by cost efficiency and ROA for a sample of 112 banks over the period 1987-1990 and find that banks with separate CEO and Chairperson have higher ROA and better cost efficiency as compared to the banks having duality.
Boyd’s (1995) study provides partial support for both agency theory and stewardship theory for explaining the relationship between CEO duality and financial performance. He suggests that although meta-analysis of prior researches conducted on this topic provides an indication of a negative relationship between CEO duality and financial performance, his findings suggest that both agency theory and stewardship theory are insufficient to explain this relationship. He states that duality can have a positive impact on performance under certain industry conditions and negative impacts under other conditions.

Baliga et al. (1996) examine the impacts of CEO duality on firm performance for a sample of Fortune 500 companies over the period 1980 to 1991. Unlike previous studies they also consider the announcement effect of changes in duality status, accounting measures of performance for firms that have changed their leadership structure and measurement of long term performance of firms that have a consistent history of a duality structure. Their findings suggest that duality has no impact on firm performance, they further state that change of leadership structure from duality to non-duality is a kind of scapegoating (Gamson & Scotch 1964) and more likely a symbolic way of communicating to shareholders that board is efficiently performing its supervisory role (Pfeffer 1981).

Finkelstein and D’Aveni (1994) integrate both contrasting theoretical perspectives to develop a contingency framework that consolidates the otherwise alternative explanations of CEO duality by considering two critical contingency factors: informal CEO power and firm performance. Using this contingency framework, they examine the impact of CEO duality on performance in a sample of 108 firms from three industries: 41 firms from printing-publishing industry, 35 firms from chemical industry and 32 firms from computer industry. Their findings contradict the proponents of agency theory and suggest that vigilant boards favour CEO duality as boards are more concerned with unity of command rather than entrenchment avoidance. Their findings further suggests that board vigilance is more strongly associated with CEO duality when firm performance is high, which means that boards prefer non duality when either CEO informal power is high or firm performance is high.

Brickley et al. (1997) argue that although there are benefits to be gained from separating the roles of CEO and Chairperson as explained by proponents of agency theory, there are costs as well, such as agency costs of controlling the behaviour of powerful Chairperson, information costs, succession cost and other costs (inconsistent decision making with shared authority). They empirically analyse data of 737 firms collected from the 1989 Forbes survey of executive compensation and find that for most large firms the costs associated with the
separation of the CEO and Chairperson’s role are larger than the benefits, thus contrasting with previous findings.

Lam and Lee (2008) also consider the family aspect in studying the relationship between CEO duality and firm performance in a sample of 128 publicly listed companies in Hong Kong in 2003. Their findings suggest that family-controlled firms have a higher proportion of CEO duality as compared to non-family firms and CEO duality is positively related to board independence which is contrary to prior findings that CEO duality leads to CEO entrenchment and reduced board independence. Their findings further suggest that the relationship between CEO duality and accounting performance is contingent on the presence of family factor; duality is positively related to accounting performance for non-family firms and negatively related to accounting performance in family firms. They do not show any relationship between CEO duality and market performance for both family and non-family firms.

Dey et al. (2011) suggest that the decision by a firm to adopt a particular leadership structure (dual or non-dual) depends upon costs and benefits of alternative structures based on the business and economic environment. They examine the impact of splitting the CEO and Chairperson position on financial performance in a sample of 232 switcher firms (firms that changed their leadership structures from single tier to two tiers or vice versa) over the period 2001 to 2009. They find that splitting roles of the CEO and Chairperson due to environmental pressure have negative impact on financial performance.

In summary, empirical findings about the relationship between duality and financial performance are mixed and inconclusive. Some researchers empirically support the separation of the roles of CEO and Chair (Rechner & Dalton 1991; Daily & Dalton 1994) while others advocate for combining these roles for efficient decision making (Donaldson & Davis 1991; Brickly et al. 1997; Coles et al. 2001). A few other researchers do not find any significant relationship between CEO duality and firm performance (Baliga et al.1996; Daily & Dalton 1992, 1993, 1994; Dalton et al. 1998; Dulewicz & Herbert 2004). Therefore, the relationship between CEO duality and financial performance is an open empirical question which needs to be explored further to define the direction of ambiguous relationship between these two variables.
3.7.2 CEO duality and social performance

Although impacts of CEO duality on both market and accounting performance have been studied widely by corporate governance researchers but there is a lack of empirically supported literature to explain the direction of relationship between CEO duality and social performance. Very recently, some of the researchers (discussed below) have tried to investigate the relationship between board governance characteristics and its impact on social and environmental performance. Most of these researches are extension of the literature covering financial performance and use agency and stewardship theories for hypothesising the relationship between CEO duality and corporate social performance.

Barktus et al. (2002) investigate the relationship between CEO duality and corporate philanthropic activities in a sample of 66 US firms dominated by the presence of CEO duality. Their empirical analysis suggests no significant relationship between CEO duality and philanthropic activities.

Said et al. (2009) study the relationship between corporate governance characteristics and extent of corporate social responsibility disclosures in a sample of 250 publicly listed Malaysian firms for the year ended 2006. They find no significant relationship between the CEO duality and corporate social responsibility disclosure. Similar to Said et al (2009), Sahin et al (2011) also adopt an agency theory perspective for explaining the relationship between duality and social performance. They hypothesise that CEO duality might lead to a worsening of social performance. But similar to Barktus et al. (2002) and Said et al. (2009), their empirical analysis does not reveal any significant relationship between CEO duality and social performance.

CEO duality and its impact on social performance is a new area of research and needs to be further explored for better understanding of this relationship. Lack of existing literature makes this relationship an open empirical question. Moreover, none of the studies conducted in the past have addressed this relationship in the context of emerging economies. This thesis fills this gap and contributes to the existing corporate governance research by studying this relationship in the context of India, an emerging economy dominated by the presence of family owned listed companies.
3.8 Cross-directorships and firm performance:

3.8.1 Cross directorship and financial performance

Cross directorships, also known by corporate governance researchers as multiple directorships or board busyness, have been addressed extensively in corporate governance and finance research. Corporate governance best practice guidelines, listing rules and regulators around the globe have also given weight to this issue. OECD principles of Corporate Governance (2004) emphasise periodic disclosures of key executives qualifications, remuneration and other directorships held by key executives. However, OECD guidelines provide no recommendations on putting a cap on maximum number of directorships could be held by an individual director. The UK Corporate Governance Code (2010) underlines commitment of board of directors and states that all directors should be able to provide sufficient time to the company in order to discharge their responsibilities effectively. Provisions of this code further recommend that the board should not allow a full time executive director to take more than one executive directorships or Chairmanship in a FTSE 100 company.

In India, Clause 49 of the Listing Rules states in its mandatory recommendations that a director shall not be a member of more than 10 committees or act as a Chairperson of more than five committees in which he is a director. Clause 49 further imposes mandatory requirement on both companies and directors for making proper disclosures related to multiple directorships. Clause 49 does not mention the maximum number of directorships that could be held by executive and non-executive directors of listed companies in India.

Early researchers have treated cross-directorship as an issue of directors’ reputation (Jiraporn et al. 2008). Fama (1980) states that outside directors are regarded as professional referees by the external market whose task is to supervise the competition among firm’s top managers. Fama and Jensen (1985) contend that outside directors have incentives to develop their reputation as a decision controller in the board process. Although reputational explanation of directors’ cross-directorships has been given empirical support by later researchers (Gilson 1990; Kaplan & Reishus 1990), recently a number of researchers have described cross-directorships as a hindrance to effective decision making due to lack of commitment i.e. the busyness hypothesis (Core et al 1999; Shivdasani & Yermack 1999).
Pfeffer (1972) argues the benefits of interorganisational dependence as a way for promoting the exchange of resources and networking. Similarly, Mizruchi and Stearns (1994) and Booth and Deli (1996) state that directors having outside connections can help an organisation to collect necessary resources for effective running of business. The resource dependency argument hypothesises that multiple directorships held by board of directors should be positively related to firm performance.

Core et al. (1999) investigate the impact of board governance structures on CEO compensation for a sample of 205 publicly traded US firms over a three year period and find a significant relationship between board governance and CEO compensation. They show that the percentage of outside directors who serve on multiple boards is positively related to excess CEO remuneration, thus supporting busyness hypothesis. Similarly, an empirical study conducted by Shivdasani and Yermack (1999) in a sample of Fortune 500 firms also shows a lack of effectiveness of directors having multiple appointments.

**Fig 3.5: Three approaches adopted by prior researchers for explaining relationship between multiple board appointments and firm performance**

Ferris et al. (2003) support the viewpoint of Fama and Jensen (1993) that multiple directorships held by directors has positive effects on firm performance. Using a sample of 3190 firms they investigate the impacts of multiple cross directorships on financial performance and find that reputation matters in the market for directors. They find a positive
relationship between number of board seats subsequently held by a director and firm performance, thus contradicting with the argument of busyness hypothesis.

The findings of Fich and Shivdasani (2006) support the busyness hypothesis argument that overstretched directors serving on multiple boards are not effective monitors. Using a panel of large US industrial firms from 1989 to 1995, they report firms with a majority of busy outside directors have lower market to book ratio as compared to other firms. They also report that these firms also display lower ROA, lower asset turnover ratios and lower operating return on sales.

Jiraporn et al. (2008) contend that multiple directorships held by board of directors affect the monitoring and supervisory effectiveness of the board. They examine the impact of multiple directorships held by directors on firm value in a sample of 3605 firm year observations over the period 1998 to 2002. Using various methods of measuring board busyness, they show an inverse relationship between board busyness and firm value and conclude that over committed boards diminish the value of the firm, supporting the busyness hypothesis.

Sarkar and Sarkar (2009) find contradicting evidence of a relationship between multiple directorships held by independent directors and the value of the firm. They state that in India the incidence of multiple directorships is high compared to other global counterparts. Using a sample of 500 large Indian firms, they find a positive relationship between independent directors’ multiple directorships and firm value; however they report a negative relationship between insiders’ cross directorships and firm value. Unlike previous studies which support the busyness hypothesis, their findings support the quality hypothesis and resource dependency hypothesis.

Ahn et al. (2010) examine the impact of multiple directorships on stockholder wealth during the announcement of mergers and acquisitions in a sample of 1207 merger and acquisition observations from 1998 to 2003 and report that acquiring firms with directors having multiple board assignments experience highly abnormal returns. They further state that this effect is only significant when board busyness surpasses a certain threshold. He explains that below this threshold the reputation effect is much more powerful than busyness effect and once the number of directorships surpasses this threshold then the busyness effect becomes more powerful than reputational effect.
Pombo and Gutierrez (2011) investigate the impact of board busyness on firm performance in an environment of no regulation for privately held firms for a sample of 335 firms per year for the 1996-2006 periods with 244 private firms and 285 affiliated to seven largest non-financial business groups. They report that outside directors having multiple board appointments have a positive impact on financial performance but too much busyness negatively influences financial performance.

Therefore, it can be concluded that the relationship between multiple board appointment and firm financial performance is mixed and highly inconclusive. Prior studies have shown empirical evidence in support of the busyness, reputational and resource dependency arguments. However, very few studies address this relationship in the context of family ownership. This thesis contributes to existing literature by studying this relationship in the context on family firms listed in India, one of the emerging economies around the globe.

3.8.2 Cross directorships and social performance:

Although a large number of studies address the impacts of multiple board appointments on financial performance, the relationship between cross directorships and corporate social performance is a new area of research that lacks empirical evidence and effective theorising.

Kassinis and Vafeas (2002) investigate the impact of the number of directorships held by corporate directors on the likelihood of a firm being a target of environmental lawsuits against a firm for violating environmental laws in a sample of 209 US firms convicted and penalised for breaking an environmental law between 1994 and 1998. They find that the likelihood of becoming a lawsuit defendant decreases with the number of directorships held by outside directors, thus supporting the reputational and resource dependency arguments.

The existing theoretical framework used for explaining the relationship between board busyness and financial performance has been extended by researchers to define the direction of this relationship in terms of social performance. This study makes an original contribution to the existing governance and sustainability literature by collecting empirical evidence of the relationship between multiple board appointments and social performance in the context of large listed family owned businesses in India.
3.9 Board committees and financial and social performance

In modern corporations, it has become a custom to establish board committees. These board committees help the board to discharge its oversight responsibilities for governance of the corporation for the overall benefit of its shareholders (Balasubramanian 2010, p. 170). The Bosch committee in Australia has also recognised the importance of establishing board committees and states “The effectiveness of the board, and particularly of the non-executive directors, is likely to be enhanced by the establishment of appropriate board committees. They can distribute the board’s workload and enable more detailed consideration to be given to important matters and, where sensitive issues (such as appointment of auditors) have to be considered, an appropriately constituted committee may give independent consideration which will be valuable”. Therefore, in summary, it can be said that board committees help directors to deal with highly specialised issues, thus helping them in timely and efficient decision making.

A number of studies have addressed the role of board committees and their impact on board activity and performance. Klein (1998) states that corporate boards delegate tasks to board committees, thus a higher number of board committees reflects the amount of delegation by the board to these committees (Vafeas 1999). In her empirical study Klein (1998) does not find any relationship between presence of the audit, compensation and nominating committees and firm performance. However, she states that dominance of insiders in the board’s investment committee improves firm performance, thus, supporting the view point that insiders have more information about the firm as compared to outsiders.

Vafeas (1999) conducted an empirical study to find the net effect of delegation on board activity and the overall impact of number of committees on firm value. He reports that boards having more committees meet more often thus suggesting that a higher number of board committees increase the need for supervision and coordination by the board. Vafeas (1999) does not find any evidence of a relationship between the number of board committees and firm value.

In the context of family businesses, Jaggi and Leung (2007) find that dominant presence of family members on the Board of family-controlled companies has a significant negative impact on the effectiveness of audit committee. Similarly, a number of studies have been conducted to investigate the impacts on firm performance of board committee effectiveness and expertise (focussing in particular on the audit committee, compensation committee, and
nomination committee) (Dhaniwal et al. 2006; Carcello and Neal 2003; Lee et al. 2004; DeFond et al. 2005). Unlike these studies, this thesis investigates the specific case of the impact of the number of board committees on the financial and social performance of family-controlled listed firms in India. This thesis does not examine the functioning of individual board committees such as Audit, compensation and nomination committees.

It seems that the impact of the number of board committees on social performance has never been empirically analysed before, therefore, this thesis makes an original contribution to the existing governance and sustainability literature by investigating this relationship in the context of family businesses.

3.10 CEOs and Chairpersons’ demographics and its impact on financial and social performance

A central question in the minds of organisational theorists is, why do organisations act as they do? Upper echelons theory by Hambrick and Mason (1984) takes the perspective that demographic characteristics and personal connections of top management create normative pressures that will predictably shaping organisational outcome. Hosmer (1982) and Mintzberg (1978) suggest that the CEO and Chairperson are symbolic leaders of an organisation whose thoughts are significant in resource allocation and decision making process. Hambrick and Mason (1984) and Hambrick (2007) argue that top management’s demographic characteristics such as age, experience, gender, ethnicity and diversity influence their decisions and eventually organisational outcomes of organisations they lead. Hambrick and Mason (1984) provide a new emphasis in macro-organisational research and argue that organisational outcomes are perceived as a reflection of the values and cognitive bases of powerful actors in the organisation. They propose a model for explaining organisational outcomes based on upper echelon characteristics.

Lieberson and O’connor (1972) empirically investigate the impact of leadership effect on firm performance in a sample of 167 large US corporations over twenty years. They use three performance variables (Sales, earnings and profit margins) for comparing the impacts of changes in top management with the influence of factors such as state of the economy, the company’s primary industry and the company’s position in the industry. They report that leadership has a stronger effect on profit margin as compared to effects on sales and earnings.
Hambrick and Mason (1984) emphasise observable managerial characteristics such as age, tenure in the organisation, functional background, education, socio-economic roots and financial position because they argue that cognitive bases, values and perceptions of managers cannot be measured conveniently.

This thesis contributes to the existing literature on executives’ demographics by exploring the impacts of observable managerial characteristics on corporate financial and social performance in the context of an emerging economy.

The next section covers an extensive review of literature describing the evidence collected by other researchers to explain the impacts of these characteristics on financial and social performance.

3.10.1 Executives’ age and firm financial and social performance

There is a rich psychology literature addressing behavioural and intellectual changes in humans with increasing age. Tests of rigidity and flexibility demonstrate a possible connection between youth and flexibility, age and rigidity (Carlsson and Karlsson 1970). Chown (1960) states (using the ‘citing learning theory’) that with increasing age there is a decline in the ability to grasp new ideas and learn new behaviour. Child (1974) contends that older managers lack physical and mental stamina required for implementing organisation changes. Hart and Melon (1970) empirically examine the impact of managerial age on company growth in four UK industries and fifty large US corporations and find that managerial youths are more associated with corporate growth but for the UK sample only. Taylor (1975) empirically investigates differences in managerial decision making performance due to age and decision making experiences and find that managerial age is negatively linked to ability to integrate information in making decision and confidence in taking decisions. However it is positively associated with tendencies to seek more information. Other researchers (Carlsson & Karlsson 1970; Hambrick & Mason 1984; Finkelstein & Hambrick 1990) also report that older executives give more weight to financial and social security as compared to young executives, thus avoiding certain types of risky decisions while trying to achieve performance results well accepted as per industry norms.

Williams et al. (1995) empirically investigate the impact of managers’ age on the top management team’s structural change decisions in a sample of 76 firms. Their findings support the arguments of Carlsson and Karlsson (1970), Hambrick and Mason (1984), Finkelstein and Hambrick (1990). They conclude that older managers are less willing than
younger managers to make structural changes in the organisation. Barker and Mueller (2002) empirically examine the impact of CEO age on firm’s R & D spending and witness a strong negative association between CEO age and firm’s R & D spending, thus proving that older executives are generally less innovative compared to younger executives.

Although behavioural aspects of top managements’ age have been researched extensively in the psychology literature but there has been limited research investigating the impacts of the age of top management on firm’s financial performance. However, Koufopoulos et al. (2008) examine the impacts of the Chairperson’s age on financial performance by empirically analysing 27 survey questionnaires received from 27 chairpersons of Greek Corporations listed in the Athens Stock Exchange. Their findings suggest a positive relationship between age and firm’s competitive positioning, and a negative association between age and overall firm performance measured by ROA, after tax return on sales and total sales growth. Their findings on the relationship between age and financial performance cannot be generalised because of small sample size.

The literature review suggests that although there has been extensive research in Psychology explaining the impacts of age on intellect and behavioural changes, only a small number of researchers have tried to empirically analyse the impact of executives’ age on corporate performance-with inconsistent findings. Moreover, it appears that none of the studies in the past have explained the impact of executives’ age on sustainability related performance. This study contributes to existing research literature by investigating the impact of the CEO’s and Chairperson’s age on financial and social performance of large listed Indian family firms. Moreover, this study also extends the application of the upper echelon theory for examining a possible relationship between top management’s age and corporate social performance which has never been systematically and empirically studied.

3.10.2 Educational background and firm financial and social performance

Proponents of the upper echelon theory have attempted to find any possible linkage between educational backgrounds of top management personnel and strategic decision making, particularly innovation. Hambrick and Mason (1984) argue that educational background is a useful indication of knowledge and skill base, for example, it can generally be accepted that an engineering graduate will have a different cognitive base compared to a history and law graduate. Some researchers report positive associations between decision makers’ level of education and being innovative (Becker 1970; Rogers & Shoemaker 1971). Kimberley and
Evanisko (1981) examine the relationship between hospital administrators’ educational level and adoption of technological and administrative innovations. They report a positive relationship between administrators’ educational level and their willingness to adopt technological and administrative innovations.

Hambrick and Mason (1984) argue that it is not, the educational specialisation of top management team, but their amount of formal education that is positively associated with innovation. More educated managers display higher level of organisation innovation, leading to higher company growth compared to less educated managers (Norburn & Birley 1988; Bantel & Jackson 1989). Similarly, Hitt and Tyler (1991) and Wally and Baum (1994) find that executives with higher education display greater cognitive complexity in comparison to less-educated managers, which indicates an ability to absorb or create new and innovative ideas. On the other hand, Daellenbach et al. (1999) do not report any association between CEO education and innovation measured by R & D expenditure.

Some researchers have attempted to find relationship between the type of education and the strategic decision making capabilities of top management personnel. Hambrick and Mason (1984) suggest that the MBA program teaches analytical skills to managers to avoid big losses or mistakes while running the business. On the other hand, Collins and Moore (1970) argue that trained managers are not as innovative or risk prone as compared to self-made managers, as business schools are not well-armed to produce innovative managers (Hambrick and Mason, 1984). Tyler and Steensma (1998) argue that executives having educational background in science and engineering are more inclined to new technology adoption as compared to executives from other backgrounds. Barker and Mueller (2002) argue that CEOs having formal qualification in business or law may have less inclination towards adopting innovative technology, and their empirical research supports the view that CEOs having science and engineering backgrounds are associated positively with R & D spending. They further report that CEOs with business degrees do not have a significant association and CEOs having a law background have a negative association with R & D expenditure, a proxy taken to measure innovation.

The above discussion clearly indicates that extensive research has been conducted by numerous researchers to investigate the impact of amount and type of top executive education on cognitive complexities but there have been very few studies addressing the relationship of top executives’ educational background and financial and social performance. Koufopoulos et al. (2008) empirically examine the impact of Chairpersons’ education on the performance of
27 Greek corporations and find no significant relationship between the Chairperson’s amount of formal education and organisational financial performance. They further report a positive correlation between economics degrees and organisational performance and a negative relationship between business administration degrees and organisational performance but these relations are statistically non-significant.

Few other researchers (Frank et al. 1993; Jones et al. 1990; Frank & Schultz 2000; Manner 2010) have tried to extend the available literature by examining the relationship between top executives educational background and corporate social performance. Frank et al. (1993) investigate the impact of teaching ‘self-interest model’ based economics on students’ behaviour and find that after completing the first semester economics students showed less cooperation towards other students and responded less honestly to ethical dilemma questions. Other researchers (Jones et al. 1990; Frank & Schultz 2000) also obtained similar findings as that of Frank et al. (1993) regarding self-interested behaviour of economics students. Although, the researches discussed above indicate that executives having economics and business qualifications are less inclined towards achieving social performance, these researches do not address directly the impact of managerial educational background on corporate social performance.

Manner (2010) directly addresses the relationship between top executives educational background and corporate social performance. He empirically examines the impact of the CEO educational background on corporate social performance measured by the KLD ratings. He reports that CEOs having a bachelor’s degree in humanities are positively associated with corporate social performance while those having bachelor’s degree in economics are negatively associated with corporate social performance.

There is a rich literature providing a strong indication of a possible linkage between top executives’ educational background and organisational performance. But, there is scarcity of literature that directly addresses the impact of executives’ educational background on financial and social performance. This study contributes to the existing literature by examining this relationship in the context of an emerging economy.

3.10.3 Work experience and firm performance:

Strategic management researchers have conducted extensive research to examine top executives’ functional work experience and strategic decisions taken by them. Dearborn and Simon (1958) find that when executives from different functional background were given the
same problems, they largely defined the problems in the context of their functional background, despite being asked to respond from a company perspective as a CEO of the organisation. Hambrick and Mason (1984) suggest that the functional-track experience of an executive may have some influence on strategic decisions made by that executive. Prior researchers (Katz & Kahn 1966; Miles & Snow 1978; Hays & Abernathy 1980; Hambrick & Mason 1984) classify functional work experience into three categories: output function (marketing, sales and product R&D)- which emphasise growth and the search for new opportunities; throughput functions (production, process engineering and accounting)- which emphasise improving the efficiency of the transformation process, and peripheral functions (law and finance)- which emphasise administration, coordination and formal planning.

Norburn and Birley (1988) test the impacts of CEO characteristics and background on corporate performance in a sample of 953 top managers from five industries- dairy, footwear, tyres, mobile homes and machine tools. They report that top management teams having extensive output functional experience outperform other top management teams. They also report a positive correlation between executive tenure and the profitability of firms in stable industries but witness a negative relationship in turbulent industries.

In relation to the impacts of executive work experience on corporate social performance, Thomas and Simerly (1994) empirically examine the relationship between managerial characteristics and corporate social performance in a sample of 350 corporations listed in Fortune’s (1989) survey of America’s most admired corporations. Their findings basically support the upper echelon theory’s argument that organisations are reflections of their top managers. They show that CEOs having longer tenure in the company are associated with high corporate social performance as compared to other counterparts having shorter tenure. Thus their results support the argument that executives who spend longer periods in a company have superior knowledge of stakeholders’ needs and they can design and implement policies to address those needs. Similarly, the research of Manner (2010) provides tentative support for the argument of a positive relationship between executive position tenure and corporate social performance. Manner (2010) reports that the breadth of decision-makers stakeholder experience is positively associated with strong corporate social performance; however they do not find any significant relationship between the breadth of shareholder experience or general management experience and corporate social performance.

As the above discussion attests that there is a growing body of literature addressing the impacts of work experience on financial and social performance. A very limited number of
studies have empirically investigated the influence of work experience on social performance. Koufopoulos et al. (2008) look at the position tenure in three different ways: tenure in the industry, tenure in the company and tenure in the position. They empirically investigate the impacts of these factors on overall (both financial and social) performance and report a positive relationship between position tenure and overall performance.

To get a better understanding of this relationship, there is a strong need to conduct more studies in different samples and country contexts. This study adds to existing literature by finding evidence of this relationship in the Indian context, dominated by the presence of large family owned and controlled companies where most of the CEOs or Chairpersons are founders having very long company tenure.

3.11 Integrated and decoupled performance

Corporations are subject to multiple pressures to operate in a socially responsible manner and to deal with conflicting economic and social objectives (Weaver et al. 1999). These pressures can be both external and internal such as government requirement (external) and commitments of key managers (internal) (DiMaggio & Powell 1983; Wood 1991; Greening & Gray 1994; Miles 1987). There could be two general effects of these pressures. First, it can bring strategic changes that eventually get integrated into the regular affairs of the company (Weaver et al., 1999) or alternatively, corporate responses to these pressures for responsible behaviour can be just ‘window dressing’ that means their responses can easily be disintegrated or decoupled from regular organisational activities (Meyer & Rowan 1977).

Prior literature addressing integration and decoupling predominantly covers inclusion of socially responsible policies and programs in the routine organisational activities. These studies convincingly suggest that CSR initiatives integrated into company strategy and operations can generate both societal and corporate benefits (Weaver et al., 1999; Grayson and Hodges, 2004; Porter and Kramer, 2006). Reviews of literature in this area indicate that the available literature is conceptualised at the management ethical and operating level of the firm.

This thesis makes an original contribution to the existing literature by extending these concepts to the firm-wide governance and performance level in recognition of the very limited empirical research that has been conducted to investigate the impacts of family-related control and family-impacted board governance on integrated and decoupled corporate performance.
The roles of powerful management players’ in designing and implementing firm-level strategy in the Indian context have already been discussed in the previous sections of this chapter. This thesis also recognises the roles played by the CEO and the Chairperson in the context of listed Indian family controlled firms. Therefore, apart from family and governance impacts, this thesis also investigates the impacts of powerful management players’ demographic characteristics on both integrated and decoupled performance.

3.12 Conclusion

This chapter has extensively covered prior literature related to the topic of this thesis and it has also identified research gaps in the available literature. The Review of literature indicates that ownership type, its impacts on governance mechanism and firm performance has been a topic of interest among corporate governance researchers around the globe. Prior researchers to a larger extent have reported mixed and inconclusive findings regarding the family impacts on governance and these findings are different for different geographical locations, indicating that business environment, human values and beliefs also have a possible influence on this relationship. This study attempts to investigate the impacts of family control and management in the context of the India, an emerging economy where businesses are highly dominated by the presence of family owners and managers.

The upper echelons theory used by organisational researchers mainly emphasise top management characteristics and its impact on innovative, strategic decisions made by these managers. Recently interdisciplinary research has been conducted to investigate the impacts of demographic characteristics on financial and social performance of an organisation. Most of these studies have examined this relationship in the Western context. The contribution of this study is to test this relationship in the economically important and culturally unique context of family businesses in India. This study also adds new dimensions to the upper echelon demographic characteristics by examining the impacts of powerful management players’ demographic characteristics on integrated and decoupled performance.
CHAPTER 4
THEORETICAL PERSPECTIVES, CONCEPTUAL FRAMEWORK AND RESEARCH QUESTIONS

4.1 Introduction

This chapter first provides a discussion of the theoretical grounds underpinning the relationship between variables contained in the research questions. Second, it proposes a conceptual framework aimed at investigating effects of controlling family status, family-impacted board governance and powerful management players’ demographic characteristics on financial and social performance of listed Indian family firms. Finally, the chapter presents research questions that address research gaps identified in the previous chapter.

The extensive review of literature in the previous chapter suggests mixed and inconclusive findings for the influence of family ownership and control on firm governance and financial performance. Prior researchers have produced different findings for different geographical locations and company settings in relation to the impact of family control on financial performance. There has been extensive research on the impacts of family control and board governance on financial performance. But family control and its impact on firm governance and corporate social performance is a comparatively new area of research. A growing body of literature clearly suggests a possible relationship between family control and corporate social performance.

4.2 Theoretical perspective of the study

The empirical objective of this thesis is to develop models and provide evidence to explain effects of controlling family status, family-impacted governance and top management characteristics on corporate financial and social performance. Embedded in this empirical objective is the determination of the following key relationships:

1- Family-related control (through ownership and status) and its relationship to corporate financial and social performance

2- Family-impacted board governance mechanisms and their relationship to corporate financial and social performance
3- Powerful management players’ characteristics (specifically the Chairperson and CEO) and their relationship to corporate financial and social performance.

As this thesis deals with multiple relationships, it is necessary to invoke more than one theoretical perspective to justify these proposed relationships and interpret the results from their data analysis. Several theories used by family business researchers have already been discussed in the literature review chapter. In order to develop a theoretical framework in this chapter, brief discussion of the major theories is revisited. The next section discusses how perspectives on each of the above three groups of relationships can be underpinned by major theories used by prior researchers.

