

**Impact on Factors of Family-Owned Business -
A Pls-Sem Study in Madurai District**

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ABSTRACT

The purpose of this paper is to examine the factors influencing in growth of Family businesses are very important for wealth creation, however, sustaining a family business for multiple generations is a continuous challenge. Every successful business begins with a clear vision and strategic planning. Family businesses should define their long-term goals, mission, and values. This forms the foundation upon which the business can build and expand. Involving family members in the strategic planning process fosters alignment and commitment to shared objectives. To ensure sustained growth, family businesses must strike a balance between familial ties and professional management. Hiring qualified professionals can bring fresh perspectives, innovation, and efficiency to the business. This transition allows family members to focus on governance, strategy, and long-term vision, while professionals handle day-to-day operations.

Key Words: Family-owned Business, Family business, business analysis. Factor analysis in family business

INTRODUCTION

Family-owned businesses are an integral part of the economy of many countries. They are owned, operated, and managed by two or more members of a family who are blood-related, related by marriage, or adoption. Family businesses have been around for centuries and have contributed significantly to the Gross National Product of many countries. The growth of a family business is crucial for its survival and success. Family businesses should define their long-term goals, mission, and values. They should also strike a balance between honoring their

legacy and embracing the winds of change Integrating cutting-edge technology and venturing into global markets are some of the ways family businesses can grow. It is important to note that family businesses have their own unique characteristics. For instance, the family exercises control over the enterprise since the family is the major shareholder in the company. The role and position of the family members in the business enterprise depend upon the relationship between the members. The family members who hold key positions in the business are supposed to influence the business policies as determined by the mutual interest of the firm and the family. Family business has been defined as a business that is owned and managed by one or more family members. A more detailed definition is provided by organization where two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights moreover has asserted that family are essentially the same in every country in the world relative to their problems, issues and interests. A business is a family business when it is an enterprise growing out of the family's needs ,built on the family's abilities worked by its hands and guided by its moral and spiritual values ,when it is sustained by family commitment, and passed down to its sons and daughter as a legacy as precious as the family's nature although many small and small micro business are family-owned and operated , there is evidence that family firms are also fast growth firms are also fast growth firms are also fast growth firms and very large successful firms. Family businesses have roughly one third chance of continuing to the next generation. Succession planning is critical for the survival of a family-owned business in the face of such stark numbers. Families willing to establish strong lines of communication and set firm guidelines can find that delicate balance of family unity and business success.

PROFILE OF THE STUDY AREA

Madurai is a major city in the Indian state of Tamil Nadu. It is the administrative headquarters of Madurai District. Madurai is the third largest city by population in Tamil Nadu, and is the 25th rank of populated city in India. Located on the banks of River Vaigai, Madurai has been a major settlement for two millennia. Madurai has been selected as one of the hundred Indian cities to be developed as a smart city under Prime Minister Narendra Modi's flagship Smart Cities Mission. Madurai is closely associated with the Tamil language, and the third Tamil Sangam, a major congregation of Tamil scholars said to have been held in the city. The recorded history of the city goes back to the 3rd century BCE, being mentioned by Megatheres, the Greek ambassador to the Maurya empire, and Kautilya, a minister of the Mauryan emperor Chandragupta Maurya. Signs of human settlements and Roman trade links dating back to

300BC are evident from excavations by Archeological Survey of India in Manalur. The city is believed to be of significant antiquity and has been ruled, at different times, by the Pandya's, Cholas, Madurai Sultanate, Vijayanagar Empire, Madurai Nayaks, Carnatic kingdom, and the British. The city has a number of historical monuments, with the Meenakshi Amman Temple and Tirumalai Nayak Palace being the most prominent. Madurai is an important industrial and educational hub in South Tamil Nadu. The city is home to various automobile, rubber, chemical and granite manufacturing industries. It has developed as a second-tier city for information technology (IT), and some software companies have opened offices in Madurai. Madurai has important government educational institutes like the Madurai Medical College, Homeopathic Medical College, Madurai Law College, Agricultural College and Research Institute. Madurai city is administered by a municipal corporation established in 1971 as per the Municipal Corporation Act. Madurai is the second corporation in Tamil Nadu next to Chennai Corporation. The city covers an area of 147.97 km² and had a population of 1,017,865 in 2011.

