INDEPENDENT VERSUS FAMILY FEMALE EXECUTIVES AND FIRM PERFORMANCE

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Having more women in relevant positions makes firms "more innovative, more competitive, less conflictive and they enjoy a better work environment"

Joan Rosell, President of CEOE

(Spanish Confederation of Employer's Organisation)

SUMMARY

- Introduction
- Aim of the study
- Theoretical background and hypotheses
- Methodology, sample, data
- Main results and conclusion

INTRODUCTION

Gender Equality Act, 2007

Reform of the Spanish Companies Act (law 31/2014) to improve corporate governance

New Good Governance Code (2015)

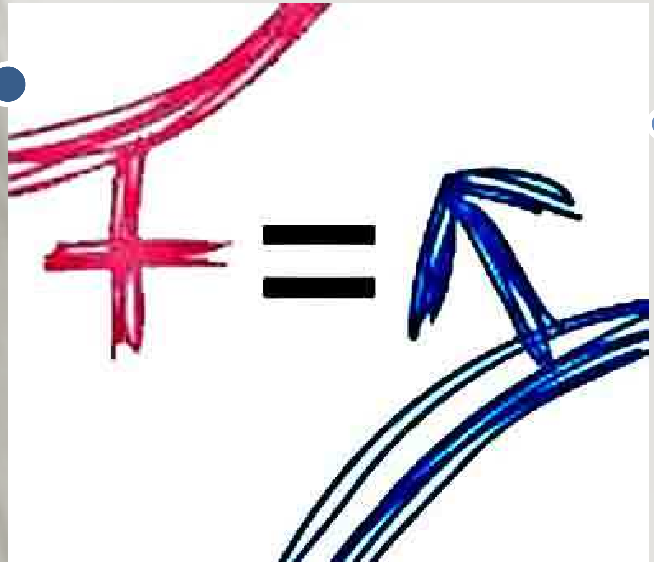
INTRODUCTION

Gender equality in high management positions is about:

- A matter of **social justice**: eliminating all forms of discrimination is beneficial to society as a whole.

- An **economic issue**: the absence of women is a loss of talent for companies.

50%

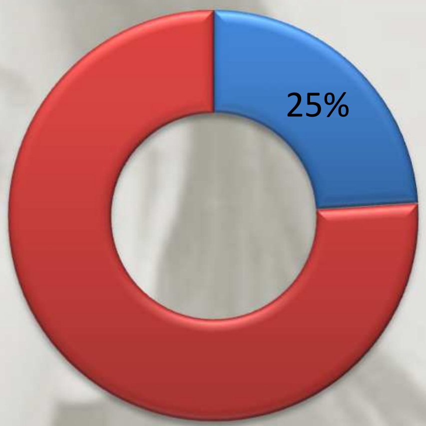


20%

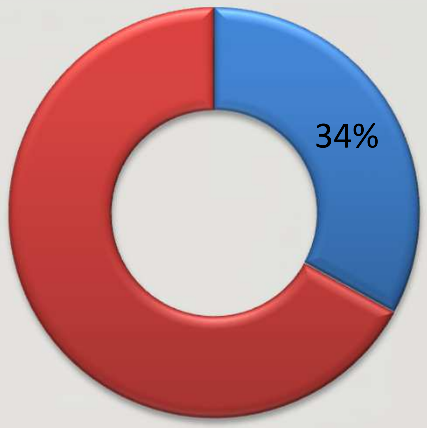
INTRODUCTION

Leadership diversity around the world

It is highly revealing that:



25% of managerial positions are occupied by women



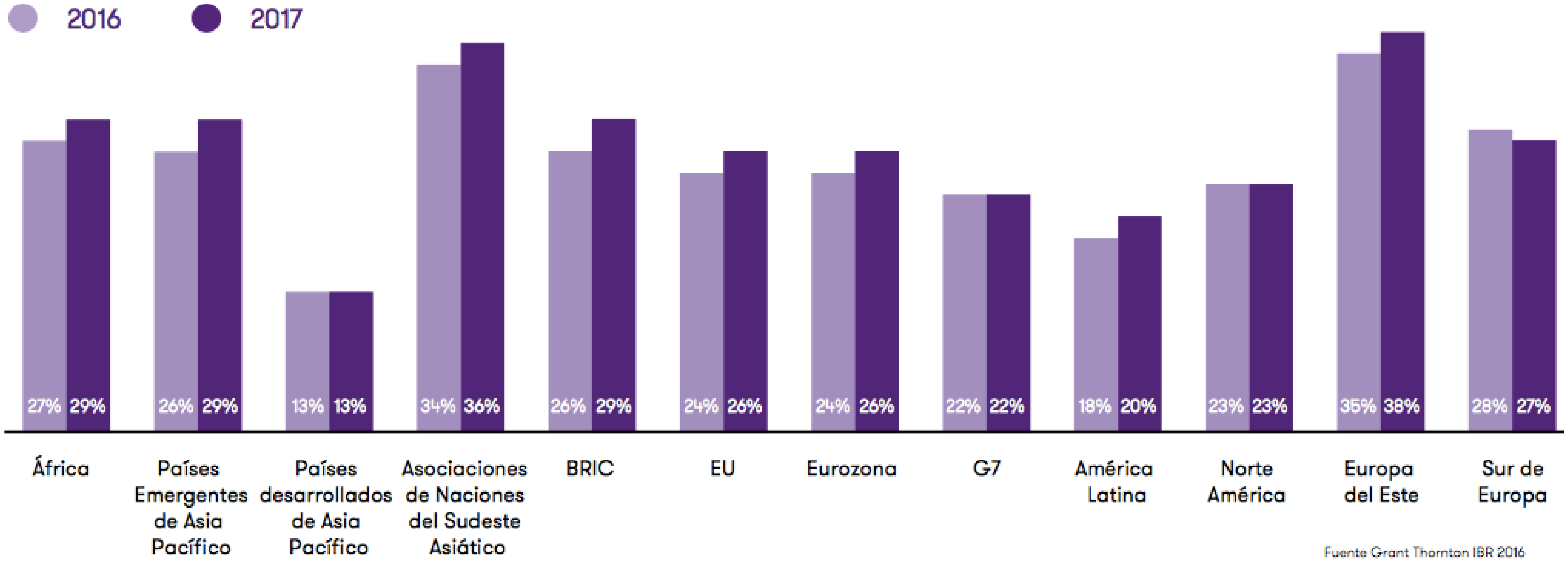
34% of all firms do not have any female managers

