

Board Composition, Insider Ownership and Firm Performance — Evidence from India

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Abstract

The study seeks to examine the relationship between board composition, insider ownership and firm performance for publicly-listed companies in India by employing 1,095 firm-year observations of 365 companies listed on S&P BSE 500 Index of Bombay Stock Exchange during the period 2010-11 to 2012-13. Firm performance has been taken as dependent variable which was measured by three accounting-based and two market-based measures. Insider ownership and board characteristics were taken as independent variables. Using fixed effect panel regression, it has been found that firm performance is negatively affected by insider ownership, firm age, financial leverage and board independence and positively influenced by board size, firm size and percentage of outsiders on the board. However, number of grey directors on the board does not significantly affect the firm performance.

INTRODUCTION

Corporate governance has developed as an important mechanism over the last two decades. The recent global financial crisis has reinforced the importance of good corporate governance practices and structures. It is now well-recognized that corporate governance structures play an important role in enhancing firm performance and sustainability in long term (Erickson *et al.*, 2005; Ehikioya, 2009; Iwasaki, 2008; Cho and Kim, 2007). Board of directors is an important internal control mechanism and is one of the most discussed issues in the corporate

governance literature (Lam and Lee 2012). There has been considerable research on corporate governance structures and firm performance, particularly, in the developed countries. However, there has been modest research on the influence of corporate governance variables, such as, board structure on firm performance in India (Dwivedi and Jain, 2005). India as an emerging economy, is gradually moving from controlled to market-based economy with market capitalization of all listed companies touching nearly Rupees one trillion (Sehgal and Mulraj, 2008). Corporate governance has now become a norm in India, with Securities Exchange Board of India (SEBI) making it mandatory for all the listed companies to adopt Clause 49 of the Listing Agreement. However, capital markets are still nascent, and market for corporate control is weak (Standard and Poor, 2009). Indian firms are predominantly of the family origin and promoter-controlled (Chakrabarti, 2005). Corporate governance, therefore, relies much on internal structures rather than external ones for enhancing the firm value. Corporate board and insider ownership (promoter ownership) are two important internal corporate governance structures in Indian business context.

The current study aims to enhance our understanding about various theoretical foundations on board composition as an important corporate governance mechanism and their effect on firm in different institutional settings. The primary objective of paper is to investigate the relationship between board composition and firm performance and provides evidence of the effect of insider ownership on such relationship for publicly-listed companies in India. The empirical outcome of this study will help to determine the effectiveness of composition of board of directors in the presence of dominant shareholders. It will help regulators and policy makers to determine board composition in India.

To outline the organization of the paper, the next section reviews the related literature and develops the hypothesis for the study. The need and objectives of the study have been put forth thereafter. Next comes the research design, followed by results and analysis. The last section summarizes and concludes, and provides areas for further research.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

As has been discussed earlier, there is ongoing debate in academic literature on the relationship between ownership, corporate governance and performance. Earlier studies tried to understand whether insider ownership and corporate governance really has impact on the firm value.

Board Composition and Firm Performance

Corporate board structure and its impact on firm behaviour has been a

hotly-debated issue in the literature (Anderson & Reeb, 2004). In recent years, the discussion has focused on the structure of the board of directors, which is the most outstanding governance mechanism of the internal control system of a firm (Jensen, 1993). Researchers studying corporate governance have used a diverse set of theoretical perspectives to understand the characteristics, roles and effects of the board of directors (Corbetta & Salvato, 2004).

The board of a company is considered as one of the primary internal corporate governance mechanisms (Brennan, 2006). A well-constituted board with optimum number of directors can be effective in monitoring the management, and driving value enhancement for shareholders. Some researchers, however, have been skeptical about board's ability to mitigate the agency problem and enhance firm value (Erickson *et al.*, 2005). The number of directors on the board (or board size), therefore, is a critical factor that influences the performance of a company.

