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NON-RESIDENT FAMILY MEMBERS AND THE FINANCIAL PERFORMANCE OF SMALL BUSINESSES IN INDIA

Amarjit Gill*, Harvinder S. Mand**, John D. Obradovich***

Abstract

Recent literature in small business management suggests that small businesses are financially constrained. They also face challenges of poor financial performance, which leads to their failure. Literature also shows that family involvement improves small business performance. We asked research participants consisting of small business owners from India about their beliefs and perceptions regarding the relationship between non-resident Indian family members (NRIs), financial support from NRIs, internal financing sources, and the financial performance of small businesses. Results indicate that the involvement of NRIs as foreign directors, financial support from NRIs, and internal financing sources improve the financial performance of small businesses in India. Firms with NRIs are more likely to perform better than without NRIs. Moreover, the influence of NRIs on the financial performance of small businesses is higher in the service industry than the manufacturing industry.

Keywords: Non-Resident Indians; Financial Support; Internal Financing Sources; Corporate Governance; Foreign Directors; Financial Performance

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1. Introduction

It is commonly agreed that small businesses are financially constrained (Joeveer, 2013) and face the challenges of poor performance; therefore, it is important to find ways by which financial challenges can be minimized and financial performance of small business firms improved to minimize their failure rates. The Indian provision of Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006, classifies the Micro, Small, and Medium Enterprises (MSMEs) into two categories, manufacturing and services (Lahiri, 2012).

Small businesses initially are either sole proprietorships, or partnerships. Even though these firms continue to operate as either sole proprietorships or partnerships, the majority of these small businesses are passed on to descendants or to non-family members (the voting majority usually remaining in the hands of family members), so anyone with a financial interest in these small businesses is called a shareholder (Gill et al., 2014). On that basis, small

businesses are characterized as a firm in which these shareholders belong to the same family (who either live in the same country or abroad) and participate substantially in the management, direction, and operation of their firms. Thus, using this shareholder model, in a small business, the control tends to be in the hands of the family; including the founders, who pass on their business to their descendants. Continuing to label the owners as shareholders, small businesses are companies in which one family or more than one family, linked by kinship, close affinity, or solid alliances holds a sufficiently large share of risk capital to enable the family to make decisions regarding strategic management (Gulzar and Wang, 2010).

In Asian countries, families have unique values, history, culture, background, unwritten rules, and communication methods that families use to direct, manage, and control small businesses (Gulzar and Wang, 2010; Rouf, 2011). Thus, family members who live abroad participate in the governance of small businesses over the telephone, provide financial

support to small businesses, and visit India from time to time to make important decisions with the consultation of members of the board of directors who are, in the majority of cases, from the same family. Although previous studies showed that family involvement improves financial performance of small businesses (Kim and Gao, 2013), none of the studies showed the impact of non-resident family members on the financial performance of small businesses; therefore, this study addresses this gap in the literature by showing the impact of non-resident Indian family members (*NRI*s) on the financial performance of small businesses. The definition of *NRI*s, in the context of this study, is family members who live abroad, provide financial support, act as foreign members of the board of directors, and are involved in decision making related to small businesses.

Previous studies on the role of foreign independent directors in firm performance (Masulis, Wang and Xie, 2012) and the role of family involvement in small business performance (Kim and Gao, 2013) failed to show the impact of non-resident family members (who are also members of the board of directors) on the financial performance of small businesses. Since *NRI*s live abroad, we classify them as foreign directors. This leads to following research questions:

Does the presence of NRIs on the board of directors improve the financial performance of small business firms?

Do internal financing sources built with the financial support of NRIs improve the financial performance of small businesses?

Do the small businesses that have the presence of NRIs on the board of directors perform better than the small businesses that do not have the presence of NRIs?

This research study proposes that the involvement of *NRI*s has a strong impact on the financial performance of small business firms. This is because *NRI*s are involved in decision making by acting as foreign directors and providing financial support to minimize financial challenges required for the operations of small businesses. Our results suggest that the presence of *NRI*s enable small businesses to perform better than small businesses without *NRI*s. Thus, empirical results of this study support the hypotheses that the financial performance of small businesses improve through the involvement of *NRI*s directly and indirectly. The present study contributes to the small business performance literature.

The organization of the remainder of the paper is as follows. Section two examines the previous literature and develops hypotheses. Section three describes the data and methodology used to investigate our research questions. Section four discusses and analyzes the empirical results. Section five concludes and considers the implications of the findings.

2. Literature Review

Previous studies noted the relationships between family involvement, new venture debt financing, and small business success (Chua et al., 2011) but ignored the role of non-resident family members who play an important role in small business performance by providing financial support and by serving on the board of directors. The findings of Kim and Gao (2013) suggested that although family involvement in management has no direct effect on the firm performance, the relationship between family involvement and firm performance is more positive when a firm's support for family-longevity goals is higher versus lower. The findings of Brenes, Madrigal, and Requena (2011) suggested that a board made up of non-family and family members results in a balance that is very important to dynamic operations which leads to improvement in small business performance.

