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The financial decisions of family businesses

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Abstract

Purpose – The purpose of this paper is to examine the status, trends and potential future research areas in the field of financial decision-making process in family firms.

Design/methodology/approach – The bibliometric indicators and methods are applied in order to describe the publication activity and to analyze the contents of the articles. The material examined are the journals included in the SCOPUS, SAGE and EBSCO database and the peer-reviewed article, which contain in their titles, keywords or abstracts with a combination of phrases "family firms," "family business" or "family enterprise" with "financial decision" or one of the subcategories: capital structure, investment decision, capital budgeting, working capital management or dividend policy. The study covers the period from 2000 to 2016.

Findings – Although the interest in family business research is growing rapidly, the area of financial decision making is underestimated. Despite of the fact that the vast majority of the studies into financial decisions in family firms is are focused on the capital structure, they do not give clear answers to the question of how the family businesses behave in this scope and what their true financial logic is. Additionally, the area of the investment decisions and dividend policy is rather not better left uncovered.

Research limitations/implications – The analyses enable the identification of potential avenues for future research which could be vital to make an advancement in the consolidation of the discipline.

Practical implications – The analyses ought to have a potential meaning mainly for external institutions (especially financial institutions) in better understanding of the family businesses and their point of view.

Originality/value – This paper fulfills the need of a comprehensive review of financial decision making process in family firms. It provides a literature review and bibliography for the period between 2000 and 2016 for the use of both academicians and practitioners.

Keywords Dividend policy, Capital structure, Family business, financial decision, Investment decision

Paper type Research paper

1. Introduction

Family business research has been growing over the last decades but is still an emerging field of study (Chrisman *et al.*, 2008). In the literature, family firms have been presented as combinations of two systems that overlap and interact: the emotion – oriented family system that focuses on non-economic goals and the results-oriented business system that focuses on the economic goal (Distelberg and Sorenson, 2009; Vandemaele and Vancauteren, 2015). It is the effect of building the family fortune which is in the large part invested in the firm (Forbes Wealthiest American Index, 2002; Zellweger *et al.*, 2005). Thus, the effective separation between the private and business wealth is very difficult in this case and contributes to a specific view on the business.

These two systems have to influence the decision making process and constitute the source of many sophisticated character traits of the family enterprises.

The strategic decision, especially within the scope of finance, is the biggest challenge for managers in every economic entity. In the situation, when the determinants of the decision are not only trickled from economic reasons, it is crucial to know if the process has its own logic or is unpredictable. According to the author's best knowledge there is no systematic literature review on this topic. Therefore, it is not known if family businesses guided by the same premises in financial decision process and if these determinants are different from non-family firms. Thus, the main objective of this paper is to verify the state of research in

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the scope of making financial decisions in family businesses and to find the specific financial logic used by these entities.

The paper is structured in the manner as follows. The first two sections present the overview of the financial decisions in the company and the basic characteristics of family firms which could have an influence on the decision making process. The third and fourth sections describe the basis of the methods used in the study as well as the results from the publication activity and content analysis in the scope of financial decisions in the family firms. The last section includes the conclusions.

2. Financial decisions in the enterprises

Every decision made in a business has financial implications, and any decision that involves the use of money is a corporate financial decision. Nevertheless, the financial decisions are divided into three main categories (Copeland *et al.*, 1983):

(1) Financing decisions – i.e. all decisions connected with optimization of capital structure, which translates into the effective engaging the debt and equity capital as well as the internal and external sources of capital in financing the activity of company. The optimal capital structure is understood as such a leverage ratio which ensures the biggest profitability at the lowest risk. Every entrepreneur who operates in imperfect capital markets where there are transaction costs, taxes, bankruptcy and agency costs, and each of them makes determination of optimal capital structure, has to solve the question in order to maximize the value of the company he or she owns or manages (Autukaite and Molay, 2011). Therefore, in the decision making process about financing the activities, what is very important is the cost of capital and the final rate of return, as well as the relationship between ownership and leverage (Keasey *et al.*, 2015). Firms with a higher ownership concentration will have access to better conditions when issuing debt, since the blockholders' commitment to the business will be seen as more reliable. But blockholders have to balance the trade-off between the need for funds and the costs associated with a dilution in control (Harvey *et al.*, 2004; Liu and Tian, 2012).

(2) Investment decisions – which is all decisions connected with building the appropriate portfolio of assets in the company. Due to the limited quantity of funds, it is very important to choose such investment opportunities which bring the company the best profits and thus increase its wealth (Modigliani and Miller, 1958; Myers and Majluf, 1984; Jensen, 2010; Morellec and Smith, 2007). This type of decision-making is subcategorized into long-term investment decisions which are connected with fixed and intangible assets (the capital budgeting) and the short-term investment decisions, related to the current assets (the working capital management). The capital budgeting needs to reconcile the cost of invested capital and the future cash flows with the change in money value. Therefore, it is crucial for an assessment of the effectiveness of an investment to choose the proper discount rate, predict the most probable cash flows reached by the investment project and adopt the most suitable payback period. Because all investment projects carry the risk, the effectiveness of the investment should include the premium which is expected for taking the risk. The investment decisions have to be based on the appropriate method of assessing the effectiveness of the investment project and take into account all aspects of the investment.

