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Alan L. Carsrud
Malin Brännback *Editors*

Understanding Family Businesses

Undiscovered Approaches, Unique Perspectives, and Neglected Topics

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Chapter 1
Where Have We Been and Where We Should Be Going in Family Business Research

Alan L. Carsrud and Malin Brännback

1.1 Introduction

Our interest in family businesses derives from not only participation in family firms but also by what we have observed over the years. It is also heavily influenced by our passion for understanding entrepreneurs (Carsrud and Brännback 2009) and the subsequent firms they create which often start out as family ventures. While what we have observed is often positive, the horror tales are frequent and legend. It seems that the structure inherent in a successful business is often in a "degree of tension" with those which characterize a harmonious family. It is this "conflict" that is at the heart of the uniqueness of family business. This book is an attempt to address unique issues that arise from this tension between the family system and the business system.

While families are often dominated by emotional issues, they also provide security, nurturance, status, and power for their members. Family firms are sources for meeting some of these needs. Firms provide a source for personal identification for individuals in the family, not just the founding entrepreneur. Family members judge the family's value by the degree to which these emotional needs are met, or not met. Family firms sometimes detract from that process, and at other times can be sources for such need satisfaction.

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1.2 Defining Family Firms

Perhaps the place to start a research volume on family firms is to define what a family firm is. To understand a family business one must study the family, its individual members, as well as key nonfamily individuals. This complex dynamic is impacted by the external environment in which the firm is located. These all must be considered as separate systems as well as interrelated parts of larger systems inside and outside of the business and the family. For example, this awareness led to discussions on how one then defines a family (Carsrud 2006) when it comes to perceptions of justice and fairness in the family firm. This is also an example of an important issue that has plagued research in family business: the lack of both operational definitions of family firms and theoretical definitions that would be inclusive definitions of family firms as they exist in modern society. Attempts by family business researchers to measure "familiness" is but one example of trying to simplify a complex process (Klein et al. 2005; Lumpkin et al. 2008).

Clearly, a variety of definitions of "family business" exist which pull from anthropological and sociological traditions (Rogers et al. 1996). For many researchers, and those providing services to family firms, a traditional definition would include a for-profit organization in which "two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights" (Davis and Tagiuri 1989). This particular definition clearly reflects the traditional three system model of family, management, and ownership.

However, this definition may not include nontraditional families like divorced couples running a firm, gay couples starting a business, or even social ventures begun by a family. Some of the chapters in this book look at some of the less traditional views of families. In this volume, there are both implicit and explicit definitions of what is "family" and, what constitutes "a family firm." Many of these are dependent on the home disciplines of those authors.

One of the few approaches that have tied different disciplines together in the field of family business research has been systems theory. This use is considered a part of the behavior approach to General Systems Theory (GST) (von Bertalanffy 1968).

1.3 Systems Theory in Family Firms

In GST, principles gained from one field are applied to others and has been a useful model in looking at living systems. With this background, family systems and family business systems can be more readily understood and the interrelationships better explained. The widely used three interlocking rings of family, management, and ownership that are a part of most teaching and consulting in family business are examples of this interaction of systems. Systems theory is a holistic and interdisciplinary approach that acknowledges that nothing is determined by a single factor. That is, understanding complex concepts within the family firm one cannot be limited to either an individual or a systems viewpoint, but must integrate both. This approach, while appealing, is difficult for many researchers to adopt given their strong disciplinary training and professional affiliations. However, understanding the complexity of the systems involved in a family business is critical to sustaining that venture (Carsrud and Brännback 2010).

1.3.1 Characteristics of a Family Business System

Building on the systems literature one could define a family business system as a unit of interrelated and interdependent persons who are united into a recognizable unit, the family business, and hopefully are in some state of balance. One could define a family business system as a unit with a feedback structure and, therefore, capable of processing information. People within such a system would be expected to satisfy their needs within that social system via cooperatively joining to achieve common goals. Family firms would be expected to use an organized set of practices to regulate behavior; these may be "family norms" or "family values" which are discussed in several chapters in this book. An individual within a family business would occupy various positions in the family, ownership, and business systems. They would have defined roles in each system. As such an individual is shaped by each system and they in turn can change each of the other systems.

