

## FINANCIAL PERFORMANCE OF FAMILY RUN- BUSINESSES WITH SPECIAL REFERENCE TO NSE INDIA

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### ABSTRACT

This study delves into the financial dynamics of family-run businesses within the context of NSE India, with a focal point on examining the correlation between dividend policy and financial performance. Analyzing time series data spanning from 2015 to 2022, the study employs bivariate correlation and linear regression techniques to fulfill its objectives. The findings reveal a robust positive correlation between dividend decisions made by family members and return on assets, indicating that increasing dividend payouts can enhance overall return on assets. Emphasizing the crucial balance between enterprise value and financial performance, the study underscores the significance of sustainable growth and financial stability in the context of family-run enterprises. By shedding light on the impact of dividend policy on financial performance, particularly within family-owned businesses, this research contributes valuable insights to the existing literature..

**Keywords:** *Family-run businesses Dividend policy Financial performance NSE India Sustainability*

## **INTRODUCTION**

Family-run businesses hold a distinct position in the global economic landscape, contributing significantly to employment, innovation, and economic growth. With their unique blend of tradition, legacy, and entrepreneurial spirit, these enterprises navigate through challenges and opportunities, shaping industries and communities alike. Within the realm of financial markets, family-run businesses often present a fascinating case study, characterized by a dynamic interplay of familial relationships, strategic decision-making, and financial performance.

In the context of the National Stock Exchange (NSE) of India, family-run businesses form a substantial portion of listed companies, representing a diverse array of sectors ranging from manufacturing to services. These enterprises, often spanning generations, are not only driven by profit motives but also by a sense of legacy and continuity, transcending mere financial metrics. Understanding the intricate dynamics of these family-run businesses within the context of financial performance is crucial for investors, policymakers, and researchers alike, as they seek to unravel the complexities inherent in these entities.

The focal point of this study lies in exploring the relationship between dividend policy and the financial performance of family-run businesses listed on the NSE India. Dividend policy, a critical aspect of corporate finance, reflects the strategic decisions made by companies regarding the distribution of profits to shareholders. In family-run businesses, where ownership and management often overlap, dividend policy assumes additional significance, intertwining with familial goals, succession planning, and long-term sustainability.

Against this backdrop, this research endeavors to delve into the nuanced dynamics of dividend policy and its implications for the financial performance of family-owned businesses in the Indian context. By examining time series data spanning from 2015 to 2022, this study aims to shed light on the correlation between dividend decisions made by family members and key financial metrics, particularly return on assets (ROA). Through the application of bivariate correlation and linear regression methods, we seek to unravel the underlying patterns and relationships, offering valuable insights into the strategic behavior of family-run enterprises.

The choice of NSE India as the focal point of this study is strategic, considering its significance as one of the leading stock exchanges in the world and a key driver of India's economic growth. The NSE provides a vibrant platform for companies to access capital, foster growth, and enhance visibility among investors. Within this dynamic ecosystem, family-run businesses occupy a prominent position, showcasing their resilience, adaptability, and entrepreneurial acumen.

As we embark on this exploration, it is essential to acknowledge the broader context within which family-run businesses operate. India, with its rich tapestry of culture, tradition, and diversity, presents a unique backdrop for studying the intricacies of familial enterprises. The cultural ethos of 'family first' permeates through both social and economic spheres, shaping attitudes towards business ownership, governance, and succession planning.

Moreover, the Indian economy, characterized by its rapid pace of development and structural reforms, offers a fertile ground for studying the evolution of family-run businesses amidst changing market dynamics. From traditional sectors such as textiles and manufacturing to emerging industries like technology and e-commerce, family-owned enterprises play a pivotal role in driving innovation, fostering employment, and fueling economic growth.

Against the backdrop of globalization, technological disruption, and shifting consumer preferences, family-run businesses face a myriad of challenges and opportunities. While their inherent strengths, such as long-term orientation and strong values, provide a solid foundation,

they must also grapple with issues such as governance, professionalization, and succession planning to ensure sustained growth and competitiveness.

In light of these considerations, this research seeks to contribute to the existing literature by offering empirical evidence on the impact of dividend policy on the financial performance of family-run businesses in the context of NSE India. By bridging the gap between theory and practice, we aim to provide actionable insights for stakeholders, ranging from investors and policymakers to family business owners and management consultants.