The working capital management, on the other hand, relates to the allocation of funds as among cash and equivalents, receivables and inventories (Deloof, 2003; Raheman and Nasr, 2007). Thus, the short-term financial decision is connected with trade-off between liquidity and profitability, and according to Gill *et al.* (2014) is one

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of the most important factors that directly impact the financial performance and shareholders' wealth.

(3) Dividend decisions – meaning all of the decisions connected with the disbursement of profits back to investors who supplied capital to the firm (La Porta *et al.*, 2000; Bancel *et al.*, 2009; Bae *et al.*, 2012). It could be done by paying the dividends to shareholders or by the share buybacks. Despite the method, the financial decision in the scope of the dividend is concerned with the quota of profits to be distributed among the shareholders. A higher rate of dividend might raise the market value of shares and thus maximize the shareholders' wealth. In the scope of the dividend decisions there are also: dividend stability, stock dividend and cash dividend (Denis and Osobov, 2008).

The financial decision making is the key management challenge for every firm and the effectiveness of this process is crucial for the growth and survival of the business (Mahérault, 2004; Van Auken *et al.*, 2009). On the other hand, the strategic decision making tasks, such as financial decisions, are strongly influenced by an owner – manager's personal behavioral attitudes (Heck, 2004; Van Auken, 2005).

3. Fundamentals of family firms

The family businesses are the predominant entities in most economies around the world and play a key role. Depending on the country, they represent 70-80 percent of the total number of businesses (Overview of Family Business Relevant Issues, 2008), account for about 40 percent of private sector turnover and produce 20-70 percent of national GDP (Di Giuli *et al.*, 2011; Heck and Stafford, 2001; Anderson and Reeb, 2003; Perez-Gonzalez, 2006; Bennedsen *et al.*, 2004). Precisely, the family firms account for 44 percent of large firms in Western Europe (Faccio and Lang, 2002), over two thirds of firms in East Asian countries (Claessens *et al.*, 2000), and 33 and 46 percent of the Standard & Poor (S&P) 500 and 1,500 index companies, respectively (e.g. Anderson and Reeb, 2003; Chen *et al.*, 2008). Within family firms in the S&P 1,500 index, founding families hold an average of 17 percent of the shares in their firms. Moreover, 69.5 percent of founding families hold more than 5 percent ownership in their firms, and 24.7 percent of them hold more than 25 percent (Cheng, 2014). Due to their high ownership and low diversification, founding families enjoy the benefit and bear the consequences of corporate decisions, which is the critical source of willing to preserve the control.

The ubiquitous presence of family firms has led to a constantly growing research interest in the past two decades (Debicki *et al.*, 2009), which alongside resulted in an increasing amount of research into family firm's financial decision making.

Despite the fact that many management theorists and practitioners use the term of the family business, there is not known the one, consistent definition, which will isolate this class of enterprises from all entities operating on the market (Astrachan *et al.*, 2002; Klein *et al.*, 2005; Mazzi, 2011). Most researchers adopt their own definitions, dependent on the performance of the tests, the methodology used, the method of data acquisition, sample characteristics or the studied variables related to the environment in which the firm operates. For example, as the family firm is understood to be a business in which:

- In total, 10-20 percent of the shares is owned by the family (La Porta *et al.*, 1999; Calessens *et al.*, 2000; Faccio and Lang, 2002); it applies rather to public entities and the range itself depends on the country, where the firm operates, e.g. for Denmark it is about 50 percent ownership threshold (Bennedsen *et al.*, 2007);
- the family members own more than 50 percent of shares, are involved in management and have effective decision power (Di Giuli *et al.*, 2011);

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- the founder or a member of his or her family is the CEO or has the real influence on the decisions, e.g. by blocking them (Anderson and Reeb, 2003); and
- the members of the family own the shares, a minimum of two of them are engaged in the business and one has real influence on the management (PARP, 2009).

As is apparent from the above definitions, the main features of the family firms are the significant share and the control in the decision making, held by the family and its members. It makes this group of businesses to have special characteristics, different from the non-family enterprises (Astrachan, 2010; Moores, 2009; Coleman and Carsky, 1999). Habbershon *et al.* (2003) suggests that in family-influenced firms, there are complex arrays of systematic factors that impact on strategy and decision making processes and thus firms' performance outcomes. According to Dyer (2006), the systemic factors constitute a set of attributes that families bring into the firm, commonly combined in the term "family effect." For instance, research shows that the family firms are concerned with not only financial returns but also non-economic goals (Astrachan and Jaskiewicz, 2008; Chrisman *et al.*, 2003) as well as the socioemotional wealth (SEW) obtained through the business (Gómez-Mejía *et al.*, 2007; Zellweger and Astrachan, 2008). There are many aspects of family firms that are emotionally linked to the family's affective dimension, such as the protection of family ties, independence and continuity of family influence, perpetuation of the family dynasty, relationship with employees, social reputation and identity, links with the territory and the local community, and so on (Mazzi, 2011; Zellweger *et al.*, 2005). Research examining goal variations in family firms suggest that the importance of non – financial objectives evolves with the generation in charge, with the stronger desire to preserve control and SEW in early stages (Gómez-Mejía *et al.*, 2007; Vandemaele and Vancauteren, 2015).

