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RESEARCH ARTICLE

AN EMPIRICAL STUDY OF INDIAN FAMILY-OWNED LISTED COMPANIES TO INVESTIGATE THE MODERATING EFFECT OF CORPORATE GOVERNANCE PRACTICES ON THE ASSOCIATION BETWEEN FINANCIAL CONSTRAINTS AND FIRM PERFORMANCE

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ABSTRACT

This study was to investigate the impact of different financial constraints on the financial performance of family-owned listed companies in India. It also looked at how, in the chosen organisations, corporate governance practices moderate the relationship between financial limitations and company performance. The financial reports from 38 family-owned corporates listed in the BSE 200 index throughout a ten-year period (2013–2022) served as the secondary data source for this study. Regression analysis with moderation was used to analyse the data. The outcome showed that intrinsic financial restrictions substantially impair the chosen firms' financial performance. An analysis of the moderating impacts of corporate governance (CG) practices revealed that financial constraints had a less detrimental influence on the financial performance of businesses with better CG practices. This was mostly due to the board's growing involvement in financial decisions during times of restriction and also because of strict compliance in terms of audit function.

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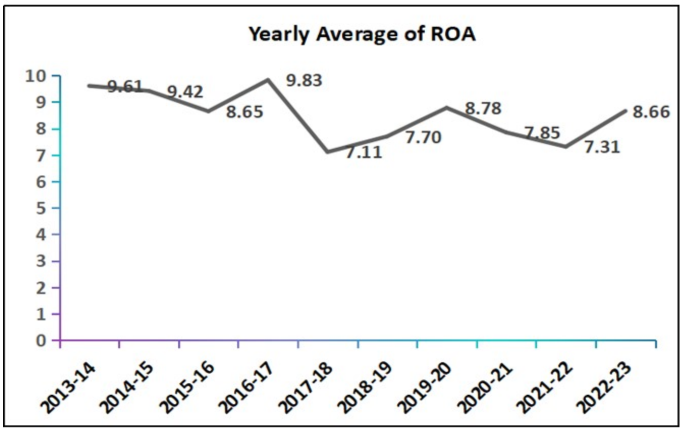
INTRODUCTION

By supporting innovation and entrepreneurship, fostering economic growth, creating employment opportunities for millions of people, and retaining a long-term view in their business strategy, family-owned businesses in India play crucial roles in the economy of the nation. These companies frequently respect moral standards, participate in CSR initiatives, and support rural and agricultural development. They also uphold steadfast family values and traditions while acting as philanthropic forces in support of numerous humanitarian endeavours. Family-owned businesses strengthen the economy's resiliency, fostering stability and competition (Chahal & Sharma, 2020). Despite the difficulties they confront, their efforts are crucial for India's long-term economic growth and societal well-being. One of India's top corporations, the Tata Group is distinguished for its dedication to moral behaviour, inventiveness, and philanthropy. Mukesh Ambani's Reliance Industries has significantly impacted India's petrochemical, telecommunications, and retail industries. Another illustrious name is the Aditya Birla Group, which is renowned for the variety of its enterprises and dedication to sustainability. These family-owned behemoths, together with the Mahindra Group, Godrej Group, and Bajaj Group, have made significant contributions that have helped shape India's business environment and promote economic progress, ranking them among the top family-owned businesses in the nation (Budhiraja & Pathak, 2018). Notwithstanding their significant economic contribution, family-owned businesses in India frequently struggle financially. Access to capital is a typical issue. When compared to their publicly traded competitors, these organisations may have fewer options for acquiring capital, which makes it challenging to finance expansion, innovation, and growth. In addition, succession planning can be a significant financial problem for family-owned businesses, which must set aside funds to ensure a smooth transfer of leadership to the following generation (Buckman & Buame, 2020). Finances may be strained as a result of governance concerns and the requirement for professional management because it costs money to hire top talent and execute corporate governance practices. Furthermore, these companies' financial stability may be impacted by market volatility or economic downturns. Thus it is crucial for them to have solid financial plans and risk management procedures. Figure 1 displays the average yearly return on assets (ROA) for 38 family-owned businesses listed in the BSE 200 during the previous 10 years. The average fell from 9.61 in 2013–14 to 7.11 in 2017–18. Even though most businesses are currently experiencing an increase in their ROA, the 10-year average, which was 9.61 in the year 2013–2014, is still at 8.66 in 2022–23. There could be several causes behind the declining performance of family-owned businesses in India. Lack of professional management and governance practices is a major problem, frequently as a result of family members holding important positions owing to nepotism rather than merit, which results in ineffective decision-making. Another problem that might cause leadership voids and family disputes that interfere with business operations is the absence of a clear succession plan (Farooq & Noor, 2023). These businesses might also have trouble obtaining outside capital, which restricts their ability to invest in growth and innovation. Economic downturns, shifts in customer preferences, and market volatility can all have a negative effect on financial success. Due to an over-reliance on traditional business practises and a resistance to change, family-owned businesses may find it challenging to adapt to shifting market conditions, which can have further detrimental repercussions (Yu & Li, 2023).In India, family-owned enterprises are often severely impacted by financial constraints. These restrictions usually limit businesses from investing in growth, innovation, and diversity, which leaves them vulnerable to shifts in the market and pressure from competitors. Shortage of capital may forestall them from embracing cutting-edge technologies or expanding into new markets, which could result in stagnant or declining revenue. Furthermore, family-run companies could have trouble attracting and keeping top talent if their salary and perks cannot match with those of larger, more well-funded competitors. Their capacity to withstand economic downturns can also be impacted by insufficient financial resources, which can limit their resilience and sustainability in the face of unfavourable market conditions. Financial constraints generally have the potential to negatively impact family-owned enterprises' long-term viability and performance in India.



