

# Family Business Performance: A Perspective of Family Influence in Madurai

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## INTRODUCTION

Family-owned businesses (FOBs) are a vital part of economic development, especially in regions like Madurai, where they form the backbone of the local economy. These businesses play a significant role in employment generation and innovation, but face unique challenges due to the overlap between family and business roles. Their performance is shaped by factors such as family culture, decision-making, succession planning, professionalization, and community trust. Family dynamics like involvement in decision-making, communication styles, and conflict resolution directly affect operational efficiency and overall business success. Among these, succession planning stands out as crucial for ensuring continuity across generations. However, leadership transitions often bring challenges, particularly in balancing emotional family ties with business priorities. Professionalization, through structured management practices and systems, enhances performance by improving efficiency, transparency, and decision-making. Additionally, community trust built through strong relationships and a good reputation plays a pivotal role in a family business's ability to compete and grow.

This study explores how family culture, succession planning, professionalization, and community trust impact the performance of family-owned businesses in Madurai. Using a mixed-methods approach, it gathers both quantitative and qualitative data to offer a comprehensive understanding of the factors driving business outcomes. The insights aim to support family businesses in navigating challenges, strengthening performance, and ensuring sustainable growth.

## REVIEW OF LITERATURE

### Family Involvement and Performance in Family Businesses

Family businesses are a vital part of the global economy, with their performance influenced not only by economic factors but also by the extent of family involvement. This involvement spans ownership, governance, culture, and values. The F-PEC scale (Power, Experience, Culture) used by Alves and Gama (2020) in a study of 169 Portuguese family firms revealed that while generational experience negatively impacted financial performance, a strong family culture enhanced both financial and non-financial outcomes. Emotional bonding and a shared vision were found to promote long-term growth and stability.

Family involvement can foster strategic flexibility and innovation, enhancing competitiveness (Eddleston et al., 2013; Craig et al., 2014). However, too much control may lead to risk aversion, potentially hindering performance in dynamic markets. Its impact depends on how well it adapts to change. Basco (2017) noted that family involvement benefits smaller, younger firms, but may limit larger, mature ones, emphasizing the need for professional management as firms grow.

**Abstract:** *This study investigates the impact of family dynamics on the performance of family-owned businesses in Madurai, with a focus on family culture, succession planning, professionalization, and community trust. A mixed-methods approach was used, combining both quantitative and qualitative data collection methods for a holistic analysis. A structured questionnaire was distributed to 466 family business owners and key family members, gathering data on demographic characteristics, family involvement levels, decision-making processes, and their perceived effects on business performance. Quantitative data were analyzed using SPSS and AMOS Graphics, while qualitative data underwent thematic analysis to identify underlying patterns and themes. The findings reveal that family culture, succession planning, professionalization, and community trust all positively influence the performance of family businesses. Specifically, family culture fosters a positive environment that supports business success, while professionalization helps enhance operational efficiency. Succession planning ensures business continuity, and community trust contributes to stronger external relationships. These results highlight the critical role of family dynamics in shaping business outcomes and emphasize the need for family-owned businesses to actively manage these factors to improve their overall performance. The study provides valuable insights into strategies that can support the growth and sustainability of family-owned businesses in Madurai.*

**Keywords:** Business performance, Family dynamics, Family culture, Professionalization, Succession planning.

## Succession Planning and Its Influence on Performance

Mokhber et al. (2017) emphasized that succession planning significantly influences sustainability and performance. Successor readiness and intra-family harmony during leadership transitions were key to minimizing disruptions and maintaining strategic goals. Structured planning including management training, value transmission, and trust-building supports steady growth across generations.

Coffie et al. (2024) found that mentoring, job rotation, and internal branding improve successor preparedness by building knowledge, networks, and a sense of belonging. Effective succession planning also promotes innovation through smooth knowledge transfer. Gomez-Mejia et al. (2007) introduced the Socioemotional Wealth (SEW) concept, showing that family firms often prioritize control, legacy, and identity in succession, valuing emotional ties over short-term financial gains.