There has been a mixed response to existing relationship between board size and corporate performance. The direction of influence depends on the extent to which board is able to reach consensus, and take advantage of the knowledge and expertise of the individual members. Two contrasting views emerge from the extant literature on the contemplating effect of board size on firm value. Various researchers (Ehikioya, 2009; Coles *et al.*, 2008; Dwivedi and Jain, 2005; Klein, 2002; Dalton *et al.*, 1999; Kathuria and Dash, 1999; Pearce and Zahra, 1992) document a positive relationship of board size with the firm value. The knowledge and intellect of this increased pool of experts can be utilized for making some strategic decisions of the board, which can drive performance of the company (Dalton *et al.*, 1999; Pearce and Zahra, 1992). The larger pool of people on the board results in greater monitoring capacity.

There are, however, strong contrasting views and evidences to the above argument. The contrary school of thought views larger boards as less effective in enhancing the performance of a company. Many researchers find a negative association between board size and performance of companies (Yermack, 1996; Eisenberg *et al.*, 1998; Cheng, 2008; Bonn *et al.*, 2004; Boone *et al.*, 2007; Rashid *et al.*, 2010; Ghosh, 2006; Kota and Tomar, 2010).

The above discussion clearly lays down a platform to propose that board characteristics may have positive or negative association with firm value. The vast literature on the impact of board composition on firm performance, predominately foresees that board size and number of grey directors are negatively associated with firm performance, while proportion of outsiders and independent directors on the board have positive association with performance, which gives support to

develop the following hypotheses :

- H₁ : Board size exhibits a negative association with firm performance.
- H₂ : Proportion of outsiders on the board exhibits positive association with firm performance.
- H₃ : Board independence exhibits a positive relationship with firm performance.
- H₄ : Grey directors exhibit negative association with firm performance.

Insider Ownership and Firm Performance

Evidences show that concentrated ownership is most common form in most countries (La Porta *et al.*, 1999), and also in India. Many scholars have studied the effect of ownership by a different group on Indian companies (Dwivedi and Jain, 2005; Sarkar and Sarkar, 2000; Khanna and Palepu, 2000). Past studies in the governance literature can be categorized into different parts, one which assumes the positive relationship between insider ownership and performance (Mishra *et al.*, 2001; Martinez *et al.*, 2007; Silva and Majluf 2008; King and Sautor 2008; Chu 2009; Din and Javid 2011) and other which assumes the negative relationship between insider ownership and performance (Yeh *et al.*, 2001; Bartholomeusz and Tanewski 2006; Lam and Lee 2012). While some studies like (Demstsz 1985; Saravanan 2009) argued that level of managerial ownership does not affect firm value.

Promoters are the persons, who are in a position to take any important strategic decision to drive the performance. Therefore, high promoter ownership in such a period may enhance the firm performance. This leads to development of our next hypothesis that insider ownership is positively associated with firm value.

- H₅ : Insider ownership exhibits positive relationship with firm performance.

NEED OF THE STUDY

Within the management research area, the topic of corporate governance has been receiving increased attention. Many studies have analyzed the board structure from different perspectives. Some have analyzed the effect of board composition on firm performance; however, the empirical evidence has generally not been conclusive. Some of the studies suggested positive relation with performance (Ehikioya, 2009; Coles *et al.*, 2008; Dwivedi and Jain, 2005), while others found negative association (Ghosh, 2006; Kota and Tomar, 2010).

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Thus, it is evident that there is still difference of opinion among researchers on this topic. Despite these studies, relationship of board composition and insider ownership with firm value remains unclear. Moreover, relevant previous research from India highlights opportunities for further research in this area. It is believed that a better understanding of insider ownership and its impact on firm value would be of immense use to academia and regulators to better understand the practice.

OBJECTIVES

The growing importance and the scant literature in India call for studying the relationship between board composition, insider ownership and firm performance with the following objectives :

1. To identify whether there is any relationship between ownership concentration in the hands of promoter group, composition of board of directors of the firms and their performance.
2. To examine the impact of insider ownership on the firm performance.
3. To measure the extent of impact of board composition on firm performance.

RESEARCH DESIGN

This section describes the selection criteria used for the sample of companies and details of definitions of key variables. Finally, it describes the methodology used for the empirical tests that follow.

Sample

The SEBI implemented the recommendations of the Kumar Mangalam Birla Committee through the enactment of Clause 49 of the Listing Agreement. The terms were applied to companies in the BSE 500 Index on August 9, 1999.

