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*Markku Ikävalko, Timo Pihkala and Iiro Jussila: A Family Dimension in SME Owner-Managers' Ownership Profiles – A Psychological Ownership Perspective (pages 4 -25)*

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*Jari Huovinen and Sanna Tihula: Family Business and Habitual Entrepreneurship: Differences and Similarities (pages 58-74).*

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# A FAMILY DIMENSION IN SME OWNER-MANAGERS' OWNERSHIP PROFILES – A PSYCHOLOGICAL OWNERSHIP PERSPECTIVE

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**Abstract**

This paper introduces a contextual model of ownership that consists of social, action and object dimensions. We build on business ownership and family business literatures as well as that of the psychology of ownership to analyze small business owner-managers' ownership profiles. In the empirical section we show that distinct ownership profiles can be identified and that those owner-managers who view their business as a family business have distinct profiles from those of non-family business owners. Our analysis shows that family business profiles include care-taking, stewardship and continuity as well as a perception of the company as a tool for achieving other valuable things in the world outside the company. Most importantly, we note that these profiles differ dramatically from the personal, extended self type of psychological ownership previously seen as the key element in family businesses. We conclude that future research should pay more attention to the sharedness and collective orientation present in family firms, including development and adoption of collective level measures in studying ownership and the related psychological states.

**Keywords:** Small business owners, family businesses, theory of psychological ownership.

## INTRODUCTION

Family businesses seem to offer a sustaining challenge for researchers. One could claim that family is the most common form of collective groups, and therefore it is not surprising that families also act as owners in various fields of business. While *the owner* – consistent with the Western tradition (e.g., Dittmar, 1992) – is often regarded as an individual person, in family businesses the owner is a collective labelled *family* (e.g., Tagiuri & Davis, 1996; Gersick, Lansberg, Desjardins, & Dunn, 1999). The basic idea of *a business owned by a family* both illustrates and conceals the essence of family businesses. That is, there is the specific social group – the family – that collectively owns the firm (Kets de Vries, 1996; Habbershon, Williams, & MacMillan, 2003). According to Chua, Chrisman and Sharma (1999), it seems rather generally accepted that the family's involvement in the business makes family business unique. It is not just individual family members being involved in the business separately, but the family as a collective unit, a unit that acts as a business owner and thus brings a specific family dimension to the management and governance of the firm.

Although Etzioni (1991) challenged the economic-rationalistic perspective some fifteen years ago – stating that ownership is a "dual creation, part attitude, part object, part in mind, part real" (p. 466) – it was only recently that the psychology of ownership was introduced to family business research. Building on the emerging theory of psychological ownership in organizations (Pierce, Rubenfeld, & Morgan, 1991; Pierce, Kostova, & Dirks, 2001; 2003), various family business scholars (e.g., Nordqvist, 2005; Brundin, Melin, & Florin, 2005) have focused their analyses on the role of psychological ownership in family businesses.

The roots of the psychological ownership literature (e.g., Pierce et al., 1991; VandeWalle, Van Dyne, & Kostova, 1995; Dirks, Cummings, & Pierce, 1996; Pierce et al., 2001; 2003) can be found in theories of the self (e.g., James, 1890). Expressly, an individual's understanding of the (extended) self is strongly connected to the surrounding environment of the individual and to the idea of *mine* (e.g., Dittmar, 1992; Belk, 1988). The psychology of *mine* and the related psychological processes have been examined, for example, by Furby (1979; 1980) in her studies on the early development of possessive behavior, by Beggan (1992) and Beggan and Brown (1994) in their studies on association, and by Rudmin (1994) who studied the meaning of ownership to the owner.

Ownership as a phenomenon and as a concept has various dimensions (Mattila & Ikävalko, 2003; Brundin, Melin & Samuelson, 2005; Hall, 2005; Hall & Koiranen, 2006). The concept of ownership can be seen to entail at least legal, personal/psychological, social and action/ influence (i.e., 'real') dimensions. This means that there is more than one ontological and paradigmatic level that can be found as the basis for analysis. In this paper we start from the notion that, although a family firm consists of a collective body, a lot of research has been conducted from the individual's point of view. The presence of a collective element is often ignored. Whilst there are some proposals for feelings of shared ownership (e.g., Van Dyne & Pierce, 2004; Jussila, 2006; Ikävalko & Jussila, 2006) and further, for collective psychological ownership (Pierce, Jussila, & Cummings, 2007), a great deal of research on the psychological ownership in family businesses seems to be based on the theory of individual psychological ownership, since an explicit division between individual and collective psychological ownership has not been made.

Zahra (2007) noted that studies on entrepreneurship has benefited from borrowing theories from other disciplines. Entrepreneurship research (includes family business research) is a complex phenomenon and has successfully merged in theories particularly from sociology, psychology and economics. However, Zahra (2007) continues by stating that "entrepreneurship researchers frequently apply theories in other disciplines with different phenomena in mind. As such, these theories are grounded in assumptions that reflect the nature of distant phenomena, actors and sites." (p. 445). That is, he calls for more careful contextualization of research; for more careful consideration of innate qualities of the phenomenon studied. In this study we acknowledge the nature of ownership in family businesses and, in the sense of Zahra's ideas, to advance by degrees towards the theory of psychological ownership in family businesses. The idea in our analysis is to intentionally take a personal and individual perspective and thus offer a foundation on which to build later, from that intermediate stopping point, to the direction of collective level analyses.

Psychological ownership was introduced into management sciences in studies of the employee–organization relationship (Pierce, Kostova, & Dirks, 1991; 2001). First the focus was on legal ownership instigated by employee stock ownership programs, but soon it became obvious that it was employees' feelings of ownership that explained the change in their attitudes and behaviours. There psychological ownership was defined as the feeling of possessiveness -- "It is mine!" - and as the feeling of being psychologically tied to an object -- "It is part of me" (Pierce et al., 1991; 2001; 2003). Family business scholars (e.g. Brundin, Melin & Samuelson, 2005; Hall, 2005; Hall & Koiranen, 2006), however, have utilized a somewhat wider perspective in their attempts to uncover the psychology of family ownership. This probably stems from the notion that ownership has various dimensions and the personal level forms one part of that multi faceted whole. The personal/psychological level of ownership can be defined as "goals, ambition, motivation, commitment, responsibilities and other things in the mind of an owner that link him or her to the target of owning" (Mattila & Ikävalko, 2003, p. 3). In their perspective psychological ownership does not achieve importance alone as such, but as one component in the life of the business owners, as component that connects them to the business owned.

Westhead and Cowling (1998) reviewed and analysed the definitions of family business used in previous research. They articulated one general finding: it is rather unproblematic to define a firm that definitely is a family business and a firm that definitely is not. However, the so-called grey areas between family businesses and non-family businesses bring forth the existing challenges in defining family business. Westhead and Cowling (1998) found that the proportion of family businesses in the UK varied dramatically depending on the definitions used in the studies. In this paper we do not divide firms strictly into family businesses and non-family businesses. Instead we focus on a population of small business owner-managers, in which a remarkable portion of respondents are likely representatives of family businesses. We assume that there is a specific feature in the ownership profile if the respondent is a family business representative. That feature (i.e., the feature towards shared or collective ownership of a family business) is controlled by reflecting it upon the respondent's perception of the firm being a family business. This definition of family business is often criticized and does not represent the whole nature of family businesses, but it helps us to remain on the selected, individual level in our analysis.

This paper presents empirical results from a survey among 150 owner-managers in South-Eastern Finland focusing on their ownership profiles. Ownership profile is a model developed in order to capture the elements of individual ownership from a number theoretical of perspectives. The purpose of this paper is weather or not there is a *family business* dimension in small business owner-managers' ownership profiles and its potential links to psychological ownership.

## PSYCHOLOGICAL OWNERSHIP PROFILES AND FAMILY BUSINESSES

In this chapter we will discuss the nature of psychological ownership and introduce its progression from theories of self to the context of family businesses.

### Psychological ownership in organizations

Pierce et al.'s (2001) work deals with the relation of individual human beings and ownable objects. Psychological ownership reflects the affective-cognitive state where an employee feels that an organization or part of it is theirs. Importantly, that state does not necessitate legal ownership to develop, which means that also non-owners may experience psychological ownership.

Pierce et al. (2001) built their framework on socio-biological and social psychological accounts on human nature (e.g., Dittmar, 1992; Furby, 1978), proposing that the roots of psychological ownership (i.e., the reasons why psychological ownership exists) can be found in three motives (genetic and socially constructed): 1) efficacy and effectance, 2) self-identity, and 3) having a place. Specifically, the functions served for the individual by psychological ownership are to satisfy the need to be efficacious, namely to explore their environment, produce desirable outcomes in it (e.g., Furby, 1878; Beggan, 1991) and express themselves, to construct their own identity (e.g., Porteus, 1976; Dittmar, 1992), and to have a place, a *home* in which to safely and continually satisfy the other two motives (e.g., Porteus, 1976; Duncan, 1981). As put forward by Pierce et al. (2001), both physical and non-physical entities may satisfy the motives for psychological ownership.

While the motives for psychological ownership do not causally produce feelings of ownership, three – potentially interrelated – main routes to this psychological state have been identified. Pierce et al. (2001) maintain that psychological ownership develops through 1) controlling the target, 2) coming intimately to know the target, and 3) investing self into the target. In other words, the feeling (i.e., the individual condition that reflects thoughts, beliefs, and awareness, coupled with an emotional or affective sensation) of ownership arises, and a fusion of the self with the object takes place via the ability to use and control the use of objects, through association and familiarity with the object, and by investment of individual energy, time, effort, and attention into the objects. In sum, the more a person has control over something, the more they invest into; and the better their knowledge and understanding of the target, the stronger their feelings of ownership are toward it (Pierce et al., 2001; Jussila & Puumalainen, 2005).

While the literature on psychological ownership has revolved mainly around individual pronouns, reflecting individualistic feelings of ownership, a personal state of shared ownership (i.e., "This is OURS") has also been identified (e.g., Van Dyne & Pierce, 2004). Based on this notion and a review of individualism and collectivism literature (e.g., Triandis, 1995; Parsons & Shills, 1951), Jussila (2006) introduced a framework for analyzing managers' self-serving and cooperative behaviors. He pointed out that individual psychological ownership can be self-based (i.e., the personal feeling that an organization or an organizational target is *MINE*) and/or collective-based (i.e., that is the personal feeling that an organization and organizational target is *OURS*). Thus, it is possible to separate individual and shared psychological ownership at an individual level. However, feelings of shared ownership that are accompanied with a collective cognition is, according to Pierce et al. (2007), a unique extension (i.e., a collective phenomenon) and should be studied as such.

**Psychological ownership in small and family businesses**

The theory of psychological ownership was originally developed to explain how employee ownership may produce behavioral and attitudinal outcomes beneficial to organizations and employees (e.g., Pierce et al., 1991). What facilitated the theory development was the recognition that it is not formal ownership arrangement that produces the desired outcomes, but instead the psychological experience of ownership based on participation (e.g., Pierce & Furo, 1990). While small businesses were also represented in Pierce's and his colleagues' works (e.g., Pierce & Furo, 1990; Pierce et al., 1991; Pierce & Rodgers, 2004), they seem to have emphasized settings in which formal ownership arrangements are either management led or somewhat democratic (e.g., co-operative organizations). That is, early literature on psychological ownership in organizations did not pay much attention to firms in which the entire organization may be first and foremost a creation of the owner-manager and/or their family. When psychological ownership was finally adopted on the business owner level, it was in the context of family businesses, and not, interestingly, in the context of individual business owners.

Ikävalko (2000) discussed the broad concept of ownership in the entrepreneurial context and pointed out that ownership is not a single ontological entity. Instead, the personal/psychological level forms one ontological portion of that multifaceted whole.

Mattila and Ikävalko (2003) followed outlining the concept of ownership in a professional organization, basing their argumentation on the literature of psychological ownership (e.g., Pierce et al., 1991, 2001; Rudmin, 1994; Beggan & Brown, 1994) and certain philosophic accounts on ownership (e.g., Sartre, 1973; Grunebaum, 1987). They identified four dimensions of ownership: 1) legal, 2) personal/psychological, 3) social and 4) action/ influence dimensions. This notion of ownership as a complex multidimensional construct has been recently joined by several researchers of entrepreneurship and family business.