## Family Culture and Its Influence on Performance

Astrachan and Jaskiewicz (2008) stated that emotional returns such as pride and legacy preservation are often as vital as financial gains. This attachment strengthens commitment and promotes unity, enhancing long-term performance.

Alipour et al. (2024) found that family culture fosters loyalty and a shared sense of purpose among both family and non-family employees. When strategically leveraged, it creates a cohesive organizational environment, improving operational efficiency and business outcomes. Thus, family culture is essential to the long-term success and sustainability of family enterprises.

## Professionalization and Its Impact on Performance

Formal governance structures like advisory boards and independent directors improve decision-making, accountability, and long-term planning (Miller et al., 2008). Separating ownership from management by involving non-family executives fosters objective decisions, enhancing efficiency and reducing family influence (Chrisman et al., 2005).

Lyman (1991) added that non-family managers often bring fresh perspectives and guide innovation. However, successful integration requires the family to remain involved to preserve core values. Zellweger et al. (2010) emphasized that professionalization supports sustainable growth and competitiveness by enabling expansion, adopting new technologies, and staying relevant in changing markets.

## Community Trust and Family Business Performance

Berrone, Cruz, and Gómez-Mejía (2010) emphasized that trust is crucial for small family businesses, helping them build strong relationships and ensuring long-term stability. Engaging with the community through CSR initiatives boosts the firm's visibility and public trust, fostering loyalty (Pina, Ferreira, and Silva, 2021). Jaskiewicz, Uhlenbruck, and Wright (2015) also pointed out that strong local networks with suppliers and businesses not only improve reputation but also promote collaboration and business growth.

Finally, Miller, Le Breton-Miller, and Scholnick (2016) argued that family firms are often perceived as more trustworthy than non-family firms due to their long-standing community ties and value-driven operations. This perception fosters stronger relationships and greater competitive advantage.

**Figure 1: The Conceptual Model**



Source: created by the author using Adobe Photoshop

From the above literature review the following conceptual model and hypothesis were made

## OBJECTIVES

- To identify and examine the key factors within family dynamics that influence the performance of family businesses in Madurai.
- To examine the relationship between family dynamics and overall business performance

## HYPOTHESIS

- HY1: Family culture has a significant impact on the performance of family-owned businesses.
- HY2: Succession planning significantly influences the performance of family businesses.
- HY3: Professionalization exerts a significant effect on the performance of family business enterprises.
- HY4: Community trust significantly contributes to the performance of family-owned businesses.

## RESEARCH METHODOLOGY

This study adopted a mixed-methods approach, integrating both quantitative and qualitative techniques to comprehensively examine the influence of family dynamics on the performance of family businesses in Madurai. A descriptive research design was employed to systematically capture the relevant data. Primary data was collected using a structured questionnaire designed to capture demographic characteristics, levels of family involvement, decision-making patterns, and their impact on business performance. The questionnaire included both closed-ended items, which facilitated the collection of quantitative data, and open-ended items, which allowed for qualitative insights into respondents' experiences and perceptions. Data analysis was carried out using standard procedures appropriate for both quantitative and qualitative data. Quantitative data were analyzed using statistical techniques, while qualitative responses were subjected to thematic analysis to capture underlying patterns and insights.

## SAMPLING PROCEDURE

The respondents for the study were selected through a convenience sampling method, focusing on owners and key family members actively engaged in the operations and management of family-owned businesses in Madurai City.

The minimum required sample size was determined with a 95% confidence level and with a 5% of margin of errors using a sample size calculator, which indicated that 385 responses would be necessary to achieve an acceptable level of statistical significance. To enhance the robustness of

the study, data was initially collected from 500 respondents. Following a rigorous data cleaning process to address incomplete responses and inconsistencies, the final usable sample was fixed at 466 respondents.

Additionally, a preliminary pilot survey was conducted to validate the structure and reliability of the research instrument prior to the main data collection.