Source: Compiled by the researchers

Figure 1. Yearly Average of Return on Assets (ROA)

Family-owned businesses need to implement corporate governance practises since they promote sustainability, accountability, and openness. These procedures aid in reducing some of the particular difficulties that these businesses encounter, including conflicts of interest and succession planning (Patel *et al*., 2018). The likelihood of favouritism or nepotism in decision-making is decreased by effective corporate governance frameworks that provide defined roles and duties for family members and non-family executives (Ergun & Doruk, 2020). Additionally, they guarantee that the interests of the business align with those of its owners, employees, and customers. Corporate governance procedures also increase operational and financial transparency, luring outside investors and facilitating access to finance for expansion (Altaf & Ahmad, 2019; Azeema *et al*., 2023). In general, strong corporate governance in family-owned enterprises develops a culture of professionalism, ethics, and long-term strategic thinking, which may help to their prolonged success and resilience in the face of adverse external factors (Zhao, 2019; Zhang, 2020). The main objective of this study was to obtain a deeper understanding of the present financial situation of family-owned firms and how these limitations affect their ability to conduct financial operations. It also tries to understand the corporate governance (CG) practices of these family businesses and how CG helps these companies perform better, especially when they are facing financial difficulties. Here is how the remaining portions of the paper are arranged: The second portion presents the theoretical and empirical literature framework for this study. The research methods, data, hypothesis, and model are all covered in the third section. The analysis, findings, and interpretations are shown in the fourth part. The last section includes the closing thoughts and a suggestion for future research possibilities on this subject.

LITERATURE REVIEW

Theoretical Approach

Agency Theory: As a core idea in corporate governance, agency theory tackles the inherent conflicts of interest that develop when shareholders (principals) assign managerial or executive decision-making authority to run a business on their behalf (Cai & Tian, 2015; Hastori *et al*., 2015). According to this concept, shareholders trust managers with their money in the knowledge that they will act in their best interests (Quang, 2022). However, managers may act in ways that are detrimental to the agency, such as maximising personal income or job security. Corporate governance practices such as board monitoring, CEO compensation, and shareholder agitation are put in place to align these interests (Mukesh & Rajat, 2021). These controls are intended to keep management accountable and encourage them to act in the best interests of shareholders (Haridan *et al*., 2018). In order to reduce disputes and promote effective and moral management, agency theory thus offers a framework for comprehending the interactions and dynamics between principals and agents in a corporate setting (Nor Asma *et al*., 2020).

Financial Constraint Theory: Financial Constraint theory's central hypothesis is that barriers to organisations' access to external funding may limit their capacity to grow and make investments. These limitations may be brought on by informational inequities between businesses and lenders, the high costs of capital raising, or the requirement to hold onto earnings for working capital and debt payments. As a result, businesses with limited resources can underinvest in successful initiatives, which would result in subpar growth and decreased economic efficiency (Rahul & Christian,2021). In order to promote economic development and progress, the theory emphasises the significance of policies and processes that lessen these restrictions, such as enhancing financial markets, lowering information asymmetry, and enhancing access to capital. (Ilia & Rohit, 2021; Sudipto, 2019).

Stakeholder Theory*: It suggests that companies should take into account* the requirements and goals of each and every party, not just shareholders, when making choices about their operations. A few examples of stakeholders are coworkers, clients, vendors, the neighbourhood, and the public at large. The notion highlights that the happiness and well-being of all stakeholders are critical to a company's performance and long-term viability (Dyer *et al*., 2018; Gray & Purdy, 2018). Fundamental principles of the stakeholder theory include recognising that stakeholders have legitimate interests in the company's operations, accepting that companies have social and ethical obligations beyond maximising profits for shareholders, and trying to balance the often conflicting interests of different stakeholders to produce a more sustainable and equitable result. This theory, which promotes a more inclusive and wide-ranging approach to corporate responsibility and decision-making, has had a noteworthy influence on corporate governance and management practices (Bundy *et al*., 2018).

