

Impact of Board and CEO characteristics on Firms' Performance

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W.P. No. 2016-03-35
March 2016

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Abstract

Corporate governance characteristics like board composition and leadership impact a firm's performance. Researchers have attempted to explain the relationship using different theoretical perspectives like agency theory, resource dependence theory, and stewardship theory. However, the literature presents ambiguous results where some empirical findings support negative impact and other support positive impact. In this paper, we argue that ambiguity in results could be due to the context specificity of the nature of this relationship. In some contexts, agency theory might be more valid than other theories and in others stewardship theory or resource dependence theory might be more valid. Building on this context specificity, we look at the relationship between board and CEO characteristics on firm's performance in a longitudinal sample of Indian firms. Our findings suggest that none of the above mentioned theories are completely valid in the India context because we get mixed support for these theories. This calls for a mid-range theory to explain the relationship between corporate governance characteristics and firm's performance.

Impact of Board and CEO characteristics on Firms' Performance

INTRODUCTION:

It is a well-known fact that top management characteristics impact a firm's performance to some extent. There are different theoretical perspectives that explain this relationships; two of which gained more popularity: agency theory and stewardship theory. This paper builds on these theoretical perspectives to test the relationship between top management characteristics and firms' performance on a set of Indian firms that have ventured abroad. The reason we looked at internationalized Indian firms is because these firms will have to follow stringent corporate governance norms of home as well as host country to signal good governance. This allows us to look at the impact of corporate governance characteristics on firms' performance who follow regulations/law.

Agency theory is based on separation of ownership and control (see work of Berle and Means, 1932; Jensen and Meckling, 1976; Fama, 1980; Eisenhardt, 1989). According to Agency Theory, managers (CEOs) possess more information about the businesses because of having operational control over the firm as compared to owners. Consequently, these managers may act opportunistically and seek private rents at the expense of shareholders (owners) wealth. The resultant loss to shareholders wealth is called agency cost. This theory assumes managers to be individualistic, opportunistic, and self-serving (Davis, Schoorman, and Donaldson, 1997). On the basis of these assumptions, the theory advises to give less control in the hand of managers who are insiders to the firm. The agency theory literature suggests three mitigation mechanisms to control this agency cost: 1) Monitoring of managers' actions by board members 2) Market for corporate control where external market oversees a firm's performance and allows aggressive takeovers of poorly performed firms, 3) Concentrated ownership incentivizes majority owner to oversee the actions of managers (CEOs).

Contrary to Agency Theory, Stewardship Theory proponents argue that firms' managers are inherently collectivist, pro-organization, and trustworthy and they do not expropriate

shareholders' wealth by misusing corporate resources (Davis, Schoorman, and Donaldson, 1997; Donaldson, 1990; Donaldson and Davis, 1991, 1994). Therefore, the managers (CEOs) use operational control they have to work towards long term profitability of the firm. The proponents of this theory advise to give more control to managers who are insiders to the firm.

In this paper, we attempt to examine the validity of these opposing theories in the Indian Context. To achieve our objective, we look at the ways control is exercised in the firm. Control is exercised by CEO and board members. Therefore, we look at the impact of board characteristics like board composition (board structure and board size) and board leadership (CEO duality- CEO and the chairman of the board are the same individual) as well as CEO characteristics such as CEO Tenure on firm's performance. Since both agency theory and stewardship theory argue for different kinds of relationships among these variables, examination of these relationships will throw light on validity of these theories in the Indian Context.

This work has important implications for practitioners and policy makers who have been adopting Anglo-Saxon corporate governance norms that are valid in Western context.

THEORY AND HYPOTHESES:

In this section, we present hypotheses both from agency and stewardship theory perspectives.

Board Structure:

As mentioned earlier, board members have a fiduciary responsibility towards shareholders of the firm. One of the main role of board members is to monitor or oversee top management of the firm. According to agency theory, having more number of outside directors allow board to be more independent in expressing its opinions on firm related matters. Further, outside directors will not be under the influence of management and hence will be able to monitor the management's function more effectively. Moreover, if the board is dominated by inside directors then board's evaluation of top management's performance may get biased or influenced. In addition, outside directors will be able to provide additional resources and

networks to the organization and will help it to improve its performance. These benefits of outside directors become more prominent when outside directors are independent also.

Therefore, agency theory proposes to have more number of outside directors on the board to help firm reduce agency cost and improve its performance (Pearce and Zahra, 1992).