Grant Thornton IBR 2016

INTRODUCTION

Women's representation on boards in the European large and listed companies amounts to only 26%

Women on boards :



Source: Grant Thornton IBR 2016

INTRODUCTION

Why Family Firms?

INTRODUCTION

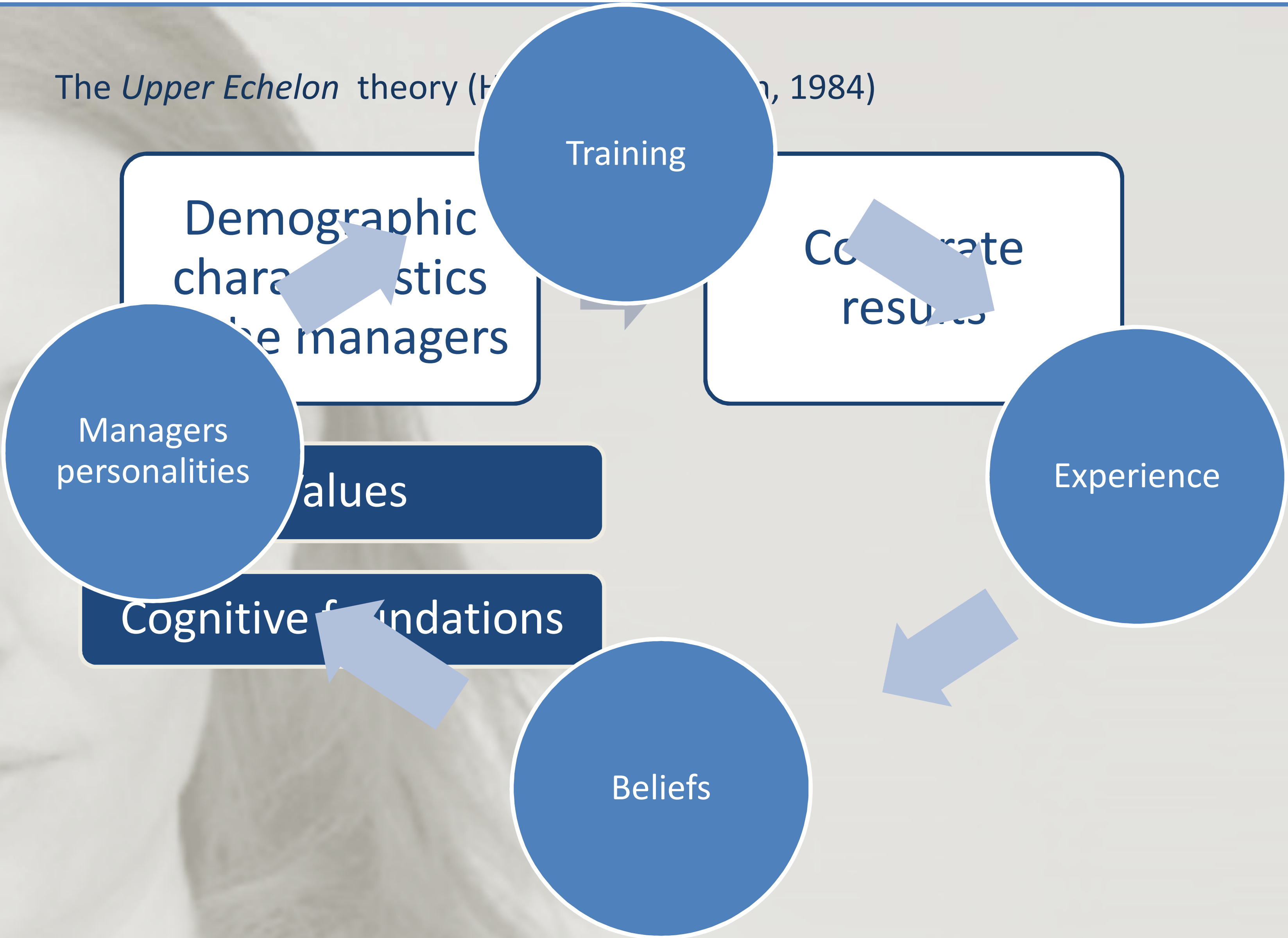
- Family Businesses account for two thirds of European companies. Generate between 50 and 80% of employment in most European Countries.
- Family firms have a higher ratio of executive women. (Mateos et al., 2006; Rodríguez & Rodríguez, 2011)
- PWC, 2016 (268 interviews in 31 countries) found that:
  - Nearly 60 percent of all family-owned businesses have women in TMT positions
  - 30% of the women have a seat on the board, which is noticeably higher than the global average for public companies