Stakeholder Salience Theory: Stakeholder Salience theory propounded by R. Edward Freeman focuses on identifying and classifying stakeholders according to their importance or salience to an organisation, which is in a way an expansion of the more general Stakeholder theory. It claims that the power, legitimacy, and urgency of stakeholders differ and that these characteristics define their salience (Akpinar, & Vincze, 2016). A stakeholder's salience and the organization's need to attend to them are determined by their mix of high power, legitimacy, and urgency (Barney, 2018). The fundamental ideas of the Stakeholder Salience Theory are that managers should prioritise their efforts according to the salience of various stakeholders and that not all stakeholders are equally significant (Amis, *et al*., 2020). Better stakeholder management and organisational performance are eventually facilitated by this paradigm, which assists organisations in making more informed decisions about the distribution of resources, involvement, and responsiveness to diverse stakeholder groups (Aveed *et al*., 2021)

Legitimacy Theory: According to this idea, organisations comply with societal norms, values, and expectations in an effort to preserve their legitimacy and social approval. As per the fundamental tenets of the Legitimacy Theory, organisations must acknowledge the significance of being regarded as legitimate by their many stakeholders, including the general public, regulatory bodies, clientele, and investors (Deegan, 2019). Organisations engage in a variety of practices and activities that conform to accepted societal norms and values in order to establish legitimacy, even when those actions have little to do with their primary commercial operations (Schiopoiu & Popa, 2013). Organisations use this in an effort to preserve their social license to operate and prevent unfavourable responses or penalties from stakeholders. Legitimacy theory emphasises how society's expectations and views influence an organisation's behaviour, particularly when it comes to social responsibility and environmental sustainability (Antrobus, 2019).

Empirical Approach

Financial Constraints and Firm Performance of Family-owned Corporations: Financial limitations and firm success in family-owned businesses have a complicated and important link. These businesses may find it difficult to make investments in expansion, innovation, and operational effectiveness due to budgetary limitations (Ahamed *et al*., 2014). Their choices on capital allocation may be hampered by a lack of external funding options, high borrowing costs, and the requirement to hold onto earnings for working capital or debt servicing. As a result, family-owned businesses with limited resources could underinvest in lucrative endeavours or chances for growth, which could eventually lead to lost growth opportunities and weakened competitiveness (Zhao & Xiao, 2019). In order to prevent financial constraints from materially impairing their overall performance and sustainability, effective financial management, strategic planning, and responsible use of the resources at hand become essential. Indian listed firms especially family-owned corporations encounter financial difficulties due to a multitude of circumstances. First of all, especially for smaller and riskier businesses, access to external financing may be restricted by onerous regulatory requirements and expensive borrowing charges (Quader, 2017; Ullah, 2020). In addition, amid market turbulence and economic downturns, it might be challenging to secure investment, which can result in liquidity issues (Kim & Xu, 2018). Additionally, the quantity of money that can be allocated to growth and innovation opportunities may be constrained by a deficiency of internal cash generation (Nguyen *et al*., 2016; Owen *et al*., 2001). Subsequently, problems with corporate governance, such as fraud or incompetent management, can erode investor trust and limit funding options. Lastly, sector-specific issues that affect a company's finances, such as regulatory modifications or industry upheavals, might make matters worse (Hu, 2023; Garcia, 2019; Jin *et al*., 2018).

Although financial limitations are typically perceived as roadblocks to business performance, they can occasionally be advantageous (Patel *et al*., 2021; Pablo *et al*., 2022). A company's internal discipline and productivity can be enhanced by financial limits, which also encourage responsible financial management and a concentration on core business operations (Yao, *et al*., 2022). These limitations may prompt cost-cutting initiatives, more efficient use of resources, and a greater focus on risk management. This can therefore raise overall operational profitability and efficiency. Financial limitations may also compel businesses to pick just the projects with the best chance of success when prioritising their investments. This rigorous approach can boost the company's long-term success by preventing risky ventures or over expansion. It can also strengthen the investment portfolio. During the COVID-19 pandemic, financial constraints forced many organisations to review their processes and put cost-cutting measures into place, which in certain instances enhanced their resilience and performance. For instance, businesses were forced to focus on key company responsibilities, cut back on frivolous spending, and streamline their processes (Abdisa & Hawitibo, 2021). Some businesses were able to withstand the economic uncertainties which led to increased efficiency and eventually improved their cost structures and profitability (Chen *et al*., 2021; Cui & Yang, 2018; Du & Nguyen, 2021). Financial restraints also promoted creativity and adaptability, enabling businesses to quickly adjust to shifting customer needs and market dynamics. Furthermore, due to limitations, several businesses were forced to investigate new revenue opportunities including e-commerce and digital services, which helped them later on when customer behaviour changed during the epidemic. Even while financial limitations presented enormous difficulties, they also encouraged flexibility and ingenuity in businesses, which helped them to successfully negotiate the difficult business climate the epidemic generated (Fernandez *et al*., 2021). However, even though budgetary restrictions can lead to favourable results in many cases, they can also be harmful if they prevent necessary expenditures or possibilities for innovation (Ke *et al*., 2020; Farooq *et al*., 2023; Yue & Li, 2023).

Corporate Governance Practices and Firm Performance of Family-owned Corporations: Efficient corporate governance can significantly improve the performance of family-owned businesses (Wang & Shailer, 2017). Strong governance practices, like independent director boards, open financial reporting, and distinct ownership and management divisions, can lessen agency issues and conflicts of interest in family firms (Hastori et al., 2015). These procedures have the potential to improve resource allocation, decision-making, and accountability, which will ultimately improve long-term sustainability and financial performance (Karas & Reznakova, 2021). Furthermore, a company's reputation with stakeholders, including investors and customers can be enhanced by strong corporate governance, inspiring greater confidence and trust (Paniagua, 2018). The precise influence of corporate governance practices may differ according to the unique dynamics and culture of every family-owned business (Akpan & Amran, 2014). However, implementing strong governance practices is typically linked to increased company resilience and performance (Paniagua, 2018; N Vaidya, 2019).