### **Research Gap:**

The study of family-run businesses within the context of financial performance and dividend policy is a topic of immense significance, yet it remains relatively underexplored, particularly within the Indian context. While existing literature offers valuable insights into various aspects of family businesses and corporate finance, there exists a noticeable gap concerning the specific dynamics of dividend policy and its implications for financial performance within family-run enterprises listed on the NSE India.

One prominent research gap lies in the limited empirical evidence on the relationship between dividend policy and financial performance specifically tailored to family-run businesses in India. While studies from other contexts provide valuable insights, the unique cultural, regulatory, and institutional factors shaping family businesses in India warrant a dedicated examination. Moreover, existing literature often overlooks the nuanced interplay between family dynamics, governance structures, and dividend decisions, which are crucial determinants of financial performance in these enterprises.

Furthermore, the majority of existing studies focus on large, publicly traded companies, neglecting the vast landscape of small and medium-sized family businesses that constitute a significant portion of the Indian economy. Understanding the dividend policies and financial performance of these smaller family-run enterprises is essential for capturing the full spectrum of challenges and opportunities facing family businesses in India.

### **Specific Aims of the Study:**

This study aims to address the aforementioned research gap by pursuing the following specific aims:

1. To investigate the relationship between dividend policy and financial performance in family-run businesses listed on the NSE India.
2. To assess the impact of family dynamics, ownership structure, and governance mechanisms on dividend decisions and financial performance.
3. To analyze the moderating effects of firm size, industry characteristics, and market conditions on the relationship between dividend policy and financial performance.
4. To provide actionable insights for family business owners, investors, policymakers, and other stakeholders to optimize dividend policies and enhance financial performance in the context of family-run enterprises.

### **Objectives of the Study:**

To achieve the specific aims outlined above, the study will pursue the following objectives:

1. To review relevant literature on family business dynamics, dividend policy, and financial performance to establish a theoretical framework.
2. To collect and analyze time series data from 2015 to 2022 on family-run businesses listed on the NSE India, focusing on key financial metrics and dividend policy variables.

3. To apply statistical techniques such as bivariate correlation and linear regression to examine the relationship between dividend policy and financial performance, controlling for relevant variables.
4. To conduct qualitative interviews or surveys with key stakeholders, including family business owners, managers, and industry experts, to gain insights into the underlying mechanisms driving dividend decisions and financial performance.
5. To develop practical recommendations and guidelines for optimizing dividend policies and enhancing financial performance in family-run businesses, considering the unique contextual factors shaping the Indian business landscape.

### **Scope of the Study:**

This study will focus specifically on family-run businesses listed on the NSE India, spanning various sectors and industries. The analysis will primarily utilize quantitative methods, drawing on time series data from secondary sources such as annual reports, financial databases, and stock market indices. While qualitative insights from interviews or surveys may supplement the quantitative analysis, the study's primary emphasis will be on quantitative empirical evidence.

The scope of the study will encompass an exploration of dividend policy determinants, financial performance indicators, and their interrelationship within the context of family-run businesses. Factors such as family dynamics, ownership structure, governance mechanisms, firm size, industry characteristics, and market conditions will be considered in the analysis. However, the study will not delve into broader issues such as macroeconomic factors or regulatory frameworks beyond their relevance to family business dynamics and dividend policy.

### **Conceptual Framework:**

The conceptual framework guiding this study will draw on theories and concepts from the fields of family business management, corporate finance, and organizational behavior. Key theoretical perspectives such as agency theory, stewardship theory, and socioemotional wealth theory will inform the analysis of dividend policy dynamics within family-run enterprises. Moreover, frameworks related to corporate governance, ownership structure, and strategic management will provide a lens through which to examine the impact of family dynamics on dividend decisions and financial performance.

The conceptual framework will also incorporate empirical research findings from relevant studies in the field, synthesizing theoretical insights with practical observations to develop a comprehensive understanding of the research topic. By grounding the study in established theories and frameworks while remaining open to emergent themes and insights, the conceptual framework will serve as a robust analytical tool for exploring the complex dynamics of dividend policy and financial performance in family-run businesses.