REVIEW OF LITERATURE

1. **Murphy (2005)**¹ conducted a study in which the author attempts to provide information in regards to the complexities of private family businesses. The methodological approach taken in this study was simple. A questionnaire was given to 187 family business owners, asking respondents to identify the five most important issues they faced, and to rank each on a one-to-five scale. Murphy found that family business managers were concerned more about short-term issues such as current business problems, than they were about ownership issues, a matter considered most important to managers of publicly traded companies.

2. **Walker and Brown (2004)**² examined success factors of small business owners, and indicated that although financial criteria have generally been considered to be the most appropriate measure of business success, finances may not be the best or only indicator of business success. They noted that business owners often have other business goals that are not necessarily financially-based, such as lifestyle, personal achievement, and pride in the business. The sample was comprised of 290 small business owner managers in Australia. The respondents in the study surveyed were asked to rate the importance of items relating to

¹ Murphy, D. L. (2005). Understanding the complexities of private family firms: An empirical investigation. *Family Business Review*, 18(2), 123-133.

² Walker, E., & Brown, A. (2004). What success factors are important to small business owners? *International Small Business Journal*, 22(6), 577-594.

lifestyle and financial measures which were used to judge business success. The results showed that a flexible lifestyle, pride in the job, and personal achievement were better indicators of business success than wealth creation or financial indicators. Thus, Walker and Brown concluded that a subjective measure of business success may be more valuable to researchers than a financial objective measure of success.

3. In an article by Adams, Manners, Astrachan, and Mazzola (2004)³, the importance of owners and managers integrating goal setting was addressed. Integrating goal setting means the degree to which family business managers develop business goals and objectives, and then actually execute the goals and objectives. Adams et al. stated that a business needs to be managed in a way that would help it to stay alive, and the most common way to make sure that a business survived is for it to make money. Goal setting for profit and other objectives is an important task. The authors discussed the cost-of capital, which is the amount of return on investment necessary to reach business goals. The cost-of-capital includes the cost of using debt, or other people's money, and the cost of equity. Adams et al. also concluded that adding discipline to the decision-making and goal-setting processes was greatly facilitated by using the cost-of-capital concepts.

4. Kellermans, Eddleston, Barnett, and Pearson (2008)⁴ conducted a study on the entrepreneurial behavior of CEOs, and they examined how their entrepreneurial behavior was related to growth and development of family businesses. Kellermans et al. suggested that the entrepreneurial behavior of CEOs could be influenced by inherent characteristics such as tenure or age, and the degree of family influence in the family business. Using a survey from a sample of 50 CEOs in family businesses, Kellermans et al. concluded that entrepreneurial behavior of family business CEOs was strongly related to employment growth. It was also concluded that the age of the CEO was not statistically significantly related to entrepreneurial behavior or employment growth. They also found that tenure in the family business was not related to entrepreneurial behavior by the CEO, but tenure was negatively related to employment growth and development.

³ Adams, A. F., Manners, G. E., Astrachan, J. H., & Mazzola, P. (2004). The importance of integrated goal setting: The application of cost-of-capital concepts to private firms. *Family Business Review* 17(4), 287-302.

⁴ Kellermans, F. W., Eddleston, K. A., Barnett, T., & Pearson, A. (2008). An exploratory study of family member characteristics and involvement: Effects on entrepreneurial behavior in the family firm. *Family Business Review*, 21(1), 1-14

STATEMENT OF THE PROBLEM

Madurai districts in Tamil Nadu are blessed with flourishing family businesses. The major towns of the Madurai districts have many family-oriented businesses. As always, we have two sides; many of the family businesses have proved successful whereas a few of them have failed too. This study aims at identifying the secrets of the success of those family businesses which are successful and also the reasons for the failure of a few of the family firms. It also aims at identifying and figuring out the future prospects for the family business houses in the changing international scenario.

NEED FOR THE STUDY

The livelihood of many people of the study area depends on the growth of the family businesses of the area. The family businesses need a direction towards which they should move in order to establish themselves with strong roots. There is definite and tremendous need to educate the family business concerns to apply modern methods of management in managing their firms. Global business is undergoing a sea change. Against this background, the reactions and responses of the family businesses have to be necessarily monitored and studied. The proposed study will try to give them guidelines for better governance.