There are difficulties in establishing a direct correlation between family-owned businesses' performance and their corporate governance policies. The possibility of conflicts of interest among these companies is one big issue (D'Este & Carabelli, 2022). Family members commonly hold prominent positions inside the company, which can lead to nepotism, favouritism, and a lack of objectivity in the process of making decisions. Performance may suffer as a result, and good governance procedures may be more difficult to adopt. Family dynamics can also occasionally put family interests ahead of those of the company or other stakeholders, which could result in less-than-ideal decisions being made and resources being allocated (Hu, 2023; Jin et al., 2018; Kim & Xu, 2018). Furthermore, problems with leadership changes and succession planning can interfere with the continuity of governance and affect the long-term viability of the company (Khaleel et al., 2016). In family-owned businesses, the efficacy of corporate governance mechanisms, which are essential for maintaining accountability and transparency, may be jeopardised if they are not strictly enforced (Haider et al., 2018; Garcia, 2019). This emphasises the necessity of striking a balance between family interests and sound governance practices in order to maximise firm performance (Beattie, 2018).

The operational success of family-owned enterprises can be negatively impacted by CEO duality, wherein the chief executive officer also serves as the chairman of the board. It may result in a concentration of power in the hands of one person, which could lessen the checks and balances that influence decision-making (Farhan, et al., 2020; Eka, 2020). The CEO's interests may be put ahead of those of the shareholders in self-serving choices due to this concentration of power, which may impede independent review. Since the CEO essentially oversees their own evaluation, it may make it more difficult for the board to fairly assess the company and hold the CEO accountable. Insufficient independent supervision may jeopardise governance protocols and result in inefficient outcomes. Moreover, outside directors may feel that their influence and independence are limited, and CEO duality may discourage them from joining the board. Better governance and decision-making procedures are frequently facilitated by diverse and independent boards, and this can enhance business success. Although the effects of CEO duality may not necessarily be negative, they can pose problems for family-owned businesses in terms of responsibility and governance, which may have an impact on their overall success (Saidat et al.,2020; Bergh, et al., 2016).

In family-owned businesses, the effectiveness of the audit function may occasionally be impaired, which can cause issues that affect the performance of the company (Chahal & Sharma, 2020). Lack of independence in the audit process is one important problem. Strong financial positions or ownership shares in the company may be held by family members or close friends, posing conflicts of interest that compromise the audit's objectivity (Alzeban, 2021; Amy & Li, 2003). This may obscure dangers and problems and lead to an inaccurate or biased evaluation of the company's financial health. Furthermore, family-owned businesses might not have the strict internal controls and supervision procedures typical of publicly traded corporations, leaving them vulnerable to fraud or financial errors (Abdisa & Hawitibo, 2021; Alexandre & Clavier, 2017). These elements have the potential to reduce stakeholder and investor trust, which would ultimately result in poorer company performance. In order to preserve accountability, openness, and strong financial performance, family-owned businesses must guarantee the independence and efficacy of the audit function (Abdul et al., 2015; Abdisa, 2021).

The matter of CEO compensation in family-owned businesses may give rise to difficulties that affect the operation of the company. The possibility of exorbitant CEO compensation is one major issue (Aminu & Salawudeen, 2019). Family CEOs occasionally bargain for pay packages that are too large in comparison to the company's financial success, which can take money away from investments in the company or shareholder returns (Broye & Moulin, 2017; Azeem et al., 2023; Arindam & Sourav, 2016). Furthermore, decisions made in the absence of external benchmarks or independent remuneration committees may not be transparent or equitable, which could worry stakeholders and shareholders. Furthermore, because of their strong internal position, family CEOs might be less likely to tie their pay to the company's performance, which could lessen incentives for achieving better financial outcomes. In order to foster accountability and value development, family-owned businesses must have clear, well-structured executive remuneration policies. These problems can lead to mismatched interests and subpar firm performance. The corporate governance policies of family-owned enterprises can be greatly impacted by individual firm's age (Alqatamin, 2018). The governance structures of a family-owned corporation may be somewhat lax in the early stages of their existence, with a focus primarily on family control and entrepreneurial decision-making. Nonetheless, the necessity for more codified governance procedures frequently becomes evident as the company expands and evolves (Panikkos, 2015). It is more common for older family-owned businesses to have independent boards of directors, open financial reporting, and succession planning techniques in place. In order to improve governance and management procedures, they can also place a high priority on professionalisation and hire outside managers and consultants. Because older organisations are more likely to understand the value of strong governance frameworks in preserving sustainability, handling complexity, and reducing long-term conflicts, there can be a positive correlation between company age and greater corporate governance in family-owned businesses (Patel et al.,2021; Chahal & Sharma, 2022).

