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FINANCING OF FAMILY AND NON-FAMILY ENTERPRISES: IS IT REALLY DIFFERENT?

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Abstract

Family businesses have been a recognized part of the Slovenian economy since the revival of SMEs and entrepreneurship in the 1990s. We examined some aspects of owner-managers' attitudes towards different sources of finance, from internally generated funds of owners and the business itself, to bank loans and external equity capital, the latter being the most challenging source for the internal structure of ownership and governance of family businesses. A survey of SMEs has been analyzed, indicating statistically significant differences in attitudes and behavior. Some findings contradicted the assumed behavior, although several ways of rational explanation may be found, once the origins of family businesses in Slovenia and their short tradition were taken into consideration.

INTRODUCTION

A large portion of newly created small businesses during the 1990s in Slovenia is represented by family businesses. Three types of family businesses developed: first, family businesses evolving from the crafts tradition, established in the late sixties, seventies and eighties (of the previous century) but gaining true momentum under the revival of market economy. Second, "new" family businesses established during the nineties, mostly opportunity-driven, with weaker family ties but, generally, more dynamic than the first type. Third, some "old" family businesses reappeared from the process of the restitution of previously nationalized enterprises, mostly focused on the harvesting of this acquired wealth and not on long-term business growth. While these three types differ from the aspect of their growth ambitions and financing needs, it is this general distinction between family and non-family firms that is the first focus of the paper.

The specific reason for writing this paper was to explore a more in-depth view into emerging family business sector in Slovenia and compare it with the sector of "other" or non-family companies, regarding their attitude to financial system of their business. The particular challenge was to explore the financial issues of their overall business activities. In Slovenia, different sources of finance have not been widely demanded from SMEs. There is a more anecdotic assumption that majority of business owners/managers do not see beyond debt financing (through banks and business creditors), understanding equity financing from outside to be almost "hostile" with the clear intention to take over the business which "I or my family created with my/our hands. This rather low-risk approach may result in the fact that a vast majority of small businesses (family and non-family) remain small with hardly any ambition, but also no possibility to grow over a longer period of time. Establishing a small enterprise in Slovenia means more an opportunity for the creation of job/employment for the entrepreneurs and very often for his/her family members rather an option of wealth creation which may be obtained through a harvesting process. Consequently, relying mostly on internal sources of finance combined with some moderate bank debt seems to be a rational solution evolving from this type of mindsets. It has been said that financing is the lifeblood of capitalism and its most carefully controlled resource. There are several reason why entrepreneurs look for financing, for instance starting a new business, expanding and existing business or trying to override a crisis.

The hugest reason that small businesses fail is a lack of adequate cash flow. When the economy is good and sales are high, this isn't usually a problem. However, this is not the case all the time. For well established businesses with a good credit record, finding finance is not usually a problem. Most banks are willing to work with successful businesses. Because there are many financers in the small business financing industry, it is important that SMEs completely understand the terms of the loan before you sign any agreements. While it is important to keep company's cash flow healthy, signing a bad financing agreement can hamper the business growth for years to come. Taking out small business financing is a normal part of business. Too often it seems that a need to take out a loan is understood as a sign of bad business or failure. It is a necessary part of doing business. Sometimes it is the difference between keeping a business running during a slow time, or closing its doors before the business even has a good chance to succeed. This seems to be even more relevant for

family business where, speaking about finance, an unhealthy pride of "we can do this" alone appears to be very present in Slovenia. It is claimed that greater reliance on other financial schemes, which are available to SMEs, has lead banks to move away from secured lending, but it seems that collateral is still a major consideration in successfully accessing finance (Graham, 2004).

In our study self-definition of research participants whether they were family businesses or not, was applied. Consequently, this may be a step towards the overriding one of the most common barriers in family business research which is the lack of consensus on overall accepted definition of a family business taking into account that this approach may make the results more difficult to be compared with some other studies.

LITERATURE REVIEW

It is generally recognized that family businesses comprise the majority of small businesses, with 75 % of all businesses in the UK (Fletcher, 2000), even between 75 % and 90% in the U.S. (Holland, 1981), producing one-half of the GNP and employing one-half of the workforce (Hershon, 1975). While more than 20 definitions of family businesses are in use (Wortman, 1997), Handler (1989) notes the lack of definitional consensus that represents one of the reasons for the contradictory evidence on the extent, performance and problems of family as opposed to non-family firms. Due to the large share of family firms among newly created firms in Slovenia, their performance and specific challenges are significant for the policy of supporting and developing SME's.