AIM OF THIS STUDY

To analyse the relationship between company performance and the presence of executive women taking into account whether they belong to the owner family.

THEORETICAL BACKGROUND & HYPOTHESES

The *Upper Echelon* theory (H n, 1984)

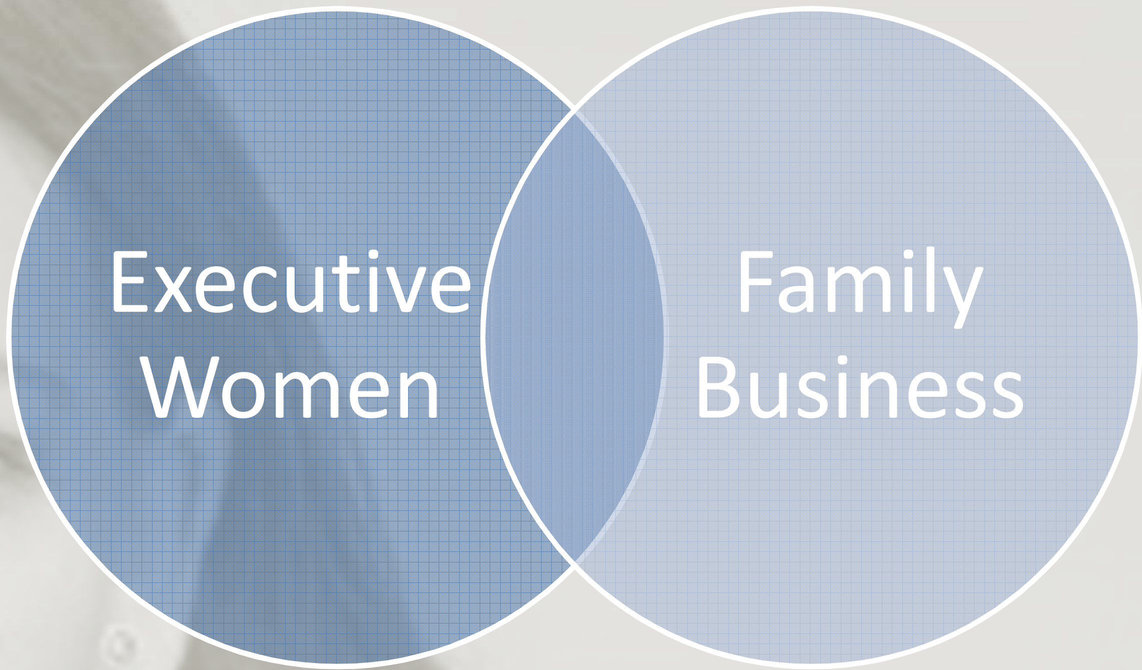


THEORETICAL BACKGROUND & HYPOTHESES

Enfoque *Upper Echelon* (Hambrick & Mason, 1984)

- Age
- Tenure
- Education
- *Familiness*
- Heterogeneity
- Gender

THEORETICAL BACKGROUND & HYPOTHESES



THEORETICAL BACKGROUND & HYPOTHESES

What is the exectuvie women's contribution?

- Heterogeneity
- Participative leadership
- Flexibility
- Image

THEORETICAL BACKGROUND & HYPOTHESES

Executive women ⟷ Results

POSITIVE RELATIONSHIP

- Shrader et al, 1997
- Francoeur et al, 2008
- Krishnan and Park, 2005
- Dezso and Ross, 2012