Family-owned enterprises' corporate governance practices can be greatly impacted by the size of their firm (Goel, 2019; Ergun & Mnasri, 2019; Sener, 2014; Yao et al.,2022) Greater formalisation and structure in governance practices are typically observed in larger family-owned businesses as compared to smaller ones (Doucet, 2022). Bigger companies frequently have separate boards of directors with a range of specialties, which can improve supervision and judgment. Comprehensive governance rules and guidelines, encompassing ethical standards and disclosure obligations, are more likely to be adopted by them (Srivastava & Shikha, 2020; Wang & Shailer, 2017). Furthermore, larger family-owned businesses might have more financial resources available to them, which would enable them to spend money on specialised governance tools like risk management programmes and internal auditing services. Smaller family-owned companies, on the other hand, could rely more on informal governance techniques, with decisions frequently being made inside the family. The industry, ownership structure, and family values and preferences can all have an impact on how much a firm's size influences governance practices. But as family-owned companies grow in size, there seems to be a growing acknowledgement of the role that sound corporate governance plays in maintaining transparency, accountability, and long-term viability.

Institutional investor ownership may have a big impact on family-owned businesses. When institutional investors like pension funds, mutual funds, and hedge funds, for example—acquire sizable ownership stakes in family-owned enterprises, they often usher in a more formal and organised corporate governance framework. Improved accountability, more adherence to corporate governance principles, and better openness are all possible outcomes of this heightened level of scrutiny (Jindal & Jaiswall, 2015). Institutional investors may advocate for adjustments to the executive remuneration package, composition of the board, and strategic direction in order to better align the company's interests with those of its shareholders. These actions can ultimately improve corporate performance and shareholder value (Chen & Keung, 2018). However, if institutional investors have an influence and pose potential challenges to the family's control and business plan, tensions and disputes could result. The challenge faced by many family-owned companies is maximising their long-term success while balancing the expectations of institutional investors with the interests of the family (Mitsura & Hajime, 2015; Handriani & Robiyanto, 2018).

RESEARCH DESIGN AND METHODOLOGY

This study looks at how financial constraints affect family-owned firms' financial performance in India. It also looks at the corporate governance procedures that these businesses currently use and how they work to control financial performance, especially in the face of budgetary constraints. After removing the institutions with incomplete data, a sample of 38 family-owned enterprises is employed to perform the study, drawing data from the companies included in the composition of the BSE 200 index. A ten-year analysis of the panel data for the chosen organisations was conducted, spanning from 2013 through 2022. Each company's annual report and the Prowess IQ database were the sources of all financial information. The researchers employed a series of regression equations to obtain the study's outcomes:

The following formula was used to examine the direct connection between corporate performance and financial constraints. The age of the firm and the ownership of institutional investors were also utilised as control variables.

Primary Equation:

$$Y_{it} = \alpha_0 + \beta_1 FZ_{it} + \beta_2 FA_{it} + \beta_3 \mathrm{IIO_{it}}$$

Where:

Y_{it} = Firm performance measured using ROA
ROA=Return on Assets
FZ= Size of the firm
FA= Firm Age
IIO= Institutional Investors Ownership

Moderating Equations:

1. $Y_{it} = \alpha_0 + \beta_1 FZ_{it} + \beta_2 FA_{it} + \beta_3 \mathrm{IIO_{it}} + \beta_4 (\mathrm{BE} * \mathrm{FZ})_{\mathrm{it}} + \omega_{it}$
2. $Y_{it} = \alpha_0 + \beta_1 FZ_{it} + \beta_2 FA_{it} + \beta_3 \mathrm{IIO_{it}} + \beta_4 (\mathrm{AF} * \mathrm{FZ})_{\mathrm{it}} + \omega_{it}$
3. $Y_{it} = \alpha_0 + \beta_1 FZ_{it} + \beta_2 FA_{it} + \beta_3 \mathrm{IIO_{it}} + \beta_4 (\mathrm{RC} * \mathrm{FZ})_{\mathrm{it}} + \omega_{it}$

Where:

BE* FZ = interaction between board effectiveness and firm size
AF*FZ=interaction between audit function and firm size
RC*FZ=interaction between remuneration compliance and firm size

By analysing the values of Board Size (BZ), Board Independence (BI), Board Meetings (BM), CEO Duality (CD), and Gender Diversity (GD), the researchers were able to determine Board Effectiveness (BE). Similar metrics were used to measure Audit Function (AF): Audit Size (AZ), Audit Meetings (AM), Audit Independence (AI), and Audit Compliance (AC). The existence of a remuneration committee (RCC), remuneration committee meetings (RCM), mean executive remuneration (MER), and median executive remuneration (MDER) were used to measure remuneration compliance (RC) (Yao et al., 2022; Srivastava & Shikha, 2020; Poddar & Narula, 2019).