Besides that, family businesses are considered to be value-driven (Denison *et al.*, 2004; Olson *et al.*, 2003), can rely on networks and long-term relationships fostering trust and altruism (Anderson *et al.*, 2005; Karra *et al.*, 2006), achieve market success by identifying family with brand identity (Craig *et al.*, 2008), and frequently have a long-term perspective (Le Breton-Miller and Miller, 2006). The process of decision making in many such entities is very centralized and focus on family culture, values and goals (Feltham *et al.*, 2005). These distinguishing features affect the family firm's agency problems (Tsao and Lien, 2013). Compared to non-family businesses, family firms face less severe Type I agency problems, because family owners have strong incentives to oversee managers (Randoy and Goel, 2003), better access to information (Kirchmaier and Grant, 2005; Peng and Jiang, 2010), and the longer investment horizon than other shareholders (Mishra *et al.*, 2001). However, the family firms face more sever Type II agency problems due to conflicts of interest between family and minority shareholders (Villalonga and Amit, 2006; Young *et al.*, 2008; Morresi and Naccarato, 2016).

Another factor which is crucial for decision making is the fact that family firms are among the longest-lived organizations in the world (Miller and Le Breton-Miller, 2005) and indeed belong to the category of firms characterized by a "warm heart – deep pocket" (Sharma, 2004), which combines high level of human – emotional capital (family dimension) and financial capital (business dimension). This emotional capital is recognized as the main reason that the family businesses often prioritize the non-economic goals vs economic results. In that way, they built their SEW and care about its growth.

A recent study shows that aversion to the loss of SEW is viewed as the primary driver of the family firms' strategic behavior (Chrisman and Patel, 2012; Debicki *et al.*, 2016). However, what should not be forgotten is the fact that family businesses are very heterogeneous. They differ in the basic attributes of a firm itself, such as size, age or operating area, as well as in the specific characteristics of a particular family e.g. attachment

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to its SEW (Gómez-Mejía *et al.*, 2007), risk aversion, norms, attitudes, expectations, experience, etc. (Vandemaele and Vancauteren, 2015). As a result, the researchers tend to use different classifications in order to organize their studies. The commonly used classification within the family firms is the identity of the CEO (Cheng, 2014). Depending on the identity of the CEO, family firms can be divided into three groups: first, the founder CEO firms and second, the descendant CEO firms – both of which are the entities where the CEO is not hired; and third, other family firms, usually referred to as professional, or hired, CEO family firms. This classification is critical to the understanding of the agency problems in family enterprises and is one of the factors influencing the decision making process (Ang *et al.*, 2000).

The specific characters and heterogeneity of family businesses are the main reason, why the study of such entities is so difficult and why some of the researchers are of the opinion that it is impossible to say what motivates family firms' behaviors (Miller and Le Breton-Miller, 2014).

4. The review method and publication activity on financial decisions in family firms

For the purpose of identifying the relevant article, a Boolean title has been conducted, abstract and keyword searches using truncated combinations of the terms "family business," "family firm" with the phrase "financial decision" or one of the variables of interest: financing decision, capital structure, investment decision, capital budgeting, working capital management and dividend policy as the main areas of financial decisions in firms. The searching criteria have included the requirement of peer-reviewed articles and limited to the period 2000-2016, according to Benavides-Velasco *et al.* (2013), who observed the growing interest of family firm's research after the year 2000. While looking for the adequate research, the EBSCO, SAGE and SCOPUS databases were used.

For the combination "family firm" or "family business" with the: "financial decision" the author obtained 95 results; "capital structure" – 142; "investment decision" – 80; "dividend policy" – 37; "working capital management" – 11 and zero with "financing decision" and "capital budgeting." In the next step, the author verified the abstracts and keywords of all found research and took to the further analysis only those actually relate to the subject. After verification, as well as the identifying the replays, to the analysis, there were 107 chosen articles. The basis on the study of abstracts and keywords meant that all of paper were classified to the proper group of financial decision: financing decision, investment decision and dividend policy. The results have been seen in Table I. Because the article could refer to more than one area of the financial decision, the sum of the total number is different from 107. It should be noticed that no every article found by the search engine qualified for further examination, after analyzing the abstract and keywords, they were classified in this same area of financial decision. Thus, the number of annual researches in Table I could differ from the numbers of results in searching.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Total number of articles	0	5	0	2	1	1	2	9	4	5	3	7	12	12	12	19	13	107
Financing decisions		4		1	1		3	5	4	3	2	6	4	8	5	9	5	60
Investment decisions		2		2		1		3		2	1	3	4	5	5	5	4	37
Dividend policy				1				1		1	1		4		2	7	6	23

Table I. Annual totals of papers distributed across the main type of financial decisions

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It is possible to observe that the biggest emphasis is put on the financing decision (especially capital structure), while the investment and dividend decisions seem to be out of the main stream of research. The whole analyzed term could be divided into three periods: 2000-2006 when the interest of financial decision in published articles was low (an average of 1.57 published research per year), 2007-2012 when the interest has grown slowly (an average of 5.6 published research per year) and 2013-2016 when the interest has increased (an average of 13.6 published research per year). It could also be observed the changes in the direction of this interest. In the first period, the articles were concerned mostly with financing decisions. In the second period, the financing decisions were still the most popular, but the interest in other types of decisions has risen. The last period shows more or less equal activity in all types of financial decisions. However, 2016 was the first year which the research in financing decisions is not leading.