Karlsson and Koiranen (2003) presented results from a survey focusing on perceptions of ownership. Out of 642 respondents, 176 were entrepreneurs and the rest were employees of different organizations. Their analysis revealed that ownership was seen both as a motivator and as a burden. It was present in social interpretations, but also visible in individual experiences. Karlsson and Koiranen (2003) also noted that there was a difference between the entrepreneurs' and other respondents' perceptions. Ownership was more appreciated by entrepreneurs and they tended to regard economic wealth more as a token of work well done.

Hall (2005) conducted a case study pointing out that psychological ownership has high relevance to the field of family business ownership. The study concluded that several of the criteria of psychological ownership towards the family business were fulfilled. Hall quite strictly followed the theory of psychological ownership and pointed out its essential relevance in the family business context. However, Hall (2005) also noticed that psychological ownership clearly occurs in "a web of other subjects and objects and the numerous different relations between them," (p. 4) namely, psychological ownership is a contextual phenomenon. Psychological ownership does not get its meaning and content alone, but with an interaction with the environment.

Brundin, Melin and Samuelsson (2005) conducted 13 in-depth conversations in order to identify the core characteristics of family business logic. Starting from the theoretical pre-understanding, they utilized interpretative analysis and categorized seven themes representing an emergent logic of ownership in family controlled businesses. The themes clearly showed that family business ownership is linked to the social environment, business environment and to the values of the family. There was also an evident inclination for continuity as an important element in family business ownership.

Nordqvist (2005) conducted an extensive study focusing on the role of ownership in strategizing in family businesses. The main idea in his research was that, if ownership, a complex and multiparadigmatic concept, has influence on the behavior of the firm, the influence is inevitably present and visible in the every day work in the business. He utilized a symbolic interactionist perspective on psychological ownership and introduced the concept of socio-symbolic ownership. Nordqvist's focus was on the social element of ownership as a playground where strategy takes place, and not so much on the collective entity of family as the business owner.

As a conclusion we could say that this "Nordic group" of ownership research has gained a lot from the origins of research on psychological ownership. However, the scope and interest is significantly larger. When the original theory remained focused and dealt visibly with the phenomenon of extended self, research by the Nordic group also saw interesting issues worth studying in ordinary aspects. These issues seem to emerge from data, with the help of sharpened conscious and with preparedness that familiarity with the concept of psychological ownership created. One could claim that the Nordic group has put effort in studying the psychology of ownership in large rather than the state of psychological ownership itself (which of course is an essential part of the psychology of ownership). A part of the answer for why such tradition has emerged may be found in that some of the pioneering works in Scandinavia painted a multidimensional picture of ownership (e.g., Ikävalko & Mattila, 2003). Another part of that answer may be found in the acknowledgement that family-organization relationships are more complex in nature than employee–organization relationships discussed by Pierce et al., (1991, 2001).

Whilst there is no single established theory frame or methodology in the research of the Nordic group, it is safe to say that the research provides rich evidence of the components, dynamics and implications of ownership. And further, while it is assumed that ownership takes place in a web of several actors and objects at several ontological levels, it does not occur in a never-ending loop of relativity, and it is evident that certain patterns in psychological/personal ownership are more common than others.

## THE SETTINGS FOR EXPLORATION – THE CONTEXTUAL MODEL

### The contextual model for psychological ownership

Ontologically, ownership has often been regarded as a form of social reality and structures, but there are some rational bases to make further conceptual clarifications when operationalizing the research (Mattila & Ikävalko, 2003). The basic model of ownership can be described as follows: the owner (subject), the ownable object (object) and the relationship between them (ownership). In this paper we treat psychological ownership as the possessive subject–object relation comprehended by the small business owner-manager. For the subject (i.e., the owner-manager), the firm is partially 1) a target of action, 2) the result of action, and 3) also an instrument to reach other targets. Expressly, as a target of ownership, the firm represents both ends and means. As a multidimensional object, the firm may efficiently satisfy the owner's utilitarian (e.g., money related), social, and psychological motives (e.g., the motives for psychological ownership). According to Kelly et al. (2000), each owner-manager has their own way of looking at the firm. However, as the prerequisites of experiencing psychological ownership prevail (i.e., the owner-manager has control over the target, has come intimately to know the target and has invested him/herself into the target, especially in the start-up phase of the business) it may be considered that the owner-manager's mental connection to the firm is strong and, therefore, firms (the objects) and owner-managers (the subjects) are not transferable (cf. Dirks et al., 1996).

In this study it is assumed, however, that the social and material playground of the owner – in terms of psychological ownership – needs to be broadened to include the 'outside world' of the company. Particularly, by increasing the number of subjects, objects and relationships between them (see Figure 1), the basic subject–object model turns into a contextual model of (psychological) ownership. Whereas in the contextual setting, there are more than one potential owner (subject), more than one potential ownable (object), and more potential links between the parties participating in the construction of ownership (relationships) (e.g., Ikävalko, Jumpponen, Mirola, & Ikävalko, 2005; Ikävalko & Pihkala, 2005).

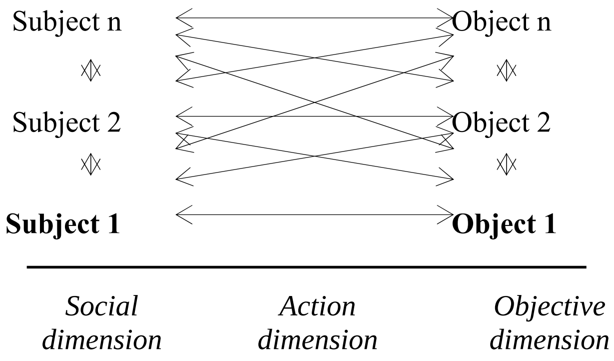


**Figure 1. The contextual setting for the construction of psychological ownership.**

This setting also enables the researcher to explore the contextuality of personal/psychological ownership. According to the contextual model, the routes to psychological ownership may be considered as ‘real,’ but also ‘relative’ in the contextual setting. This means, for example, that in addition to the subjective dimension, ownership also has a social action dimension (e.g., power and investment).

The operationalization of this model is based on field theory (Lewin, 1951). The theory aims to capture the main elements in the *life space* of an individual, and gives a platform to study the importance and significance of these elements or *force factors* as they were named. Thus, there is a possibility to quantify the relative importance of different elements in the life space of an individual. In this study the main concern was targeted to issues related to business ownership (i.e., issues that the respondents link to their being as owners). And further, issues dealt with in the questionnaire are not presented as loose and separate matters, but as something that gets its importance within the context of personally perceived business ownership. Building on the idea that objects are likely to become psychologically owned, they must be attractive, preferable, and valued by the potential owner (e.g., Dittmar, 1992; Pierce et al., 2001), issues in the questionnaire were also treated, in part, as ‘values.’

Rokeach (1973) defined value as “an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct” (p. 5). While the symbolic value of an object may be drawn from the contextual meaning system (e.g., Dittmar, 1992), we assume that contextual (subjective and social) values are important in steering social action and, thus, shape the type and targeting of subject’s feelings of ownership. However, as this is not a one-way process, it is assumed that feelings of ownership may have outcomes on what is personally and socially valued.

Importantly, the contextual model of psychological ownership may be employed to explore the most significant elements and relationships linked to the owner-object

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relationship from the owner-manager's point of view. As family involvement seems crucial in family businesses, it is notable that the contextual model also allows us to study the family business character from a new perspective. As the owner-manager's psychological ownership profile consists of what is valued and felt ownership for, it may be statistically analyzed whether the profile includes the element of a family business character or not, thus exploring the grey area of family business research.

## Data and measures

Our study is based on data collected among owner-managers in South-Eastern Finland. A questionnaire was sent out to 700 small business managers, of whom 150 succeeded to reply, creating thus a response rate of 20%. In Table 1 the respondent characteristics as well as the company profiles are depicted. The respondents are relatively old, a majority belonging to the group of 50–64 years. Correspondingly, the respondents show extensive experience in managing their companies, with 91 respondents having more than 10 years' experience. The majority or roughly 55% of the respondents have founded their company themselves. The second largest group was composed of those owner-managers that have bought their business, and the data included only 22 owner-managers that have inherited their company.

**Table 1. Respondent and company profiles.**

| | | *n* | % |
|---|---|---|---|
| Total | | 150 | 100 |
| Age, years | 16–30 | 4 | 2.7% |
| | 31–50 | 56 | 38.1% |
| | 50–64 | 87 | 59.2% |
| Experience as an owner, years | 0–9 | 52 | 36.4% |
| | 10–19 | 62 | 43.3% |
| | 20–40 | 29 | 20.3% |
| Route to ownership | Founded | 79 | 54.5% |
| | Inherited | 22 | 14.7% |
| | Bought | 35 | 23.3% |
| | Promoted | 4 | 2.7% |
| | Other | 5 | 3.3% |
| Family business | Yes | 96 | 64% |
| | No | 50 | 33.3% |
| The age of the company, years | 3–10 | 26 | 17.6% |
| | 10–30 | 80 | 54% |
| | 31–64 | 31 | 19.6% |
| | 65–100 | 13 | 8.8% |
| No. of employees | 0–9 | 67 | 46.2% |
| | 10–49 | 66 | 45.5% |
| | 50–200 | 12 | 8.3% |

Corresponding to the experience of their owners, the companies are rather old (see Table 1). They are, however, characteristically small and medium-sized businesses in terms of the number of employees. More than two thirds of the companies employ less than 30 people.

The original questionnaire was composed in Finnish. It was first drafted based on the above theoretical perspectives. Then, it was developed based on thorough discussions among a group of researchers and with a local entrepreneurs' organization. The aim of this qualitative development process was to improve the validity of the measures.

In terms of classifying family firms, we followed Birley (2001) and asked: "Do you consider the business to be a family business?" Roughly two thirds of the respondents perceived their companies as family businesses. The owner-managers' attachment to their company was measured with an 18-item block of Likert-type questions on a scale 1–7 describing feelings of ownership and other states related to the psychology of ownership (in the broad sense). One outcome of the up-front testing was the confirmation of the importance of avoiding direct usage of words *ownership*, *owning* and other strong words in the questionnaire. It was acknowledged that there is a possibility that this kind of words refer too greatly to the social meaning and interpretations of ownership related issues in the given context. Thus, answers would reflect the normal discursive proclamation connected to the state of being a business owner (and not the psychological state related to it). The avoidance of using those words is possible when utilizing the processes of psychological ownership and, particularly, utilizing the relativeness in view on the contextual model of ownership. The measure used in this study represents owner-managers' object-specific contextual values (i.e., mostly preferential and even instrumental values) (e.g., Baker & Jenkins, 1993) and they are linked to specific attributes, such as the family, business, local community, and employees of the company.

The data was analyzed in four stages. First, we looked at the straight distributions of each item. Second, we conducted an exploratory principal components analysis in order to identify some basic dimensions of the psychology of ownership. Third, we used the sum measures of the factors in an ANOVA test. Finally, we conducted a stepwise discriminant analysis to test the ownership factors' ability to detect a family business dimension within the sample.

## RESULTS

Fourteen of the replies were excluded form the analysis due to missing values. The descriptive statistics of the psychology of ownership variables are depicted in Table 2. Three of the highest items are all related to goals or achievements that having the company could bring outside the company. The values reflect extreme instrumentality and as such, they bear close resemblance to those of employed persons working to raise money.