NON-SIGNIFICANT

- Gallego –Álvarez et al, 2010

POSITIVE MODERATION

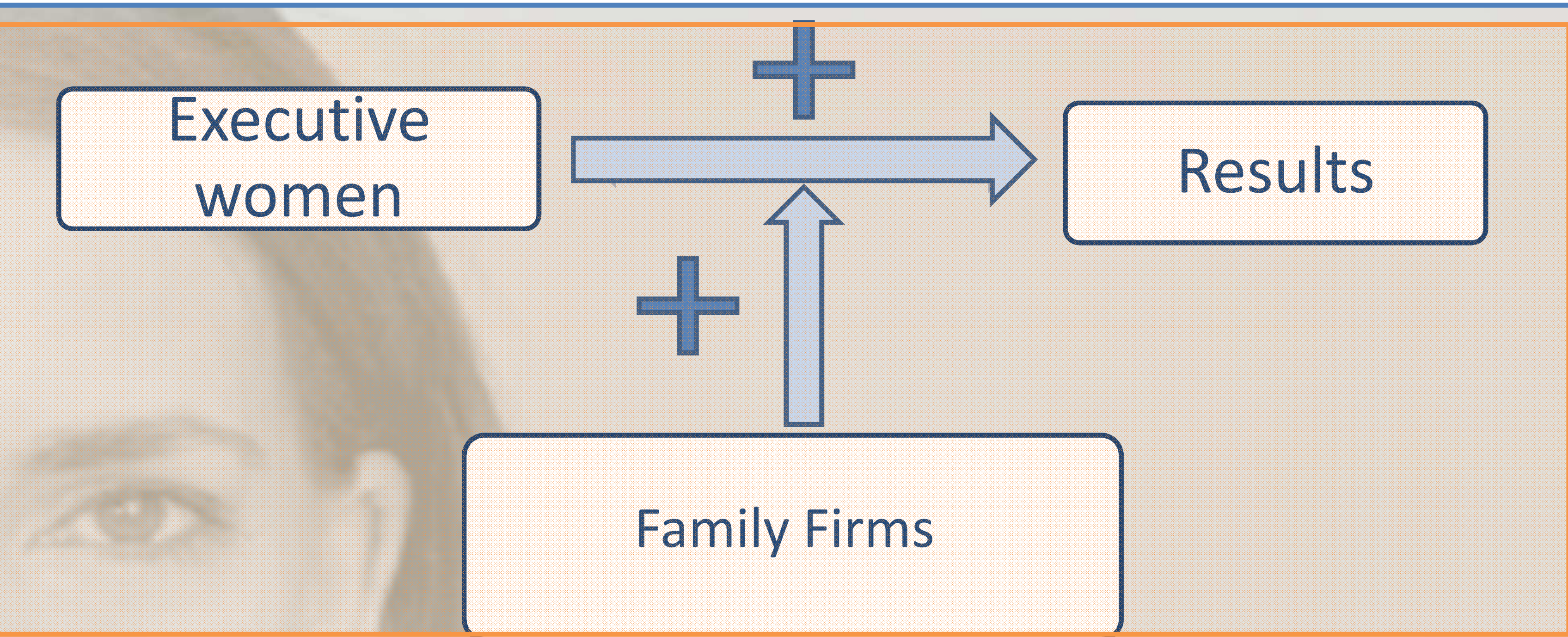
- Ruiz-Jiménez et al, 2016

THEORETICAL BACKGROUND & HYPOTHESES

H1: Executive Women → Results

THEORETICAL BACKGROUND & HYPOTHESES

H2:



FAMILY FIRMS INVOLVE:

- Family businesses offer women opportunities that other businesses do not.
- Better positions, higher income, more flexibility in work schedules more job security (Salganicoff, 1990)
- The more executive women, the greater the likelihood that other women will assume leadership roles. (Lyman et al, 1985)

THEORETICAL BACKGROUND & HYPOTHESES

RELATED TO WOMEN

To what extent does the selection of **family members guarantee** a good performance?

Could **family ties be a deterrent** to the total performance of female executives?

THEORETICAL BACKGROUND & HYPOTHESES

- The Upper Echelon research in family business has mainly focused on studying familiness on TMT and its effects on performance (Minichilli et al., 2010; Stewart and Hitt, 2012; Miller et al., 2013).

- While ***familiness*** has traditionally been proposed as a source of competitive advantage, generating firm wealth and value creation, family firms are far from being exempt from problems (Gómez-Mejía et al, 2007; Berrone et al, 2012)

- Family business owners may want family members in management positions to exercise **greater control and influence** over operational decisions. Bellow (2003) reveals a problem of **nepotism**. Montemerlo et al (2013) point out that **it is easier for women who are family members to reach managerial positions.**

- De Mott (2008) argues that **intra-family conflicts could distract** a family member from maximizing performance.

THEORETICAL BACKGROUND & HYPOTHESES

Control and Influence

Traditional Roles

Nepotism

Intra-Family Conflicts

THEORETICAL BACKGROUND & HYPOTHESES

H3: Family Female Executives $\xrightarrow{-}$ Results

THEORETICAL BACKGROUND & HYPOTHESES

- Research about non-family executives is scarce (Miller et al, 2014), limited to CEO.
- We consider that the existence of competence will benefit firm performance.
- Not biased selection processes.
- All in all, non-family executives are **more economically driven** and have **greater objectivity in setting goals** (absence of family business survival bias); Berrone et al, 2012; Gómez-Mejía et al, 2007.
- Feeling of **belonging to the business**, not to the family system (Eddleston & Kellermanns, 2007; Kellermanns & Eddleston, 2007)

THEORETICAL BACKGROUND & HYPOTHESES

H4: Independent Female Executives → Results

Methodology, Sample and Data

- DATA: Companies were chosen from the database of the *Spanish High Council of Chamber*; once the firms were identified, the *System for Analysis of Iberian Balances* was used in order to complete information.