The agency theory of Jensen and Meckling (1976), which focused on the function of the board, serves as the basic foundation of the structure of the board of directors in small business firms (Fama and Jensen, 1983; Hillman and Dalziel, 2003). Based on agency theory, agency conflict (i.e., conflict between principal and agent) takes place in corporations because managers may not work in the best interests of shareholders to make 'corporate assets' productive and to maximize shareholders' wealth. Therefore, including foreign independent directors on the board of directors can be an effective instrument for monitoring senior managers and addressing the agency problem and reducing agency costs (Fama and Jensen, 1983; Arosa, Iturralde and Maseda, 2010) in publicly traded firms.

However, the agency problem in small businesses is insignificant because family members control the majority of small businesses and they can increase the benefits of the agency agreement between owners and managers (Schulze et al., 2003). According to agency theory, the main contribution of independent directors is their ability to remain independent while overseeing operating matters, protecting the assets of the firm, and holding managers accountable to the firm's various key stakeholders to ensure the future survival and success of the enterprise (Gabrielsson and Huse, 2005). Similar to agency theory, the contribution of *NRI*s can be in the form of participation in important board decisions to protect the assets of the small business firms.

Another foundation of the structure of the board of directors is the stewardship theory of Donaldson and Davis (1991) which indicated that the motives of employees should align with the objectives of the corporation to pursue the interests of the shareholders (Davis et al., 1997). Stewardship theory also indicates that the main role of the board of directors is to advise and support management by acting as stewards rather

than to discipline and monitor as agency theory prescribes (Corbetta and Salvato, 2004; Pieper et al., 2008; Arosa, Iturralde and Maseda, 2010). *NRI*s, acting as stewards, function as foreign and outside directors (independent and affiliated). They provide advice in aligning the interests of managers (who in the majority of cases are family members) with the small business organizations and support the board of directors in making important governance decisions to improve the prosperity and survivability of the small businesses. Thus, stewardship theory offers an alternative explanation for the relationship between *NRI*s and firm performance. Arregle et al. (2007) also argued that family members are sincere about the firm because it is part of their collective patrimony and is often the main asset of the family. In addition, both the agency theory and the stewardship theory indicate that independent directors exert a positive influence on firm performance, although the role of the board of directors is different in each theory.

Arosa, Iturralde and Maseda (2010) argued that under agency theory, independent directors monitor and control insiders and/or the family; and under stewardship theory, independent directors provide valuable outside advice and counsel to the firm. Therefore, both theories apply to the role of *NRI*s in the board of directors as foreign independent directors. Stewardship theory indicates that independent directors exert positive influence on firm performance (Anderson and Reeb, 2004). The findings of Arosa, Iturralde and Maseda (2010) also indicated that affiliated directors have a positive influence on firm performance in small business firms.

Literature also indicates that foreign directors can be less effective because of geographic distance and time constraints. Other challenges include being cut off from local networks and business duties (Coval and Moskowitz, 1999), time zone differences, security concerns, and lack of knowledge about the country's accounting rules, laws and regulations, governance standards, and management methods (Masulis, Wang and Xie, 2012). Based on these challenges, one may argue that foreign directors (*NRI*s in this case) may not be very adept at monitoring the effectiveness of the corporation, can lead to greater agency problems between managers and shareholders, and lead to diminished firm performance.

CEO duality is a common characteristic for leadership in small businesses and takes place when one person holds the positions of Chairman of the Board and CEO or, at least, is responsible for the duties usually associated with those positions. Other family members, including *NRI* family members, serve as members of the board of directors to curb agency problems related to CEO duality as described by Fama and Jensen (1983). Curbing agency problems enhances small business performance. Thus, CEO duality helps in improving the performance of

small businesses and in fact, it leads to better firm performance than does separate executive leadership (Gill et al., 2014).

Small businesses often have a smaller board size, usually between two to four members (Gill et al., 2014). Amran and Ahmad (2009) argued that firms with smaller board sizes consistently make better decisions, which in turn, lead to better performance relative to firms with the duality of leadership structure. The responsibilities of the board of directors include, but are not limited to, making strategic decisions to mitigate business risk, lowering the cost of capital, and improving the performance of the firm. According to Masulis, Wang and Xie (2012), foreign directors contribute to and improve firm performance and shareholder value through their advisory role to make strategic decisions. In small businesses, foreign directors strengthen corporate governance, which in turn has a positive impact on the performance of the firm. Previous studies found that stronger corporate governance had a positive influence on firm performance. For example, Kajola (2008) found positive relationships between board size, CEO duality, and firm performance. The findings of Jackling and Johl (2009) supported the findings of Kajola (2008) in that larger board size positively influences firm performance in India. Most recently, Gill et al. (2014) found that stronger corporate governance positively influences the performance of small businesses in Canada.