**Table 2. The descriptive statistics of ownership variables, range 1–7 (n 136).**

| | *mean* | *sd.* |
|---|---|---|
| Company success helps me fulfill other dreams in life | 6.01 | .033 |
| My family respects me because of the company | 5.61 | .239 |
| People are interested in the success of my firm | 5.37 | .320 |
| I could easily find a job for myself outside the company | 5.16 | .613 |
| I am very proud of everything in my company | 5.12 | .465 |
| I could easily sell the company | 5.08 | .049 |
| My behavior affects the way others think about me | 5.02 | .683 |
| I use the accountant as a partner in decision-making | 4.89 | .934 |
| My owner status is important to me | 4.87 | .759 |
| People know me because of owning the company | 4.76 | .743 |
| The company is my largest effort so far | 4.70 | .945 |
| No one knows the people in the company as well as I do | 4.49 | .831 |
| There are valuable things in the company to pass on | 4.24 | .931 |
| I have a duty to the next generation | 3.53 | .062 |
| Other people's influence on the company is small | 3.34 | .708 |
| No one knows the equipment of the company as well as I do | 3.25 | .853 |
| No one knows the operations in the company as well as I do | 3.16 | .836 |
| The company has great mental value to me | 2.56 | .548 |

Interestingly, the items that most reflect the egocentric perspective on ownership seem to rate lowest in the analysis. The item *The company has great mental value to me* received the lowest score, and this suggests that for the respondents ownership is no 'love affair,' nor do the owner-managers think of themselves as omnipotent about their company and the things that need to be done there.

To understand the structures of the psychology of ownership more thoroughly, we ran an exploratory principal components analysis with Varimax rotation to uncover the underlying common nominators between the measures. The analysis produced six factors above Eigenvalue of 1, and managed to capture about 65% of the total variance (see Table 3).

The results of the analysis presented in Table 3 bring out a wide array of interesting insights of small business managers' ownership structures.

**Table 3. The principal components analysis of ownership.**

| | *1* | *2* | *3* | *4* | *5* | *6* | *comm.* |
|---|---|---|---|---|---|---|---|
| No one knows the operations in … | .84 | | | | | | .725 |
| No one knows the people in … | .78 | | | | | | .626 |
| No one knows the equipment … | .75 | | | | | | .665 |
| Other people's influence to the company… | .63 | | | | | | .473 |
| I have a duty to the next generation | | .87 | | | | | .810 |
| There are valuable things in the company… | | .83 | | | | | .765 |
| The company has great mental value to me | | .65 | | | | | .593 |
| The company is my largest effort so far | | | .80 | | | | .695 |
| People are interested in the success of my firm | | | .68 | | | | .553 |
| I am very proud of everything in my company | | | .67 | | | | .719 |
| People know me because of my owning the company | | | .57 | | | | .538 |
| My behavior affects the way others think about me | | | | .76 | | | .630 |
| My owner status is important to me | | | | .70 | | | .634 |
| I could easily find a job for myself outside the company | | | | .53 | | | .514 |
| I could easily sell the company | | | | | .79 | | .735 |
| I use the accountant as a partner in decision-making | | | | | .78 | | .679 |
| Company success helps me fulfill other dreams in life | | | | | | .84 | .742 |
| My family respects me because of the company | | | | | | .62 | .563 |
| Eigenvalue | 3.99 | 2.30 | 1.61 | 1.41 | 1.28 | 1.07 | |
| Percent | 22.17 | 12.78 | 8.94 | 7.84 | 7.12 | 5.92 | |
| Cumulative | 22.17 | 34.95 | 43.86 | 51.73 | 58.85 | 64.77 | |
| KMO measure of sampling adequacy .710 (results exceeding .50 acceptable) | | | | | | | |

The first factor (α= .775) received four main loadings: (1) *No one knows the operations in the company as well as I do*; (2) *No one knows the people in the company as well as I do*; (3) *No one knows the equipment of the company as well as I do*; and (4) *Other people's influence on the company is small.* Together they reflect the internal logics of the company operations (i.e., the targets of knowing are within the company). Pierce et al. (2001) state that it is via intimate knowledge that a fusion between the self and target of ownership emerges. Thus, we find that this factor is about the ***extended self*** linked to the things taking place within the company.

The second factor (α= .754) received three loadings: (1) *I have a duty to the next generation*; (2) *There are valuable things in the company to pass on*; and (3) *The company has great mental value to me*. These items suggest responsibility of the company to others (potentially to the next generation) and a longer perspective of time. As in the first factor, in this component the things also take place inside the company. In terms of Pierce et al. (2001), the factor seems to represent an element of having control over the company, but to greater extent an element of stewardship (i.e., the manager's job consists of taking care of things to deliver them to the next generation). Thus, we label this the ***taking care*** factor. The idea of making money is secondary, because the main target is to continue having the company.

The third factor (α= .710) captured four main loadings: (1) *The company is my largest effort so far*; (2) *People are interested in the success of my firm*; (3) *I am very proud of everything in my company*; and (4) *People know me because of my owning the company*. The factor clearly relates to the high need for achievement and the way, in which the small business manager enjoys good performance. In a sense this factor could be seen as 'showing off.' The factor seems to be related to company-based self-esteem. A tremendous amount of self-investment has taken place to accomplish something socially esteemed (cf. Pierce et al., 2001). A major output of the success can be seen as an improved personal achievement and, thus, the company provides the owner with a ***higher outside social status*** in the society (i.e., in and around the company).

In the fourth factor (α= .510), three main loadings were identified: (1) *My behavior affects the way others think about me*; (2) *My owner status is important to me*; and (4) *I could easily find a job for myself outside the company*. We find that there is a dimension of free will involved here – the manager is an owner at will, because the job of a leader is important to him/her. The factor seems to be mostly about ***social status within the company***. In terms of the psychology of ownership, we believe that a sense of ownership for the job of leading and managing would be present if we measured for it.

The fifth factor received two main loadings: (1) *I could easily sell the company*; and (2) *I use the accountant as a partner in decision-making*. These items reflect the owner-manager's responsibility only to themselves. The factor includes no references to the local social system, and the focus is on increasing one's earning possibilities. As a manager's job the posture has close resemblance to that of an investor. The interpretation of ownership is 'Having the company in order to make money'. This dimension of ownership seems to represent the opposite of the first factor. The firm is important for its monetary value and potentiality, and not as an elementary part of individual's entrepreneurial history or his/her extended self. Financial matters are more familiar to the owner than tasks and objects within the company. The factor reflects the ***personal freedom***, that is, independence and ability to do anything with the company at will.

Finally, the sixth factor received two main loadings: (1) *The company success helps me fulfill other dreams in life*; and (2) *My family respects me because of the company*. The factor is clearly about the company being a ***tool for achieving the goals outside the company***. That is, the perspective seems to be outward from the company (i.e., in the family's respect and other things valued by the manager).

Figure 2 is an illustration of the factors in a free topological manner of Lewin's (1951) field theory. There is no direct link to Figure 1 except the placement of the social dimension to the left, power/action dimension in the middle and objective dimension to the right.

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| | | |
|---|---|---|
| Status within the company | Taking care | Extended self |
| **Social dimension ----------------** | **Action dimension -------------** | **Object dimension** |
| Higher outside social status | Personal freedom | Tool for goals |

**Figure 2. The results of the factor analysis and the three psychology of ownership dimensions.**

A closer look at the results of the analysis suggests that the three dimensions of ownership (social, action, and object) can be identified in the factor structure (see Figure 2). Thus, the social dimension was captured with two factors reflecting the ***social status within*** and ***outside*** the company. The action dimension was represented by two interesting patterns, the factors of ***taking care*** and ***personal freedom*** in the company. Finally, the ***extended self*** and ***the tool for goals*** factors highlight the object dimension of ownership.

Next, the analysis was continued by studying the family business character with respect to the sum measures of the factor analysis. The results are depicted in Table 4. The analysis suggests that family firms and non-family firms do not behave homogeneously with regard to ownership. On the contrary, it is notable that all but the factor of independence scored higher among the family businesses. In addition, the ANOVA test suggests that the scores of the factor of ***taking care*** are significantly higher than in non-family firms. In a similar vein, for family businesses the company is more likely to be a tool for other goals in life than for non-family businesses.

**Table 4. ANOVA analysis of ownership scales within family firms and non-family firms.**

| Scale | “Family f”. | “Non-family” | F | sig. |
|---|---|---|---|---|
| Tool for goals | 5.95 | 5.53 | 6.93 | .009 |
| Social status | 5.12 | 4.73 | 3.57 | .061 |
| Status in firm | 5.09 | 4.90 | .807 | .371 |
| Freedom | 4.90 | 5.13 | .66 | .419 |
| Taking care | 3.74 | 2.89 | 10.86 | .001 |
| Extended self | 3.73 | 3.22 | 4.45 | .037 |

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The family business character also seemed to produce other differences in the analysis. The scores of extended self seem to be higher for family firms than for non-family firms, and even if only moderately significant, the social status also receives higher means among the family businesses. The two other factors, status within the company and freedom, do not differ statistically between family businesses and non-family businesses. Overall, these findings are consistent with the current thinking on family businesses. We continued our analysis by studying the relationship between psychological ownership and the owner-managers' subjective perceptions of the family business character of their companies. Thus, the results of a basic solution of the stepwise discriminant analysis with a constant are depicted in Tables 5 and 6.

The results in Table 5 suggest that only two factors of ownership are able to predict the business being a family business. The factors ***taking care*** and ***tool for goals*** seem to have predictive value for identifying family businesses. Thus, the responsibility associated with ownership in terms of a duty to the next generation as well as the mental value of work the owner-manager has done for their business seem to characterize the operational predictor of the family business character of a company. In addition, the company's instrumental value for the owner-manager in terms of gaining opportunities to enjoy other goals and gaining the family's respect also work as a predictor of family business character. Interestingly, the rest of the factors failed to distinguish between family firms and non-family firms. This finding suggests that, for example, the company's character of the extended self – even if it is an important dimension of psychological ownership – is not something that characterizes family businesses especially, nor are the factors relating to the social dimension.

**Table 5. Stepwise discriminant analysis.**

| Subscale | F to remove | Wilks' Lambda | sig. | Classification function coefficient "Family f." | "Non-family." |
|---|---|---|---|---|---|
| Step 1: taking care | 9.80 | .934 | .002 | 1.203 | .863 |
| Step 2: tool for goals | 6.62 | .891 | .000 | 7.628 | 7.085 |
| (constant) | | | | -25.78 | -21.53 |

**Table 6. Classification results from a discrimination analysis.**

| | | Predicted group | |
|---|---|---|---|
| Group | no. of cases | "family firm" | "non-family firm" |
| "Family firm" | 96 | 63 (65%) | 33 (34%) |
| "Non-Family firm" | 50 | 18 (35%) | 32 (64%) |
| Percent of cases correctly classified 65% | | | |

Even if the discriminant analysis suggests that two factors are statistically able to distinguish between family firms and non-family firms, actual classification results will be needed to see whether the classification tool makes a difference. As Table 6 suggests, these two factors together can classify 65% of the cases correctly, that is, two thirds of the cases could be identified as family firms or non-family firms by studying directly their ownership profiles of ***taking care*** and ***tool for goals***.

## CONCLUSIONS

The purpose of this paper was to study the family business dimension in small business owner-managers' ownership profiles and its potential links to the psychology of ownership. It was assumed that individual psychological ownership is visible in owner-managers' ownership profiles and; as family businesses are forming a significant portion of the business population, there should also be a sings of familiness in ownership profiles that are based on the contextual model of (psychological) ownership.

The study presents the results of a survey among 150 owner-managers in South-Eastern Finland focusing on their ownership profiles. The results indicate that an ownership profile can be identified, there is variation among the ownership profiles, both individual psychological ownership and family business dimension can be identified in ownership profiles, and, importantly, individual psychological ownership and family business dimension seem not to be interrelated.

The most important contribution of our study lies in the identification of the ownership profiles that are typical for owner-managers, who consider their companies as family businesses. The conclusions that can be drawn from our results are significant in terms of future research. It is clear that in family businesses the owner-manager accept other people (i.e., family members) to be involved in the business as owners. It seems that there is an extent of personal feelings sharedness involved in business ownership (manifested by stewardship).