## ANALYSIS AND INTERPRETATION

**Table 1: Demographic profile**

| Items                               | Classification                      | %    |
|-------------------------------------|-------------------------------------|------|
| Gender                              | Male                                | 75.8 |
|                                     | Female                              | 23.6 |
|                                     | Others                              | .6   |
| Age                                 | Below 25                            | 18.0 |
|                                     | 26-35                               | 35.8 |
|                                     | 36-45                               | 26.4 |
|                                     | 46-55                               | 15.0 |
|                                     | Above 55                            | 4.7  |
| Generation of Ownership             | First generation                    | 17.6 |
|                                     | Second generation                   | 49.8 |
|                                     | Third generation or more            | 32.6 |
| Family Members Involved in Business | 1                                   | 13.5 |
|                                     | 2                                   | 23.4 |
|                                     | 3-4                                 | 28.3 |
|                                     | More than 4                         | 34.8 |
| Key Decision Maker                  | Owner alone                         | 29.8 |
|                                     | Jointly with family                 | 30.5 |
|                                     | Senior family members               | 35.8 |
|                                     | External advisors with family input | 3.9  |
| Succession Planning                 | Yes, formally planned               | 44.6 |
|                                     | Informally planned                  | 53.0 |
|                                     | Not planned                         | 2.4  |
| Nature of Business                  | Manufacturing                       | 10.5 |
|                                     | Trading                             | 31.3 |
|                                     | Service                             | 4.9  |
|                                     | Retail                              | 12.0 |
|                                     | Agriculture-based                   | 39.3 |
|                                     | Others                              | 1.9  |

Source: Primary

## DESCRIPTION OF VARIABLES

### Succession Planning

- SP1: Our family has a clear succession plan for business leadership.
- SP2: Multiple generations are actively involved in the business.
- SP3: The successor is well-prepared and trained for leadership.

### Family Culture

- FC1: Our family shares strong emotional ties with the business.
- FC2: Family values guide how the business is managed.
- FC3: Long-standing family traditions are maintained in business decisions.

### Professionalization

- PR1: There are clearly defined roles for each family member.
- PR2: We hire non-family professionals for key roles.
- PR3: The business follows structured procedures and policies.

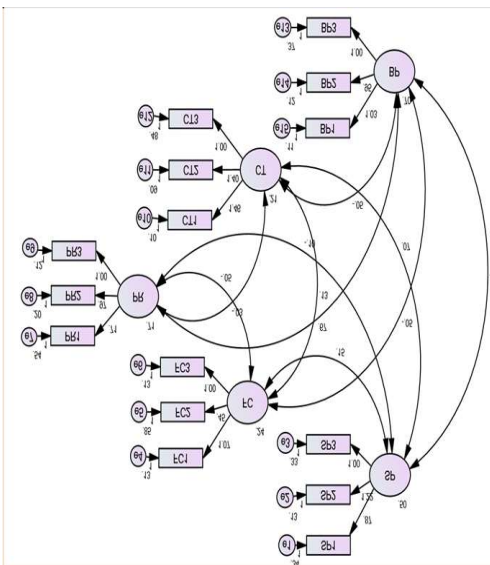
### Community Trust

- CT1: Our business is trusted by the local community.
- CT2: We actively engage in community activities.
- CT3: Our family maintains strong business networks in the region.

### Family Business Performance

- BP1: Our business has shown consistent growth in recent years.
- BP2: The profitability of our business is stable and improving.
- BP3: We have a high level of customer satisfaction and retention.

**Figure 2: CFA (Confirmatory factor analysis)**



Source: compiled by the author using AMOS

In Figure 2, the model exhibits a strong and acceptable fit with the observed data. The CMIN/DF value of 3.471 falls within the permissible range, indicating a reliable model structure. The GFI value of 0.922 confirms a good overall fit, while the CFI (0.955) and TLI (0.941) reflect excellent comparative fit, both exceeding the standard benchmark of 0.90. The RMSEA value of 0.073 and the SRMR value of 0.0621 both lie well within acceptable limits, suggesting minimal error between predicted and actual values. Additionally, the NFI value of 0.938 reinforces the model's strength and consistency. These fit indices confirm that the model is statistically sound, theoretically valid, and performs well in explaining the data relationships.