Differentiating family from non-family businesses is important on a number of grounds. First, it is important for understanding what is unique or special about organizational practice of family firms. Here, then, a body of knowledge and theorizing can occur about this practice that can be drawn upon the research and to give guidance to family firms. Second, it is important for drawing a policy attention to family firms. But, also, because the evidence on the specialness of family of family firms has been contradictory, responses from the research community and other supporting bodies such as accountants or management consultants have been inconsistent. On the one hand, family businesses are upheld as financially stable, and long term in orientation and strategic planning and, therefore, good for the economy. On the other, they are chastised for nepotism and being governed by emotions rather than business-like principles – and needing, therefore, careful corrective management (Fletcher, 2006).

Family firms as a distinct group of (mostly) SMEs are subject to different views in the literature, both popular and scientific. Leach (1999) showed that family firms considerably outperformed non-family firms, but Westhead and Cowling (1997) demonstrated that there was no significant difference in the performance and effectiveness. There were, however, some differences in the quality of management. Family firms face a possibility of conflict between the interests of family and business (Hoy and Verser, 1994) and Daily and Dollinger (1993) suggested that family-managed firms tend to be smaller, younger, less formalized and growth-oriented, displaying less "entrepreneurial" characteristics.

Small companies, as well as large ones obtain growth-oriented strategies. The research on the structuring of the organization suggests that successful firms evolve through several ownership and strategic stages from entrepreneurial single–owner–single–business firms to corporate-form diversified firms (Hufft, 1997). Research bearing on the efficacy of growth – oriented strategies indicates that growth-oriented are twice as likely to survive compared to non-growing firms (Phillips and Kirckoff, 1989). This sort of research provides incentive for growth for owners/managers.

Gersick et al. (1997) argue that a certain degree of growth is critical for family businesses if they want to survive beyond the founding generation when it is likely that there will be more than one successor that will have an interest to pursue their career in the family business. Some evidence shows (Ward, 1988; Benson et al., 1990) that many family companies in the USA, which failed in their transition from the first to the second generation, had not grown at all in their life cycles. Empirical evidence to support this has been modest however Ward (1997) lists six reasons for that limited ability to grow. Among those, the second most important reason is believed to be that sources of capital often become too small in the second (or higher) generation phase to finance both the increased needs of the family and the potential growth of business operations. Myers (1984) believes that family firms meet their financial needs in a hierarchical manner – first by using internal equity, followed by borrowing from commercial lenders, and, finally, by using non-family equity. De Visscher et al. (1995) point out that funding is one of the most intriguing challenges family business face. Many of those businesses fail because there is insufficient capital and liquidity. Transitions of ownership and management to the next generation can exacerbate these problems because the succeeding generations may not have the same business and financial goals as the original founders. Their observations also show that, although cash flow often satisfies capital needs during a business's early stages, family businesses typically turn to external sources of debt and equity as the firm matures. However, the financial market change and banks often report that deposits exceed total lending to companies thus, making SMEs (both family and non-family) not any more difficult to raise finance in their more mature stages (Wilson, 2004).

Haynes and Avery (1997) even believe that attitude of owners/mangers to finance their business operations with their personal savings ("hidden financing") is a particular problem because owners simply do not want to add additional debt burden to family and business system. Ang et al. (1995) point out that business finances and family finances are often inextricably intertwined. Haynes et al. (1999) explain that intermingling of business and family finances is a logical consequence of efforts of owners/managers to achieve highest possible efficiency of capital (debt or equity) used both for business and family needs. Coleman and Carsky (1999) compared the financial resource structure of different generation family businesses and found out that higher generation family businesses (second and third) are willing to take on more debt then founder-managed firms. This was also confirmed by Schulwolf (2002) who further elaborated that lenders often had difficulties in understanding who actually leaded particular family business.

Hufft (1997) examined the ownership structure of small firms compared to their growth potential. His observations show that non-family firms tend to grow faster than family-controlled firms, while on the long run there was no significant

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difference. He suggests that external financing of business operations should be observed in the context of determination of the objectives of the firm. In comparison to the wide range of funding alternatives open to publicly held companies, family businesses have much more limited options when it comes to raising capital. Family businesses commonly face a problem with the very concept of raising money from outside resources (Leach, 1999). If funding from the family's own resources means skimping on important projects or inefficiently struggling on through short-term crises then the healthy development and even the survival of the business can be threatened (Sorenson, 2000). However, this can be also observed from the viewpoint of the supply side of the financial market. Upton and Petty (1998) explore the ability of a family firm to attract outside sources of finance. When they asked venture capital firms about reasons for rejecting different proposals coming from family firms, the responses included commonly recognized family business weaknesses like family conflict, unstable family members or inability of the entrepreneur or the family to let go. For similar reasons, Caselli (1997) was able to find only one among a large number of entrepreneurial family businesses in Italy, who managed to make it to the stock exchange.