4.2.1 Family ownership status and firm performance- A theoretical perspective

4.2.1.1 Family ownership status and financial performance

Agency theory and stewardship theory has been widely used by family business researchers to explain the relationship between family related ownership characteristics and financial performance (Chrisman et al. 2010). Hiebl (2012) also acknowledges use of these theories for explaining the relationship between family business owners and managers.

Agency theory is based on the possibility of conflicts of interest between principal (owner) and agent (manager). The classic study of Berle and Means (1932) addresses the separation of ownership from control and its impact on financial performance. Jensen and Meckling (1976) highlight the cost of activities associated with aligning principal-agent interests and describe it as agency cost. As Chua et al. (2003) argue, divergent interests, informational asymmetries and bounded rationality in principal-agent relationships are factors responsible for the agency problem. Berle and Means (1932) and Jensen and Meckling (1976) argue that family control helps in mitigating the agency problem, hence leading to better financial performance.

Agency theory for explaining impacts of family related ownership characteristics have been the predominant paradigm adopted (Anderson & Reeb 2003, Villalonga & Amit 2006; Barontini & Caprio 2006; McConaughy et al. 1998). In the context of Indian family firms, Pandey et al. (2011) find that in a sample of 131 listed firms in India, 72.51% have a family CEO and 85.19% have a family Chairperson, of which 37.5% hold both positions. These statistics clearly indicate that Indian family firms are closely monitored and heavily supervised by family members. This could reduce the possibility of conflict between owner-manager interests as predicted in agency theory, so family impact on firm performance can be explained by agency theory.
On the other hand, proponents of stewardship theory emphasise the deep emotional bonding of family owners and managers with the firm and their deep concern for business well-being. Family managers have a broader vista as compared to non-family managers which help them to resolve problems related to ownership and control separation (James 1999). Moreover, they also have exceptional concern for firm’s longevity and strong incentives to closely monitor management (Andres 2008). Stewardship theorists further argue that family relations are largely based on altruism, loyalty and trust. Their belief is that the long-term nature of family businesses helps families to build a good reputation with customers and external capital providers (Ward 1988; Andres 2008; Anderson & Reeb 2003).

Although most studies in the past have used either one of these theories to explain the effects of family control characteristics on financial performance, Ramachandran and Jha (2007) argue that these theories should be used in a complementary way to understand organisational behaviour of family businesses. They further state that businesses are mainly driven by the principal-agent relationship (agency theory) but family businesses are also driven by stewardship principles. They argue that in a family controlled business, family and business are fused into an integrated institution. Therefore, a blend of agency and stewardship theories can be used to explain the behaviour of family businesses. Given that Indian family businesses have some unique characteristics that distinguish them from their global counterparts (covered in chapter 2), it is posited in this thesis that both agency and stewardship theories need to be invoked to explain why these characteristics may or may not affect the performance of these businesses.

4.2.1.2 Family businesses and social performance

Multiple theories have also been used in prior studies to explain the logic behind socially responsible/irresponsible behaviour of family businesses. Some studies emphasise self-interest behaviour of family firms and argue that family firms may act in a socially irresponsible manner (Banfield 1958; Rosenblatt et al. 1985; Schulze et al. 2001; Morck & Yeung 2004). On the other hand, literature related to organisational identity, image, reputation and identification suggests that family firms may act in socially responsible manner to earn a ‘good name’ in the society (Dyer & Whetten 2006). Berrone et al. (2010) and Gomez-Mejia et al. (2007) term this reputation and prestige as ‘socio-emotional wealth’ of family firms.

Scott (1995) proposes institutional theory (normative isomorphism) to explain the link between family control and social and environmental performance. He defines an institution
as a collection of “cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour”. He further states that the normative element of an institution guides its behaviour, primarily through a less explicit system of social norms and values.

Collins et al. (2000) contend that in family businesses members usually share norms and values which pressurise family members to conform to normative standards. Scott (1995) states that normative business influences can originate from both inside (within a family group) and outside of a family (e.g. Social network, government, professional organisation). Leaptrott (2005) argue that normative isomorphism results from an organisational need to obtain and maintain legitimacy. DiMaggio and Powell (1983) argue that when an organisation enhances its social acceptance or legitimacy, it helps in increasing its access to resources and exchange possibilities with other organisations which eventually increases its livelihood for survival. So it can be argued on the basis of institutional theory that family businesses tend to achieve better social and environmental performance in order to obtain social acceptance and a better business image for coming generations. Later generations would keep it alive by following family norms and values.

Some studies have used resource dependency theory and instrumental stakeholder theory to suggest that achieving better social performance may be helpful for family firms to generate goodwill or beneficial resources for the future (McGuire et al. 2012; Dyer & Whetten, 2006; Hadani 2007; Niehm et al. 2008).

The above discussion indicates that prior research has used alternative theories to explain the motivation of family firms to act in a socially responsible manner. This thesis will draw on multiple theories to underpin its empirical modelling of relationships between family firm-specific characteristics and socially and environmental performance.

4.2.2 Corporate governance and firm performance

4.2.2.1 Corporate governance and financial performance

Prior researchers (Jacking & Johl 2009; Nicholson & Kiel 2007) have acknowledged that a single theory cannot explain a varied and complex link between corporate governance and financial performance. Dalton et al. (2003) also support a multi-theoretic approach to understand why corporate governance mechanisms could enhance the performance of an organisation. Literature review chapter identified the widespread use of agency theory and
resource dependency theory to explain the impact of board governance on financial performance. This thesis also applies these theories to explain findings related to board governance and financial performance.

Agency theory from the board governance perspective emphasises proper board monitoring and supervision to provide adequate protection to shareholders from managers’ conflict of interest (Kiel & Nicholson 2003). Thus agency theory prescribes a highly independent board having a majority of outside directors and chaired by an independent director. Agency theory contains a notion that outsiders on boards will look after the interest of shareholders and will provide more confidence to the capital market. Dalton et al. (2003) state that in addition to agency theory other theoretical perspectives such as resource dependence theory and stewardship theory have been used by corporate governance researchers as complementary approaches to explain the impact of board governance on organisational behaviour and performance. Resource dependency theory assumes that organisations need to acquire and maintain resources from environment for their survival (Pfeffer & Salancik 1978; Sheppard 1995). Dalton et al. (2003) state that outside directors provide access to the resources needed by the firm that enhance organisational functioning, firm performance and survival. Some other researchers have used stewardship theory (as discussed in the previous section) for explaining the role of insiders in achieving financial performance (Davis et al. 1997).

4.2.2.2 Corporate governance and social performance

In contrast to the extensive literature addressing the link between corporate governance mechanisms and financial performance, scant attention has been paid to developing theoretical perspectives to explain how governance mechanisms affect socially responsible behaviour of corporations (Rowley & Berman 2000; Ullman 1985). The majority of studies on social performance have concentrated on investigating the relationship between corporate social responsibility and corporate financial performance (Rowley & Berman 2000; Walsh et al. 2003; Campbell 2007).

Garriga and Mele (2004) consolidate theoretical approaches adopted internationally by others to explain socially responsible behaviour of corporations. They find that these explanations are full of theories and rapidly growing new approaches which are controversial, complex and unclear. They broadly classify these theories and approaches into four groups: (1) instrumental theories, which explain socially responsible behaviour of businesses as a strategic tool to achieve economic goals; (2) political theories, which explain power of a
corporation in the society and its responsibility towards society; (3) integrative theories, which argue that businesses are dependent on society for their existence thus integrate social demands and social values in their functioning; and (4) ethical theories, which focus on ethical responsibility of businesses in the society.

Some researchers have also explained the socially responsible behaviour of corporations by using a broader perspective of agency theory. Ibrahim and Angelidis (1995) argue that strong corporate governance practices help boards to have control over management and are positively associated with greater concern for firms’ social responsibilities. Similarly, taking the agency theory argument, some researchers state that board independence is positively associated with social and environmental performance (Dunn & Sainty 2009; Webb 2004; Johnson & Greening 1999; Coffey & Wang 1998). Therefore, broader agency theory takes the point that better monitoring and governance will force management to look after the interests of a wide range of stakeholders including society and its environment.

Therefore, similar to the variety of theories explaining the linkage between corporate governance and financial performance, the relationship between governance and social performance can be explained by more than one theoretical perspective.

4.3 Powerful management players’ characteristics and performance

4.3.1 Powerful management players’ characteristics and financial performance

This thesis also has a primary objective to investigate impacts of powerful management players’ demographic and experiential characteristics on financial performance. This is a growing area of research, needing empirical findings to explain these phenomena. In the past institutional theory (normative isomorphism) and upper echelons theory has been used by researchers working in this area.

Institutional theory (normative isomorphism) has already been explained in the previous section of this chapter. In relation to the norms that are inferred from demographic and experiential characteristics of top executives and directors, proponents of normative isomorphism (drawn from institutional theory) state that formal education, professional affiliation, experience and learned values put normative pressure on these top executives and directors to follow expected professional (or family) behaviour (DiMaggio & Powell 1991; Greenwood et al. 2002).
Upper echelon theory argues that organisation outcomes can be seen as reflections of the values and cognitive bases of the powerful actors in the organisation (Hambrick & Mason 1984). Hambrick and Mason (1984) emphasise the impacts of observable managerial characteristics such as age, tenure in the organisation, functional background, education, socioeconomic roots and financial position on organisational strategy and effectiveness. This thesis models and empirically tests the relationship between Hambrick and Mason’s (1984) powerful actors and financial performance of family firms.

4.3.2 Powerful management players’ characteristics and social performance

Although there is a growing body of research explaining the linkage between normative characteristics of powerful actors and financial performance, very little has been done to find the impact of these characteristics on social performance. One study, Manner (2010) has used propositions from upper echelon theory to investigate the impact of CEO characteristics on corporate social performance. This thesis will be follow a similar approach to investigate the effects of powerful actors’ observable demographic and experiential characteristics—age, past experience, position tenure and qualification (which are assume to reflect their cognitive frames) – on corporate social performance.

4.4 Development of conceptual framework and research questions

In family owned and managed firms, family members will be actively involved in strategic decision making. Most of the major decisions impacting firm performance are likely to be made by family members. This study proposes a conceptual model suggesting the existence of three layers in family-owned and managed firms. These three layers are: family control (through ownership and socio-economic status), family-impacted board governance, and normative influences of powerful management players. This conceptual framework shown in the Figure 4.1 has been designed to investigate impacts of these layers on both decoupled and integrated financial and social performance. Moreover, this conceptual framework typically addresses large Indian family businesses as this framework has been designed by blending theoretical perspectives used in prior studies for application in the context of peculiar historical/cultural features of Indian family businesses.
Fig 4.1: Conceptual Framework
The first layer of the framework given in Figure 4.1 is the nucleus of the controlling families power (i.e., its extent of ownership and socio-economic status). This model proposes that controlling family status is the most dominant factor in deciding strategy and performance (both social and financial). This model suggests that family controlling status can be measured by the degree of family reputation, family shareholding, family generation, family business group affiliation and family social background. The conceptual framework suggests investigation of the impact of family controlling status on both decoupled and integrated financial and social performance. This leads to the first research question to be investigated by this thesis:

**Research question 1:**

*What is the impact of family controlling status (family reputation, family shareholding, family generation, family business group affiliation, family social background) on the financial and social performance, whether as decoupled or integrated performance, of listed family firms in India?*

**Fig 4.2: Family controlling status and its impact on decoupled and integrated financial and social performance**

The second layer (i.e., mid layer) refers to family impacted board governance characteristics which are a blend of board governance characteristics identified by prior researchers and family members involvement on board as an inside director, CEO or Chair. This model
suggests that family-impacted board governance characteristics can be measured by the degree of family CEO, family chair, founder on board, family members on board, gender diversity, insiders’ involvement, outsiders’ involvement, insiders’ reputation, outsiders reputation, board size, board independence, board philosophy, CEO duality, total no. of committees and board meeting frequency. The conceptual framework proposes the investigation of the impact of family-impacted governance on decoupled and integrated financial and social performance. This leads to the second research question to be explored by this thesis:

**Research question 2:**

*What is the impact of family-related and other board governance characteristics (family CEO, family chair, founder on board, family members on board, gender diversity, insiders’ involvement, outsiders’ involvement, insiders’ reputation, outsiders reputation, board size, board independence, board philosophy, CEO duality, total no. of committees, board meeting frequency) on the financial and social performance, whether as decoupled or integrated performance, of listed family firms in India?*

**Fig 4.3: Family-impacted board governance and its impact on decoupled and integrated financial and social performance**
The third layer (i.e. the outermost layer) takes into consideration the role of powerful actors in the family and their impact on corporate financial and social performance as suggested by the proponents of normative isomorphism and upper echelons theory. Similar to prior studies, this model can be used to investigate the impacts of measurable normative characteristics of directors such as their reputation, extent of education, holding an MBA, humanities/science-engineering/business qualification, foreign qualification, age, career experience, and tenure. This leads to the third research question to be investigated by this thesis:

**Research question 3:**

*What is the impact of the normative influences on top management, namely, the CEO and Chairperson, (their reputation, extent of education, holding an MBA, humanities/science-engineering/business qualification, foreign qualification, age, career experience, and tenure) on financial and social performance, whether as decoupled or integrated performance, of listed family firms in India?*

**Fig 4.4: Normative influences on key executives and its impact on decoupled and integrated financial and social performance**

Therefore, to conclude, this conceptual framework proposes a three layer study to investigate impacts of family controlling status and family-impacted governance on both decoupled and integrated financial and social performance as stated in the objective of this thesis. Moreover, this conceptual framework contributes to the existing family business and governance
research by investigating the impacts of the above mentioned variables on integrated financial and social performance.

4.5 Conclusion

Prior literature as discussed in the literature review chapter clearly reveals mixed results and ambiguity in explaining the impacts of family control characteristics, family related governance and normative characteristics of powerful family actors on financial performance. Moreover, it has been revealed by prior literature that some of these relationships are country/geographical location specific. To investigate the impact of these characteristics on the performance of listed companies in India this thesis also incorporates some variables significant in the Indian family context such as family reputation and family social background, which makes this study more relevant to the Indian business environment. In addition, prior literature reveals that very little empirical research has been done to find the impact of these characteristics on corporate social performance. Therefore, in order to address these issues and to fill the research gap this thesis proposes a model to study the impact of these characteristics on both corporate financial and social performance and to investigate factors leading to integrated and decoupled financial and social performance.
CHAPTER 5
RESEARCH METHODS

5.1 Introduction

The aim of this chapter is to discuss the research methods used in this study for investigating the effects of controlling family status, family-impacted governance and powerful management players’ demographic characteristics on financial and social performance of listed Indian family-controlled firms. This chapter also covers an explanation of the data analysis techniques and quantitative methods used in this study.

As discussed in the Chapter 2, the context of Indian family-controlled large businesses is a relatively under-research area lacking systematic quantity research. Although extensive family business research has been conducted in the West, predominantly by researchers from the USA, their findings are not readily transferable to Indian family-controlled listed firms because of peculiar characteristics specific to the cultural-socio-economic setting in India. Moreover, prior researches conducted in this area have investigated family businesses from only financial perspective. As described in the Chapter 4, this thesis is an extensive study investigating the impact of three layers of family businesses i.e. family ownership, governance and top management normative characteristics on both financial and social performance. Therefore, due to lack of prior literature in the Indian context, this thesis adopts an exploratory approach.

This chapter is divided primarily into three sections. First section briefly discusses philosophical basis of the research methodology adopted in this thesis. Second section includes a discussion on critical scrutiny of secondary data analysis, content analysis and quantitative methods used in this thesis. Third section comprises a detailed discussion on sample selection, data source, variable measurement and models used in this study followed by conclusion.
5.2 Research Methods

5.2.1 Philosophical basis of research methodology used

Bunniss and Kelly (2010) state that academic research arises from a philosophical tradition of systematic knowledge development. Lingard (2007) states that researchers’ epistemology and the kind of knowledge they want to contribute decide the shape of research questions to be investigated by them. The question of what should be assumed as acceptable knowledge in a discipline is an epistemological issue, especially the applicability of principles, procedures and ethos of the natural sciences in the social world (Bryman & Bell 2007, p.16). Chua (1986) explains three research paradigms: positivism, interpretivism and critical theory. Bunniss and Kelly (2010) mention four research paradigms: positivism, post positivism, interpretivism and critical theory. Table 5.1 describes ontological, epistemological and methodological differences among these research paradigm used by researchers.

For several decades’ theory construction and development in the mainstream accounting research literature has been predominantly conducted within the positivist paradigm (Chua, 1986; Bisman, 2010). Oler et al. (2010) investigate the use of positivism in accounting journal articles published in top tier accounting journals and find that published articles in these journal have heavily used a positivism approach.

Watts and Zimmerman (1990) state that modern positive accounting research started when researchers such as Ball and Brown (1968) and Beaver (1968) started applying empirical finance methods to financial accounting. Subsequently, accounting researchers started following the premise that accounting numbers supply information to a variety of users for investment decision making which can be investigated by using empirical methods (Watts & Zimmerman 1990). The positive theory draws behavioural assumptions from rational economics that managers, shareholders and regulators are rational and try to maximise their utility (Riahi-Belkaoui 2004). Positive theory is mainly used to explain and predict management’s choice of adopting a standard by conducting cost-benefit analysis of a particular financial disclosure for the wide range of users (Riahi-Belkaoui 2004).

As discussed in the literature review chapter, agency theory has predominantly underpinned the work of prior researchers in the area of family business and corporate governance and it is considered a highly influential accounting research approach in explaining current practices and predicting future outcomes in accounting policy choices.
Table 5.1: Ontological, epistemological and methodological differences among research paradigms

<table>
<thead>
<tr>
<th>Positivism</th>
<th>Post-positivism</th>
<th>Interpretivism</th>
<th>Critical theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontology: What is the nature of reality?</td>
<td>Reality is static and fixed</td>
<td>Reality is subjective and changing</td>
<td>Reality may be objective but truth is continually</td>
</tr>
<tr>
<td></td>
<td>according to an overarching objective</td>
<td>There is no one ultimate truth</td>
<td>contested by competing groups</td>
</tr>
<tr>
<td></td>
<td>truth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Epistemology: What is the nature of knowledge?</td>
<td>Objective, generalisable theory can be</td>
<td>Knowledge is subjective</td>
<td>Knowledge is co-constructed between individuals and</td>
</tr>
<tr>
<td></td>
<td>developed to accurately describe the</td>
<td></td>
<td>and groups</td>
</tr>
<tr>
<td></td>
<td>world</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Knowledge can be neutral or value-free</td>
<td>There are multiple, diverse</td>
<td>Knowledge is mediated by power relations and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>interpretations of reality</td>
<td>therefore continuously under revision</td>
</tr>
<tr>
<td>Methodology: What is the nature of the</td>
<td>The aim is to discover what exists</td>
<td>Focus on understanding using</td>
<td></td>
</tr>
<tr>
<td>approach to research?</td>
<td>through falsification of hypotheses</td>
<td>inductive reasoning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Theory is established inductively</td>
<td>Meaning is constructed in a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Uses scientific method to develop</td>
<td>researcher-participant interaction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>abstract laws, to describe and predict</td>
<td>in the natural environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>patterns</td>
<td>Gathers diverse interpretations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Looks for causality and fundamental</td>
<td>(e.g. grounded theory, ethnography)</td>
<td></td>
</tr>
<tr>
<td>Methods: What techniques can be used to</td>
<td>Tends to use quantitative methods,</td>
<td>Tends to use qualitative methods to</td>
<td>May use both quantitative and qualitative methods,</td>
</tr>
<tr>
<td>gather this information?</td>
<td>often including statistical testing of</td>
<td>capture various interpretations of a</td>
<td>usually in a participatory way</td>
</tr>
<tr>
<td></td>
<td>hypotheses (e.g. randomised controlled</td>
<td>phenomenon (e.g. naturalistic</td>
<td>Often uses iterative research design</td>
</tr>
<tr>
<td></td>
<td>trials, questionnaires)</td>
<td>observation, interviews, use of</td>
<td>(e.g. case studies, focus groups, participant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>narrative)</td>
<td>observation)</td>
</tr>
</tbody>
</table>

(Source: Bunniss and Kelly 2010)

In line with prior literature on family business and corporate governance, this thesis also follows a positivist paradigm. This thesis takes a mainly deductive empirical approach which starts with the formulation of wider research questions developed on the basis of research gaps identified in the literature review chapter. It then seeks to model and operationalize the concepts in the research questions in order to test specific relationships arising from the research questions. Quantitative analysis is employed on secondary data collected for this study.
5.2.2 Secondary data analysis

To explore the impacts of family control, board governance and top managers’ demographics on corporate financial and social performance, this study uses secondary data analysis. Secondary data analysis is a form of *ex post facto* archival method. It is a method of data collection and analysis used widely and extensively in corporate governance research.

Boslaugh (2007) differentiate between primary data and secondary data. She states that data collected by researcher (or team of researchers) for specific purpose or analysis is called primary data whereas secondary data is collected from information available from other available sources that has been collected for some other purpose. Quantitative researchers in accounting and finance disciplines have a long tradition of using publicly available data for explaining the relationships between variables that they model. This study also uses publicly available data on Indian family companies in order to investigate the relationships between family controlling status, family-impacted governance mechanisms, and demographics of powerful corporate management players, on the one side, and corporate financial and social performance on the other side.

5.2.2.1 Advantages of secondary data analysis

Prior researchers have identified both advantages and disadvantages of using secondary data for quantitative analysis. Some of the major advantages are:

1- Larger sample size: Devine (2003) argue that availability of secondary data can provide access to larger sample size as compared to primary data. Further, Devine (2003) contends that statistical analysis is much more straightforward in larger samples as compared to smaller samples collected by primary data collection.

2- Economic advantages: Boslaugh (2007) identifies economy as one of the major advantages of using secondary data for statistical analysis. Since the data is publicly available in electronic format, therefore, the researcher does not have to pass through the long and costly process of designing and implementing the research instruments and conducting fieldwork (Devine 2003).

3- Scope for new research: Devine (2003) recognises intellectual advancement as one of the major advantages of secondary data analysis. She argues that since the researcher has not collected data for any specific purpose, then analysing data from different perspectives can discover new relationships between variables and help in creating new knowledge.
4- Greater breadth: secondary data is more useful in conducting cross cultural and time series analysis research because of easy availability of data (Devine 2003). Collection of primary data for these types of researches is comparatively harder as compared to secondary data.

5.2.2.2 Disadvantages of secondary data analysis

1- Purpose: Boslaugh (2007) argues that existing secondary data sources do not collect data to answer your specific research questions. Moreover, unavailability of secondary data may force the researcher to change his or her research objectives, thereby restricting further research possibilities.

2- Data quality: unreliable secondary data sources may provide wrong, incomplete, obsolete information which may have a negative impact on research outcomes.

3- Sampling error probability: The probability of selecting an unrepresentative sample for secondary data analysis can cause sampling error. The sampling error issue is equally problematic in primary data collection as well.

Although like other research methods secondary data analysis has its advantages and disadvantages, by looking at the large sample size and complex models needed for this study, secondary data analysis is the most suitable research technique for this thesis. To mitigate the impacts of drawbacks mentioned above, thorough care has been taken in selecting data from reliable data sources and making sure that the sample is highly representative of the population.

5.2.3 Content analysis

This thesis uses content analysis as a research technique to quantify the content of corporate governance philosophy from the mission and vision statements of the sampled firms. Content analysis is also used in this thesis to quantify qualifications of top management of the sampled firms.

White and Marsh (2006) states that content analysis is a highly flexible research method which has its root in mass communication studies conducted in 1950s. They further state that today content analysis is being used by researchers in many fields, including management, anthropology, psychology, sociology, political sciences and library and information studies. Content analysis has been dominantly used by social and environmental accounting researchers for collecting empirical evidence from corporate social and environmental reports (Cowen et al.1987; Gray et al. 1995; Guthrie & Parker 1990; Guthrie & Abhaysekara 2006;
Krippendorff (2004, p.18) defines content analysis as “a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the context of their use”. Guthrie and Abhaysekara (2006) state that content analysis is a technique of gathering data that includes codification of both quantitative and qualitative information as per the pre-defined criteria. They further mention three requirements to make this technique an effective research technique. First, the clear and operational definition of categories of classification used for content analysis, second systematic data capture and third, reliability and validity of content analysis.

Like any other research technique, content analysis has its advantages and disadvantages. First advantage is that it can be managed with little expenditure of time, money or person power (Adler & Clark 2011). Second, it is a safe method; researcher can change coding scheme if flaws are detected during the course of study (Woodrum 1984; Tallerico 1991). Third, it is unobtrusive and non-intrusive, and therefore, the researcher’s demand bias does not have any impact on the content (Woodrum 1984; Adler & Clark 2011). Fourth, it is helpful in conducting longitudinal studies by comparing changes in the content in corporate disclosures over a period of time (Weber 1990).

Adler and Clark (2011) refer to some of the disadvantages of content analysis. First, this research technique is applicable only if content is available in the form of reports, disclosures and documentations. Second, validity of content analysis is doubtful as it looks only at the information without looking deep in the context of that information. Third, it is difficult to apply in the documents containing complex texts.

Apart from its several disadvantages this research technique has been widely popular among social and environmental accounting researchers and more recently among researchers working in the area of intellectual capital. This study mainly uses content analysis to find out sustainability related information in the corporate governance philosophy and organisations’ mission and vision statements.

5.2.4 Quantitative Research Methods: A justification

As discussed previously that positivist paradigm approach has been used predominantly by prior corporate governance researchers. The research method which is usually based on a positivist paradigm is quantitative method which holds that behaviour can be explained through objective facts (Firestone 1987). Quantitative research aims to determine the relationship between two or more given variables (Hopkins 2008). This research approach
describes, tests and examines cause and effect relationship between independent and dependent variables by using a deductive approach to establish new knowledge (Burns & Grove 1987; Duffy 1985).

This thesis investigates the effects of controlling family status, family impacted governance and normative influences of top management players’ on financial and social performance of the top 500 family firms listed on the BSE. This thesis develops models to explain the relationships among 40 independent variables and two dependent variables in a sample containing more than 12,000 observations collected from several sources. Therefore, the sample size and large number of variables used in this thesis justify the use of quantitative method for investigating these relationships. In order to explain the relationship between independent and dependent variables, this study uses comparison of means t-tests, correlation analysis and regression analysis to analyse data collected for this study. SPSS version 18.0 is used as the statistical software to analyse the data collected for the purpose of this thesis.

5.3 Sample

The sample of the companies for this study has been derived from the population of 5067 (as of March 2010) companies listed in the Bombay Stock Exchange (referred to BSE). The BSE is the oldest stock exchange of Asia having the largest number of listed companies in the world. According to the BSE website the equity market capitalisation of the companies listed on the BSE was US$ 1 trillion as of December 2011 which make it the 6th largest stock exchange in Asia and 14th largest in the world. As of March 2012, there are a total of 5133 companies (excluding permitting companies) and 9232 scrips listed on the BSE14.

In the first step of data collection, top 500 companies listed in the BSE are separated from the population of 5067 companies in the order of their market capitalisation. These top 500 companies, known as BSE 500, represent nearly 93% of the total market capitalisation on BSE15. The following bar chart shows representation of different types of ownership in the top 500 firms listed on BSE.

14http://www.bseindia.com/about/st_key/list_cap_raised2012.asp
15http://www.bseindia.com/about/abindices/bse500.asp
The above bar diagram indicates that out of top 500 firms, 101 firms are Indian multinational companies, 36 firms are multinational companies, 66 are public sector companies and 297 are public companies trading domestically. The top 300 family firms for the purpose of this study are selected from 398 firms (297+101) by following the approach of Miller et al. (2007), Saito (2008) and Pandey et al. (2011), who define a family firm as those in which founder or descendant or their blood or marriage relationship is chairperson or chairperson emeritus or CEO or Promoter (s) and/or founder’s family is largest shareholder in the company. Private family owned banks and financial companies are excluded from the sample as accounting rules for these financial institutions are different from other types of companies and the nature of capital and investment in these companies is different from other corporations (Gugler et al. 2008). The sample contains a good spread of Indian industries as indicated in Table 5.1.
Table 5.2: Industry classification of the sample

<table>
<thead>
<tr>
<th>Industry</th>
<th>No of Companies in sample</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Ancillaries</td>
<td>11</td>
<td>4%</td>
</tr>
<tr>
<td>Automobiles</td>
<td>8</td>
<td>3%</td>
</tr>
<tr>
<td>Cement</td>
<td>13</td>
<td>4%</td>
</tr>
<tr>
<td>Paints and Chemicals</td>
<td>16</td>
<td>5%</td>
</tr>
<tr>
<td>Construction and Infrastructure</td>
<td>23</td>
<td>8%</td>
</tr>
<tr>
<td>Diversified</td>
<td>9</td>
<td>3%</td>
</tr>
<tr>
<td>Electric and Electronic Equipment</td>
<td>11</td>
<td>4%</td>
</tr>
<tr>
<td>Engineering and Machinery</td>
<td>22</td>
<td>7%</td>
</tr>
<tr>
<td>Fertilizers and Pesticides</td>
<td>6</td>
<td>2%</td>
</tr>
<tr>
<td>FMCG and Consumer Durables</td>
<td>12</td>
<td>4%</td>
</tr>
<tr>
<td>Food and Food Processing</td>
<td>11</td>
<td>4%</td>
</tr>
<tr>
<td>IT Software and Education</td>
<td>14</td>
<td>5%</td>
</tr>
<tr>
<td>Diamond and Jewellery</td>
<td>7</td>
<td>2%</td>
</tr>
<tr>
<td>Entertainment and Media</td>
<td>6</td>
<td>2%</td>
</tr>
<tr>
<td>Metals and Minerals</td>
<td>35</td>
<td>12%</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>7</td>
<td>2%</td>
</tr>
<tr>
<td>Packaging and Plastics</td>
<td>11</td>
<td>4%</td>
</tr>
<tr>
<td>Pharmaceuticals, Drugs and Health care</td>
<td>18</td>
<td>6%</td>
</tr>
<tr>
<td>Power Generation and Supply</td>
<td>5</td>
<td>2%</td>
</tr>
<tr>
<td>Shipping and Logistics</td>
<td>6</td>
<td>2%</td>
</tr>
<tr>
<td>Sugar</td>
<td>8</td>
<td>3%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>5</td>
<td>2%</td>
</tr>
<tr>
<td>Textiles</td>
<td>24</td>
<td>8%</td>
</tr>
<tr>
<td>Trading</td>
<td>7</td>
<td>2%</td>
</tr>
<tr>
<td>Paper</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>3</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>300</td>
<td>100%</td>
</tr>
</tbody>
</table>
There are several primary sources of data used in this study. Corporate governance data such as board size, board meetings and attendance, number of committees and cross-directorships are collected from annual reports of the companies in the sample. The data related to demographic characteristics of the key family personnel such as the CEO and Chairperson are collected from companies’ websites and the directorsdatabase, a comprehensive database containing directors’ information maintained by the BSE. The data related to the family shareholdings, directors’ family link and family presence on the board is collected from annual reports, the directorsdatabase and from corporate information available from the BSE website. The financial data required for calculating measures of financial performance is taken from a number of financial databases such as the prowess and the equity market databases. The social responsibility ratings used for measuring social performance are taken from the karmayog website.

