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Busy CEOs and the performance of family firms

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ABSTRACT

We provide evidence on the link between busyness of CEOs and/or chairmen and the performance of family firms in India. We show that the level of CEO busyness has a negative effect on firm performance, measured by Tobin's *q*. That is, the frequency of the CEO attending board meetings is positively associated with Tobin's *q*. We also find that the effect of CEO busyness on firm performance is not different between family firms with a family-member CEO/chairman and family firms with a non-family-member CEO/chairman. Our findings show that the effect of CEO busyness on Tobin's *q* is negative for small firms, and that the effect of chairman busyness on Tobin's *q* is negative for large firms. While the CEO/chairman busyness is not associated with Tobin's *q* in the low Tobin's *q* sample, it has a negative effect on Tobin's *q* in the high Tobin's *q* sample, implying that firms with better growth opportunities should be managed by less busy CEOs.

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1. Introduction

In an earlier study, Fich and Shivdasani (2006) argue that a firm whose board is busy (that is, a majority of its independent directors serve on three or more boards) is likely to have weak corporate governance, which in turn results in relatively poorer performance (e.g., lower market-to-book ratios

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and poorer operating performance) than a firm whose board is relatively less busy. Since then, several studies (e.g., Cashman et al., 2012; Field et al., 2013) have attempted to examine the effects of board busyness on firm performance; unfortunately, empirical results are mixed. For instance, Cashman et al. (2012) show that there is a negative relation between board busyness and firm performance, while Field et al. (2013) report that board busyness has a positive effect on firm value.

While several papers (e.g., Brick and Chidambaran, 2010; Chou et al., 2013; Jackling and Johl, 2009; Sarkar and Sarkar, 2009) have examined the impact of board busyness on firm performance in both less advanced and more advanced economies, our paper differs from prior studies in a number of ways. First, whereas most existing studies (e.g., Chou et al., 2013; Sarkar and Sarkar, 2009) primarily focus on the influence of board busyness on firm performance in a sample of family-owned and non-family-owned firms, we examine the impact of CEO/chairman busyness on firm performance in a sample of only family-owned firms. Second, we focus on the degrees of the CEO/chairman busyness, as it is more intuitive to expect firm performance to be more affected by CEO/chairman busyness than by board busyness.

In this study, we focus exclusively on family firms in India for two reasons: First, in India, concentrated ownership is widespread and is an important feature of the Indian private sector, which is well dominated by family business groups since Indian independence in 1947 (Balasubramanian, 2010; Khanna and Palepu, 2004; Manikutty, 2000). Therefore, it is reasonable to postulate that almost all publicly listed firms in India are family-owned, given the fact that family-owned firms represent about three-quarters of the 500 largest firms in the Bombay Stock Exchange (BSE)[1]. Some peculiar characteristics of Indian family-owned businesses such as community restrictions, family traditions, superiority of relationships, and male dominance differentiate them from their western counterparts (Dutta, 1997), on which most of the family business studies have been conducted. Despite these peculiar characteristics very little prior research has been done on Indian family businesses to understand complexities associated with these firms. Second, since prior studies that are based on the sample of family and non-family firms generally do not analyze the effect of family control or ownership on firm performance, conditional on being family firms, the effect of busyness of powerful actors (CEO/chairman)) on performance of family firms has been relatively less well understood. Therefore, focusing the analysis at the sample of only family firms allows us to identify the effect of the CEO/chairman busyness on the performance of family firms[2]. As family and non-family firms appear to differ substantially[3], it is crucial that a better understanding of this issue is required.

We develop several measures of CEO/chairman busyness and differentiate between a family-member CEO/chairman and a non-family-member CEO/chairman. We expect the effect of CEO/chairman busyness on firm performance to be negative. Our results show that the degree of CEO busyness has a negative effect on firm performance, measured by Tobin's q[4]. More specifically,

[1] More specifically, after excluding 75 financial firms from the 500 largest firms, family firms represent about 70% of 425 non-financial firms. As a result, from a statistical perspective, the variation in the sample with respect to the proportions of family and non-family in the 300 largest firms is arguably too small.

[2] The controlling shareholders of family firms, as opposed to shareholders of non-family firms, have greater incentives to select a CEO and/or a chairman to manage their firms effectively. However, it is also possible that their choice of managers may not be the first best option due to, for example, political pressure (or politics) within the controlling families and family members. Including only family firms in the sample helps partially mitigate the bias due to the omitted firm-specific time-invariant characteristics that may not be fully controlled for by the use of a dummy variable.

[3] In the context of emerging market countries, Connelly et al. (2012) find that in a sample of family and non-family listed firms in Thailand, a difference in firm performance, measured by Tobin's q or ROA, between low family ownership firms (family ownership ≤ the median value of 41.2%) and high family ownership firms (family ownership > the median value of 41.2%) is very small and statistically insignificant. In addition, they find that the degree of family ownership (with the mean value of 39%) is not associated with Tobin's q. Their results are in sharp contrast to Villalonga and Amit (2006), who find that the performance (the Tobin's q or ROA) of family firms is higher than that of non-family firms in the sample of US firms, that family ownership is about 16% on average, and that the relation between family ownership and Tobin's q is positive but statistically significant only at the 10% level. Villalonga and Amit (2006) further clarify that family ownership creates value only under certain forms of family control and management such as founder serving as the CEO or Chairman with a non-family CEO. However, Connelly et al. (2012) do not examine the impact of founders' presence on family firms' performance.

[4] The use of Tobin's q as a main or only measure of firm performance would be problematic, as it can alternatively be viewed as a proxy for a firm's investment opportunity or growth option. Therefore, we also use ROA and ROS as other proxies for firm performance for a robustness check. For a detailed discussion of Tobin's q, please see Dybvig and Mitch (2012).

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