*NRI*s not only contribute to sound decisions related to small business firms, but also inject equity capital into small businesses, which in turn, helps in building internal financial resources. It is clear from the findings of The Press Trust of India (2011) that *NRI*s invest funds in the Indian economy. Kroll and Cohen (2013) indicated that small enterprises suffer from limited access to equity and debt markets. Therefore, small businesses tend to rely more on internal financing sources than external financing sources. Internal sources of funding include funds from family members (including *NRI*s) and external sources of funding include debt capital arranged by borrowings from banks, friends, and other private financing sources (Gill et al., 2012). Moreover, small firms are financially constrained (Joeveer, 2013), are associated with higher volatility (Bottazzi, Secchi, and Tamagni, 2014), have low access to bank loans (Canton et al., 2013), and face tighter pricing terms and conditions (Drakos, 2013). Therefore, internal financial resources provided by *NRI*s and generated by retained earnings are among the most important resources of the small businesses that help improve performance.

Internal financing sources generated by small business owners and their family members follow the "pecking order" theory of finance developed by Myers (1984), which stated that firms use internally generated funds in the form of retained earnings before turning to external sources. Yusuf (1995)

found that initial investment and on-going access to financial resources are among the most important factors that affect success in small-scale businesses. Mallick and Yang (2011), by taking a sample of 11,000 firms from 47 countries over a period of 1997-2007, found that retained earnings improve firm performance.

In summary, the theoretical foundation of this study starts with the agency theory of Jensen and Meckling (1976) and the stewardship theory of Donaldson and Davis (1991). *NRI*s serving as foreign independent directors assist board members (who are family members in the majority of cases) in formulating corporate policies that help monitor managers to mitigate agency problems and to reduce agency costs. *NRI*s, in the context of stewardship theory, play the role of stewards for their family to provide advice in aligning the interest of managers with the small business organization, and support the board of directors in making important governance decisions to improve the prosperity and survivability of the small business firm. Thus, both agency theory and stewardship theory form the theoretical foundation of this study. *NRI*s not only contribute in board decisions but also inject equity capital into the small business firms through financial support to build internal financing sources, which in turn, improve the financial performance of small businesses. Therefore, it is theorized that the presence of *NRI*s on the board of directors and the financial support from *NRI*s to increase internal financial resources positively affect the financial performance of the small businesses in India. Hence, it is hypothesized:

H1: The higher the presence of NRIs on the board of directors, the better the financial performance of small businesses.

H2: The financial support of NRIs improves the financial performance of small businesses.

H3: Firms with NRIs perform better than the firms without NRIs.

3. Methodology

3.1 Research Design

We collected sample data to examine our hypotheses by conducting a survey among small business owners in Punjab, a state that is located in the northwest of India. These participants are mainly from Punjab and its surrounding areas including Ludhiana, Malerkotla, Bathinda, Raikot, Banga, Hoshiar Pur, Kaputhala, Phagwara, Jalandhar, and Sahid Bhagat Singh Nagar. We selected Punjab rather than other states of India for several critical reasons. First, a large number of residents from Punjab are living or have lived abroad for many years, and they usually maintain strong home ties compared to non-residents from other parts of India (Varrel, 2012). Second, most Punjabi non-residents are engaged in self-owned businesses

overseas compared to other non-resident Indians, and thus are capable of guiding their family members in India.

Since the whole population is “abstract” (i.e., it is not possible to obtain a list of all members of the focal population), a non-probability (purposive) sample was constructed. In a purposive sample, screening of participants takes place for inclusion based on criteria associated with members of the focal population (Huck, 2008). To obtain a reasonable sample size, we compiled an extensive list of small business owners’ names and telephone numbers to distribute surveys and to conduct telephone interviews. The sample included approximately 700 research participants encompassing Indian small business owners. We eventually collected responses from a total of 152 (21.71%) interviewees over the telephone, through personal visits, and by mail. We were successful in conducting 17 personal interviews with *NRI*s in Canada and USA, and their family members in India who operate small businesses. We discarded two of the survey responses due to inconsistency and incomplete answers. Common method bias does not appear to be a problem with this study because, although self-reported, we measured our variables objectively. Moreover, a factor analysis (e.g., Podsakoff and Organ, 1986) indicated that common method bias does not seem to be a concern for this study in terms of reliability or validity.

3.2 Variables and Their Measurements

We selected several variables common to similar studies. Further, we limited the total number of variables due to the relatively small sample size and for our convenience of conducting surveys over telephone. To collect raw data for constructing the variables, we designed the survey questions in such a way that respondents felt comfortable disclosing some information with confidentiality. For instance, rather than asking for a disclosure of actual sales revenue in recent years, we provided three individual ranges of sales, such as, total sales of (i) INR 0 – INR 600,000; (ii) INR 600,001 – INR 900,000, and (iii) more than INR 900,000 to construct the relevant variable. Therefore, we based most of the variables discussed below on ordinal responses.