5.4 Research Model

The conceptual model described in chapter 4 of this thesis is divided into three models for systematic study of the impacts of controlling family status, governance and top management characteristics on financial and social performance.

Research Model: The following three regression models are developed for systematic study of the effects of controlling family status, family-impacted governance characteristics and powerful management players’ normative influences on financial and social performance of listed Indian family controlled businesses.

Model 1:

Model 1 investigates the impacts of controlling family status on financial and social performance:

\[ FP \text{ or CSP} = f (\text{controlling family status variables } + \text{ control variables (industry, firm size, firm age)}) \]  \( \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \]  Eq.1
Fig 5.2: Model 1 for investing impacts of family controlling status on financial and social performance

The following two equations are derived from the above model:

\[
FP= a + b_1 (FREP) + b_2 (FSHOLD) + b_3 (FGEN)+ b_4 (FBGAFFI) + b_5 (FSBACK) + b_6 (INDUS) + b_7 (FAGE) + b_8 (FSIZE) + b_9 (LAGFP) + \varepsilon \quad \text{----------eq 1a}
\]

\[
CSP= a + b_1 (FREP) + b_2 (FSHOLD) + b_3 (FGEN) + b_4 (FBGAFFI) + b_5 (FSBACK) + b_6 (INDUS) + b_7 (FAGE) + b_8 (FSIZE) + b_9 (FP) + \varepsilon \quad \text{----------eq 1b}
\]

**Model 2** investigates the impacts of family and board governance on financial and social performance:

\[
FP \text{ or } CSP = f (\text{family governance and board governance variables}) + \text{control variables (industry, firm size, firm age)}
\]

---

16 Variables and their meanings are explained later in the next section
Fig 5.3: Model 2 for investing effects of family impacted governance on financial and social performance

The following two equations are derived from the above model:

\[
FP = a + b_1 (FCEO) + b_2 (FCHAIR) + b_3 (FOUNDOB) + b_4 (FMOB) + b_5 (BGENDER) + b_6 (ININVOLVE) + b_7 (INREP) + b_8 (OUTREP) + b_9 (BSIZE) + b_{10} (BINDEP) + b_{11} (BPHIL) + b_{12} (BDUAL) + b_{13} (TCOM) + b_{14} (BMEET) + b_{15} (INDUS) + b_{16} (FAGE) + b_{17} (FSIZE) + b_{18} (LAGFP) \quad \ldots \ldots \ldots \text{eq 2a}
\]

\[
CSP = a + b_1 (FCEO) + b_2 (FCHAIR) + b_3 (FOUNDOB) + b_4 (FMOB) + b_5 (BGENDER) + b_6 (ININVOLVE) + b_7 (INREP) + b_8 (OUTREP) + b_9 (BSIZE) + b_{10} (BINDEP) + b_{11} (BPHIL) + b_{12} (BDUAL) + b_{13} (TCOM) + b_{14} (BMEET) + b_{15} (INDUS) + b_{16} (FAGE) + b_{17} (FSIZE) + b_{18} (FP) + \varepsilon \quad \ldots \ldots \ldots \text{eq 2b}
\]
Model 3:

Model 3 investigates the impacts of key executives’ demographic characteristics on corporate financial and social performance.

\[ FP \text{ or } CSP = f (CEO’s \text{ and Chairperson’s normative influences from demographic and other background variables} + \text{ control variables (industry, firm size, firm age)}). \]

**Fig 5.4: Model 3 for investing effects of normative influences of powerful management players on financial and social performance**

The following four equations are derived from the above model:

\[
FP = a + b_1 (CEOREP) + b_2 (CEOAMT) + b_3 (CEOMBA) + b_4 (CEOFQ) + b_5 (CEOAGE) + b_6 (CEOTEXP) + b_7 (CEOTENURE) + b_8 (CEOHUMA) + b_9 (CEOSCI) + b_{10} (CEOBUS) + b_{11} (INDUS) + b_{12} (FAGE) + b_{13} (FSIZE) + b_{14} (LAGFP) + \epsilon \quad \ldots \ldots \text{eq 3a}
\]

\[
CSP = a + b_1 (CEOREP) + b_2 (CEOAMT) + b_3 (CEOMBA) + b_4 (CEOFQ) + b_5 (CEOAGE) + b_6 (CEOTEXP) + b_7 (CEOTENURE) + b_8 (CEOHUMA) + b_9 (CEOSCI) + b_{10} (CEOBUS) + b_{11} (INDUS) + b_{12} (FAGE) + b_{13} (FSIZE) + b_{14} (FP) + \epsilon \quad \ldots \ldots \text{eq 3b}
\]

\[
FP = a + b_1 (CHREP) + b_2 (CHAMT) + b_3 (CHMBA) + b_4 (CHFQ) + b_5 (CHAGE) + b_6 (CHTEXP) + b_7 (CHTENURE) + b_8 (CHHUMA) + b_9 (CHSCI) + b_{10} (CHBUS) + b_{11} (INDUS) + b_{12} (FAGE) + b_{13} (FSIZE) + b_{14} (LAGFP) + \epsilon \quad \ldots \ldots \text{eq 3c}
\]

\[
CSP = a + b_1 (CHREP) + b_2 (CHAMT) + b_3 (CHMBA) + b_4 (CHFQ) + b_5 (CHAGE) + b_6 (CHTEXP) + b_7 (CHTENURE) + b_8 (CHHUMA) + b_9 (CHSCI) + b_{10} (CHBUS) + b_{11} (INDUS) + b_{12} (FAGE) + b_{13} (FSIZE) + b_{14} (FP) + \epsilon \quad \ldots \ldots \text{eq 3d}
\]
5.5 Variables: their meaning, measurement and sources for collecting data

5.5.1 Independent variables

**FREP:** refers to family reputation. Reputed business families are identified by using multiple sources: Piramal (2003), Forbes List of Indian family businesses and Business today magazine published from India. After consulting from these sources top 40 business families were identifies. Then, 71 firms owned by these families are marked as reputed family businesses.

For the purpose of this study, this variable is quantified as a binary variable, where 1 and 0 represent reputed and non-reputed family business.

**FSHOLD:** it refers to family shareholding that is a percentage of shares owned by family members, their relatives, trust and companies owned by family. According to the Clause 49 requirement, Indian companies are required to submit their shareholding pattern to the BSE corporate information which is publicly available on the BSE website. This information is used as a source of data for family shareholding. For the purpose of this study, the percentage of shares owned by promoters and promoters’ group as on 31\textsuperscript{st} March 2012 is taken as a proxy for family shareholding.

**FGEN:** refers to the current generation of family firms. Family generations are identified from founding history of the company available in the company website. Family relations are identified from the information available from the *directorsdatabase* where companies are required to disclose relationship between directors. All founder run businesses in the sample are quantified as first generation businesses. Similarly, second and third generations are represented by 2 & 3 for the purpose of quantitative analysis.

**FBGAFF:** refers to the family business group affiliation. This is a binary variable, where 1 represents the controlling families’ business group affiliation i.e. family is controlling a group of businesses.

**FSBACK:** refers to family social background. For the purpose of this study, family social background refers to the caste of owner/controlling shareholder. For the purpose of this study, family social background is quantified as a binary variable, where 1 represents that the owner is from trading community.
**FCEO**: It refers to a situation where family firm in the sample is headed by family CEO. For the purpose of this study, this variable is quantified as a binary variable that is taken 1 if the family firm in the sample is headed by family CEO and 0 if headed by non-family CEO. The data for this information is collected from several publicly available sources such as annual report, *directorsdatabase*, company history and management profile available from company’s website.

**FCHAIR**: It refers to a situation where the board is chaired by a family chairperson. For the purpose of this study this variable is quantified as a binary variable that is taken 1 if the family firm in the sample is headed by family chairperson and 0 if headed by non-family chairperson. The data for this information is collected from several publicly available sources such as annual report, *directorsdatabase*, company history and management profile available from the company’s website.

**FOUNOB**: refers to the founder’s presence on the company board. For the purpose of this study, this variable is quantified as a binary variable where 1 represents the founder’s presence on board and 0 otherwise. The data for this information is collected mainly from two sources: corporate governance reports available from the annual report and company history available from companies’ websites.

**FDUAL**: Means family duality that refers to a situation where the CEO and the chairperson are from the family owning the firm in the sample. Lam and Lee (2008) argue that if both the roles are occupied by members of same controlling family than splitting of these roles will not enhance monitoring of management. Generally in family controlled firms these two roles are either held by the same individual from controlling family or two individuals from same family (Cheung et al. 2004; Lei and Song 2004). For the purpose of this study, this variable is quantified as a binary variable that is 1 if both the CEO and the chairperson are from same family owning the firm and 0 otherwise. The data for this information is collected from several publicly available sources such as annual report, *directorsdatabase*, company history and management profile available from company’s website.
Table 5.3: Variables and their meaning

<table>
<thead>
<tr>
<th>Variables</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREP</td>
<td>Family reputation</td>
</tr>
<tr>
<td>FSHOLD</td>
<td>Family shareholding</td>
</tr>
<tr>
<td>FGEN</td>
<td>Family generation</td>
</tr>
<tr>
<td>FBGAFFI</td>
<td>Family business group affiliation</td>
</tr>
<tr>
<td>FSBACK</td>
<td>Family social background</td>
</tr>
<tr>
<td>FCEO</td>
<td>Family CEO</td>
</tr>
<tr>
<td>FCHAIR</td>
<td>Family Chair</td>
</tr>
<tr>
<td>FOUNOB</td>
<td>Founder's presence on board</td>
</tr>
<tr>
<td>FMOB</td>
<td>Family members on board</td>
</tr>
<tr>
<td>BGENDER</td>
<td>Gender diversity on board</td>
</tr>
<tr>
<td>ININVOLVE</td>
<td>Insiders' involvement; attendance in board meetings</td>
</tr>
<tr>
<td>OUTINVOLVE</td>
<td>Outsiders' involvement; attendance in board meetings</td>
</tr>
<tr>
<td>INREP</td>
<td>Insiders reputation; cross directorships</td>
</tr>
<tr>
<td>OUTREP</td>
<td>Outsiders’ reputation; cross directorships</td>
</tr>
<tr>
<td>BSIZE</td>
<td>Board size</td>
</tr>
<tr>
<td>BINDEP</td>
<td>Board independence</td>
</tr>
<tr>
<td>BPHIL</td>
<td>Board corporate governance philosophy</td>
</tr>
<tr>
<td>DUAL</td>
<td>CEO duality</td>
</tr>
<tr>
<td>TCOM</td>
<td>Total numbers of board committees</td>
</tr>
<tr>
<td>BMEET</td>
<td>Frequency of board meetings</td>
</tr>
<tr>
<td>CEOREP</td>
<td>CEO's reputation</td>
</tr>
<tr>
<td>CEOAMT</td>
<td>CEO's amount of education</td>
</tr>
<tr>
<td>CEOOMBA</td>
<td>CEOs having MBA qualification</td>
</tr>
<tr>
<td>CEOFQ</td>
<td>CEOs having foreign qualification</td>
</tr>
<tr>
<td>CEOAGE</td>
<td>age of the CEO</td>
</tr>
<tr>
<td>CEOTEXP</td>
<td>Total experience of the CEO</td>
</tr>
<tr>
<td>CEOTENURE</td>
<td>Tenure of the CEO</td>
</tr>
<tr>
<td>CEOHUMANITY</td>
<td>CEOs having bachelor’s degree in humanity/social sciences</td>
</tr>
<tr>
<td>CEOSCI</td>
<td>CEOs having bachelor’s degree in science and engineering</td>
</tr>
<tr>
<td>CEOBUS</td>
<td>CEOs having bachelor's degree in business and accounting</td>
</tr>
<tr>
<td>CHREP</td>
<td>Chairperson's reputation</td>
</tr>
<tr>
<td>Variable</td>
<td>Description</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------------------------------------------------</td>
</tr>
<tr>
<td>CHAMT</td>
<td>Chairperson's amount of education</td>
</tr>
<tr>
<td>CHMBA</td>
<td>Chairperson with MBA qualification</td>
</tr>
<tr>
<td>CHFQ</td>
<td>Chairperson with foreign qualification</td>
</tr>
<tr>
<td>CHAGE</td>
<td>age of the chairperson</td>
</tr>
<tr>
<td>CHTEXP</td>
<td>Total experience of the Chairperson</td>
</tr>
<tr>
<td>CHTENURE</td>
<td>Tenure of the chairperson</td>
</tr>
<tr>
<td>CHHUMANITY</td>
<td>Chairpersons having bachelor’s degree in humanity/social sciences</td>
</tr>
<tr>
<td>CHSCI</td>
<td>Chairpersons having bachelor’s degree in science and engineering</td>
</tr>
<tr>
<td>CHBUS</td>
<td>Chairpersons having bachelor's degree in business and accounting</td>
</tr>
<tr>
<td>FP</td>
<td>Financial performance</td>
</tr>
<tr>
<td>CSP</td>
<td>Corporate Social performance</td>
</tr>
<tr>
<td>INDUS</td>
<td>Industry</td>
</tr>
<tr>
<td>FAGE</td>
<td>Firm Age</td>
</tr>
<tr>
<td>FSIZE</td>
<td>Firm Size</td>
</tr>
<tr>
<td>LAGFP</td>
<td>Last year financial performance</td>
</tr>
</tbody>
</table>

**FMOB:** Means family presence on the board. This refers to total number of family members on the board. This data is collected mainly from two sources: corporate governance report and the *directorsdatabase*.

**BGENDER:** means gender diversity on boards. This refers to the number of female directors on boards of family firms in the sample. The source for this data is the corporate governance report available as a part of annual report.

**ININVOLVE:** means insiders’ attendance in board meetings. This refers to average board meeting attendance of the inside directors that is total number of attendance of insiders’ divided by the total number of inside directors on the board. The data is taken from the corporate governance report available in the annual report. For the purpose of this study, inside director is a director who is either a family member or an executive director appointed by the controlling family. Executive directors appointed by controlling families are taken as insiders in this study because literature suggests that Indian family businesses have a long tradition of appointing close relatives/ loyal employees as executive directors on boards of family owned companies.
OUTINVOLVE: means outside directors’ attendance in board meetings. This refers to average board meeting attendance of the outside directors that is total number of attendance of outsiders’ divided by the total number of outside directors on the board. The data is taken from the corporate governance report available in the annual report. For the purpose of this study outsiders refer to the independent directors on board. The definition of independent director in the Indian context is explained in the chapter 3.

INREP: means inside directors’ reputation. This refers to average cross-directorships held by the inside directors of the companies selected in the sample that is total number of cross directorships held by insiders divided by the total number of inside directors on the board. The data is available from corporate governance reports available in the annual report of the company.

OUTREP: means outside directors’ reputation. This refers to average cross-directorships held by the outside directors of the companies selected in the sample that is total number of cross directorships held by outsiders divided by the total number of outside directors on the board. The data is available from corporate governance report available in the annual report of the company.

BSIZE: means board size. This refers to total number of directors on the board of family firms in the sample. The source for this data is the corporate governance report available as a part of the annual report.

BINDEP: means board independence. This refers to the percentage of independent directors on the board. The source of this data is the corporate governance report available in the annual report.

BPHIL: means board corporate governance philosophy. In India, as per the Clause 49 listing rules, listed firms are required to include a brief statement on corporate governance philosophy in their report on corporate governance. For the purpose of this study, BPHIL is a binary variable that is taken 1 if companies’ corporate governance philosophy is sustainability oriented, otherwise 0. For example, in the sample, Tata Steel’s BPHIL is coded as 1 on the basis of following corporate governance philosophy:

“In accordance with the Tata Steel Group Vision, Tata Steel Group (‘the Group’) aspires to be the global steel industry benchmark for value creation and corporate citizenship. The group expects to realise its Vision by taking such actions as may be necessary in order to
achieve its goal of value creation, safety, environment and people.” (Tata Steel annual report 2010, p. 95)

**DUAL:** means board duality that refers to a situation when the position of the CEO and the chairperson is held by the same person. For the purpose of this study, this variable is quantified as a binary variable that is 1 if the position of the CEO and the chairperson is held by the same person and 0 otherwise. The source of the data is the corporate governance report available in the annual report.

**CEOREP:** means CEO reputation that refers to the number of cross directorships held by the CEO. The source of this data is the corporate governance report.

**CEOAMT:** means CEO total amount of education that refers to total amount of qualifications held by the CEO. For the purpose of this study, qualification scheme is as follows:

- 0 = No university degree or school level qualification
- 1= Bachelor degree
- 2= Master degree
- 3= PhD

An extra weightage of 0.5 is given for any additional qualification such as degree, diploma and professional qualification. For example, if a CEO has bachelor degree in science with a diploma in computer science then weightage for his qualification will be 1.5.

**CEOMBA:** means CEO’s MBA qualification. For the purpose of this study, this is a binary variable scored as 1 if the CEO has an MBA qualification or equivalent qualification (PGDBA), otherwise 0.

**CEOFQ:** means CEO’s foreign qualification. For the purpose of this study, this is a binary variable scored as 1 if the CEO has received one of his university degrees from universities in the West, otherwise 0.

**CEOAGE:** means age of the CEO. The sources of data are the directorsdatabase and the board of directors’ profile available in the companies’ websites.
**CEOTEXP:** means CEO total experience. It refers to the CEO total experience in terms of number of years. The data sources for this information are companies’ websites and the *directorsdatabase*.

**CEOTENURE:** means CEO position tenure. It refers to the length of the CEO tenure in the sample company. The sources of this information are the *directorsdatabase* and companies’ websites.

**CEOHUMANITY:** means CEO Humanities background. For the purpose of this study this is taken as a binary variable scored as 1 if the CEO has bachelor degree in humanities, otherwise 0.

**CEOSCI:** means CEO science and engineering background. This is a binary variable scored as 1 if the CEO is having bachelor degree in science and engineering, otherwise 0.

**CEOBUS:** means CEO business background. This is a binary variable taken as 1 if the CEO is having bachelor degree in accounting, economics, business and finance, otherwise 0.

**CHREP:** means Chairperson’s reputation that refers to the number of cross directorships held by the chairperson. The source of this data is the corporate governance report.

**CHAMT:** means Chairperson’s total amount of education that refers to total amount of qualification held by the chairperson. For the purpose of this study, the scoring scheme is as follows:

0 = No university degree or school level qualification

1= Bachelor degree

2= Master degree

3= PhD

An extra weightage of 0.5 is given for any additional qualification such as degree, diploma and professional qualification. For example, if a Chairperson has bachelor degree in science with diploma in computer science then weightage for his qualification will be 1.5.

**CHMBA:** means Chairperson’s MBA qualification. For the purpose of this study, this is a binary variable, scored as 1 if the Chairperson holds an MBA qualification or equivalent qualification (PGDBA), otherwise 0.
**CHFQ**: means Chairperson’s foreign qualification. For the purpose of this thesis this is a binary variable scored as 1 if the Chairperson has received one of his university degrees from universities in the West, otherwise 0.

**CHAGE**: means age of the chairperson. The sources of data are the directorsdatabase and the board of directors’ profile available in the companies’ websites.

**CHTEXP**: means Chairperson’s total experience. It refers to the chairperson’s total experience in terms of number of years. The data sources for this information are companies’ websites and the directorsdatabase.

**CHTENURE**: means Chairperson’s position tenure. It refers to the length of the chairperson’s tenure in the sample company. The sources of this information are the directorsdatabase and companies’ websites.

**CHHUMANITY**: Means Chairperson’s Humanities background. For the purpose of this study this is taken as a binary variable refers to 1 if the chairperson have bachelor’s degree in humanities, otherwise 0.

**CHSCI**: means the chairperson’s science and engineering background. This is a binary variable scored as 1 if the chairperson is having bachelor’s degree in science and engineering, otherwise 0.

**CHBUS**: means chairperson’s business background. This is a binary variable taken as 1 if the chairperson is having bachelor’s degree in accounting, economics, business and finance, otherwise 0.

### 5.5.2 Control variables

**FAGE**: Means firm age. It refers to the age of the firm in the sample. The data for age of the firm in the sample is collected from company history available from company’s website. Firm age is taken as control variable for the purpose of this study because prior researches have provided empirical evidences of the influence of firm age on firm’s financial and social performance (Ang et al. 2000; Rashid et al. 2010; Erhemjamts et al. 2011).

Although prior literature (as mentioned above) suggest a linkage between firm financial performance and age of the firm but the direction of this relationship is unclear. Loderer and Waelchli (2010) argue that older firms are more rigid as an organisation as compared to newer firm. They empirically find that profitability of a firm declines as it grows old. Investors’
uncertainty reduces as the firm grows (Pastor & Veronesi 2003; Adams et al. 2005; Cheng 2008). Ang et al. (2000) argue that because of the effects of learning curve and survival bias older firms are more efficient as compared to start-up firms.

In relation to the impact of firm size on corporate social performance, Moore (2001) reports a positive relationship between age of the firm and corporate social performance in a study of the UK supermarket industry. Erhemjamts et al. (2011) find that there is a significant positive relationship between firm age and CSR strength and concerns.

The above discussion clearly indicates that the firm age has an impact on both financial and social performance. Therefore, similar to other past governance studies this study also takes firm age as one of the control variables. Unlike other studies that count firm age as number of years from the date of listing (Shumway 2001; Pastor & Veronesi 2003; Fama & Fench 2004; Chun et al. 2008; Loderer & Waelhli 2010), this study follows the approach of Singh and Gaur (2009) for measuring age of the firm which is number of years since foundation to 2010.

**FSIZE**: Refers to size of firm measured in terms of total assets. Prior literature (Huang 2010; Stanwick & Stanwick 1998) provides evidences of influence of firm size on both financial and social performance. Singh and Gaur (2009) state that firm age and firm size are used as standard control variables in studies investigating impacts on performance.

There is conflicting evidence of the direction of relationship between firm size and financial performance. Proponents of the competitive advantage theory suggest that bigger size provides incremental advantages to the firm by raising the barriers of entry to the potential entrants and attaining profitability by achieving economies of scale (Ramasamy et al. 2005; Chrystal & Lipsey 1997). Huang (2010) argue that large firms have more resources and can afford aggressive growth strategies for achieving better performance. In contrast, other researchers suggest larger firms are difficult to manage due to higher bureaucratisation (Ahuja & Majumdar 1998) and lack of coordination (Downs 1967) that may lead to the negative association between firm size and financial performance (Whittington 1980; Ramasamy et al. 2005).

In relation to the impact of firm size on corporate social performance, Pavelin and Porter (2008) propose that firm size is positively related to corporate social performance. Similarly, Erhemjamts et al. (2011) find empirically that there is a significant positive relationship between firm size and CSR strength and concerns. Other researchers also find that Firm size
has an impact on CSR (McGuire et al. 1988; Waddock & Graves 1997; McKendall et al. 1999; McWilliams & Siegel 2000; Uhlaner et al. 2004).

Several past studies have taken firm size as one of the control variables when looking at the impacts of board governance on corporate financial and social performance (Manner 2010; Jackling & Johl 2009). Manner (2010) states that firm size is more typically measured in terms of the natural log of either total sales or total assets. This study also measures firm size as the natural log of total assets as on 31st March 2010.

5.5.3 Dependent Variables

**FP:** Means financial performance. For the purpose of this study, a modified version of the approximate Tobin’s q given by Chung and Pruitt (1994) is used for measuring financial performance. They conduct a series of regression analyses before coming to a conclusion that their approximate q provides a more theoretically correct model as compared to q defined by Lindenberg and Ross (1981) and explains 96.6% variability of Tobin’s q. Following Chung and Pruitt (1994), this study calculates Tobin’s q as:

\[
\text{Tobin’s q} = \frac{MVS + D}{TA}
\]

Where, MVS = market value of outstanding shares (number of outstanding shares x share price)

D= book value of total debt

TA= Total assets

Thirty years after the introduction of the concept of Tobin’s q by Brainard and Tobin (1968) and Tobin (1969), this measure of performance has become the most widely used measure of firms’ incentives to invest (Erickson & Whited 2006). A wide number of corporate governance studies investigating impacts of governance on firm performance have used Tobin’s q as a measure of financial performance (Gompers et al 2003; Yermack 1996; Anderson & Reeb 2003; Jackling & Johl 2009; Pandey et al. 2011). Other measures of performance e.g. ROA, ROS and ROE are also consistently used in corporate governance research (Jackling& Johl 2009; Muth & Donaldson 1998; Singh and Gaur 2009; Lam & Lee 2008; Finkelstein & D’Aveni 1994 ).
**CSP**: Means corporate social performance that refers to both social and environmental performance for the purpose of this thesis. There have been numerous attempts to define corporate social and environmental performance from different dimensions. According to Wartick and Cocharan (1985), CSP suggests that a firm, whose very existence is predicted on society’s sanction and support, has the obligation to be an economically and socially responsible citizen and act in a publicly responsible way. Wood (1991) defines it as “a Business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationship”. Igalens and Gond (2005) define it as “it can be interpreted as progressively maturing product of ongoing thinking on responsibility (CSR)”, justifying “the emphasis from the construct's level of definition to its management and finally to its measurement”. Dyer and Whetten (2006) suggest two dimensions of CSP: first, the positive contribution to improve society (e.g. charity and social welfare), second, avoiding activities which might raise social concern (e.g. polluting environment, breaking laws). Godfrey (2005) argues that firms who fail to address these two dimensions may face economic, social and legal sanctions from stakeholders and society in general.

Prior empirical researchers have commonly used two types of proxies for measuring corporate social performance (referred to as CSP from here onwards). First, reputation indices and social ratings evaluated by external agencies such as KLD, S&P ESG, Reputex index etc. Second, a disclosure index developed by content analysis of corporate publications containing social and environmental disclosures. The first empirical study that relied upon externally produced ratings of CSP was conducted by Shane and Spicer (1983). They argued that externally produced data is superior as compared to voluntary disclosures made by an organisation itself. Most of the prominent studies published in quality accounting journals have used social performance ratings provided by independent agencies such as KLD database and CEP (Cowen et al. 1987; Roberts 1992; Albinger & Freeman 2000; Bendheim et al.1998; Griffin & Mahon 1997; Johnson & Greening 1999; Ruf et al. 2001; Manner 2010). Chatterji et al. (2009) compare social ratings with credit ratings and argue that social ratings aim to provide social investors accurate and transparent information about socially responsible behaviour of firms evaluated by these agencies. They further state that KLD’s ratings are the oldest and most influential ratings, have been used most widely by academics. Some other studies have used Fortune database as a measure of corporate social performance (McGuire et al. 1988; Wartick 1988; Thomas & Simerly 1994).
The other predominantly used method of measuring corporate social performance is by developing a disclosure index based on content analysis of corporate social and environmental disclosures. This has also been widely used by social and environmental accounting researchers in social accounting literature (Cowen et al. 1987; Gray et al. 1995; Guthrie & Parker 1990; Guthrie & Abhaysekara 2006; Parker 2005). Although KLD ratings are predominantly used by the prior researchers, one of the problems with the use of reputed external agencies indices and ratings is that these ratings are only available for a few countries (Turker 2008). Most of the time they are only for firms located in developed countries.

Since the context of this thesis is an emerging economy, India, where reputed external agencies’ corporate social performance ratings are not available for the whole sample, this thesis therefore uses corporate social and environmental performance ratings by a local rating agency Karmayog (please refer to Appendix 2 for rating criteria and other information about this organisation).

The social responsibility rating used for measuring social performance is taken from the Karmayog website. This rating combines social and environmental aspects of performance. The scores given by the independent rating agency have been corroborated by conducting a correlation between scores given by Karmayog and other ratings agencies well known worldwide (please refer to Appendix 3). The following are details of tests conducted to cross-check the credibility of the Karmayog rating:

(1) The Karmayog and Asian Sustainability Ratings (ASR) index. The ASR rating is a well-known sustainability rating that uses a proprietary set of 100 indicators grouped into four categories, General, Environmental, Social and Governance. Correlation analysis was performed as it provides evidence of the strength of a linear relationship between two variables. Correlation analysis suggests a very significant positive correlation (r= 0.684, p= 0.002) between the Karmayog corporate social responsibility rating and the ASR ESG rating. This is confirmation of the creditability of the Karmayog ratings.

(2) The Karmayog and S&P ESG Rating- The S&P ESG India provides investors with exposure to 50 of the best performing stocks in the Indian market as measured by environmental, social, and governance parameters. Correlation analysis was

17 www.asiansr.com/Methodology.html
performed between the Karmayog rating and S&P ESG rating for a similar set of companies. Correlation analysis suggests a significant positive correlation (r=0.614, p= 0.079) between these two ratings.

