Abstract

This study analyses the impact of family ownership characteristics of a firm on its capital structure decisions, focusing on Indian economy. The aim of this study is to understand whether the motivation to have control over the firm or the motivation to reduce risk, is dominant among Indian family firms. The motivation of maintaining control over the firm is achieved through issue of debt rather than equity so as to avoid dilution of voting rights and the motivation of reducing firm specific risk is achieved by issuing less debt. This study shows how family ownership characteristics affect the leverage of a firm. The study has been conducted for the sample period 2003-2012 with annual data. The results indicate that family firms have higher leverage as compared to non- family firms and the founder member acting as CEO, Chairman or Managing director has a positive impact on leverage.