Financial performance. The definition of financial performance (*FP*) for the purposes of this study is small business owners’ general perception about the changes in net profit margin, return on investment, cash flow from operations, and market value of their small businesses. Following the definition, we selected four separate components to measure the *FP* index. In the survey, we asked all participants to rate the extent to which they believe there are changes in (i) net profit margin, (ii) return on investment, (iii) cash flow from operations, and (iv) market value of their small businesses. Their responses were categorized on a five-point Likert Scale assigning 5 as “Gone up a lot” and 1 as “Gone

down a lot". Responses were initially collected for each of the above four sources of financial performance. The four measures are highly correlated with correlation values ranging from 0.85 to 0.87. Therefore, we constructed a new index by using principal component analysis (PCA). The FP index was constructed using the first component which explains approximately 87.36% of the variation.²

Non-resident Indians. Non-resident Indians (*NRI*) is measured as a categorical variable where *NRI* = 1 if any family member of micro-entrepreneurs lives outside India. Alternatively, *NRI* = 0 if none of their family members reside overseas. *NRI* is the key independent variable in the empirical model.

Financial support from non-resident Indians. Financial support from non-resident Indians (*FS*) is measured as a categorical variable where *FS* = 1 if a small business receives financial support from *NRIs*. Alternatively, *FS* = 0 if a small business does not receive financial support from *NRIs*.

Internal financing sources. Internal financing sources (*IFS*) measures small business owners' capacity to invest his or her personal and family assets into his or her own small business. Respondents were asked to rate the extent to which they perceive that they have adequate funds from either personal savings (*IFS1*) or family wealth (*IFS2*). This response is categorized on a five-point Likert scale, defining five as very adequate and one as very inadequate. The correlation between *IFS1* and *IFS2* is 0.83 (not reported). Thus, a new index (*IFS* index) is constructed based on the first principal component of the two factors: that is, *IFS1* and *IFS2*.³

Board size. Board size (*BS*) is a categorical variable where *BS* = 1 if a small business had four or more directors. Alternatively, *BS* = 0 if a small business had three or less directors. We created two dummy variables based on this information for empirical analyses. For example, we created a dummy variable, *BS1* if the firm had three or less directors and *BS2* if the firm had four or more directors.

CEO duality. CEO duality (*CD*) is a dummy variable with assigned value of 1 if a small business owner/operator is both CEO and Chair of the same company, or 0 otherwise.

Board meetings. Board meetings (*MT*) is a categorical variable where *MT* = 1 if a small business had 13 or more board meetings per year. Alternatively, *MT* = 0 if a small business had 12 or less board meetings per year. We created two dummy variables based on this information for empirical analyses. For example, we created a dummy variable, *MT1* if the firm had 12 or less board meetings per year and *MT2* if the firm had 13 or more meetings per year.

Small business owner experience. A small business owner's years of experience, (*EXP*) is a categorical variable. During the survey, respondents selected any one of the four alternative choices, such as, 1 = 4 or less than 4 years; 2 = 5-9 years; 3 = 10-30 years; and 4 = 31 years and above. Following the responses, we created four separate dummy variables including *EXP1*, *EXP2*, *EXP3*, and *EXP4*, respectively. As an example, we defined *EXP1* as a dummy variable that is equal to one if an owner of a small business has experience of zero to four years, otherwise it is zero.

Education. The education of the small business owner (*EDU*) is a dummy variable with an assigned value of 1 if a small business owner had master's degree or higher, otherwise it is 0.

Firm size. Firm size (*SIZE*) is a categorical variable. In the survey, we identified three different firm sizes as follows: (i) firms with sales from INR 0 to INR 600,000, (ii) firms with sales from INR 600,001 to INR 900,000, and (iii) firms with sales above INR 900,000. During the survey, respondents choose only one category where the average sale of their business belongs. For empirical analyses, we identified these responses as three separate dummy variables. For instance, if sales lie between INR 0 and INR 600,000, we defined a dummy variable, *SIZE1*, equal to 1, and 0 otherwise. Likewise, *SIZE2* (*SIZE3*) is another dummy variable that is equal to 1 if company's sales are within the range of INR 600,001 and INR 900,000 (\geq INR 900,000), 0 otherwise.

Number of employees. Number of employees (*EMP*) is a categorical variable. Five choices are given in the survey including one if the number of employees is between 0 and 4, two for employees between 5 and 9, three for the range of 10 and 30 employees, four for employees between 31 and 99, and five for employees equal to or above 100. We created five dummy variables based on this information for empirical analyses. For example, we created a dummy variable, *EMP1*, if employee range lies in the first employee group of 0 and 4 employees. Following the definition of each category of number of employees, we created the other four dummy variables, *EMP2*, *EMP3*, *EMP4*, and *EMP5*.