The analysis of the owner-managers' psychological ownership profiles and the discriminant analysis between family firms and non-family firms suggest that as such, the social dimension is not directly related to the character of family business. One obvious explanation results from one important limitation of our research setting. The statements in the survey concerning the social dimension did not include the family as an explicit separate actor. The respondents represented themselves individually, not their families, their organizations nor owner-managers as a separate social group. On the other hand, the action dimension and the object dimension became important elements in distinguishing family businesses (see Figure 3).

| | | |
|---|---|---|
| (Status within the company) | **Taking care** | (Extended self) |
| (Social dimension)---------------- | **Action dimension** ------------- | **Object dimension** |
| (Higher outside social status) | (Personal freedom) | **Tool for goals** |

**Figure 3. The dimensions of psychological ownership and family business characteristics.**

Overall, our study has a number of significant implications. The separation of the extended self dimension and the family business dimension in ownership profiles raises the question of the importance of the balance between individual and collective action in family business. In other words, how much does a family business endure individual goal setting and self-serving behavior? The theory of psychological ownership suggests that psychological ownership does not occur as a mere feeling. It has its foundations in action and behavior, and most importantly, psychological ownership carries the tendency to preserve previous line of behavior. In that respect the results seem to indicate that in order to ensure familiness, the access to the family-specific resources, the role of individual family members should not be inordinate.

The analysis suggests that almost all dimensions of psychological ownership are more strongly loaded among the family businesses compared to the non-family businesses. This could mean that family business ownership sharpens the meaning of ownership as such within the company. In other words, even if individual ownership is latent in some cases, the character of collective ownership does not stay unnoticed from the individual respondents. This notion supports to some extent the contemporary discussion concerning the stronger feelings of responsibility within family businesses.

The results indicate that the concept of family business is strongly related to ownership. If we adopt the idea that personal/psychological ownership is an elementary part in family firms, the results seem to suggest that the main division between family businesses and non-family businesses, from the individual owner's point of view, is due to the feeling of responsibility towards the family with regard to the business, and due to the feeling of responsibility to achieve something for the family. This means that the owners do not do things just for themselves, but also for their families, and further, the families are also involved in the business and, from the individual owner's point of view, the family has the justification to be involved in the business.

As the difference between family businesses and non-family businesses is apparent in the contextual model of psychological ownership, it is possible to study the process of a business becoming a family business and vice versa. In other words, it seems possible to open up the continuum between family businesses and non-family businesses. And further, it seems possible to use the theory of psychological ownership in studying variations and processes in a business becoming a family business. This process may, in the long run, provide a platform to develop a family business theory capturing the idea of family business and variations between family businesses and non-family businesses – results that are worth all the effort.

There are two important streams of development needed in the theory of psychological ownership in order to make it operationally more suitable for studying family businesses. The first development, namely the topic of this paper, concerns the task of bringing the theory of psychological ownership in the context of business owners. The methodological challenges of that task should not be undermined. Although the solutions are likely to be found in measurement of the motivational bases, routes and consequences, one should not confuse those with the core of the concept. In that case it is better to discuss family businesses in terms of the psychology of ownership. The second development is the elevation of the theory of psychological ownership to collective level. It seems that help is found in the field of management where there is growing interest on studying group level motivations, collective action and collective psychological states, including that of ownership.

A methodological limitation of this study is that studying ownership at the personal level does not give possibilities to study collective ownership. Yet, our study shows that there is sharedness and some sort of collective orientation present in the ownership profiles of family business owners. Thus, we call for research on the topic that acknowledges families as collective entities and develop group level measurement tools for a variety of dimensions of ownership.

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# DO AGENCY COSTS INHIBIT FOREIGN COLLABORATIONS BY FAMILY FIRMS? AN EMPIRICAL INVESTIGATION

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## INTRODUCTION

All business is global in the sense that family owned domestic firms face global competition. Consequently, a family owned manufacturing or service firm that seeks to thrive in a highly competitive environment has to construct a long-term strategy that incorporates all the direct and indirect costs of operation on a global basis.

However, a family owned business may not evaluate these global opportunities adequately due to several agency concerns. Family firms may have serious concerns about control, coordination and accountability that could potentially inhibit international collaborations. This project will investigate whether these agency cost concerns impede international collaborations.

Anderson and Reeb (2003) found that out of the sample of 500 S&P firms, family ownership is substantial in one third of the firms, and outstanding family firm equity is 18%. They discovered in this sample that contrary to popular wisdom, family firms perform better than nonfamily firms. When family members serve as CEOs, the performance is superior compared to when nonfamily CEOs are appointed. This suggests that family ownership is an effective form of organization and that family management may not be subject to significant hubris.

## LITERATURE REVIEW

The International Business (IB) literature has an extensive analysis about the strategic role of globalization in overall business operations. IB researchers frequently hypothesize that a firm’s tangible and intangible assets play an important role in international expansion. There is also broad IB literature on issues related to international strategy and modes of entry. For instance, Benito and Welch (1997) have summarized the extensive research that seeks to identify the factors that determine the entry mode and the learning curve in understanding foreign markets. Anderson and Gatignon (1986) have identified the reasons why firms might prefer a low-control mode (sub-contracting or licensing) compared to a high-control alternative (a joint venture or a fully owned subsidiary). Typically a firm will prefer a more high-control mode if the expected transaction costs (internal and external uncertainty, free-riding potential, value of firm specific knowledge, etc.) are relatively high. Strategic factors such as the benefit of scale economies, the geographical proximity of different locations, and marketing linkages may also dictate a higher degree of control. Family firms seeking international collaboration need to balance these competing needs along with specific agency concerns about control and coordination.

Nordic researchers [(Johansen and Vahlne, 1990); (Johansen and Wiedersheim-Paul, 1975)] have stressed the strategic importance of knowledge and experience for reducing risk and uncertainty. From a strategic point of view, the extent of resource commitment for foreign collaboration by a manufacturing company should go hand in hand with progressively more knowledge and experience. This literature demonstrates that a critical component of the strategy has to be the identification and strengthening of a network of relationships that are important for long term sustainability. This network would include government officials, banks, local unions, trade organizations, and focus groups of foreign customers. At least initially, family firms may not have adequate knowledge, experience, and required network relationships that are the foundation for successful international collaborations.

For a family firm with limited resources, an incremental approach may hold more promise so that resource commitments, knowledge, and experience can keep pace with competing needs. The initial part of the strategy may involve acquiring relevant knowledge, working out the lean math to increase efficiency and reduce costs, hiring key personnel for developing linkages, and developing foreign marketing networks with progressively more resource commitments as knowledge and experience grows. The mode of entry can perhaps start as subcontracting or licensing and progressively move toward high-control such as joint-venture and eventually owning a fully owned subsidiary as the firm progresses on the learning curve.

Sharma (2004) has conducted an extensive literature analysis of family firms based on 217 refereed articles. Her review indicates that there are very few articles analyzing issues related to international collaboration by family firms.

Zahra (2003) also points out there has been very little analysis of the factors that influence family firms' globalization efforts. Based on a survey of 409 U.S. firms, Zahra found that the *percentage share of family ownership* in business is positively correlated with the *level of internationalization*. The two measures of internationalization used in his study are the amount of international sales and the number of countries with foreign collaboration. In his study, family involvement in management had a mixed effect on internationalization: it had a positive effect on international sales but a negative effect on the number of countries with foreign collaboration. It appears that family owners approach internationalization with caution. The exact reasons for this cautious approach have not been investigated. It seems concerns about agency costs are probably a factor impeding international collaborations. However, this important issue has not been explored.

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## METHODOLOGY

The major impediment for research on family firms is the availability of broad and reliable data sets. Most studies tend to employ a survey design in order to obtain insights from primary data. Also, studies based on survey data that analyze the key motivations of potential investors are ideally suited for analyzing qualitative factors that may be difficult to capture by objective data sets. A good example of this approach is the recent study performed by Zahra (2003). The next section will specify the research hypothesis.

## RESEARCH OBJECTIVE

In order to function effectively, whenever a family owned business delegates some executive authority to an agent different types of concerns are bound to arise. Typical agency concerns are: Compromising the firm's mission, adequate monitoring of quality, losing control of critical decisions, and potential violations of confidentiality, etc. These agency concerns might be quite different in a domestic environment compared to when dealing with foreign collaboration.

A targeted survey of family owned business firms was conducted to get at their agency concerns and how these concerns inhibit their plans (or lack thereof) for foreign collaborations. The existing database of 1350 family firms that has been created by the Seidman Family Owned Business Institute was utilized

The following areas are explored: First, the type of family involvement in different firms is assessed. Second, concerns about agency costs are investigated. Third, questions are asked about existing organizational structures to reduce monitoring costs and potential conflict. Fourth, questions about existing and potential international collaboration are asked along with agency concerns of working with foreign partners. Information in these four areas allows us to test the following hypotheses:

Hypothesis 1: **More family control** is associated with **higher agency concerns.**

*There is obviously a <u>wide range</u> of family involvement in firms and many diverse agency concerns. The first hypothesis will test the extent to which these two issues are correlated.*
*Normally more agency concerns should result in higher family involvement.*

Hypothesis 2**: Specific types of international collaboration** is impeded by **agency concerns** that may arise with foreign partners.

*Agency concerns that tend to surface with foreign collaboration should be assessed separately. We will assess is these agency concerns impede different types of foreign collaboration. Foreign collaboration could range from a sales agreement to a joint vesture and a foreign subsidiary. Consequently, it is important to distinguish about the different levels of collaboration.*

**Hypothesis 3: What is the main rationale for international collaboration? Reducing costs or potential sales growth.**

*The IB literature points out that international collaboration could be driven not only by trying to reduce the cost of production but also by the potential for larger markets. We will asses if for family owned firms seeking broader markets or reducing overall costs is the main driver for foreign collaboration.*

## PRELIMINARY RESULTS

Based on the existing database of 1350 family firms that has been created by the Seidman Family Owned Business Institute, a mail survey was sent out to 650 family owned firms.

Approximately 131 usable survey instruments were obtained. The results of the survey instruments are preliminary. By family members we mean individuals connected by either bloodline or by marriage.

### Descriptive Data Analysis

The survey was completed mostly by family members (92% of the respondents) who were either owners (24%) , presidents (46%) or vice-presidents (12%). In order to provide a comprehensive assessment of family influence the F-PEC scale of Power, Experience, and Culture was employed. In terms of position, Table 1 indicates that 89% of the ownership was by family members working in the firm. Approximately, 84% of the management team were either family members working or not working in the firm. About 75% of the Board members came from the family. All these dimension indicate a significant concentration of family power.

**Table 1. Extent of Family Control.**

| | No. of respondents | Family members working in firm | *No. of respondents* | Family members not working in firm |
|---|---|---|---|---|
| What percent ownership (in terms of total assets) of the firm is from: | 137 | 89% | 137 | 7.8% |
| What percentage of the management team (CEO, CFO, managers, or major executives) is from: | 135 | 73.9% | 134 | 10.2% |
| What percentage of the Board members is from: | 137 | 67.5% | 137 | 7.1% |

In terms of the second construct of the F-PEC scale, experience, approximately 76% of the management team comes from the first generation. 71% of the Board members are from the first generation. This indicates that a vast majority of the family business in the Grand Rapids area are first generation. The average age of the firms is 45 years, indicating considerable experience within the first generation. The average number of employees is 145. In order to delve more deeply into the type of experience, Table 2, makes clear that the higher order functions such as determining the overall goals\mission are accomplished mostly by the Board. Lower order functions such as hiring specific employees are performed mostly by executive officers. Although, the striking feature of Table2 is that the Board and the Executive offices have a significant overlap of most functions indicating considerable power sharing.

**Table 2. Organization structure. Which officers determine the tasks specified below?**

| | Governing Board/CEO | | Executive Officers | |
|---|---|---|---|---|
| Determining overall goals and mission | 86 | [61%] | 67 | [48%] |
| Major budget allocation priorities | 75 | [54%] | 77 | [55%] |
| Overall decisions about the number of employees | 53 | [38%] | 97 | [69%] |
| Decisions about operational expenditures | 60 | [43%] | 94 | [67%] |
| Hiring of specific employees | 43 | [31%] | 103 | [74%] |

The third component of the F-PEC scale, family culture is a difficult attribute to measure. The respondents indicate that there is some disagreement about business goals\policies, only 54% indicate there is almost always an agreement (Table 3). There is a strong sense of family loyalty, 81% almost always feel a loyalty to their business. There is almost always a sharing of values and support of major decisions by about two thirds of the respondents.