In contrast to that, McMahon (2003) argues that growth is simply a consequence of the adopted financial decisions and suggests that promotion of sound financial planning skills including capital budgeting could be instrumental in encouraging the growth perspective of family firms. However, the reluctance to take on higher level of debt still remains one of the peculiarities of family businesses (Olson et al., 2003). Poza et al. (1997) prove that ability to grow is connected with the quality of entrepreneurial tradition and ability to pass it from one generation onto the next one (Lumpkin and Sloat, 2001) taking into consideration that the younger generation may have more sophisticated knowledge about different issues (Davis and Harveston, 2000). Some of the reasons for a lower growth rate of family businesses have also been identified as a consequence of a traditional approach to innovation (Moores and Mula, 1998), new product development and recognizing business opportunities (Romano et al., 1999).

According to the findings reported in the literature and according to our knowledge of the characteristics of Slovenian SMEs, family firms in particular, we postulated the following four propositions about the differences between family and non-family firms from the aspect of financing their start-up, operations and growth:

P1: Slovenian family firms are financed to a larger degree through the founders' own resources, and/or the resources of other family members (Haynes and Avery, 1997; Ang et al., 1995)
P2: Commercial banks play a minor role in financing family businesses as compared with non-family businesses (Graham, 2004; Olson et al., 2003).
P3: Commercial banks more intensively finance family businesses governed by the second or third generation than in those still governed by the first (founding) generation (Coleman and Carsky, 1999; Schulwolf, 2002).
P4: Family businesses in Slovenia are more reluctant to take non-family equity finance (Leach 1999; Sorenson, 2000).

DATA AND METHODOLOGY

We use data from a survey from Slovenian SMEs done in early 2002. An extensive questionnaire of ten pages has been mailed by ordinary mail to 2.000 SMEs. The mailing list was constructed out of the commercial data base providing contact information of all registered companies and sole-proprietors in Slovenia. The used database was last updated in the fourth quarter of 2001 thus, making the data rather fresh in the period of their utilization. Based on the available data, there was also a possibility to exclude from the sample all inactive companies which where defined as those which did not earn any revenues in the year 2000. The addresses were chosen randomly, using the MS Excel random function, from a stratified sample, with 40% of them being sole proprietors and 60 % incorporated businesses. The other level of stratification was that the frequency of companies which are classified as production entities was doubled and the frequency of companies dealing with wholesale trade and retailing was halved. The reason for doing so was the fact that among all registered companies there are around two thirds of trade and service companies and only on third of production companies. Second, we suspected that many family companies evolving from crafts tradition perform production activities, thus, the stratification of the sample may had increased the probability to get a more balanced sample of responded questionnaires. Therefore, the validity of the sample and increased relevance of the data and sample was expected with the objective of comparison of the two groups of companies, family and non-family. However, there are obvious limitations regarding the external validity of the study. Taking into account various gradients of similarity (Campbell, 1994) it may argued that a possible replication of the study may turn out to be problematic if undertaken at different places (i.e. in economies with longer capitalistic tradition and more sophisticated supply of sources of finance). On the other side, it is believed that time and people gradient (i.e. family businesses) may not be that influential in possible discussion of external validity because it is assumed that patterns of behavior of family businesses would not change considerably within some years time lag (Gersick et al., 1997).

The envelope with the questionnaire was supplemented by a stamped return envelope with printed sender's address. The anonymity was ensured thus, no follow-up was possible. An invitation to provide the respondent's details was provided for those who wished to receive a copy of the research report. 222 SMEs returned their questionnaire, 35 % being sole proprietors and 52 % limited liability companies, the rest took other legal forms. The questionnaire was partly based on research done by Birley et al. (2000) and questions on financial aspects were added. ANOVA tests were performed for means and contingency analysis to identify significant changes between groups. We used SPSS version 12 to run statistical analysis. Because of the high level of missing variables, seven questionnaires were excluded from the sample by SPSS. So, finally, 215 questionnaires were taken into consideration for the statistical analysis. The majority of researched issues were in the form Likert type level of agreement questions with the option for possible statistical significance of the difference between means for the family and non-family business group. Thus, ANOVA which could have been t-test was a logical choice. The reason to choose ANOVA instead of t-test was in the prior ambition which was to differentiate businesses into more than two groups. However, the level of statistical significance in this case was much lower.