Industry. We distinguished all small businesses under two broad categories: manufacturing and services. Accordingly, we created two industry-specific dummy variables, *IND1* and *IND2*. By definition, *IND1* (*IND2*) are equal to 1 if a firm belongs to the manufacturing (services) sector, and zero otherwise. By including *IND* dummy, we also control for industry fixed effects in empirical models.

4. Analysis and Discussion of Empirical Results

4.1 Empirical Model

NRIs improve the financial performance of small businesses by serving on the board of directors and by providing financial support. Thus, *NRIs* play an important role, both directly and indirectly, in the improvement of financial performance of small

² The eigenvalues of the four principal components are 3.494, 0.234, 0.155, and 0.117, respectively. Factors that have eigenvalues greater than one are included in the construction of the component (Kaiser, 1960).

³ The eigenvalues of the first and second principal components are 1.830 and 0.170, and the corresponding variances are 91.517% and 8.483%, respectively. As a result, *IFS* index is constructed using the first component.

businesses in India. We therefore examined the relationship between *NRI* and *FP*. *NRI* is considered as a main explanatory variable in *FP*. We considered all other variables as individual control variables. We estimated the following basic model:

$$Y_i = \alpha_0 + \alpha_1.NRI_i + \sum \delta_{ij}X_{ij} + \varepsilon_{it} \quad (1)$$

In the model, *i* refers to individual small business, Y_i is *FP* of firm *i*, and X_{ij} represents individual control variables (*j*) corresponding to firm *i*. ε_{it} is a normally distributed disturbance term. In the estimated model, α_1 measures the magnitude at which the presence of non-resident Indians help small businesses in improving *FP* relative to other companies without non-resident Indians. We extend this model by considering a different set of control variables one at a time. We estimated the coefficient of variables of the model by applying ordinary least squares (OLS) method.

4.2 Descriptive Data Analysis

In the dataset, most of the variables, except *FP* and *IFS* indices, are individual dummy variables. The data exhibits that the distribution of both *FP* and *IFS* is almost symmetrical around their mean values and thus there is no outlier present in either of these indices. We examined the differences in variables among individual firms with and without non-resident Indian relatives.

We found that financial performance is significantly higher among small businesses with non-resident Indians. As an example, the mean *FP* score

among firms with *NRI*s is 0.39 compared to -0.56 in the case of firms without *NRI*s, and their differences are significant at the one percent level. Likewise, the mean *IFS* among firms with *NRI*s is greater than that of firms without *NRI*s (0.28 versus -0.41). This is because small businesses receive financial support from *NRI*s.

We further observed that small businesses with *NRI*s, large board size, CEO duality, and a higher number of board meetings are able to maintain a high level of financial performance. Likewise, average years of small business owner's experience are higher among those firms that have *NRI*s compared to other firms that do not have *NRI* support. Finally, the results exhibited that firms with *NRI*s are a little larger in size than the firms without *NRI*s. However, the impact of *NRI*s on financial performance differs between service and manufacturing industries.

The correlation coefficient matrix exhibits that *NRI*, *FS*, *IFS*, and *FP* are positively and significantly correlated ($\rho_{NRI, FP} = 0.468$; $\rho_{FS, FP} = 0.388$; $\rho_{IFS, FP} = 0.475$, all significant at the one percent level), implying that firms with *NRI*s, financial support from *NRI*s, and high internal financing sources improve the financial performance of small businesses in India.

Further, the results show a positive relationship between large board size and *FP* ($\rho_{BS, FP} = 0.387$), CEO duality and *FP* ($\rho_{CD, FP} = 0.496$), higher number of board meetings and *FP* ($\rho_{MT, FP} = 0.327$), education and *FP* ($\rho_{EDU, FP} = 0.274$), firm size and *FP* ($\rho_{SIZE, FP} = 0.266$), and number of employees and *FP* ($\rho_{EMP, FP} = 0.433$), all significant at one percent.

Table 1. Descriptive Statistics

	Mean	Std. Deviation	Minimum	Median	Maximum
FP1) Δ Net profit margin	3.75	0.91	1	4	5
FP2) Δ Return on investment	3.73	1.00	1	4	5
FP3) Δ Cash flow	3.95	1.02	1	4	5
FP4) Δ Total market value of small business	3.72	0.96	1	4	5
IFS1) Personal financial resources	3.51	0.90	1	4	5
IFS2) Family financial resources	3.86	1.04	1	4	5
NRI	0.59	0.49	0	1	1
FS	0.24	0.43	0	0	1
BS1	0.82	0.38	0	1	1
BS2	0.18	0.39	0	0	1
CD	0.85	0.36	0	1	1
MT1	0.90	0.30	0	1	1
MT2	0.10	0.30	0	0	1
EXP1	0.23	0.42	0	0	1
EXP2	0.35	0.48	0	0	1
EXP3	0.01	0.12	0	0	1
EXP4	0.33	0.47	0	0	1
EDU	0.33	0.47	0	0	1
SIZE1	0.11	0.32	0	0	1
SIZE2	0.25	0.44	0	0	1
SIZE3	0.63	0.48	0	1	1
EMP1	0.56	0.50	0	1	1
EMP2	0.25	0.43	0	0	1
EMP3	0.19	0.39	0	0	1
IND	0.33	0.47	0	0	1

