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# JUXTAPOSITION OF FAMILY OWNED FIRMS AND NON FAMILY FIRMS OF NIFTY WITH CONTRASTING PERFORMANCE

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***Abstract***

***India was the 12th largest economy in the world in the year 2007 and today it's the fifth largest. In such a growing economy, 90% of the businesses are Family owned Business and are accounting for 65% GDP contribution. Family Business is part of Indian culture and the sizes range from street vendor to Fortune 500 companies. This study has been conducted to understand the Family firms performance over Non-Family firms on various dimensions such as Market capitalization, Risk, Return, Profitability and Growth. NSE Index NIFTY constituent companies were taken for the study and analysis was done for the past 18 years. The results of these analysis predicated that the Non-Family firms are performing better in India in terms of market capitalization, Return, Profitability and Growth. However Family firms are dominating in the NSE NIFTY companies in terms of numbers. Even a few percentage improvements in its performance will significantly fuel Indian economy.***

***Keywords:***

***Economy, Family Business, Market Capitalization, Profitability, NIFTY***

## 1. INTRODUCTION

Family Owned Businesses (FOB) are the major and dynamic form of business in the world and they dominate too [1]. Globally 75% of businesses are Family businesses. They range from smaller mom-pop shops to bigger Fortune 500 companies, managed and controlled by families [2]. In USA and Europe, 90% and 85% of the businesses are Family businesses respectively. Worldwide their contribution towards social and economic development is enormous [3]. Family Businesses contribute about 70% to 90% to the global GDP and also provide 50% to 80% of employment in most of the countries [4]. Globally Family businesses are experiencing the heat due to globalization, aggressive competition, etc. Swift developments in information technology and production technologies entice family businesses to adapt globalization for its sustenance and growth irrespective of its size [5].

Family businesses are the essential part of the Indian economy and society. In India Family businesses contribute around 65% of India's GDP and provide 79% of organized employment in the private sector [4]. Among the top 20 business groups, 75% are Family businesses and put together they own assets worth Rs.26 lakh crore (at the end of FY16) [6].

As per the Registrar of Companies records, the total numbers of active companies are 11.67 Lakhs (May 2019). Around 5065 companies listed in both BSE and NSE. There are about 63.4 million MSME enterprise units in India. These MSME companies contribute around 29% to India's GDP and provide job opportunities around 111 million [7]. Almost 90% of the business in India is Family business. They range from 'Mom and Pop' Kirana stores, Small and medium enterprises to large conglomerates such as Tatas, Ambanis, Birlas, Godrej, Wadias, Munjals, Mahindra, Thapars, Mittals, Shaparji Paollonji, Jindals, Adanis, Anil Aggarwal: Vedanta, Bajaj, Ruias, Ranbaxy, and etc.

## 2. PERFORMANCE OF FAMILY FIRMS

Globally, during economic slumps, family firms outperformed non family firms [9]. Thirty-three percent of the S&P 500 are family firms. Their performances in terms of return on assets are better than nonfamily firms. In family firms, CEOs of family firms who are from their own family, performed better than other CEOs [10]. In Portuguese, the family firms are older and more financially leveraged with higher debt costs than Non-Family Firms. However, their risk is low compared to Non-Family firms [11]. The family businesses of Dubai outperform Non-Family businesses in sectors such as trading and construction but could not outperform in manufacturing and services [12]. Overall Family firms perform equally with Non-Family firms.

All over the world, Credit Suisse selected family business with a criterion that the firm's market capitalization should be more than $250 million. Finally they selected 1015 Family firms all over the world and prepared a report on their performance namely 'Credit Suisse Family 1000 in 2018'. Indian Family firms secured third position with 118 firms with an aggregate market capitalization worth 839 billion USD. Since 2006, these companies generated an annual average share price return of 13.9%, However Non-Family businesses generated 6% only [8]. A Study on the performance of Indian family businesses listed in BSE 500 was conducted across 5 categories, viz. market position, profitability, size, debt position, and number of employees. As per the results of the study Non-Family businesses outperformed family businesses on the above said parameters [13]. Dominance of Indian family firms and their contribution towards economy and employment, literally kindle the interest of the authors to study about the Indian family firms performance [14] [15].