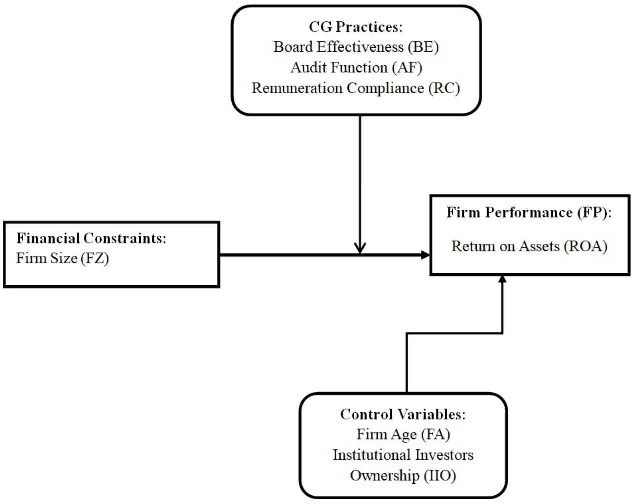


Figure 2. Research Model

Table 1. Variable Computation

Variable Name	Label	Formula
Firm Size	SZ	Natural log of total assets (Dang, C., (Frank) Li, Z., & Yang, C. (2018).
Return on Assets	ROA	Ratio of profit before interest and tax to total assets (Abdisa, L. T., & Hawitibo, A. L. ,2021)
Board Size	BZ	Number of directors on the board (Abdul-Qadir, A. B., Yaroson, E. V., & Abdu, M.,2015).
Board Independence	BI	Percentage of independent directors on the board (Adelina, E., & Suzieyana, A., 2020).
Board Meetings	BM	Number of board meetings in a year (Alessandro, M., & Rob, M.,2019).
CEO Duality	CD	Dummy variable 1 if there is a separate CEO and Chairman (Anjala, K., & Shikha, M. S., 2016).
Gender Diversity	GD	Percentage of women directors on board (Jindal, V., & Jaiswall, M.,2015).
Board Effectiveness	BE	Combined effect of BZ, BI, BM, CD, and GD
Audit Size	AZ	Number of members in the audit committee (Cai, C. H., & Tian, D. &., 2015).
Audit Meetings	AM	Number of audit meetings in a year (Wang, K. T., & Shailer, G., 2017).
Audit Independence	AI	Percentage of independent directors on audit committee (Srivastava, V., Das, N., & Pattanayak, J. K., 2019).
Audit Compliance	AC	Statutory audit compliance certificate (Wan Mohammad, W. M., & Wasiuzzaman, S., 2019).
Audit Function	AF	Combined effect of AZ, AM, AI, and AC
Remuneration Committee	RCC	Dummy variable 1 if there is RCC and 0 if it is not there (Abrokwah, S., Hanig, J., & Schaffer, M., 2018).
Remuneration Committee Meetings	RCM	Number of remuneration committee meetings in a year (Obermann, J., & Velte, P.,2018).
Mean Executive Remuneration	MER	Mean of executive remuneration (Dias, A., Vieira, V., & Figlioli, B. 2020).
Median Executive Remuneration	MDER	Median of executive remuneration (Obermann, J., & Velte, P.,2018).
Remuneration Compliance	RC	Combined effect of RCC, RCM, MER, MDER
Firm Age	FA	Natural logarithm of the number of years since the firm's inception (Younis, H., & Sundarakani, B., 2019).
Institutional Investors Ownership	IIO	Percentage of shares held by institutional investors (Allahkaram, S., Sajjad, M., & Marzieh, A., 2017).

Source: Compiled by Researchers

Primary Research Questions

- Do budgetary restraints impair productivity and raise the risk of family-run companies in India in India failing?
- Does the implementation of corporate governance practices improve the performance of Indian family-owned businesses, particularly in periods of financial constraints?

Research Objectives

- To investigate how family-owned listed companies in India function when faced with financial limitations.
- To assess how corporate governance practices, particularly in times of financial hardship, mitigate the negative effects on the results of family-run companies that are traded on Indian markets.

EMPIRICAL ANALYSIS AND ITS DISCUSSIONS

A series of diagnostic tests were first conducted to choose the model that best fits the study's parameters. To ascertain whether multicollinearity was present, the Variance Inflation Factor (VIF) was employed. The variable's VIF values, which ranged from 1.03 to 4.20, demonstrated the lack of multicollinearity (Shrestha, 2020). In order to ascertain whether heteroscedasticity was existing in the data, the Breusch-Pagan test was conducted. Results supported the presence of heteroscedasticity. Consequently, it was decided to use robust estimators that could account for the heteroscedasticity of the data (Andrew & Li, 2007). To finalise on fixed effect panel data regression model the Hausman test was used (Allahkaram, S., Sajjad, M., & Marzieh, A., 2017). The null hypothesis was rejected ($P > .0005$) and thereby selected the fixed effect panel data regression model for detailed study (Andrew, B., Malcom, F., & Kelvyn, J., 2019). The outcomes based on the previously mentioned diagnosis are described in the following tables.

The profile of the data is summarized in Table 2. The average value of return on assets is 8.64 percent and the maximum value is 36.12. Overall, among the BSE-listed companies, the companies in the financial services sector, pharmaceutical sector, and consumer products sector were performing way better than the companies in the other sectors during the study period. The mean value of firm size was 6.33 and it can be observed that the value of standard deviation was comparatively less in the case of this variable. The average value of board independence is approximately 6, and that of board size is 10. Among the selected group of companies, there were companies that did not possess the audit compliance certificate and there were many companies which have not yet constituted remuneration in accordance with the corporate governance regulations. The chosen companies' minimum firm age was five years, and their maximum value was 125 years. On average the participation of institutional investors on the company board was 29 percent and its maximum observed percentage was 88. The correlation results are shown in Table 3 above. The various explanatory variables do not exhibit multicollinearity, according to the results. Fixed effect regression results are presented in Tables 4 and Table 5. Model 1 exhibits the direct relationship between the independent variable i.e., financial constraints captured using the proxy firm size and the dependent variable firm performance was captured using return on assets. As per the results, it can be concluded that financial constraints in a firm can negatively affect its