Hypothesis 1a: Board structure (proportion of outside directors) is positively related to firm's performance.

On the other hand, according to Stewardship Theory, managers are the stewards of the firm and therefore more control should be given to the managers (Davis, Schoorman, and Donaldson, 1997; Donaldson and Davis, 1994). Since managers have more information about the firm, its operations, external environment and industry, therefore, they will be able to give better strategic direction to the firm. Therefore, more number of firms' managers should be given the role of board members. Consequently, stakeholders' theory proposes to have less number of outside directors in the board. Infact, researchers like Baysinger and Hoskisson (1990) have argued that quality of information that is possessed by inside directors allows the board to monitor and evaluate top management in a more effective way. Further, outside directors may not be very committed to the firm because these directors might be board members of many other firms as well; given this, their time commitment to each firm, they are board member of, would be less and it would impact the quality of advice and monitoring provided by these outside directors.

On the basis of these arguments, one would expect that having more proportion of outside directors on the board will not lead to better performance.

Hypothesis 1b: Board structure (proportion of outside directors) is negatively related to firm's performance.

Board Size:

Board size can also impact board independence. According to agency theory, if the board size is small, then CEO may find it easy to dominate the board and exercise their control over board members. In this case, board will not be able to evaluate CEO's performance in a fair manner and therefore, board's independence will be compromised. If the board size is large, CEO will

find it difficult to build a consensus and this will bring more perspectives in firm's decision making. Further, large board allows board members not to come under the influence of CEO. Researchers like Chaganti, Mahajan and Sharma (1985) have shown that successful firms have large board size.

On the basis of the above arguments, we can argue that

Hypothesis 2a: Board size is positively related to firm's performance.

On the other hand, stewardship theory looks at positive aspects of small size of board. Small size of board allows better inter-personal communication, more participation, and social cohesion among board members and chances of domination by a couple of board members (Muth and Donaldson, 1998). Positive group dynamics among members of a small group allows the group to be more responsive towards firm's needs. Infact, large size of groups/boards may prove detrimental to complex and ambiguous decisions (Goodstein, Gautam, and Boeker 1994, p. 242). It is difficult to reach consensus when the group size is large.

On the basis of the above arguments, we can argue that

Hypothesis 2b: Board size is negatively related to firm's performance.

CEO Duality:

Acc. to Agency Theory, CEO duality clubs decision management and decision control (Fama and Jensen, 1983). Consequently, it allows CEO to exercise control over board decisions and hence affects board's independence as well as monitoring and governance role (Lorsch and MacIver, 1989). Proponents of agency theory argue that CEO who is also the chairperson of the board ends up grading his/hers own homework and therefore, it will not be a fair evaluation of CEO's performance. Under such circumstances, board members may not feel comfortable in expressing their views on CEO's decisions, his/her performance, and firm's performance (Dalton et al., 1998).

Therefore, acc. to agency theory, CEO duality will lead to poor performance of the firm.

Hypothesis 3a: CEO duality is negatively related to firm's performance.

Acc. to stewardship theory, CEO duality leads to unified and effective leadership by increasing power of the CEO. Consequently, it increases CEO's accountability to stakeholders who are internal and external to the organization (Donaldson, 1990; Finkelstein and D'Aveni, 1994). This

unification of role decreases ambiguity about who is the spokesperson of the organization (Baliga, Moyer, Rao, 1994; Dalton et al., 1998). Further, it decreases the chances of goal misalignment between CEO and the board because CEO in his/her position of a chairperson bridges the gap between board and management (Baliga, Moyer, Rao, 1994). In addition, CEO duality decreases the rivalry between CEO and the chairperson and ensures power dynamics do not come in between the decision making.

Therefore, stewardship theory suggests that CEO duality will facilitate superior firm performance.

Hypothesis 3b: CEO duality is positively related to firm's performance.

CEO Tenure:

According to the Agency Theory, long tenure of CEO can also compromise board's independence. When the CEO is there in the firm for many years then the CEOs feel entrenched and empowered and they do not like to be questioned by anyone. Further, CEOs build a rapport with the board members, which affects the fairness of CEO's evaluation by the board. Therefore, longer tenures of CEO affects board's monitoring and hence firm's performance.

Therefore,

Hypothesis 4a: CEO tenure is negatively related to firm's performance.