## 3. RESEARCH METHODOLOGY

In India nearly 35 million family firms are there which range from mom and pop to big conglomerates. This research is limited only to 50 constituent companies of NIFTY. The companies are classified into Family, Non-Family, and Government owned companies for the comparison. This research has been formulated in two parts in which the first part analyse the data of constituent companies in NSE Fact book from the year 2000 to 2018. In the second part NIFTY constituent companies of the year 2020 are taken for analyzing the family firms profitability and growth. Statistical tools such as trend analysis, Correlation and time Series regression model are used to analyse the data of constituent companies. ANOVA is used to test the level of significance of time series regression model.

## 3.1 DOMINANCE OF FAMILY FIRMS

Number of family firms forming part of NIFTY index may indicate the domination over Non-Family firms. Trend analysis is done between the numbers of NIFTY constituent companies over the period of 18 years, category wise.

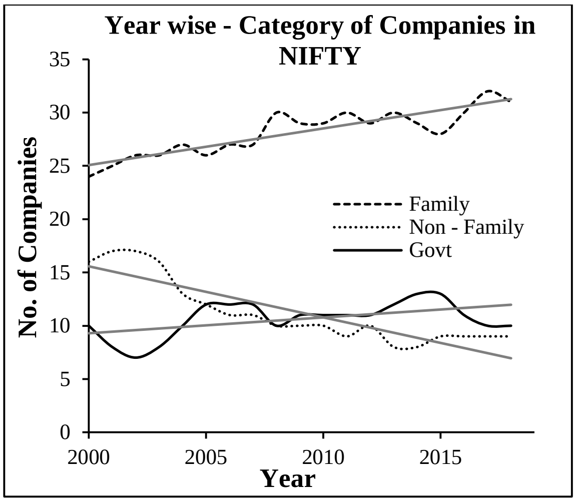


Fig.1. Categories of Companies in NIFTY

The Fig.1 depicts that number of family firms in NIFTY constituent companies is constantly growing with a positive slope of +0.3449 over the years and right now around 60% of the NIFTY index firms are family firms numbering to 33 companies. This is a very positive sign for the family firms in India. In fact non- family firms are losing their clutch in terms of number of companies with a negative slope of -0.4789. In the case of Government companies, there is not much of change. Indian family firms are relatively younger compared to developed nations. So India is going to be the more happening place for family firms.

To get further insight, time series regression model and ANOVA are performed on the number of family firms over the period of time.

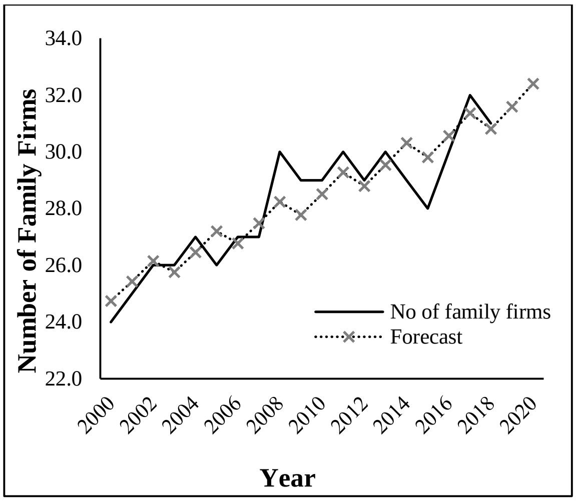


Fig.2. Forecasting number of family firms

The forecasted number of family companies using time series regression model is 32.4 and the actual number is 33. The generated model is as below.

$$Y = 24.74 + 0.342X$$

where, $Y$: Number of family firms and $X$: Time in numbers

ANOVA parameters justify the above time series regression model. The calculated significant value is less than the alpha value 0.05, so the model is significant. $R^2$ value of the model is 0.0825, which justify the model is able to explain 82.5% of the total variance. Over the years, number of family firms in the NIFTY is on an increasing trend.

Market capitalization of any listed company directly depends on number of shares issued and its prevailing share price. Share price reflects not only the past and present performance but also the expected future performance. The Total market capitalization of Family, Non-Family and Government firms during 2000-2018 are exhibited in the Fig.3.