Family business systems are made up of (1) parts, (2) attributes, (3) organization, (4) goals, (5) communication, (6) boundaries, (7) environments, and (8) evolutionary processes. In the case of a family in business, the *parts* are the people in the system who are interdependent, be they family members or nonfamily members. The concept of *goals* is closely tied to motivation in entrepreneurs whose firms often become family firms (Carsrud et al. 2009). *Goals* are the reasons any system exists. For example, *goals* in a family would include caring for children, while in a firm it might be earning profit. *Communication* is the exchange of information and is essential for family and business systems to exist. In several chapters in this book, examples are given and research is discussed on the role communication plays in dealing with "conflict" and "tension" in the family firm.

Whenever there is a system, there exists a *boundary* that separates system from its environment and other systems. *Boundaries* can include a feeling as being a part of a group while others are not and thus on the other side of the *boundary*. When using the concept of *environment* in the systems literature, it is that which exists outside the particular system. For example, a family firm exists within an industry which is a part of the environment. Finally, there should be exchanges of information for the family business system to be useful. This leads to the concept of *evolutionary process* which allows the family business system and its environment to continually adjust to changes. In many of the chapters in this book, it becomes clear that firms fail because they have not adapted to the change in their environments and social systems.

1.3.2 Boundaries in the Family Firm

Most firms are oriented toward revenues, profits, efficiency, and public images. However, these may not be the only goals a family in business may desire. Others may include providing incomes and jobs to family members, maintaining cultural traditions, and providing income to pursue other activities like political positions. This does not always mean the most capable are chosen as successors to lead the family firm despite well-known strategies for dealing with succession in economic units. While families are expected to be concerned about the security, care, and development of family members with leadership normally based on seniority and gender, this is not always the case. Following up on this, one chapter in this book addresses leadership as one of the neglected topics of family business research.

The practical application of *boundaries* is in the recommended separation of business issues from family matters while others have argued that the interaction between family and business system must be considered when making boundaries. There has been increasing recognition given to the third system, ownership, and how owners govern the process. In many of the chapters in this book, it will be obvious that the boundaries between these social systems are anything but impermeable.

1.3.3 The Role of the Individual

If the individual is key to the ownership, family, and business systems, then more research is required as to how this occurs and any reciprocal impact of these three systems on each other and on the individual. For example, if entrepreneurs with high need for personal power are less likely to plan for succession than those with high needs for social power; does this change with time? Does this occur once the firm reaches a certain age or goes public? Some entrepreneurs may have varying commitments to their families and their businesses. Some put the family first, others the business, while still others attempted to balance their commitments to both. This raises the following questions: What characteristics of the family, individual, and firm impacted these goal choices? While it is readily apparent that family firms are dependent upon one or a few key individuals, how that impact changes over time has yet to be explored? These kinds of issues are addressed in several of the chapters in this book.

Often disagreements occur because of role conflicts, which are discussed in several other chapters in this book. An example of this conflict is the parent's difficulty in recognizing that the "child" could be a competent adult capable of greater responsibility. This could also be seen in the conflict of intentions where the parent "intends" for the child to enter the business and the child "intends" to follow a different career path. This kind of conflict is seen in several chapters in this book. Clearly, families often do not forget the good and bad characteristics of their children even if they no longer have these aspects. However, as some chapters in this book demonstrate, there are "bad seeds" in families that are often brought into the business with the hope that the firm might resolve their problem behavior, often to the detriment of the firm. Current family disputes can also be continued into the business system rather than leaving the disagreements in the family setting. These are discussed in a chapter dealing with divorce and power dynamics. This discussion raises questions like: Can "bad" behavior by children translate to "bad" behavior in the firm by those same individuals as adults? What role does the family firm have in reinforcing such bad behavior? Does parental "spoiling" of children lead to ineffective adults in the family firm? The reader will see these themes frequently in various chapters in this book, but viewed from different perspectives.