**Table 2: Covariances of the CFA**

| Correlations |      |    | Estimate | S.E. | C.R.   | P    |
|--------------|------|----|----------|------|--------|------|
| SP           | <--> | CT | .069     | .018 | 3.824  | ***  |
| SP           | <--> | PR | -.100    | .031 | -3.174 | .002 |
| SP           | <--> | FC | .151     | .022 | 6.806  | ***  |
| FC           | <--> | CT | .126     | .017 | 7.364  | ***  |
| FC           | <--> | PR | -.047    | .023 | -2.059 | .040 |
| PR           | <--> | CT | -.034    | .020 | -1.742 | .081 |
| SP           | <--> | BP | -.138    | .032 | -4.341 | ***  |
| FC           | <--> | BP | -.047    | .022 | -2.103 | .035 |
| PR           | <--> | BP | .666     | .052 | 12.694 | ***  |
| CT           | <--> | BP | -.054    | .020 | -2.722 | .006 |

Source: compiled by the author using AMOS

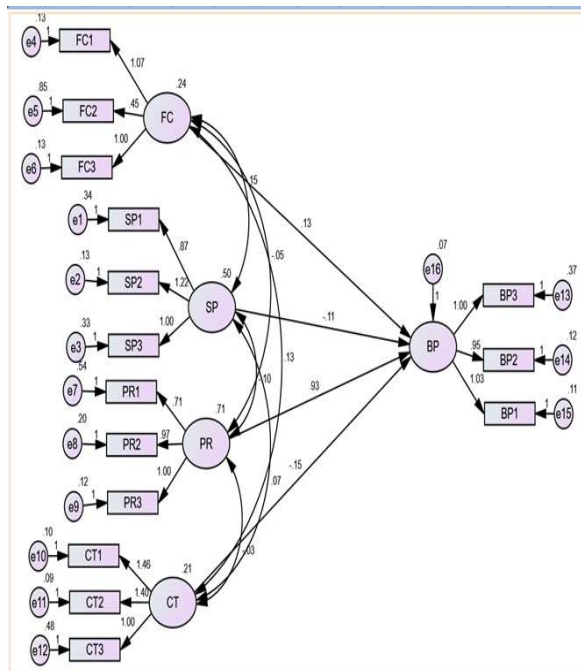
**Table 3: Reliability analysis**

| Factors                     | Items | M    | St.d | AVE   | Cr-al | CR    |
|-----------------------------|-------|------|------|-------|-------|-------|
| Succession Planning         | SP1   | 2.72 | .851 | 0.659 | .849  | 0.852 |
|                             | SP2   | 2.87 | .937 |       |       |       |
|                             | SP3   | 2.72 | .914 |       |       |       |
| Family Culture              | FC1   | 4.01 | .639 | 0.558 | .737  | 0.779 |
|                             | FC2   | 3.23 | .951 |       |       |       |
|                             | FC3   | 4.12 | .612 |       |       |       |
| Professionalization         | PR1   | 2.44 | .945 | 0.675 | .851  | 0.859 |
|                             | PR2   | 2.21 | .933 |       |       |       |
|                             | PR3   | 2.12 | .908 |       |       |       |
| Community Trust             | CT1   | 3.92 | .736 | 0.644 | .807  | 0.839 |
|                             | CT2   | 3.92 | .707 |       |       |       |
|                             | CT3   | 3.94 | .829 |       |       |       |
| Family Business Performance | BP1   | 2.03 | .930 | 0.790 | .909  | 0.918 |
|                             | BP2   | 1.98 | .872 |       |       |       |
|                             | BP3   | 2.30 | .908 |       |       |       |