(3) Moreover for further reliability testing, a correlation analysis was performed between the amount of donations to charities given by sampled firms and the Karmayog ratings of these firms. This also reveals a highly significant positive correlation (r= 0.182, p= 0.002) between the amount donated and Karmayog ratings. This further provides evidence for the credibility of the Karmayog ratings adopted in this thesis as a measure of corporate social performance.

5.6 Conclusion

This chapter describes the research methods used in this thesis to investigate the impacts of controlling family status, family-impacted governance and normative influences of powerful management players on corporate financial and social performance of listed large Indian family firms. The discussion in the chapter justifies the use of the positivist approach for this thesis. This chapter also discusses sample size, data sources, variables used and the specification of models employed to test sets of relationships. Further, this chapter explains in detail the proxies taken for measuring financial and social performance including the credibility testing for the Karmayog social and environmental performance ratings.
CHAPTER 6
FINDINGS AND DISCUSSION

6.1 Introduction

The purpose of this chapter is to quantitatively analyse sample data, present the results and discuss the findings. This chapter also compares findings of this thesis with prior literature. Furthermore, the discussion also addresses the research contribution made by this study backed up by the evidence from the results presented.

This chapter extends the content of chapters 4 and 5, where the conceptual framework and research methods have been presented. It quantitatively analyses the sample data by using both univariate and multivariate data analysis as discussed in the research methods chapter. The sample data for this study have been analysed using the Statistical Package for the Social Sciences (SPSS) version 18.

This chapter is divided into three sections. The first section covers descriptive characteristics of the data used in this thesis. The second section presents the findings of the impacts of controlling family status, family related board governance characteristics and normative influences of top management on financial and social performance. This section also discusses and explains key findings of this thesis. The third section extends these findings to explain impacts of these factors on integrated and decoupled corporate performance followed by the conclusion.

6.2 Descriptive Statistics

This thesis explores the effects of controlling family status, family-impacted board governance and normative influences of top management on financial and social performance of listed Indian family firms. Therefore, for a better understanding of data characteristics the descriptive statistics are divided into three sections. The first section covers controlling status variables, the second section covers family-impacted board governance variables and the third section covers variables related to demographic backgrounds that shape normative influences on powerful management players. The data source, industry classification and measurement of the variables used in this study have already been discussed in the research methods chapter.
6.2.1 Family ownership, culture, social background and status

Table 6.1 given below provides descriptive statistics related to family ownership characteristics of large listed Indian family firms used in the sample. This frequency table reveals that average family shareholding is above 50% that means business families in India maintain a high ownership in the businesses controlled by them.

Table 6.1: Descriptive statistics for family ownership status characteristics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Median</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREP</td>
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<td>1</td>
<td>0.24</td>
<td>0</td>
<td>0.43</td>
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<tr>
<td>FSHOLD</td>
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<td>52.12</td>
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</tr>
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<td>1</td>
<td>0.93</td>
</tr>
<tr>
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<td>1</td>
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<td>1</td>
<td>0.62</td>
<td>1</td>
<td>0.49</td>
</tr>
</tbody>
</table>

Table 6.1 further reveals that firms are owned (i.e. the controlling shareholder) or managed (the Chairperson or CEO) by family members from a family generation ranging from first to fifth. Figure 6.1 diagrammatically shows multiple generations in these Indian family-controlled listed companies, as well as the presence of multiple generations of Chief Executive Officers.

Fig 6.1: Presence of multiple generations in Indian family firms
Table 6.1 further reveals the strong presence of family business groups (62%) in the environment of the Indian family-controlled listed companies. Moreover 24% of the family businesses in the sample are owned and managed by families with a high profile family reputation. Other statistics, not reported in Table 6.1 reveal that a majority (77.3%) of these firms have mission and vision statements directly related to financial goals, while 81.7% of these businesses mention financial objectives in their value statements.

In terms of ethnicity, Figure 6.2 reveals that most of the family businesses are owned by Hindus (88.7%) coming from the ethnic grouping that is historically identified as the successful operators of trading communities (62%).

**Fig 6.2: Dominant presence of Hindu and trading community owners**

![Bar chart showing Hindu Owners, Non Hindu Owners, Trading Community Owners, Non Trading Community Owners](image)

In summary, these descriptive statistics confirm the typical characteristics of Indian family businesses such as high shareholdings, presence of multiple generations and dominance of Hindu owners from trading communities of Indian family businesses as outlined in the chapter 2.

### 6.2.2 Family governance and board governance characteristics

Descriptive statistics of family related board governance characteristics of the sampled firms are shown in Table 6.2. This table indicates that listed Indian family businesses are largely managed by family CEOs and Chairpersons as descriptive statistics reveals with 73% of sampled firms headed by family CEOs and 90% headed by family Chairpersons. Table 6.2 also provides an evidence of founding family members’ strong presence on the board as
26.81% of the board members, on average, belong to the founding families. Further, 67% of the firms are managed by a CEO and Chairperson belonging to founding family. In terms of board leadership, 55% of the sampled firms are headed by an executive Chairperson while 45% are chaired by a non-executive director. Of these Chairpersons, only 6% of the sampled firms have an independent Chairperson.

Furthermore Table 6.2 further reveals a relatively high duality of role of CEO and the Chairperson with 34.7% of the sampled firms having the CEO also playing the role as a Chairperson. This fairly high incidence of duality in large family-controlled listed firms exists despite the BSEs listing rule recommending an independent Chairperson.

Table 6.2: Descriptive statistics for family governance characteristics

<table>
<thead>
<tr>
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<th>Maximum</th>
<th>Mean</th>
<th>Median</th>
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<td>44.44</td>
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<td>55.55</td>
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</tr>
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<td>3.74</td>
<td>3</td>
<td>12.8</td>
</tr>
</tbody>
</table>
In relation to the presence of independent directors on boards of Indian listed firms, the Clause 49 listing rules impose a mandatory obligation on listed companies in India to appoint at least 50% of independent directors on board. Descriptive statistics of the sampled data reveals that the average percentage of independent directors on boards of listed Indian family firms is 55.96%. Therefore, it can be said that on average boards of listed Indian family firms’ are more independent than the regulatory requirement.

In relation to the women representation on the board, descriptive statistics clearly indicates weaker women representation on the boards of the sampled firms. Table 6.2 shows that the average women representation on the boards of sampled firms’ is only 4.14%. This figure supports the male dominated peculiar characteristic of Indian family businesses.

Furthermore, Table 6.2 also provides descriptive statistics for the board governance variables such as board size, board meetings including board attendance, directors’ cross-directorships and presence of board committees. Table reveals that on average listed Indian family firms have larger boards as the average board size of the sampled firms’ is 9.9.

Fig 6.3 Board Governance Characteristics

In relation to the number of board meetings, Clause 49 listing requirements impose a mandatory obligation on Indian family firms to hold at least four board meetings in a financial year. Descriptive statistics reveals that on average the sampled firms hold 6.74 board meetings in year that exceeds the minimum mandatory requirement imposed by Clause 49. This thesis further explores the impact of the board of directors’ attendance on corporate financial and social performance. Table further reveals that the average attendance of directors at board
meetings is 75%. Insiders (77.89%) are found to participate more in the board processes compared to outsiders (67.95%).

In relation to the average cross-directorships of directors of the sampled firms, Table 6.2 indicates that the average cross-directorships of the board of family-controlled companies in India is 4.79 with Insiders (4.43) holding more cross directorships compared to outsiders (4.1). Furthermore, Table 6.2 also specifies that on average the boards of family-controlled companies in India have more board committees (3.74 per firm) compared to BSE’s recommended minimum of 2 per firm.

**Fig 6.4: Board meetings and average attendance of the board of directors**

![Graph showing board meetings and average attendance](image)

In relation to the board governance philosophy as disclosed in the corporate governance report, Table 6.2 reveals that on average only 36% of the sampled firms mention sustainability related objectives of maintaining good governance. Majority of the sampled firms (64%) declare achieving financial objectives by following good governance.

In summary, descriptive results on family and board governance characteristics clearly provide evidence of family dominance on the boards of family-controlled listed Indian firms. Table 6.1 and 6.2 reveal that founding families not only maintain high shareholdings but also uphold powerful representation on the board by appointing a family CEO, family Chairperson and family members on board. These tables also indicate that the board governance characteristics of the Indian listed family firms exceed the mandatory recommendations imposed by Clause 49.
6.2.3 Descriptive statistics for powerful management players’ demographic characteristics

Powerful management players’ and top management for the purpose of this thesis refer to the CEOs and Chairpersons of family-controlled listed Indian companies. Table 6.3 provides a statistical description of demographic characteristics of the family CEO and the family Chairperson.

Table 6.3: demographic characteristics of family key executives

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Median</th>
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</tbody>
</table>

Table 6.3 shows that CEOs and Chairpersons of listed Indian family-controlled businesses hold high number of cross directorships. Table depicts that on average CEOs and Chairpersons of family-controlled firms in India hold more than five cross directorships in other listed companies.
In relation to the specialised qualifications of powerful management players, Figure 6.5 reveals interesting facts about their educational backgrounds. Figure depicts that majority of powerful management players have science and engineering background as 39% of Chairpersons and 45.7% of CEOs have completed their Bachelor’s degree in science and engineering. In relation to the business and accounting related qualification of powerful executives, Figure shows that 35.3% of Chairpersons and 40% of CEOs of the sampled firms have completed their bachelor’s degree in business or accounting. Figure further reveals that 15.7% of Chairpersons and 7.3% of CEOs of the sampled firms come from humanities and social science background.

**Fig 6.5: Educational Background of powerful management players**

![Educational Background Chart]

In relation to the MBA qualification of key executives, Table 6.3 reveals that majority of these executives do not have MBA qualification. The table indicates that 28.7% of CEOs are MBA qualified compared to 14.6% MBA qualified Chairpersons, thus revealing that more CEOs are MBA qualified compared to Chairpersons.

In relation to the level of education of Chairpersons’, Figure 6.6 reveals that 9.7% of Chairpersons have only school level qualification, 54.3% have bachelor’s degree, 28.7% have a master’s degree, 3% have a doctorate and 4.3% have professional accounting qualifications such as CA and CMA. CEOs have comparable qualification levels, 4.3% of CEOs have no university degree while 50% have bachelor’s degree, 37.7% have a master’s degree, 3.3% hold a doctorate and 4.7% have professional accounting qualifications such as CA and CMA.
Qualification statistics further reveals that a large section of the CEOs and Chairpersons of the sampled firms are qualified in foreign universities especially in the American universities. Figure 6.7 shows that 25.7% of Chairpersons and 24.7% of CEOs are foreign qualified.

**Fig 6.6: Powerful management players’ level of education**

In relation to other demographic characteristics such as key executives’ age, experience and tenure, Table 6.3 reveals that on average Chairpersons are more aged, more experienced and have longer average tenure as compared to CEOs.

**Fig 6.7: Powerful management players’ professional qualification**

While not presented in a table, the demographic results have also been compared between family and non-family Chairpersons and CEOs. First, for Chairpersons, non-family Chairpersons are found to be more qualified, more aged and more experienced compared to
family Chairpersons. All women family Chairpersons are from founding family. Second, for CEOs, a similar pattern is found. Non-family CEOs are more qualified, more aged and have specialised managerial qualification (i.e. MBA) compared to family CEOs. But family CEOs on average have longer tenure as compared to non-family CEOs. Similar to Chairpersons demographics, most of the firm CEOs are founding family members. There are no other substantial differences among other demographic characteristics of family and non-family Chairpersons or CEOs.

In summary, descriptive statistics provide up-to-date demographic information on the two key players, Chairpersons and CEO, managing family-controlled Indian listed companies. Demographics reveal that majority of key executives are male, belong to founding families, come from a science and engineering background and are foreign qualified. On average, CEOs are slightly more highly qualified compared to Chairpersons. Most of the CEOs come from a science and engineering background with 29% of them holding an MBA degree.

6.2.4 Descriptive statistics for dependent and control variables

Variables, their definitions, measurement and the logic behind their selection have been covered in the Chapter 5. Table 6.4 below presents descriptive statistics for the dependent and control variables used in this study.

Table 6.4: Descriptive statistics for dependent and control variables

<table>
<thead>
<tr>
<th>Variables</th>
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<th>Maximum</th>
<th>Mean</th>
<th>Median</th>
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<tr>
<td>CSP</td>
<td>0.00</td>
<td>4.00</td>
<td>1.35</td>
<td>1.00</td>
<td>1.05</td>
</tr>
<tr>
<td>LAGFP</td>
<td>0.10</td>
<td>9.87</td>
<td>1.27</td>
<td>0.91</td>
<td>1.06</td>
</tr>
<tr>
<td>FAGE</td>
<td>5.00</td>
<td>105.00</td>
<td>37.21</td>
<td>28.00</td>
<td>23.01</td>
</tr>
<tr>
<td>INDUS</td>
<td>0.00</td>
<td>1.00</td>
<td>0.84</td>
<td>1.00</td>
<td>0.37</td>
</tr>
<tr>
<td>FSIZE</td>
<td>6.11</td>
<td>199665.30</td>
<td>4481.25</td>
<td>1605.86</td>
<td>13610</td>
</tr>
<tr>
<td>LOGFSIZE</td>
<td>1.21</td>
<td>5.30</td>
<td>3.26</td>
<td>3.20</td>
<td>0.51</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>-18.47</td>
<td>16.80</td>
<td>1.14</td>
<td>0.87</td>
<td>1.96</td>
</tr>
<tr>
<td>RNDEXP</td>
<td>0.00</td>
<td>0.12</td>
<td>0.011</td>
<td>0.002</td>
<td>0.023</td>
</tr>
<tr>
<td>CAPEXP</td>
<td>0.00</td>
<td>1.19</td>
<td>0.09</td>
<td>0.05</td>
<td>0.14</td>
</tr>
</tbody>
</table>

Table 6.4 reveals that the dependent variable FP (financial performance), has an average value of Tobin’s Q for the year 2010 of 2.13 as compared to 1.27 in the year 2009. The lower value
of Tobin’s Q in 2009 as compared to 2010 can be explained as an impact of global financial crisis on the financial performance of the sampled firms. Table 6.4 further shows that the sample comprises a diversity of firms in terms of their age. The range is 5 and 105 years old firms. In terms of industry, there is low diversity in the sample, with 84% of the sampled firms coming from manufacturing industry.

6.3 Normality of data

This chapter will subsequently undertake data analysis using the independent samples t-test, correlation analysis and ordinary least-square regression analysis. These are parametric statistical tests that assume data is normally distributed in the population. Therefore, testing the normality of the data for variables to be modelled is necessary.

Normality requires the data frequency to be distributed in the approximate shape of a symmetrical, bell shaped curve (Gravetter and Wallnau, 2000, p.52). Coakes and Ong (2011) explain several ways for testing normality both graphically and statistically. Following Coakes and Ang (2011), this thesis uses the histogram (shown in Fig. 6.8) and normal Q-Q curves approaches (not shown) to test the normality of data for variables used in this study. Although normality testing has been done for all variables used in this study, some of them are shown in Figure 6.8. Based on these tests, in order to achieve improved normality, certain variables namely FAGE (age of the firm) andFSIZE (size of the firm) are replaced by their natural logarithmic values. For other variables, a small number of outliers were statistically detected and removed from data in order to further achieve normality of data.
6.4 Controlling family status and its impact on financial and social performance

This section directly addresses the first research question and explores the impacts of controlling family status such as family reputation, family shareholdings, family generation...
and family social background on financial and social performance. In order to investigate the impact of family ownership status on corporate financial and social performance, this thesis uses t-test, correlation analysis and regression analysis by using SPSS. These analytical techniques and findings are given below:

6.4.1 Independent sample t-test

To investigate the impacts of the controlling family status characteristics such as family reputation, family generation and family social background, as well as family shareholding, on the firm’s financial and social performance, respectively, this study first dichotomises the data of independent variables and applies independent samples t-tests. Table 6.5 shows results of these tests. Panel A results reveal the impact of controlling family status on corporate financial performance and panel B shows the impact of these characteristics on corporate social performance.

Panel A shows that there is a significant difference (p=0.016) in the mean values of highly reputed families’ financial performance (Mean= 0.29) as compared to the financial performance of less reputed family firms (Mean= 0.17). This reveals that firms controlled by more highly reputed families have significantly better financial performance compared to those having lower reputation.

Panel A also reveals that there is a highly significant difference (p= 0.005) in the means of financial performance for businesses owned by families from trading communities (mean=0.54) and non-trading communities (mean=0.70). This is a counter-intuitive result in that it suggests that businesses run by families from non-trading communities are better financial performers compared to the businesses run by trading communities. However, this result may be an artefact of the very small number of sampled firms in the non-trading group. Other findings in Panel A are that the levels of family shareholding and family business group affiliations are not significantly different in their impacts on financial performance.
Table 6.5: Independent samples t-test comparing differences in financial and social performance based on dichotomized groupings of family ownership status variables

<table>
<thead>
<tr>
<th>Family ownership characteristics</th>
<th>Panel A - Financial Performance</th>
<th>Panel B - Social Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Mean Difference</td>
</tr>
<tr>
<td>FREP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>0.17</td>
<td>-0.117</td>
</tr>
<tr>
<td>High</td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>FSHOLD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>52.36</td>
<td>-1.96</td>
</tr>
<tr>
<td>High</td>
<td>54.32</td>
<td></td>
</tr>
<tr>
<td>FGEN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Older</td>
<td>1.63</td>
<td>-0.076</td>
</tr>
<tr>
<td>Newer</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>FBGAFFI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non affiliation</td>
<td>0.61</td>
<td>-0.002</td>
</tr>
<tr>
<td>Affiliation</td>
<td>0.61</td>
<td></td>
</tr>
<tr>
<td>FSBACK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Trading</td>
<td>0.7</td>
<td>0.157</td>
</tr>
<tr>
<td>Trading</td>
<td>0.54</td>
<td></td>
</tr>
</tbody>
</table>

Panel B in Table 6.5 shows a significant difference (p=0.000) in the mean values of reputed families social performance (Mean=0.36) compared to family firms controlled by lower reputed families (Mean= 0.14). Thus revealing that firms controlled by highly reputed families have better social performance compared to firms controlled by lower reputed families.

The Panel B further indicates that the group of firms with larger family shareholdings (mean= 55.75) have weaker social performance compared to group of firms having low family shareholdings.
shareholdings (mean= 49.86). Thus revealing that increase in family shareholding is associated with lower social performance.

Panel B also reveals a significant difference in the means of group affiliated (mean= 0.74) and unaffiliated (mean= 0.52) family firms for corporate social performance, revealing that family firm’s business group affiliation have positive impact on corporate social performance.

Furthermore, in relation to the impact of family generation on corporate social performance, t-test results reveal that there is a significant difference (p=0.000) in the mean values of older generation (mean=1.47) and new generation (mean=1.92) for corporate social performance. Thus, suggesting that newer family generation is more socially responsible as compared to the older family generation. Moreover, Independent sample t-test does not reveal any significant difference in the means of family social background, indicating that family social background does not have any impact on firm’s social performance.

6.4.2 Correlation Analysis

In order to further investigate the impact of controlling family status characteristics on financial and social performance, a correlation analysis was performed. Before conducting correlation analysis, preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. The results of correlation analysis are shown in the table 6.6 given below.

Correlation analysis reveals a highly significant, positive correlation between family reputation and corporate social performance (r= 0.295, p= 0.000). However unlike independent sample t-test results, correlation analysis does not suggest any association between family reputation and financial performance. The correlation analysis further suggests a significant positive correlation between family shareholdings and financial performance (r= 0.143, p= 0.013) and a highly significant and negative correlation between family shareholding and corporate social performance (r= -0.224, p= 0.000). The analysis further reveals a positive and highly significant correlation (r= 0.202, p= 0.000) between family firm’s business group affiliation and corporate social performance. The table also suggests that family firm’s business group affiliation does not influence its financial performance. In contrast to the t-test findings, correlation analysis does not suggest any significant relationship between family social background and corporate financial and social performance.
In summary, correlation analysis results suggest that family reputation and family business group affiliation have significant positive impact on corporate social performance. However these factors do not have any significant impact on corporate financial performance. The analysis further reveals that family shareholding has a significant positive impact on financial performance and negative impact on social performance.
Table 6.6: Correlation analysis

<table>
<thead>
<tr>
<th></th>
<th>FREPO</th>
<th>FSHOLD</th>
<th>FGEN</th>
<th>FBGAFF</th>
<th>FSBACK</th>
<th>FP</th>
<th>CSP</th>
<th>INDUS</th>
<th>FAGE</th>
<th>FSIZE</th>
<th>LAGFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREPO</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSHOLD</td>
<td>-0.064</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FGEN</td>
<td>.320**</td>
<td>-0.074</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FBGAFF</td>
<td>.391**</td>
<td>0.018</td>
<td>.268**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSBACK</td>
<td>.131*</td>
<td>0.052</td>
<td>-0.082</td>
<td>0.064</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FP</td>
<td>0.086</td>
<td>.143</td>
<td>0.093</td>
<td>-0.002</td>
<td>-0.112</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSP</td>
<td>.295**</td>
<td>-.224**</td>
<td>.257**</td>
<td>.202**</td>
<td>0.004</td>
<td>.263**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INDUS</td>
<td>-.142*</td>
<td>-0.031</td>
<td>0.106</td>
<td>0.011</td>
<td>0.069</td>
<td>-.141*</td>
<td>-.038</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAGE</td>
<td>.229**</td>
<td>-.144*</td>
<td>.447**</td>
<td>.140*</td>
<td>-.068</td>
<td>.135*</td>
<td>.181**</td>
<td>.119*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSIZE</td>
<td>.345**</td>
<td>-.154**</td>
<td>0.02</td>
<td>.117*</td>
<td>0.025</td>
<td>0.073</td>
<td>.365**</td>
<td>-.183**</td>
<td>0.02</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>LAGFP</td>
<td>0.022</td>
<td>0.084</td>
<td>-0.017</td>
<td>-0.047</td>
<td>-.133*</td>
<td>.770**</td>
<td>.268**</td>
<td>-.132*</td>
<td>0.067</td>
<td>.258**</td>
<td>1</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).
6.4.3 Regression analysis

6.4.3.1 Impact of controlling family status on financial performance

A one-stage least-squares regression analysis is conducted to further explore the impact of controlling family status characteristics on corporate financial and social performance. Table 6.7 shows results of regression analysis for the impact of family ownership characteristic on financial performance.

Table 6.7: Regression analysis showing the impact of controlling family status characteristics on financial performance

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable, Tobin’s Q</th>
<th>β</th>
<th>T</th>
<th>sig</th>
<th>tol</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREP</td>
<td></td>
<td>0.124</td>
<td>1.901</td>
<td>0.026</td>
<td>0.616</td>
<td>1.622</td>
</tr>
<tr>
<td>FSHOLD</td>
<td></td>
<td>0.091</td>
<td>1.673</td>
<td>0.087</td>
<td>0.875</td>
<td>1.142</td>
</tr>
<tr>
<td>FGEN</td>
<td></td>
<td>0.03</td>
<td>0.741</td>
<td>0.459</td>
<td>0.755</td>
<td>1.325</td>
</tr>
<tr>
<td>FBGAFFI</td>
<td></td>
<td>0.007</td>
<td>0.117</td>
<td>0.907</td>
<td>0.821</td>
<td>1.218</td>
</tr>
<tr>
<td>FSBACK</td>
<td></td>
<td>-0.016</td>
<td>-0.291</td>
<td>0.771</td>
<td>0.885</td>
<td>1.13</td>
</tr>
<tr>
<td>INDUS</td>
<td></td>
<td>-0.027</td>
<td>-0.471</td>
<td>0.639</td>
<td>0.791</td>
<td>1.264</td>
</tr>
<tr>
<td>FAGE</td>
<td></td>
<td>0.027</td>
<td>0.493</td>
<td>0.623</td>
<td>0.858</td>
<td>1.166</td>
</tr>
<tr>
<td>FSIZE</td>
<td></td>
<td>-0.048</td>
<td>-0.761</td>
<td>0.448</td>
<td>0.671</td>
<td>1.491</td>
</tr>
<tr>
<td>LAGFP</td>
<td></td>
<td>0.822</td>
<td>15.074</td>
<td>0.000</td>
<td>0.880</td>
<td>1.406</td>
</tr>
</tbody>
</table>

R² = .688, Adj R² = .677

ANOVA, Sig.f = .000, N = 300

Regression results reveal that family reputation positively and significantly influences firms’ financial performance (β= 0.124, p= 0.026). It further indicates that family shareholding is positively and significantly related to financial performance (β= 0.091, p= 0.087). In contrast to t-test findings, but similar to correlation analysis results, regression analysis also reveals
that family social background and its business group affiliation have no influence on financial performance of the sampled firms.

Table 6.7 also provides a summary of the model used to investigate the impacts of controlling family status characteristics on financial performance. Model fit analysis indicates that model significance is .000 and $R^2 = 0.688$, which means that model is highly significant and it explains 68.8% of the variance of relationship between family ownership characteristics and financial performance. Moreover, variance inflation factors (VIF) of explanatory variables is between 1 and 2 that indicates there is no significant level of multicollinearity among explanatory variables.

In summary, regression analysis suggests a significant and positive impact of family reputation and family shareholding on financial performance. The analysis further reveals that control variables industry, age of the firm and firm size do not have a significant impact on corporate financial performance. However, the control variable, lag of financial performance i.e. past year financial performance significantly influences corporate financial performance.

### 6.4.3.2 Controlling family status and corporate social performance

In order to explore the impact of controlling family status characteristics on corporate social performance, a regression analysis was conducted as explained in Equation 1 (b) in the research methods chapter.

Table 6.8 summarizes the regression analysis used to investigate the impacts of controlling family status characteristics on social performance. Similar to t-test and correlation analysis’s findings, regression analysis also reveals that family shareholding has a significant negative ($\beta = -0.198$, p= 0.000) impact on corporate social performance. Further, similar to the t-test result, Table 6.8 indicates that family generation has a significant positive ($\beta = 0.153$, p= .008) impact on corporate social performance of the sampled firms. Model summary given in the table reveals a satisfactory model fit with $R^2 = 0.433$ and sig.= .000.

Regression results further reveal that similar to financial performance, corporate social performance is also not influenced by a family’s business group affiliation or its social background. However, these findings are in contrast with the findings revealed by the t-test and correlation analysis results. Further, there is no problem of multi-collinearity between independent variables as VIF value is between 1 and 2.
Table 6.8: Regression analysis showing the impacts of controlling family status characteristics on corporate social performance

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable, Corporate Social Performance</th>
<th>β</th>
<th>T</th>
<th>sig</th>
<th>tol</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREPO</td>
<td></td>
<td>0.074</td>
<td>1.207</td>
<td>0.228</td>
<td>0.654</td>
<td>1.523</td>
</tr>
<tr>
<td>FSHOLD</td>
<td></td>
<td>-0.198</td>
<td>-3.786</td>
<td><strong>0.000</strong></td>
<td>0.938</td>
<td>1.066</td>
</tr>
<tr>
<td>FGEN</td>
<td></td>
<td>0.153</td>
<td>2.672</td>
<td><strong>0.008</strong></td>
<td>0.756</td>
<td>1.323</td>
</tr>
<tr>
<td>FBGAFFI</td>
<td></td>
<td>0.102</td>
<td>1.341</td>
<td>0.182</td>
<td>0.822</td>
<td>1.217</td>
</tr>
<tr>
<td>FSBACK</td>
<td></td>
<td>0.066</td>
<td>0.896</td>
<td>0.372</td>
<td>0.880</td>
<td>1.137</td>
</tr>
<tr>
<td>INDUS</td>
<td></td>
<td>0.013</td>
<td>0.172</td>
<td>0.864</td>
<td>0.790</td>
<td>1.265</td>
</tr>
<tr>
<td>FAGE</td>
<td></td>
<td>-0.059</td>
<td>-0.795</td>
<td>0.428</td>
<td>0.854</td>
<td>1.171</td>
</tr>
<tr>
<td>FSIZE</td>
<td></td>
<td>0.32</td>
<td>3.873</td>
<td>0.000</td>
<td>0.691</td>
<td>1.447</td>
</tr>
<tr>
<td>FP</td>
<td></td>
<td>0.364</td>
<td>4.983</td>
<td>0.000</td>
<td>0.887</td>
<td>1.127</td>
</tr>
<tr>
<td><strong>MODEL SUMMARY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>R² = .433, Adj R² = .396</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ANOVA, Sig.f = .000, N=300</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In summary, regression analysis suggests that an increase in family shareholding of the controlling family have negative impact on corporate social performance. Further, it suggests that the newer generation of controlling family is more socially responsible as compared to the older generation.

6.4.4 A summary of the impact of controlling family status characteristics on corporate financial and social performance

The above section addressed Research Question 1 whose objective was to provide evidence on the impact of controlling family status (family reputation, family shareholding, family generation, family business group affiliation, family social background) on the firm’s financial and social performance. The table 6.9 given below presents the overall findings of the impact of family controlling status characteristics on both corporate financial and social performance.
Table 6.9: Controlling family status and its impact on financial and social performance

<table>
<thead>
<tr>
<th>Controlling family status</th>
<th>Financial Performance</th>
<th>Social Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Reputation</td>
<td>Positive, Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Family Shareholding</td>
<td>Positive, Significant</td>
<td>Negative, Significant</td>
</tr>
<tr>
<td>Family Generation</td>
<td>Non-Significant</td>
<td>Positive, Significant</td>
</tr>
<tr>
<td>Family Business Group Affiliation</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Family Social Background</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
</tbody>
</table>

6.4.4 Discussion: This section compares findings of this study with prior literature and provides an explanation of these findings in the Indian business context.