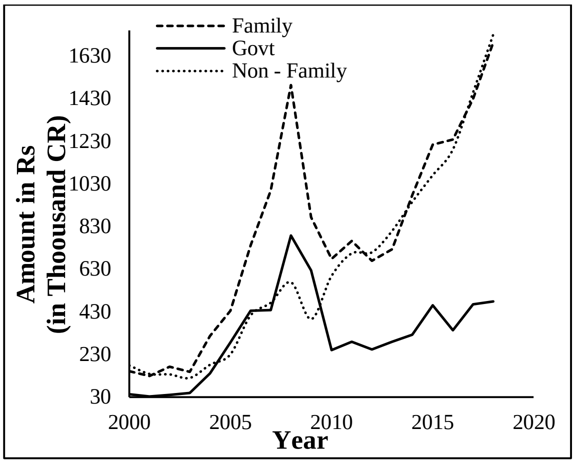


Fig.3. Total market capitalization - Year wise

The analysis exhibits that during the year 2009 Family firms' total market capitalization is far ahead of Non-family, and Government. However, in 2018 the total market capitalization of Family and Non Family firms stands at 1,693 and 1,731 thousand Crores respectively. The total market capitalization is almost equal for family and Non Family firms. Since, the number of Family firms and Non-Family firms are different in NIFTY, the average market capitalization is taken for study.

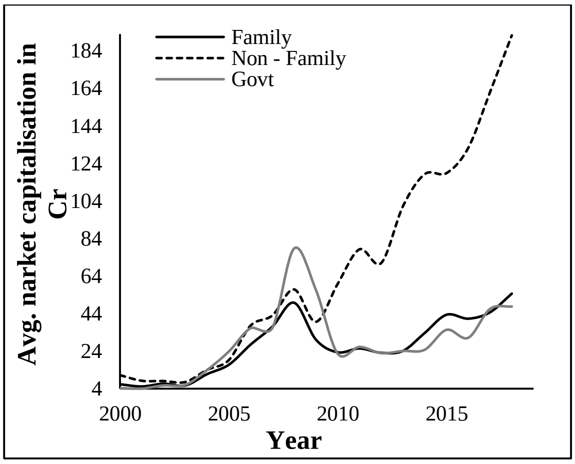


Fig.4. Average Market Capitalization - Category wise

Average market capitalization analysis gives a totally different picture of Non-Family firms. In the year 2018 average market capitalization of Non-Family, Family and Government companies are Rs.1,92,307, Rs.54,609 and Rs.47,857 Crores respectively. Non-Family companies average market capitalization size is quite large and beyond comparison with the other two categories. Family firms lag behind Non-Family firms as compounded annual growth rate of average market capitalization of Non-Family and Family firms are 17.14% and 12.73% respectively. This proved the superiority of Non-family firms over family firms' performance in terms of market capitalization.

Just 10 Non-Family firms matched the total market capitalization of 30 plus Family firms. Predominantly Non-Family firms are from the service sector and mostly non-capital intensive. This show Non-Family firms are in line with the Indian economy. Currently, the service sector alias tertiary sector is the major contributor to India's GDP and growing continuously. Family firms are mostly into the manufacturing sector alias secondary sector and are the next major contributor to the country's GDP. The Fig.5 shows the dominance of the service sector in its contribution to the Indian economy.

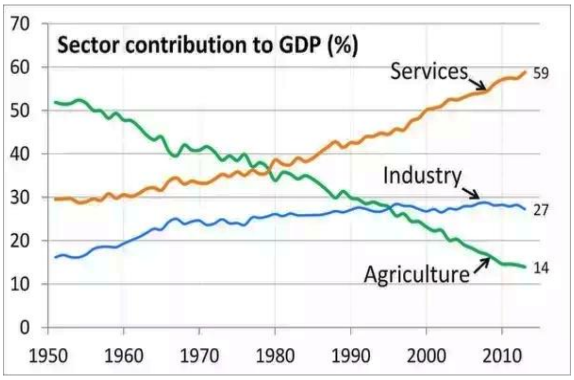


Fig.5. Sector wise contribution to GDP

The tertiary sector overtook the other two sectors in the year 1980 and further momentum gained after liberalization and pushed the manufacturing sector into stagnant [16].

