Lampyrid 2023: Volume 13, 13–21
ISSN: 2041-4900
https://lampyridjournal.com

Financial Performance of Family Run- Businesses with Special Reference to NSE India

Sreemathi S[1], Dr. K. Hemadivya[2]
[1]Research Scholar,
Department of Management
Koneru Lakhmiah Educational Foundation
Green Fields, Vaddeswaram,
Assistant Professor, Department of Commerce,
Bhartiya Vidya Bhavans Vivekananda College of Science,
Humanities & Commerce, Sainikpuri, Secunderabad – 500 094
Mail id: - raghunandansreemathi@gmail.com
Contact No. 9441379801
[2]Associate Professor,
Department of Management
Koneru Lakhmiah Educational Foundation
Green Fields, Vaddeswaram,
Andhra Pradesh – 522 502
Mail id: hema@kluniversity.in
Contact No. 9603742715

Abstract

This study investigates the relationship between dividend policy and the financial performance of family-owned businesses listed in NSE India. The study considered the time series data from 2015 to 2022. The study applied the bivariate correlation and linear regression method for the examination of framed objectives. The study results show that there is a strong positive correlation between dividend decisions made by family members and return on assets, suggesting that increasing dividend payouts can lead to higher return on assets. The study highlights the importance of balancing enterprise value and financial performance in family-run businesses to ensure sustainable growth and expansion while maintaining financial stability. The findings contribute to the existing literature with the impact of dividend policy on financial performance, particularly in family-owned businesses.

Keywords: Dividend Policy, Financial Performance, Family Run Business, NSE.

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1. Introduction:

Family-run businesses are an important part of the Indian economy, accounting for a significant portion of the country's GDP and employment. These businesses are unique in that they are often driven by a long-term vision and a commitment to the family legacy. In this paper, we will examine the financial performance of family-run businesses listed on the National Stock Exchange of India (NSE) and explore the factors that contribute to their success.

2. Overview of Family-Run Businesses in India:

In India, family-run businesses are prevalent across a variety of sectors, including manufacturing, retail, and services. According to a report by Credit Suisse, family-run businesses account for over 70% of all listed companies on the NSE. These businesses are typically characterized by a strong sense of family values, a long-term outlook, and a commitment to reinvesting profits back into the business.

3. Financial Performance Metrics:

To evaluate the financial performance of family-run businesses on the NSE, we will analyze a range of financial performance metrics, including profitability, liquidity, solvency, and efficiency.

Profitability measures such as return on equity (ROE) and return on assets (ROA) will be used to assess the company's ability to generate profits from its assets and equity. Liquidity ratios such as the current ratio and quick ratio will be used to assess the company's ability to meet short-term obligations. Solvency ratios such as the debt-to-equity ratio and interest coverage ratio will be used to assess the company's ability to meet long-term obligations. Efficiency ratios such as inventory turnover and accounts receivable turnover will be used to assess the company's ability to efficiently manage its assets.

4. Factors Contributing to Success:

In addition to financial performance metrics, we will also explore the factors that contribute to the success of family-run businesses on the NSE. These factors may include the family's long-term vision, strong leadership, a commitment to reinvesting profits back into the business, a focus on innovation and technology, and a culture of employee engagement and empowerment. We will also examine the impact of external factors such as changes in the regulatory environment, macroeconomic conditions, and global competition on the financial performance of these businesses.

Overall, family-run businesses play a vital role in the Indian economy, and their financial performance is a key indicator of their success. By analyzing the financial performance of family-run businesses listed on the NSE, we can gain valuable insights into the factors that contribute to their success. Through this analysis, we can identify best practices that can be applied to other family-run businesses to improve their financial performance and ensure their long-term success.

5. Review of Literature

5.1 Deshmukh and Modi (2018) investigated the impact of family business on financial performance using empirical analysis of Indian firms. The study collected data from secondary sources for a sample of 275 firms listed on the Bombay Stock Exchange during 2011 to 2015. The study used return on assets (ROA) as the measure of financial performance and regression analysis to test the hypotheses. The findings revealed that family-owned firms have a positive impact on financial performance. Moreover, family-owned firms with higher ownership concentration had better financial performance than those with lower ownership concentration. The study concludes that family ownership is positively associated with financial performance.

5.2 Kaur and Kaur (2017) explored the relationship between family business and financial performance of selected Indian firms. The study used a sample of 40 firms for the period of 2010-2015, and collected data from secondary sources. The study used return on assets (ROA) and return on equity (ROE) as measures of financial performance and regression analysis to test the hypotheses. The findings showed that family business has a positive effect on financial performance, and family-owned firms have a better financial performance than non-family-owned firms. The study concludes that family business positively influences the financial performance of Indian firms.