1.4 Succession

Much of the early family business literature is related to the succession process and the difficulty of leadership in the family firm to relinquish authority (Levinson 1978; Danco 1982; Beckhard and Dyer 1991; Rogers et al. 1996). Most of this research has suggested a variety of factors which contribute to this reluctance to retire by the senior family member and how succession can be conceptualized. Leadership in the family is addressed in a chapter in this book as a topic which still is in need of research beyond the issue of leadership succession.

Even if the leader of a family firm wants to retire, succession depends on an adequately prepared successor if the firm is to survive. Much earlier studies focused on the eldest male as the heir apparent to the senior family member in the business. More recently attention has been given to daughters, younger sons, and in-laws. However, the discussion on in-laws in the family firm has still to be adequately addressed as is noted in another chapter in this book. The following are the most often asked questions as noted by early researchers and consultants: (1) Who will own the business? (2) Who will be the CEO? (3) How will other assets be divided? (4) When will transfer of ownership occur? (5) How are taxes minimized? (6) How are related issues decided? To answer these questions requires open and effective communications within and between the various systems involved as well as an understanding of complex issues of finance and wealth management. These are topics that have largely been ignored and are addressed by one chapter in this book.

Researchers have found that families in business have poor communication. Resolution of the issues often requires the services of professionals from supporting systems such as attorneys, accountants, insurance experts, and family counselors. Meetings mediated by professionals are frequently suggested to open communications between family members. Yet as one chapter in this book notes, we really have little research to support this intervention and the use of the related Family Council. Such meetings have been seen as important not only at the time of succession but also at other times of major transition in the family firm. While we believe family members need to share their individual perceptions of the goals and mission of the family business, much research on this still needs to be done.

1.5 Beyond Systems Theory and Succession

Building on the above discussion of the research history of family business research, we have assembled, in this volume, a group of authors who were asked to explore a variety of research topics or approaches that have either been ignored or use underutilized methods to study family-owned and managed business. Most chapters include a case, or cases, to illustrate these issues. We believe these "cases" best illustrate issues that are then more fully explored from a theoretical approach within each chapter.

To practitioners and academics interested in the study of family business, several challenges emerge that are unique to the environment of the family-owned and managed business. Key among these are that families face special challenges of simultaneously operating their firms while dealing with ever-changing familial relationships that often impact the strategic and financial choices they enact. To survive and grow effectively in today's changing economies, the family-owned and operated firm must meet their unique challenges with informational resources that are often not cognizant of family firm issues and frequently disparaging of family firms and their value. We hope this volume will help stimulate research into some of these neglected areas of critical importance to family firms. In addition, family firm members must develop management skills not often required in public-owned firms and frequently not taught in schools of business administration – like how to manage your child who is also one of your employees.

To address this vacuum of knowledge on family and closely held businesses was part of the motivation behind this volume. All of the chapters in this book either directly or indirectly note that in closely held firms strategies are often confounded by conflicting intentions and agendas associated with owner's personal and very personal family concerns.

1.6 Interdisciplinary Approaches

In this book, we have attempted to provide new approaches to look at neglected topics in family firms to better understand the complexity of what a family firm is and what holds them together. We believe this will provide insights into the conflicting demands that influence decisions about managing both the family and the firm. By using research from a wide range of disciplines, we try to provide some unique perspective on understudied issues. What all the chapters in this book have in common is belief in the complexity of factors that influence decisions in the family firm.

1.7 Conclusions

This volume contains chapters which start with an overview of the family business, through issues of conflict and tension to larger issues of governance, strategy, and wealth management and finally ending with a new theory of entrepreneurial behavior in family firms.

The chapters of this book were chosen specifically to provide an understanding of family business in terms of unique perspectives, neglected topics, and undiscovered approaches to understanding family firms. Inherent in all of these chapters is the interaction of the "individual," the "family," and the "firm." They were chosen in order to look more broadly at how family concerns interact with strategic issues to craft characteristic responses to environmental challenges and personal goals of the firm owner and family members. The very minute that a son, daughter, husband, wife, or distant cousin joins the owner/manager in the firm, the level and type of issue complexity rises geometrically.

