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Capital Structure in the Family Firm: Exploring the Relationship Between Financial Sources and Family Dynamics

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Capital Structure in the Family Firm: Exploring the Relationship Between
Financial Sources and Family Dynamics

Diego Velez Montes

A Dissertation

Presented in Partial Fulfillment of the Requirements for the
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ABSTRACT

How a company structures its capital greatly affects its strategic options and its strategic decisions according to contemporary thinking. However, while there is ample literature on how publicly held companies' capital should be structured, less is known about private companies. Additionally, one or more members of a single family typically own the majority of private companies, and unlike public companies, family dynamics influence these firms' non-financial and financial goals and strategic decisions. This overlap of family dynamics into the business arena complicates conventional approaches or at least makes conventional approaches more difficult to apply.

This dissertation focuses on privately held, family-owned companies, and on how family dynamics challenge or make conventional approaches inapplicable or, at least, more complicated to apply. Utilizing a grounded theory-influenced approach on a sample of 11 family companies with different capital structures, the study explores the effects of family influence and family dynamics on capital structure decisions and vice versa in family owned companies. The qualitative inquiry took place in the South American country of Colombia, because this country is a representative capital market in Latin America from the financial development perspective, where the foreign investment growth has been high in the last years. The findings of this study advance the research of family dynamics and its effect on family business, and will be of help to family boards, managers, advisors, and family shareholders when making decisions on capital structure.

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CHAPTER 1: INTRODUCTION

Increasing competition in markets puts stress on family businesses to finance entrepreneurship, technological renewal, and growth, and an inability to fund these endeavors appropriately could cause family firms to battle to defend market share, to face hostile takeovers, to sell the business, or even to become insolvent (De Visscher, Aronoff, & Ward, 1995). Furthermore, a critical question for an owner family is how to best finance its business, and how the chosen method to finance the business influences the owner's family and vice versa. Financing of capital ventures, growth, and strategic pursuits of a family company can be achieved in several ways, including: internally generated cash flows; traditional bank debt; extended terms from vendors; quicker payments and prepayments from customers; additional capital inflows from current shareholders; equity and debt capital from external shareholders (employees, directors, investment institutions, independent directors, private equity funds); loans from family members or third parties; or by selling parts of the business that will not affect the company's core activities (asset shedding) (Claessens, 2012; Schulze, Lubatkin, & Dino, 2003).

Research indicates that a company's capital structure, or how a company finances its ventures and strategic growth, greatly affects its strategic options and its strategic decisions. Examples of research on how capital structures influence a company's strategic options and decisions include: Economic Value Added (EVA) to maximize

shareholder value as a method to measure performance (Sharma & Kumar, 2010). EVA also helps reduce agency conflict (aligning managers' and shareholders' interests) and improve decision making (Lovata & Costigan, 2002);

- Goal setting (Adams, Manners, Astrachan, & Mazzola, 2004) to examine the financial return of firms, and to answer the question if the return to the company in the short and long terms is over the cost of capital depending on shareholders' interests;
- Capital Asset Pricing Model (CAPM) based on expected utility theory, its criticisms, and defenses. Behavioral economists suggest using prospect theory instead of CAPM, to be consistent with people's choices (Black & Scholes, 1973; Cox, Ross, & Rubinstein, 1979; Levy, 2010; Lintner, 1965; Merton, 1976; Modigliani & Miller, 1958);
- Capital Allocation to study and understand how capital is allocated among different divisions of a conglomerate, how decision making is delegated, what is the use of net present value for making decisions, and the influence of manager's reputation within firms when making financing decisions (Bushman, Piotroski, & Smith, 2011; Graham, Harvey, & Puri, 2011);
- Mergers and Acquisitions studies made with private and public companies, the imprecision of sample sizes of mergers and acquisitions research, and certainty of studies made on these topics, junk bonds to finance acquisitions, financial and behavioral impact of mergers and acquisitions on the different stakeholders, the reduction of corporate taxes as an important motive to

combine corporations and leverage buyouts (Auerbach, 2008; Nahavandi & Malekzadeh, 1988; Netter, Stegemoller, & Wintoki, 2011);

- Asset shedding and deleveraging in times of crisis (Claessens, 2012; El-Erian, 2010); and optimal levels of debt (Biais & Casamata, 1999; Bradley, Jarrell, & Kim, 1984; Korteweg, 2010).
- The Terminal Value of Investment vis-a-vis Net Present Value is a best estimate of the reinvestment rate to find whether a project provides the required risk adjusted return (Manners & Louderback, 1979).