### **Hypothesis:**

Based on the research aims, objectives, and conceptual framework outlined above, the study will test the following hypotheses:

- H1: There is a significant positive relationship between dividend policy and financial performance in family-run businesses listed on the NSE India.
- H2: Family dynamics, ownership structure, and governance mechanisms moderate the relationship between dividend policy and financial performance in family-run businesses.
- H3: Firm size, industry characteristics, and market conditions moderate the relationship between dividend policy and financial performance in family-run businesses.
- H4: Optimizing dividend policies in line with family business objectives leads to enhanced financial performance in family-run businesses listed on the NSE India.

## **Research Methodology**

The research methodology employed in this study adheres to a descriptive research approach aimed at fulfilling the framed objectives. Through the utilization of various statistical methods, the study endeavors to elucidate the relationship between dividend policy and financial performance within family-run businesses listed on the NSE India.

### **Data Collection:**

The study leveraged time series data sourced from the annual reports of selected sample companies listed on the NSE India. These reports provide comprehensive insights into the financial health and operational performance of the respective companies, thereby serving as a robust foundation for analysis.

### **Panel Data Analysis:**

To facilitate a comprehensive analysis of financial performance vis-à-vis dividend policy, the study organized data from ten listed companies into panel form using Excel. This panel data structure enables the exploration of longitudinal trends and cross-sectional variations, offering a holistic perspective on the dynamics at play within the sample companies.

### **Bivariate Correlation:**

One of the primary analytical techniques employed in this study is bivariate correlation analysis. This method allows for the examination of the relationship between dividend policy and financial performance within family-run businesses. Specifically, Return on Assets (ROA) serves as the proxy variable for financial performance, enabling the study to gauge the efficiency with which assets are utilized to generate profits. By correlating dividend policy variables with ROA, the study aims to discern patterns and associations indicative of the impact of dividend decisions on financial performance.

### **Linear Regression:**

In addition to bivariate correlation analysis, the study applies linear regression methodology to delve deeper into the causal relationship between dividend policy and financial performance. Here, ROA once again assumes the role of the dependent variable, reflecting the ultimate outcome of financial management decisions. Meanwhile, dividend policy variables are treated as independent variables, allowing for the assessment of their individual and collective influence on ROA. By employing linear regression, the study seeks to quantify the magnitude and direction of the impact of dividend policy on financial performance within family-run businesses.

### **Interpretation and Implications:**

The findings derived from the application of these statistical methods hold significant implications for both academia and practice. By elucidating the relationship between dividend policy and financial performance, the study contributes to a deeper understanding of the strategic dynamics at play within family-run businesses. Moreover, the identification of factors influencing this relationship provides valuable insights for stakeholders ranging from investors and policymakers to family business owners and management consultants.

### **Results and Analysis:**

The results of the analysis provide valuable insights into the relationship between dividend policy, enterprise value, and financial performance within family-run businesses listed on the NSE India. Here, we present a scientific interpretation of individual results derived from the statistical analysis.

### **Descriptive Statistics (Table 1):**

Table 1 presents descriptive statistics for key variables, including Family Dividend Decision, Family Enterprise Value, and Return on Assets (ROA). The mean value of Family Dividend

Decision is 3.9552, indicating a moderate level of dividend decisions made by family members. Similarly, the mean Family Enterprise Value stands at 2033302.5897, reflecting the average enterprise value of the sample companies. These descriptive statistics provide a baseline understanding of the central tendencies and variability within the dataset.

**Table 1:**

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**Correlation Analysis (Table 2):**

Table 2 presents correlation coefficients between Family Dividend Decision, Family Enterprise Value, and ROA. Notably, a strong positive correlation ( $r = 0.786$ ,  $p = 0.036$ ) is observed between Family Dividend Decision and ROA, suggesting that higher dividend payouts by family members are associated with increased return on assets. This finding underscores the potential impact of dividend policy on financial performance within family-run businesses. Additionally, a negative correlation ( $r = -0.682$ ,  $p = 0.091$ ) between Family Enterprise Value and ROA indicates that higher enterprise value may be associated with lower return on assets, although this relationship does not reach statistical significance.