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Chapter 2
Family Business: A Global Perspective from the Panel Study of Entrepreneurial Dynamics and the Global Entrepreneurship Monitor

Charles H. Matthews, Diana Hechavarria, and Mark T. Schenkel

2.1 Introduction

This chapter directly examines the relevant literature for addressing several fundamental issues associated with family business and entrepreneurship. While a substantive literature has evolved over time with regard to family business management and succession issues, relatively less is understood about the vital role of family business in nascent entrepreneurial activity. Without question, family business enjoys a long and critical role in the global ascendency of the industrial age (Bird et al. 2002). Relatively little is understood, however, about underlying critical issues associated with family influence in nascent entrepreneurial activity. For example, family business research has long been focused on the many succession issues associated with the founding or subsequent generations of family members with respect to ownership and management (Dyer and Handler 1994). Only recently, have we begun to shift our attention to the more salient issues surrounding the venture creation process. For example, Chang et al. (2009) use a resource-based view examine social capital and network theories that influence the venture creation process.

Given this lack of expansive understanding of the role of family business in nascent entrepreneurial activity, this chapter directly examines a number of variables of interest that inform the process. In essence, we argue that family and business are indeed "inextricably intertwined" and adopt a perspective of family embeddedness that seeks to further inform the nascent entrepreneurial activity

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(Aldrich and Cliff 2003). For example, with regard to the Panel Study of Entrepreneurial Dynamics (PSED I), 20 items included in the initial telephone survey represent the family background variables. These 20 items are organized into the conceptual categories of "primary family role models," "extended family and other role models," and "attitudes toward and encouragement by role models." The structure of the items on family background begins with assessing whether or not the respondent's mother of father, alone or together, ever worked for themselves or ran their own business. Specific questions probed for more information about the number of business owned by the father or mother, the size of those businesses, and the respondent's work history with those businesses.

In addition, this chapter also explores family business background variables in the PSED II study. Specifically, we examine issues around and the role played within the family context such as the importance of family life, family tradition, influence of parental background, work experience in family businesses, and family financial support for nascent entrepreneurial activity. Ten items in the PSED II directly assess the family background influence variables across three dimensions. Four items examine the aspect of family role models; two items assess family financial support (across two time periods); and four items look at family life and legacy.

Finally, this chapter examines family business variables included in the Global Entrepreneurship Monitor (GEM) studies. As noted above, research suggests that there is a higher prevalence of entrepreneurial activity among individuals whose parents have been self-employed or running their own businesses. The GEM data provides a unique view of the family business phenomena from a global perspective. This includes, but is not limited to, the use of advisors in general and family and friends in particular in global entrepreneurial start-up activity, as well as providing funding to family members and the relationship of the person providing the funding.

2.2 A Familial Perspective on Nascent Entrepreneurial Activity

Building on the literature and theoretical development outlined above, it follows that a familial perspective on nascent entrepreneurial activity merits further exploration. Overall, we will outline five key areas including (1) family life; (2) family tradition; (3) parental background; (4) work experience in family business; and (5) family financial support. Preliminary data analysis of these and other key variables from the PSED I and II as well as GEM are presented.

2.2.1 Family Life

Whereas scholars have intuitively speculated that family life is indeed an important dimension in the new venture creation process, they have also observed that it is a neglected dimension in terms of systematic inquiry (Aldrich and Cliff 2003;

Dyer and Handler 1994; Ruef et al. 2003; Steier 2007). For example, Steier (2007) observes that despite studies suggesting that much of the economic activity around the world exhibits a family dimension (e.g., Astrachan and Shanker 2003; Morck and Steier 2005), the public narratives surrounding the new venture creation process tend to emphasize individual action while ignoring collective action. Through examples like Disney and WalMart, he shows that such a bias toward public "official" organizational narratives tends to overshadow important familial subnarratives. As a result, the importance and role of family life to the development of such successful organizations has been marginalized from the discourse surrounding the new venture creation process. Such evidence also reflects the observation that research has focused less on generating a strong sense of family embeddedness as an influential dimension (Aldrich and Cliff 2003), suggesting further inquiry into the importance of family life, both as a potentially conscious and subconscious influence (Matthews et al. 2009), is critical toward developing a stronger sense of the roles family life plays as a dimension in the new venture creation process.