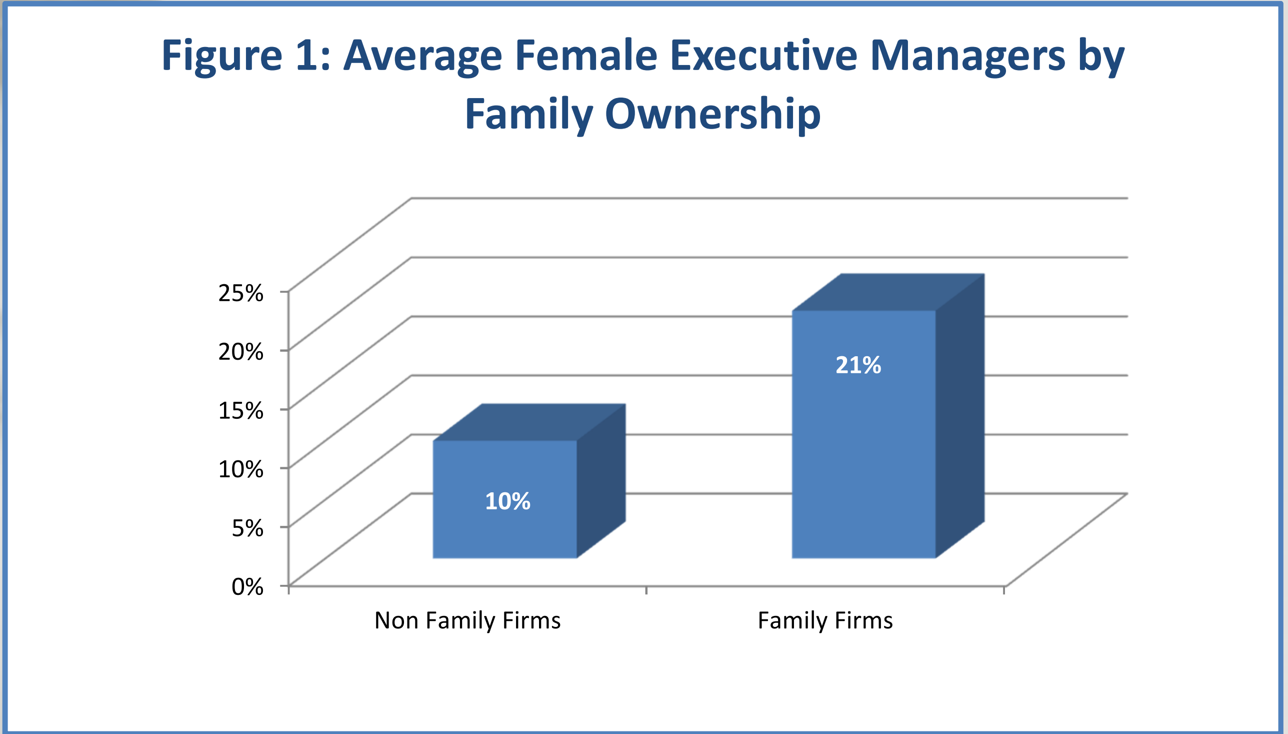
- SAMPLE: After removing firms with missing values the sample consists of 287 family and non-family companies for twelve years (2000 a 2011) comprising a panel with 3,444 observations.

Methodology, Sample and Data

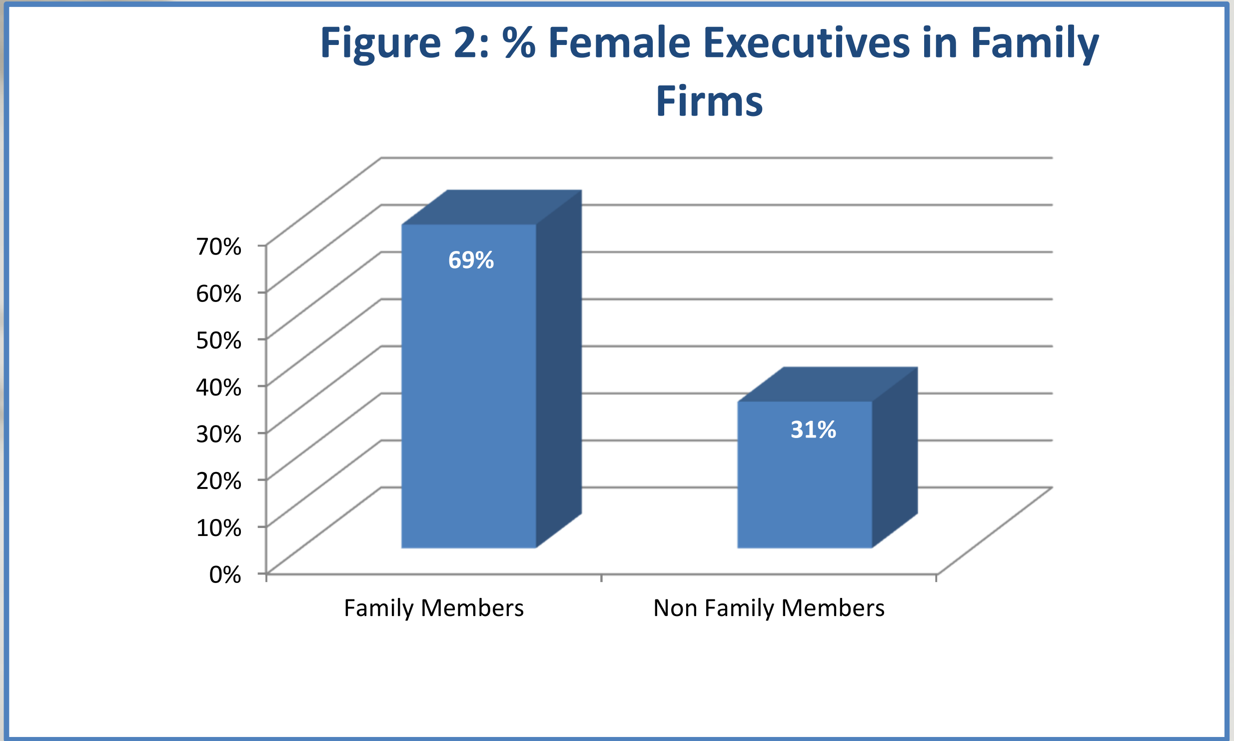
Variable	Notation	Mean	Median	St. Deviation	Minimum	Maximum
Return on Assets	ROA	3.43218	3	15.66620	-324	221
Female Executive Managers	FEX	0.16305	0	0.36947	0	1
Family Ownership	FAM	0.59920	1	0.49013	0	1
Family Female Executives	W1	0.09962	0	0.29953	0	2
Non-Family Female Executives	W2	0.06412	0	0.26094	0	2
Ownership Concentration	OC	61.76163	51	28.24151	0	100
Firm Size	LSALES	13.70022	15	3.62488	1	21
Leverage Ratio	LEVER	59.63502	61	25.28672	0	258
Firm Age	AGE	21.81346	20	13.31246	0	91