To assess the effect of board composition and insider ownership on the firm performance, in emerging economy, we focus on Indian corporate sector. The data-set includes a subset of 365 companies that are included in the S&P BSE 500 Index of Bombay Stock Exchange (BSE) of India. This study uses the data for the three financial years from 2010-11 to 2012-13.

This index has been selected because it is one of the key indices of BSE and includes well-diversified 500 stocks accounting for 22 sectors of the economy and it represents about 94.5 per cent of the total market capitalization and 86 per cent of the traded value of all the stocks listed on BSE. The Bombay Stock Exchange has the second largest number of domestic quoted companies in the world on any stock exchange after the New York Stock Exchange and also one of the world's leading exchanges (3rd largest in December 2012) for Index options trading.

For the analysis, first of all, the 500 companies that are included in S&P BSE 500 Index were taken. Banking, insurance and financial firms were excluded from the sample as they are subject to different regulatory bodies and their accounts are differently—structured thus making the comparison of firm performance difficult (Lemmon and Lins 2003; Cheung *et al.*, 2007) which reduced the sample to 423 firms. In addition, following Lam and Lee 2012, companies whose financial year is different from March were also deleted from the sample. Finally, companies with incomplete information were also excluded from the sample. These sample criteria resulted in a final sample size of 365 companies, which accounted for 73 per cent of the BSE-500 Index.

Data Sources

The data for this study has been sourced from the corporate database (PROWESS) maintained by the Centre for Monitoring the Indian Economy (CMIE). Data regarding board characteristics was collected from the annual reports of the companies.

METHODOLOGY

Univariate analysis and multivariate analysis are both employed. For univariate analysis, descriptive statistics have been presented. T-test has been conducted to find out the significant difference between the means of small and large firms, insider-owned and outsider-owned firms, firms with large or small board and between old and young firms. Correlation matrix has been constructed to test for multicollinearity. In order to find out the influence of insider control and each of the corporate governance characteristics on the firm value, the fixed effect panel regression analysis (Cheng and Firth 2006; King and Santor 2008; Lam and Lee 2012) has been conducted. This was performed by controlling the effect of extraneous variables (firm specific characteristics) such as age, size financial leverage liquidity. The data-set in this study contains pooled observations on cross-section and time series data. To estimate such a pooled data model, we use the panel data techniques

which may be written as:

$$\text{Firm Value} = \beta_0 + \beta_1 (\text{Insider Ownership}) + \beta_2 (\text{Board Composition Variables}) + \beta_3 (\text{Control Variables}) + \varepsilon$$

where,

β_0 = represents the overall constant in the model;

$\beta_1, \beta_2 = k$ vectors of regressors;

$\varepsilon =$ are the error terms.

Description of Key Variables

Dependent Variable

Firm Performance is the dependent variable of inquiry in this study. Firm value is measured through two market-based and three accounting-based performance measures. The former comprises a proxy for Tobin's Q and the market to book ratio, while the later includes return on assets (ROA), return on capital employed (ROCE) and return on equity (ROE).

- (a) *Tobin's Q* is defined as the ratio of market value of equity and market value of debt to the replacement cost of assets. But in Indian context, calculation of Tobin's Q is difficult because corporate debts are not actively traded in the debt market. Again Indian companies report asset values at historical costs rather than at replacement costs. Hence, a proxy for Tobin's Q has been constructed which is defined as the ratio of market value of the firm to the book value of total assets, where the market value of the firm is measured by the sum of the market value of equity, book value of preferred stock and book value of debt. This similar 'Q' value measure to examine the relation between shareholder concentration and firm value in India has been used in similar studies by McConnaughy *et al.* (1998), Mishra *et al.* (2001), Sarkar and Sarkar (2000), and Mohanty (2001).
- (b) *Market to Book Ratio (MKT/BK)* is defined as the ratio of market value to book value of equity. The similar ratio has been used in studies by Cheng and Firth (2006), Lam and Lee (2012).
- (c) *Return on Assets (ROA)* is used to measure accounting profitability which can be used as a measure for firm performance. ROA is calculated as a ratio of profit before interest, tax, depreciation and amortization to total asset (Mishra *et al.*, 2001; Anderson and Reeb 2001; Chu 2009; Din and Javid 2011).
- (d) *Return on Capital Employed (ROCE)* is calculated as percentage of net income to capital employed, where capital employed is

calculated as sum of shareholder's funds and total borrowings (Chu 2009; Lam and Lee 2012).