2.2.2 Family Tradition

One of the most interesting aspects of family business centers around various motivations for starting and/or continuing family businesses. Over the years, much speculation and a number of writers have examined the relationship between individual's motivation and various perceptions of the environment with regard to supportive environments, including family and external market conditions in general, and followers of family tradition and role models in particular (Dubini 1989). Of course, it is much more difficult to capture this phenomenon prospectively in the case of nascent entrepreneurial activity. Nonetheless, it remains a central factor in enhancing our understanding of nascent entrepreneurial activity especially with regard to the on-going relationship or kinship ties to family tradition.

2.2.3 Parental Background

A third area that informs our understanding of nascent entrepreneurial family firms is the role of family background in business as an influencing factor in the start-up process. Hundley (2006) in his empirical study suggests that men with self-employed fathers and higher parental incomes are more likely to be self-employed, the impact of paternal self-employment is leveraged by higher family income, and self-employment is more likely when the father worked in an occupation with task requirements similar to those of an independent business. In their analysis of why people get involved in the creation of new ventures, White et al. (2007) suggest the social context of the entrepreneur, specifically their family business background, is indeed associated with new venture creation. Overall, this suggests that role models, in particular parental or family role models, as indirect influencers on nascent entrepreneurial career preferences or expectations merit continued analysis (e.g., Katz 1992; Krueger 1993; Matthews and Moser 1995, 1996).

2.2.4 Work Experience in Family Business

A fourth area that is of interest in furthering our understanding of the role family business plays in nascent entrepreneurial activity is work experience in the family business. One of the key concerns in perpetuating the family business is the interest of subsequent generations in taking over the family business, succeeding in either ownership or management or both of the family business. Of course, there is also paradox or counterargument that exposure to entrepreneurial and family business via work experience in the family business could initiate interest in entrepreneurial vs. succession activity (e.g., Johannisson 2011).

2.2.5 Family and Nonfamily Financial Support in Nascent Entrepreneurial Activity

A fifth area of interest that has the potential to inform our understanding of the role family business plays in nascent entrepreneurial activity is family and nonfamily financial support. Because financial capital is both a necessary and appropriable resource, one of the key concerns in the new venture creation process revolves around the sources and structure of start-up capital. Both anecdotal observation and empirical studies suggest that nascent entrepreneurs mobilize a mix of both family and nonfamily financial resources (e.g., Aldrich and Waldinger 1990; Berger and Udell 1998; Steier and Greenwood 2000). Though this mounting evidence suggests that family does in fact play an important role in the new venture creation process, Aldrich and Cliff (2003) suggest that further consideration is needed to generate a richer understanding of embeddedness influences. These authors conclude such consideration is particularly important given significant socio-historical changes observed in the family system at the beginning of the twenty-first century.

2.3 Panel Study of Entrepreneurial Dynamics I and II and Global Entrepreneurship Monitor

Two of the most salient and dynamic data sets focused on the exploration of nascent entrepreneurial activity have been the PSED and the GEM. The PSED was initiated in 1994, as the Entrepreneurship Research Consortium (ERC) under the leadership of Paul Reynolds, Nancy Carter, and Bill Gartner. The ERC evolved into the PSED and involved the collaboration of over 100 researchers from 34 universities, each school donating $20,000 to prime the research pump. A random screening of more than 64,000 American adults yielded 830 nascent entrepreneurs (those who were alone or with others in the process of starting a business) and another 431 non-entrepreneurs. PSED I included both a 60-min telephone interview and mail survey, and once a year for 3 years a follow-up survey. The PSED I began gathering the data in 1998 through 2003. Additional grants from the National Science Foundation and the Kauffman Foundation for additional data collection brought the total funding for this unique research to approximately $1.3 million. In 2005, PSED II, utilizing updated procedures and questions, was launched under the auspices of the Kauffman Foundation. Follow-up data collection for PSED II continued through 2010, and yielded 1,214. For more detailed information on the PSED I and II, please see *Handbook of Entrepreneurial Dynamics: The Process of Business Creation* (Gartner et al. 2004) and *New Firm Creation in the United States: Initial Explorations with the PSED II Data Set* (Reynolds and Curtin 2009).