Table II exhibits the breakdown of articles by those journals who have published at least two papers related to the financial decisions in family firms. Leading the way, The Family Business Review has published 8.5 percent papers distributed across the main type of financial decisions in family firms. This result is almost twice as high as the next two journals: *Corporate Ownership and Control* and *The Journal of Banking and Finance*. Additionally, ranked in Table III is the activity of publishing by country. In the first position is the USA with the number of publications at about one-fifth of all of the papers, but it is worth noticing, that one article could have more than one author with affiliation from different countries. Despite this, the disproportion between the USA and the rest of the world is impressive.

It could be observed from Table III that the research has been published mostly by developed countries, but the emerging economies seem to be more and more active. The big absentees are the Central and Eastern European countries.

5. The financial logic of family firms

Despite the growing interest in family firms, research concerning the financial choices in such entities are limited (Chen *et al.*, 2014). However, the research suggests that family firms follow a particular financial logic driven by economic and non-economic considerations that results from the overlap of the family and business systems (Koropp, Grichnik and Gygax, 2013; Koropp, Grichnik and Kellermanns, 2013; Mazzi, 2011; Chrisman *et al.*, 2005;

Ranking	Journal	Total	%
1	*Family Business Review*	9	8.41
2	*Corporate Ownership and Control*	5	4.67
3	*Journal of Banking and Finance*	5	4.67
4	*Journal of Managerial Finance*	4	3.74
5	*Journal of Small Business Management*	4	3.74
6	*Corporate Governance*	3	2.80
7	*Corporate Governance Oxford*	3	2.80
8	*Journal of Business Research*	3	2.80
9	*Journal of Corporate Finance*	3	2.80
10	*Small Business Economics*	3	2.80
11	*Applied Finance Economics*	2	1.87
12	*Asia Pacific Journal of Management*	2	1.87
13	*Entrepreneurship Theory and Practice*	2	1.87
14	*Journal of Applied Business Research*	2	1.87
15	*Journal of Business Finance and Accounting*	2	1.87
16	*Journal of Business Venturing*	2	1.87
17	*Journal of Family Business Strategy*	2	1.87
18	*Review of Financial Studies*	2	1.87

Table II.
Journals that have published at least two articles related to financial decisions in family firms

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Ranking	Country	Total	%
1	USA	21	19.63
2	UK	13	12.15
3	Taiwan	11	10.28
4	Italy	10	9.35
5	Germany	9	8.41
6	Spain	9	8.41
7	Australia	8	7.48
8	Canada	8	7.48
9	Switzerland	6	5.61
10	China	5	4.67
11	The Netherlands	5	4.67
12	South Korea	5	4.67
13	Austria	3	2.80
14	Belgium	3	2.80
15	Colombia	3	2.80
16	France	3	2.80
17	Hong Kong	3	2.80
18	Indonesia	3	2.80
19	Portugal	3	2.80
20	Malaysia	2	1.87
21	Singapore	2	1.87
22	United Arab Emirates	2	1.87

Table III. Productivity of research of financial decisions in family firms by country

Rutherford *et al.*, 2008; Gallo *et al.*, 2004). Koropp *et al.* (2014) argues that choices in family firms, especially in the area of finance, are largely affected by family norms, attitude, perceived behavioral control, and behavioral intentions, so the study of such relations is very important to understand the financial logic of family firms. It is consistent with the results obtained by Gallo *et al.* (2004), who suggest that family firms do business in the way that the personal characteristics of their founders dictate. Gómez-Mejía *et al.* (2014) goes further and indicates that the concept of family firms' loss aversion with regard to the families' motivation to preserve the SEW should be used to predict various family firms decisions, especially those connected with finance and firm performance.

Furthermore, the centrality of decision making suggests that financial decision is strongly influenced by the owner – manager's personal characteristics (Carter and Van Auken, 2008), the relations principal (owner/family) – agent (manager) or family – minority shareholders (Villalonga and Amit, 2006; Young *et al.*, 2008) and originate from both economic and non-economic motivations (Chrisman *et al.*, 2004).

Financing decisions

From the financing decision's point of view, the analyzed research has focused on European countries (47 percent), USA and Canada (21 percent) and the Asian countries such as Korea or Taiwan (almost 17 percent). The sample has built mainly on medium-sized firms (57 percent), but the large companies and small businesses have their representation too (22 and 21 percent). In Table IV the mixed findings from the research about capital structure as the most discussed subject within the financing decisions scope is seen. The varied results are independent from the size of the firm as well as from the country.