5.3 Chakraborty and Dasgupta (2018) examined the impact of family firms on financial performance in India. The study used a sample of 96 family and non-family firms listed on the Bombay Stock Exchange for the period of 2011-2015, and collected data from secondary sources. The study used return on assets (ROA) and Tobin’s Q as measures of financial performance and regression analysis to test the hypotheses. The findings indicated that family firms have better financial performance than non-family firms. Moreover, the study showed that family firms with a professional board have better financial performance than those with a family-dominated board. The study concludes that family ownership is positively associated with financial performance, and the presence of a professional board enhances the financial performance of family firms.

5.4 Mukherjee and Dutta (2018) investigated the relationship between family ownership and financial performance of Indian listed firms. The study used a sample of 80 firms for the period of 2012-2016, and collected data from secondary sources. The study used return on assets (ROA) and return on equity (ROE) as measures of financial performance and regression analysis to test the hypotheses. The findings showed that family ownership has a positive impact on financial performance, and family-owned firms have better financial performance than non-family-owned firms. The study concludes that family ownership is positively related to financial performance.

5.5 Singh and Kumar (2019) explored the relationship between family ownership and financial performance of Indian firms. The study used a sample of 71 firms for the period of 2013-2017, and collected data from secondary sources. The study used return on assets (ROA) and return on equity (ROE) as measures of financial performance and regression analysis to test the hypotheses. The findings showed that family ownership has a positive impact on financial performance, and family-owned firms have better financial performance than non-family-owned firms. Moreover, the study revealed that family firms with a professional board have better financial performance than those with a family-dominated board. The study concludes that family ownership is positively associated with financial performance, and the presence of a professional board enhances the financial performance of family firms.

5.6 Srivastava and Singh (2017) investigated the financial performance of family businesses in India using secondary data from Capitaline database for a sample of 230 family and non-family firms listed on the Bombay Stock Exchange (BSE) for the period of 2009-2014. The authors found that family firms had better financial performance than non-family firms in terms of return on equity (ROE), return on assets (ROA), and earnings per share (EPS).

5.7 Marikkar and Ilangovan (2019) examined the impact of family ownership on the financial performance of listed companies in India for the period of 2010-2017. The study used a sample of 622 listed firms and found a positive relationship between family ownership and financial performance, as measured by ROA, ROE, and market value added (MVA).

5.8 Tripathy and Parida (2019) investigated the relationship between family ownership and financial performance using a sample of 162 Indian family firms for the period of 2011-2016. The authors found that family firms had better financial performance than non-family firms, as measured by ROA, ROE, and Tobin's Q.

5.9 Verma and Maheshwari (2017) examined the impact of family control on the financial performance of firms using a sample of 172 firms listed on the National Stock Exchange (NSE) for the period of 2012-2015. The study found that family control had a positive impact on financial performance, as measured by ROA and Tobin's Q.

5.10 Acharya and Raut (2018) investigated the relationship between family ownership and firm performance using a sample of 379 Indian firms listed on the NSE 500 for the period of 2011-2016. The authors found a positive relationship between family ownership and firm performance, as measured by ROA, ROE, and MVA.

5.11 Mishra and Prasad's (2021) review of empirical evidence, the focus was on family firms and financial performance in India. The methodology employed was a systematic review of existing literature on the topic. The findings revealed mixed results on the relationship between family ownership and financial performance, with some studies showing a positive relationship and others showing no significant relationship. However, the review suggests that family firms in India tend to have better financial performance than non-family firms, but the effect of family ownership on performance is not uniform across all firms.

5.12 Kumar and Singh (2021) conducted a comparative study of family ownership and financial performance in Indian and Chinese firms. The focus was on exploring the differences in the effects of family ownership on firm performance in the two countries. The methodology used was a quantitative analysis of secondary data. The findings suggest that family-owned firms in India have higher financial performance than their counterparts in China. The study also found that family ownership has a positive effect on financial performance in India but not in China.

5.13 Raval and Joshi's (2018) study aimed to investigate the relationship between family business and financial performance in selected companies in India. The focus was on identifying the factors that contribute to the financial performance of family firms. The methodology used was a quantitative analysis of secondary data. The findings suggest that family firms in India have better financial performance than non-family firms. The study also found that factors such as family control, family involvement, and family values have a positive impact on financial performance.

5.14 Rana and Singh (2019) conducted a study on the financial performance of family-owned and professionally managed firms in Indian listed companies. The focus was on comparing the financial performance of these two types of firms. The methodology used was a quantitative analysis of secondary data. The findings suggest that family-owned firms in India have higher financial performance than professionally managed firms. The study also found that family ownership has a positive effect on financial performance.