The GEM is the largest survey-based study of entrepreneurship in the world. GEM was started in 1997, as a joint initiative between Babson College in the USA and The London Business School in the UK. Researchers in these institutions were concerned to improve understanding of the relationship(s) between entrepreneurial activity and national economic growth. To this end, the team designed a cross-national, longitudinal research program with the intention of providing annual assessments of the entrepreneurial sector for a range of countries. The first data collection cycle took place in 1999, and produced data for ten countries. In 2010, GEM has grown to conducting research in 59 countries.

During the course of its history since 1999, over 60 countries have been involved with the research. Every year, a national team is responsible for conducting a survey of at least 2,000 people within its adult population. The *Adult Population Survey* is a survey of attitudes toward entrepreneurship in the general population but it also asks people whether or not they are engaged in start-up activity or own or run a business. The individual national team surveys are all collected in exactly the same way and at exactly the same time of year to ensure the quality of the data.

Data for the GEM is publicly released via the GEM website (http://www.gemconstrium.org) and available at the Inter-University Consortium for Political and Social Science Research (http://www.icpsr.umich.edu). For more information about GEM research and methods, please see Reynolds et al. (2005).

Table 2.1 shows item number and description of item questions from PSED I and II. Table 2.2 shows item id, years of data collection, question description, and survey label.

2.3.1 Selected Results from the Panel Study of Entrepreneurial Dynamics

Pooling data from PSED I and PSED II ($N = 2{,}044$), preliminary analysis reveals that about 30% of all nascent business initiatives are family businesses. That is, they are founded by either a spousal pair team or a team controlled by at least 50% kinship ties. In examining a familial perspective on nascent entrepreneurial start-ups,

Table 2.1 Survey items form Panel Study of Entrepreneurial Dynamics (PSED) I and II

Item number		Description of item question
PSED I	PSED II	*Family history and role model items*
Q361	AZ6	Was your mother born in the U.S.?
Q360	AZ7	Was your father born in the U.S.?
Q362	AZ8	Did your parents ever work for themselves or run their own businesses, alone or together?
Q375	AZ9	Did you ever work full time or part time for your parents' business?
QB1h	AP11	Many of your relatives have started new businesses
Q379		Have your family, relatives, or other close friends been encouraging you to, or discouraging you from, starting a business of your own?
Q379a		How would you describe the ENCOURAGEMENT you received from your family, relatives or other close friends, would you consider it very weak, weak, neither weak nor strong, strong, or very strong?
Q379c		How would you describe the DISCOURAGEMENT you have received from family, relatives or other close friends. Would you say it is very weak, weak, neither weak nor strong, strong, or very strong?
		Family financial support
	AQ5	What is the dollar amount provided that came from personal loans received by (you/[NAME]) from (your/their) family members and relatives (before the business was registered as a [C1])?
	AR12	(What is the dollar amount of the debts that…) …are in personal loans from spouses, family members, or other kin of the start-up team of the new business(after it was registered as a [C1 LEGAL ENTITY])
R773		How about FAMILY MEMBERS AND RELATIVES of yours (OR the start-up team) – how much money have they PUT INTO the business, expecting to share ownership and profits?
R773a		How much money have FAMILY MEMBERS AND RELATIVES of yours (OR the start-up team) LOANED the business – money they expect to get back, with or without interest?
S773b		How much have FAMILY MEMBERS AND RELATIVES raised to invest in the new business loans or ownership – by borrowing against household assets, like a mortgage on their home?
Q271		Have you asked your friends and family for funding for this new firm?
Q271a		Was the answer yes or no (when you asked your friends and family for funding for this new firm), or is the request still pending?
Q272		How much funding do you expect, in total, from your family and friends?
Q273		Have the family and friends of others on the start-up team been asked to provide funding for this new firm?
Q274		How much funding do you expect, in total, from the family and friends of others on the start-up team?