In Koropp *et al.* (2013) opinion, existing studies on family firm financing either have employed a merely descriptive approach (e.g. Gallo *et al.*, 2004) or have drawn on normative capital structure theories as analytical frameworks, thus focusing mainly on firm factors (e.g. López-Gracia and Sánchez-Andújar, 2007). That is the main reason, why the results of

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Findings	Firm size	Country	Source
Family firms have lower leverage ratios than non-family firms	Large firms	European countries	Ampenberger *et al.* (2011), Margaritis and Psillaki (2010)
	Medium-size firms	European countries	Ampenberger *et al.* (2011), Crespí and Martín-Oliver (2015), Schmid (2013), Cirillo *et al.* (2016), Ampenberger *et al.* (2012), Andres (2011)
		US and Canada	Chen *et al.* (2008), McConaughy *et al.* (2001), Jain and Shao (2015)
		Asia	Hanazaki and Liu (2007)
		others	Abdel All and Komarev (2016), González *et al.* (2013), Abor (2008)
	Small firms	Australia	Romano *et al.* (2001)
Family firms have almost the same leverage ratios as non-family firms	Large firms	USA and Canada	Anderson and Reeb (2003)
	Medium-size firms	European countries	Gallo *et al.* (2004)
Family firms have higher leverage ratios than non-family firms	Large firms	European countries	Croci *et al.* (2011), Blanco-Mazagatos *et al.* (2007)
		Australia	Setia-Atmaja (2010)
	Medium-size firms	European countries	Keasey *et al.* (2015), López-Gracia and Sánchez-Andújar (2007), Jewartowski and Kałdoński (2015), Gottardo and Moisello (2014), Burgstaller and Wagner (2015), Morresi (2010), Hagelin *et al.* (2006), Santos *et al.* (2014)
		USA and Canada	Chen *et al.* (2014), King and Santor (2008), Koropp *et al.* (2014)
		Asia	Xin-ping *et al.* (2006), Kuo and Wang (2013), Kim (2006), Shyu and Lee (2009)
		Australia	Setia-Atmaja *et al.* (2009)
	Small firms	USA and Canada	Chen *et al.* (2014)

Table IV.
Capital structure in family firms – the research findings

this research are mixing and do not answer the question why family firms employ certain sources of financial capital. Whereas some researchers suggest that family firms prefer internal and family funds (e.g. Romano *et al.*, 2001) and carry less debt that non-family firms (e.g. McConaughy *et al.*, 2001; Margaritis and Psillaki, 2010; Ampenberger *et al.*, 2011), others indicate that family firms carry similar debt (e.g. Anderson and Reeb, 2003; Gallo *et al.*, 2004), or even more debt, than non-family firms do (e.g. Blanco-Mazagatos *et al.*, 2007; King and Santor, 2008; Setia-Atmaja *et al.*, 2009; Chen *et al.*, 2014; Callimaci *et al.*, 2011; Driffield *et al.*, 2007). For example, Cole (2013) in his research indicates that firm leverage at privately held firms, as measured by either the ratio of total loans to total assets or by the ratio of total liabilities to total assets features the following characteristics: is consistently higher at corporations than at proprietorships and partnerships; is consistently higher at larger firms than at smaller firms; is consistently higher at younger firms than at older firms; and is consistently lower at firms whose primary owner is female or black than at firms whose primary owner is a white male. This finding is quite different from Brav (2009), who reports that in the UK, private firms use much more leverage than public firms do.

On the one hand, the family businesses are more risk averse, which explains lower involvement of debt in financing. On the other hand however, higher leverage ratio is consistent with the argument that the potential for expropriation constrains the family firms rely more on debt of lower maturity, which facilitates monitoring and timely information production, and on more debt in relation to equity, which limits the scope for expropriation (Chen *et al.*, 2014).

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As confirmation of the second point of view, the research of O'Regan *et al.* (2010) shows that family firms are not willing to use the equity funding to financing, especially in the case of owners of large businesses, young firms, and owners who plan to achieve growth through increasing profit margin (see also De Bodt *et al.*, 2005; López-Gracia and Sánchez-Andújar, 2007). Following Antoniou *et al.* (2008, p. 59) who argues that "the capital structure of the firm is heavily influenced by the economic environment and its institutions, corporate governance practices, tax systems, the borrower-lender relations, exposure to capital markets, and the level of investor protection in the country in which the firm operates," it might well be that family firms behave differently with respect to the capital structure decisions in different institutional settings (Ampenberger *et al.*, 2011). It is consistent with Reyna and Encalada (2016) (as well as Vandemaele and Vancauteren, 2015; Molly *et al.*, 2012), who show that indebtedness and leverage change through the generations of firm owner and with Huang and Chan (2013), who show that when families are present on the board of directors (but are not in management), debt level tends to be lower. This same effect obtained González *et al.* (2013) and Gill (2013). Chen *et al.* (2014) includes a number of additional reasons as to why privately held firms should be more highly levered than public firms. These include the transparency, value of reputation and informal relationships, no (or partial) limited liability, fewer lenders, quasi-equity and unreported equity, and behavioral issues such as risk-taking overoptimistic entrepreneurs.