Table 2. Descriptive Statistics for the Variables Studied

	Mean	Maximum	Minimum	Std. Dev.	Number of Observations
Return on Assets	8.64	36.12	-14.49	8.56	380
Firm Size	6.33	7.99	5.17	0.53	380
Board Size	10.44	16.00	4.00	2.43	380
Board Independence	5.87	10.00	2.00	1.54	380
Board Meetings	6.22	14.00	3.00	1.80	380
CEO Duality	0.82	1.00	0.00	0.38	380
Gender Diversity	0.14	0.42	0.00	0.09	380
Audit Size	4.35	9.00	3.00	1.06	380
Audit Meetings	5.82	13.00	1.00	2.23	380
Audit Independence	3.82	8.00	2.00	1.05	380
Audit Compliance	0.94	1.00	0.00	0.24	380
Remuneration Committee	0.99	1.00	0.00	0.10	380
Remuneration Committee Meetings	3.18	9.00	0.00	1.66	380
Mean Executive Remuneration	1025.69	5414.00	43.56	845.09	380
Median Executive Remuneration	945.73	5414.00	1.44	850.02	380
Firm Age	41.76	125.00	5.00	27.60	380
Institutional Investors	29.15	88.43	1.02	13.63	380

Source: Computed by the Researchers

Table 3. Correlation Analysis of the Selected Variables

	ROA	SZ	BZ	BI	BM	CD	GD	AZ	AM	AI	AC	RCC	RCM	MER	FA	MDER	IIO
ROA	1.00																
SZ	-0.12*	1.00															
BZ	0.14**	0.13*	1.00														
BI	0.29**	0.16**	0.80**	1.00													
BM	-0.04	0.33*	0.03	0.01	1.00												
CD	-0.17**	0.01	-0.21**	-0.17**	0.13	1.00											
GD	0.13*	0.02	-0.14*	-0.02	0.17	0.09	1.00										
AZ	0.14*	-0.21**	0.16*	0.07	-0.15**	0.10*	0.16**	1.00									
AM	-0.20*	0.36*	0.05	0.02	0.45**	0.07	0.09	-0.19**	1.00								
AI	0.21**	-0.22**	0.25**	0.23**	-0.20**	-0.02	0.17*	0.86*	-0.14*	1.00							
AC	0.24*	-0.01	0.32*	0.33*	0.06	-0.12*	0.07	0.10	0.06	0.21**	1.00						
RCC	0.09	0.14*	0.09*	0.09	-0.04	0.02	0.16*	0.11*	0.05	0.15*	0.19*	1.00					
RCM	0.17**	0.24*	0.11*	0.20*	0.33*	0.02*	0.38*	-0.05	0.31**	0.04	0.24*	0.20*	1.00				
MER	0.26*	0.18*	0.08	0.19*	0.02*	-0.03	0.16*	-0.03	-0.10*	0.01	0.22*	0.07	0.14*	1.00			
MDER	0.27**	0.12*	0.05	0.17**	0.01	-0.03	0.17**	0.01	-0.16*	0.04	0.20*	0.06	0.17*	0.93**	1.00		
FA	-0.09	0.29*	0.13*	0.11*	0.31*	0.07	0.07	-0.10	0.32*	-0.13**	0.22	0.05	0.26	0.05	1.01	1.00	
IIO	0.07	0.37*	0.09	0.21**	0.40**	0.16**	0.22**	-0.17*	0.18*	-0.13*	0.19*	0.09	0.36*	0.05	0.37*	0.32	1.00

*Source: Computed by the Researchers ** and * indicates significance at 5% and 10%.*

business performance in the context of family-owned businesses listed in the Mumbai stock market. The results of this study are consistent with the studies of (Zhao & Xiao, 2019; (Ke et al., 2020; Farooq et al., 2023; Yue & Li, 2023). On closer examination, it can be understood that the firm-level innovation is very limited in companies with limited financial resources and this had a negative impact on the acceptability of their products and services in the market.

while corporate governance variables were included and it was found to be better in the case of model 3 (interaction of audit function). On a finer observation it can be concluded that it was primarily because internal financial discipline that was found to be very high in firms which had high scores in audit function. They had a better management in terms of cost of capital and operational expenditures. As per the findings of this study, audit function (measured using audit

Table 4. Fixed Effect Regression Estimation Results (Model 1&2)

Independent Variables	Model 1		Model 2	
	Coefficient	P-value	Coefficient	P-value
Direct Effect:				
Constant	3.5035	0.00	2.1123	0.00
Firm Size	-4.2893	0.0423**	-6.3882	0.0031***
Firm Age	0.0114	0.8934	0.0578	0.5898
Institutional Investor's Ownership	0.0418	0.0612*	0.0511	0.0311**
Moderator results:				
Board Effectiveness	-	-		
Board Size			-0.1792	0.0493**
Board Independence			0.2481	0.0521*
Board Meeting			0.1202	0.0522*
CEO Duality			0.5108	0.0854*
Gender Diversity			0.4061	0.0303**
Interaction Effect:	-	-		
(SZ X BZ)			0.4908	0.0526*
(SZ X BI)			0.2108	0.0694*
(SZ X BM)			0.6509	0.8829
(SZ X CD)			0.5771	0.0006***
(SZ X GD)			0.8108	0.0921*
R-Squared Value		0.8431		0.8611
Probability >Chi2		0.0000		0.0000

Source: Computed by the Researchers
***, ** and * indicates significance at 1%, 5% and 10%.