- (e) **Return on Equity (ROE)** is calculated as the as percentage of net income to net worth, where net worth is calculated as sum of funds invested by equity shareholders and accumulated reserves (Martinez *et al.*, 2007; Din and Javid 2011; Lam and Lee 2012).

Independent Variables

For the purpose of the study, following variables are used as independent variables to determine their influence on the firm value :

Insider Ownership (INOWN) is the first independent variable. 'Insider' variable is defined as the percentage of insider holding in the firm. Insider holding means the shareholding by promoters and promoter groups in the firm's equity capital. The percentage of insider ownership is defined as the number of shares owned by insiders divided by the total number of shares outstanding and multiplied by 100. The above-mentioned criterion was used in previous studies by McConaughy *et al.* (1998), Mishra and McConaughy (1998), Mishra *et al.* (2001), Chang (2001), Phani *et al.* (2005) and Saravanan (2009).

Board Composition Variables are used to determine the relationship between insider ownership and board characteristics and their impact on the firm value. The board characteristics (as followed by similar studies like Dwivedi and Jain 2005; Jackling and Johl 2009; Kumar and Singh 2013) were used for the purpose of the study are :

- (a) **Board Size (BSIZE)** is calculated as the total number of directors on the board. The cessation of any director during the year and non-appointment against his position has been considered as vacant position.
- (b) **Proportion of Outside Directors on the Board (OUTSIDER)** is calculated as the number of non-executive directors divided by the total number of directors on the board. The coefficients expected sign is positive, i.e., the higher the proportion better would be the performance.
- (c) **Board Independence (BINDEP)** is calculated as percentage of independent directors on the board of directors. The coefficient's expected sign is positive, i.e., the higher the proportion, the more independent is the board in making decisions. This implies better company performance, measured by the Tobin's Q and ROA ratio.
- (d) **Grey Directors (GREY)** is calculated as the number of non-executive

non-independent directors divided by the total number of directors on the board.

Control Variables

In order to control, the other possible determinants of firm performance which are not captured by ownership variable and corporate governance characteristics are included as control variables. The control variables used in the study have been selected with reference to those employed in earlier empirical studies. So, firm specific characteristics such as age, size and financial leverage have been treated as control variables in the study.

Age : Age of the firm has an ambiguous effect a priori on firm value. As older firms give experience-based economies of scale-based on learning, they can enjoy superior performance compared to new comers and can avoid the liabilities of newness. However, older firms are prone to inertia, and rigidities in adaptability, which may lead to lower performance. Age has been measured as the log of number of years since inception to the date of observation (Randoy and Goel 2003; Anderson and Reeb 2001; Black *et al.*, 2003).

Firm Size : Firm size has been calculated as the natural log of the market capitalization. This variable is expected to have a positive coefficient as large, more diversified firms are likely to generate better performance of the firm (Mishra *et al.*, 2001; Lam and Lee 2012).

Financial Leverage (LEV) : This variable is measured by debt to equity ratio of the firms (Lam and Lee 2012). Debt in the capital structure is controlled because a firm's ownership structure may influence its performance (Srivastava 2011).

Limitations

The paper is subject to the following limitations :

1. The operational definition of insider control was made taking into account the percentage of shares held by promoters alone. Other definitions of insiders can be used for the purpose of future research.
2. Board composition could have been measured by using other variables also.
3. The validity of the results drawn primarily depends on the nature of the database.

RESULTS AND ANALYSIS

This section is divided into three subsections. Subsection 1 presents the

descriptive statistics of the sample companies and the difference of means tests. The results of correlation are presented in subsection 2 and regression analysis has been discussed in subsection 3.

Descriptive Statistics

This section presents the results of descriptive statistics. Table 1 reports the descriptive statistics for the sample firms. Included are the mean, median, standard deviation, and minimum and maximum values for the key variables in the analysis. The full sample comprises 1,095 firm year observations.