López-Gracia and Sánchez-Andújar (2007) argue that family firms follow a pecking order by preferring internal over external and debt over equity financing due to cost of capital and ownership control. It is coherent with the research of Burgstaller and Wagner (2015), who argue that although the effect of many proposed capital structure determinants differ across firm types, they are highly consistent with predictions from the pecking order theory. Other researcher also agrees with this statement, e.g. King and Peng (2013), Poutziouris (2001) and Pindado *et al.* (2015). The last one shows that the easier access to debt financing and the lower adjustment costs of family firms, enable them to fill the gap between actual and target leverage at a higher pace. Additionally, the results of Crespí and Martín-Oliver (2015) suggest that during the crisis period, family firms are less subject to credit restriction than non-family firms and their capital structure is more stable throughout the cycle. From the other hand, Xiang and Worthington (2015) suggest that the pecking order theory at least partly explains the financial behavior of Australian firms.

Another problem is that of the cost of capital. Little is known about the cost of external capital, but few researchers have tried to show the relationship between family and the cost of this capital (e.g. Wu *et al.*, 2012; Tsoutsoura, 2015). For example, Craig *et al.* (2008) proves that family-based brand identity causes the lower cost of capital, which is consistent with the results of Sraer and Thesmar (2007), who show that the family firms pay on average lower interest rates on their outstanding debt. Chae and Oh (2016) suggest that family firms are assessing with higher credit ratings and thus the cost of external capital is for them lower.

The cost of equity capital in family firms seems to be determined by a given family's own aspirations for growth and payout. Adams *et al.* (2004) shows that the cost of equity capital is in part discretionary, challenging the view of traditional finance researchers who argue that firms which invest in lower returns than are required for the an investment with a comparable risk, will maneuver themselves out of the market and will disappear in the long run. Furthermore, such operations will create the pressure on family shareholders to choose an alternative investment on the capital market with higher returns. In the light of facts that for many family firms, the family is the most important source of capital and the managers often follow the non-economic goals, the view of Adams *et al.* (2004) give another features. If the cost of equity capital can be determined by the owners, depending on the requirements, subjective needs, and preferences, family shareholders are free to substitute the monetary for non-monetary returns (e.g. independence, prestige) and accept lower monetary return on the equity capital they invest (Zellweger, 2007).

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Summarizing, it has not been adjudicated yet, whether the family businesses involve more debt financing and thus have a higher leverage ratio than non-family firms or not. The features only show that family firms are risk averse, which might cause a lower interest in external financing and the fact that family businesses tend to preserve control, which in turn could cause the lower interest in external equity financing and thus higher engaging in debt. Both factors outflow from the family/owner characteristic and are reasonable from the economic point of view as well as from the social and emotional point of view. The decision seems to be resultant of the preferences of family owner/manager and his or her attitude. Additionally, according to Gottardo and Moisello (2016), given the state of art in literature it is not clear how the emotional and social benefits that family owners derive from the firm affect their financing choices. These aspects have not been studied within a unifying conceptual framework to explain how they might interact with each other and with other firms' characteristics, subsequently influencing the leverage.

Investment decisions

From the investment decision's point of view, the analyzed research has focused on European countries (36 percent) as well as on the USA and Canada (28 percent) and Asian countries (28 percent). The sample has been built mainly on medium-sized firms (58 percent). The large companies were represented in 34 percent of analyzed papers, and small businesses – in 8 percent. In Table V, the mutual findings observed in the research are shown.

The first finding, which should be noticed, is that family firms have almost the same level of investment as non-family firms (Anderson and Reeb, 2003). However, Astrachan and Zellweger (2008) suggest that family firms have a natural advantage in investing in a long-run projects, due to a lower information asymmetry between managers and investors. Zellweger (2007) finds that family firms display longer time horizons due to the transgenerational goal, a longer CEO tenure, and the presence of many family firms in cyclical industries, which can inhibit short-term success. He shows that long-term investment horizons provide family firms with opportunities to invest in projects that are either too risky or not sufficiently profitable for short-term oriented firm. It is consistent with results of Welsh and Zellweger (2010).

Empirical research has shown that the family businesses tend to underinvest in R&D relative to non-family firms (Block, 2012; Chrisman and Patel, 2012; Muñoz-Bullon and Sanchez-Bueno, 2011). Still, Chrisman and Patel (2012) as well Gómez-Mejía *et al.* (2014) show that family firms increase their R&D investments when their performance falls below that of competitors. In such situation, the family businesses tend to be relatively less risk averse than non-family firms.

From the behavioral point of view, the research by Zellweger *et al.* (2005) shows that family entrepreneurs make investment choices depending on reference points. They are willing to incur investments with higher control risk (measured in terms of debt level) if they could act beginning with a "safe" starting position, characterized by high equity level. In the turbulent economic period (like financial crises), the family firms cut the investments quicker than other enterprises (Lins *et al.*, 2013). It is consistent with Andres *et al.* (2013), who argues that stability of family control does not imply less sensitivity of investment policies to the business cycle.

According to the Zellweger's (2007) research, family firms seem to adopt one of two different investment strategies:

(1) equal-risk investments, which allow the family firms to accept investment opportunities with lower return (perseverance strategy); and

(2) equal-return project, which allows the family firms to accept investment opportunities with higher risk (outpacing strategy).