Variables: Return on Assets (ROA): Earnings before taxes divided by total asset. Female Executive Managers (FEX): Variable indicating if there are women as executives or not. It was given a value of 1 if there is at least one executive woman and 0 otherwise. Family Ownership (FAM): Dichotomous variable that equals 1 if it is a family owned firm and 0 otherwise. Family Female Executives (W1): Number of female executives on TMT in family businesses with family ties. Non-Family Female Executives (W2): Number of independent (non-family) executive women on TMT. Ownership Concentration (OC): Percentage of shares held by the main shareholder. Firm Size (LSALES): Logarithm of sales volume. Leverage Ratio (LEVER): Long Term Debt / Total Assets. Firm Age (AGE): Number of years a firm has been in existence.

Methodology, Sample and Data



Methodology, Sample and Data



Methodology, Sample and Data

Variable	Description	Notation	Expected sign
Dependent Variable			
Return on Assets	Earnings before taxes divided by total assets	ROA	
Explaining Variables			
Female Executive Managers	Dummy variable indicating if there are female executive managers	FEX	+
Family Female Executives	Number of family executive women on TMT in family businesses	W1	-
Non-Family Female Executives	Number of independent (non-family) executive women on TMT in family businesses	W2	+
Control Variables			
Family Ownership	Dichotomous variable that equals 1 if it is a family owned firm, and 0 otherwise	FAM	+
Firm Age	Years since the firm's foundation	AGE	+
Leverage ratio	Long term debt / Total assets	LEVER	-
Firm Size	Natural logarithm of sales as a proxy to firm size	LSALES	+
Ownership Concentration	Percentage of shares owned by the main shareholder	OC	+/-
Industrial Sector	Eight dummy variables to indicate the sector to what the firm belongs	$SECTOR_i$	+/-

Methodology, Sample and Data

Model 1: In the first model we test the influence of female executives on the performance of the firm, expecting a positive effect.

$$ROA_{it} = \beta_0 + \beta_1 \times FEX_{it} + \beta_2 \times FAM_{it} + \beta_3 \times AGE_{it} + \beta_4 \times LEVER_{it} + \\ + \beta_5 \times LSALES_{it} + \beta_6 \times OC_{it} + \beta_7 \times OC_{it}^2 + \sum_{8}^{15} \beta_i \times SECTOR_{it} + \eta_i + d_k + v_{ik}.$$

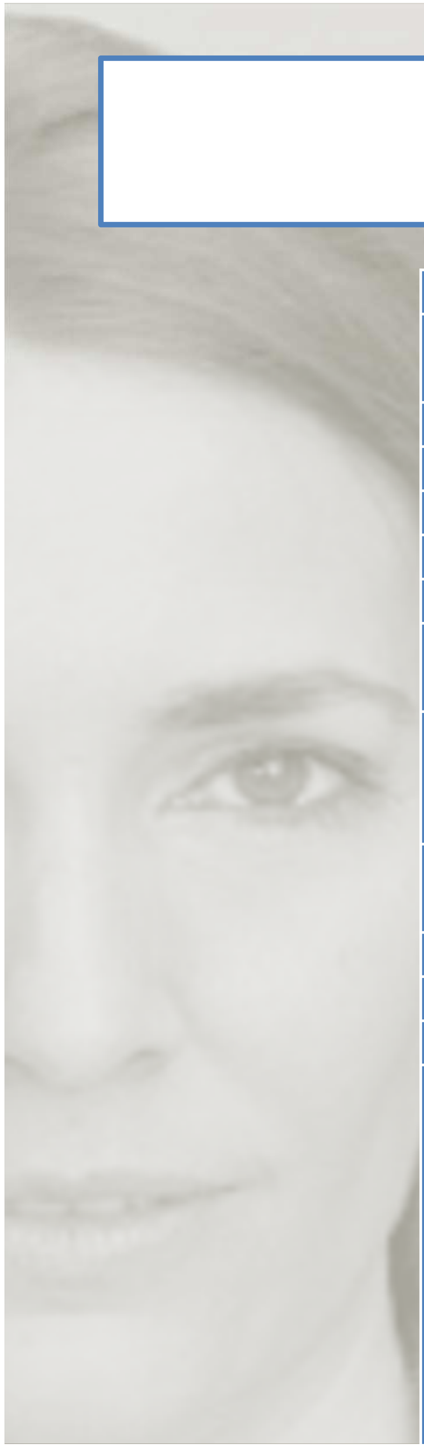
Model 2: Moderation exerted by family firms is contemplated in the second model. We expect a positive moderation.