Source: compiled by the author using SPSS & AMOS

The reliability scores for each factor in the study show strong internal consistency and clear measurement accuracy. For Succession Planning, the AVE is 0.659, with a Cronbach's Alpha of 0.849 and a CR of 0.852, confirming solid consistency among the items. Family Culture also demonstrates decent internal reliability, with an AVE of 0.558, an Alpha of 0.737, and a CR of 0.779. Professionalization stands out with an AVE of 0.675, an Alpha of 0.851, and a CR of 0.859, reflecting strong coherence in item responses. Similarly, Community Trust shows good reliability, supported by an AVE of 0.644, an Alpha of 0.807, and a CR of 0.839. Finally, Family Business Performance has excellent internal consistency, with the highest AVE of 0.790, Alpha of 0.909, and CR of 0.918, indicating highly dependable results for this factor.

**Figure 3: SEM (Structural Equation Model)**



Source: compiled by the author using AMOS

In Figure 3, the model exhibits a strong and acceptable fit with the observed data. The CMIN/DF value of 3.471 falls within the permissible range, indicating a reliable model structure. The GFI value of 0.922 confirms a good overall fit, while the CFI (0.955) and TLI (0.941) reflect

excellent comparative fit, both exceeding the standard benchmark of 0.90. The RMSEA value of 0.073 and the SRMR value of 0.0621 both lie well within acceptable limits, suggesting minimal error between predicted and actual values. Additionally, the NFI value of 0.938 reinforces the model's strength and consistency. These fit indices confirm that the model is statistically sound, theoretically valid, and performs well in explaining the data relationships.

**Table 4: Hypothesis testing**

| Path       | Estimate | S.E. | C.R.   | P    |
|------------|----------|------|--------|------|
| BP <--- FC | .132     | .066 | 2.015  | .044 |
| BP <--- SP | -.110    | .035 | -3.140 | .002 |
| BP <--- PR | .927     | .042 | 22.040 | ***  |
| BP <--- CT | -.152    | .061 | -2.481 | .013 |

Source: compiled by the author using AMOS

The results indicate that Family Culture (FC) positively impacts Business Performance (BP) ( $p = 0.044$ , 5% level), while Succession Planning (SP) also affects it ( $p = 0.002$ , 1% level). Professionalization (PR) shows a strong influence ( $p < 0.001$ , highly significant), and Community Trust (CT) has a significant relationship ( $p = 0.013$ , 5% level).

## DISCUSSION

This study clearly shows that the performance of family-owned businesses in Madurai is closely tied to internal family dynamics. A healthy family culture, where values and responsibilities are shared, helps in smoother decision-making and business stability. Succession planning, though essential, often faces challenges due to emotional ties and reluctance to transfer control. However, firms with proper succession strategies showed better continuity and growth. Professionalisation also played a key role. Businesses that adopted formal systems and allowed space for non-family professionals performed more efficiently. Still, hesitation to move away from traditional ways was observed in some firms. Lastly, community trust was found to be a strong advantage. Businesses with a good reputation and positive local engagement earned more customer loyalty, which reflected in their overall success.

## CONCLUSION

In a place like Madurai, where tradition and business often go hand in hand, family-owned enterprises are more than just sources of income, they're part of the family's identity and pride. These businesses are usually built on years of trust, values, and relationships passed down through generations. But in today's fast-changing world, it's not enough to rely only on legacy. The real challenge lies in how well families can balance emotional ties with practical business thinking.

This study clearly brings out that four key factors play a major role in shaping the future of such businesses: strong family culture, proper succession planning, professional management, and trust within the local community. When family values guide the way a business is run, it builds unity. At the same time, having a proper plan for who will lead the business next avoids confusion and keeps things smooth. Bringing in professional systems, defining roles, and even involving non-family experts when needed helps the business stay efficient without losing its family essence.

Equally important is staying connected with the community. A business that enjoys goodwill and respect

locally is more likely to grow steadily. So, when families manage to keep harmony at home, prepare the next leaders thoughtfully, adopt modern ways of running the business, and hold on to the trust of the people around them, they stand a better chance of long-term success. In the end, it's not just about making profits it's about keeping the family name alive for generations to come.

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