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Findings	Firm size	Country	Source
Family firms invest in the long-term horizon	Large firms	USA and Canada	Landry *et al.* (2013)
		Asia	Tsao and Lien (2013)
	Medium-size firms	European countries	Sraer and Thesmar (2007)
		USA and Canada	Landry *et al.* (2013), Anderson *et al.* (2012)
		Asia	Tsao and Lien (2013)
		Others	Ahn *et al.* (2015)
Family firms tend to choose the more risky investment in the long term horizon than other businesses	Large firms	Others	Portal and Basso (2015)
	Medium-sized firms	Others	Portal and Basso (2015)
Family firms invest less in high-risk projects	Large firms	European countries	Croci *et al.* (2011)
		USA and Canada	Block (2012), Muñoz-Bullon and Sanchez-Bueno (2011)
	Medium-sized firms	European countries	Kotlar *et al.* (2014), Bianco *et al.* (2013), Sanchez-Bueno and Usero (2014)
		USA and Canada	Anderson *et al.* (2012), Chrisman and Patel (2012), Gómez-Mejía *et al.* (2014), Muñoz-Bullon and Sanchez-Bueno (2011), Jain and Shao (2014), Souder *et al.* (2016)
		Asia	Choi *et al.* (2015), Chen and Hsu (2009), Lien *et al.* (2005), Tsoutsoura (2015)
Investment intensity is greater in family groups and pyramids	Large firms	European countries	Goergen and Renneboog (2001)
		Others	Masulis *et al.* (2011)
	Medium-sized firms	Asia	Connelly (2016)
	Small firms	European countries	Goergen and Renneboog (2001)

Table V. Investment decisions in family firms – the research findings

The impact of family ownership on investment decision is unclear (Lin *et al.*, 2015, 2016). The research made by Andres (2011) shows the investment decision of family firms are less sensitive to the availability of internal cash flows and more responsive to investment opportunities. The effect is stronger if the family is active in the firm. Additionally, the blockholders other than family seem to have limited influence on investment decisions.

There is very little known about the short-term investment decisions. Gill (2013) suggests that liquidity policy and working capital management policy is positively associated with market value of family firms. Additionally, he argues that CEO duality[1], gender, length of stay in family firms and the number of board meetings per year positively impact working capital management policy (Gill *et al.*, 2014). It means, all of these factors have an influence on the working capital level, when they increase, the level of working capital increases too. However, this finding does not explain the process of decision making in family firms in the scope of working capital.

Summarizing, the researchers show that family firms choose the investment projects with lower rate of return or higher risk due to long-term orientation. There is little known about the influence of the family on the investment decisions, whereas the short-term financial decisions seem to be completely overlooked. Besides that, there is a big gap in the research on small firms and their investment decisions.

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Dividend policy

From the dividend policy's point of view, the analyzed research has focused mainly on the European countries (40 percent), Asian countries (28 percent) and The USA and Canada (12 percent). The research focused only on medium-sized firms (55 percent) and the large companies (45 percent). The core solving problem was the level of dividend payout ratios. Table VI shows the mutual findings observed in the research.

There is no clear answer to the question about the level of dividend ratios. Some researches, like Pindado *et al.* (2012) or Setia-Atmaja *et al.* (2009), Setia-Atmaja (2010) suggest that the dividend payouts are higher in family firms. Others like Setiawan *et al.* (2016) or Dick (2015) say that these ratios are lower. Bresciani *et al.* (2016) argues that medium-sized firms have a weaker dividends distribution policy than larger ones, due to high interest in saving the liquidity in order to finance the attractive investment opportunities. According to this research, the larger companies pay higher dividends to attract new shareholders and reward the old ones. Additionally, Vandemaele and Vancauteren (2015) noticed that the tendency to retain earnings appear to be stronger in earlier generational stages compared with later ones.

However, the dividend policy might be used by family firms to reduce the free cash flow agency costs, for example the private benefits of control in family businesses (González *et al.*, 2014; Pindado *et al.*, 2012; Wei *et al.*, 2011; Setia-Atmaja, 2010; De Cesari, 2012). Furthermore, Gadhoum *et al.* (2007) argue that dividends are used as a protective mechanism for minority shareholders against the possibility of expropriation by large shareholders. Thus, according to González *et al.* (2014) family involvement in management does not affect dividend policy, but involvement in control through disproportionate board representation affects dividend policy positively. It is consistent with Setia-Atmaja (2010), Isakov and Weisskopf (2015),