In other words, and for practical application, there is a relationship between capital structure, types, and sources of financing, and corporate strategy of businesses (Kochhar & Hitt, 1998).

There is also evidence that sources of capital affect future outcomes and vice versa. For instance, Astrachan and McConaughy (2001) found that using professional private equity prior to a public offering increased listed stock performance post listing. On the other hand, Berger and Bonaccorsi (2006) identified a reversed causality from performance to capital structure. For practical application, these findings might offer informed advice for managers on how to craft capital structure to pursue certain strategies, and how desired outcomes require certain capital structures.

Prior research has produced a great deal of theoretical and empirical insights on how publicly held companies' capital is structured in different geographies and depending on cultures, governance codes, or investors' protection (Chen, 2004); how decisions are made to structure the capital of a company; and how strategies to grow and change are designed in certain ways to be financed with short or long term debt, or

different kinds of equity (Pagano, Randl, Röell, & Zechner, 2001). Less is known about capital structure in private companies, because most of the research on capital structure has been conducted using samples of listed companies (Graham, Leary, & Roberts, 2013). Research utilizing listed companies is consistent with an increase in the use of secondary data in strategic research (Astrachan, 2010), as secondary data are almost always derived from listed companies (particularly in the USA), and are therefore widely available (Phelan, Ferreira, & Salvador, 2002). However, using data from listed companies to understand small and mostly private family businesses is controversial, and its results are often ultimately inapplicable (Astrachan, 2010).

The purpose of this study is to investigate how family influence and family dynamics affect capital structure decisions, focusing explicitly on sources and levels of equity and debt financing. Secondly, this research explores the reciprocal effects of capital structure decisions on family dynamics. To my knowledge, none of the existing research takes into account the influence of family dynamics on levels and proportions of debt and equity financing and vice-versa.

Family companies are different from listed companies in that they often pursue goals that meet the personal needs of owners which may be at odds with business performance as defined in scholarly research on publicly held non-family companies such as:

- Tobin's Q (a ratio of the listed firm's market value to book value) in family firms is reported as being greater than that in other corporations (Villalonga & Amit, 2006);

- Astrachan and Jaskiewicz, (2008) offer an explanation of what “value” is for a family business owner, arguing that family companies have emotional values and emotional costs different from financial issues and that those emotional issues can add or subtract to the value of the company from the family business owner’s perspective;
- How family business owners make decisions protecting their socio-emotional wealth or all the elements family business associates with belonging, trust, altruism, etc. (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007) and family involvement in ownership, governance and management (Klein, Astrachan, & Smyrnios, 2005).

Modern theory of capital structure is based on the seminal work of Modigliani and Miller (1958), whose theory assumed perfect markets and competition with the necessary information made available (Romano, Tanewski, & Smyrnios, 2000). Furthermore, the Modigliani and Miller (1958) model assumes that the cost of capital is equal to the rate of interest on bonds, regardless of whether the funds are acquired through debt instruments or through new issues of common stock. For these authors, the distinction between debt and equity funds reduces to one of terminology. Besides, they state that profit maximization is the only goal of a firm. While the Modigliani and Miller seminal work acquires relevance for public companies (Romano et al., 2000), these concepts have little application to family companies (Chaganti, DeCarolis, & Deeds, 1995) because family firms often have other (non-financial) goals for their businesses (Berrone et al., 2010). Furthermore, financing from debt or equity depends on how

options are framed, as a choice of potential gains or as a choice among potential losses. Behavioral theory predicts that decision makers, particularly family firms, prefer to avoid a loss even if this means accepting a higher risk or underperformance (Gomez-Mejia et al., 2007). Because there are non-financial goals at stake, family firms are not indifferent to choosing debt or equity to finance their projects. Propensity to use debt as a source of financing is also related to the interests of the different generations. As the number of generations increases, family members are less “overinvested” in the firm and are more willing to use debt and bear the attendant risk to their individual wealth. Thus, the use of debt will be favored by ownership dispersion across generations (Schulze et al., 2003).