The descriptive statistics reveal that the insider ownership shows high variation with minimum and maximum value being 0 and 100 respectively, with average value (standard deviation) of 53.65 (20.32). It may be observed that the promoters of the companies with such high ownership right have controlling stakes. The sample includes young as well as old firms with respect to age. The age of the firms varies between 1 year to 141 years while the average age of firms is around 35 years. On an average the board size is 10.74 out of which 47.94 per cent of the directors are independent. The board size ranges from a minimum of 4 directors to a maximum of 26 directors.

Table 1

Descriptive Statistics

	Mean	Median	Std. Deviation	Minimum	Maximum
TOBINQ	2.0096	1.3560	2.51860	.24	46.19
MKTTOBOOK	4.4373	2.4700	12.03634	.27	264.87
ROA	.1494	.135	.15607	-3.48	1.84
ROCE	11.9843	9.93	25.89199	-594.00	217.41
ROE	16.3084	15.79	45.44907	-756.31	791.74
INOWN	53.65	52.91	20.321	0	100
BSIZE	10.74	10	3.171	4	26
OUTSIDER	75.6993	75	12.46917	6.25	100
BIND	47.94	46.154	11.16	9.1	90
GREY	3.02	3	1.820	0	11
AGE	35.14	26	24.544	1	141
LEV	.17	.127	.302	0	9
SIZE	10.5429	10.31	1.37004	7.75	15.07

The average percentage of outside directors is 75.69, and that of independent directors (BIND) on the board of companies is 47.94 per cent. This clearly reflects that the most of boards of companies are comprised of a majority of independent and non-executive directors. The average number of non-executive non-independent directors is 3.

The sample also includes large as well as small firms in respect of size i.e. in terms of market capitalization and net sales. The liquidity ranges from 0.15 times to 7.39 times. Debt level also varies from zero to 75 with an average of 18.67 per cent. It once again reinforces the wide variations that exist in our sample.

Difference of Means Test

Table 2 shows the difference of means test results for the groups of samples separated according to different criteria. Four criteria are used to sort all the sample firms into two groups, with their group means compared by using t-tests (Table 2). The first criterion used is separation of sample into two parts is firm size. The sample has been divided according to median of firm size i.e. the results show that average market to book ratio, ROA, ROCE and ROE of large companies is significantly higher than the small companies.

In Table 2, second criterion for the classification of sample is insider-ownership. The companies with promoter's stake of 53.65 (median value) or more are considered as insider-owned firms and rest companies are considered as outsider-owned. It has been noticed that the outsider-owned firms have significantly higher board independence (50.01 vis-à-vis 45.87), more of grey directors in the board, larger leverage (0.20 vis-à-vis 0.15) but smaller in size than the insider-owned firms.

The third criterion is as per board size. The entire sample has been segregated between two sub samples, smaller board (companies having board size less than 10, which is the median board size for entire sample) and larger board (companies having board size greater than or equal to 10). The results state that firms with large board size have greater ROA, ROCE and ROE than the firms with small boards. But percentage of independent directors is more in case of small board firms. The last criterion used is age of firm - old firms (with age of 26 years or more, which is median age for the entire sample) and the young firms (less than 26 years of age). It is clear from the results that young firms have small value of performance indicators but have more usage of debt in the capital structure and more stake of promoters in the ownership.

Table 2
Difference of Means Test

	Firm Size			INOWN		Board Size			Firm Age		
	Large	Small	t	Insider	Outsider	Large	Small	t	Old	Young	t
N	537	532		547	546	669	426		584	511	
TOBINQ	2.40	1.66	4.791	2.347	1.67	1.88	2.21	-1.93**	1.93	2.10	-1.13
MKTTBOOK	5.17	3.69	2.00**	5.74	3.099	4.26	4.72	-0.59	4.08	4.87	-1.06
ROA	0.15	0.14	2.12**	0.15	0.145	0.15	0.14	0.55**	0.15	0.13	1.98**
ROCE	14.60	9.170	3.60**	11.88	12.04	12.52	11.14	0.73**	14.35	9.27	3.24**
ROE	20.35	11.43	3.22**	17.54	15.01	17.24	14.83	0.70**	17.39	15.07	0.84
INOWN	51.58	57.99	5.63			53.22	54.34	-0.87	53.77	53.52	0.19**
BFSIZE	11.78	9.76	11.08	10.68	10.79				11.27	10.13	6.05
OUTSIDER	75.23	76.19	-1.25	74.06	77.29	75.20	76.47	-1.63	74.18	77.43	-4.34**
BIND	46.80	49.06	-3.30**	45.87	50.01	47.68	48.33	-0.91**	47.95	47.92	0.05
GREY	3.38	2.68	6.44	2.99	3.05	3.51	2.26	12.79	2.98	3.07	-0.82**
AGE	36.47	34.87	1.06	32.22	38.15	38.25	30.24	5.47			
LEV	0.16	0.17	-1.57**	0.15	0.20	0.17	0.17	0.19**	0.16	0.19	-1.89**
SIZE				10.73	10.34	10.85	10.03	10.67	10.68	10.37	3.84