Businesses were classified as family/non-family businesses on self-assessment whether they consider the business to be a family business (see Birley, 2001), with 58,6 % being family businesses. This research was the first large-scale attempt in Slovenia to compare family and non-family firms and we do not have other estimates about the share of family firms since previous research usually focused exclusively on samples of family firms (Duh, 1999, Vadnjal, 1996).

RESULTS

We used 215 SMEs in the analysis comparing family and non-family firms. Thus, we can say that the response rate is rather low (10.7 %) due to the non-existing possibility for a telephone follow-up to increase the response rate. The second reason for the low response rate can be traced in a very long questionnaire containing almost 500 units of questions, statements etc. On the other hand, the low response rate is not unexpected. Birley et al. (1998) report 13.35 % response rate in a similar research, why Troast et al. 1995) compiled an average response rate between 6.5 % and 18.8 % in the number of family business studies conducted in USA between 1985 and 1993. Also in the previous studies done in Slovenia an referred in this article (Glas et al., 2002a; Glas and Drnovšek, 1999) a similar response rate was achieved (less than 15 %).

The non-response bias was tested on the variable indicated the business activity of the respondent. This was the only variable which was known from the sample. The χ^2-*test* indicated that the sample of companies to which the questionnaires had been mailed and the sample of respondents are comparable regarding the frequency distribution of the activity variable ($\chi^2 = 0{,}495$; DF = 7; $\alpha = 0.999$).

Survey demography

Family businesses in the survey are mostly the founding generation (83 %), second generation manages 15 % of businesses and the third only 1 %. Comparison with other countries (Birley, 2001) would show that only Poland (as the only participating country in the study) had a comparable generational distribution of family businesses. This may be explained with the fact that entrepreneurial tradition was terminated in the times of communist political system and only started in the beginning of 1990's thus, not leaving enough time for family businesses to be transferred beyond the second generation. This structure of the population makes it difficult to study the transition process. Owners consider their children as the "natural" choice for succession, but they are quite tolerant to the children's decisions: the majority (59 %) would allow children to make their own free decision, while 20 % think children should continue the family business and only 2 % would deny them to succeed (19 % did not respond). Founders mostly started the businesses after extensive work experience elsewhere (77 %, compare with 16 other countries in Birley, 2001), only 10 % straight after secondary school and 12 % after university. Family businesses are more involved in manufacturing, with 32 % as compared with 16 % in non-family businesses (the difference in activity structure was significant at the level of $p = .031$).

Family and non-family businesses are different in their motivation to start their own business (Table 1) regarding the loading of different motives to start a business. While independence is a motive for 70 % of family businesses, there are only 62 % of non-

family counterparts that provided this motive as an answer (with no statistical difference evidenced). The autonomy is by far the highest-ranked motive for family business. Economic necessity and the opportunity for career on his/her own are left far behind regarding the frequency of motives. However, the rankings of the two groups of observed companies, family and non-family, are equivalent and there was no statistical difference between the two groups revealed.

Table 1. Five most frequent motives to start own business.

	Family firms		Non-family firms	
Motive n=215	Share (%)	Rank	Share (%)	Rank
Independence, working on their own	70	1	62	1
Need for achievement – to make better use of their skills	51	2	49	2
Economic necessity – no other option available	28	3	44	3
Money, higher earnings	27	4-5	28	4
Career, better opportunities within own firm	27	4-5	19	5

Note: respondents were asked to mark up to three motives

Family businesses in our survey employed managers with a lower education level than their non-family counterparts: only 22 % have university education compared to 32 % in non-family businesses. Their managers have a more technical background (59 % vs. 48 %) which is in compliance with a higher share in manufacturing. Owner-managers in family businesses work longer hours confirming the view of Leach (1999) about their flexibility in terms of time. Only 19 % of family businesses are managed by women, which is in line with other findings for women entrepreneurs in Slovenia (Glas and Drnovšek, 1999). Only a few had previously owned businesses (14 %), but the majority knows some owner-managers among other relatives and friends (these close ties with other entrepreneurs have been identified as significant in the GEM Slovenia 2002 study (Rebernik et al., 2003).