Overall at least in term of the perception of respondents, there appears to be a strong tradition of family loyalty and values.

**Table 3. Family Culture.**

| | **Total Responses** | **Almost Always** | **Most of the Time** | **Sometimes** | **Rarely** |
|---|---|---|---|---|---|
| Family members agree on business goals, plans and policies | 139 | [54%] | [38.8%] | [5.8%] | [1.4%] |
| Family members feel loyalty to the family business | 139 | [81%] | [15.1%] | [2.8%] | [1%] |
| Your family and business share similar values | 138 | [68.7%] | [25.3%] | [5%] | [1%] |
| Family members really care and support major decisions | 138 | [68.7%] | [25.3%] | [5%] | [1%] |

In order to assess agency concerns, the respondents were asked to evaluate specific issues (Table 4). The results indicate that there are significant concerns about losing control, about potential conflict in the organization, and about delegation of authority among junior executives, since less than a majority indicate that these issues surface rarely. On the other hand, there seems to be relatively less concern about diluting the firm's mission and goals, 62% indicate that it is rarely a problem. In general, there does not appear to be widespread agency concerns among family firms.

**Table 4. Perceived concerns within firm.**

| | Total Responses | Almost Always | Most of the Time | Sometimes | Rarely |
|---|---|---|---|---|---|
| Do you have concerns about losing control when authority is delegated? | 140 | [1%] | [7.7%] | [42.8%] | [48.5%] |
| Do you have concerns of ongoing sources of potential conflict in the organization? | 140 | [1.6%] | [8.5%] | [47.1%] | [42.8%] |
| Are there concerns about diluting the firm goals and mission when you delegate? | 140 | [1.5%] | [5.7%] | [30.7%] | [62.1%] |
| Do you think junior executives are somewhat dissatisfied with the amount of authority they have? | 134 | [1.6%] | [5.2%] | [49.2%] | [44%] |

The extent of foreign collaboration is analyzed next. It is clear from Table 5 that the main from of foreign collaboration is either having a sales agreement (17%) or a sales representative (12%) in a foreign country. Only 7% of the respondents have a joint venture and even less (4%) have a foreign subsidiary. The pattern seems to indicate a lower level of foreign collaboration and a certain reluctance to proceed to a joint venture or having a foreign subsidiary. Since only 31% of the respondents export their output this pattern is not surprising.

**Table 5. Existing or proposed foreign collaboration.**

What kind of international collaboration do you currently have?

| | Existing | Proposed | None | No. of Countries Total responses | Mean |
|---|---|---|---|---|---|
| Sales agreement with a foreign partner | 17% | 2% | 80% | 17 | 2.5 |
| Sales representative in a foreign country | 12% | 1% | 86% | 12 | 5.6 |
| Joint venture in another country | 7% | 1% | 91% | 9 | 1.2 |
| Foreign subsidiary with a foreign partner | 4% | 1% | 94% | 5 | 1.1 |
| Other (please specify) | 1% | 1% | 98% | 6 | 2 |

Table 6 indicates that the major rationale for foreign collaboration is not the traditional reduction of costs (only 28% rate this as very important) but rather of increasing market share in the long run (43% rate this as very important). In line with the new developments of the international business literature, family firms are recognizing that they have to have some form of foreign collaboration to grow their markets internationally. The major rationale they have validates why they have a preference for having a sales agreement or sales representative.

## Table 6. Rationale for foreign collaboration.

**Rate the following reasons for foreign collaboration according to how beneficial they would be for your firm:**

(Please check appropriate box)

| | Total Responses | Unimportant | Somewhat Unimportant | Indifferent | Somewhat Important | Very Important |
|---|---|---|---|---|---|---|
| Reducing production costs | 92 | [30.43%] | [5.43%] | [15.22%] | [20.65%] | [28.27%] |
| Servicing existing markets | 96 | [25.00%] | [1.04%] | [16.67%] | [20.83%] | [36.46%] |
| Potential sales growth | 96 | [20.83%] | [1.04%] | [10.42%] | [25.00%] | [42.71%] |

Table 7 indicates that the lack of foreign collaboration seems to be primarily driven by concerns about enforcing agreements, difficulty of monitoring quality, and concerns about foreign imitation of their product. More than 18% of the respondents indicate these three issues as major agency concerns. On the other hand, concerns about diluting the firm's mission or maintaining harmony in the organization are valid but not very strong concerns.

## Table 7. Reasons for lack of foreign collaboration.

**Do you think foreign collaboration by your firm is impeded by the following factors?**

(Please check appropriate box)

| | Total Responses | Unimportant | Somewhat Unimportant | Indifferent | Somewhat Important | Very Important |
|---|---|---|---|---|---|---|
| Concerns about enforcing agreements | 86 | [32.56%] | [8.14%] | [20.93%] | [19.77%] | [18.60%] |
| Concerns about dilution of firm's priorities | 85 | [40.00%] | [11.76%] | [29.41%] | [16.48%] | [2.35%] |
| Difficulty in monitoring product quality | 86 | [36.00%] | [4.70%] | [18.60%] | [22.10%] | [18.60%] |
| Concerns about foreign firms imitating product | 85 | [41.20%] | [9.40%] | [15.30%] | [15.30%] | [18.80%] |
| Concerns about maintaining harmony in your organization | 45 | [45.90%] | [8.20%] | [21.20%] | [14.50%] | [8.30%] |

## EMPIRICAL RESULTS

### Hypothesis 1: More family control is associated with higher agency concerns.

In Table 8, the percentage of ownership (total assets) by family members is regressed against the concerns firms have about losing control when authority is delegated. The age of the firm and the number of employees is used as control variables. The results indicate that an older firm has less ownership by family members, although the t-value is not significant at the five percent level (-1.16). Agency concerns about losing control when delegating is significantly associated with the degree of family ownership (t value = 1.97).

Although family control and agency concerns are evaluated by many dimensions, it is difficult to include dummy variables of each dimension due to strong multicollinearity. Consequently, composite variables are constructed that capture two dimensions for an alternative test. In this case, the composite variable for family control is percentage of family ownership of total assets by family members plus percentage of the governing board represented by family members. Agency concern is also represented by a composite variable (concerns of losing control by delegation plus perception that junior executives are dissatisfied with amount of authority they have). The results depicted in Table 1 indicate that these agency concerns are significantly associated more family control in terms of ownership and board representation (t value = 2.12). The preliminary results tend to support Hypothesis 1.

### Hypothesis 2: Specific types of international collaboration is impeded by agency concerns that may arise with foreign partners.

International collaboration can take many forms such as sales agreement with a foreign partner, sales representative in foreign country, joint venture in another country, and foreign subsidiary with a foreign partner. However, we know from the descriptive data that most family firms that have international collaboration normally have a sales agreement or a sales representative. In the first instance, the existence of a foreign sales agreement is regressed against concerns of enforcing agreements for foreign collaboration (Table 9). Again age of firm and number of employees are used as control variables. The results indicate that concerns about enforcing agreements is significantly positively correlated with the existence of having a sales agreement (t value = 2.26). A similar result is obtained for sales representative as a dependent variable (T-value of 1.84 for concerns about enforcing agreements). A composite variable of either as sales representative or sales agreement results in a t-value of 2.42. This seems to be counter intuitive. However, when concern about enforcing foreign agreement is regressed against either having a joint venture or a foreign subsidiary, the relationship is negative and statistically insignificant. Recall that family firms that have foreign collaboration typically have either a sales representative or agreement, consequently these results should not be surprising.

The pattern of results indicate that concerns about enforcing a foreign agreement are positively related to having a sales agreement but negatively related to joint ventures or having foreign subsidiaries. The preliminary results indicate that agency concerns with foreign collaborators tend to make family owned firms have a lower order of international collaboration (foreign sales agreement or sales representative) compared to a more significant commitment (joint venture or foreign subsidiary).

**Hypothesis 3: What is the main rationale for international collaboration? Reducing costs or potential sales growth.**

Given the fact that most of the foreign collaboration is in the form of a sales representative or sales agreement, we constructed a composite foreign collaboration variable that includes firms having either a sales agreement or representative (Table 10). When this composite variable is regressed against two different rationales for international collaboration, reducing production costs or potential market growth, it becomes clear that the main motivation for having different types of foreign collaboration is not the traditional reduction of costs but the lure of potentially larger sales growth.

A more generalized composite variable by summing up the existence of a sales agreement with a foreign partner, sales representative in foreign country, joint venture in another country, and foreign subsidiary with a foreign partner leads to a similar result.. This preliminary result indicates that consistent with the IB literature, family firms are using the opportunities of international collaboration not only to reduce costs but also to extend their market reach.
In both instances, the number of employees is significant at the one percent level, indicating that larger firms tend to have more foreign collaboration. This result is consistent with the general finding that internationalization is an incremental process and smaller firms have difficulty establishing international linkages.

## CONCLUSION

The preliminary results indicate the following pattern:

1. Domestic agency concerns results in greater amount of family control.
2. International agency concerns tend to result in family firms having a lower level of foreign collaboration such as a sales representative or a sales agreement.
3. The main motivation for foreign collaboration seems to be extending markets rather than reducing costs. Typically, larger firms tend to have more foreign collaboration.

It should be emphasized that these results are based on a relatively small sample and are preliminary. More studies of family owned firms need to be conducted to corroborate the findings.

## Table 8. Agency concerns and firm control.

DEPENDENT VARIABLE: PERCENT OWNERSHIP BY FAMILY

```
Source |     SS       df       MS              Number of obs =     131
-------------+------------------------------   F(  3,   127) =    2.19
       Model |  2822.09633     3  940.698776   Prob > F      =  0.0924
    Residual |  54552.3089   127  429.545739   R-squared     =  0.0492
-------------+------------------------------   Adj R-squared =  0.0267
       Total |  57374.4052   130  441.341579   Root MSE      =  20.725

----------------------------------------------------------------------------
             |   Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+--------------------------------------------------------------
--
LOSING CONTROL 5.332022   2.711359     1.97   0.051  -.0332677    10.69731
AGE FIRM      -.0695989   .0602436    -1.16   0.250  -.1888101    .0496123
EMPLOYEES  |  -.0042005   .0053223    -0.79   0.431  -.0147323    .0063313
CONSTANT   |   83.95801   5.559159    15.10   0.000   72.95743    94.95858
----------------------------------------------------------------------------
```

DEPENDENT VARIABLE: PERCENT (OWNED BY FAMILY AND BOARD MEMBERS)

```
Source |     SS       df       MS             Number of obs =     122
-------------+------------------------------  F(  3,   118) =    1.82
       Model |  13879.5276     3   4626.5092  Prob > F      =  0.1479
    Residual |  300506.691   118  2546.66687  R-squared     =  0.0441
-------------+------------------------------  Adj R-squared =  0.0198
       Total |  314386.218   121  2598.23321  Root MSE      =  50.465

-------------------------------------------------------------------------
             |    Coef.  Std. Err.  t     P>|t|   [95% Conf. Interval]
-------------+-----------------------------------------------------------
AGENCY
CONCERN      9.169105 4.329797     2.12   0.036   .5949288    17.74328
FIRM      |-.0408447   .149559    -0.27   0.785   -.3370123   .2553229
EMPLOYEES| -.0094367  .0139082    -0.68   0.499   -.0369787   .0181052
CONSTANT |  128.0678  16.44012     7.79   0.000    95.51184   160.6237
-------------------------------------------------------------------------
```

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## Table 9. Foreign collaboration and agency concerns.