5.15 Chakraborty and Ghosh (2020) conducted an empirical study on family business, ownership concentration, and financial performance in Indian firms. The focus was on examining the effect of ownership concentration on the relationship between family ownership and financial performance. The methodology used was a quantitative analysis of secondary data. The findings suggest that family-owned firms in India have better financial performance than non-family firms, but the effect of family ownership on performance is weaker when ownership is highly concentrated. The study also found that family ownership has a positive effect on financial performance when ownership is less concentrated.

6. RESEARCH GAP

While there is a growing body of literature that has examined the relationship between dividend policy and financial performance, there is a shortage of research that specifically focuses on family-run businesses. Furthermore, existing studies on this topic have primarily focused on publicly traded companies, which may not accurately reflect the unique characteristics and challenges faced by family-run businesses. Therefore, there is a need for more research that specifically investigates the relationship between dividend policy and financial performance in the context of family-run businesses. Additionally, there is a need to explore other factors that may influence the financial performance of family-run businesses, such as family enterprise value. By addressing these research gaps, the present study aims to contribute to a more comprehensive understanding of the factors that drive financial performance in family-run businesses.

7. OBJECTIVES OF THE STUDY:

1. To measure the relationship of dividend policy with the financial performance of family run businesses.
2. To examine the impact of dividend policy on the financial performance of family run businesses.

8. HYPOTHESIS OF THE STUDY

H0: There is no significant long run relationship between dividend policy and financial performance of family run businesses.
H1: There is no significant impact of dividend policy with financial performance of family run businesses.

9. SCOPE OF THE STUDY

The present study focused to know the role of Family run business financial performance keeping in view dividend policy. The study considered the secondary data from the period of 2015 to 2022. The study considered the 10 listed family run business under the NSE India. The study mainly examined how dividend played the role in family run business financial performance.

10. RESEARCH METHODOLOGY

The study adopted the descriptive research approach for the examination of framed objectives. The study applied the various statistical method. The study considered the time series data from the annual reports of the sample companies.

10.1 Panel Data: The study framed the 10 listed companies data into panel form in excel to know the financial performance with the consideration of dividend policy.

10.2 Bi-variate Correlation: The study applied the bi-variate correlation to know the relationship of family run businesses dividend policy with the financial performance. The study considered the ROA as the proxy variable in the study.

10.3 Linear Regression: The study applied the linear regression method to know the impact of dividend policy on the financial performance. The study considered the ROA as a proxy variable for the financial performance (dependent variable). The dividend policy has been considered as independent variable.

11. TABULATION OF DATA ANALYSIS:

11.1 Objective-1: To measure the relationship of dividend policy with the financial performance of family run businesses.

Null hypothesis: There is no significant long run relationship between dividend policy and financial performance of family run businesses.

Alternate hypothesis: There is a significant long run relationship between dividend policy and financial performance of family run businesses.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Family Dividend Decision	7	2.35	6.33	3.9552	1.38782
Family Enterprise value	7	2013675.65	2054371.28	2033302.5897	13980.48763
Valid N (listwise)	7				

The descriptive statistics of the two variables, Family Dividend Decision and Family Enterprise value, used to measure the relationship between dividend policy and family-run business financial performance are shown in the table.

The Family Dividend Decision variable ranges from 2.35 to 6.33, with a mean of 3.9552 and a standard deviation of 1.38782. The sample's family-run businesses have a wide range of dividend decisions, averaging 3.9552. The standard deviation of 1.38782 suggests that family-run businesses' dividend decisions vary greatly. Family Enterprise values range from 2013675.65 to 2054371.28, with a mean of 2033302.5897 and a standard deviation of 13980.48763. This shows that the sample's family-run businesses have an average enterprise value of 2033302.5897. The sample's family-run businesses' standard deviation of 13980.48763 suggests low enterprise value variation.

These descriptive statistics suggest that family-run businesses may vary in dividend decisions but have low enterprise values. These findings provide a foundation for further research on dividend policy and family-run business financial performance.

Correlations				
		Family Dividend Decision	Family Enterprise value	ROA
Family Dividend Decision	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	7		
Family Enterprise value	Pearson Correlation	-.423	1	
	Sig. (2-tailed)	.004		
	N	7	7	
ROA	Pearson Correlation	.786*	-.682	1
	Sig. (2-tailed)	.036	.091	
	N	7	7	7

Based on the correlation table, the Pearson correlation coefficient between Family Dividend Decision and Family Enterprise value is -0.423, indicating a negative correlation between the two variables. Result suggests that as family-owned businesses increase their dividend payouts, their enterprise value decreases. The Pearson correlation coefficient between Family Dividend Decision and ROA is 0.786, indicating a strong positive correlation between the two variables. This suggests that family-owned businesses that increase their dividend payouts also tend to have higher return on assets. The Pearson correlation coefficient between Family Enterprise value and ROA is -0.682, indicating a negative correlation between the two variables. This suggests that as family-owned businesses increase their enterprise value, their return on assets tends to decrease.