Family Business Sources of Capital

SMEs are known to suffer from the financing gap, in particular small businesses without an established track record and unable to offer collateral. The problems of accessing to finance can arise either on the supply side or on the demand side (EC, 2001). It is characteristic of family businesses to fail to make use of the financing opportunities due to their attitude towards external sources, especially to equity sources. While Glas et al. (2002a) found that finances are generally serious problem of Slovenian SMEs, we intend to analyze how far this finding relates to family businesses.

Table 2 shows that both at the start-up and later operation stages, family and non-family firms differ in the sources of capital. Family firms are more inclined than non-family firms, firstly, to use own (family) savings and later retained earnings (statistically significant at $p < 0.1$), and secondly, they prefer to use debt capital from external sources. Although the table is only listing the frequency of using different sources of capital and it does not provide us with exact shares of these sources, it is clearly indicated that the share of family firms applying for bank loans significantly exceeds the share of non-family firms, denying our proposition 2. The explanation might be found as follows: first, family firms, if external capital is a must, prefer bank

loans over other sources, and, second, many family firms originating from former craft-shops possess real estate to be able to secure collateral, while some banks already have a quite long tradition of doing business with crafts.

Table 2. Sources of capital as listed by family and non-family firms in Slovenia.

Source of capital n=215	The share of SMEs listing specific source of capital (in %)			
	Start-up capital		Last 2 years of operation	
	Family firms	Non-family firms	Family firms	Non-family firms
Owners' savings	90.0	83.5	40.8*	31.8*
Family and friends	42.3	30.6	26.9*	12.9*
Management teams savings	10.8	9.4	11.5	12.9
Other private investors	6.2	12.9	6.2	7.1
Investment/mutual funds	1.5	2.4	2.3	1.2
Supplier credits	9,2**	2,4**	13.1	9.4
Customers as creditors	2,3	2.4	3.8	1.2
Banks: short-term loans	20.0	16.5	40.8*	25.9*
Banks: long-term loans	10.8***	2.4***	27,7*	14.1*
Government financial assistance	3.1	8.2	4.6	5.9
Reinvested profits	13.1	8.2	60.8**	54.1**
Other sources of capital	3.1	2.4	3.1	-

Note: (* p < 0,05; ** P < 0,10 level, *** P = 0,11)

As the EC (2001) underlined, Europe has a long tradition in loan financing and bank credits will likely continue to be the most common, and for many (family) enterprises the only external source of funds. However, the loan terms of SMEs should change with more competition in the banking sector. Generally, SMEs do not have bad experience with existing banks, preferring long established banks with SME offices (53 %) over foreign (14 %) and new smaller private banks (10 %). While SMEs are quite accustomed to stringent bank loan terms, they still have an elaborated view on what banks have to change in dealing with SMEs, put on a 5-grade Likert scale (from 1 = strongly disagree to 5 = agree strongly). Family businesses expressed on all issues higher expectations on banks, and the ANOVA analysis confirmed statistically significant differences between family and non-family firms on most statements (see Table 3). Generally, SMEs are mostly interested in lower cost of financing, either through lower interest rate (ranking highest among suggestions) or through lower insurance premium and other related costs of loans (rank 2). SMEs would also prefer to have more long-term investment loans (rank 3), since banks are mostly committed to provide shorter periods on riskier loans. SMEs would appreciate simplified documentation (rank 4) and a more extensive grace period (rank 5). There is an information gap and SMEs asked for better information on available loan options (rank 6) since the existing support network did not provide sufficient assistance due to their inappropriate information system. SMEs would need improved counseling support (rank 7) and banks should work on improving their employees' skills on understanding small business (10). All these demands seem to be highly rational from the aspect of SMEs as bank clients however, how local banks could respond to these demands remains an open business challenge for them and possible opportunities to get advantage over competitors.

Table 3. Changes in the way banks should be dealing with SMEs as suggested by family and non-family firms.