DEPENDENT VARIABLE: FOREIGN SALES AGREEMENT

| Source | SS | df | MS |
|---|---|---|---|
| Model | 1.82845152 | 3 | .609483839 |
| Residual | 13.9215485 | 80 | .174019356 |
| Total | 15.75 | 83 | .189759036 |

| | |
|---|---|
| Number of obs | = 84 |
| F( 3, 80) | = 3.50 |
| Prob > F | = 0.0191 |
| R-squared | = 0.1161 |
| Adj R-squared | = 0.0829 |
| Root MSE | = .41716 |

| | Coef. | Std. Err. | t | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| ENFORCEMENT | .0690499 | .0305193 | 2.26 | 0.026 | .0083145 | .1297852 |
| AGE FIRM | .0003079 | .0018171 | 0.17 | 0.866 | -.0033082 | .0039239 |
| EMPLOYEES | .0002527 | .0001072 | 2.36 | 0.021 | .0000394 | .0004661 |
| CONSTANT | .0031462 | .129221 | 0.02 | 0.981 | -.2540118 | .2603042 |

DEPENDENT VARIABLE: FOREIGN SALES REPRESENTATIVE OR AGREEMENT

| Source | SS | df | MS |
|---|---|---|---|
| Model | 7.68651587 | 3 | 2.56217196 |
| Residual | 34.8849127 | 80 | .436061409 |
| Total | 42.5714286 | 83 | .512908778 |

| | |
|---|---|
| Number of obs | = 84 |
| F( 3, 80) | = 5.88 |
| Prob > F | = 0.0011 |
| R-squared | = 0.1806 |
| Adj R-squared | = 0.1498 |
| Root MSE | = .66035 |

| FC | Coef. | Std. Err. | t | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| Enforcement | .1168546 | .0483114 | 2.42 | 0.018 | .0207118 | .2129974 |
| Age Firm | .003129 | .0028764 | 1.09 | 0.280 | -.0025951 | .0088532 |
| Employees | .0005039 | .0001697 | 2.97 | 0.004 | .0001661 | .0008416 |
| cons | -.1166337 | .2045541 | -0.57 | 0.570 | -.5237094 | .290442 |

## Table 10. Rationale for foreign collaboration.

DEPENDENT VARIABLE: FOREIGN SALES REPRESENTATIVE OR AGREEMENT

| Source | SS | df | MS | | |
|---|---|---|---|---|---|
| Model | 10.6670982 | 4 | 2.66677454 | Number of obs = | 89 |
| Residual | 35.2430142 | 84 | .419559693 | F( 4, 84) = | 6.36 |
| Total | 45.9101124 | 88 | .521705822 | Prob > F = | 0.0002 |
| | | | | R-squared = | 0.2323 |
| | | | | Adj R-squared = | 0.1958 |
| | | | | Root MSE = | .64773 |

| FC | Coef. | Std. Err. | t | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| PROD.COSTS | .0517089 | .048699 | 1.06 | 0.291 | -.0451344 | .1485522 |
| SALESGROWTH | .137319 | .0504506 | 2.72 | 0.008 | .0369924 | .2376455 |
| AGE OF FIRM | -.0005441 | .0024109 | -0.23 | 0.822 | -.0053384 | .0042502 |
| EMPLOYEES | .0004153 | .0001671 | 2.49 | 0.015 | .0000831 | .0007475 |
| CONSTANT | -.2596056 | .2008322 | -1.29 | 0.200 | -.6589825 | .1397712 |

DEPENDENT VARIABLE: GENERAL FOREIGN COLLABORATION

| Source | SS | df | MS | | |
|---|---|---|---|---|---|
| Model | 25.2618829 | 4 | 6.31547072 | Number of obs = | 89 |
| Residual | 65.9740722 | 84 | .785405621 | F( 4, 84) = | 8.04 |
| Total | 91.2359551 | 88 | 1.03677222 | Prob > F = | 0.0000 |
| | | | | R-squared = | 0.2769 |
| | | | | Adj R-squared = | 0.2425 |
| | | | | Root MSE = | .88623 |

| fc | Coef. | Std. Err. | t | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| PROD. COSTS | .0010624 | .0666301 | 0.02 | 0.987 | -.1314388 | .1335636 |
| SALESGROWTH | .2124365 | .0690266 | 3.08 | 0.003 | .0751695 | .3497035 |
| AGE OF FIRM | -.0002236 | .0032986 | -0.07 | 0.946 | -.0067832 | .006336 |
| EMPLOYEES | .0008301 | .0002286 | 3.63 | 0.000 | .0003755 | .0012846 |
| CONSTANT | -.2868634 | .274779 | -1.04 | 0.299 | -.8332915 | .2595647 |

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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 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 $\chi^2$-*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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# FAMILY BUSINESS AND HABITUAL ENTREPRENEURSHIP: DIFFERENCES AND SIMILARITIES

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**Abstract**

This study examines the prevalence of different types of entrepreneurs in the context of family business. In previous studies the family entrepreneurs have been seen loyal to their original firm, whereas relinquishing a firm is substantially connected to the habitual entrepreneurs. It may be one reason why these entrepreneurial dimensions have not been largely connected in previous studies. However, this does not mean that habitual entrepreneurship would not exist in family business. Thus the aim of this study is to explore the connections between habitual entrepreneurship and family business by examining, firstly, how many family entrepreneurs there are among portfolio, serial and first-time entrepreneurs, and secondly, what kinds of similarities and differences there are between habitual entrepreneurship and family business (e.g. personal background factors and businesses). The final sampling size was 245 small firms and a total of 119 firms took part in the research (i.e. over 48 per cent). The data was analysed by using chi-square test, t-test and analysis of variance. The research revealed that there were more family entrepreneurs among portfolio entrepreneurs than among the other types of entrepreneurs. Compared to the non-family firms, there were fewer owners in the family firms and the owners had also lower educational qualifications. However, family firms reached greater sales growth than their counterparts. Interestingly, statistically significant differences in the educational background of the portfolio, serial and first-time entrepreneurs or the characteristics of their ventures were not found.

**Keywords:** habitual entrepreneurship; serial, portfolio and first-time entrepreneurs; family business.

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## INTRODUCTION

Habitual entrepreneurship and family business are two central research topics in the field of entrepreneurship. So far, however, the connection between these dimensions has not been studied. Previous studies on habitual entrepreneurship have indicated that habitual entrepreneurs were often raised either in entrepreneur families or in clerical families (Westhead & Wright 1998a), and that there are both serial and portfolio entrepreneurs among the owners of family firms. For example Rosa (1998) observed in his case study that portfolio entrepreneurship often occurred in family businesses when either the founder-entrepreneurs or other members of the family founded new firms alongside the original one. Sten (2006) in his turn was interested in serial entrepreneurship families who after selling a family business continued as entrepreneurs in some other firm. Both the aforementioned studies were, however, qualitative ones and so far, to our knowledge, quantitative researches of the connections between habitual entrepreneurship and family businesses have not been conducted. This study interferes with this research gap and indicates with the means of quantitative research to which extend family firms are included in the firms owned by the different types of entrepreneurs, and how the firms owned by different types of entrepreneurs differ from each other.

It is thought that loyalty generally exists in family firms and that the ownership should remain in the family. In most cases the sincere hope of family entrepreneurs is to transfer the firm to the next generation of the family, thus keeping the ownership in the family. In family firms it is important to honour the family traditions (Koiranen 2000, 9-10). The desire to keep the family firm going, the desire of self-fulfilment and the desire for independence are often the motivations of the successor (Stenholm 2003; Stavrou 1999). Regardless of harmony and idyll, which often come across the term, family business is not, however, simple business but among the most complex forms of business (Neubauer & Lank 1998) because of the overlapping of operational and strategic issues of ownership, control, and management.

These days also habitual entrepreneurship has become one of the central research areas of the entrepreneurial research. Several studies have observed the prevalence of serial and portfolio entrepreneurship in various areas and industries (e.g. Alsos & Kolvereid 1998; Scholhammer 1991; Westhead & Wright 1998a). As noticed above, to date only little is known, however, of the prevalence of serial and portfolio entrepreneurship among family firms, meaning the number of relinquished firms in the context of family firms (i.e. serial entrepreneurship), or how common operations in several firms simultaneously are (i.e. portfolio entrepreneurship). Thus, the aim of this study was to explore the connections between habitual entrepreneurship and family business by examining, firstly, how many family entrepreneurs there were among portfolio, serial and first-time entrepreneurs, and secondly, what kinds of similarities and differences there were between habitual entrepreneurship and family business (e.g. educational background of the owners, ownership and performance of the firms). The contribution of this study for the family business research lies in the explorative nature of the study where distinct entrepreneur types in family businesses are detected.

The paper starts with defining the terms family business and habitual entrepreneurship. Then the data collection and the empirical data will be presented.

The results and key findings of our study are discussed thereafter as well as the conclusions. The implications and limitations of our study are presented at the end of the paper.

## DEFINITIONS OF FAMILY BUSINESS AND HABITUAL ENTREPRENEURSHIP

### Family business

Family business is a relatively new field, but the business research has gained increased attention recently. Comparing various research results is, however, problematic, because there is not a single, coherent definition of a family business. This may due to the slight consensus of the young research field, but also because of different elements, which affect the varying definitions (see Neubauer & Lank 1998, 5-6). Moreover, the homogeneity of these firms can be questioned, because every family business has its own history, culture and idiosyncrasy that differ in various ways. However, regardless of the legal form, sector or age, a firm needs to meet the following conditions to be considered as a family business (Heinonen & Toivonen 2003, 14-15; Koiranen 2000, 18; Finnish Family Firms Association 2006): firstly, a family (i.e. an extended family formed e.g. by siblings, grandparents and cousins, or at most a small number of families) controls the ownership. Secondly, persons belonging to the family, or extended family, are on the board or participate otherwise in the activities of the firm. Finally, the owner-manager considers a firm as a family business, which was the main criterion used in this study. Typical of all family businesses is the integration of a firm, ownership and business. One central element is also the continuity of the business, i.e. there is a conscious intent to transfer the firm (leadership and control) to the following owner generation (Koiranen 2000, 18; Perheyritystyöryhmä 2005, 29; Kelly et al. 2000). For example, for Neubauer and Lank (1998, 8), a family business is a proprietorship, partnership, corporation or any form of business association where the voting control is in the hands of a given family.

Family participation can strengthen the business because family members are usually very loyal, innovative, responsible and dedicated to the family firm (Koiranen 2000, 18, 106; Tagiuri & Davis 1996; Neubauer & Lank 1998, 13-17). Such loyalty can reduce struggling for power in the firm, give rise to great communication, cooperation and trust, and create understanding. The spirit of enterprise and efficient actions also belong to the strengths of the family business (Tagiuri & Davis 1996; Neubauer & Lank 1998, 13-17). Decision making is more centralized and efficient because of simultaneous roles in the family firm (Tagiuri & Davis 1996). However, simultaneous roles can also have negative outcomes such as family, ownership and business issues possibly have been mixed up, firms suffering from a lack of marketplace objectivity and poor profit discipline. The family business may also have problems in internationalization and growth, special organization structures, succession process and emotional charge (conflicts based on the ownership and the exercise of power) (Tagiuri & Davis 1996; Koiranen 2000, 71, 107; Neubauer & Lank 1998, 13-17). However, recent studies (e.g. Pajarinen & Ylä-Anttila 2006; Perheyritystyöryhmä 2005) have found some evidence that small firms, usually family-owned firms, have performed on average better than large ones measured by profitability and growth. In addition to growth, because of the age structure of the entrepreneurs, succession has lately been an especially significant issue in the field of family business.

**Habitual entrepreneurship**

Habitual entrepreneurship has gained attention among researchers during the last two decades. Still it is difficult to define habitual entrepreneurs, and there still is no commonly accepted definition of these entrepreneurs who have been owners in number of firms (e.g. Alsos & Kolvereid 1998; Starr & Bygrave 1991; Westhead & Wright 1998a; Wright et al. 1998). For instance MacMillan (1986) and Kolvereid and Bullvåg (1993) define a habitual entrepreneur as a person who has experience in founding enterprises and who is simultaneously committed to at least two enterprises. Hall (1995) first divided habitual entrepreneurs into two groups, serial and portfolio entrepreneurs. According to Hall a serial entrepreneur is a person who owns many enterprises after another but only one at the time, whereas a portfolio entrepreneur owns at least two enterprises simultaneously. Perhaps the most versatile definition of habitual entrepreneurship given to date was provided by Westhead and Wright (1998a), according to whom a portfolio entrepreneur founds, inherits or buys a second enterprise in addition to the original one, whereas a serial entrepreneur founds, inherits or buys a second enterprise after the original one is sold or closed down.