Table 5. Fixed Effect Regression Estimation Results (Model 3 & 4)

Independent Variables	**Model 3**		**Model 4**	
	Coefficient	P-value	Coefficient	P-value
Direct Effect:				
Constant	2.6035	0.00	4.5123	0.010
Firm Size	-6.7293	0.0023***	-6.3882	0.0431**
Firm Age	0.0114	0.4934	0.0578	0.5897
Institutional Investor's Ownership	0.0325	0.0410**	0.0411	0.0411**
Moderator results:				
Audit Function	-	-		
Audit Size	0.3437	0.0553*		
Audit Meetings	0.0655	0.0681*		
Audit Independence	0.5632	0.0311**		
Audit Compliance	0.8122	0.0052***		
Interaction Effect:				
(SZ X AZ)	0.8507	0.0175**		
(SZ X AM)	0.8617	0.0007***		
(SZ X AI)	0.1508	0.0311**		
(SZ X AC)	0.4013	0.000***		
Remuneration Compliance				
Remuneration Committee			0.4811	0.0263**
Remuneration Committee Meetings			0.1980	0.0574***
Mean Executive Remuneration			0.0065	0.0811***
Median Executive Remuneration			0.0715	0.0441**
Interaction Effect:				
(SZ X RCC)			0.4532	0.0612***
(SZ X RCM)			0.1342	0.0541***
(SZ X MER)			0.1331	0.0342**
(SZ X MDER)			0.6812	0.0031*
R-Squared Value	0.8878			0.8510
Probability >Chi2	0.0000			0.0000

Source: Computed by the Researchers
***, ** and * indicates significance at 1%, 5% and 10%.

The interaction effects are presented in Table 4 and 5 as model 2, 3 and 4. Board size was found to have a significant negative impact on the firm performance, but all the other variables (board independence, board meetings, CEO duality, and gender diversity) that were used as proxies for board effectiveness were found to have a significant positive impact. Overall the predictability of the model improved

size, number of audit meetings, presence of independent directors in audit committee, and possession of audit compliance certificate) and remuneration compliance (measured using the presence of remuneration committee, conduct of remuneration meetings and remuneration of executives) also had significant positive impact on the firm-level performance. To account for the diversity of the firms in the study, the control variables in the research were firm age and institutional ownership. The outcomes validated the noteworthy influence of institutional investors on the performance of the company. Firm age, however, was shown to have no effect on the performance of family-owned listed companies in India. The extensive adoption of corporate governance practices in these firms, regardless of their firm age, is largely attributable to the stringent regulations enforced by Indian corporate law, which accounts for the non-impact of firm size on performance. Lastly, this study's findings were consistent with those of numerous other studies carried out in related fields under various economic conditions. (C. Jose, G. M., 2018; Cai, C. H., & Tian, D. &., 2015; Dias, A., Vieira, V., & Figlioli, B., 2020; Farhan, N. H., et al., 2020).

Concluding Remarks: Determining the effect of financial limitations on the financial performance of family-owned companies listed on Indian exchanges was the main goal of this study. The study also noted how CG practices worked as a moderating factor in assisting these businesses in overcoming obstacles caused by budgetary constraints. The main conclusions of this study show that financial limitations significantly affect how the business operates as a whole. But as time went on, the companies with the best corporate governance practices were able to handle the financial limitations far better, as seen by their improved performance. In India, family-run businesses are essential to the nation's economic development, employment generation, and overall social welfare. A multifaceted approach is necessary to reduce the detrimental effects of financial restraints on Indian family-owned enterprises through government policies. The government can create specialised programmes that offer family-owned businesses financial support and incentives, such as subsidised loans, grants, and tax advantages. To enhance financial management procedures, these rules ought to encourage financial literacy among firm owners. In addition, the government can facilitate the process and funding of family-owned enterprises by streamlining regulatory processes and cutting bureaucratic red tape. Fostering collaborations between family businesses and state agencies nurtures technology-based innovations.

Family-owned corporates in India have a bright future ahead of them, filled with both opportunities and challenges. Even though some family businesses may be under pressure from globalisation and heightened competition, many of them have proven to be resilient and adaptable to change. Their ability to access capital markets, work with international partners, and adapt their corporate governance practices could all help them gain a competitive advantage. Family conflicts, difficulties with succession, and governance problems will still be obstacles. Family-run businesses in India should be able to successfully manage internal dynamics, maintain a balance between innovation and tradition, and adjust to a constantly changing business environment if they are to continue to prosper. In order to fully capture the effects of financial limitations, researchers interested in related subjects could think about incorporating extra variables, such as the dividend payout ratio and the amount spent on research and development. The study can be widened by adding data from non-family-owned businesses in order to perform a comparison analysis.

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