Most of the research on capital structure falls short given that the studies utilize public companies’ information when most economies around the world are made up of more private than public companies (Durand & Vargas, 2003), and the majority of private companies are family businesses (owned by one or more members of a single family) (IFERA, 2003). This is also problematic since the dynamics of family life affect strategic decisions (Brunninge, Nordqvist, & Wiklund, 2007; Craig & Lindsay, 2002; Dyer & Handler, 1994; Van Auken & Werbel, 2006). Additionally, Harris, Martinez, and Ward (1994) posit that the dynamics of the family may affect the relevance of the non-financial (e.g., independence, employment for family members, prestige) and financial goals. Over time, performance of the company along financial (dividends, salaries, perks) and non-financial (quality products, archives, corporate social responsibility) dimensions may affect family emotional and financial cohesion dynamics as well (Pieper, 2007; Pieper & Astrachan, 2008).

It is clear that most of the research on capital structure has been focused on public companies with models not always applicable to family companies, and given that family companies are dominant in the economics of the world, a need exists to go deeper into the research of capital structures of family companies. More specifically, because family influence and/or family dynamics play little to no role in public company capital structure or funding decisions, little is known about family dynamics factors that influence funding decisions, or how funding decisions are influenced by family dynamics in family firms. As a consequence, despite a wide range of studies on the capital structure of firms, a fresh look from the ground through this qualitative study accounts for the insufficiencies of the current theories for the case of family firms.

For these reasons, and in order to make a practical contribution to academic researchers and practitioners, my research focuses on family companies by exploring the influence of family firm dynamic specificities on capital structure decisions. The findings of this examination are useful to academics and practitioners for understanding family business decisions when financing family firms and how these decisions affect family and firm behaviors and strategic decision-making. For instance, if certain internal factors such as family dynamics, family values or different generations within the family promote capital structures that facilitate the business leader's growth desires, focusing on those dynamics could be a preferred course of action. Likewise, if certain types of capital structures (and sources of capital) might harm family cohesion and if the family has a highly salient goal of cohesion, then such capital structures can be avoided until processes and mechanisms to counteract their pernicious effects are created and implemented. For instance, this study revealed that when referring to capital structure of

some family companies in the sample, issues worth discussing were how family values were represented in management risk, debt levels, liquidity, and the desirability of IPOs. In some other companies of the sample, boards or families decided to choose a strategic partner that modified the capital structure of the company in order to prevent family conflicts and facilitate cohesion. In other words, family companies are different from non-family companies even in the way they choose the capital structure of their companies. Furthermore, capital structures affect in positive or negative ways their family dynamics as well. An awareness of these differences and their effects is useful for families, researchers, and practitioners to know when studying financial structures and making financial decisions in family companies.

Finally, I chose the grounded theory-influenced qualitative approach (Gioia, Corley, & Hamilton, 2013) to be conducted with 11 selected family-owned companies (purposeful sampling) of different sizes and from different industries in Colombia, as the best fit for this project, taking into account the type and scope of the research. To collect the data, I relied on several distinctive data sources: 30 audio-recorded in-depth interviews with several levels of informants, site documents, observations and field notes. Then, I triangulated data to improve objectivity, to diminish potential biases, and to improve the robustness of the resulting theory. I always had in mind that the analysis was necessary from the start to be used in next observations. As soon as I collected data and the interviews were transcribed, all the data was analyzed and top-down and bottom up coded, using computer-assisted data analysis software (ATLAS.ti)

Stern (1995) asserts that a grounded theory approach is appropriate for investigations of an uncharted area or to gain a fresh perspective on a familiar situation.

While public company financing is rather familiar, a grounded theory approach allowed a more in-depth understanding of the relationships and processes involved in situations about which little currently was known (Strauss & Corbin, 1998).

As a research site, Colombia is becoming a benchmark capital market in Latin America from a financial development perspective (González, Guzman, Pombo, & Trujillo, 2012); it is a country where foreign investment growth (113.4 percent) was the fifth largest in the world from 2010 to 2011, while in developed countries the growth rate was 18.5 percent over the same years (Portafolio, 2012). Moreover, the Colombian stock market has become one of the best performing in the region (www.stockmarkets.com/exchanges/south-america/colombia-stock-exchange, June 27th, 2014), and most of the private companies are family-owned, according to Superintendencia de Sociedades de Colombia (2006), the entity that supervises and controls all the commercial and uni-personal firms in Colombia. Bartunek and Seo (2002) state that qualitative research is quite helpful, and sometimes necessary, for exploring local meanings of a phenomenon, and given the country's superlative economic statistics, it can be used in this case for this research in Colombia.