Notes: Variables include Financial performance of small business (FP), Non-resident Indians (NRI), Financial support from NRIs (FS), Internal financial sources (IFS), Board size (BS), CEO duality (CD), Number of board meetings per year (MT), CEO experience (EXP), Education (EDU), Firm size (FS), Number of employees (EMP), and Industry dummy (IND).

Table 2. Comparison of Firms with and without NRIs

Variable	With NRIs	Without NRIs	Mean Difference
FP	0.39	-0.56	0.95***
FP1) Δ Net profit margin	4.08	3.26	0.82***
FP2) Δ Return on investment	4.12	3.15	0.97*
FP3) Δ Cash flow	4.28	3.46	0.82***
FP4) Δ Total market value of small business	4.06	3.23	0.83
IFS	0.28	-0.41	0.69***
IFS1) Personal financial resources	3.76	3.15	0.61**
IFS2) Family financial resources	4.12	3.48	0.64***
FS	0.40	0.00	0.40***
BS1	0.75	0.92	-0.17**
BS2	0.25	0.08	0.17**
CD	0.92	0.75	0.17***
MT1	0.85	0.97	-0.12**
MT2	0.15	0.03	0.12**
EXP1	0.16	0.33	-0.17
EXP2	0.37	0.31	0.06**
EXP3	0.02	0.00	0.02
EXP4	0.36	0.30	0.06
EDU	0.38	0.26	0.12
SIZE1	0.06	0.20	-0.14**
SIZE2	0.21	0.31	-0.10
SIZE3	0.73	0.49	0.24**
EMP1	0.42	0.77	-0.35***
EMP2	0.30	0.16	0.14*
EMP3	0.28	0.05	0.23***
IND	0.42	0.21	0.21**

Notes: Variables include Financial performance of small business (FP), Non-resident Indians (NRI), Financial support from NRIs (FS), Internal financial sources (IFS), Board size (BS), CEO duality (CD), Number of board meetings per year (MT), CEO experience (EXP), Education (EDU), Firm size (FS), Number of employees (EMP), and Industry dummy (IND). ***, ** and * imply significance of each mean difference at the 1%, 5%, and 10% level, respectively.

Table 3. Correlation Table

	FP	NRI	FS	IFS	BS1	BS2	CD	MT1	MT2	EXP1	EXP2
FP	1										
NRI	0.468***	1									
FS	0.388***	0.465***	1								
IFS	0.475***	0.337***	0.318***	1							
BS1	-0.387***	-0.211***	-0.184**	-0.245***	1						
BS2	0.387***	0.211***	0.184**	0.245***	-1.000***	1					
CD	0.496***	0.232***	0.145	0.250***	-0.194**	0.194**	1				
MT1	-0.327***	-0.185**	-0.177**	-0.259***	0.191**	-0.191**	-0.075	1			
MT2	0.327***	0.185**	0.177**	0.259***	-0.191**	0.191**	0.075	-1.000***	1		
EXP1	-0.445***	-0.200**	-0.081	-0.096	0.088	-0.088	-0.406***	0.021	-0.021	1	
EXP2	0.062	0.061	0.115	-0.072	-0.023	0.023	0.144	0.056	-0.056	-0.394***	1
EXP3	0.028	0.096	0.207**	0.071	-0.097	0.097	0.048	0.039	-0.039	-0.063	-0.085
EXP4	0.151	0.067	-0.099	0.089	0.074	-0.074	0.173**	0.047	-0.047	-0.383***	-0.515***
EDU	0.274***	0.125	0.099	0.147	0.000	0.000	0.093	-0.141	0.141	-0.146	0.050
SIZE1	-0.404***	-0.218***	-0.152	-0.346***	0.058	-0.058	-0.268***	0.049	-0.049	0.409***	-0.128
SIZE2	0.000	-0.111	-0.040	-0.166**	0.034	-0.034	-0.018	0.092	-0.092	0.051	0.123
SIZE3	0.266***	0.243***	0.136	0.378***	-0.068	0.068	0.193**	-0.115	0.115	-0.315***	-0.027
EMP1	-0.501***	-0.351***	-0.382***	-0.512***	0.319***	-0.319***	-0.254***	0.287***	-0.287***	0.127	-0.032
EMP2	0.216***	0.159	0.113	0.287***	-0.134	0.134	0.150	0.036	-0.036	-0.088	0.006
EMP3	0.433***	0.292***	0.372***	0.329***	-0.265***	0.265***	0.150	-0.411***	0.411***	-0.096	0.046
IND	0.051	0.211***	0.199**	0.237***	-0.037	0.037	0.093	-0.141	0.141	-0.079	0.079
	EXP3	EXP4	EDU	SIZE1	SIZE2	SIZE3	EMP1	EMP2	EMP3	IND	
EXP3	1										
EXP4	-0.082	1									
EDU	0.041	-0.080	1								
SIZE1	-0.042	-0.164**	-0.164**	1							
SIZE2	-0.068	-0.152	-0.054	-0.208**	1						
SIZE3	0.088	0.245***	0.157	-0.470***	-0.766***	1					
EMP1	-0.014	0.028	-0.085	0.317***	0.177**	-0.368***	1				
EMP2	0.068	0.055	-0.077	-0.205**	-0.156	0.275***	-0.646***	1			
EMP3	-0.056	-0.085	0.206**	-0.171**	-0.043	0.151	-0.540***	-0.274***	1		
IND	0.041	-0.020	0.190**	-0.208**	-0.379***	0.479***	-0.313***	0.120	0.278***	1	