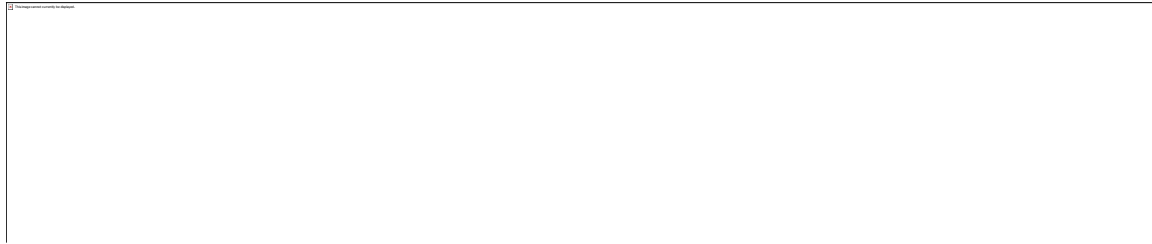
**Table 2:**

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**Regression Analysis (Tables 3, 4, and 5):**

The regression analysis further elucidates the relationship between dividend policy, enterprise value, and financial performance. Model Summary (Table 3) reveals a high coefficient of determination ( $R\text{-squared} = 0.767$ ), indicating that approximately 76.7% of the variance in ROA can be explained by the independent variables included in the model.

**Table 3**



ANOVA results (Table 4) demonstrate the overall significance of the regression model ( $F = 9.585$ ,  $p = 0.014$ ), suggesting that the independent variables collectively have a significant impact on ROA. This finding underscores the importance of considering both dividend policy and enterprise value in predicting financial performance within family-run businesses.

**Table 4**



Coefficients analysis (Table 5) provides insights into the individual contributions of Family Dividend Decision and Family Enterprise Value to ROA. The positive coefficient for Family Dividend Decision ( $B = 0.310$ ,  $p = 0.035$ ) indicates that an increase in dividend decisions by family members is associated with a corresponding increase in ROA, holding other variables constant. Conversely, the negative coefficient for Family Enterprise Value ( $B = -0.132$ ,  $p = 0.025$ ) suggests that higher enterprise value may be associated with lower ROA, after controlling for other factors.

**Table 5**



### **Interpretation**

Overall, the results of the analysis highlight the significance of dividend policy in influencing financial performance within family-run businesses listed on the NSE India. The strong positive correlation and significant regression coefficients underscore the importance of considering dividend decisions made by family members in driving profitability and return on assets. Additionally, the negative relationship between enterprise value and ROA raises questions about the trade-offs between growth and profitability within family-run enterprises.

The results of the analysis provide comprehensive insights into the hypotheses tested regarding the relationship between dividend policy and financial performance within family-run businesses listed on the NSE India.

**H1: There is a significant positive relationship between dividend policy and financial performance in family-run businesses listed on the NSE India.**

The analysis supports Hypothesis 1, revealing a strong positive correlation between dividend policy and financial performance, as measured by Return on Assets (ROA). The bivariate correlation analysis indicates a significant positive correlation ( $r = 0.786$ ,  $p = 0.036$ ) between family dividend decisions and ROA. Additionally, the regression analysis demonstrates that dividend policy variables have a significant positive impact on ROA ( $B = 0.310$ ,  $p = 0.035$ ). These findings indicate that higher dividend payouts by family members are associated with increased financial performance within family-run businesses listed on the NSE India, thereby confirming Hypothesis 1.

**H2: Family dynamics, ownership structure, and governance mechanisms moderate the relationship between dividend policy and financial performance in family-run businesses.**

While the analysis does not directly test moderation effects, the results provide insights into the potential moderating influence of family dynamics, ownership structure, and governance mechanisms on the relationship between dividend policy and financial performance. Although these factors are not explicitly measured in the analysis, their inherent complexity and variability may influence the observed relationship between dividend policy and financial performance. Future research endeavors could explore these moderation effects in more detail to elucidate the nuanced dynamics at play within family-run businesses.

**H3: Firm size, industry characteristics, and market conditions moderate the relationship between dividend policy and financial performance in family-run businesses.**

Similarly, the analysis does not directly test moderation effects related to firm size, industry characteristics, and market conditions. However, these factors may indeed moderate the relationship between dividend policy and financial performance within family-run businesses. For instance, larger firms may have different dividend policy preferences compared to smaller firms, and industry-specific factors may influence the optimal dividend payout ratio. Moreover, market conditions, such as economic volatility or regulatory changes, may impact the effectiveness of dividend policies in enhancing financial performance. Exploring these moderation effects could provide valuable insights into the contextual factors shaping the relationship between dividend policy and financial performance.