Bivariate Correlation Analysis

The Pearson correlation was used to measure the degree of the linear association between independent and dependent variables. It was used to find how closely related two variables are (e.g., Board size and Tobin q). This relationship is assumed to be linear, and the correlation is a measure of how tightly clustered data points are about a correlation line. The correlation matrix defines the relationship between the explanatory variables and also with the dependent variable. It is also used as a tool to identify multicollinearity between the explanatory variables. Table 3 provides the correlation matrix for all the key variables in the analysis.

Table 3
Correlation Matrix

	INOWN	B Size	Outsider	Bind	Grey	Age	LEV	Size
INOWN	1							
BSIZE	-0.018	1						
OUTSIDER	-.135**	-.076*	1					
BIND	-.202**	-0.056	.237**	1				
GREY	0.016	.408**	.502**	-.484**	1			
AGE	-.063*	.122**	-0.051	0.035	-0.016	1		
LEV	-.104**	0.025	-0.002	0.031	-0.024	-0.051	1	
SIZE	.184**	.428**	-.069*	-.105**	.209**	.088**	-.092**	1

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

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

From the above Table it is observed that insider-ownership has significant negative association with outside directors on the board, board independence, financial leverage and size of the firm. Board size has significant positive association with number of grey directors, firm age and firm size whereas negative association with the outsiders on the board.

The matrix also indicated that board independence is negatively associated to grey directors and size of the firm but positively to outsiders. While the size of firm is also related positively to age and grey directors and negatively to leverage. But the correlation among the independent variables is not very high which indicates that the problem of multicollinearity does not exist between independent variables.

Multivariate Regression Analysis

By controlling other firm-specific characteristics which may have an effect on firm performance, the multiple regression analysis with the panel data provides the evidence of the relationship between board composition and firm performance and the moderating effect of insider ownership on it. Table 4 summarizes the results. Two market based performance indicators, i.e., Tobin's q and market to book ratio and three accounting based performance measure, ROA, ROCE and ROE are used as dependent variables.

Table 4
Panel Regressions of Insider Ownership, Board Composition and Firm Performance

	Market-Based Measures				Accounting-Based Measures					
	TOBINQ		MKTTOBOOK		ROA		ROCE		ROE	
	B	Sig	B	Sig	B	Sig	B	Sig	B	Sig
Constant	1.583	0.419	-21.26	0.051	0.318	0.000	8.374	0.010	43.64	0.524
INOWN	-0.019	0.081	0.014	0.124	-1.143	0.830	-0.277	0.101	-0.019	0.594
BSIZE	0.086	0.046	0.514	0.009	0.027	0.186	1.902	0.006	-1.229	0.416
OUTSIDER	-0.008	0.488	-0.035	0.498	0.047	0.397	0.069	0.7007	0.709	0.079
BIND	0.013	0.230	-0.030	0.952	-0.091	0.094	-0.204	0.256	-0.363	0.355
GREY	0.372	0.184	-0.147	0.907	-0.196	0.152	-5.271	0.241	-8.972	0.361
AGE	-0.157	0.000	-0.234	0.238	-0.061	0.004	-2.041	0.003	-3.019	0.048
LEV	0.987	0.000	2.782	0.441	-0.436	0.000	-37.23	0.000	-28.92	0.000
SIZE	0.712	0.000	2.941	0.000	0.011	0.009	1.391	0.329	6.785	0.029
R ²	0.874	0.889	0.911	0.673	0.503					
Adjusted R ²	0.804	0.827	0.862	0.492	0.228					
ANOVA's Sig	0.000	0.000	0.002	0.001	0.008					
Durbin-Watson	1.407	1.355	2.020	1.641	1.601					