RESEARCH METHODOLOGY

The research methodology of the study is as follows:

- 1) **Research Design:** The study has used a “Descriptive comes analytical design” of a conclusive nature.
- 2) **Sampling Design:** The cluster sampling method was applied for the selection of samples from the Madurai district.
- 3) **Sampling frame:** The researcher collected the list of family-owned businesses from the Maditssia (Madurai District Tiny & Small-Scale Industries Association) And the Viapara Sangam’s and Association of Madurai and also from DIC (District Industries Center) of Madurai. This list of family-oriented businesses in each of the district was used as the sampling frame.

4) **Sampling Unit:** A business unit which is family run which is involved in manufacturing, trading or both was taken as sample unit.

5) **Sample Area:** Sample area included the Madurai district of Tamil Nadu which includes the geographical area of Madurai City, Melur, Thiru Mangalam, Usilampatti, Vadipatti and the Peraiyur

6) **Sample Size:** For the purpose of the study, a sample size of 660 was decided on. The researcher collected the samples in different types of owned family business such as Mills (Rice, Dhal, Oil, Flour) Business, General Merchants Business, Automobiles Business, Hardware Business, Steel Business, Textile Business, Hotel Business, Furniture Business, Stationary Business, Jewelry Business, Food Business, Chemical Business and Grocery Business.

SOURCES OF DATA

The study was based on both primary and secondary data. Data collection tool For the collection of primary data; a field survey was conducted with the help of a well-structured interview schedule method and through online in google forms with help framed questionnaire. The secondary data was collected from books, magazines and from related Web sites.

KMO BARTLETT TEST

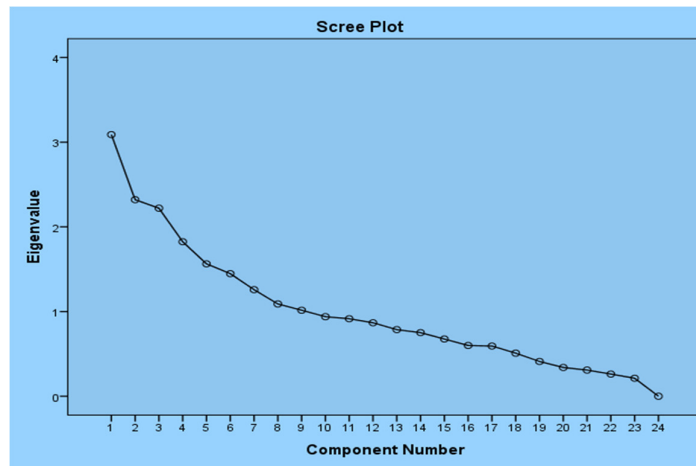
Kaiser -Meyer Olkin measures of samplings adequacy value is 0.639. Bartletts test of sphericity is significant at 0.000

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.639
Bartlett's Test of Sphericity	Approx. Chi-Square	322.152
	Df	66
	Sig	.000

There are two stages main in factor analysis. As the first stage in the factor analysis principal component analysis was used for the initial extraction of the factors. Principal component analysis is a technique which is used to form a set of new variables that have linear combination of the original set of variables. The new variables are called principal components. It is necessary that the scale constructed and the factors/components extracted should be able to explain the variance in data. For the analysis of this variance, one has to calculate the Eigen value, which will define the difference between the factors.

The researcher has used 24 variables and loaded them into factor analysis to collect the data. The Eigen value for the given factor measures the variance in all the variables which are accounted for by that factor. The higher Eigen value of a factor the larger is the amount of variation explained by the element. By retaining only the variables with Eigen values greater than one, one can infer that 10.311 percentage of variance is explained by factor 1, 9.912 rate of difference is defined by element 2, 8.875 proportion of variation is defined by factor 3, 7.530 proportion of variation by factor 4, 6.603 proportion of variation by factor 5, 6.341 proportion of variation by factor 6, 6.005 proportion of variation by factor 7, 5.345 proportion of variation by factor 8, and 4.875 proportion of variation by factor 9. These factors are presented in the following table.