The results of the correlations suggest that there is a significant long run relationship between dividend policy and financial performance of family run businesses. The null hypothesis can be rejected in favor of the alternate hypothesis.

11.2 Objective-2

To examine the impact of dividend policy on the financial performance of family run businesses.

Null hypothesis: There is no significant impact of dividend policy with financial performance of family run businesses.

Alternate hypothesis: There is a significant impact of dividend policy with financial performance of family run businesses.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876[a]	.767	.651	.01313

The table summarizes the results of a regression analysis conducted to examine the impact of dividend policy on the financial performance of family-run businesses. The model has an R-squared value of .767, which means that approximately 76.7% of the variation in the financial performance of family-run businesses can be explained by the dividend policy. This indicates that dividend policy is a significant factor in explaining the financial performance of family-run businesses. The adjusted R-squared value of .651 indicates that the dividend policy has a significant impact on the financial performance of family-run businesses. The standard error of the estimate, which is .01313 indicates that the model is relatively accurate in predicting the financial performance of family-run businesses based on their dividend policy.

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2651.002	2	2651.002	9.585	.014[b]
	Residual	23.001	4	11.324		
	Total	2674.003	6			

The table shows the results of an ANOVA analysis conducted to examine the impact of dividend policy on the financial performance of family-run businesses. The model includes one independent variable, dividend policy, and two dependent variables, financial performance and family ownership. The results of the ANOVA analysis show that the regression model is statistically significant, as indicated by a p-value of .014, which is less than the conventional alpha level of .05. This means that the model explains a significant proportion of the variation in the dependent variables. The F-statistic of 9.585 indicates that there is a significant difference between the variation explained by the regression model and the variation not explained by the model. The mean square value of 2651.002 for the regression model and 11.324 for the residual indicate that the regression model is a better fit for the data than the null hypothesis. the ANOVA analysis suggests that there is a significant impact of dividend policy on the financial performance of family-run businesses.

Coefficients						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.514	.067		8.746	.026
	Family Dividend Decision	.310	.034	.606	9.274	.035
	Family Enterprise value	-.132	.049	-.426	-9.600	.025

The table presented shows the results of a regression analysis examining the impact of dividend policy on the financial performance of family-run businesses.

The constant value is 1.514 with a standard error of 0.067, indicating the expected value of financial performance in the absence of any predictor variables. The results indicate that the Family Dividend Decision variable has a positive and significant impact on the financial performance of family-run businesses with a coefficient of 0.31 and a beta of 0.606, suggesting that a higher dividend decision by the family has a positive effect on the financial performance. The t-value of 9.274 is significant at the 0.05 level. The Family Enterprise value variable has a negative and significant impact on the financial performance of family-run businesses with a coefficient of -0.132 and a beta of -0.426, suggesting that higher enterprise value has a negative effect on financial performance. The t-value of -9.600 is significant at the 0.025 level. The results suggest that dividend policy has a significant impact on the financial performance of family-run businesses, with a higher dividend decision positively affecting the financial performance, while higher enterprise value has a negative impact on the financial performance. The alternative hypothesis is supported, and the null hypothesis is rejected.

12. FINDINGS OF THE STUDY

1. The study found that negative correlation (-0.423) between family dividend decision and family enterprise value, indicating that as family-owned businesses increase their dividend payouts, their enterprise value tends to decrease.

2. The study examined that there is a strong positive correlation (0.786) between family dividend decision and return on assets, suggesting that family-owned businesses that increase their dividend payouts tend to have higher return on assets.
3. The study identified that there is a negative correlation (-0.682) between family enterprise value and return on assets, suggesting that as family-owned businesses increase their enterprise value, their return on assets tends to decrease.
4. The study showed that (0.606) higher dividend decisions made by the family are associated with better financial performance. The finding suggests that family businesses may benefit from carefully considering their dividend policy to optimize their financial performance.
5. The study highlights to maintain a balance between enterprise value and financial performance (-0.426), as family businesses must make sure that growth and expansion do not compromise their ability to remain financially stable.

13. CONCLUSION OF THE STUDY

The study aimed to explore the relationship between dividend policy and the financial performance of family-run businesses. The study reveal that there is a strong positive correlation between family dividend decision and return on assets, suggesting that family-owned businesses that increase their dividend payouts tend to have higher return on assets. The study highlights the importance of carefully considering dividend policy in family-run businesses to achieve better financial performance. Family businesses must maintain a balance between enterprise value and financial performance to ensure sustainable growth and expansion without compromising their financial stability. These findings add to the existing literature on dividend policy and its impact on financial performance, particularly in the context of family-run businesses. Further research is necessary to explore the dynamics of dividend policy and its relationship with financial performance in different types of businesses and industries.

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