6.4.4.1 Reputation and its impacts on financial and social performance

Corporate reputation and its impact on different measures of financial performance have been covered extensively in the past literature. Wang and Smith (2008), Tan (2007), Lei (2010) and Ghose et al. (2009) report a positive relationship between corporate reputation and financial performance. Although this study is looking at the impacts of family reputation rather than corporate reputation, it is posited that family reputation eventually comes from corporate reputation. This view has been supported by Dyer and Whetten (2006) who states that due to identity overlap between family and business, the business reputation becomes family reputation. Therefore, similar to the findings of Wang and Smith (2008), Tan (2007), Lei (2010) and Ghose et al. (2009), this study also finds a positive relationship between family reputation and financial performance measured by Tobin’s Q.

There has been limited research on the topic addressing the relationship between family reputation and social performance. This study does not find any evidence to support the arguments of Dyer (2006) who state that family firms are socially responsible actors to protect their image and reputation as bad reputation may have a disastrous impact on a family’s wealth-generating capability.

Further this study also analyses the impacts of firm size on the relationship between family shareholding and social performance and reports that for both smaller and larger firms family reputation does not have any impact on social performance.
Based on prior research, this study has selected thirty five most reputed family businesses in India. These include globally known families such as Tata, Birla, Singhania, Ambani etc. These families are classified as reputed families solely on the basis of their financial status in the society, not on the basis of their involvement in philanthropic activities. Most of these reputed families run their own trust/foundation for philanthropic activities generally supervised by family women. Whether running these foundations provides them competitive market advantage or not, this question is out of scope of this study. Although t-test and correlation analysis results provide an indication that more reputed families are more involved in social activities as compared to less reputed families, regression analysis does not confirm this relationship. Hence, the regression results in this study report no significant relationship between family reputation and social performance.

6.4.4.2 Impacts of family shareholdings on financial and social performance

The relationship between family shareholding and financial performance has been highly ambiguous in the prior literature. This study specifically reports in the Indian context that family shareholding is positively associated with financial performance as measured by Tobin’s Q. Similar to Anderson and Reeb (2003), Barontini and Caprio (2006), Villalonga and Amit (2006), Miller et al. (2007), and Andres (2008) this thesis reports that family shareholding is positively associated with financial performance. Therefore, this thesis provides support for the agency theory argument of Berle and Means (1932) and Jensen and Meckling (1976) that family control helps in mitigating the agency conflict problem and hence leads to better financial performance. This study also supports the findings of Pandey et al. (2011) who report a significant positive relationship between family shareholding and financial performance in the Indian business context.

Although regression analysis and other tests used in this thesis provide evidence of a positive relationship between family shareholding and financial performance, a better understanding of the pattern of variation between financial performance and family shareholding can be observed in Figure 6.8. This shows a curvilinear relationship between family shareholding and financial performance. This non-linearity of relationship is also witnessed by McConnell and Servaes (1990), Cho (1998), Short and Keasey (1999), Thomson and Pedersen (2000), and Gugler et al. (2008).
Similar to Morck et al. (1988), Figure 6.9 reveals that the financial performance of a firm increases initially with the increase in number of shares held by the controlling family (alignment effect) but decreases when the controlling family’s shareholding increases after a certain level which leads to an entrenchment effect. The figure gives support to the argument that with an increase in family ownership the firm’s financial performance also increases (alignment effect) but beyond 80% ownership managers become entrenched and promote their own interest at the expense of other shareholders (entrenchment effect). The entrenchment effect has never been witnessed by prior researchers in the Indian context; therefore, this study makes an original contribution to the existing literature by providing evidence of the presence of an entrenchment effect in the Indian family business context.

The relationship of family shareholding and corporate social performance is less complicated and more straightforward as compared to its relationship with financial performance. Both quantitative and graphical analyses suggest a well-defined inverse relationship between family shareholding and social performance. This relationship has been depicted in Figure 6.10.

In relation to the impact of family shareholding on social performance this study supports the ‘amoral familism’ phenomenon identified by Banfield (1958), who states that families mainly look for their self-interest and are less inclined to be involved in socially responsible behaviour. Similar to Kassinis and Vafeas (2002), Morck and Yeung (2004) and Dam and
Scholtens (2012), this thesis provides empirical evidence to support the existence of self-interest dominance among family firms which negatively influences their social performance.

**Fig 6.10: Indian family shareholding and corporate social performance**

Prior literature contains quite limited research that has been conducted to systematically address the relationship between family shareholding and corporate social performance. Moreover, the few findings that have been reported are largely anecdotal, mixed and inconclusive. This thesis contributes to existing literature by examining this relationship for the first time in the context of large listed family firms in India.

**6.4.4.2.1 Family shareholding and firm performance: an endogeneity issue**

Prior studies suggest that empirical relationships between family control and financial performance suffer from the problem of endogeneity (Andres 2008). Endogeneity in the context of family business refers to reverse causality of relationship between family related variables and financial performance. Findings in this thesis indicate that some family control characteristics are significantly positively related to financial performance. But, the question is whether family control leads to better financial performance or whether a firm’s better performance works as an incentive to adopt a family ownership structure. Andres (2008) and Anderson and Reeb (2003) raise a question on the validity of the argument that strong financial performance leads family members to increase their control. They argue that although undoubtedly families have information advantages concerning their firm’s future prospects, it is illogical to believe that these families have the ability to predict performance over many generations. Andres (2008) looks into the pattern of family ownership across
several generations in the sample of 275 German listed firms and finds that these firms were maintaining an average shareholding of 60% throughout the sample period of seven years (1998-2004) and on average for about 82 years that shows that families stick to their businesses even in bad economic conditions. Therefore, he suggests that the relationship between family ownership and financial performance is forward-oriented one-way relationship that means family ownership leads to superior performance. Andres (2008) and Anderson and Reeb (2003) conducted statistical tests to investigate this issue and do not report endogeneity in the relationship between family ownership and financial performance, thus, confirming that family firms are superior performers. Similarly, Gugler and Weigand (2003) also provide empirical evidence of the exogeneous impact of the largest shareholder on corporate financial performance.

Sarkar and Sarkar (2000) state that although the issue of endogeneity theoretically seems a valid argument, in practice it has not received much attention because in most countries ownership patterns change very slowly over time. This gradual change can be due to several factors other than financial performance. They further state that due to this reason none of the existing empirical study has empirically established the reverse causality in the relationship between family ownership and financial performance.

In India concentrated ownership has always been a peculiar characteristic of family businesses due to reasons discussed in chapter 2. These families have maintained high shareholdings for multiple generations. In order to explore change in ownership in the Indian family business context, this thesis compares average family shareholdings for the period of five years, 2006-2010. Following the approach of Andres (2008), Anderson and Reeb (2003) and Sarkar and Sarkar (2000), this thesis also investigates change in average family shareholding over five year period. The following table shows average family shareholding of family businesses in 2006, 2008 and 2010.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average family shareholding of controlling family</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>52.13 (Sample size=300)</td>
</tr>
<tr>
<td>2008</td>
<td>49.26 (Sample size=135)</td>
</tr>
<tr>
<td>2010</td>
<td>53.20 (Sample size=300)</td>
</tr>
</tbody>
</table>

(Sources: Johl et al. 2010; Pandey et al.2011)
Table 6.10 indicates that there has been a very small change in family shareholding over a period of five years. Moreover, this period includes 2009, the year of the global financial crisis. Therefore, similar to Andres (2008) it can be concluded that families stick to their shareholdings in both good and bad economic conditions. That infers better financial performance does not motivate firms to adopt higher family shareholdings. Thus, in line with Anderson and Reeb (2003) and Andres (2008), this thesis also concludes that the relationship between family ownership and financial performance is exogeneous.

6.4.4.3 Family generation and its impact on financial and social performance

Prior literature (mostly US based studies) addresses the impact of family succession on financial performance. It predominantly reports the superiority of founder run and controlled firms on descendent controlled firms (Anderson & Reeb 2003; Villalonga & Amit 2006; Miller et al. 2007). Some other researchers (Morck et al. 2000; McConaughy et al. 1998) also report positive founder effect in other contexts. Unlike these studies, this thesis finds no significant relationship between family generation and financial performance in the context of large listed Indian family firms.

Unlike developed countries, there is a lack of systematic empirical research addressing the family generational impact on financial performance in the India. This thesis makes a contribution to the existing literature by providing evidence in the Indian context.

Family generation and its impact on social performance has never been empirically analysed in the past literature. This study makes an original contribution to the existing literature by providing evidence of the impact of family shareholding on social performance in the Indian context. Moreover, this thesis also extends the applicability of the available literature on the relationship between family generation and financial performance, to the social performance. This study is the first to give evidence that later family generations are more socially responsible as compared to founding family generation. The inference is that descendants are more socially responsible as compared to founders.

In summary, on one hand the overall findings of this thesis provides a notion of socially irresponsible behaviour of family businesses but on the other hand, they also reveal a positive attitude of founding families’ successors towards social performance. It is concluded that later generation family businesses are more socially responsible as compared to founder run family businesses. So it can be argued that in the Indian family business context, Scott’s (1995) viewpoint of normative isomorphism is supported by later generation family businesses. But,
overall findings of this thesis provide strong evidence of ‘amoral familism’ among Indian family firm and witness that family firms in India are associated with negative social performance.

6.4.4.4 Family social background and its impact on financial and social performance

Family social background and its impact on financial and social performance has never been analysed in the prior literature. This study reports that family social background does not have an impact on financial and social performance. However, it is a common belief in India that trading communities have expertise in running businesses successfully due to inherent characteristics such as business skills developed over generations. But, this study finds that, contrary to popular belief, families from India’s recognised trading communities are not significantly associated with better financial performance.

This study also provides first time evidence on the possible impact of family businesses’ belongingness to trading communities on corporate social performance. It is found that trading communities have no impact on social performance. The reason could be size and scale of businesses. The sample of this study comes from 300 top listed family firms in India in terms of market capitalisation. Listed firms follow rules and regulations imposed by regulatory agencies thus leaving limited flexibility to impose the norms and believe of traditional communities. Therefore, it could be argued that small unlisted businesses may be more governed by norms and believes of trading communities, which would require analysis by future research studies.

In summary, this thesis makes an original contribution to the family business research by providing evidence on the impact of trading business communities on financial and social performance of Indian family businesses. Most Indian industrialists belong to trading business communities (Lamb 1955). Therefore, studies investigating the impact of family on financial performance will be incomplete until they include the impact of trading business community. Thus, this thesis also opens a door for future researchers studying performance of family businesses in the Indian context.

6.4.4.5 Business group affiliation and its impacts on financial and social performance

Prior literature suggests ambiguity and contention regarding the relationship between firm’s business group affiliation and its financial performance (Carney et al. 2011). Based on the findings of the independent-samples t-test, correlation analysis and regression analysis, this study reports that business group affiliation has no impact on the financial performance of
listed Indian family firms. These results are in contradiction to prior literature that reports a significant impact of business group affiliation on financial performance (Almeida & Wolfenzon 2006; Chang & Hong 2000; Bertrand et al. 2002; Khanna & Yafeh 2005).

Business group affiliation and its impact on financial performance have been substantially covered by prior researchers. However, this literature is silent about its impact on social performance. This study makes an original contribution to the existing literature by reporting the impact of business group affiliation on social performance in the context of Indian family businesses. Although correlation analysis and independent sample t-test reveal that firms affiliated to the business groups have better social performance as compared to non-affiliated family firms, regression analysis finds a non-significant relationship between business group affiliation and social performance.

6.5 Family-impacted board governance and its effect on financial and social performance

This section addresses the second research question whose objective is to explore the relationships between family governance and board governance variables and financial and social performance. This section also uses findings from the independent-samples t-test, correlation analysis and regression analysis.

6.5.1 Independent samples t-test

Independent samples t-test is used to compare the means of financial and social performance between groups of dichotomized data for family-impacted board governance variables. Results are shown in Table 6.11.
Table 6.11: Independent samples t-test comparing differences in financial and social performance based on dichotomized groupings of family and board governance variables

<table>
<thead>
<tr>
<th>Family and board governance characteristics</th>
<th>Panel A- Financial Performance</th>
<th>Panel B- Social Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean Difference</td>
<td>t</td>
</tr>
<tr>
<td>FCEO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Family</td>
<td>0.77</td>
<td>0.084</td>
</tr>
<tr>
<td>Family</td>
<td>0.69</td>
<td></td>
</tr>
<tr>
<td>FCHAIR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Family</td>
<td>0.91</td>
<td>0.028</td>
</tr>
<tr>
<td>Family</td>
<td>0.89</td>
<td></td>
</tr>
<tr>
<td>FOUNOB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>0.27</td>
<td>0.037</td>
</tr>
<tr>
<td>Yes</td>
<td>0.24</td>
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</tr>
<tr>
<td>FMOB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below average</td>
<td>0.27</td>
<td>0.029</td>
</tr>
<tr>
<td>Above average</td>
<td>0.24</td>
<td></td>
</tr>
<tr>
<td>BGENDER</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Diversity</td>
<td>0.41</td>
<td>-0.019</td>
</tr>
<tr>
<td>More Diversity</td>
<td>0.43</td>
<td></td>
</tr>
<tr>
<td>ININVOLVE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low involvement</td>
<td>4.84</td>
<td>0.006</td>
</tr>
<tr>
<td>High involvement</td>
<td>4.83</td>
<td></td>
</tr>
<tr>
<td>OUTINVOLVE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low involvement</td>
<td>4.39</td>
<td>0.247</td>
</tr>
<tr>
<td>High involvement</td>
<td>4.14</td>
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<td>INREP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less reputed</td>
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<td>-0.295</td>
</tr>
<tr>
<td>Highly reputed</td>
<td>4.4</td>
<td></td>
</tr>
<tr>
<td>OUTREP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less reputed</td>
<td>3.92</td>
<td>-0.291</td>
</tr>
<tr>
<td>Highly reputed</td>
<td>4.41</td>
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</tr>
<tr>
<td>BSIZE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smaller board</td>
<td>9.45</td>
<td>-0.718</td>
</tr>
<tr>
<td>Bigger board</td>
<td>10.17</td>
<td></td>
</tr>
<tr>
<td>BINDEP</td>
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<td></td>
</tr>
<tr>
<td>Less independent</td>
<td>0.55</td>
<td>-0.008</td>
</tr>
<tr>
<td>More independent</td>
<td>0.56</td>
<td></td>
</tr>
<tr>
<td>BPHIL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td>0.39</td>
<td>0.056</td>
</tr>
<tr>
<td>Sustainable</td>
<td>0.33</td>
<td></td>
</tr>
<tr>
<td>TCOM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less committee</td>
<td>3.42</td>
<td>-0.203</td>
</tr>
<tr>
<td>More committee</td>
<td>3.62</td>
<td></td>
</tr>
<tr>
<td>DUAL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Duality</td>
<td>0.37</td>
<td>0.036</td>
</tr>
<tr>
<td>Duality</td>
<td>0.33</td>
<td></td>
</tr>
<tr>
<td>BMEET</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Meetings</td>
<td>6.17</td>
<td>0.255</td>
</tr>
<tr>
<td>More meetings</td>
<td>5.91</td>
<td></td>
</tr>
</tbody>
</table>
Panel A shows the impacts of family governance and board governance characteristics on financial performance. Panel A reveals that the family CEO and Family Chairperson’s presence on the board have no impact on financial performance of family-controlled Indian listed firms. Panel A also reveals that the founder’s presence on board have no impact on financial performance. Furthermore, in relation to the impact of family members’ presence on financial performance, Panel A reveals that the presence of family members’ on board does not have an impact on financial performance. In relation to the impact of board governance characteristics on financial performance, Panel A reveals that the group of family-controlled firms having a larger board (mean=10.17) have substantially better performance compared to firms having smaller board (mean=9.45). Panel A further reveals that the group of family-controlled firms having a large number of board committees (mean=3.62) perform better compared to firms having a small number of board committees (mean=3.42).

In relation to the impact of board meetings and directors’ attendance on financial performance, Panel A reveals that the number of board meetings held in a year and directors’ presence at meetings have no impact on financial performance. Results also reveal that directors’ reputation and their independence have no impact on financial performance of family-controlled firms. Finally, Panel A reveals that the CEO duality and sustainability oriented corporate governance philosophy of the firm also have no impact on financial performance.

Turning to Panel B, it shows the effects of family governance and board governance characteristics on social performance. Similar to Panel A’s findings, Panel B reveals that the family CEO and family Chairperson’s presence on the board have no impact on social performance. In contrast with Panel A’s findings, Panel B reveals that the founder’s presence on board has a substantial negative impact on social performance. It also reveals that the higher presence of family members on board has a significant negative effect on social performance.

In relation to the effects of board governance characteristics on social performance, Panel B reveals that the group of firms having highly reputed directors on the board outperform the group of firms having less reputed directors on board. Furthermore, it also reveals that the group of firms having high attendance of outsiders at board meetings have substantially better social performance compared to the group of firms having low attendance of outsiders. In relation to the impact of board size on social performance, Panel B reveals that the group of family controlled firms having larger boards have a significantly greater impact on social performance.
performance compared to firms having a smaller board. In relation to the impact of number of board committees on social performance, Panel B reveals that the group of family controlled firms having a larger number of board committees is significantly higher rated on social performance compared to those having a smaller number of board committees. Panel B further reveals that group of family controlled firms having a sustainability-oriented corporate governance philosophy, significantly outperform those firms having financially-oriented governance philosophy. Finally, Panel B reveals that insiders’ attendance, board independence, CEO duality, board gender diversity and number of board meetings in a year have no substantial impact on social performance of family controlled listed Indian firms.

In summary, Panels A and B reveal that the presence of powerful management players in the board of family controlled companies in India do not have impact on financial and social performance. However, increase in family members’ presence on the board has negative impact on both financial and social performance. Panel B further reveals that the founder’s presence on the board has negative impact on social performance of listed family-controlled firms in India. The independent-samples t-test also reveals that board governance characteristics have more influence on social performance compared to financial performance, thus suggesting that controlling families take financial decisions and boards are mainly involved in designing strategy for achieving better social performance.

### 6.5.2 Correlation analysis

Correlation analysis is used to further explore the impact of family governance and board governance characteristics on financial and social performance of family controlled listed Indian firms. Table 6.12 shows results of correlation analysis.

Table 6.12 reveals that family involvement on the board (family CEO, family Chair, founder on board, family members on board) are negatively associated with financial performance but this association is not significant. However, family CEO (r = -0.153, p<0.01), founder on board (r = -0.149, p<0.01) and family members on board (r = -0.322, p<0.01) have significant negative impact on social performance. Most of these results are consistent with the independent samples t-test’s findings shown in Table 6.11. Similar to t-test findings, correlation analysis also suggests that the presence of a family Chairperson on board has a non-significant (although positive) impact on social performance.

In relation to the impacts of board governance characteristics, consistent with the findings of t-tests, correlation analysis reveal that larger boards have a significant positive correlation
with both financial \((r=0.161, p<0.01)\) and social performance \((r=0.150, p<0.01)\). Likewise, Table 6.12 reveals that a larger number of board committees have significant positive correlation with both financial \((r=0.186, p<0.01)\) and social performance \((r=0.240, p<0.01)\). Furthermore, outside directors’ attendance at board meetings have significant positive correlation with social performance \((r=0.124, p<0.05)\). In relation to outsiders reputation, Table 6.12 further reveals that outside directors’ reputation has a significant positive correlation with social performance \((r=0.150, p<0.05)\). Finally, Table 6.12 does not suggest any significant correlation of number of board meetings, gender diversity, CEO duality and board independence with financial and social performance of family controlled listed Indian firms.

In summary, correlation analysis suggests that the founder’s and family members’ presence on the board have no impact on financial performance, but have a negative impact on social performance. In relation to board governance characteristics, analysis suggests that board size and total number of board committees have a significant positive impact on both financial and social performance. Furthermore, it also suggests board independence has a significant positive impact on social performance.
Table 6.12: Correlation analysis showing impacts of family and board governance variables on financial and social performance

<table>
<thead>
<tr>
<th></th>
<th>FCBO</th>
<th>FCCHAIR</th>
<th>FOR</th>
<th>FMOB</th>
<th>BG</th>
<th>ININVOLVE</th>
<th>OUTINVOLVE</th>
<th>INREP</th>
<th>OUTREP</th>
<th>BSIZE</th>
<th>BNDENEP</th>
<th>BPHIL</th>
<th>TCOM</th>
<th>DUAL</th>
<th>RPWIT</th>
<th>FP</th>
<th>CSP</th>
<th>INDUS</th>
<th>FAGE</th>
<th>FSIZE</th>
<th>LAGFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCEO</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>FCCHAIR</td>
<td>0.101</td>
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<tr>
<td>FOR</td>
<td></td>
<td>0.351**</td>
<td>0.194**</td>
<td>1</td>
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<td></td>
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<tr>
<td>FMOB</td>
<td></td>
<td>0.360**</td>
<td>-0.033</td>
<td>0.088</td>
<td>1</td>
<td></td>
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<tr>
<td>BG</td>
<td></td>
<td>0.066</td>
<td>0.168**</td>
<td>0.025</td>
<td>0.06</td>
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</tr>
<tr>
<td>ININVOLVE</td>
<td>-0.111</td>
<td>-0.055</td>
<td>0.058</td>
<td>0.023</td>
<td>-1.427</td>
<td>1</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>OUTINVOLVE</td>
<td>-0.062</td>
<td>-0.03</td>
<td>-0.044</td>
<td>-0.027</td>
<td>-1.124'</td>
<td>0.504**</td>
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<tr>
<td>INREP</td>
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<td>0.004</td>
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<td>1</td>
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</tr>
<tr>
<td>OUTREP</td>
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<td>-0.167'</td>
<td>-0.036</td>
<td>-1.162'</td>
<td>-1.153'</td>
<td>-0.067</td>
<td>-0.023</td>
<td>-0.041</td>
<td>0.209'</td>
<td>1</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>BSIZE</td>
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<td>-0.047</td>
<td>0.09</td>
<td>-1.166'</td>
<td>-1.416'</td>
<td>0.299'</td>
<td>-1.131'</td>
<td>0.015</td>
<td>1.237'</td>
<td>0.084</td>
<td>1</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>BNDENEP</td>
<td>-0.018</td>
<td>0.122'</td>
<td>0.034</td>
<td>-1.233'</td>
<td>0.009</td>
<td>0.093</td>
<td>-0.075</td>
<td>0.069</td>
<td>0.073</td>
<td>-1.128'</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>BPHIL</td>
<td></td>
<td>0.028</td>
<td>0.088</td>
<td>0.026</td>
<td>-0.08</td>
<td>-0.037</td>
<td>0.011</td>
<td>-0.027</td>
<td>0.086</td>
<td>-1.117'</td>
<td>0.039</td>
<td>0.05</td>
<td>1</td>
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<tr>
<td>TCOM</td>
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<td>-0.059</td>
<td>0.051</td>
<td>-0.035</td>
<td>0.024</td>
<td>0.116</td>
<td>-1.138'</td>
<td>0.041</td>
<td>-0.039</td>
<td>0.091</td>
<td>-0.044</td>
<td>0.155'</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>DUAL</td>
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<td>-0.408'</td>
<td>-0.219'</td>
<td>-0.622'</td>
<td>0.054</td>
<td>0.048</td>
<td>-0.004</td>
<td>-1.137'</td>
<td>0.03</td>
<td>-0.053</td>
<td>-0.106'</td>
<td>0.1</td>
<td>0.052</td>
<td>-0.041</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>RPWIT</td>
<td></td>
<td>-0.095</td>
<td>-0.107</td>
<td>-0.011</td>
<td>-0.023</td>
<td>-1.141'</td>
<td>0.687'</td>
<td>-0.518'</td>
<td>-0.092</td>
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<td>0</td>
<td>0.026</td>
<td>-0.035</td>
<td>1.317'</td>
<td>-0.044</td>
<td>1</td>
<td></td>
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<tr>
<td>FP</td>
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<td>-0.103</td>
<td>-0.019</td>
<td>-0.052</td>
<td>-0.082</td>
<td>0.035</td>
<td>0.019</td>
<td>-0.028</td>
<td>0.031</td>
<td>0.034</td>
<td>0.161'</td>
<td>0.013</td>
<td>-0.068</td>
<td>0.186'</td>
<td>-0.078</td>
<td>-0.048</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSP</td>
<td></td>
<td>-1.153'</td>
<td>0.089</td>
<td>-1.149'</td>
<td>-1.322'</td>
<td>0.062</td>
<td>0.009</td>
<td>1.124'</td>
<td>0.095</td>
<td>1.150'</td>
<td>0.333'</td>
<td>0.1</td>
<td>0.11</td>
<td>1.246'</td>
<td>-0.047</td>
<td>-0.024</td>
<td>0.263'</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INDUS</td>
<td></td>
<td>0.127</td>
<td>-0.036</td>
<td>-0.059</td>
<td>0.034</td>
<td>0.035</td>
<td>0.003</td>
<td>0.068</td>
<td>-0.062</td>
<td>0.048</td>
<td>0.039</td>
<td>-0.036</td>
<td>0.085</td>
<td>0.083</td>
<td>-0.045</td>
<td>-0.024</td>
<td>-1.141'</td>
<td>-0.038</td>
<td>1</td>
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<td></td>
</tr>
<tr>
<td>FAGE</td>
<td></td>
<td>-1.165'</td>
<td>0.054</td>
<td>-1.276'</td>
<td>-1.142'</td>
<td>0.034</td>
<td>-0.033</td>
<td>-0.04</td>
<td>0.068</td>
<td>0.103</td>
<td>0.145'</td>
<td>0.119'</td>
<td>0.007</td>
<td>0.01</td>
<td>-0.044</td>
<td>-0.08</td>
<td>0.099</td>
<td>0.163'</td>
<td>0.180'</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>FSIZE</td>
<td></td>
<td>-0.09</td>
<td>0.068</td>
<td>-0.024</td>
<td>-1.340'</td>
<td>0.026</td>
<td>0.130'</td>
<td>0.130'</td>
<td>0.049</td>
<td>0.122'</td>
<td>0.312'</td>
<td>-0.006</td>
<td>0.053</td>
<td>0.278'</td>
<td>-0.02</td>
<td>0.116</td>
<td>0.073</td>
<td>0.365'</td>
<td>-1.183'</td>
<td>-0.006</td>
<td>1</td>
</tr>
<tr>
<td>LAGFP</td>
<td></td>
<td>-0.108</td>
<td>0.034</td>
<td>0.08</td>
<td>-1.140'</td>
<td>0.063</td>
<td>0.08</td>
<td>0.009</td>
<td>-0.061</td>
<td>0.008</td>
<td>0.183'</td>
<td>0.09</td>
<td>-0.003</td>
<td>0.148'</td>
<td>-0.005</td>
<td>-0.047</td>
<td>0.770'</td>
<td>-0.268'</td>
<td>-1.132'</td>
<td>0.024</td>
<td>0.258'</td>
</tr>
</tbody>
</table>
6.5.3 Regression analysis

To address the second research question, multiple regression analyses were conducted to explore the effects of family-impacted board governance characteristics on financial and social performance of family controlled listed Indian firms. Regression results for the sampled firms are presented in Tables 6.13 and 6.14. Both of these tables reveal a satisfactory level of explanatory power of Adjusted R-square for the models used to explore effects of family-impacted board governance on financial and social performance. Further, these tables also depict that there is no multicolinearity between independent variables as VIF is well below the acceptable limit. Table 6.13 reveals that the control variables, industry (INDUS), firm age (FAGE) and firm size (FSIZE) do not have a significant impact on corporate financial performance. However, the control variable, last year’s financial performance (LAGFP) is significant. Furthermore, Table 6.14 reveals that the control variables, industry (INDUS) and firm age (FAGE) do not have a significant impact on corporate social performance. However, the control variables, firm size (FSIZE) and financial performance (FP) have significant impact on social performance of listed family controlled firms in India.

Table 6.13 reveals that the founder’s presence on the board negatively influences financial performance ($\beta=-0.018$, $p=0.098$). This table also reveals that insiders’ active involvement in the board process has a significant negative impact on financial performance ($\beta=-0.193$, $p=0.035$). Furthermore, Table 6.13 reveals that insiders’ reputation have a significant positive impact on financial performance ($\beta=0.138$, $p=0.043$). In relation to the impact of board committees, Table 6.13 reveals that large numbers of committees on boards have a significant positive impact on financial performance ($\beta=0.188$, $p=0.014$). Finally, regression analysis results reveal that sustainability oriented corporate governance philosophy of the board have significant negative impact on financial performance ($\beta=-0.144$, $p=0.023$).

In relation to the effects of family-impacted board governance variables on social performance, Table 6.13 reveals that the founder’s presence on the board negatively influences social performance of family controlled listed Indian firms ($\beta= -0.202$, $p=0.020$). The table also reveals that board size ($\beta=0.247$, $p=0.011$), number of board committees ($\beta=0.231$, $p=0.011$) and board independence ($\beta=0.249$, $p=0.004$) are positively related to social performance of family controlled listed firms in India. In relation to the impact of number of board meetings on social performance, findings reveal that frequency of board meetings is inversely related to social performance ($\beta=-0.246$, $p=0.021$). Furthermore, the
analysis confirms that boards having sustainability oriented corporate governance philosophy have a positive impact on social performance ($\beta=0.167$, $p=0.025$).

In summary, this thesis reports that the founder’s presence on the board has negative impact on both financial and social performance of family controlled listed Indian firms. In relation to the board governance characteristics, this thesis reports that they have more influence on corporate social performance compared to financial performance. A detailed discussion on individual findings is covered in the next section.