From the below table, can see that nine factors show a cumulative variance of 65.887.



The screen plot shows the graphical representations of the factors which have eigen value greater than 1. With the help of the graph, it can be identified that there are nine factors loaded with the Eigen value of greater than 1.

Total Variance Explained									
Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.083	12.844	12.844	3.803	12.844	12.844	2.475	10.311	10.311
2	2.326	9.694	22.538	2.326	22.538	22.558	2.379	9.912	20.223
3	2.221	9.252	31.790	2.221	31.790	31.790	2.130	8.875	29.099
4	1.819	7.577	39.368	1.819	39.368	39.368	1.807	7.530	36.629
5	1.558	6.490	45.857	1.558	45.857	45.857	1.585	6.603	43.232
6	1.445	6.019	51.877	1.445	51.877	51.877	1.522	6.341	49.572
7	1.258	5.244	57.120	1.258	57.120	57.120	1.441	6.005	55.577
8	1.088	4.535	61.655	1.088	61.655	61.655	1.304	5.435	61.012
9	1.016	4.232	65.887	1.016	65.887	65.887	1.170	4.875	65.887
10	.936	3.900	69.788						
11	.916	3.817	73.604						
12	.873	3.638	77.243						
13	.789	3.286	80.528						
14	.751	3.130	83.658						
15	.675	2.813	86.471						
16	.601	2.503	88.974						
17	.592	2.466	91.440						
18	.510	2.124	93.564						
19	.411	1.714	95.277						
20	.340	1.417	96.694						
21	.319	1.328	98.022						
22	.264	1.098	99.120						
23	.211	.880	100.00						
24	1.358 E-016	5.660E- 016	100.00						

Extraction Method: Principal Component Analysis.

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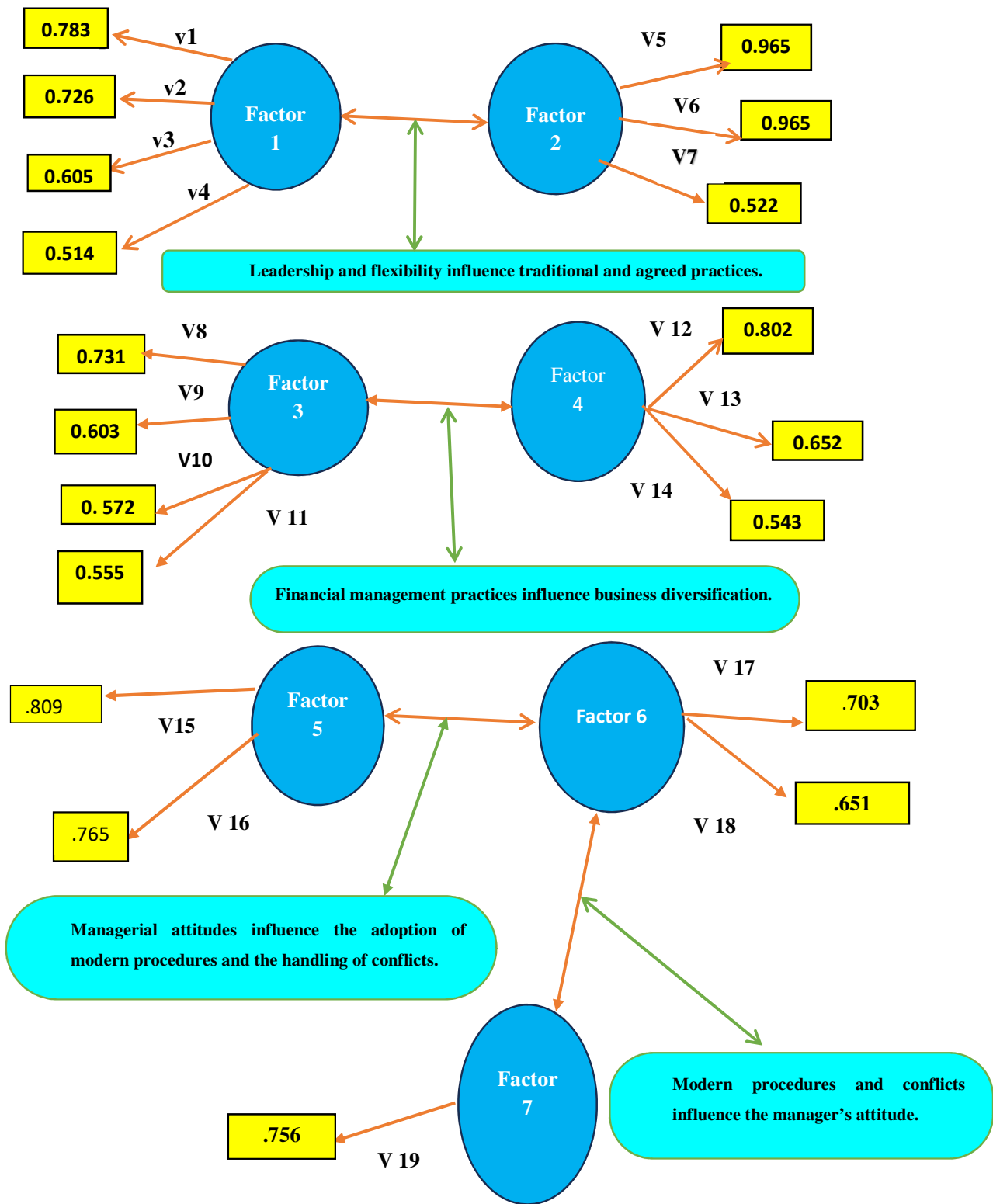
ROATATED COMPONENT MATRIX ^A							
Variables	1	2	3	4	5	6	7
Respect to family members is not based on seniority	.783						
Merit based leadership	.726						
Organisation is first to innovative	.605						
Women are allowed to give suggestions	.514						
We follow the traditional procedures		.965					
Close contact with customers		.965					
Procedures to handover the business to the next generation		.522					
Members of family are from different generations			.731				
Financial access to all family members.			.603				
All expenses of family functions met out from business.			.572				
Women play a Active role in business.			.555				
Family members have some other business.				.802			
Family values show the direction for our business				.652			
Members of the business belong to same generation				.543			
Mangers are not competitive					.809		
Decisions are taken after consulting other family members					.765		
Modern procedures are followed in the business administration						.703	
Family conflicts are reflected in business						.651	
Manger's attitude							.756