The miscellaneous definitions and terminology in the research of habitual entrepreneurship has complicated the comparison of the results (Alsos & Kolvereid 1998; Kolvereid & Bullvåg 1993; Westhead & Wright 1998a). Several definitions have been used and they have changed, diversified and become more specified along with new research information of the phenomenon (Alsos & Kolvereid 1998; Starr & Bygrave 1991; Wright et al. 1998). In most researches all such persons who have entrepreneurial experience of more than one enterprise have been considered habitual entrepreneurs. There are, however, exceptions like for example in the research of Carland et al. (2000), where habitual entrepreneurship required entrepreneurial experience of at least three independent enterprises either temporally one after another or simultaneously. In addition to the differences in definition also the terminology used in the research of habitual entrepreneurship has been diverse. For instance the terms habitual entrepreneur, multiple entrepreneur and serial entrepreneur have in many studies been used as synonyms, which has made the comparison of the results difficult (see e.g. Carland et al 2000).

This study exploits in the previous studies most commonly used definition of habitual entrepreneurship, according to which a habitual entrepreneur is everyone who owns or has owned at least two independent enterprises (see e.g. Hall 1995; Westhead & Wright 1998a). In this study the habitual entrepreneurs are further divided into serial and portfolio entrepreneurs according to the number of owned enterprises at the time of the study. The time of the study is used as a basis of division because often the same person may in different phases of his/her entrepreneurial career fit into both serial and portfolio entrepreneur categories (e.g. Pasanen 2003, 91). In this study a portfolio entrepreneur is a person who at the time of the study was owner in at least two different enterprises. A serial entrepreneur is a habitual entrepreneur who at the time of this study only owned one enterprise. First-time entrepreneurs instead are those who may be experienced entrepreneurs, but their entrepreneurial experience is from one firm.

Previous studies indicate that there are some differences how serial and portfolio entrepreneurs develop their businesses (e.g. Huovinen 2007; Westhead et al. 2005). For instance, serial entrepreneurs may be more cautious than portfolio entrepreneurs when developing their businesses (Westhead et al. 2005), whereas portfolio entrepreneurs are often more growth oriented (e.g. Huovinen 2007; Iacobucci & Rosa 2005; Westhead et al. 2005). Interesting question is, if this holds also in the context of family business, could the number of serial and portfolio entrepreneurs in the family business owners tell us something about the future development of those family firms?

## RESEARCH PROPOSITIONS

In most studies on habitual entrepreneurship the characteristics, backgrounds and entrepreneurial attitudes of serial, portfolio and first-time entrepreneurs have been compared to each other. Several similarities and differences have been found in previous studies. Birley and Westhead (1995) observed that habitual entrepreneurs more often than first-time entrepreneurs came from entrepreneur families. This may also partly explain why habitual entrepreneurs often are relatively young when becoming entrepreneurs (see e.g. Birley & Westhead 1995; Wagner 2002; Westhead & Wright 1998b). So far, however, relatively little is known of the relationship between habitual entrepreneurship and family business. Some qualitative studies indicate that there may be number of portfolio entrepreneurs as well as serial entrepreneurs among the owners of family businesses (Rautiainen et al. 2007; Rosa 1998; Sten 2006). According to Rosa (1998) it might be misleading to focus on the habitual entrepreneur alone and the family context must be taken into account in the search for explanations for different kinds of behaviour.

Some studies indicate that the likelihood of habitual entrepreneurship is increased when the overall duration of entrepreneurial career is relatively long (e.g. Huovinen 2007; Westhead & Wright 1998a). Following the same logic it can be assumed that also the likelihood of other family members' involvement is increased when the entrepreneur is getting older. This may indicate that there are fewer family entrepreneurs among first-time entrepreneurs than habitual entrepreneurs. Traditionally family business has been seen to be loyal to only one firm. The incidence of relinquishments instead is usually more frequent in the context of serial than portfolio entrepreneurship (e.g. Huovinen 2007). This is because serial entrepreneurship requires giving up the previous venture before starting the next one (e.g. Hall 1995; Westhead & Wright 1998a). For this same reason, there are probably less family business owners among serial entrepreneurs than among portfolio entrepreneurs. Based on this consideration, the first research proposition is as follows:

1 there are more family entrepreneurs among portfolio than among serial and first-time entrepreneurs.

In some studies it has been observed that family firms are more likely to hire those with lower levels of formal education (Ali-Yrkkö et al. 2007). Also the educational level of the owners has been seen lower in family businesses (e.g. Littunen & Hyrsky 2000). The educational level of the entrepreneurs, examined also in this study, has been found to be dissimilar in the different types of entrepreneurs. Traditionally, habitual entrepreneurs have been considered having a higher level of education than other entrepreneurs (e.g. Donckels et al. 1987). Especially portfolio entrepreneurs who develop several enterprises simultaneously seem to have a higher level of basic education than other entrepreneurs (Niittykangas & Niemelä 2006). At the same time the results in the previous research on habitual entrepreneurship regarding the educational background seems contradictory since some studies suggest that habitual entrepreneurs have a longer vocational education than first-time entrepreneurs (Carter 1998; Niittykangas & Niemelä 2006; Wagner 2002) whereas some studies found no differences in the educational background of the different types of entrepreneurs (Flores-Romero 2004; Westhead & Wright 1998b; Birley & Westhead 1995). Based on these theoretical considerations second research proposition is formed as follows:

2a the educational level of family business owners is lower compared to the educational level of non-family business owners

2b there are not differences between the educational levels of serial, portfolio and first-time entrepreneurs.

The ownership in family firms is often less diverged than in non-family firms. This means that majority of firm ownership is controlled by only one family (e.g. Ali-Yrkkö et al. 2007). Some studies also indicate that there may be fewer individuals as owners and managers. According to Gallo et al. (2004) there are fewer shareholders, and a higher proportion of board members among the shareholders in family firms. Often the family members in family firms are unwilling to give shares or managerial positions to the outsiders because of the fear of losing power and independency. On the other hand also the investors may be unwilling to invest in the family firms if those prefer stability instead of growth (see e.g. Lee 2004). In the case of habitual entrepreneurship there may be more business partners in their firms because of accumulated networks developed by previous experience (e.g. Starr & Bygrave 1991). For example, entrepreneurial teams have been seen common in the firms owned by portfolio entrepreneurs (Iacobucci & Rosa 2004; 2005). In other words, the number of owners is often higher in the firms owned by them (e.g. Huovinen 2007). On the other hand, also serial entrepreneurs may resort to the help of business partners especially if there is a failure experience in the background of an entrepreneur and if receiving finance for new firm start-up is difficult. Based on these theoretical starting points the third research proposition is as follows:

3a there are fewer owners in family firms than non-family firms

3b there are more owners in the firms owned by habitual entrepreneurs than in the firms owned by first-time entrepreneurs.

Despite some contradictory findings (e.g. Pajarinen & Ylä-Anttila 2006), a general assumption is that most family businesses do not grow (Ward 1997). However, according to Daily and Dollinger (1992) concentration of ownership and control may bring some performance advantages to family firms. They found that family-owned and -managed firms perform better as a result of the unification of ownership and control. In the literature of habitual entrepreneurship the growth orientation is often related to the portfolio entrepreneurs (Huovinen 2007; Iacobucci & Rosa 2005; Westhead et al. 2005). Nevertheless, the evidence of major differences between profitability of the firms owned by serial, portfolio and first-time entrepreneurs is weak (e.g. Westhead & Wright 1998a). Based on the previous studies the fourth research proposition is as follows:

4a the growth percentage of the sales turnover of non-family firms is higher than in family firms

4b the growth percentage of the sales turnover of the firms owned by portfolio entrepreneurs is higher than firms owned by serial and first-time entrepreneurs.

## DATA COLLECTION AND METHODOLOGY

The Salesleads -register maintained by Blue Book TDC Indexes was exploited in the sampling of the research. This register is national, and its information has been gathered by various sources such as Business Register of Statistics Finland, Suomen Asiakastieto Oy and Finnish Tax Administration in addition to direct contacts to enterprises. Small firms with 20-49 employees operating in the regions of Northern Savo, Southern Savo and Northern Karelia were chosen to the population. These three regions were chosen for the study because together they form a province of Eastern Finland. The focus is on small firms with 20-49 employees because the objective data was better available in this firm size. There were altogether 287 of this kind of firms in the register. In addition to the subjective data gathered from the firms also objective information of financial statements was used. The summaries of the information of the financial statements were taken from the Inoa database, which is a public database of Finnish firms.

Additionally, some industries like electricity, gas and water supply firms owned by municipalities or central-corporation-led retail trades, and subsidiaries of large corporations were outlined from the study. This made the sampling more presentable, and assured that the studied firms would be comparable to each other. After this outlining the final sampling size was 245 firms. The responsible persons in the firms participated in the study either by returning a questionnaire by mail or by filling in the form designed for this purpose in the Internet. After the second questionnaire, the response percentage was 48,6, when altogether 119 firms took part in the research. There were altogether 77 family firms and 42 non-family firms in the sample. 39 of all entrepreneurs in the sample were portfolio, 23 were serial and 56 were first-time entrepreneurs. The data was analysed by using chi-square test, t-test and analysis of variance. Both subjective and objective data was used.

## FINDINGS

As high a number as four out of five portfolio entrepreneurs (82,1 per cent) reported to own a family business, when two out of three serial entrepreneurs (60,9 per cent) and about the half of the first-time entrepreneurs (55,4 per cent) saw themselves as family entrepreneurs. As a result proposition 1 is supported. Table 1 describes the existence of first-time, serial, and portfolio entrepreneurs in family and non-family firms.

**Table 1. Incidence of first-time, serial and portfolio entrepreneurs in family and non-family businesses.**

| Variables | First-time N | First-time % | Serial N | Serial % | Portfolio N | Portfolio % | Chi-square statistic | Significance level |
|---|---|---|---|---|---|---|---|---|
| Family business | | | | | | | 7,47 | 0,024 |
| Yes | 31 | 55,4 | 14 | 60,9 | 32 | 82,1 | | |
| No | 25 | 44,6 | 9 | 39,1 | 7 | 17,9 | | |

As to the portfolio entrepreneurs the results may naturally be interpreted in many ways. Firstly, the high number of portfolio entrepreneurs among family entrepreneurs may result from different kinds of ambitions of the previous and the present generations (e.g. Handler 1992). In such cases the successor of a family business may take over the firm mainly out of obligation, when entrepreneurs' own interests lie in other activities. In these circumstances it is rather natural that the operations are more directed towards these interests. It is often more reasonable to found a new firm than to expand the family business to an entirely new industry and thus maybe jeopardise its existence. On the other hand, it may be a question of growth orientation, which is often related to portfolio entrepreneurs (e.g. Huovinen 2007; Iacobucci & Rosa 2005; Westhead et al. 2005), and portfolio entrepreneurship may be seen as a result of the desire of family firms to expand.

Table 1 also reveals the observation that the present firm of the serial entrepreneurs is often a family business as well. This observation is interesting, because serial entrepreneurship always requires renouncement of firms, which has not, in spite of some exceptions (e.g. Sten 2006), been related to family entrepreneurship. It may simply be a question of the entrepreneur having taken chances with a firm of his/her own and returning later to continue the existing family business, or founding a new firm with family members. The result may also partly be explained with business mergers or business acquisitions, where the original family business has merged with another business and the entrepreneur has remained as a part-owner in the new firm.

Of all the characteristics related to entrepreneurship this study focuses on the educational background, because in some previous studies the educational background of family entrepreneurs has been found to be lower than that of other entrepreneurs (e.g. Littunen & Hyrsky 2000). Also in the studies of habitual entrepreneurs differences have been found, and the educational level of portfolio entrepreneurs has been indicated to be higher than that of others (e.g. Niittykangas & Niemelä 2006). When it comes to family businesses, also the results of this study support the assumption that the educational level of the owners of a family business often is lower than that of other entrepreneurs. Only every fourth (27,6 per cent) of the family entrepreneurs participating in this study had completed at least a polytechnic, whereas nearly half (47,6 per cent) of the owners of non-family firms had polytechnic or university degrees (chi-square test, df=1, $p<0,05$). Hence the proposition 2a is supported. At the same time no statistically significant differences could be found in the educational backgrounds of first-time, serial and portfolio entrepreneurs (see Appendix 2), regardless of the fact that portfolio entrepreneurs more often than other entrepreneurs act in family businesses. Thus, also the proposition 2b is supported.