On the other, stewardship theory looks at CEO's tenure as an arrangement that gives continuity to the organization. Since the CEO is serving the firm for many years, so he/she understands organization culture and operations very well. CEO with long tenure can take long term strategic decisions for the firm and works towards competence building and longevity of the firm (Miller and Miller, 2006). Long tenure of CEO makes CEO more accountable for his/her action and also gives a sense of ownership towards the firm, which helps in aligning CEO's goals with that of organization.

On the basis of the above arguments,

Hypothesis 4b: CEO tenure is positively related to firm's performance.

DATA AND METHODOLOGY:**Sample:**

We construct a balanced panel dataset for 101 firms from a period of 2002-2008 (both inclusive). This gives us a sample of 707 firm-year observations. The dataset has been constructed on the basis that all the firms in the sample have gone for outward FDI during the period of study. The reason we focused on a sample of internationalized firms is to ensure that firms are abiding by governance laws and regulations of the countries. This makes the study interesting because it allows us to look at the impact of governance characteristics on firm's performance among a sample of firms that are practicing good governance. This gives us an opportunity to study if the existing laws and regulations are actually creating positive performance that they are supposed to create.

Methodology:

Since it is a balanced panel data set, we are using Random effect panel data methodology because some of the variables we are using in our study are time invariant (e.g. industry dummies). We have used Eviews software to run regression; we have controlled for heteroscedasticity by using White cross-section method. VIF factor for all variables is below 10 and there is no problem of multi-collinearity in the data. We have taken care of outliers in the data.

Variables:

Our dependent variable is firm's performance. We have used market rate of returns as our measure of performance. We use Q ratio to measure performance. Q ratio is the ratio of market value of firm's existing shares to the replacement cost of firm's existing assets.

Our independent variables are board structure, board size, CEO duality, and CEO tenure. Board structure is proportion of outside directors to total number of directors on the board of the firm. Board size is number of board members in the firm. CEO duality is a dummy variable that is given value equal to 1 if the CEO and chairperson of the board are same individual else it is given value equal to zero. CEO tenure is the number of years for which the CEO is serving in this capacity in the firm.

We control for firm's age, size, leverage, business group affiliation, a foreign multinational company (MNC), block-holding, and industry.

RESULTS AND DISCUSSION:

We present descriptive statistics of the sample in Table 1.

We present results corresponding to each hypotheses in separate tables below (Tables 2 to 5). We also present results corresponding to the full model (when all independent variables are taken together) in Table 6. All these tables are appended at the end of the paper.

Table 1: Descriptive Statistics of Sample^a (N=707)

S.No.	Variables	Descriptive Statistics		Correlations							
		Mean	Std. Dev.	1	2	3	4	5	6	7	
1	CEO Duality	0.34	0.48	1							
2	CEO Tenure	11.97	9.46	0.36**	1						
3	Board Structure	0.70	0.14	-0.21**	-0.08*	1					
4	Board Size	9.75	2.71	0.06	-0.017	-0.10*	1				
5	Firm's Size ^b	6.41	1.52	0.10**	0.01	-0.02	0.50**	1			
6	Blockholding	0.66	0.17	0.08*	-0.04	0.13**	-0.07	0.04	1		
7	Group Dummy	0.54	0.50	-0.05	0.10**	0.21**	0.18**	0.21**	0.07	1	

^a**Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed).

^bLogarithm of total sales of the firm.

**TABLE 2: HYPOTHESIS 1
IMPACT OF BOARD STRUCTURE ON FIRM'S PERFORMANCE**

Dependent Variable: Q_RATIO
 Method: Panel EGLS (Cross-section random effects)
 Date: 02/12/16 Time: 00:54
 Sample: 2002 2008
 Periods included: 7
 Cross-sections included: 101
 Total panel (balanced) observations: 707
 Swamy and Arora estimator of component variances
 White cross-section standard errors & covariance (d.f. corrected)
 WARNING: estimated coefficient covariance matrix is of reduced rank