Findings	Firm size	Country	Source
Family firms employ higher dividend ratios compared to non-family firms	Large firms	European countries	Pindado *et al.* (2012), Isakov and Weisskopf (2015), Djebali and Belanès (2015), Bresciani *et al.* (2016)
		Asia	Gong (2015), Huang *et al.* (2012)
		USA and Canada	Lau and Block (2014)
		Others	Setia-Atmaja *et al.* (2009), Setia-Atmaja (2010), González *et al.* (2014)
	Medium-size firms	European countries	Pindado *et al.* (2012), Isakov and Weisskopf (2015), Djebali and Belanès (2015), Michiels *et al.* (2015)
		Asia	Gong (2015), Huang *et al.* (2012)
		USA and Canada	Lau and Block (2014)
		Others	Setia-Atmaja *et al.* (2009), Setia-Atmaja (2010), González *et al.* (2014)
Family firms employ lower dividend ratios compared to non-family firms	Large firms	European countries	Vandemaele and Vancauteren (2015), Al-Najjar and Kilincarslan (2016), Dick (2015)
		Asia	Benjamin *et al.* (2016), Setiawan *et al.* (2016), Buccellato *et al.* (2015), Attig *et al.* (2015), He *et al.* (2012)
		USA and Canada	Lau and Block (2014)
	Medium-size firms	European countries	Vandemaele and Vancauteren (2015), Al-Najjar and Kilincarslan (2016), Dick (2015), Gugler (2003), Bresciani *et al.* (2016)
		Asia	Benjamin *et al.* (2016), Setiawan *et al.* (2016), Buccellato *et al.* (2015)
		USA and Canada	Lau and Block (2014)

Table VI.
Dividend decisions in family firms – the research findings

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Gong (2015) and Huang *et al.* (2012). However, the dividend decision may reflect the risk profile of the family or difficulty in assessing external financing (Portal and Basso, 2015). Anderson and Hamadi (2009) suggest that due to maintain control and reducing the need to dilute control, the family enterprise might decide to keep high level of cash holding and thus low the dividends. This is in contradiction with the observations of Lau and Block (2014), who have found that family firms prefer dividends over share repurchase as the main method of payout.

He *et al.* (2012) noticed that family controlled firms are more flexible in dividends payment and have more freedom in making financial decisions. This causes less reluctance to cut dividends when cuts are warranted (Gugler, 2003; Attig *et al.*, 2015), especially in the crisis period and higher stability in payouts (Tahir *et al.*, 2016; González *et al.*, 2014).

Summarizing, the relationship between dividend policy and family firms is still not clear, but the truth is that dividend payouts are one of the tools to preserve control in family firms and are dependent from the size and generation of the firm.

Due to the fact that all of the financial decisions made in enterprise have an effect, directly or indirectly on performance and value creation. Many researchers look on this field and want to answer the question, whether the family businesses are under or over-performed. Several empirical studies have indicated that family ownership is associated with superior firm performance, both in terms of accounting and market performance measures (e.g. Anderson and Reeb, 2003; Villalonga and Amit, 2006; Barontini and Caprio, 2005; Andres, 2008). Poutziouris *et al.* (2015) show that the higher the involvement of the family in terms of management and governance, the higher the performance the firm appears to sustain in the long run and across generations. Wagner *et al.* (2015) find that the financial performance is better in public and large family firms and Martínez and Requejo (2017) prove that family control positively affects performance, primarily when family members serve on the board and the founder is still influential. These findings stand in contrast to liquidity constrains and inefficient investment behavior that is suggested in theory.

6. Conclusions

The financial decision making represents a central challenge to family firms worldwide. Among the main factors that are likely to affect the financial decision making in family firms the researchers list the following: the family culture (Astrachan and Jaskiewicz, 2008), family cohesion, age and size of the family and firm, individual and family risk orientations (Zellweger, 2007), family emotional attachment to the firm, entrepreneurial characteristics (Zellweger and Astrachan, 2008), and family business goals (Naldi *et al.*, 2007). Unfortunately, relations between all of these factors and the financial decision making in family firms are largely unexplored empirically (Astrachan, 2010). A common assumption in the existing research features have been that family firms will not completely neglect the economic consequences of their decisions, but the non-economic results are often likely to predominate (e.g. Berrone *et al.*, 2010; Gómez-Mejía *et al.*, 2007). Another conclusion is that the family's decisions are motivated by loss aversion with regard to their stock of SEW. If there exists the specific logic in financial decision making process in family businesses, it should be based on such rules as: the choices are affected by the family norms and characteristics of the owner/manager; the economic profits are important, but the prevalent determinant is the SEW; the financing decision (capital structure) is the result of the choice between risk and preserve the control; the investment decision is directly connected with the long-run orientation of the family firms, thus the project with lower rate of return or higher risk could be accepted.

The advantages and disadvantages of the family firm co-exist (Wei *et al.*, 2011), and the ultimate effect of family control/management on the financial decision making process depends on the extend of family involvement in management, which dictates the cost and net benefits that are dominant in family firms (Portal, 2015).

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Despite impressive progress, the research still have some drawbacks that can lead to inconclusive results: the use of different samples, different requirements when defining family business, different control variables, and particularly insufficient consideration of mediating and moderating factors (Chrisman and Patel, 2012; González-Cruz and Cruz-Ros, 2016). Currently, the vast majority of the studies are based on the highly developed economies (e.g. Australia, Germany, Italy, Spain, and USA) (Evert *et al.*, 2016). There is a big gap in family business research in the developing countries.

For future research, it will be very interesting to find a good theoretical background, which could allow the comparison of firms between countries, sizes, genders, etc. Besides that, it will be interesting to know, how the emotional and social benefits that family owners derive from the firm affect their financial choices and how financial decisions appear in the short-term scope.

Note

1. If the same person occupied the post of chairperson of the board and CEO.

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