$$ROA_{it} = \beta_0 + \beta_1 \times FEX_{it} + \beta_2 \times FAM_{it} + \beta_3 \times FEX\_FAM_{it} + \beta_4 \times AGE_{it} + \beta_5 \times LEVER_{it} + \\ + \beta_6 \times LSALES_{it} + \beta_7 \times OC_{it} + \beta_8 \times OC_{it}^2 + \sum_{9}^{16} \beta_i \times SECTOR_{it} + \eta_i + d_k + v_{ik}.$$

Methodology, Sample and Data

Model 3: In model 3 we select only family firms to test the importance of family ties with the owner family on firm performance. This new sample consists of(171 companies and 1881 observations).

$$ROA_{it} = \beta_0 + \beta_1 \times W1_{it} + \beta_2 \times W2_{it} + \beta_3 \times AGE_{it} + \beta_4 \times LEVER_{it} + $$
$$+ \beta_5 \times LSALES_{it} + \beta_6 \times OC_{it} + \beta_7 \times OC_{it}^2 + \sum_{8}^{15} \beta_i \times SECTOR_{it} + \eta_i + d_k + v_{ik}.$$



RESULTS

NOTATION	VARIABLES	Model 1	Model 2
FEX	Female Executive Managers	**3.2199****	**5.86138****
FAM	Family Ownership	**5.47286****	**5.02401****
FEX_FAM	Family moderation		**-3.76461**
AGE	Age of the Firm	-0.0724972	-0.08674*
LEVER	Leverage ratio	-0.20236***	-0.20954
LSALES	Logarithm of Sales	0.46863**	0.50708**
OC	Ownership Concentration	0.0897	0.07764
OC2	Ownership Concentration Squared	-0.0005	-0.00048
m2	Serial Correlation Test of Second Order	-0.55	-0.54
Hansen	Hansen Test	201.24(230)	208.54(248)
z_1	Wald Test	134.51(15)***	149.95(16)***
z_2	Wald Test	53.24(8)***	57.65***(8)

Notes:***, **, * denote significance at 1%, 5% and 10% levels, respectively.

Variables: Female Executive Managers (FEX): Variable indicating if there are women as executives or not. It was given a value of 1 if there is at least one executive woman and 0 otherwise. Family Ownership (FAM): Dichotomous variable that equals 1 if it is a family owned firm and 0 otherwise. Firm Age (AGE): Number of years a firm has been in existence. Leverage Ratio (LEVER): Long Term Debt / Total Assets. Firm Size (LSALES): Logarithm of sales volume. Ownership Concentration (OC): Percentage of shares held by the main shareholder. Industrial Sector ($Sector_i$): Eight dummy variables to indicate the sector to

RESULTS

NOTATION	VARIABLES	Model 3
W1	Family Female Executives	**-0.33857**
W2	Non-Family Female Executives	**1.47698****
AGE	Age of the Firm	-0.03292***
LEVER	Leverage ratio	-0.02536***
LSALES	Logarithm of Sales	0.04676**
OC	Ownership Concentration	-0.03118
OC2	Ownership Concentration Squared	0.00012
$SECTOR_0$	Dummy variables to indicate the sector to which the firm belongs	-2.72736
$SECTOR_1$		0.49166
$SECTOR_2$		0.91577
$SECTOR_3$		0.40576
$SECTOR_4$		0.88235
$SECTOR_5$		1.50752
$SECTOR_6$		1.77396
$SECTOR_7$		3.55546
m2	Serial Correlation Test of Second Order	0.10
Hansen	Hansen Test	141.78(196)
z_1	Wald Test	188.93(15)***
z_2	Wald Test	28.16(8)***

Notes:***, **, * denote significance at 1%, 5% and 10% levels, respectively.

Variables: Family Female Executives (W1): Number of female executives on TMT in family businesses with family ties. Non-

CONCLUSION

H1: Model 1 exhibit a positive relationship between executive women (FEX) and firm performance, which is also statistically significant at 5%. So we cannot refuse that the **presence of executive women enhances the performance of the firm**. The positive relationship between female executives and firm performance is confirmed.