Table 6.13: Regression analysis showing impacts of family and governance variables on financial performance

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable, Tobin’s Q</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$\beta$</td>
</tr>
<tr>
<td>FCEO</td>
<td>0.057</td>
</tr>
<tr>
<td>FCHAIR</td>
<td>-0.011</td>
</tr>
<tr>
<td>FOUNOB</td>
<td>-0.108</td>
</tr>
<tr>
<td>FMOB</td>
<td>0.033</td>
</tr>
<tr>
<td>BGENDER</td>
<td>-0.093</td>
</tr>
<tr>
<td>ININVOLVE</td>
<td>-0.193</td>
</tr>
<tr>
<td>OUTINVOLVE</td>
<td>0.012</td>
</tr>
<tr>
<td>INREP</td>
<td>0.138</td>
</tr>
<tr>
<td>OUTREP</td>
<td>0.040</td>
</tr>
<tr>
<td>BSIZE</td>
<td>0.081</td>
</tr>
<tr>
<td>BINDEP</td>
<td>0.040</td>
</tr>
<tr>
<td>BPHIL</td>
<td>-0.144</td>
</tr>
<tr>
<td>DUAL</td>
<td>0.060</td>
</tr>
<tr>
<td>TCOM</td>
<td>0.188</td>
</tr>
<tr>
<td>BMEET</td>
<td>0.104</td>
</tr>
<tr>
<td>INDUS</td>
<td>-0.096</td>
</tr>
<tr>
<td>FAGE</td>
<td>0.043</td>
</tr>
<tr>
<td>FSIZE</td>
<td>-0.070</td>
</tr>
<tr>
<td>LAGFP</td>
<td>0.846</td>
</tr>
<tr>
<td><strong>MODEL SUMMARY</strong></td>
<td><strong>R^2=.733</strong>, Adj $R^2=.667$</td>
</tr>
</tbody>
</table>
6.5.4 Discussion

An overall summary of findings discussed in this section is shown in Table 6.14. Each of these findings is discussed, in turn, in the sub-sections below.

6.5.4.1 Family CEO and founder’s impact on financial and social performance

Family CEOs and the founder’s impact on financial performance have been empirically analysed by prior researches but with inconsistent findings. Unlike other researchers who find positive impact of family CEO on financial performance (Adams et al. 2009; Anderson & Reeb 2003; Bartonini & Caprio 2006; Villalonga & Amit 2006; Fahlenbrach 2009), this thesis does not report any significant impact of the family CEO on financial performance in the context of family controlled listed firms in India.

In relation to the founder’s impact on financial performance, prior researchers have consistently reported the superiority of founder run and controlled firms on descendent controlled firms (Anderson & Reeb 2003; Villalonga and Amit 2005; Miller et al. 2007). Contrary to these findings this thesis reports that the founder’s presence in the board have negative impact on financial performance. Villalonga and Amit (2006) report that the founder’s presence in the family firm enhances firm value but in the absence of control enhancing mechanism such as multiple share classes with differential voting rights, pyramids, and crossholdings or voting agreements which facilitate expropriation of non-family shareholders. These control enhancing mechanisms as referred by Villalonga and Amit (2006) are inherent characteristics of family controlled businesses in India. Therefore, it can be said that in India, investors perceive founders presence on the board as family’s excess control over board, hence they negatively react to the situation.

Prior researchers have also reported the superiority of non-family managed firms as compared to family managed firms (Burkart et al 2003; Coleman 1990; Pandey et al. 2011). These researchers argue that family CEOs are less productive as compared to non-family CEOs. Unlike these studies, this thesis does not find any significant relationship between family CEO’s presence on the board and financial performance. In addition, this thesis does not find any evidence of superiority of non-family CEOs as compared to family CEOs.

Unlike the above discussion explaining the impact of the family CEO and the founder’s presence on financial performance, the family CEO and the founder’s impact on social performance is a relatively new area of research. Researcher could find only one academic article (McGuire et al. 2012) which empirically addresses the impact of the family CEO on
social performance. Similar to the findings of McGuire et al. (2012), this study does not find any relationship between the presence of the family CEO on social performance.

The founder’s presence on the board and its impact on corporate social performance has never been analysed before. This thesis is believed to be the first study that reports a highly significant negative relationship between founder’s presence on the board and corporate social performance. This finding supports findings discussed in the previous section (RQ 1, family ownership status characteristics and their impacts on financial and social performance) that reports a positive relationship between family successive generations and corporate social performance. This study suggests that founders, first generation entrepreneurs, are less concerned about social performance compared to later generations.

6.5.4.2 Family Chairperson and firm performance

The Chairpersons’ role in influencing financial and social performance has not been widely analysed by corporate governance researchers. One reason is that the issue has not been viewed as important because corporate governance studies have largely come from the US and European business environments where most of the Chairpersons are either non-executives or an independent directors. But, in the Indian scenario especially in the case of Indian family businesses the role of family Chairperson cannot be neglected due to his or her strong presence on the board either as founder or executive Chairperson. Piramal (1996, p.14) depicts the powerful position of Mr Dheerubhai Ambani, the Chairperson of a well-known Indian family business, Reliance:

“He freed himself from day-to-day operational management of the group’s manufacturing facilities the moment his sons, Mukesh and Anil, joined the family firm in the mid-’80s. At the beginning of the ‘90s, he moved away from the chief executive’s post (though technically he still holds that position) to conceptualise the company’s long term goals as also to spend a little more time with the family......................Despite the shorter hours and the inevitable distancing, his is a crucial role, beyond that of visionary and strategist...........Asked if he had ever thought of retirement, Dhirubhai reposted instantly: ‘Never till my last breath I will work. To retire there is only one place-the cremation ground’.”

Descriptive statistics on the family Chairperson also reveal that 90% of the Indian family businesses are headed by family Chairpersons, out of which 54.7% are executive chairman. Pandey et al. (2011) empirically analyse the influence of family Chairperson’s presence on financial performance measured by Tobin’s Q in a sample of 131 top listed Indian family
firms and report non-significant relationships between the existence of a family Chairperson and both accounting and market based performance measures. This study supports the findings of Pandey et al. (2011) regarding the influence of family Chairperson on financial performance.

Table 6.14: Impacts of family and governance variables on corporate social performance

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable, CSP</th>
<th>β</th>
<th>T</th>
<th>sig</th>
<th>tol</th>
<th>VIF</th>
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<td>0.877</td>
<td>0.587</td>
<td>1.703</td>
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<td>0.604</td>
<td>0.745</td>
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<td>0.020</td>
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<tr>
<td>FMOB</td>
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<td>0.124</td>
<td>0.454</td>
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</tr>
<tr>
<td>BGENDER</td>
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<td>0.892</td>
<td>0.679</td>
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<tr>
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<tr>
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<tr>
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<td>0.601</td>
<td>0.768</td>
<td>1.301</td>
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<tr>
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<tr>
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</tr>
<tr>
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<td>0.045</td>
<td>0.795</td>
<td>1.258</td>
<td></td>
</tr>
</tbody>
</table>

MODEL SUMMARY

$R^2 = .635$, Adj $R^2 = .547$

ANOVA, Sig.f= .000, N=300
Family Chairperson’s impact on social performance have not been systematically analysed by prior corporate governance researchers. Although, descriptive analysis provide evidence of a dominant presence of family chairs on boards of family controlled listed companies in India, this study finds evidence of no significant relationship between the family Chairperson’s presence on the board and corporate social performance.

6.5.4.3 Family presence on the board and firm performance

This study measured family presence on the board by calculating percentage of family members on the board. Findings of this thesis clearly reveal that family member’s presence on the board have no impact on financial performance of listed Indian family firms. This thesis supports the findings of Corbetta and Minichilli (2006) who also report no influence of family members’ presence on financial performance measured by stock market performance. They mainly express two reasons of their findings; 1- excess representation of family members on board limits the potential contribution of outside directors, 2- excess representation provide less opportunity for independent director to control management.

In the context of India, boards of family firms are highly represented by family members of the founding family as descriptive statistics clearly show that on average over a quarter of board members belong to founding families (26.81%). Therefore, such a dominant presence of family members on the board does not leave much opportunity for outsiders to counsel family members and insiders, thus leading to the neutral relationship. Similarly, this thesis does not report any linkage between family members’ presence on the board and corporate social performance of family controlled listed Indian firms. Although regression analysis suggests negative impact of family members’ presence on corporate social performance but this influence is not significant. The relationship between family members’ presence on the board and corporate social performance has never been addressed by prior corporate governance researchers. This is the first study investigating this relationship and reporting that family members’ presence on board does not have a significant impact on social performance.

6.5.4.4 Gender diversity and firm performance

In relation to the impact of gender diversity on financial performance, this study does not find any evidence of the influence of board gender diversity on financial performance measured by Tobin’s Q. This finding is in contradiction with the findings of Smith et al. (2006) who report a significant positive impact of gender diversity on firm performance.
Researchers in the past have witnessed positive impact of board gender diversity on corporate social performance (Ibrahim & Angelidis 1995; Williams 2003). They report that female directors on the board are more inclined towards corporate philanthropic activities compared to male directors. Contrary to these findings, this study does not report any significant impact of female directors’ presence on corporate social performance of family controlled listed Indian firms.

In the Indian family business context these findings are similar to what was expected. As discussed, most of the family controlled listed Indian firms are owned by trading communities who are conservative and orthodox, do not allow their daughters and daughter-in laws to work. Piramal (1996, p.166) states women’s status in a traditional Marwari business family-

“.....in a traditional Marwari family, the baton passes from father to son. Females do not count except in dowry exchanges.........Like most Marwari families, the Birlas saw no point in teaching girls skills beyond those needed in a well behaved corporate wife: a basic graduate degree, cooking and flower arranging”.

Thus, traditionally trading communities did not promote their ladies to participate in the family business. But this approach is slowly changing now. A detailed descriptive analysis of the sample reveals that women on the board of family firms in India are mostly from founding families and have a very small representation on boards of listed Indian family firms (approx. 4%). This underrepresentation may be the cause of insignificant impact of gender diversity on financial and social performance of family controlled listed Indian firms.

6.5.4.5 Board meeting frequency, directors’ attendance and firm performance

Although prior literature addresses the impacts of board meeting frequency on financial performance, the impact of directors’ attendance on performance has not been empirically studied in a systematic manner. In contradiction to the prior researches that provide evidence of a positive relationship between board meeting frequency and financial performance (Lipton & Lorsch 1992; Conger et al.1998), this study finds a non-significant relationship between board meeting frequency and financial performance. Nevertheless, this finding is supported by other studies conducted in the Indian context (Jackling & Johl, 2009; Pandey et al. 2011), who also report no significant relationship between board meeting frequency and corporate financial performance.
Additionally, findings of this thesis contribute to the existing corporate governance literature by providing empirical evidence of the relationship between directors’ attendance and financial performance. Board meeting is an opportunity for independent directors to monitor management and to provide independent advice for firm betterment. In case of family firms, families’ excessive involvement in the board process provides less opportunity for outside directors to participate effectively and provide independent advice. Balasubramanian (2010, p.121) states that traditionally in India outside directors are included on the board to fulfil compliance requirements. Therefore, they have little or no impact on firm performance. This study supports his argument that the contribution of outside directors to improving firm performance is minimal, by finding no significant relationship between outsiders’ involvement and financial performance. However, regression analysis reveals that insiders’ excessive involvement in the board process negatively influences firm financial performance which means a family’s excessive involvement is perceived by investors as a control enhancing mechanism (Villalonga & Amit 2006) that eventually reduces market value of the firm.

Corporate governance literature mainly addresses the effects of board meeting frequency on financial performance. However, this literature lacks quantitative empirical evidence on the relationship between frequency of board meetings and corporate social performance. The only evidence is found in qualitative studies conducted by Ricart et al. (2005) and Zahra (1989) who provide an indication that directors formally discuss firm sustainability policies in the board meetings which positively impacts social performance. These two studies further state that now-a-days most businesses have integrated sustainable development into their core strategy and sustainability discussions at internal board meetings.

Contrary to the above findings this thesis reports a significant negative relationship between board meeting frequency and corporate social performance. In order to investigate the impact of firm size on this relationship, this study splits sample according to firm size (Table not included). This study witnesses a negative relationship between board meeting frequency and social performance but only for smaller firms. For larger firms, there is no significant relationship between frequency of board meeting and social performance.

Why do smaller firms show a negative association between board meeting frequency and social performance? Descriptive analysis of the sample (table not included) reveals that smaller firms have comparatively larger family shareholdings (mean= 55.53) as compared to the bigger firms (50.90). Descriptive analysis further indicates that boards of bigger firms
hold board meetings more frequently (mean= 6.28) as compared to smaller firms (mean= 5.80). Furthermore, descriptive analysis also suggests that most of the smaller firms are first generation enterprises mainly managed by the founder. Descriptive analysis clearly suggests that smaller firms have excessive family control as compared to bigger firms, which eventually provides more power to the founding family in deciding agenda for board meeting. Our previous analysis reveals that family control in terms of shareholdings is negatively related to social performance. Therefore, smaller family firms exhibit an inverse relationship between board meeting frequency and corporate social performance. This study also reports that insiders’ and outsiders’ attendance in board meetings has no significant impact on firms’ social performance.

6.5.4.6 Board reputation and its impact on firm performance

Board members’ cross-directorship (referred as reputation and busyness by past researchers) and its impact on firm performance is one of the widely addressed topics in corporate governance research. Prior studies explaining the impact of directors’ cross-directorships on financial performance provide conflicting results (Gilson 1990; Core et al. 1999; Fich & Shivdasani 2006; Pombo & Gutierrez 2011). However, none of the studies in the past have empirically investigated the impacts of insiders’ and outsiders’ reputation (cross-directorships) on financial performance. Therefore, this thesis makes an original contribution to the available literature by investigating this relationship in the context of family controlled listed Indian firms. Findings of this thesis reveal that reputation of outside directors’ has no impact on financial performance of family controlled firms in India. These findings further support the puppet board arguments given by Balasubramanian (2010) and Dutta (1997) in the context of family controlled businesses in India.

In relation to the impact of insiders’ reputation on financial performance, this thesis reports a significant positive impact of insiders’ reputation on financial performance. Thus, in relation to insiders’ cross-directorships this thesis supports the resource dependency theory which hypothesises a positive relationship between multiple directorships held by directors and financial performance. Therefore, it can be said that insiders’ reputation helps family controlled firms in India in collecting necessary resources for effective running of the business (Jiraporn et al. 2008; Fama & Jensen 1983), which eventually has a positive impact on financial performance.
There has been limited research looking at the impact of directors’ reputation on social performance. This study contributes to the existing corporate governance literature by providing evidence in the Indian family business context. Unlike a prior study conducted by Kassinis and Vafeas (2002), who report a positive relationship between numbers of directorships held by outside directors and firm social performance, this thesis does not report any significant impact of insiders’ and outsiders’ cross-directorships on social performance. Therefore, unlike financial performance, these findings do not provide any evidence in support of resource dependency theory.

6.5.4.7 Board size and firm performance

Prior corporate governance researchers are not unanimous on the relationship between board size and firm performance (Shaw1981; Gladstein 1984; Goodstein et al.1994; Dalton et al. 1998; Jackling & Johl 2009; Pandey et al. 2011). This thesis finds that board size has no impact on financial performance of family controlled listed Indian firms. This finding is in contrast with some of the earlier findings that provide empirical evidence of a positive relationship between board size and financial performance and support resource dependency theory (Dalton et al. 1999; Coles et al. 2008; Jackling & Johl 2009; Pandey et al.2011).

However, this study supports the findings of Hu et al. (2010) who suggest that ownership concentration in family firms puts a hindrance on the governance and supervision role of directors, making them unable to influence financial performance. Descriptive statistics in this study reveal that average family shareholdings in family owned listed firms in India is 52.13%. Therefore, excess family shareholding could be responsible for the board’s ineffectiveness as argued by Hu et al. (2010). These findings are in direct contrast with the findings of Pandey et al. (2011) who provide empirical evidence in support of a bigger board in the Indian family business context. However, findings of this thesis support puppet board arguments proposed by Balasubramanian (2010) and Dutta (1997).

A limited number of studies have investigated the impacts of board size on corporate social performance with inconsistent findings. Kassinis and Vafeas (2002) empirically determine that larger boards are more chaotic and less effective in monitoring and motivating managers to comply with environmental regulations as compared to smaller boards. On the other hand Said et al. (2009) and Sahin et al. (2011) report no significant relationship between board size and corporate social performance. But, neither of these studies has investigated this relationship in the context of listed family businesses.
This study is the first empirical study to provide evidence on the relationship between board size and corporate social performance in the context of family businesses. Contrary to the findings mentioned above, this thesis reports a positive relationship between board size and corporate social performance for the overall sample. This finding infers that family business owners in India are more dependent on boards to provide them resources for social performance compared to financial performance.

6.5.4.8 Board independence and firm performance

The relationship between board independence and financial performance has been widely addressed in the prior corporate governance research with inconsistent findings (Chung et al. 2003, Hossain et al. 2000; Bhagat & Black 2002; Bhagat & Bolton 2008; Jackling & Johl 2009; Pandey et al. 2011). Findings of this thesis are consistent with the findings of Vafeas and Theodorou (1998), Hermalin and Weisbach (1991), Erickson et al. (2005) and Bhagat and Bolton (2008) who also report no significant relationship between board independence and financial performance.

Moreover, this finding is consistent with other studies looking at the impact of board independence on financial performance in the Indian context. Similar to Jackling and Johl (2009) and Pandey et al. (2011), this thesis also reports that inclusion of independent directors on the board of family owned firms in India does not improve financial performance of the firm. Therefore, this thesis suggests that business families appoint independent directors on the board as a ritual for fulfilling legal compliance imposed by the Clause 49 requirements, thus not effectively contributing in improving financial performance.

Social and environmental accounting researchers in the past have consistently argued in favour of a higher percentage of independent directors on board to improve organisational social and environmental performance (Johnson & Greening 1999; Coffey & Wang 1998; Wang & Dewhrist 1992) and have provided empirical support for these arguments (Dunn & Sanity 2009; Barako & Brown 2008; Sahin et al. 2011). In support of these studies, this thesis also finds a positive relationship between board independence and corporate social performance. These findings suggest that family controlled businesses in India are more dependent on outside directors for resources related to social performance as compared to financial performance.
6.5.4.9 Firm corporate governance philosophy and performance

As per Clause 49 listing requirements, Indian listed firms are required to include a brief statement on the company’s philosophy in their code of governance. This is the first study to investigate the impact of disclosing sustainability dominant governance philosophy (which underlines achieving sustainability related objectives by governance) on financial and social performance.

Findings reveal that family controlled firms disclosing sustainability dominant corporate governance philosophy have a negative impact on their financial performance. That means Indian investors negatively respond to sustainability dominant governance philosophy disclosed in the corporate governance section of the annual report.

On the other hand, in relation to the impact of sustainability oriented corporate governance philosophy on social performance, this thesis reports that disclosure of sustainability dominant corporate governance philosophy has a positive impact on corporate social performance. That indicates that businesses having sustainability oriented governance philosophy are more concerned about social performance compared to other businesses.

6.5.4.10 Number of board committees and firm performance

Board committees and their role in maintaining good governance has been widely recognised in past literature. Board committees enhance effectiveness of the board, particularly of the non-executive directors (Bosch Committee, 1990). Balasubramanian (2010) states that board committees help the board in discharging its responsibilities in governing the corporation for the benefit of its stakeholders. Findings of this thesis also support this viewpoint by obtaining a significant positive relationship between total number of board committees and financial performance. An inference is that a higher number of board committees are perceived as providing a better monitoring mechanism by investors in the market. Although Clause 49 of the listing requirements imposes a mandatory obligation on Indian listed companies to have at least an Audit Committee and Investor Protection Committee, descriptive statistics suggest that on average Indian family firms have more committees than the mandatory requirement imposed by Clause 49. Findings of this thesis lend support to this approach of having additional Board Committees which can be used by effectively in family controlled firms.

Together with the positive impact of board committees on financial performance, this study also reports a positive relationship between total number of board committees and corporate social performance of family controlled listed Indian firms. These results confirm that family
businesses tend to use board committees in an effective way to achieve better financial and social performance.

This is the first study to provide evidence on the relationship between the total number of board committees and corporate social performance. Therefore, this thesis extends the corporate governance literature on effectiveness of board committees to corporate social performance.

6.5.4.11 CEO duality and financial performance

Although CEO duality and its impact on financial performance have been covered extensively in the prior corporate governance literature, there remains a lack of empirical research on this issue in the context of family controlled businesses. This thesis finds no significant impact of CEO duality on financial performance. This finding is supported by the findings of Lam and Lee (2008) who also report no significant association between CEO duality and market performance for the family owned listed companies in Hong Kong. Other researchers have witnessed a similar relationship in the context of other types of ownership (Baliga et al. 1996; Dalton et al. 1998; Dulewicz & Herbert 2004).

As discussed above, traditionally in India, founding families maintain the highest family shareholding which provides them power to appoint their own directors on the board. Prior studies have consistently argued that CEO duality makes the CEO more powerful and provides him greater authority in taking and implementing his or her decision without any confusion, which eventually can lead to enhanced financial performance (Donaldson & Davis 1991; Anderson & Anthony 1986; Baliga et al. 1996; Alexander et al. 1993). This argument may not hold in those firms managed under excess family control. However, in the case of family controlled listed firms in India, the majority of CEOs are powerful family patriarchs who do not need any additional power to impose their decisions on the firms managed by them. Therefore, the dual CEO/Chair enhanced power argument is not applicable in the Indian family business context.

There have been a few studies that have investigated the impacts of CEO duality on corporate social performance. Studies conducted by Barktus et al. (2003), Said et al. (2009) and Sahin et al. (2011) find no significant impact of CEO duality on corporate social performance. These studies give support to this thesis’ finding of no significant impact of CEO duality on corporate social performance.
In summary, the above discussion suggest that board governance characteristics such as board size, number of board committees, board independence, board reputation and board philosophy positively influence social performance of family controlled Indian listed firms. Findings also suggest that family governance factors have a negative impact on social performance and have little impact on financial performance. The Table 6.15 shows the overall effects of family-impacted board governance variables on financial and social performance of listed family controlled firms in India.

**Table 6.15: Overall findings showing impact of family governance and board governance characteristics on financial and social performance**

<table>
<thead>
<tr>
<th>Family Related Governance Characteristics</th>
<th>Financial Performance</th>
<th>Social Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family CEO</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Family Chairperson</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Founder on Board</td>
<td>Negative, Significant</td>
<td>Negative, Significant</td>
</tr>
<tr>
<td>Family Members on Board</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Gender Diversity on Board</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Insiders Involvement</td>
<td>Negative, Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Outsiders Involvement</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Insiders Reputation</td>
<td>Positive, Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Outsiders Reputation</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Board Size</td>
<td>Non-Significant</td>
<td>Positive, Significant</td>
</tr>
<tr>
<td>Board Independence</td>
<td>Non-Significant</td>
<td>Positive, Significant</td>
</tr>
<tr>
<td>Board Philosophy</td>
<td>Negative, Significant</td>
<td>Positive, Significant</td>
</tr>
<tr>
<td>CEO Duality</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Total Number of Board Committees</td>
<td>Positive, Significant</td>
<td>Positive, Significant</td>
</tr>
<tr>
<td>Board Meeting</td>
<td>Non-Significant</td>
<td>Negative, Significant</td>
</tr>
</tbody>
</table>
6.6 Powerful management players’ demographic characteristics and their effect on financial and social performance

This section addresses the research question 3 and explores the effect of powerful management players’ demographic characteristics such as reputation, level of education, foreign qualification, age, total experience, tenure and educational background, and financial and social performance of firm managed by them. Consistent with the methods of analysis in previous sections, this study also uses an independent samples t-test, correlation analysis and one-stage linear regression analysis for testing the strength and direction of the relationships between top management characteristics and firm performance.

6.6.1 Independent Samples t-test

An independent sample t-test was conducted to compare CEOs’ and Chairpersons’ dichotomized demographic characteristics on the basis of the means of financial and social performance. Results of the independent samples t-test are shown in Tables 6.16 and 6.17.

Panel A of Table 6.16 reveals that the group of family controlled firms having a highly qualified CEO have better financial performance compared to the group of firms having less qualified CEOs. Panel A further reveals that the group of family firms having foreign qualified CEOs perform better compared to the group having locally qualified CEOs. Finally panel A reveals that CEOs other demographic characteristics have no impact on financial performance.

Similarly, in relation to the Chairperson, results in Panel B of Table 6.17 reveal that the Chairperson’s amount of education and foreign qualification has a positive impact on financial performance. In addition, Table 6.17 also reveals that the group of firms having MBA qualified Chairpersons are significantly better performers compared to those having non-MBA Chairpersons. Finally, similar to panel A of table 6.16, table 6.17 reports that the Chairperson’s other demographic characteristics have no impact on financial performance.

In relation to social performance, panel B of tables 6.16 and 6.17 reveal that group of firms having reputed foreign qualified CEOs and Chairpersons have better social performance compared to group having less reputed and locally qualified CEOs and Chairpersons. Finally, these tables show that powerful management players’ other demographic characteristics have no impact on corporate social performance of listed Indian family-controlled firms.
<table>
<thead>
<tr>
<th>CEO Demographic Characteristics</th>
<th>Panel A- Financial Performance</th>
<th></th>
<th></th>
<th>Panel B- Social Performance</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean Difference</td>
<td>t</td>
<td>Sig.</td>
<td>Mean Difference</td>
<td>t</td>
<td>Sig.</td>
</tr>
<tr>
<td>CEOREP Low</td>
<td>5.37</td>
<td>-0.782</td>
<td>-1.523</td>
<td>0.129</td>
<td>5.23</td>
<td>-1.237</td>
</tr>
<tr>
<td>CEOREP High</td>
<td>6.15</td>
<td></td>
<td></td>
<td></td>
<td>6.47</td>
<td></td>
</tr>
<tr>
<td>CEOAMT Low</td>
<td>1.84</td>
<td>-0.251</td>
<td>-1.845</td>
<td>0.066</td>
<td>1.87</td>
<td>-0.203</td>
</tr>
<tr>
<td>CEOAMT High</td>
<td>2.09</td>
<td></td>
<td></td>
<td></td>
<td>2.077</td>
<td></td>
</tr>
<tr>
<td>CEOOMBA Without MBA</td>
<td>0.27</td>
<td>-0.051</td>
<td>-0.949</td>
<td>0.343</td>
<td>0.29</td>
<td>-0.012</td>
</tr>
<tr>
<td>CEOOMBA With MBA</td>
<td>0.32</td>
<td></td>
<td></td>
<td></td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>CEOFQ No</td>
<td>0.2</td>
<td>-0.089</td>
<td>-1.789</td>
<td>0.075</td>
<td>0.18</td>
<td>-0.14</td>
</tr>
<tr>
<td>CEOFQ Yes</td>
<td>0.29</td>
<td></td>
<td></td>
<td></td>
<td>0.32</td>
<td></td>
</tr>
<tr>
<td>CEOAGE Younger CEOs</td>
<td>54.21</td>
<td>1.072</td>
<td>0.968</td>
<td>0.334</td>
<td>53.14</td>
<td>-1.125</td>
</tr>
<tr>
<td>CEOAGE Older CEOs</td>
<td>53.14</td>
<td></td>
<td></td>
<td></td>
<td>54.26</td>
<td></td>
</tr>
<tr>
<td>CEOTEXP Less Experienced</td>
<td>0.52</td>
<td>0.01348</td>
<td>1.182</td>
<td>0.238</td>
<td>0.513</td>
<td>-0.0093</td>
</tr>
<tr>
<td>CEOTEXP Highly Experienced</td>
<td>0.52</td>
<td></td>
<td></td>
<td></td>
<td>0.522</td>
<td></td>
</tr>
<tr>
<td>CEOTENURE Shorter Tenure</td>
<td>0.31</td>
<td>0.02851</td>
<td>1.491</td>
<td>0.137</td>
<td>0.302</td>
<td>0.00647</td>
</tr>
<tr>
<td>CEOTENURE Longer Tenure</td>
<td>0.28</td>
<td></td>
<td></td>
<td></td>
<td>0.295</td>
<td></td>
</tr>
<tr>
<td>CEOHUMA Non-Humanity Qual</td>
<td>0.08</td>
<td>0.006</td>
<td>0.183</td>
<td>0.855</td>
<td>0.08</td>
<td>-0.008</td>
</tr>
<tr>
<td>CEOHUMA With Humanity Qual</td>
<td>0.07</td>
<td></td>
<td></td>
<td></td>
<td>0.08</td>
<td></td>
</tr>
<tr>
<td>CEOSCI Non-Science Qual</td>
<td>0.43</td>
<td>-0.067</td>
<td>-1.152</td>
<td>0.25</td>
<td>0.42</td>
<td>-0.076</td>
</tr>
<tr>
<td>CEOSCI With Science Qual</td>
<td>0.49</td>
<td></td>
<td></td>
<td></td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>CEOBUS Non-Business Qual</td>
<td>0.36</td>
<td>0.049</td>
<td>0.897</td>
<td>0.37</td>
<td>0.36</td>
<td>0.059</td>
</tr>
<tr>
<td>CEOBUS With Business Qual</td>
<td>0.31</td>
<td></td>
<td></td>
<td></td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>
Table 6.17: Independent samples t-test comparing differences in financial and social performance based on dichotomized groupings of Chairpersons characteristics

<table>
<thead>
<tr>
<th>Chairman Demographic Characteristics</th>
<th>Panel A: Financial Performance</th>
<th>Panel B: Social Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Difference</td>
</tr>
<tr>
<td>CHREP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>6.27</td>
<td>-0.506</td>
</tr>
<tr>
<td>High</td>
<td>6.77</td>
<td></td>
</tr>
<tr>
<td>CHAMT</td>
<td>1.57</td>
<td>-0.4874</td>
</tr>
<tr>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>2.05</td>
<td></td>
</tr>
<tr>
<td>CHMBA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>With MBA</td>
<td>0.1</td>
<td>-0.103</td>
</tr>
<tr>
<td>Without MBA</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>CHFQ</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>0.15</td>
<td>-0.225</td>
</tr>
<tr>
<td>Yes</td>
<td>0.37</td>
<td></td>
</tr>
<tr>
<td>CHAGE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Younger</td>
<td>62.58</td>
<td>0.922</td>
</tr>
<tr>
<td>Older</td>
<td>61.66</td>
<td></td>
</tr>
<tr>
<td>CHTEXP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Experienced</td>
<td>0.56</td>
<td>0.01204</td>
</tr>
<tr>
<td>Highly Experienced</td>
<td>0.56</td>
<td></td>
</tr>
<tr>
<td>CHTENURE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shorter Tenure</td>
<td>0.341</td>
<td>0.0141</td>
</tr>
<tr>
<td>Longer Tenure</td>
<td>0.327</td>
<td></td>
</tr>
<tr>
<td>CHHUMA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Humanity Qual</td>
<td>0.15</td>
<td>0.011</td>
</tr>
<tr>
<td>With Humanity Qual</td>
<td>0.14</td>
<td></td>
</tr>
<tr>
<td>CHSCI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Science Qual</td>
<td>0.36</td>
<td>-0.066</td>
</tr>
<tr>
<td>With Science Qual</td>
<td>0.43</td>
<td></td>
</tr>
<tr>
<td>CHBUS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non- Business Qual</td>
<td>0.35</td>
<td>0.043</td>
</tr>
<tr>
<td>With Business Qual</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>
6.6.2 Correlation analysis

Results of correlation analysis are shown in Tables 6.18 and 6.19, with statistically significant correlations indicated at the 1% and 5% levels. Table 6.18 reveals that contrary to the independent samples t-test findings, correlation analysis does not find any significant association of the CEO total amount of education and the CEO foreign qualification with financial performance. Similarly, Table 6.19 reveals that the Chairpersons total amount of education and foreign qualification is not correlated with financial performance. Similar to t-test findings, correlation analysis does not find any correlation between powerful management players’ other demographic characteristics and financial performance.