Notes: Variables include Financial performance of small business (FP), Non-resident Indians (NRI), Financial support from NRIs (FS), Internal financial sources (IFS), Board size (BS), CEO duality (CD), Number of board meetings per year (MT), CEO experience (EXP), Education (EDU), Firm size (FS), Number of employees (EMP), and Industry dummy (IND). ***, ** and * imply significance of each mean difference at the 1%, 5%, and 10% level, respectively.

4.3 Regression Results and Discussion

Table 4 reports the estimated coefficients of Equation 1. We find that firms with non-resident Indians perform better compared to those without NRIs. As shown in model specification I, the coefficient of NRI is 0.950, significant at the one percent level. In the following model specifications, we include a set of control variables one at a time. For instance, in model specification II, we include financial support from NRIs (FS) and firm's internal source of financing (IFS), and then we include BS, CD, and MT2 in model specification III and so forth. Regardless of individual model specifications, we find a significant and positive coefficient of NRI, suggesting that firms with NRIs perform better compared to those without NRIs. This finding remains robust when we consider all control variables together (refer to model specification IV).

The results exhibit that financial support from NRIs, board size, CEO duality, and higher number of board meetings per year improves the financial performance of small business. The findings show that as firm's size increases, financial performance of the small business improves. Increase in size of a

small business signals positive growth. In model specification IV, the coefficient of EXP4 is 0.308, significant at the five percent level. Likewise, the evidence shows that education level of small business owners and increases in the number of employees improve the financial performance of small businesses. As an example, the coefficient of EDU in model specification IV is 0.383, significant at the five percent level. The findings in appendix B show that education and experience of NRIs and their financial support and participation in the board decisions improve the financial performance of small businesses in India.

Table 4 also shows the coefficient of NRI is 1.080 and 0.690, significant at the one percent level in the service and manufacturing industries respectively (refer to model specification I in service and manufacturing industries). In model specification II of the service industry, we find a significant and positive coefficients of NRI, IFS, CD, EXP4, EDU, SIZE2, and EMP3; in specification model II of the manufacturing industry, we find a significant and positive coefficients of BS2, CD, MT2, SIZE2, SIZE3, EMP2, and EMP3. These findings suggest that small

business service firms with *NRI*s perform better compared to those manufacturing firms with *NRI*s.