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	32.55556	8.014228	4.062220	0.0001
SIZE_LN_OF_SALES	-3.148118	1.389278	-2.266010	0.0238
GROUP_DUMMY	2.697514	0.452288	5.964151	0.0000
LEVERAGE	-11.32180	4.188575	-2.703019	0.0070
LOGAGE	0.443753	1.109783	0.399855	0.6894
MNC_DUMMY	2.638180	0.786807	3.353022	0.0008
BLOCKHOLDING	6.854304	4.762782	1.439139	0.1506
BOARD_STRUCTURE_OUTSIDE	-20.48470	6.845079	-2.992618	0.0029
AUTO	3.745683	1.294103	2.894424	0.0039
CEMENT_CIVIL	-3.817559	2.035125	-1.875835	0.0611
CHEMICALS_AND_PETROCHEMI	-1.251254	0.674429	-1.855278	0.0640
ELECTRICAL_AND_ELECTRONI	-2.645909	1.458991	-1.813520	0.0702
FOODPRODUCTS_AND_AGRICUL	-1.103146	0.578781	-1.905982	0.0571
METAL_AND_ALLIED_PRODUCT	-2.339052	1.682582	-1.390156	0.1649
MINING_AND_EXTRACTION	15.60530	7.321402	2.131463	0.0334
PHARMACEUTICALS	-0.443758	1.152652	-0.384989	0.7004
SERVICES	6.670004	7.474369	0.892384	0.3725
TEXTILE	-1.739964	1.280044	-1.359301	0.1745
Effects Specification				
			S.D.	Rho
Cross-section random			7.189333	0.2814
Idiosyncratic random			11.49009	0.7186
Weighted Statistics				
R-squared	0.082411	Mean dependent var		1.329406
Adjusted R-squared	0.059771	S.D. dependent var		12.00687
S.E. of regression	11.64251	Sum squared resid		93392.68
F-statistic	3.640041	Durbin-Watson stat		0.783032
Prob(F-statistic)	0.000001			
Unweighted Statistics				
R-squared	0.095207	Mean dependent var		2.571118
Sum squared resid	127277.8	Durbin-Watson stat		0.574566

**TABLE 3: HYPOTHESIS 2
IMPACT OF BOARD SIZE ON FIRM'S PERFORMANCE**

Dependent Variable: Q_RATIO
 Method: Panel EGLS (Cross-section random effects)
 Date: 02/12/16 Time: 00:57
 Sample: 2002 2008
 Periods included: 7
 Cross-sections included: 101
 Total panel (balanced) observations: 707
 Swamy and Arora estimator of component variances
 White cross-section standard errors & covariance (d.f. corrected)
 WARNING: estimated coefficient covariance matrix is of reduced rank

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.71726	3.496702	4.208899	0.0000
SIZE_LN_OF_SALES	-3.706940	1.624521	-2.281867	0.0228
GROUP_DUMMY	0.828081	0.447832	1.849090	0.0649
LEVERAGE	-11.01277	3.700247	-2.976226	0.0030
LOGAGE	-0.258713	0.771455	-0.335357	0.7375
MNC_DUMMY	0.278464	1.087436	0.256074	0.7980
BLOCKHOLDING	6.287869	3.795094	1.656842	0.0980
BOARD_SIZE	1.104095	0.347067	3.181212	0.0015
AUTO	1.425818	1.098828	1.297581	0.1949
CEMENT_CIVIL	-4.617938	2.731224	-1.690794	0.0913
CHEMICALS_AND_PETROCHEMI	-1.229352	0.869124	-1.414473	0.1577
ELECTRICAL_AND_ELECTRONI	-0.636025	0.952858	-0.667492	0.5047
FOODPRODUCTS_AND_AGRICUL	-0.978742	0.917802	-1.066397	0.2866
METAL_AND_ALLIED_PRODUCT	-1.331565	1.325411	-1.004643	0.3154
MINING_AND_EXTRACTION	13.82640	6.062904	2.280492	0.0229
PHARMACEUTICALS	-0.055979	1.192840	-0.046929	0.9626
SERVICES	7.204006	8.392315	0.858405	0.3910
TEXTILE	-1.014493	1.049630	-0.966524	0.3341

Effects Specification		S.D.	Rho
Cross-section random		7.219381	0.2842
Idiosyncratic random		11.45595	0.7158

Weighted Statistics			
R-squared	0.084010	Mean dependent var	1.322451
Adjusted R-squared	0.061409	S.D. dependent var	11.99813
S.E. of regression	11.62390	Sum squared resid	93094.29
F-statistic	3.717138	Durbin-Watson stat	0.787648
Prob(F-statistic)	0.000001		

Unweighted Statistics			
R-squared	0.089528	Mean dependent var	2.571118
Sum squared resid	128076.7	Durbin-Watson stat	0.572513