Change in bank terms and behavior suggested n = 215	Mean value Family firms	Mean value Non-family firms	ANOVA – level of significance
Lower interest rate on loans	4.61	4.25	0.003
Lower insurance and other costs of loans	4.42	4.25	-
Longer period for investment loans	4.27	4.18	-
Lower demands for extensive documentation	4.23	4.00	0.117
Providing 1-2 years of grace period	4.21	4.25	-
Improve information on loans available	4.15	3.89	0.082
Providing advisory support to entrepreneurs	4.13	3.74	0.018
Shorten the loan application procedure	4.11	3.86	0.110
Less stringent demands on collateral	4.08	3.74	0.028
Improving skills of banking staff	4.01	3.64	0.019
Bank staff to exercise a kinder approach	3.35	3.29	-

The Government's financial assistance

During the 1990s, Slovenian government experimented with various instruments of financial assistance on the local, regional and national levels, e.g. interest rate subsidies, micro-loans, guarantee schemes, soft loans, even grants (see Glas et al., 2002a). These instruments displayed a number of drawbacks due to defective conceptualization, lack of financial resources and lack of skilled managers to handle financial assistance. However, SMEs got used to this support and the difficult access to public funds is listed as one of the most frequent financial problems. On the other hand, the public assistance to SMEs had become a popular instrument in political pre-election campaigns which also increased demand for this support and very often also unrealistic expectations about accessibility of this source of funding.

Two aspects were checked. First, how familiar SMEs were acquainted with different forms of financial support, and second, how interested they were in applying for funds and whether they applied successfully. It is interesting that family businesses, although they are expected to be less open to non-family sources of capital, were generally better informed than non-family businesses. ANOVA test of means shows a significant difference between both groups ($p < 0.05$). Financial support for unemployed people to start self-employment entrepreneurial projects, combining advice, training and financial support, evaluated as one of the best practices in Slovenia (Glas and Cerar, 1997), was significantly more familiar to family businesses. The loans allocated through local small business funds, generally in the form of micro-loans for start-ups, delivered through the banking system were significantly more important source of finance to family businesses. Family businesses also significantly care more for interest rate subsidies for loans administered through banks.

These forms represent mostly small-size financial assistance that corresponds well with the life-style nature of family businesses and the small risks connected to these types of assistance. Not all SMEs in the sample were interested in different forms of support, with as high as 61 % being indifferent to soft loans from public funding and

87 % to regional guarantee schemes, a far less successful program (Glas et al., 2002a). Family and non-family firms expressed an equal interest in the self-employment program, but family firms were still more interested and successful in attracting resources from: (1) local small business development funds – family firms seem to be more locally bound and their product/services mix is well adapted to the needs of local customers that makes them very eligible for this form of support, (2) they were also more successful in applying for soft loans and also, (3) more interested in and successful at collecting subsidies for bank interest rates.

Although only part of the SMEs successfully applied for public funds, from 14 % for the self-employment program to as few as 1 % for guarantee schemes, family businesses proved to be in better shape, even though mostly in the forms of micro loans and subsidies that do not challenge their control over their firms.

SMEs were asked to identify different forms of financial and related support that the government should provide in the future. The fact that only a third of family businesses survive the transition into the second and even fewer into the third generation in developed economies provides room for improved public support in order to increase the probability of successful transition. Again, family business expressed positive attitudes towards this form of support and their most preferred forms of support are listed: (1) tax benefits for creation of new jobs, (2) free (or substantially subsidized) counseling services, (3) tax deductions for investors in new equipment, R&D, (4) soft loans to support new employment and, (5) tax deductions for investment in innovation etc.

While the first three forms of support are ranked equally by family and non-family firms, family firms have a much higher preference for soft loans allocated by local SME funds (they were found to be quite successful in applications for these funds) and the guarantee scheme provided by the national PSBF fund. It is interesting that SMEs generally favored non-financial support in forms of tax benefits/deductions, counseling and training support, while they least favored the government as an equity investor in their firms.

SMEs in the survey were also asked to evaluate the meaning of different criteria (see Glas et al., 2002) which are looked at to choose among alternative sources of debt and equity financing. The importance of particular criteria was evaluated on a 5-grade Likert scale (with 1 = very important). Interestingly enough, family and non-family firms differ significantly only in the level of importance as attributed to the cost (interest rate for loans) of sources, with family firms giving higher priority to the low price. Still, both groups ranked the cost of sources as the single most important criterion, while other ranks displayed some differences but no significant ones. While all SMEs attribute highest rankings to financial terms (interest rates, insurance, other costs), they also highly appreciated some non-financial aspects like well-designed information in terms of support (rank 2 for family firms), the staff's honest and professional attitude (rank 4), a personal relationship and trust in investors (rank 5), having investors that understand the problems of businesses (rank 6), followed by other financial terms and demand to leave as much autonomy as possible to the owner-manager (rank 9). SMEs are least interested in the image of the bank and investor, they have more common criteria in mind. Family firms, although known for

their interlinking of family (emotional) and business value, did not express more emotion and subjective values when considering external sources of financing.