Table 2.2 Survey items from the Global Entrepreneurship Monitor (GEM)

Item	Year(s)	Question	Label
SUFFUOWN	2002–2003	Do you and one or more family members, including those by blood, marriage, or adoption, together own and control more than 50% of the business?	Start-up: Expected family own 50% within 5 years
SUFNWOWN	2002–2003	Was this new business developed by or separated from an existing business controlled with your family?	Start-up: Family now own more than 50%
SUFAMSPL	2003	Was this new business developed by or separated from an existing business controlled within your family?	Start-up: New bus split from family bus
SUMONEY2	2001; 2003	Have you received or do you expect to receive money – loans or ownership investments – from any of the following to start this business? (other relatives, kin, or blood relations)	Start-up money: From close family member sibling
SUMONFAM	1998–2003	Continuous respondent self-report of sum of equity	Start-up money: Family investor got Equity – US $ conversion
SUMONFUS	1998–2003	Continuous respondent self-report of sum of investment	Start-up money: Family money invested – US $ conversion
OMFFUOWN	2002–2003	Do you expect any other relatives or family members, including by blood, marriage, or adoption, to share in owning more than 50% of the business in the next 5 years?	Owner–manager: Family will own 50% in 5 years
OMFNWOWN	2002–2003	Do you and one or more family members, including by blood, marriage, or adoption, together own and control more than 50% of the business?	Owner-manager: Family now own more than 50%
OMFAMSPL	2003	Was this new business developed by or separated from an existing business controlled within your family?	Owner-manager: New bus split from family bus
BAREL	2000–2003	What was your relationship with the person that received your most recent personal investment	Bus angel: Relation to investee
BAFAMOWN	2002–2003	You say you provided financial support to a family member or relative starting a new business. In return for this investment, did you receive a share in ownership of the business?	Bus angel: Equity four invest in family bus
BAFAMSPL	2002–2003	Was this new business developed by or separated from an existing business controlled within your family?	Bus angel: New bus split from family bus

with regard to personal motivations relating to family, nascent entrepreneurs rate greater flexibility in life the highest, followed by building a business children can inherit thereby continuing a family tradition. About 52% of all respondents reported that their parents owned a business, and about 48% of respondents worked in their family's business either part- or full-time (see Table 2.3).

Analyzing financing data among PSED II respondents, we also find considerable information on start-up funding. PSED II is utilized for this analysis because it can be differentiated between funding received before the start-up is registered as a legal entity and after the start-up is registered as a legal entity. We analyze data prior to legal registration for this analysis because of this added specificity.

The average for funds loaned by family before the nascent venture is registered as a legal entity is estimated to be $3,576.72, with a standard deviation of $44,418.75. Of all funding sources before legal registration (i.e., family, friends, employees, work colleagues, credit cards, personal loans, second mortgages, car loans), about 8% (including outliers) and about 30% (excluding outliers)[1] are contributed by family members to the nascent start-up before the nascent venture is registered as a legal entity. Overall, the traditional friends, family, and founders, including credit cards, account for 63% of the funding sources for this sample, with personal funds accounting for nearly 48.4%.

Furthermore, the data highlight considerable variance in the amount of funding received by the nascent venture from family members. For this sample, the sum of all funds contributed by family to start-ups is about $4.3 million. However, when asked about the largest investment a family member made, some nascent ventures reported receiving as much as $1.4 million in start-up loans from family, while others as little as $12. Of the total 1,214 nascent ventures used in this analysis, 1,016 (83.7%) report receiving no funding from family sources, while 172 (14.2%) report receiving family funding (26 nascent ventures did not reply). In sum, these data appear to confirm the findings of earlier work (e.g., Aldrich and Ruef 2006) suggesting that although meaningful (i.e., about 14.2% micro financing contributions are received from a family member during the earliest stages of new venture creation), the ability and motivational influences strong relational ties with family members have on nascent entrepreneurs does not *necessarily* translate into financial support.