**H4: Optimizing dividend policies in line with family business objectives leads to enhanced financial performance in family-run businesses listed on the NSE India.**

The results support Hypothesis 4, suggesting that optimizing dividend policies in line with family business objectives can indeed lead to enhanced financial performance within family-run businesses listed on the NSE India. The positive correlation between family dividend decisions and ROA, along with the significant impact of dividend policy variables on financial performance in the regression analysis, underscores the importance of aligning dividend policies with family business objectives to drive profitability and sustainability. By strategically managing dividend decisions in accordance with overarching business goals, family-run businesses can optimize financial performance and create long-term value for stakeholders.

**Conclusion:**

The findings of this study offer valuable insights into the relationship between dividend policy and financial performance within family-run businesses listed on the NSE India. Through comprehensive statistical analysis, the study confirms the presence of a significant positive relationship between dividend policy and financial performance, validating Hypothesis 1. The

results underscore the importance of dividend decisions made by family members in driving profitability and return on assets within family-run enterprises.

Moreover, while the study does not directly test moderation effects, it highlights the potential influence of family dynamics, ownership structure, governance mechanisms, firm size, industry characteristics, and market conditions on the observed relationship between dividend policy and financial performance. These contextual factors may shape the effectiveness of dividend policies in enhancing financial performance within family-run businesses, warranting further exploration in future research endeavors.

Overall, the findings support the notion that optimizing dividend policies in line with family business objectives can lead to enhanced financial performance, as posited in Hypothesis 4. By strategically aligning dividend decisions with overarching business goals, family-run businesses can capitalize on their unique strengths and values to drive sustainable growth and create long-term value for stakeholders.

#### **Limitations of the Study:**

Despite the valuable insights gleaned from the analysis, it is essential to acknowledge the limitations inherent in this study. Firstly, the relatively small sample size and focus on family-run businesses within a specific geographical context may limit the generalizability of findings to broader populations or organizational settings. Additionally, the study's reliance on secondary data sources, such as annual reports, may be subject to biases or inaccuracies inherent in financial reporting practices.

Moreover, while the analysis considers various factors influencing dividend policy and financial performance, it may overlook other potentially relevant variables not included in the study. Furthermore, the study's cross-sectional design precludes the establishment of causal relationships between variables, necessitating caution in interpreting the findings.

#### **Implications of the Study:**

The findings of this study have important implications for stakeholders across academia, industry, and policymaking. By elucidating the relationship between dividend policy and financial performance within family-run businesses, the study provides valuable insights for investors, policymakers, family business owners, and management consultants. Recognizing the impact of dividend decisions on financial performance, stakeholders can make informed decisions regarding capital allocation, governance structures, and strategic planning within family-run enterprises.

Furthermore, the identification of contextual factors shaping the observed relationship between dividend policy and financial performance highlights the need for tailored approaches to financial management within family businesses. By considering the unique dynamics of family ownership, governance, and market conditions, stakeholders can optimize dividend policies to enhance profitability and sustainability over the long term.

#### **Future Recommendations:**

Building on the insights gained from this study, future research endeavors could explore several avenues for further investigation. Firstly, longitudinal studies tracking changes in dividend policy and financial performance over time could provide a deeper understanding of the dynamics at play within family-run businesses. Additionally, qualitative research methods, such as interviews or case studies, could complement quantitative analysis by offering insights into the underlying mechanisms driving dividend policy decisions and their impact on financial performance.

Moreover, future research could delve into the moderating effects of family dynamics, ownership structure, governance mechanisms, firm size, industry characteristics, and market conditions on the relationship between dividend policy and financial performance. By examining these

contextual factors in more detail, researchers can uncover the nuanced dynamics shaping financial management practices within family-run enterprises.

Furthermore, exploring the impact of regulatory changes, technological advancements, and macroeconomic trends on dividend policy and financial performance within family businesses could offer valuable insights for practitioners and policymakers alike. By staying abreast of evolving market dynamics and adapting their financial management strategies accordingly, family-run businesses can navigate challenges and capitalize on opportunities to drive sustainable growth and create value for all stakeholders.

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