These results are consistent with most of the extant literature (Smith et al. 2006; Dezso and Ross, 2012). Female leadership and its characteristics seem to report better economic benefits: the companies of the sample benefit of the advantages provided by gender diversity in management teams.

Besides, there is a collateral interesting result, which is **that family firms outperform their non-family counterparts**. There is no consensus in the literature with respect to this issue. (Pindado y Requejo, 2015).

CONCLUSION

H2: The interaction is not significant, so we do not find empirical evidence to support this hypothesis. **We cannot confirm that family firms positively moderates the relationship between female executives and the results.**

This is not surprising since corporate governance in family firms is not a simple issue (Miller et al. 2014). In addition, there is no academic consensus regarding family firms and higher performance. That is why it becomes necessary a deeper analysis in the role of executive women in family businesses.

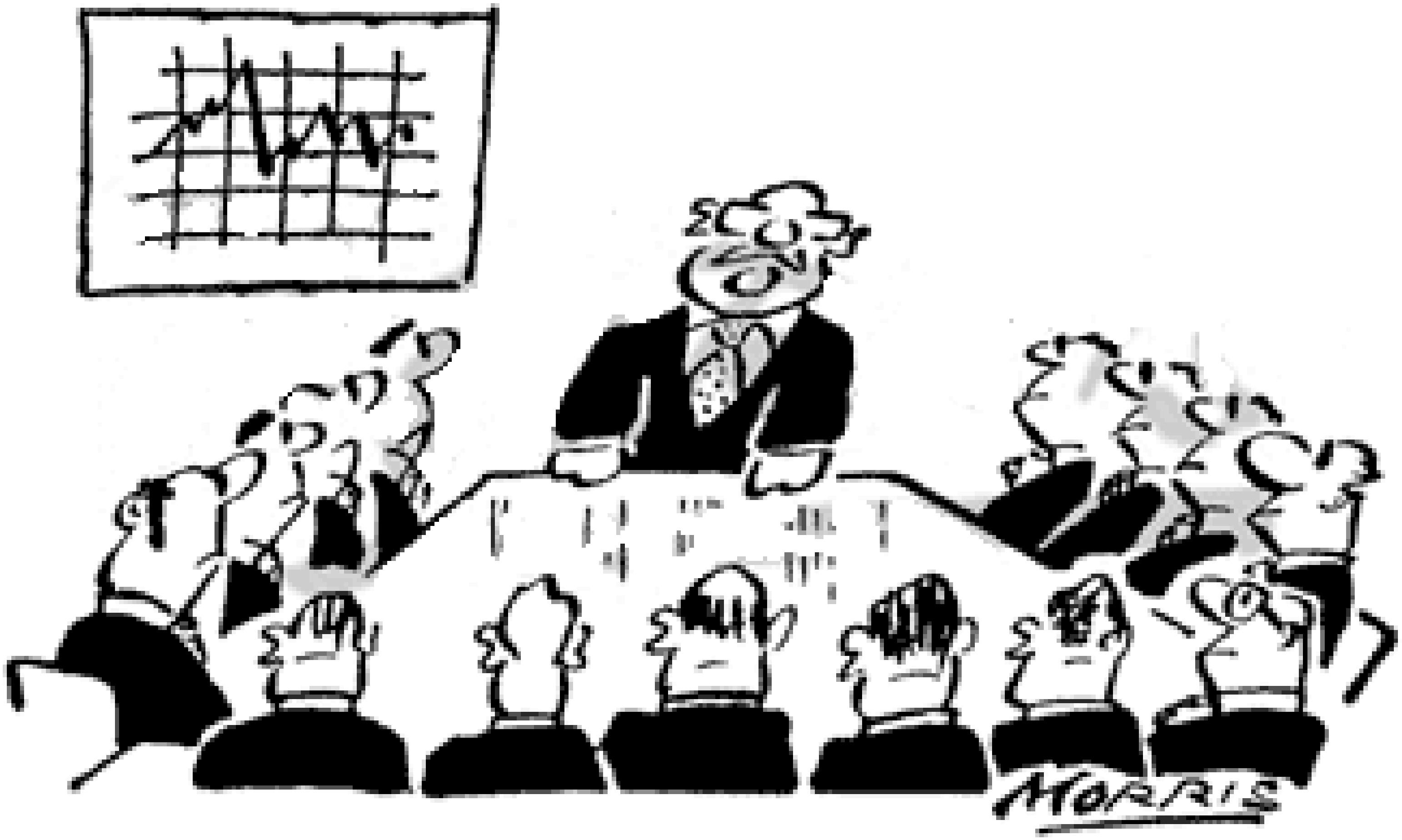
Hypotheses 3 and 4 come to offer a first approach to this problem.

CONCLUSION

H3: We do not find statistically significant evidence regarding family female executives, although the sign is negative. **Family executive women do not exert statistical effect on firm performance, whereas the results are quite different for independent female executives in family firms**.

H4: Hypothesis 4 is confirmed. **Executive women who work in family businesses but do not belong to the owner family exert a positive influence on organizational results.**

These results could indicate that there may be **agency conflicts related to family female executives in family** firms that should be taken into consideration on future research.



"It's about time we had a few women on this board. So, at our next meeting my wife will be joining us."