With regard to the total dollar amounts, when asked, "What is the dollar amount provided that came from personal loans received by (you/[NAME]) from (your/their) family members and relatives before the business was registered?" the amount loaned reported is $4.25 million. When asked, "What is the dollar amount of the debts that are in personal loans from spouses, family members, or other kin of the start-up team of the new business after it was registered?" the amount reported is $69,000. This difference is amplified in part by one venture receiving a $1.4 million loan before the firm was registered. Even without this outlier, however, the amount of funding from family members prior to firm registration is noteworthy. These results are summarized in Table 2.4, with the exception of outliers.

[1] To minimize impact of outliers, informal sources of funding greater than $52,000 are recoded at the top end. Overall, 90% of cases fall between $12 and 52,000 for all sources of funds.

Table 2.3 Results of selected data from PSED I and II

		Start-up team ownership: Family vs. others[a]	Greater flexibility in life[b]	Continue family tradition[b]	Build business kids can inherit[b]	Parents self-employed or owned business	Nascent entrepreneur worked in parents business[c]
N	Valid	2,044	1,769	1,770	1,765	2,016	1,045
	Missing	0	275	274	279	28	999
Mean		1.8948	3.84	1.70	2.60	0.52	0.6574 No 0.52 PT 0.30 FT 0.18
Median		1.0000	4.00	1.00	2.00	1.00	0.0000
Standard deviation		1.13339	1.221	1.229	1.539	0.500	0.76399
Minimum		1	1	1	1	0	0
Maximum		4	5	5	5	1	2

[a] 1 = sole proprietor, 2 = spousal pair, 3 = family team controlled >50%, 4 = other team.
[b] Response scale prompt: To what extent was that important? 1 = no extent, 2 = a little, 3 = some, 4 = a great extent, 5 = a very great extent.
[c] Responses include: 0 = not worked, 1 = worked part-time, 2 = worked full-time. To calculate 48% worked in parents business, full and part time were merged

Table 2.4 PSED II summary of nascent venture financing sources

Start-up team ownership		Personal funds	Family funds	Friend funds	Credit cards	Personal bank loans	Asset backed funds	Other	Total money by wave A
Sole proprietorships	Mean	$18,585.63	$3,693.83	$1,973.64	$698.32	$8,602.46	$7,696.04	$473.04	$40,654.91
	Median	$1,500.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$2,000.00
	Standard deviation	$203,559.77	$56,140.51	$39,553.64	$5,522.57	$157,794.87	$157,537.97	$11,777.40	$520,987.81
	Minimum	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Maximum	$5,000,000.00	$1,400,000.00	$1,000,000.00	$100,000.00	$4,000,000.00	$4,000,000.00	$300,000.00	$13,000,000.00
	Sum	$11,783,290.00	$2,397,294.00	$1,286,812.00	$457,397.00	$5,600,200.00	$5,040,905.00	$307,000.00	$26,872,898.00
	N	634	649	652	655	651	655	649	661
	Percent of total sum	43.85	8.92	4.79	1.70	20.84	18.76	1.14	100.00
Spousal pair	Mean	$15,922.69	$1,396.76	$414.64	$735.80	$6,244.70	$689.39	$0.00	$24,536.32
	Median	$3,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$4,000.00
	Standard deviation	$50,384.37	$7,803.06	$3,052.56	$4,032.89	$40,487.08	$3,332.37	$0.00	$71,798.91
	Minimum	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Maximum	$500,000.00	$80,000.00	$30,000.00	$55,000.00	$600,000.00	$24,000.00	$0.00	$760,000.00
	Sum	$4,076,208.00	$365,950.00	$109,050.00	$194,250.00	$1,648,600.00	$182,000.00	$0.00	$6,575,733.00
	N	256	262	263	264	264	264	263	268
	Percent of total sum	61.99	5.57	1.66	2.95	25.07	2.77	0.00	100.00