Extraction method: Principal component analysis

Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 22 iterations but four variables were evaluated such as 'Senior members are respected', 'Relationship between education of members in business', 'seniors act as mentors to new comers' and 'women are restricted'.

Structural Equation Model (SEM) Latent Factors and Observed Variables With factors relationship



Hypotheses for SEM

1. **H1: Leadership and Flexibility Influence Traditional and Agreed Practices**
 - **Hypothesis:** Effective leadership and flexibility (F1) positively influence the adherence to traditional practices and consensus within the family business (F2).
 - **Rationale:** Strong leadership and adaptability can foster a culture of agreement and adherence to established procedures.

2. **H2: Financial Management Influences Business Diversification**
 - **Hypothesis:** Proper financial management practices (F3) positively influence the diversification of business activities and the integration of generational values (F4).
 - **Rationale:** Effective financial planning and management can provide the resources and stability needed for business diversification and growth.

3. **H3: Managerial Attitudes Influence Modern Procedures and Conflict Management**
 - **Hypothesis:** Positive managerial attitudes (F5) positively influence the adoption of modern procedures and the effective management of family conflicts (F6).
 - **Rationale:** Managers with positive attitudes are more likely to embrace modern practices and handle conflicts constructively.

4. **H4: Modern Procedures and Conflict Management Influence Manager's Attitude**
 - **Hypothesis:** The adoption of modern procedures and effective conflict management (F6) positively influence the overall attitude of the manager (F7).
 - **Rationale:** Implementing modern practices and resolving conflicts can lead to a more positive and proactive managerial attitude.

Hypotheses Statements

1. **H1:** There is a positive relationship between leadership and flexibility (F1) and traditional and agreed practices (F2) in the family business.

2. **H2:** Financial management practices (F3) are positively associated with business diversification (F4).
3. **H3:** Managerial attitudes (F5) positively influence the adoption of modern procedures and conflict management (F6).
4. **H4:** Modern procedures and conflict management (F6) positively influence the manager's attitude (F7).

