Discussion of ‘Women on Board and Performance of Family Firms: Evidence from India”
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Motivation

- 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 workplace.

- 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

\[ y_{it} = \alpha_i + \beta x_{it} + \epsilon_{it} \]  

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.


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