The results explicitly indicate that the ownership was clearly more divided among several persons in the non-family businesses than in the family firms, and that often none of the owners had more than 50 per cent of the shares (chi-square test, df=1, p<0,05). Based on this, the research proposition 3a is supported. It would appear that in family businesses the ownership is often concentrated on one or two successors the possible other shareholders being family members with no particularly active role in the activities of the firm. In other words, real entrepreneurial teams may be more common in other firms than in family businesses. The responsibility has then been shared evenly by several persons, and making the difference between the dominant entrepreneur and other shareholders is a challenging task. In this study there were more owners in the firms owned by serial entrepreneurs than in those owned by other types of entrepreneurs. However, the difference was not statistically significant (see appendix 2). Thus, the proposition 3b cannot be supported.

The annual growth percentage of the sales turnover of family businesses was significantly higher than that of non-family businesses (t-test, p<0,10). This observation challenges the traditional viewpoint of family businesses growing more slowly than other firms (e.g. Donckels & Lambrecht 1999), and is parallel to the results of some recent studies (Pajarinen & Ylä-Anttila 2006; Perheyritystyöryhmä 2005). Additionally, growth may occur through several firms even if a single firm didn’t grow significantly. A statistically significant difference could not be found in the speed of sales turnover growth between different types of entrepreneurs, although portfolio entrepreneurs were overly represented in the group of family entrepreneurs (see Appendix 3). The prevalence of portfolio entrepreneurs among family businesses may indicate that especially entrepreneur-like persons are in the head of family businesses. For example Westhead et al. (2005) observed that portfolio entrepreneurs more than other types of entrepreneurs were more capable of recognising and exploiting new business opportunities. Hence, contrary to the expectations, the propositions 4a and 4b cannot be supported.

Regardless the type of entrepreneur or enterprise the firms in this study made good financial results. When comparing serial, portfolio and first-time entrepreneurs the firms owned by portfolio entrepreneurs made better results per financial year than those owned by other types, whereas the results of first-time entrepreneurs were the weakest. Respectively, of all types of firms the family businesses made slightly better results than the non-family firms. However, the differences were not statistically significant (see Appendix 3 & 4).

## CONCLUSIONS

In this study the connections between habitual and family entrepreneurships were examined. No differences between the different types of entrepreneurs could be found, whereas several statistically significant differences were found between family and non-family firms. Altogether the results indicate that family entrepreneurship does not necessarily mean a commitment to only one firm, but start-ups and renouncements can be a significant part of it. Propositions tested in this study are summarized in the Table 2.

**Table 2. Summary of the research propositions**

| Propositions | Results |
|---|---|
| **1** there are more family entrepreneurs among portfolio than among serial and first-time entrepreneurs | supported |
| **2a** the educational level of family business owners is lower compared to the educational level of non-family business owners | supported |
| **2b** there are no differences between the educational levels of serial, portfolio and first-time entrepreneurs | supported |
| **3a** there are fewer owners in family firms than non-family firms | supported |
| **3b** there are more owners in the firms owned by habitual entrepreneurs than in the firms owned by first-time entrepreneurs | not supported |
| **4a** the growth percentage of the sales turnover of non-family firms is higher than in family firms | not supported |
| **4b** the growth percentage of the sales turnover of the firms owned by portfolio entrepreneurs is higher than firms owned by serial and first-time entrepreneurs | not supported |

The study clearly indicated that first-time entrepreneurs more often than other entrepreneurs operated in non-family firms, whereas portfolio entrepreneurs were over presented in family firms. In this way the results seem natural, since there are often a myriad of emotional bonds connected to a family business, and its operations won't be jeopardised in any circumstances. In such a case the owner of a family business rather founds a new firm to exploit a new business opportunity than directs the existing family firm to an unfamiliar industry. It can be speculated that portfolio entrepreneurship is more common among the second generation family firms, because the founder-entrepreneurs do not necessarily carry the same kind of emotional "baggage" as the successor-entrepreneurs. In the future it would be interesting to study the occurrence of portfolio entrepreneurship in family businesses in different phases of their life span.

The study revealed that there were a nearly equal number of serial and first-time entrepreneurs among the family firms (Table 1). The results are interesting, because there are also other similarities in the operations of these types of entrepreneurs, the clearest naturally being the observation that both types tend to concentrate their operations into one firm, whereas portfolio entrepreneurs tend to share their resources between several firms. Additionally, some studies indicate that serial and first-time entrepreneurs are alike, for instance, in respect of achievement motivation (e.g. Huovinen 2007).

In practice the prevalence of portfolio entrepreneurship among family firms raises interesting thoughts concerning the promotion of entrepreneurship and the regional development. Firstly, the common conception of the non-growth of family firms may be explained by the observation that a single firm does not necessarily grow, but the growth occurs through many firms (firm portfolio). However, the growth of family firms in this study was realized through both firm portfolios and single firms. Secondly, this raises a thought of allocating the development procedures more to the growth-orientated portfolio-family entrepreneurs who own several firms simultaneously. In such case, especially in a small region, the combined employment effect of these firms may be relatively significant (e.g. Storey 1994, 131). Thirdly, portfolio entrepreneurs might be considered as a solution in cases where a functioning family firm lacks a successor. This kind of a situation is typical at least in Finland, where successions are realised during ten years in 60 000-80 000 firms, only a fraction of which have a successor (Finnish Family Firms Association 2006; Federation of Finnish Enterprises 2007). In such a situation a portfolio entrepreneur who has already positive track record as an entrepreneur name could take over a family firm, if it were suitable for his existing firm portfolio.

When the results are analysed from the viewpoint of networks there are several interesting issues (presented in Figure 1) which should be taken into account in the future studies. First of all, firm portfolios can be considered as the networks of firms because firms belonging to the certain portfolio are usually connected to each other at some level. In practice, despite independency of the firms they often are each others' suppliers, customers and so on. At the same time, the firms often have entrepreneurial teams and/or management teams which are responsible for the firm management. Usually there are some dominant entrepreneurs who are the key players of forming the networks of owners and/or managers. In the context of family business there may be several portfolio entrepreneurs in the same entrepreneurial family. In these families complex relationships between the family members and firms they own are emerged. In future both qualitative and quantitative studies are needed to find out what is the real nature of these relationships, firstly between key persons and secondly between firms in the context of the portfolio entrepreneurship and family business.

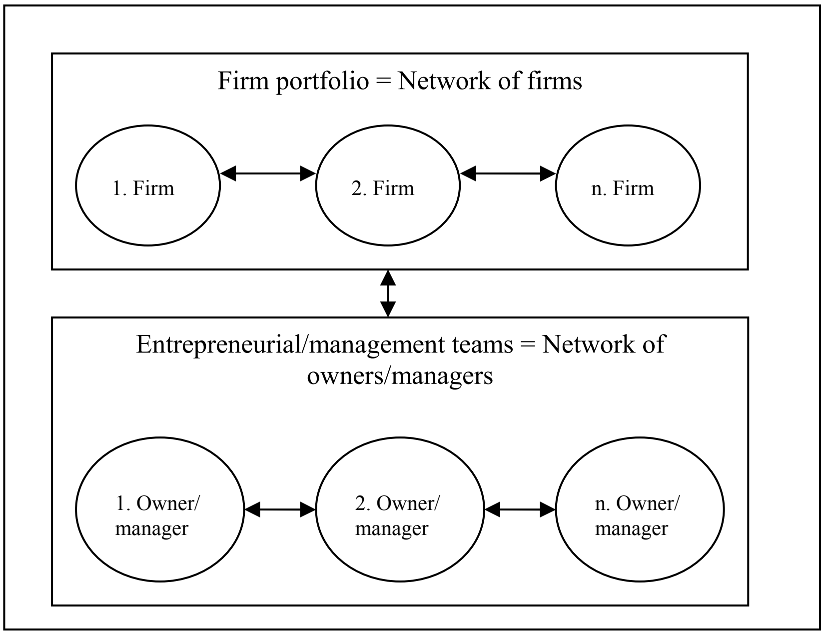


**Figure 1. Networks in the context of the portfolio entrepreneurship.**

In interpreting the findings of this study, some limitations should be observed. We acknowledged that since the study was restricted to firms of a certain size in Eastern

Finland, caution must be exercised in generalising the results across other firms and areas in Finland. In addition, comparisons between family and non-family businesses are made without controlling the effects of industry sector. Future studies, conducted with bigger samples from a wide-range of firms, areas and industries, would yield more conclusive findings. It is worth noticing that the limitations may partly explain the generality of portfolio entrepreneurship. This is because portfolio entrepreneurs have been seen in some studies more growth oriented than other entrepreneurs (e.g. Huovinen 2007; Iacobucci & Rosa 2005; Westhead et al. 2004). Thus it is very likely that there were more portfolio entrepreneurs in the sample of firms (20-49 employees) compared to the smaller sized firms.

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## APPENDIXES

### Appendix 1. Results of chi-square tests (family vs. non-family businesses).

| Variables | Family business | | Non-family business | | Chi-square statistic | Significance level |
|---|---|---|---|---|---|---|
| | N | % | N | % | | |
| Education of owners | | | | | 4,77 | 0,029 |
| Not over college | 55 | 72,4 | 22 | 52,4 | | |
| At least polytechnic | 21 | 27,6 | 20 | 47,6 | | |
| Ownership1 | | | | | 13,18 | 0,001 |
| Max. 49 per cent | 18 | 27,7 | 19 | 67,9 | | |
| At least 50 per cent | 47 | 72,3 | 9 | 32,1 | | |
| Ownership 2 | | | | | 5,08 | 0,024 |
| Max. 2 owners | 28 | 36,4 | 7 | 16,7 | | |
| 3 or more owners | 49 | 63,6 | 35 | 83,3 | | |

### Appendix 2. Results of chi-square tests (type of owners).

| Variables | First-time | | Serial | | Portfolio | | Chi-square statistic | Signif. level |
|---|---|---|---|---|---|---|---|---|
| | N | % | N | % | N | % | | |
| Education | | | | | | | 0,20 | ns |
| Not over college | 36 | 64,3 | 16 | 69,6 | 25 | 65,8 | | |
| At least polytechnic | 20 | 35,7 | 7 | 30,4 | 13 | 34,2 | | |
| Ownership | | | | | | | 0,95 | ns |
| Max. 49 per cent | 16 | 42,1 | 8 | 47,1 | 13 | 34,2 | | |
| At least 50 per cent | 22 | 57,9 | 9 | 52,9 | 25 | 65,8 | | |
| Ownership 2 | | | | | | | 3,79 | ns |
| Max. 2 owners | 19 | 33,9 | 3 | 13,0 | 13 | 33,3 | | |
| 3 or more owners | 37 | 66,1 | 20 | 87,0 | 26 | 66,7 | | |

ns = not significant (p>0,10)

**Appendix 3. Results of t-tests (type of firm).**

| | Family | | | Non-family | | | |
|---|---|---|---|---|---|---|---|
| Variable | N | Mean | S.D | N | Mean | S.D | Significance level |
| Profit (1000 €) | 62 | 253,15 | 418,61 | 34 | 231,85 | 443,99 | ns |
| Sales turnover growth (%) | 56 | 20,28 | 36,08 | 32 | 9,69 | 18,20 | 0,071 |

ns = not significant (p>0,10)

**Appendix 4. Results of variance analysis (type of owner).**

| | First-time | | | Serial | | | Portfolio | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Variable | N | Mean | S.D | N | Mean | S.D | N | Mean | S.D | F |
| Profit (1000 €) | 47 | 210,70 | 327,38 | 17 | 242,65 | 626,50 | 31 | 303,35 | 440,59 | 0,43 |
| Sales turnover growth (%) | 44 | 17,16 | 28,05 | 17 | 20,79 | 22,64 | 26 | 13,54 | 40,27 | 0,28 |

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