As with any other study in any field, this research is not free from limitations: specifically related to the sample size; Colombia, the place in which the study took place with very particular economic conditions; extending the observations of this study to other countries; different levels of development for different kinds of financing in Colombia; individual interviewee's interpretations of historic situations; different generations of family companies in the sample; the family dynamics concept which is represented by a person's behavior at a certain moment; family dynamics that change

over time; the credibility of the interviewee's answers; etc. All of these limitations and concerns, in turn, offer opportunities for future research.

CHAPTER 2: FAMILY BUSINESS DYNAMICS AND CAPITAL STRUCTURE

This literature review outlines the existing state of research in family business financing and its relations with family dynamics and family business strategy. This study is based on a grounded-influenced theory approach. Several mainstream authors from this research tradition advise not to review the literature beforehand when using a grounded theory approach (Glaser & Holton, 2004; Lincoln & Guba, 1985; Stern, 1994; Strauss & Corbin, 1994), because theory should be grounded in the collected data; the researcher should not be biased by existing research and instead approach the data with a blank mind, letting the evidence emerge freely.

Hutchinson (1993) and Pratt (2009) have another view about the literature review as precursor of grounded theory research. This view suggests that a literature review should precede data collection and analysis in grounded theory so that the researcher can identify the gaps in that line of research and provide its rationale. Gioia et al. (2013) also feature a methodology that enhances grounded theory development, and advise initially consulting existing literature without judgment to allow discovery of new insights. Following these recommendations, I deemed it necessary to conduct this literature review in order to get acquainted with concepts and the current state of the literature on the subject; this information was useful in identifying and structuring the appropriate questions for the qualitative interviews. It also assisted me in being attentive to the issues that emerged during the interviews and data collection period.

To make this project of value and since the family business is the basic unit of analysis, it is necessary to offer a family business definition to be used throughout the research. Family business definitions used in much previous research have varied widely (Wortman, 1995), which prompts me to posit a more exact working definition that will guide me through the study. Hence, I will proffer a family business definition first, and then review some of the papers and materials written on family business differences when compared to public companies. Likewise, I considered some of the papers written on capital structure of family companies and capital structure's relation to family dynamics. I also explored the extant literature related to family influence and family dynamics and their effects on strategic issues of capital structure or financing, as well as the impact of capital structure on family dynamics.

2.1 Family business definition

In the first editorial note to the first issue of the *Family Business Review*, Lansberg, Perrow and Rogolski (1988) openly inquire about what is a family firm. Furthermore, in his review of the family business literature, Wortman (1995) reports that there were over 20 different definitions of family business. For instance, Chua, Chrisman and Sharma (1999, p. 25) define a family firm as a “business governed and/or managed with the intention to shape and pursue the vision of the business, held by a dominant coalition, controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.”

Despite the efforts to achieve a clear definition, Astrachan and Shanker (2003) acknowledge that the unique family business definition has not yet been achieved. More recently, Kaye (2005) explains the family enterprise as the basic form of human

organization. He argues that children have always worked with their parents, brothers have worked together, and men and women who married took roles in factories, stores, and merchant banks. All human societies are an outgrowth of that biologically determined tendency of human kind (Kaye, 2005). Likewise, Villalonga and Amit (2006, p. 390) define a family firm as “One firm whose founder or a member of the family by either blood or marriage is an officer, a director, or the owner of at least 5 percent of the firm’s equity, individually or as a group.” Moreover, in the Colombian milieu, there is no clearly accepted definition. The more frequently used definition for a family business is the one given by Superintendencia de Sociedades (2006, p. 19): “The family company is that organization where more than 50 percent of the organization belongs to the same family.” However, this definition is only used by the Superintendencia de Sociedades for statistical purposes and is limited in that a family can control a company with a variety of different amounts of non-voting common and voting equity.

This definitional diversity is challenging because of the varying degrees of specificity across studies, which makes comparisons of results problematic. When different definitions of family business are applied, the percentage of family business in one sample can differ between 15 percent and 81 percent, according to the definition used (Westhead, Cowling, & Storey, 1997). That is why Dyer (2003) recommends having a clear definition for each study so that the results can be compared and analyzed accordingly. Therefore, I use the Klein et al. (2005) definition.

