

Discussion of 'Women on Board and Performance of Family Firms: Evidence from India'' Jayati Sarkar and Ekta Selarka

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- Presence of women directors on corporate boards is recognized as a necessary component of good corporate governance.
 - Women are more democratic, transformational, risk-averse, have higher ethical standards.
 - Women presence contributes to board independence and better decision making.
 - Women board membership helps causes of women empowerment and gender equality in work place.
- Empirical evidence on performance effects (market value or profitability) of women on boards is mixed.
- Quota based policy initiatives are being adopted in growing number of countries.
- Most countries adopting quotas mostly have family firms.
- Literature on effect of women directors on firm performance is relatively scant for family firms.

- Paper uses data on family firms (manufacturing, listed companies) in India from 2005 to 2014.
 - Companies Act (2013) prescribes mandatory gender quota in boards of public limited companies.
- Paper uses 3 estimation methods: FE , FE-IV and DID regression analyses.
- Controls for industry, year and firm fixed effects along with firm specific features (size, age, leverage, board-size).
- Key independent variable is dummy for presence of woman director on board and number and percentage of women directors.
- Dependent variable is firm performance measures by Tobin's Q (book value of debt and asset) and ROA (profitability).

- Robust evidence that presence of women directors on corporate boards has a positive effect on firm value.
- The effect is lower for family firms; higher the promoter's control, weaker the effect.
- Grey or non-executive directors have no effect while independent directors do.
 - Findings provide support to instituting gender quotas in family firms.

- Interesting question in context of gender quota imposition in India.
- Authors have done a detailed analysis with multiple estimation methods.
 - Mere appointment of one woman director to the board improves firm value.
 - What about qualification, past industry experience, relationship with promoter, role in decision making, presence of other women directors on board, number of women employees in the firm etc?
 - In absence of gender variable in database, authors look at directors' names and initials to figure out gender. This could be prone to measurement error.
 - In family firms, promoter's control may weaken effect of all other directors not just that of women directors.

I. Panel Fixed Effects Model

$$y_{it} = \alpha_j + \beta x_{it} + \epsilon_{it} \quad (1)$$

- 1 Identification in an FE model comes entirely from time series variation in x , if any.
 - In this case, time series variation in the key independent variable (women presence on boards) is limited.
 - If the change is coming from a change in law, the causal impact of the change in x gets absorbed in the year fixed effects.
- 2 In case of firm variables, there are bound to be influential observations or outliers that would bias the coefficients.
 - Using robust statistics addresses the problem but interface with FE might get tricky.
- 3 On firm variables, estimation ignores possible non-linearity, say between size and firm performance.

A linear FE model (or FE-IV) is not a good estimation strategy in this case.

II. IV Model

- Authors estimate “An alternative model specification with IV”
- Instrumental variable used is male-female board connection i.e. percentage of male directors on board of firm in question, who are also on other boards that have female directors.
 - Finding a good instrument is very hard.
 - It needs rigorous and robust proof that the IV does not affect y through x .

That is missing here.

III. DID Model

- Aims to evaluate the causal impact of a change in law.
 - ① Needs a Control group where there was no change.
 - ② Control group firms must be similar to Treatment firms.
- In this paper, there is selection bias.
 - Socially progressive firms already had women directors on board and faced no change when law came about.
 - Socially regressive firms added women directors. They form the treatment group.
- Match-balance between treatment and control firms is not shown.
 - With good match balance, no need for other controls.
- None of the 3 cases presented (2012-2015, 2012-2013, 2014-2015) seems a clean treatment.

DID without match balance is trouble.

Effect of Regulatory change

- It is useful to assess the effect of an exogenous policy change on firms when there is no selection bias.
- A perfect regulatory change in this case would have been a staggered introduction of the gender quota.
 - Firms above 5000 crore in one year;
 - Firms above 1000 crore next year;
 - Firms about 500 crore in following year;
 - One last change for all remaining firms.
- But this was not how the quota was imposed making it difficult to analyse the impact.

Thank You