## 3.2 FAMILY FIRMS RISK AND RETURN

Generally risk is measured by the amount of volatility that is the difference between actual and expected returns. Some common measures of risk include standard deviation, beta, value at risk (VaR), and conditional value at risk (CVaR). In this study beta is used to measure the risk. Beta is a measure of the volatility of a security in comparison to the market as a whole. Weighted average beta is calculated for each category and for each year.

Non-Family firm crossed the beta value above 1.0 only in 4 years, However family firms and government companies crossed 10 years out of 19. This shows Non-Family firms stocks are less volatile compared to market movement. Family firms are more volatile than market and more risky than Non-Family firms.

Risk and return always travel together. Weighted average return is calculated for every year and tabulated (Table.1) category wise. During the year 2000 to 2010 family firms performed well in terms of return. After 2010 Non-Family firms performance is better than family firms.

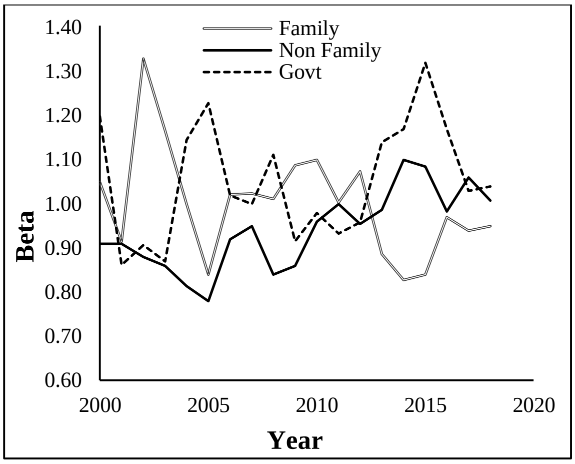


Fig.6. Weighted Average Beta – Year wise

Table.1. Weighted Average Share Return % - Year wise

| Year | Family | Non-Family | Better Performance by |
|---|---|---|---|
| 2000 | -5.59 | -5.60 | Family Firms |
| 2001 | -14.72 | -11.89 | Non-Family Firms |
| 2002 | 13.20 | -3.12 | Family Firms |
| 2003 | -12.90 | -9.13 | Non-Family Firms |
| 2004 | 125.72 | 80.20 | Family Firms |
| 2005 | 7.67 | 0.94 | Family Firms |
| 2006 | 12.57 | 6.08 | Family Firms |
| 2007 | 30.14 | 16.25 | Family Firms |
| 2008 | -8.29 | -10.77 | Family Firms |
| 2009 | 14.18 | 5.70 | Family Firms |
| 2010 | 8.33 | 6.65 | Family Firms |
| 2011 | 9.70 | 10.05 | Non-Family |
| 2012 | -3.24 | -2.02 | Non-Family Firms |
| 2013 | -1.67 | 2.63 | Non-Family Firms |
| 2014 | 5.66 | 7.75 | Non-Family Firms |
| 2015 | -2.11 | -5.00 | Family Firms |
| 2016 | 10.28 | 12.07 | Non-Family Firms |
| 2017 | 3.38 | 4.80 | Non-Family Firms |
| 2018 | -4.48 | -2.03 | Non-Family Firms |

If we consider the entire period of study (2000 – 2018), family firms and Non-Family firms equally out performed each other. But in the first half, family firms and in the second half Non-Family firms performed better in terms of share return. Further correlation matrix is given in Table.2 on categories' weighted average share return rate.

Table.2. Share Return – Correlation Matrix

| Correlation | Family | Non-Family | Govt. |
|---|---|---|---|
| Family Firms | 1.00 | 0.974 | 0.975 |
| Non-Family Firms | 0.974 | 1.00 | 0.942 |
| Govt. Firms | 0.975 | 0.942 | 1.00 |

The results confirm the perfect positive linear relationship prevails among Family versus Non-Family categories, Family versus Government categories. Correlation values are almost equal to +1. They move along with each other equally.

## 3.3 FAMILY FIRMS' PROFITABILITY AND GROWTH

The recent changes in the business space such as companies act, 2013, implementation of GST, Indian business groups acquiring international entities [17] has induced this research to know about the current performance of family firms of NIFTY constituent companies. Comparison study performed among the three category companies based on their composition, profitability, margin analysis, long term solvency, and five year compounded annual growth of total revenue and net Income.