**TABLE 4: HYPOTHESIS 3
IMPACT OF CEO DUALITY ON FIRM'S PERFORMANCE**

Dependent Variable: Q_RATIO
 Method: Panel EGLS (Cross-section random effects)
 Date: 02/12/16 Time: 00:58
 Sample: 2002 2008
 Periods included: 7
 Cross-sections included: 101
 Total panel (balanced) observations: 707
 Swamy and Arora estimator of component variances
 White cross-section standard errors & covariance (d.f. corrected)
 WARNING: estimated coefficient covariance matrix is of reduced rank

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	17.15119	3.447935	4.974337	0.0000
SIZE_LN_OF_SALES	-3.012995	1.386193	-2.173575	0.0301
GROUP_DUMMY	1.663049	0.265834	6.255975	0.0000
LEVERAGE	-10.18517	3.642472	-2.796225	0.0053
LOGAGE	0.474156	1.170313	0.405153	0.6855
MNC_DUMMY	0.972225	0.907622	1.071179	0.2845
BLOCKHOLDING	5.901775	3.741404	1.577423	0.1152
CEO_DUALITY	2.904775	2.215119	1.311341	0.1902
AUTO	1.751561	1.038177	1.687152	0.0920
CEMENT_CIVIL	-5.580989	2.775447	-2.010843	0.0447
CHEMICALS_AND_PETROCHEMI	-1.360299	0.732622	-1.856755	0.0638
ELECTRICAL_AND_ELECTRONI	-1.852119	0.893864	-2.072036	0.0386
FOODPRODUCTS_AND_AGRICUL	-1.172766	0.717914	-1.633576	0.1028
METAL_AND_ALLIED_PRODUCT	-2.230498	1.798247	-1.240373	0.2153
MINING_AND_EXTRACTION	15.69281	6.139306	2.556121	0.0108
PHARMACEUTICALS	0.018752	0.922940	0.020318	0.9838
SERVICES	7.846975	8.150451	0.962766	0.3360
TEXTILE	-1.147936	1.192369	-0.962735	0.3360

Effects Specification		S.D.	Rho
Cross-section random		6.937672	0.2622
Idiosyncratic random		11.63880	0.7378

Weighted Statistics			
R-squared	0.069588	Mean dependent var	1.376841
Adjusted R-squared	0.046631	S.D. dependent var	12.06752
S.E. of regression	11.78280	Sum squared resid	95656.88
F-statistic	3.031287	Durbin-Watson stat	0.766807
Prob(F-statistic)	0.000039		

Unweighted Statistics			
R-squared	0.100284	Mean dependent var	2.571118
Sum squared resid	126563.6	Durbin-Watson stat	0.579553

TABLE 5: HYPOTHESIS 4

IMPACT OF CEO TENURE ON FIRM'S PERFORMANCE

Dependent Variable: Q_RATIO
 Method: Panel EGLS (Cross-section random effects)
 Date: 02/12/16 Time: 01:01
 Sample: 2002 2008
 Periods included: 7
 Cross-sections included: 101
 Total panel (balanced) observations: 707
 Swamy and Arora estimator of component variances
 White cross-section standard errors & covariance (d.f. corrected)
 WARNING: estimated coefficient covariance matrix is of reduced rank

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18.72981	4.230599	4.427223	0.0000
SIZE_LN_OF_SALES	-2.929765	1.316287	-2.225781	0.0264
GROUP_DUMMY	1.432618	0.366082	3.913380	0.0001
LEVERAGE	-9.701652	3.623867	-2.677154	0.0076
LOGAGE	0.480989	1.096613	0.438613	0.6611
MNC_DUMMY	-0.136461	1.119285	-0.121918	0.9030
BLOCKHOLDING	5.464067	3.682141	1.483937	0.1383
CEO_TENURE	-0.066778	0.040094	-1.665525	0.0963
AUTO	1.601750	0.989899	1.618095	0.1061
CEMENT_CIVIL	-5.340938	2.461923	-2.169417	0.0304
CHEMICALS_AND_PETROCHEMI	-1.141278	0.587040	-1.944123	0.0523
ELECTRICAL_AND_ELECTRONI	-2.181890	1.037301	-2.103429	0.0358
FOODPRODUCTS_AND_AGRICUL	-1.293036	0.720207	-1.795368	0.0730
METAL_AND_ALLIED_PRODUCT	-1.856139	1.528165	-1.214619	0.2249
MINING_AND_EXTRACTION	16.31984	6.869243	2.375785	0.0178
PHARMACEUTICALS	0.170822	0.947757	0.180239	0.8570
SERVICES	7.646155	8.297256	0.921528	0.3571
TEXTILE	-1.609867	1.277713	-1.259960	0.2081