Family firms and equity investments

Family firms are generally assumed to be fairly "closed" to non-family equity investors in their aspiration to maintain the control for family members. Equally, they might be more reluctant to invest in other firms instead in the family firm. When the SMEs in our survey were asked whether they ever considered people outside the family as equity investors or their own investment in another firm, surprisingly family firms did not confirm the expected "closeness" (Table 4) as compared to non-family businesses. However, since the majority of businesses in the survey were by their nature micro-businesses, they all practice to be closely-held businesses, not very open to external investors, and they probably lack capital to consider investments other than expanding their own business.

Table 4. SMEs and equity investments as viable options (in %).

Have you considered and actively sought an equity investor in your firm or thought about investing in another firm? n=215	Looking for an equity investor in your firm		Considering own investment in another firm	
	Family firm	Non-family firm	Family firm	Non-family firm
Thought about, never realized	32	27	26	20
Considered at one occasion only	9	6	9	6
Did it, once	2	4	5	5
Did it, more than once	1	6	2	2
Never even considered	36	41	34	42
Did not answer	19	17	24	25

Many Slovenian SMEs have never considered equity investment. It was further analyzed whether they would really be bothered by someone else having an equity stake in their businesses, adding another dimension of either government or private stake. A large share of both family and non-family businesses alike would never accept a public (government) stake while they would be less opposed to private co-owners. Still, family firms would be significantly more reluctant to take an equity stake from non-family partners, as expected.

One of the research interests was also in identifying the reasons for this general reluctance towards equity investors that make venture capital investment a less preferred option in Slovenia (see Glas et al., 2002b). 18 possible reasons were listed as either encouraging (stimulators) or discouraging the decision to take on an equity partner (inhibitors). These reasons are rooted either in the assumption of the investors' improper behavior or in the way that owner-managers are used to manage, make decisions and control the firm (Table 5). Only those factors are provided where both types of firms differ significantly (in 10 out of 18 factors). Only one factor, the general attitude of firms towards the idea of equity investors, works as a stimulator while others are more inhibitors in the case of family firms, while for non-family firms the value below 3 might be considered as a weak stimulator.

Table 5. Factors influencing the decision on equity investments as either stimulators or inhibitors in Slovenian SMEs.

Stimulators / inhibitors	n=215	Family firms	Non-family firms
Investors behavior	Investors want profits paid out even if is not beneficial to the business	3.546	3.153*
	Investors are not patient, they are not ready to wait longer periods for decent returns	3.531	3.059**
	Investors want too much control for their modest stake in ownership	3.400	3.035*
Owner-managers sentiment	Entrepreneurs feel uncertain due to their lacking legal and financial know-how	3.400	2.977**
	They do not want to expand the business	3.323	2.871**
	They fear information leakage through investors	3.315	2.906**
	They want to preserve their lifestyle	3.054	2.718*
	Attitude of the firm towards the idea of equity investors	2.354	2.024**
Other objective reasons	Complicated and expensive legal procedure to change the ownership structure	3.400	3.059*
	Investors have no real option to sell their stake (disinvest) as the form of harvesting	3.254	2.800**

Note: Mean values are calculated from a 5-grade Likert scale: 1 – strongly encourage, 2 – encourage, 3 – neutral, 4 – inhibit, 5 – strongly inhibit
Level of significance of differences: * $p < 0.1$, ** $p < 0.05$

Family firms are generally opposed to equity investors while non-family firms concentrate around the middle value 3, but no intensive stimulators have been identified. Family firms generally do not trust outside investors to be genuinely interested in the long-term success of the firm and owner-managers fear to be a weak partner for investors that have lot of experience in legal and financial aspects of deals. They fear investors would not protect confidential information. Owner-managers understand that their reluctance to grow the business and to maintain the life-style makes their businesses far less attractive to equity investors. Adding up the cumbersome legal provisions for venture capital and the lack of real options to withdraw from the firm, it means that venture capital is still an unwieldy option for financing SMEs.

Further, it was analyzed what Slovenian SMEs expect from equity investors to bring into the company besides their investments. From 14 potential items of contribution we have found 10 of them were found to be significantly different for both types of SMEs on the 0.10 level of significance, with another two items very close (Table 6). Family firms are more demanding on many items, which could be interpreted differently. Family firms demand a high contribution of a partner in order to wage the non-family equity stake that limits the family's control of the firm. Further more, family firms need these contributions more to make up for the weaknesses of a less professional management, lower education etc.