The composition of NIFTY companies is dominated with 33 Family firms occupying 66% of the NIFTY companies (Table.3). Among them, 22 companies are from the manufacturing sector and the rest is from service sector.

Table.3. Composition of NIFTY 50 in 2020

| Sectors | Family | Non-family | Govt. |
|---|---|---|---|
| Manufacturing | 22 | 2 | 6 |
| FMCG | 2 | 2 | - |
| Finance | 4 | 4 | 1 |
| Service | 5 | 1 | 1 |
| Total | 33 | 9 | 8 |

*Source: National Stock Exchange*

The manufacturing sector's dominance is there for Government companies and the majority of them are from Oil and Gas industries. However, for the Non-Family firms, the story is different. Majority of the firms are into Service sector companies.

Table.4. Average Return on Equity in 2020

| Categories | Avg. ROE | Max | Min |
|---|---|---|---|
| Non Family | 24% | 79.8 | 4.8 |
| Govt. | 18% | 73.7 | 1.4 |
| Family | 16% | 45.3 | -35.6 |

*Source: National Stock Exchange*

In the year 2020, Return on equity of Non-Family firms is far ahead of Government and Family firms (Table.5). Among the Non-family firms, FMCG bellwether Hindustan Unilever, a Non-Family firm is a topper in providing 79.8% return on equity, however, the average return of Government companies is around 18.2%. Coal India, a government company also gave a 73.7% ROE. Family firm's performance is a lukewarm performance, when compared to other categories.

Table.5. Profitability margin

| Item | Non Family | Family | Govt. |
|---|---|---|---|
| Margin% | 19.9% | 13.7% | 10.7% |
| Debt Equity ratio | 0.46 | 0.79 | 0.93 |

*Source: National Stock Exchange*

Non-family firms' revenue margins are unbeatable with 19.9%, but family firms stands at only 13.7%. Most of the family firms are manufacturing firms and that may be the reason for such a low average.

Debt Equity ratio of different categories is explored (Table.6). Government companies top the score with a 0.93 debt-equity ratio. 75% of the government companies are capital category companies. That may be the reason for such a high debt-equity ratio. Non-Family firm's debt-equity ratio stands at 0.458 if Larson and Turbo is excluded then debt-equity ratio shall be 0.0045. The majority of the Non-Family firms are into the service sector that may be the reason for such a low Debt equity ratio.

Table.6. Five year CAGR

| CAGR (2015-2020) | Non Family | Family | Govt. |
|---|---|---|---|
| Average Revenue growth | 12.6% | 11.5% | 7.9% |
| Average Net Income growth | 12.0% | 7.7% | 5.1% |

*Source: National Stock Exchange*

From the above table, Non-Family firms are growing better than family firms in terms of revenue as well as in the Net income. In the recent years, Beta value of Non- family firms shows that their stocks are more volatile and riskier than family firms. However, their debt to equity ratio is very low for the majority of the companies and almost equal to zero, if L&T is excluded. This shows their ability to manage their cash flows and investments without any borrowings. Put it in another way Non-Family firms choose categories in such a way that have good growth and cash business.

Family firms do not take much risk, which can be substantiated from their beta which is below mark 1.0, meaning their stocks are less volatile compared to the market. Less risk-taking policy reflects in their return on equity too.

## 4. CONCLUSION

During these 18 years (2000-2018), Non-Family firms performed better than family firms in various dimensions such as, Average Market capitalization, Risk, Return on equity. Analysis of NIFTY index companies for the year 2020 on revenue growth and Net income growth also reinforced the above results. However, the role of Family firms in India cannot be ignored. Family firms have always been a fundamental part of the economy and society in our country. They need to benchmark their processes and practices with Non-Family firm and adapt the worldwide transformational changes. May be entering into service sector especially in the technological sphere is the need of the hour. COVID -19 pandemic push Indian government to focus on self-reliance is good news for family firms. Indian Family groups stepping into international business arena is giving more confidence for the progress of Indian economy.

Further research may be performed on the NIFTY 200 stocks, to get better insight of the performance of Non-Family and Family firms. In most of the countries Family firms perform better than Non-Family firms. But in India the results are different in case of NIFTY Constituent family firms. A highly populated country like India's economy is depending on family firms. Improvement in the performance of family firms will have a difference in the Indian economy.

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