Effects Specification		S.D.	Rho
Cross-section random		7.174382	0.2754
Idiosyncratic random		11.63741	0.7246

Weighted Statistics			
R-squared	0.065287	Mean dependent var	1.343863
Adjusted R-squared	0.042224	S.D. dependent var	12.02516
S.E. of regression	11.76855	Sum squared resid	95425.63
F-statistic	2.830858	Durbin-Watson stat	0.765493
Prob(F-statistic)	0.000121		

Unweighted Statistics			
R-squared	0.088097	Mean dependent var	2.571118
Sum squared resid	128277.9	Durbin-Watson stat	0.569449

TABLE 6: FULL MODEL
IMPACT OF ALL INDEPENDENT VARIABLES ON FIRM'S PERFORMANCE

Dependent Variable: Q_RATIO
 Method: Panel EGLS (Cross-section random effects)
 Date: 02/12/16 Time: 01:02
 Sample: 2002 2008
 Periods included: 7
 Cross-sections included: 101
 Total panel (balanced) observations: 707
 Swamy and Arora estimator of component variances
 White cross-section standard errors & covariance (d.f. corrected)
 WARNING: estimated coefficient covariance matrix is of reduced rank

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	24.60714	5.200501	4.731686	0.0000
SIZE_LN_OF_SALES	-3.769807	1.676091	-2.249166	0.0248
GROUP_DUMMY	2.034543	0.430257	4.728674	0.0000
LEVERAGE	-11.32521	4.128102	-2.743442	0.0062
LOGAGE	0.330537	1.081278	0.305691	0.7599
MNC_DUMMY	2.290695	1.281238	1.787876	0.0742
BLOCKHOLDING	7.660290	4.844279	1.581306	0.1143
CEO_TENURE	-0.111404	0.052830	-2.108735	0.0353
CEO_DUALITY	2.964736	2.254666	1.314934	0.1890
BOARD_SIZE	0.970651	0.328295	2.956646	0.0032
BOARD_STRUCTURE__OUTSIDE	-17.49019	5.523046	-3.166766	0.0016
AUTO	4.568121	1.803290	2.533215	0.0115
CEMENT_CIVIL	-2.034113	1.687738	-1.205230	0.2285
CHEMICALS_AND_PETROCHEMI	-0.339720	0.633610	-0.536166	0.5920
ELECTRICAL_AND_ELECTRONI	-1.258334	1.166987	-1.078276	0.2813
FOODPRODUCTS_AND_AGRICUL	-0.429011	0.902320	-0.475454	0.6346
METAL_AND_ALLIED_PRODUCT	-0.786172	1.206833	-0.651434	0.5150
MINING_AND_EXTRACTION	11.59323	5.261484	2.203415	0.0279
PHARMACEUTICALS	0.402175	0.925777	0.434419	0.6641
SERVICES	7.543275	8.227181	0.916872	0.3595
TEXTILE	-0.361774	0.803736	-0.450115	0.6528

Effects Specification		S.D.	Rho
Cross-section random		7.060060	0.2789
Idiosyncratic random		11.35136	0.7211

Weighted Statistics			
R-squared	0.103215	Mean dependent var	1.335251
Adjusted R-squared	0.077070	S.D. dependent var	12.01425
S.E. of regression	11.54200	Sum squared resid	91387.34
F-statistic	3.947759	Durbin-Watson stat	0.798910
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.114771	Mean dependent var	2.571118
Sum squared resid	124525.7	Durbin-Watson stat	0.586307

The results in these tables show that hypotheses 1b, 2a, and 4a have got support; however, hypotheses 1a, 2b, 3a, 3b, 4b did not get any support.