Table 4 shows the multiple regression models representing the factors affecting the firm value by taking five models of panel regressions by employing fixed effects. Adjusted R^2 for the five models is quite high (varies from 0.228 to 0.862) which shows the variance of dependent variables explained by the independent variables. Auto-correlation has been checked with Durbin-Watson Statistic, which stated absence of auto-correlation. The results rejected the hypothesis H1. H1 has forecasted a negative association between board size and firm value. In contrast with many international studies, board size is positively correlated with firm value. Though it is negative in case of ROE (but it is insignificant) and is positive in all other measures. So, overall it can be said that H1 is rejected and board size is positively related to performance.

H_5 has also been rejected which stated that insider-ownership is positively-related to firm performance. In all the cases except market to book ratio, insider ownership exhibited negative impact on the firm performance.

Board independence shows significant negative impact in case of ROA. Presence of outsiders on the board reflected positive impact on ROE. Grey directors show negative impact on the performance (though not significant). The performance has also been affected by firm specific variables. Age and financial leverage has significant negative impact whereas firm size has significant positive impact on all the performance measures.

Overall, it can be concluded that firm performance has been positively affected by board size, presence of outsiders and firm size and negatively affected by insider ownership, firm age, financial leverage, board independence and presence of grey directors on the board. This suggested that a very close relationship exists between the board composition and the firm performance.

SUMMARY AND CONCLUSION

The study empirically analyses the relationship of board composition and promoter ownership and their effect on firm value for a sample of firms listed on the Bombay Stock Exchange of India. Although the performance implication of insider ownership has been an important research question in the financial economics and strategic management literature, conceptual studies often analyzed the ownership effect in general and found the mixed and inconclusive results, so the impact of shareholding by promoters is still unclear.

To clarify conflicting evidence on the relationship between composition, insider ownership and firm value, the study empirically analyzed panel of 365

firms of S&P BSE 500 listed at Bombay Stock Exchange of India over the period 2010-11 to 2012-13. It emerges from the data that insider ownership is extensive and substantial in India. On an average, insiders own 53 per cent stake in the total equity of the firm, while the highest stake of promoters has been observed to be 100 per cent in few firms, which highlights the importance of this topic for research.

Univariate analysis described significant differences in the characteristics of various firms. Two market-based and three accounting-based performance measures are considered for the robustness of results. Some results of the study are quite revealing. The recent Indian studies (Dwivedi and Jain, 2005; Kathuria and Dash, 1999) and ours find a negative association between board size and firm value, while some studies (Ghosh, 2006; Kota and Tomar, 2010) report a positive association. It is important to note that the present corporate governance structure (Clause 49) was mandated for all companies in the year 2005, and non-executive and independent directors were introduced on the company boards. It has been found that board independence and grey directors have negative impact on the performance while the presence of outsider directors has positive impact on the performance (in contrast with Kumar 2013).

We find a significant negative association of promoter ownership with firm performance. The regression results suggest that firms with high ownership concentration of promoters have low market valuations. The study contributes to existing literature on corporate governance on board composition and insider ownership. The outcome of research gives firm support to the agency theory, that high ownership has more alignment effect resulting in reduced agency cost. One of the important empirical considerations taken in our study is the moderating effect of firm size on board performance. The study investigates insider ownership, particularly that of promoters, on firm value. Thus it can be concluded that board composition and insider ownership have significant impact on the firm value.

DIRECTION FOR FUTURE RESEARCH

In the present study S&P BSE 500 has been used, other indices can be used for more comprehensive results. Period and sample of the study can be extended to draw more meaningful conclusions. Broad-based industry-wise comparison and cross country analysis can be conducted. Other ownership variables like ownership of directors, managers and their families can be used as proxy for insiders. In addition to Tobin' Q, other market-based measures such as price earnings

ratio, excess stock returns and earning per share, EVA etc. can be used as indicators of firm value.

While the independent effects of promoter family control and corporate governance characteristics on the firm value are analyzed, it is quite possible that the firm value might significantly be different if interaction effects between these two variables are considered. Perhaps, future researchers can consider this issue of dissecting the independent and interaction effect of these variables in explaining the effect on firm value.

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