Table 6. The forms of assistance an equity investor is assumed to provide besides the financial stake.

Assistance wanted / expected	n=215	Family firms	Non-family firms
Assistance to enter (new) markets		4.062	3.636***
Access to key market information		3.908	3.577**
Ideas for new products / services		3.862	3.506**
Managerial know-how		3.854	3.365***
Business networks (access to)		3.762	3.447**
Searching for skilled staff		3.492	3.129**
Role of a “patron” with experience and well-thought behavior		3.485	2.918***
Assistance in the process of internationalization of business		3.485	2.894***
Consulting assistance to substitute for professional advisors		3.485	2.918*
Informal promotion of the company		3.300	2.918***
Support in accessing and negotiations to obtain bank loans		3.192	2.647***
Assistance in approaching other private investors		2.700	2.424*

Note: Level of significance of differences: *** below 0.05, ** 0.05-0.10, * above 0,10 (below 0.11)

SMEs generally need market support since the small Slovenian market limits their growth already at the beginning. Family firms also feel the lack of professional managerial skills and they feel the lack of a highly skilled staff due to the low education and training level, as well as the result of the former dominance of large firms. It is difficult to find appropriate skills among unemployed people since SMEs need either better craft skills or high-level technical and business skills not common in former employees in large hierarchical companies. While even in family firms owner-managers would need somebody as a trustee and “patron”, they do not expect psychological support in case of troubled business since they seek this support more within their family. Also, entrepreneurs would not like equity investors to be the middlemen to other financial sources fearing from becoming inferior to these investors.

CONCLUSIONS AND RECOMMENDATIONS

The analysis of the survey of 215 Slovenian SMEs revealed many differences in the attitudes of family and non-family businesses regarding issues of financing. Slovenian family businesses are inclined to use to a larger degree the financial resources of founders and family members, as well as reinvesting own profits (P1 could be considered as valid). commercial banks are found to be a more usual source of family-firm financing as opposed to non-family firms; this finding could be explained by the fact that family businesses largely originated from former crafts with a longer track record and good relationship with banks which was established long in the past– this is particularly true for long-term loans; also, banks as the source are not in conflict with the family control of the firm (P2 is not confirmed, in fact, the opposite should be stated). Only a small proportion of family businesses are already governed by the second or third generation, therefore P3 could not be validated. Family businesses are more reluctant to accept non-family equity finance; at the same time, family businesses have higher expectations toward non-financial assistance of equity investors to make up for their own weaknesses in marketing and management (P4 is valid in the case of Slovenian family businesses).

Using the clustering approach with more distinct behavior of family/non-family firms had a negative impact on the level of the significance of findings (Vadnjal and Glas, 2003). It should not discourage researchers from using more sophisticated analytical approaches however, they should provide larger surveys in order to arrive at reliable assessments.

Family businesses are different from non-family firms in their attitudes towards different sources of finance. Using a survey of more mature firms and with more firms larger than the size of micro businesses, would probably make these differences bigger. We therefore recommend that these differences in the attitudes towards financial sources should be considered when designing programs of SME assistance. Financial assistance should be enhanced with non-financial assistance to make up for the family businesses' lacks in business and managerial skills – more training and counseling assistance. Financial assistance should also be customer-friendly since SMEs encounter problems to respond due to the lack of information about available funding, to provide extensive documentation etc.

However, family businesses, although assumed to be fairly closed to external funding, behave in a fairly proactive way, are even better informed about different options, and they are quite successful in attracting local and small-scale sources that do not interfere with their "ownership instincts". Family business owners have learned how to survive in the environment that is still not friendly to SMEs.

The study may have several practical implications. Family businesses may be assisted to understand that insisting on the self-sufficient manner of financing their business may result in limited possibilities of companies growth and further development which would be necessary for setting a solid ground for successful transition of family businesses on to the next generation. Second, financial institutions (banks and other lenders, venture capital funds) should strive for more comprehensive understanding of family business peculiarities and adapt their supply of financial services tailored to their clients' needs. Third, from the findings of the study, business advisors have an opportunity for getting in closer relationship with their family business clients and help them plan their financial subsystem for optimal long-term survival of the firm. And finally, educators will have chance to widen their range of teaching topics.

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