Table 2 shows that Board structure has a negative and significant impact on firm's performance. This means that having more number of outside directors on the board is detrimental to firm's performance (hypothesis 1b). Table 3 shows that Board size has a positive impact on firm's performance indicating larger the size of board better it is for the firm (Hypothesis 2a). Table 4 shows that there is no support for impact of CEO duality on firm's performance. Table 5 shows that CEO tenure is negatively related to firm's performance indicating support for hypothesis 4a. Table 6 shows the full model and it reinforces the support for hypotheses 1b, 2a, and 4a. We also looked at board structure in terms of ratio of independent directors and the result is still negative; the result is positive when we use ratio of inside directors. These results have not been produced for the reasons of brevity.

These results indicate that large board size and more number of inside directors have positive impact on firm's performance but CEO tenure is negatively related to firm's performance. Further, CEO duality does not impact firm's performance. This is a very interesting set of results because it neither gives full support to agency theory nor to stewardship theory. The results point towards a middle ground. The firms that are listed on stock exchanges, like the ones used in this study, have to abide by corporate governance norms. These norms, in India, impose rule of at least half of the board should comprise of outside directors. This means number of inside directors can be 50% at max. If a firm decides to have a small board (say 4 members) than only 2 out of the 4 members can be inside directors. Having large size of board would allow the firm to induct increased number of inside directors on the board. Since inside directors possess more information and are more capable of giving strategic direction to the firm, therefore large board size helps the firm by having increased number of inside directors. This also explains why firms with high proportion of inside directors (or lower proportion of outside directors) have higher performance. In our data average board size is 9.75 and average proportion of outside directors is 0.70 (more than 50%). Therefore, firms in our sample seem to be having higher proportion of outside directors and to compensate for that and have good representation of inside directors, board size is large in our sample. These results indicate support to stewardship theory. Further, CEO duality, if exist, imposes further regulations on the firm. A firm that is listed on Indian stock exchange is mandated to have at least 50% of the board members as independent directors

if it exercises CEO duality. So CEO duality has two opposing effects. CEO duality may empower CEO but it also imposes more independent directors on the board and that further reduces the power of the CEO. Therefore, CEO duality's impact on performance might be getting cancelled out. Therefore, it is possible that market is indifferent to CEO duality. Further, long CEO tenure is having a negative impact on firm's performance. This result seems to be conforming to agency theory. This means CEOs do get entrenched in the firms and draw a lot of power just because they have there with the firm for many years. This could mean that CEOs invest less in building their own competences and leadership once their position in the firm gets confirmed and therefore, longer tenures have negative impact on the firm's performance. Another explanation for this negative relationship could be that the correlation between CEO tenure and Board structure is negative and significant; this indicates higher proportion of outside directors could lead to low CEO tenures; however, average CEO tenure in our sample is 11.97 years. So, there is a possibility that board is not happy with the longer tenures of CEO and this could be leading to potential conflicts among the CEO and the outside directors and hence it would impacting firm's performance in a negative way. This could be a possible explanation for negative relationship between board structure and performance also.

The above mentioned results show that some aspects of board composition and leadership conform to stewardship theory and other aspects conform to agency theory. Therefore, one needs to look at contingent nature of these relationships to understand the nuances associated with them in a better way.

CONCLUSION:

In this paper, we have attempted to examine the validity of agency theory and stewardship theory in the Indian context. Our results indicate that, stewardship theory seems to be more applicable when it comes to relationship between board characteristics and performance among Indian firms. One possible explanation of these results could be dominance of family businesses in the Indian context. Since the dynamics of a family business are very different from that of a non-family business, therefore, the western concepts of corporate governance may not be as effective in these family businesses as they are in non-family businesses. Family businesses are known for altruism, trust, founders and their families serving on top management positions and board,

greater goal alignment, more responsive towards firm's needs etc. Given the nature of these businesses, it is possible that agency cost is low in these firms and therefore, mitigation mechanisms of agency cost are not working in favor of these firms. However, when it comes to CEO tenure, agency theory seems to be more valid.

This has important implications both for researchers and policy makers. Policy makers need to use caution before adopting ANGLO-SAXON system of governance and imposing those laws and regulations in Indian context because blind adoption may have negative impact on firm's performance. Researchers of corporate governance need to exercise caution in applying theories that are developed in western context to emerging market context because emerging markets are very different from developed markets in terms of institutional development, social, political, cultural, and historical aspects. Therefore, there is a need to look for mid-range theories or evolutionary theories (Shen, 2003) to understand these relationships in a more nuanced way. Future research in this area would require building on the dataset and making it more contemporary. We are working on it and hope to test the hypotheses on a larger panel dataset.

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