Table 4. Effects of *NRI*s on Financial Performance

Variables	Overall Results				Service Industry		Manufacturing Industry	
	I	II	III	IV	I	II	I	II
<i>NRI</i>	0.950*** (6.44)	0.583*** (3.71)	0.403** (2.92)	0.317** (2.54)	1.080*** (6.14)	0.392** (2.56)	0.690** (2.37)	0.004 (0.02)
<i>FS</i>	- (-)	0.348* (1.94)	0.286* (1.84)	0.246* (1.67)	- (-)	0.344 (1.60)	- (-)	0.149 (0.73)
<i>IFS</i>	- (-)	0.331*** (4.58)	0.201** (3.08)	0.098 (1.51)	- (-)	0.183** (2.23)	- (-)	-0.051 (-0.46)
<i>BS2</i>	- (-)	- (-)	0.461** (2.91)	0.427** (2.93)	- (-)	0.306 (1.51)	- (-)	0.459** (2.07)
<i>CD</i>	- (-)	- (-)	0.946*** (5.51)	0.702*** (4.31)	- (-)	0.602** (3.06)	- (-)	1.356*** (4.33)
<i>MT2</i>	- (-)	- (-)	0.521** (2.58)	0.399** (2.09)	- (-)	0.310 (1.02)	- (-)	0.565* (1.94)
<i>EXP2</i>	- (-)	- (-)	- (-)	0.137 (0.98)	- (-)	0.157 (0.90)	- (-)	-0.075 (-0.34)
<i>EXP3</i>	- (-)	- (-)	- (-)	-0.207 (-0.44)	- (-)	0.217 (0.31)	- (-)	-0.496 (-0.77)
<i>EXP4</i>	- (-)	- (-)	- (-)	0.308** (2.12)	- (-)	0.332* (1.79)	- (-)	0.117 (0.50)
<i>EDU</i>	- (-)	- (-)	- (-)	0.383** (3.35)	- (-)	0.456** (2.85)	- (-)	0.032 (0.17)
<i>SIZE2</i>	- (-)	- (-)	- (-)	0.471** (2.40)	- (-)	0.356* (1.69)	- (-)	2.023** (2.25)
<i>SIZE3</i>	- (-)	- (-)	- (-)	0.471** (2.30)	- (-)	0.353 (1.53)	- (-)	2.070** (3.10)
<i>EMP2</i>	- (-)	- (-)	- (-)	0.383** (2.63)	- (-)	0.149 (0.76)	- (-)	0.705** (3.06)
<i>EMP3</i>	- (-)	- (-)	- (-)	0.610** (3.31)	- (-)	0.694** (2.57)	- (-)	0.785** (2.97)
<i>IND</i>	- (-)	- (-)	- (-)	-0.477*** (-3.68)	- (-)	- (-)	- (-)	- (-)
Constant	-0.563** (-4.96)	-0.429*** (-3.96)	-1.250*** (-7.65)	-1.705*** (-8.83)	-0.439* (-1.75)	-3.903*** (-5.79)	-0.439* (-1.75)	-3.903*** (-5.79)
Obs	150	150	150	150	50	50	50	50
χ^2 -test	41.53***	26.14***	26.10***	16.60***	5.61**	8.04***	5.61**	8.04***
R^2	0.219	0.349	0.523	0.650	0.105	0.7639	0.105	0.7639
Adj R^2	0.214	0.336	0.503	0.611	0.086	0.668	0.086	0.668

Notes: In the regression models, the dependent variable is financial performance of small business (*FP*). Independent variables include non-resident Indians (*NRI*), financial support from *NRI*s (*FS*), internal financial sources (*IFS*), board size (*BS*), CEO duality (*CD*), number of board meetings per year (*MT*), CEO experience (*EXP*), education (*EDU*), firm size (*FS*), number of employees (*EMP*), and industry dummy (*IND*). Coefficients of models are estimated by applying ordinary least square method. *t*-statistics are given in the parentheses. ***, ** and * imply significance of each coefficient at the 1%, 5%, and 10% level, respectively.

5. Conclusion

The small business literature demonstrates how family involvement improves the performance of small businesses. This study concentrated on the impact of *NRI*s as foreign directors on the performance of small businesses in India. This study provides a mechanism through which small business owners may improve financial performance. The paper shows that *NRI*s not only provide financial support to small business owners but also serve as foreign directors to improve the financial performance of small business. Previous study on family

involvement in management by Kim and Gao (2013) found that although family involvement in management has no direct effect on firm performance, the relationship between family involvement and firm performance is more positive when a firm's support for family-longevity goals is higher versus lower. Our results related to *NRI*s lend some support to the findings of Kim and Gao (2013) in that the involvement of *NRI*s in management decisions and their financial support improve the financial performance of small businesses. The findings of this study also lend some support to the findings of Brenes, Madrigal, and Requena (2011) in that the

involvement of *NRI*s results in the dynamic operation of small businesses which leads to improvement in business performance. In addition, education and experience of non-resident family members and their financial support and participation in the board decisions improve the financial performance of small businesses.

6. Limitations

This study also relies on the perceptions and judgments of research participants because we collected data using surveys and interviews. Not all family involvements (or *NRI* associations) are the same; some *NRI* families are more involved than the rest, and some *NRI* families, by virtue of their wealth or status can facilitate stronger small business performance by providing financial support and by participating in the board of directors as foreign members.

7. Future Research

Although we have bridged some gaps in the literature, many questions still remain unanswered. One such question is to understand how small businesses that cannot receive financial support from *NRI*s improve the financial performance. Since *NRI* families by virtue of their wealth or status can facilitate stronger small business performance by providing financial support and by participating in the board of directors as foreign members, we call for a direct and objective measure of the strength of this involvement in future research.

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Appendix A

Table 1B. Findings (N = 17)

NRIs	
i.	Provide financial support to small business owners in India.
ii.	Participate in board decisions of small businesses.
iii.	Connect small business owners with bankers and politicians.

Note: Perceptions of small business owners

Table 2B. Findings (N = 17)

NRIs	
i.	Are involved in the similar line of businesses they help in India, and are educated and experienced.
ii.	Provide financial support to contribute in internal financial resources of small business owners in India.
iii.	Participate in board meetings and board decisions of small businesses over the telephone and in person, and provide advice on board decisions.
iv.	Improves the financial performance of small businesses.

Note: Perceptions of NRIs.