In relation to the impact of powerful management players’ demographics characteristics on corporate social performance, Tables 6.18 and 6.19 reveal that powerful management players’ reputation has significant positive correlation with corporate social performance. Correlation analysis further suggests that powerful management players’ foreign qualification has also a significant correlation with corporate social performance. Moreover, correlation analysis also reveals a positive and significant association between CEO amount of education and corporate social performance. In relation to the educational background of powerful management players, correlation analysis shows a significant but weak association between Chairpersons’ science and engineering background and corporate social performance. Finally, similar to the t-test findings, correlation analysis also suggests that other demographic characteristics of powerful management players’ have no impact on corporate social performance.
Table 6.18: Correlation analysis showing relationship between CEO characteristics and firm performance

<table>
<thead>
<tr>
<th></th>
<th>CEOREP</th>
<th>CEOAMT</th>
<th>CEOAMBA</th>
<th>CEOFQ</th>
<th>CEOAGE</th>
<th>CEOEXP</th>
<th>CEOTENURE</th>
<th>CEOHUMA</th>
<th>CEOSCI</th>
<th>CEOBUS</th>
<th>INDUS</th>
<th>FAGE</th>
<th>FSIZE</th>
<th>FP</th>
<th>CSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEOREP</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEOAMT</td>
<td>0.045</td>
<td>1</td>
<td></td>
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*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
Table 6.19: Correlation analysis showing relationship between Chairperson Characteristics and firm performance

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<td>0.163**</td>
<td>0.365**</td>
<td>0.263*</td>
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* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
6.6.3 Regression analysis

To further investigate the impacts of key executives’ demographic characteristics on financial and social performance of family controlled listed Indian firms, a one-stage linear regression was performed. Tables 6.20, 6.21, 6.22 and 6.23 show the regression results for the relationships between the two powerful players’ demographic characteristics and performance. All tables reveal a satisfactory level of explanatory power of Adjusted R-square for the models used to investigate impacts of CEO and Chairpersons’ demographic characteristics on both financial and social performance. Further these tables also depict that there is no multicollinearity between the independent variables as VIF is well below the acceptable limit.

Regression analysis showing the impacts of CEOs demographic characteristics on financial performance is given in Table 6.20. Contrary to the findings of the t-test and correlation analysis, regression analysis does not show any significant impact of CEO amount of education and foreign qualification on financial performance. Regression analysis reveals that CEO MBA qualification has a negative impact ($\beta = -0.100$, $p=0.022$) on financial performance measured by Tobin’s Q. Moreover, consistent with the t-test and correlation analysis, regression analysis suggests no impact of other CEO demographic variables on financial performance. In relation to the impact of CEO characteristics on social performance, Table 6.21 reveals a positive impact of CEO reputation on social performance ($\beta=0.107$, $p=0.059$). This finding is similar to the findings of t-test and correlation analysis. Contrary to t-test and correlation analysis findings, regression analysis shows no impact of CEO foreign qualification on corporate social performance.

Regression analysis showing the impact of the Chairperson’s demographic characteristics on financial and social performance is shown in Tables 6.22 and 6.23. Table 6.22 reveals that the Chairperson’s foreign qualification has a significant positive impact ($\beta=0.139$, $p=0.007$) on financial performance. Table 6.21 further reveals that similar to the CEO, Chairperson’s MBA qualification negatively impacts financial performance. In relation to social performance, Table 6.22 reveals that the Chairperson’s reputation has significant positive impact ($\beta=0.113$, $p=0.036$) on social performance. The table also reveals that the Chairperson’s foreign qualification has a significant positive impact ($\beta=0.139$, $p=0.043$) on social performance. Further, consistent with the correlation analysis, regression analysis exhibits a significant positive relationship ($\beta=0.178$, $p=0.035$) between Chairpersons’ science and engineering background and social performance. In addition, regression analysis reveals that the
Chairperson having a bachelor’s degree in business and related subjects such as accounting, economics and finance has a significant positive impact on social performance.

Table 6.20: Regression analysis showing the impacts of CEO demographic characteristics on financial performance

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<th>( T )</th>
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6.6.4 Discussion

6.6.4.1 CEOs’ educational qualification and its relationship to financial and social performance

For investigating the effects of educational qualification, this study examines the influence of total amount of qualification and educational background on financial and social performance.
Both regression analysis and the independent sample t-test reveal no significant impact of CEO total qualification and educational background on financial and social performance.

Table 6.21: Regression analysis showing the impacts of CEO characteristics on social performance

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<td>0.909</td>
<td>1.1</td>
</tr>
<tr>
<td>FP</td>
<td></td>
<td>0.231</td>
<td>4.221</td>
<td>0.000</td>
<td>0.938</td>
<td>1.066</td>
</tr>
<tr>
<td>MODEL SUMMARY</td>
<td></td>
<td></td>
<td></td>
<td>R²=.249, Adj R² = .210</td>
<td>ANOVA, Sig.f=.000, N=300</td>
<td></td>
</tr>
</tbody>
</table>

Prior researches provide evidence of a positive relationship between executives’ total amount of education and financial performance (Norburn & Birley 1988; Bantel & Jackson 1989; Hambrick & Mason 1984). Although independent samples t-test and correlation analysis confirm the above mentioned findings, regression analysis does not find any significant evidence of a positive impact of key executives’ total amount of education on financial performance. Therefore, this thesis does not suggest a possible linkage between powerful management players’ total amount of education and its impact on financial and social performance.

Findings of this thesis supports Bhagat et al. (2010), who do not find a significant systematic relationship between CEO education and long term form performance. Similar to Bhagat et al. (2010) this thesis also raises a concern for adopting total amount of education as a proxy for powerful management players’ ability to perform in their positions. Moreover, in the context
of Indian family businesses, the majority of powerful management players (the CEO and the Chairperson) are family members. Descriptive analysis of the sample used in this study reveals that 73% of sampled firms are headed by family CEOs and 90% headed by family Chairpersons. Therefore, it could be argued that primarily being a family member provides them opportunity to get appointed as a powerful management player. The level and quality of education may not play a significant role in their selection as powerful management players. So CEO education per se is not found to significantly affect corporate performance outcomes.

Table 6.22: Chairman Characteristics and financial performance

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable, FP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
</tr>
<tr>
<td>CHREP</td>
<td>-0.005</td>
</tr>
<tr>
<td>CHMBA</td>
<td>-0.074</td>
</tr>
<tr>
<td>CHAGE</td>
<td>0.016</td>
</tr>
<tr>
<td>CHTEXP</td>
<td>-0.039</td>
</tr>
<tr>
<td>CHTENURE</td>
<td>-0.059</td>
</tr>
<tr>
<td>CHHUMA</td>
<td>0.03</td>
</tr>
<tr>
<td>CHSCI</td>
<td>0.032</td>
</tr>
<tr>
<td>CHBUS</td>
<td>0.075</td>
</tr>
<tr>
<td>INDUS</td>
<td>-0.067</td>
</tr>
<tr>
<td>FAGE</td>
<td>0.063</td>
</tr>
<tr>
<td>FSIZE</td>
<td>-0.12</td>
</tr>
<tr>
<td>LAGFP</td>
<td>0.822</td>
</tr>
<tr>
<td><strong>MODEL SUMMARY</strong></td>
<td><strong>R² = .692, Adj R² = .628</strong></td>
</tr>
<tr>
<td></td>
<td><strong>ANOVA, Sig.f= .000, N=300</strong></td>
</tr>
</tbody>
</table>

Similarly, in relation to the impact of powerful management players’ demographic characteristics on social performance, this thesis reports that total amount of education have no impact on social performance. A search of current literature could not find a prior study on the relationship between the amount of education and corporate social performance. Therefore, this study makes an original contribution to the existing research by providing empirical evidence of relationship between powerful management players’ demographic characteristics and corporate social performance.
6.6.4.2 Powerful management players’ educational background and its impact on financial and social performance

This study further investigates whether key management’s educational background has an effect on financial and social performance of their firm. It considers educational discipline (i.e. humanities and social sciences, science and engineering and business and accounting) on financial and social performance. This study also examines the holding of an MBA degree and its effect on financial and social performance.

There is a growing body of literature that investigates the impacts of key executives’ MBA degree on financial performance. Although, both t-test and correlation analysis do not find any significant association between CEOs MBA degree and performance, regression analysis indicates that CEOs’ MBA qualification has a significant negative impact on financial performance. In relation to the impact of CEO MBA qualification on financial performance, Bhagat et al. (2010) find that hiring new CEOs with MBA qualification only leads to short term improvements in operating performance. However, they do not report any significant systematic relationship between CEO MBA qualification and long term performance measured by both Return on Assets (ROA) and Stock Returns. Unlike findings of Bhagat et al. (2010) this thesis empirically suggests a significant negative impact of CEO MBA qualification on financial performance measured by Tobin’s Q. This result may have been due to a confounding influence of family dynamics in Indian companies. In this study, 73% of sampled CEOs are a family member. Several of these family CEOs are likely to have studied for an MBA in a western country. It is possible that management tension becomes heightened between the CEO’s new ideas as acquired from the MBA and the business thinking of family members on the board and in senior management ranks. This could create some dysfunctions in strategic decision-making and in the implementation of strategies, bringing about poorer financial performance.

By comparison, the results of independent samples t-test, correlation analysis and regression analysis suggest that CEOs MBA qualification does not have any impact on social performance. Descriptive analysis suggests that average age of CEOs in the sample of this study is 54 years. This means that as per the Indian standards these CEOs have completed their MBA degrees around 30 years before i.e. in 1980s, during that time sustainability and corporate social responsibility was probably not part of the MBA curriculum. Therefore, this study witnesses a non-significant relationship between CEO’s MBA qualification and social performance.
Table 6.23: Chairperson Characteristics and social performance

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable, CSP</th>
<th>β</th>
<th>T</th>
<th>sig</th>
<th>Tol</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHREP</td>
<td>0.113</td>
<td>2.107</td>
<td>0.036</td>
<td>0.927</td>
<td>1.079</td>
<td></td>
</tr>
<tr>
<td>CHAGE</td>
<td>0.058</td>
<td>0.835</td>
<td>0.404</td>
<td>0.558</td>
<td>1.793</td>
<td></td>
</tr>
<tr>
<td>CHTEXP</td>
<td>0.072</td>
<td>1.057</td>
<td>0.291</td>
<td>0.575</td>
<td>1.74</td>
<td></td>
</tr>
<tr>
<td>CHTENURE</td>
<td>-0.073</td>
<td>-1.258</td>
<td>0.209</td>
<td>0.785</td>
<td>1.274</td>
<td></td>
</tr>
<tr>
<td>CHHUMA</td>
<td>0.081</td>
<td>1.156</td>
<td>0.249</td>
<td>0.544</td>
<td>1.838</td>
<td></td>
</tr>
<tr>
<td>CHSCI</td>
<td>0.178</td>
<td>2.122</td>
<td>0.035</td>
<td>0.375</td>
<td>2.666</td>
<td></td>
</tr>
<tr>
<td>CHBUS</td>
<td>0.221</td>
<td>2.742</td>
<td>0.007</td>
<td>0.408</td>
<td>2.449</td>
<td></td>
</tr>
<tr>
<td>INDUS</td>
<td>0.030</td>
<td>0.545</td>
<td>0.586</td>
<td>0.882</td>
<td>1.134</td>
<td></td>
</tr>
<tr>
<td>FSIZE</td>
<td>0.349</td>
<td>6.361</td>
<td>0.000</td>
<td>0.880</td>
<td>1.136</td>
<td></td>
</tr>
<tr>
<td>FP</td>
<td>0.221</td>
<td>4.078</td>
<td>0.000</td>
<td>0.900</td>
<td>1.111</td>
<td></td>
</tr>
<tr>
<td>MODEL SUMMARY</td>
<td>R² = .284, Adj R² = .247</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ANOVA, Sig.f= .000, N=300</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6.6.4.3 Powerful management players’ educational background and performance

Prior studies have mostly addressed the impact of key executives’ educational background on innovation measured by R & D expenditure or initiations taken for adopting new technology. A very limited number of researchers have empirically analysed the impact of educational background on organisational financial performance. Supplementary analysis undertaken in this study has been able to use data obtained on R & D expenditure by companies in the sample. This has enabled a correlation analysis to be performed between the CEOs’ and Chairpersons’ educational background and their companies’ innovation (proxied by R&D expenditure). The results are given in Table 6.24 below. The results first provide contradictory evidence regarding a possible linkage between key executives’ science and engineering background and innovation. Correlation analysis reveals a significant positive correlation between Chairpersons’ science and engineering background and innovation, thus providing support for Barker and Mueller (2002). However, there is no significant correlation between CEOs’ science and engineering background and innovation. Second, correlation analysis in Table 6.24 shows that key executives’ having an educational background in humanities and business have a non-significant negative correlation with innovation.
In terms of financial performance, Koufopoulous et al. (2008) report a positive association between Chairpersons’ economics degree and financial performance. Both univariate and multivariate analysis conducted in this study finds no significant impact of educational background on financial performance. Therefore, unlike Koufopoulos et al. (2008), this study does not find evidence of a relationship between key executives’ educational background and financial performance. In relation to the social performance, this study reports different findings for CEOs and Chairpersons. Both univariate and multivariate analysis reveal no significant relationship between CEOs educational background and corporate social performance. Correlation and regression analysis of Chairpersons’ educational background and social performance reveal a significant positive association between Chairpersons’ having a bachelor degree in science and corporate social performance. Regression analysis further finds that Chairpersons’ having a bachelor degree in business, accounting, economics and law are significantly associated with positive corporate social performance. These findings are in contradiction to the past literature that suggests a negative association between executives’ bachelor degree in business and economics and social performance (Frank et al. 1993; Frank & Schultz 2000; Manner 2010). Contrary to Manner (2010), this study does not find evidence of a positive relationship between key executives’ having a bachelor degree in humanities and corporate social performance.
6.6.4.4 Powerful management players’ foreign qualification and performance

Descriptive analysis discussed in the beginning of the chapter provides evidence of the strong presence of foreign qualified key executives on the board. This study may be the first to investigate whether these foreign qualified key executives have an effect on financial and social performance of listed family owned Indian firms. This study provides evidence of a strong positive relationship between key executives foreign qualification and both financial and social performance.

This finding raises several questions to future researchers: What makes foreign qualified directors different from directors who have attained their qualification from Indian universities? How is the thinking pattern of foreign qualified executives different from local qualified executives? Research into these questions can provide deeper insights to explain the positive effect of foreign qualified top executives and directors on financial and social performance.

6.6.4.5 Powerful management players’ age and firm performance

Prior psychology literature provides evidence of a possible connection between age and decision making ability of an individual (Carlsson & Karlsson 1970; Chown 1960; Child 1974). More recently, a few other researchers have sought to examine the impact of age on executives’ decision making abilities and reported mixed findings (Williams et al. 1995; Koufopoulos et al. 2008). Contrary to these findings, this study reports no significant association between key executives age and financial and social performance.

Table 6.25: Key executives’ age and its impact on firm growth, risk and innovation

<table>
<thead>
<tr>
<th></th>
<th>CEOAGE</th>
<th>CHAGE</th>
<th>RND</th>
<th>GROWTH</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEOAGE</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHAGE</td>
<td>.250**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RND</td>
<td>-0.021</td>
<td>0.041</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GROWTH</td>
<td>-.171**</td>
<td>-0.105</td>
<td>-0.009</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>RISK</td>
<td>0.001</td>
<td>-0.003</td>
<td>-0.108</td>
<td>-0.002</td>
<td>1</td>
</tr>
</tbody>
</table>

Further investigation of the impact of key executives’ age on firm growth, risk and R&D expenditure has been undertaken by performing correlation analysis between these variables.
Similar to Hart and Melon (1970), this study also reports that younger CEOs are more associated with corporate growth. Unlike Carlsson and Karlsson (1970), Hambrick and Mason (1984) and Finkelstein and Hambrick (1990), this study does not find that younger executives are more risk taking as compared to older executives. Moreover, unlike Barker and Mueller (2002) this study does not find any relationship between key executives age and R&D expenditure.

6.6.4.6 Powerful management players’ functional background and performance

Thomas and Simerly (2004) and Manner (2010) empirically show that executives having longer tenure in the company are associated with high corporate social performance as compared to other counterparts having shorter tenure. The argument behind their findings is that executives spending longer duration in the company have superior knowledge of stakeholder’s needs which can help them in designing and implementing policies to address those needs. Unlike Thomas and Simerly (2004) and Manner (2010), Koufopoulos et al. (2008) do not find any significant relationship between executives’ longer tenure in the company and overall (both financial and social) performance. They further report a positive relationship between position tenure and overall performance. But, unlike these findings this thesis does not find a significant systematic impact of key executives’ total functional experience and position tenure on corporate social performance. One of the possible reasons could be less pressure on these executives from stakeholders in India compared to Western countries. A second reason for not finding any significant relationship could be related to one of the limitations of this study. This thesis only considers total functional experience and position tenure of key executives. It could be possible that strategic decisions are made by the whole management team and the board. Therefore, future studies can investigate the impact of the top management team’s functional experience and position tenure on corporate financial and social performance.

6.6.4.7 Powerful management players’ reputation and performance

As discussed in the literature review chapter of this thesis, prior studies provide mixed findings on the effects of directors’ reputation on financial performance. Prior studies have explained the impact of directors’ cross-directorships on financial performance by following the business argument (Fich & Shivdasani 2006), reputational impact argument (Jiraporn et al. 2008; Gilson 1990; Kaplan & Reishus, 1990) and resource dependency argument (Pfeffer 1972; Mizruchi & Stearns 1994; Booth & Deli 1995). Unlike these prior studies this study finds a non-significant relationship between key executives’ cross directorships and financial
performance. Therefore, this study concludes that the CEOs’ and Chairpersons’ cross-directorships do not tend to affect financial performance of family controlled listed Indian companies.

In relation to the impacts of cross-directorships on social performance, this study provides strong evidence of a positive relationship between CEOs’ and Chairpersons’ cross-directorships and social performance. The independent samples t-test, correlation analysis and regression analysis all strongly find that the CEOs’ and Chairpersons’ extent of cross-directorships is positively related to social performance. These findings support the reputational and resource dependency arguments as described by previous researchers. Moreover, these results also support the findings of Kassinis and Vafeas (2002) who report a positive relationship between number of cross-directorships held by directors and environmental performance.

6.6.4.8 Overall findings

In summary, the above discussion reveals that the Chairperson’s characteristics have more impact on financial and social performance of listed family controlled firms in India compared to the CEO characteristics. Furthermore, it also reveals that the Chairperson’s characteristics have more influence on social performance compared to financial performance. Additional analysis reveals that younger CEOs are associated with firm growth and the Chairpersons having a bachelor degree in science and engineering are more innovative as compared to other executives. The table 6.26 shows overall impact of Chairpersons’ demographic characteristics on financial and social performance of listed family controlled firms in India.

6.7 Integrated and decoupled performance

As discussed in the Chapter 3, this thesis also expands on available literature that investigates factors affecting the achievement of not only decoupled financial and social corporate performance, but also integrated financial and social performance. Findings in this study indicate that the group of family controlled firms having a large number of board committees have better financial and social performance compared to other family firms. Findings also suggest that family controlled firms led by the Chairperson having foreign qualification have better integrated performance (i.e. a combination of high financial and higher social performances) compared to other family controlled firms. Moreover, results also suggest that
the group of family controlled firms without a founder on the board have better integrated performance compared to the group of firm with a founder on the board.

Table 6.26: The overall impact of Chairpersons’ characteristics on firm performance

<table>
<thead>
<tr>
<th>Normative influences on key executives</th>
<th>Financial Performance, $R^2=0.692$</th>
<th>Social Performance, $R^2=0.284$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman Reputation</td>
<td>Non-Significant</td>
<td>Positive, Significant</td>
</tr>
<tr>
<td>Chairman Amount of Education</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Chairman MBA Qualification</td>
<td>Negative, Significant</td>
<td>Non-significant</td>
</tr>
<tr>
<td>Chairman Foreign Qualification</td>
<td>Positive, Significant</td>
<td>Positive, Significant</td>
</tr>
<tr>
<td>Chairman Age</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Chairman Total Experience</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Chairman Tenure</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Chairman Humanities Qualification</td>
<td>Non-Significant</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>Chairman Science and Engineering Qualification</td>
<td>Non-Significant</td>
<td>Positive, Significant</td>
</tr>
<tr>
<td>Chairman Business Qualification</td>
<td>Non-Significant</td>
<td>Positive, Significant</td>
</tr>
</tbody>
</table>

Fig. 6.11 exhibits a profile for integrated and decoupled performance of listed Indian family controlled firms. This Figure shows that the extent of family shareholding positively influences financial performance but on the other hand it has a negative impact on social performance. On the other hand, board governance factors such as large board size and board independence only influence social performance.

6.8 Conclusion

This chapter has investigated the impacts of family controlling status, family-impacted board governance and powerful actors’ demographic characteristics on financial and social performance of listed Indian family controlled firms. Moreover, this chapter has also outlined the impacts of these characteristics on integrated and decoupled performance of listed family controlled firms in India.
In relation to the impacts of family related control on financial and social performance, this thesis reports a curvilinear relationship between family shareholding and financial performance and suggests that financial performance of a family firm initially increases with family shareholding percentage up to 80%, but beyond that financial performance decreases with the increase in family shareholdings. Therefore, consistent with past literature this thesis provides evidence of existence of alignment and entrenchment effects in the context of family controlled firms in India. This thesis also reports an inverse relationship between family shareholdings and corporate social performance. Moreover, findings suggest that the group of family controlled firms managed by successors has better social performance compared to firms managed by founders.

In relation to board governance, findings suggest that board governance has a greater effect on social performance compared to financial performance of listed family controlled companies. Results further suggest that board governance variables in general have a mostly positive influence on social performance. However family-related governance variables have a negative impact on social performance. Finally, findings suggest that family governance
variables in general do not have an influence on financial performance, apart from insiders’ reputation which has a positive impact on financial performance.

Turning to the impact of powerful actors’ demographics on financial and social performance, findings suggest that the Chairperson’s demographic characteristics have relatively more effect on performance than the characteristics of the CEO. Results further suggest that the Chairperson’s demographic characteristics have a stronger impact on the social performance compared to the financial performance of listed family controlled firms in India.

Finally, findings suggest that high family reputation, higher number of board committees, founder’s absence on the board and the Chairperson’s foreign qualifications help family controlled firms to achieve integrated financial and social performance.

Future implications of these findings with limitations of this research will be discussed in the concluding chapter.
CHAPTER 7
CONCLUSION

7.1 Introduction

The purpose of this chapter is to summarize the key findings, and consider the contribution of this thesis to the literature, implications for governance practices and policies, and future research directions. This chapter also recognises limitations of the findings. There are four sections in this chapter. The first section summarises of findings of this thesis. It discusses findings in relation to individual research questions as described in the objective in the Chapter 1. The second section covers significant contributions made by this thesis to the available literature in the area of family business, governance and sustainability. The third section recognises limitations of this study. Fourth section discusses implications of the findings for governance practices in listed family firms.

7.2 Study’s overview and summary of findings

This thesis adds to the body of literature on family ownership status, family-impacted board governance, powerful management players’ normative influences and their effects on the performance of the firm in both its financial and social dimensions. It particularly extends this literature into the economically important and culturally unique context of family companies listed in India. Moreover, it makes a first-time contribution to the evidence in the corporate governance literature in respect of particular factors affecting corporate social performance.

From a sample of 300 listed family-controlled firms drawn from the top 500 companies listed on the Bombay Stock Exchange, the findings of a positive relationship between family shareholding and financial performance, and a negative relationship between family shareholding and corporate social performance is consistent with prior findings in other contexts. Consistent with the institutional theory perspective invoked by McGuire et al. (2012), this thesis finds that large listed companies having high family shareholdings will display more commitment to financial performance and possibly allow the firm to engage in poorer social performance. Another finding is that a founder’s presence on board has an adverse influence on both financial and social performance, while other family members’ presence on board has no impact on financial and social performance. A further
characteristics of board governance found to partially impact on financial and social performance is the presence of independent directors on the board. It is found, in support of Dutta’s (1997) argument of the existence of dummy boards in Indian family businesses that the proportion of independent directors has no impact on financial performance; however, it has a significant positive impact on social performance. The inference is that family directors in India are focused on the achievement of financial performance. They tend to control the firm’s financial decisions themselves and give freedom to the independent directors on the board to take decisions related to social performance.

In terms of board committees, this thesis finds a significant positive relationship with both financial and social performance. Descriptive analysis identifies the existence of more than 40 types of board committees across the sample. Several of these committees have a role relating to risk management, loans, investments, banking and finance. The finding suggests that families prefer assigning responsibilities to board committees and establishing these committees according to business needs that arise. This thesis reports that most of the board committees are related to financial matters; therefore, findings reveal a positive relationship between number of committees and financial performance. This indicates that controlling families appoint board committees to gain expert advice predominantly on financial matters. This conclusion is reinforced by the finding that there is a negative impact of number of board committees on social performance of listed family controlled firms in India.

In relation to the impact that normative pressures of powerful management players of family businesses have on financial and social performance, this thesis reveals that a family chairperson’s demographic characteristics have a more significant impact on financial and social performance as compared to the demographic characteristics of a family CEO. In most of the companies in the sample, family chairpersons are family patriarchs who play a dominant role in strategic decision making and provide mentorship for the next family generation joining as a CEO. These findings are consistent with prior literature suggesting dominant role of family patriarchs in the Indian family tradition.

7.2 Contribution to the literature

This thesis contributes to the existing literature on family business, corporate governance and sustainability in several ways. First, it contributes new evidence about factors in large family firms’ that affect the financial and social performance in the context of a large emerging economy. In relation to financial performance, this study provides support for the body of
evidence in other contexts that there is a positive relationship between family shareholding and financial performance (Anderson & Reeb 2003; Barontini & Caprio 2005; Andres 2008). More importantly, in the context of emerging economies like India, this thesis provides first-time evidence that the relationship between family shareholdings and financial performance is curvilinear. This result indicates the existence of an alignment effect for family shareholdings below 80%, and an entrenchment effect for family shareholdings above 80%.

Second, this thesis measures and models new variables about the governance and management characteristics of Indian family businesses. Prior studies conducted on Indian family businesses have replicated studies conducted primarily in the US and European settings. They have not considered variables uniquely applicable in India, such as the fact that 62% of family-controlled firms in India belong to an ethnic group known as trading communities. A variable is constructed in this thesis to recognize this fact. Third, a substantial contribution is made in this thesis to the embryo literature on the effects of governance characteristics on corporate social performance of family-controlled firms. This relatively recent area of literature largely lacks empirical analysis. This thesis provides new evidence of an inverse relationship between family shareholdings and corporate social performance of listed family controlled firms.

Fourth, this thesis extends the body of literature on board governance and financial performance by adding board governance factors specific to the family business context. The aspects of board governance widely considered by prior researchers are board size, number of board meetings, board independence, and board busyness. This thesis not only provides evidence of the impacts of board governance on financial performance in the Indian context but also makes a contribution by investigating the impacts of insiders’ and outsiders’, board meeting attendance and cross directorships on both financial and social performance. Fifth, management researchers have proposed a possible connection between demographic characteristics of powerful management players and organisational outcomes primarily related to innovation and strategic decision making. Subsequently, studies using Hambrick’s upper echelons theory have extended the available interdisciplinary literature (mainly coming from psychology) to establish a possible linkage between top managements’ demographic characteristics and its normative influence, through learnt cognitions, on a firm’s financial and social performance. There is limited research using this theory. This thesis contributes to the existing literature by providing findings on the effects of the chairpersons’ and CEOs’ demographic characteristics on corporate financial and social performance.
Finally, this thesis contributes a schema for positioning the governance factors found to significantly impact on financial and social performance. This schema can be used in future studies to empirically locate the impacts of family control, board governance and upper management echelons factors on integrated and decoupled financial and social performance. This thesis also introduces a three layer conceptual model to investigate effects of controlling family status, family-impacted governance and top management characteristics on financial and social performance of family controlled firms. With this, the thesis makes a significant research contribution in the area of family business and corporate governance research especially in the context of literature addressing impacts of family related control, governance and chairpersons’ and CEOs’ characteristics on social performance.

7.3 Limitations

Limitations of the findings in this thesis need to be recognized. Like other studies conducted in the area of family business and corporate governance, this thesis also has several limitations.