Interpretation of the SEM Model Structural Equation Model (SEM) consists of seven latent factors (F1 to F7) and their relationships with observed variables (V1 to V19).

Measurement Model

1. Factor 1: Leadership and Flexibility

○ Observed Variables:

- V1: Being Motivate & flexible positive of honest in family business (0.783)
- V2: Merit based leadership (0.726)
- V3: A family leader has the wisdom and humility to learn and know the importance of lifelong learning (0.605)
- V4: Women are allowed to give suggestions (0.514)

Interpretation: This factor represents qualities related to leadership and flexibility within the family business. High loadings indicate strong relationships between these qualities and the factor.

2. Factor 2: Traditional and Agreed Practices

○ Observed Variables:

- V5: We follow the traditional procedures (0.965)
- V6: All of your family members are agreed to the guidelines of family business (0.965)
- V7: Build a firewall between family and business issues (0.522)

Interpretation: This factor captures adherence to traditional practices and consensus within the family business. The high loadings on V5 and V6 suggest a strong emphasis on tradition and agreement.

3. Factor 3: Financial Management

- **Observed Variables:**

- V8: Financial planning is properly managed by family members (0.731)
- V9: Financial access to all family members (0.603)
- V10: All expenses of family functions met out from business (0.572)
- V11: Women play an Active role in business (0.555)

Interpretation: This factor reflects the financial management practices within the family business, including planning, access, and the role of women.

4. Factor 4: Business Diversification

- **Observed Variables:**

- V12: Family members have some other business (0.802)
- V13: Family generation values show the growth direction for our business (0.652)
- V14: Members of the business belong to same generation (0.543)

Interpretation: This factor indicates the diversification of business activities and the influence of generational values.

5. Factor 5: Managerial Attitudes

- **Observed Variables:**

- V15: Managers are not competitive (0.809)
- V16: Decisions are taken after consulting other family members (0.765)

Interpretation: This factor represents managerial attitudes, particularly regarding competitiveness and decision-making processes.

6. Factor 6: Modern Procedures and Conflicts

○ Observed Variables:

- V17: Modern procedures are followed in the business administration (0.703)
- V18: Family conflicts are reflected in business (0.651)

Interpretation: This factor captures the adoption of modern procedures and the impact of family conflicts on the business.

7. Factor 7: Manager's Attitude

○ Observed Variables:

- V19: Manager's attitude (0.756)

Interpretation: This factor focuses on the attitude of the manager within the family business.

Structural Model

1. **F1 -> F2:** Leadership and flexibility influence traditional and agreed practices.
 - **Interpretation:** Effective leadership and flexibility may lead to stronger adherence to traditional practices and consensus within the family business.
2. **F3 -> F4:** Financial management practices influence business diversification.
 - **Interpretation:** Proper financial management can support diversification and the integration of generational values in business growth.
3. **F5 -> F6:** Managerial attitudes influence the adoption of modern procedures and the handling of conflicts.
 - **Interpretation:** Positive managerial attitudes can facilitate the adoption of modern procedures and better management of family conflicts.
4. **F6 -> F7:** Modern procedures and conflicts influence the manager's attitude.
 - **Interpretation:** The way modern procedures are implemented and conflicts are managed can shape the overall attitude of the manager.

Conclusion

This SEM model provides a comprehensive view of how various factors related to leadership, traditional practices, financial management, business diversification, managerial attitudes, and modern procedures interact within a family business. By understanding these relationships, you can identify areas for improvement and develop strategies to enhance the overall functioning of the family business.

In today's era, family business needs to be carefully managed. With changing mindsets of the people, their lifestyle, rules and regulations in accordance to product specification, government laws, there seems to be a tough competition around the globe. Since, the success of a family business is driven by different organizational factors and set of policies, this project was deliberated to study to understand the impact of different factors on the success of the family business. It is very important to consider the financial management in a company hence the management should pay more attention to it. Each family member has its own strength and weaknesses, which can help to business to grow. The problem arises when the people are not aware about the transactions that are happening in the company, future planning which finally grow into conflicts among family members. This study could also help to the owners, in understanding and improving the factor on which they are lacking behind.

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