First, this is a quantitative study that relies on the analysis of secondary data collected from a number of sources. Therefore, this thesis acknowledges the shortcomings of a sole reliance on quantitative methods and secondary data. Second, there are also limitations in the surrogate measures of concepts. This thesis has used surrogate measures to quantify attributes of family control, family related governance and normative influences of powerful managers. Although adoption of these measures is founded with prior studies in the area of family business and corporate governance, it remains that these surrogate measures cannot capture all dimensions of the concept embodied in their latent variable. For example, the combined use of Board size and frequency of meetings to represent the concept of board operating mode are unable to identify the actual operating processes of Boards, including the communication processes at board meetings. Third, the identification of a family-controlled company for purposes of sample selection could have been based on any of several definitions described in Chapter 2. Handler (1989) has also recognised problems related to the unavailability of a universally accepted definition of a family firm. He identified this issue as one of the five methodological issues critical to the development of family business research. Although this thesis follows a broader definition of a family firm, such a definition remains arguable because it would not
apply equally well across different countries. Clearly, there can be limitations in generalising these findings to other family firms.

Fourth, this thesis recognises its limitation in relation to the measurement of corporate social performance. Corporate social responsibility index used to measure corporate social and environmental performance in this thesis is only one indicator of social performance. McGuire et al. (2012) argue that family firms may be particularly concerned with a particular stakeholder group or may focus their social activities on philanthropy. For example, Birla group of industries in India are involved more in religious charity. This aspect of social activity is not taken into consideration by corporate social responsibility rating used by this thesis. McGuire et al. (2012) argue that the social performance measures (e.g. KLD and other sustainability ratings) might not fully capture all dimensions of social and environmental performance. Similarly, corporate social responsibility ratings used by this thesis may be insufficient in capturing all dimensions of social and environmental performance.

Fifth, limitations are recognised in relation to the use of Tobin’s Q as a measure of financial performance in this study. Although Tobin’s Q has been widely used as a proxy for a firm’s financial performance in corporate governance research (Gompers et al. 2003; Yermack 1996; Anderson & Reeb 2003), other studies have also identified problems related to the use of Tobin’s Q as a proxy for financial performance (Bertrand et al. 2002; Dybwig & Warachka 2010). The computation of Tobin’s Q fails to include a replacement cost of intellectual capital that is not recorded in book value of assets.

Finally, the sample in this thesis comes from the top 500 largest listed firms in India. Therefore similar to McGuire et al. (2012) and Dyer and Whetten (2006) most of these findings are applicable for large listed family firms. A significant portion of 5067 total companies listed at the BSE are small and mid-sized family firms. Therefore, findings in this thesis cannot be generalised to small and mid-sized family firms.

7.4 Implications of this study

There can be several practical implications of this thesis. These implications can be drawn from figure 7.1 given below which indicates key family related ownership, governance and key managements’ characteristics for high and low performing listed Indian family firms in terms of their financial and social performances.
First, in relation to the implications for family firms, the performance matrix in Figure 7.1 suggests that in order to achieve better financial performance the Indian family firms have to maintain a high family reputation and high family shareholding (up to 80% to avoid entrenchment effect). Figure 7.1 also suggests that large Indian family businesses should avoid excess family representation on the board, should appoint a high number of board committees and should employ chairpersons and CEOs having foreign qualification predominantly from the US and the UK. For better social performance, the matrix in Figure 7.1 indicates that family businesses should have larger boards, should provide more freedom to the board and should appoint chairpersons and CEOs having strong outside connections. These findings can have implications for controlling shareholders to formulate internal policies for achieving better financial and social performance. Finally, these findings have implications for family controlling shareholders in setting criteria for the appointment of

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**Figure 7.1: Performance Matrix**

<table>
<thead>
<tr>
<th></th>
<th>Financial Performance</th>
<th>Social Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Performers</strong></td>
<td>High Family Reputation, High family shareholding, High reputation of inside directors, Large number of board committees, Employing foreign qualified key executive</td>
<td>Successor run businesses, Larger Board, Higher Board independence, Sustainability dominant board philosophy, Large number of board committees Key executives' outside connections, Foreign qualified Chairperson, Chairperson having bachelor's degree in science and business,</td>
</tr>
<tr>
<td><strong>Low Performers</strong></td>
<td>Founder on board, insiders excess involvement, presence of disclosure related to sustainability in corporate governance philosophy, MBA qualified key executives,</td>
<td>High family shareholding, Founder on board, High frequency of board meetings, MBA qualified key executives,</td>
</tr>
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</table>
powerful management players who have greater prospects of achieve better financial and social performance for the company.

Second, findings of this study can have important implications for policy makers in designing policies related to the protection of minority shareholders in family-controlled firms where family has excess control. The results in this thesis infer that expropriation of minority shareholders’ funds takes place when controlling family shareholdings increase above 80%. The implication is that controlling families will not be acting in the best interest of minority shareholders when they have excessive control. Therefore, regulators need to consider of providing special protection to minority shareholders in highly family controlled listed firms in India.

Third, findings of this thesis can have implications for corporate governance and sustainability regulators in designing and implementing policies to achieve a satisfactory balance of insiders’ and outsiders’ on boards of family-controlled firms in India. Similar to Jackling and Johl (2009) and Pandey et al. (2011), this thesis finds that independent directors on the board of family controlled firms in India do not add to the financial performance of the firm. The inference is that controlling families tend to appoint independent directors who are overly sympathetic to management but can still be classified as an independent under the regulation (Cohen et al. 2012). Therefore this thesis suggests that corporate governance regulators should think of implementing stricter requirements for the appointment of independent directors. Moreover, the findings also point to implications for sustainability regulators. Particular family and governance characteristics have been found to help a family-controlled firm integrate sustainability practices into its corporate governance framework. Results have revealed that the size of family shareholding negatively impacts social performance. Therefore sustainability regulators should think of imposing stricter guidelines for these family-owned businesses. Recently, steps have begun with the government of India releasing voluntary guidelines on social, environmental and economic responsibilities of businesses in India.

Fourth, findings of this study can have implications for management and shareholders. This thesis has investigated the relationships between Chairpersons ‘and CEOs’ demographic characteristics such as age, qualification, reputation and educational background, and financial and social performance. In addition, this thesis has also looked at the impact of age and educational background on the CEO and Chairperson’s innovation and risk taking capabilities. These findings can guide managers in developing attributes for achieving better
financial and social performance. Moreover, in relation to implications for shareholders, findings of this study can also be helpful the shareholders in understanding corporate governance mechanisms in the family firms. India, as an emerging economy is attracting a big flow of FDI from overseas investors, therefore findings of this study can give insights to global investors about the governance of family businesses.

Finally, findings of this study could also be useful to the academics working in the area of family business and governance worldwide. Some of the variables used in this thesis have never been investigated before; therefore this thesis opens new opportunities for researchers to further explore these issues.

7.5 Future research directions

Descriptive statistics reveal that a majority of family-controlled listed firms in India are owned by Hindu owners belonging to trading communities. This thesis has not addressed some factors specially related to Hindu owners’ background, their values, culture, beliefs and codes of conduct, and how their attributes can affect the firm’s financial and social performance. Therefore, findings of this thesis suggest future research to explore the impacts of these Hindu trading communities’ background characteristics on financial and social performance.

Findings of this thesis indicate that board composition has no significant impact on financial performance of listed family controlled firms in India. Qualitative research (especially interviews of outside directors) is needed to gain insights into the nature and extent of delegation of power to the outside directors by controlling family members. Such interviews could also help to understand the motivation of the board in achieving better corporate social performance.

Additionally, the role of institutional and foreign investors has been excluded in conducting this research. Future researchers could study the impact of institutional and foreign investors on corporate financial and social performance. Finally to check the robustness of findings in this study, a similar study could be conducted on small and medium size family firms.
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APPENDIX 1

CLAUSE 49 OF LISTING AGREEMENT

The company agrees to comply with the following provisions:

I. Board of Directors

(A) Composition of Board

ii. The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.

iii. Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.

Provided that where the non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors.

Explanation-For the purpose of the expression “related to any promoter” referred to in sub-clause (ii):

a. If the promoter is a listed entity, its directors other than the independent directors, its employees or its nominees shall be deemed to be related to it;

b. If the promoter is an unlisted entity, its directors, its employees or its nominees shall be deemed to be related to it.”
iv. For the purpose of the sub-clause (ii), the expression ‘independent director’ shall mean 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

Explanation

For the purposes of the sub-clause (iii):

a. Associate shall mean a company which is an “associate” as defined in Accounting Standard (AS) 23, “Accounting for Investments in Associates in Consolidated Financial Statements”, issued by the Institute of Chartered Accountants of India.
b. “Senior management” shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.

c. “Relative” shall mean “relative” as defined in section 2(41) and section 6 read with Schedule IA of the Companies Act, 1956.

d. Nominee directors appointed by an institution which has invested in or lent to the company shall be deemed to be independent directors.

Explanation:

“Institution’ for this purpose means a public financial institution as defined in Section 4A of the Companies Act, 1956 or a “corresponding new bank” as defined in section 2(d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 [both Acts].”

(B) Non executive directors’ compensation and disclosures

All fees/compensation, if any paid to non-executive directors, including independent directors, shall be fixed by the Board of Directors and shall require previous approval of shareholders in general meeting. The shareholders’ resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, including independent directors, in any financial year and in aggregate.

Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 1956 for payment of sitting fees without approval of the Central Government.

(C) Other provisions as to Board and Committees

i. The board shall meet at least four times a year, with a maximum time gap of four months between any two meetings. The minimum information to be made available to the board is given in Annexure– I A.
ii. A director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.
**Explanation:**

1. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 25 of the Companies Act shall be excluded.

2. For the purpose of reckoning the limit under this sub-clause, Chairmanship/membership of the Audit Committee and the Shareholders’ Grievance Committee alone shall be considered.

   iii. The Board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non-compliances.

   iv. An independent director who resigns or is removed from the Board of the Company shall be replaced by a new independent director within a period of not more than 180 days from the day of such resignation or removal, as the case may be:

Provided that where the company fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director within the period of 180 days shall not apply.

(D) Code of Conduct

i. The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.

ii. All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by the CEO.

**Explanation:** For this purpose, the term “senior management” shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of
management one level below the executive directors, including all functional heads.

II. Audit Committee

(A) Qualified and Independent Audit Committee

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

i. The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.

ii. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation 1: The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation 2: A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

iii. The Chairman of the Audit Committee shall be an independent director;

iv. The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;

v. The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee;
vi. The Company Secretary shall act as the secretary to the committee.

(B) Meeting of Audit Committee

The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

(C) Powers of Audit Committee

The audit committee shall have powers, which should include the following:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

(D) Role of Audit Committee

The role of the audit committee shall include the following:

1. Oversight of the company’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
a. Matters required to be included in the Director’s Responsibility Statement to be included in the Board’s report in terms of clause (2AA) of section 217 of the Companies Act, 1956

b. Changes, if any, in accounting policies and practices and reasons for the same

c. Major accounting entries involving estimates based on the exercise of judgment by management

d. Significant adjustments made in the financial statements arising out of audit findings

e. Compliance with listing and other legal requirements relating to financial statements

f. Disclosure of any related party transactions

g. Qualifications in the draft audit report.

5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval

5A. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.

6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.

7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

8. Discussion with internal auditors any significant findings and follow up there on.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.

13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Explanation (i): The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii): If the company has set up an audit committee pursuant to provision of the Companies Act, the said audit committee shall have such additional functions / features as is contained in this clause.

(E) Review of information by Audit Committee

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;

2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;

3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and

5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee

III. Subsidiary Companies

i. At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of a material non listed Indian subsidiary company.

ii. The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.

iii. The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

Explanation 1: The term “material non-listed Indian subsidiary” shall mean an unlisted subsidiary, incorporated in India, whose turnover or net worth (i.e. paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding company and its subsidiaries in the immediately preceding accounting year.

Explanation 2: The term “significant transaction or arrangement” shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

Explanation 3: Where a listed holding company has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

IV. Disclosures

(A) Basis of related party transactions

i. A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.
ii. Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the audit committee.

iii. Details of material individual transactions with related parties or others, which are not on an arm’s length basis should be placed before the audit committee, together with Management’s justification for the same.

(B) Disclosure of Accounting Treatment

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management’s explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

(C) Board Disclosures – Risk management

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

(D) Proceeds from public issues, rights issues, preferential issues etc.

When money is raised through an issue (public issues, rights issues, preferential issues etc.), it shall disclose to the Audit Committee, the uses / applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and place it before the audit committee. Such disclosure shall be made only till such time that the full money raised through the issue has been fully spent. This statement shall be certified by the statutory auditors of the company. Furthermore, where the company has appointed a monitoring agency to monitor the utilisation of proceeds of a public or rights issue, it shall place before the Audit Committee the monitoring report of such agency, upon receipt, without any delay. The audit committee shall make appropriate recommendations to the Board to take up steps in this matter.
(E) Remuneration of Directors

i. All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report.

ii. Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:
   a. All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc.
   b. Details of fixed component and performance linked incentives, along with the performance criteria.
   c. Service contracts, notice period, severance fees.
   d. Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.

iii. The company shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the company’s website and reference drawn thereto in the annual report.

iv. The company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.

v. Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.
(F) Management

i. As part of the directors’ report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company’s competitive position:

1. Industry structure and developments.
2. Opportunities and Threats.
4. Outlook
5. Risks and concerns.
6. Internal control systems and their adequacy.
7. Discussion on financial performance with respect to operational performance.
8. Material developments in Human Resources / Industrial Relations front, including number of people employed.

ii. Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

Explanation: For this purpose, the term "senior management" shall mean personnel of the company who are members of its core management team excluding the Board of Directors). This would also include all members of management one level below the executive directors including all functional heads.
(G) Shareholders

i. In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:

a. A brief resume of the director;

b. Nature of his expertise in specific functional areas;

c. Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and

d. Shareholding of non-executive directors as stated in Clause 49 (IV) (E) (v) above

i. Disclosure of relationships between directors inter-se shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the company is listed.

ii. Quarterly results and presentations made by the company to analysts shall be put on company’s web-site, or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site.

iii. A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as ‘Shareholders/Investors Grievance Committee’.

iv. To expedite the process of share transfers, the Board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.
V. CEO/CFO certification

The CEO, i.e. the Managing Director or Manager appointed in terms of the Companies Act, 1956 and the CFO i.e. the whole-time Finance Director or any other person heading the finance function discharging that function shall certify to the Board that:

a. They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
   i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
   ii. these statements together present a true and fair view of the company’s affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b. There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company’s code of conduct.

c. They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

d. They have indicated to the auditors and the Audit committee
   i. significant changes in internal control over financial reporting during the year;
   ii. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
   iii. instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company’s internal control system over financial reporting.
VI. Report on Corporate Governance

i. There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in Annexure- I C and list of non-mandatory requirements is given in Annexure – I D.

ii. The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given in Annexure I B. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company

VII. Compliance

1. The company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors’ report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.

2. The non-mandatory requirements given in Annexure – I D may be implemented as per the discretion of the company. However, the disclosures of the compliance with mandatory requirements and adoption (and compliance) / non-adopt of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.
Annexure I A

Information to be placed before Board of Directors

1. Annual operating plans and budgets and any updates.
2. Capital budgets and any updates.
3. Quarterly results for the company and its operating divisions or business segments.
4. Minutes of meetings of audit committee and other committees of the board.
5. The information on recruitment and remuneration of senior officers just below the board level, including appointment or removal of Chief Financial Officer and the Company Secretary.
6. Show cause, demand, prosecution notices and penalty notices which are materially important
7. Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
8. Any material default in financial obligations to and by the company, or substantial nonpayment for goods sold by the company.
9. Any issue, which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the company or taken an adverse view regarding another enterprise that can have negative implications on the company.
10. Details of any joint venture or collaboration agreement.
11. Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.
12. Significant labour problems and their proposed solutions. Any significant development in Human Resources/Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme etc.
13. Sale of material nature, of investments, subsidiaries, assets, which is not in normal course of business.
14. Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
15. Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.
Annexure I B

Format of Quarterly Compliance Report on Corporate Governance

Name of the Company:

Quarter ending on:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Clause of Listing agreement</th>
<th>Compliance Status</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Board of Directors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(A) Composition of Board</td>
<td>49 (IA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(B) Non-executive Directors’ compensation &amp; disclosures</td>
<td>49 (IB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(C) Other provisions as to Board and Committees</td>
<td>49 (IC)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(D) Code of Conduct</td>
<td>49 (ID)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>II. Audit Committee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(A) Qualified &amp; Independent Audit Committee</td>
<td>49 (IIA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(B) Meeting of Audit Committee</td>
<td>49 (IIB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(C) Powers of Audit Committee</td>
<td>49 (IIC)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(D) Role of Audit Committee</td>
<td>49 II(D)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(E) Review of Information by Audit Committee</td>
<td>49 (IIE)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>III. Subsidiary Companies</td>
<td>49 (III)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV. Disclosures</td>
<td>49 (IV)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(A) Basis of related party transactions</td>
<td>49 (IV A)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(B) Disclosure of Accounting Treatment</td>
<td>49 (IV B)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(C) Board Disclosures</td>
<td>49 (IV C)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(D) Proceeds from public issues, rights issues, preferential issues etc.</td>
<td>49 (IV D)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(E) Remuneration of Directors</td>
<td>49 (IV E)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(F) Management</td>
<td>49 (IV F)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(G) Shareholders</td>
<td>49 (IV G)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V. CEO/CFO Certification</td>
<td>49 (V)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VI. Report on Corporate Governance</td>
<td>49 (VI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII. Compliance</td>
<td>49 (VII)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Note:

1. The details under each head shall be provided to incorporate all the information required as per the provisions of the Clause 49 of the Listing Agreement.

2. In the column No.3, compliance or non-compliance may be indicated by Yes/No/N.A.. For example, if the Board has been composed in accordance with the Clause 49 I of the Listing Agreement, "Yes" may be indicated. Similarly, in case the company has no related party transactions, the words “N.A.” may be indicated against 49 (IV A)

3. In the remarks column, reasons for non-compliance may be indicated, for example, in case of requirement related to circulation of information to the shareholders, which would be done only in the AGM/EGM, it might be indicated in the "Remarks" column as – "will be complied with at the AGM". Similarly, in respect of matters which can be complied with only where the situation arises, for example, "Report on Corporate Governance" is to be a part of Annual Report only, the words "will be complied in the next Annual Report" may be indicated.
Annexure I C

Suggested List of Items to Be Included In the Report on Corporate Governance in the Annual Report of Companies

1. A brief statement on company’s philosophy on code of governance.

2. Board of Directors:
   a. Composition and category of directors, for example, promoter, executive, nonexecutive, independent non-executive, nominee director, which institution represented as lender or as equity investor.
   b. Attendance of each director at the Board meetings and the last AGM.
   c. Number of other Boards or Board Committees in which he/she is a member or Chairperson.
   d. Number of Board meetings held, dates on which held.

3. Audit Committee:
   i. Brief description of terms of reference
   ii. Composition, name of members and Chairperson
   iii. Meetings and attendance during the year

4. Remuneration Committee:
   i. Brief description of terms of reference
   ii. Composition, name of members and Chairperson
   iii. Attendance during the year
   iv. Remuneration policy
   v. Details of remuneration to all the directors, as per format in main report.
5. **Shareholders Committee:**
   i. Name of non-executive director heading the committee
   ii. Name and designation of compliance officer
   iii. Number of shareholders’ complaints received so far
   iv. Number not solved to the satisfaction of shareholders
   v. Number of pending complaints

6. **General Body meetings:**
   i. Location and time, where last three AGMs held.
   ii. Whether any special resolutions passed in the previous 3 AGMs
   iii. Whether any special resolution passed last year through postal ballot – details of voting pattern
   iv. Person who conducted the postal ballot exercise
   v. Whether any special resolution is proposed to be conducted through postal ballot
   vi. Procedure for postal ballot

7. **Disclosures:**
   i. Disclosures on materially significant related party transactions that may have potential conflict with the interests of company at large.
   ii. Details of non-compliance by the company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.
   iii. Whistle Blower policy and affirmation that no personnel has been denied access to the audit committee.
   iv. Details of compliance with mandatory requirements and adoption of the nonmandatory requirements of this clause
8. **Means of communication.**
   i. Quarterly results
   ii. Newspapers wherein results normally published
   iii. Any website, where displayed
   iv. Whether it also displays official news releases; and
   v. The presentations made to institutional investors or to the analysts.

9. **General Shareholder information:**
   i. AGM : Date, time and venue
   ii. Financial year
   iii. Date of Book closure
   iv. Dividend Payment Date
   v. Listing on Stock Exchanges
   vi. Stock Code
   vii. Market Price Data : High, Low during each month in last financial year
   viii. Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index etc.
   ix. Registrar and Transfer Agents
   x. Share Transfer System
   xi. Distribution of shareholding
   xii. Dematerialization of shares and liquidity
   xiii. Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity
   xiv. Plant Locations
   xv. Address for correspondence
Annexure I D
Non-Mandatory Requirements

1. The Board

The Board - A non-executive Chairman may be entitled to maintain a Chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties. Independent Directors may have a tenure not exceeding, in the aggregate, a period of nine years, on the Board of a company. The company may ensure that the person who is being appointed as an independent director has the requisite qualifications and experience which would be of use to the company and which, in the opinion of the company, would enable him to contribute effectively to the company in his capacity as an independent director."

2. Remuneration Committee

i. The board may set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company’s policy on specific remuneration packages for executive directors including pension rights and any compensation payment.

ii. To avoid conflicts of interest, the remuneration committee, which would determine the remuneration packages of the executive directors may comprise of at least three directors, all of whom should be non-executive directors, the Chairman of committee being an independent director.

iii. All the members of the remuneration committee could be present at the meeting.

iv. The Chairman of the remuneration committee could be present at the Annual General Meeting, to answer the shareholder queries. However, it would be up to the Chairman to decide who should answer the queries.

3. Shareholder Rights

A half-yearly declaration of financial performance including summary of the significant events in last six-months, may be sent to each household of shareholders.
4. **Audit qualifications**
   
   Company may move towards a regime of unqualified financial statements.

5. **Training of Board Members**
   
   A company may train its Board members in the business model of the company as well as the risk profile of the business parameters of the company, their responsibilities as directors, and the best ways to discharge them.

6. **Mechanism for evaluating non-executive Board Members**
   
   The performance evaluation of non-executive directors could be done by a peer group comprising the entire Board of Directors, excluding the director being evaluated; and Peer Group evaluation could be the mechanism to determine whether to extend / continue the terms of appointment of non-executive directors.

7. **Whistle Blower Policy**
   
   The company may establish a mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the company’s code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimization of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organization.
APPENDIX 2

A Report on the Karmayog Corporate Social Responsibility of the 1000 Largest Indian Companies, March 2009

In a democracy like India’s, sustainable solutions to society’s problems can only be found through the collaboration and involvement of all stakeholders. Karmayog, established in 2004, is a unique organization that connects citizens, civil society groups, corporates, academicians, media and government through online and offline methods. Visit us on www.karmayog.org

Contents

1. Why a Rating on Corporate Social Responsibility?
2. Definition of CSR
3. Importance of CSR Ratings for Different Stakeholders
4. Methodology for the CSR Ratings and Study
5. Results of the Karmayog CSR Ratings of the 1000 largest Indian companies, 2008
6. Rating Criteria
7. Some observations from the Study and Ratings
8. Karmayog’s Recommendations to companies
9. Industry Sector Analysis
10. CSR by Group Companies
11. Some Recent Trends in CSR in India
12. Some Developments in CSR in India since the first Karmayog CSR Ratings in 2007
13. Closing Statement
14. Karmayog CSR web-sections
15. About Karmayog
16. Annexure 1: Table of Level 4 rated companies
17. Annexure 2: Table of Level 3 rated companies
Why a Rating on Corporate Social Responsibility?

The problems and issues that confront society today are too large and complex to be solved by government and NGOs alone. Sustainable solutions to society’s problems can only be found through the collaboration and involvement of all who are part of it.

Companies have tremendous strengths; they have extremely capable people, technology, access to money, the ability of geographical reach, etc. Many companies worldwide and now even in India are more powerful than governments and even countries, and thus corporates are important stakeholders in society.

The Karmayog Corporate Social Responsibility Study and Ratings of Indian Companies was undertaken to explore and understand the role that corporates are playing and can play in finding meaningful solutions to the problems facing India today.

CSR Ratings are important to various stakeholders for different reasons:- government bodies can use CSR Ratings to develop industry-wise CSR guidelines, industry associations can use them to set benchmarks of CSR for companies to follow, NGOs get to know about the CSR undertaken by companies, thus enabling partnerships with them, and companies themselves learn about and from the CSR initiatives of other companies.

Usually corporates are invited to enter or nominate themselves for CSR awards, and hence only the good companies are highlighted, whereas a rating enables a comparative study across all companies. Karmayog undertook a CSR study and rating to understand the CSR activities of all companies on an equal level, thus showing up companies doing no CSR, as well as showcasing companies doing good work.

The Karmayog CSR Ratings also help to identify areas where corporates, government and civil society organizations can work together.

This is the second CSR study and ratings undertaken by Karmayog, the first of which was done in 2007.
Bar chart showing the results of the Karmayog CSR Ratings of the 1000 largest Indian companies, 2008

### Rating Criteria

A) Minimum Necessary Criteria

Necessary parameters that make a company eligible for a particular rating level:

<table>
<thead>
<tr>
<th>Necessary Criteria</th>
<th>Explanation</th>
<th>Rating Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>If undertaking any CSR Activity</td>
<td>Where any kind of social, developmental or community work is done</td>
<td>Level 1</td>
</tr>
<tr>
<td>If CSR is linked to reducing the negative impacts of company’s own products or processes</td>
<td>CSR activities that aim to improve processes and products of the company.</td>
<td>Level 2</td>
</tr>
<tr>
<td>If CSR initiatives are for the local community</td>
<td>CSR activities that are focused on those who are affected directly by the company</td>
<td>Level 3</td>
</tr>
<tr>
<td>If CSR is embedded in the business operations</td>
<td>CSR activities form a part of the daily business activities of the company.</td>
<td>Level 4</td>
</tr>
<tr>
<td>If innovative ideas and practices are developed for CSR</td>
<td>CSR activities enable sustainable and replicable solutions to problems faced by society.</td>
<td>Level 5</td>
</tr>
</tbody>
</table>
### B) Sufficient Criteria for Minimum Rating

If the company is doing this, they automatically get this rating at least.

<table>
<thead>
<tr>
<th>Sufficient Criteria</th>
<th>What this means</th>
<th>Rating Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company fulfilling the basic needs of society</td>
<td><em>The products and services of the company are useful and benefits society</em></td>
<td>Level 1</td>
</tr>
<tr>
<td>e.g. manufacture of food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unique CSR activity which would not otherwise happen</td>
<td>The CSR activity being undertaken by the company is not being done by government, NGOs, etc.</td>
<td>Level 1</td>
</tr>
<tr>
<td>e.g. Developing a mapping and tracking software for adoption in India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company reducing negative impact of others</td>
<td>The company’s products or services provide solutions to mitigate harm caused by actions of companies, their products, etc.</td>
<td>Level 1</td>
</tr>
<tr>
<td>e.g. A company that makes water purification &amp; waste recycling systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company adopting the GRI Framework for CSR reporting</td>
<td>The company is committed to measuring and reporting its CSR initiatives as per a voluntary globally accepted framework.</td>
<td>Level 2</td>
</tr>
<tr>
<td>Company’s annual expenditure on CSR = 0.2% of sales</td>
<td>The company is committed to a minimum expenditure on CSR annually, and thus considers CSR as an integral part of its business</td>
<td>Level 3</td>
</tr>
</tbody>
</table>
C) Negative Criteria that usually determine the maximum possible Rating

Companies in this category will not normally get a higher rating than the one shown

<table>
<thead>
<tr>
<th>Negative Criteria</th>
<th>Reason</th>
<th>Rating Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies that make liquor, tobacco, genetically modified crops</td>
<td>These products are not needed by society, and cause harm to people and the environment. The CSR to do is to stop making these products.</td>
<td>Level 0</td>
</tr>
<tr>
<td>Companies that violate laws/rules/regulations</td>
<td>CSR is not limited just to how a company spends its money, but also to how it makes that money in the first place</td>
<td>Level 1</td>
</tr>
<tr>
<td>Companies engaged in high impact processes</td>
<td>Processes that severely damage the environment require extraordinary efforts by the company to reduce and repair the damage, and require greater contributions to benefit society</td>
<td>Level 1</td>
</tr>
</tbody>
</table>
APPENDIX 3

TESTS FOR CHECKING RELIABILITY OF KARMAYOGA RATINGS

1- Correlation between Asian Sustainability Ratings and Karmayog Ratings

<table>
<thead>
<tr>
<th></th>
<th>KARMA</th>
<th>ASR</th>
</tr>
</thead>
<tbody>
<tr>
<td>KARMA</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>17</td>
</tr>
<tr>
<td>ASR</td>
<td>Pearson Correlation</td>
<td>.684**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>17</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

2- Correlation between SPESG and Karmayog Ratings

<table>
<thead>
<tr>
<th></th>
<th>SPESG</th>
<th>KARMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPESG</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>9</td>
</tr>
<tr>
<td>KARMA</td>
<td>Pearson Correlation</td>
<td>.614</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.079</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>9</td>
</tr>
</tbody>
</table>
3- Correlation between Karmayoga Ratings and Donations provided by the companies for charity

<table>
<thead>
<tr>
<th></th>
<th>KARMA</th>
<th>DONATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>KARMA</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>DONATION</td>
<td>Pearson Correlation</td>
<td>.182**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.002</td>
</tr>
<tr>
<td>N</td>
<td>299</td>
<td>299</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
RESEARCH AND PUBLICATIONS

Journal Articles


Conference Proceedings

Pandey, R., Taylor, D. and Mansi, M. 2011, CEO characteristics and corporate social performance: evidence from listed Indian companies, eighth AIMS conference, 1-3 January, IIM Ahmedabad, India