To operationalize the family business definition, I use the F-PEC scale developed by Klein et al. (2005), which measures the extent and quality of family influence on a business along three dimensions: Power, Experience, and Culture. Family influence can

vary in the organization over time, and can be manifested in many different ways in the organization (Klein et al., 2005). The scale was empirically tested and validated through exploratory and confirmatory factor analysis, with high levels of reliability (Klein et al., 2005). The F-PEC scale allows for continuous assessment of family involvement (instead of dichotomous distinctions), and for comparisons among various types of family businesses (Klein et al., 2005). Moreover, it is also commonly used in the literature (Chua, Chrisman, Steier, & Rau, 2012; Rutherford, Kuratko, & Holt, 2008; Holt, Rutherford, & Kuratko, 2010).

2.2 Family companies in the world

Family firms play an important role in the economics of today's world. They are a major source of technological innovation and contribute a large share to economic progress (Astrachan & Shanker, 2003). Family firms also make up most of the businesses in the world (Gallo, 1998; Gersick, Davis, Hampton, & Lansberg, 1996; Litz, 1995), provide significant employment and employment growth (IFERA, 2003 in Astrachan & Shanker, 2003), and form the majority of organizations in developed economies (Kirchhoff & Kirchhoff, 1987). Even in listed firms where the family does not have 100 percent ownership, their control of board seats is 2.75 times greater than their equity stake would indicate (Anderson & Reeb, 2003). Family firms are also prolific investors. Anderson and Reeb (2003), for instance, using the Standard & Poor's 500 (S&P 500) firms from 1992 through 1999, observed that founding families are a prevalent and important class of investors. The authors also investigated the relationship between founding-family ownership and firm performance and found family ownership to be both prevalent and substantial. However, according to other studies, when removing lone-

founder businesses from the family business category, there is no evidence of superior market valuations (Miller, Le Breton Miller, Lester, & Canella, 2007). In other words, firms that include relatives as owners or managers on average do not outperform in market valuation, even during the first generation. On average, only businesses with a lone founder outperform (Miller et al., 2007).

Moreover, family firms are present in one-third of the S&P 500, account for 18 percent of outstanding equity, and constitute over 35 percent of the S&P 500 industrials. These families also own nearly 18 percent of their firms' outstanding equity, and 16 percent of the S&P 500 firms' sample is still managed by family founders or descendants (Anderson & Reeb, 2003). Family control and influence in the S&P 500 can be even more extensive than these ownership levels suggest.

In fact, of all companies in the UK, the percent that are non-family companies is quite small, most smaller firms are family-owned in the US, and family firms predominate in the majority of continental European countries. For example, Faccio and Lang (2002) found that more than 60 percent of all listed firms in France, Italy, and Germany are family firms. According to estimates of the European Venture Capital Association (EVCA, 2005), family businesses represent the backbone of the European economy, as they account for over 70 percent of jobs and contribute to between 55 percent and 65 percent of the Gross National Product of the European Union (EU) member countries. US figures closely mirror these statistics. Similarly, when compared to all other businesses in the world, family businesses contribute a high proportion to Gross World Product (Smymnios, Romano, & Tanewski, 1997). The Superintendencia de

Sociedades (2006) for Colombia claims that of the 19,109 firms on which they have received information, 70 percent are family companies.

2.3 Capital structure of listed companies and family firms

Capital structure refers to the way firms choose to finance their operations, expansion and growth, and there is significant theoretical and empirical work in the fields of finance and economics relating to capital structure decision-making processes of public companies (Chaganti, De Carolis, & Deeds, 1995). Moreover, most of the empirical studies on capital structure have relied upon public information of large corporations with publicly traded securities (Cole, 2013). Among these capital structure theories, there are: Modigliani and Miller's model (1958), Trade-off (Delcours, 2007), Pecking Order (Myers, 1984), Agency (Berger & Udell, 2006), and Signaling Hypothesis model (Chen, 2004).

Modigliani and Miller (1958) initiated the most significant study on the capital structure issue, which was followed by various studies that have been conducted in diverse dimensions of capital structure. Modigliani and Miller's Model (1958) assumes perfect markets and perfect competition, and presents three basic propositions in relation to the debt to equity ratios of companies: first, they posited that financial leverage has no effect on shareholder's wealth; second, that shareholders expect higher rate of return when the debt to equity ratio is higher; and third, that the rate of return that the shareholders expect to receive increases with the higher relation of debt to equity because of higher risk for the investment. However, this model assumes that profit maximization is the only goal of a company, which has been seen as an incorrect assumption as managers also have other goals for their businesses such as, for example, growth

(Grabowski & Mueller, 1972). Due to that limitation, that theory has its constraints when explaining even capital structure in public firms (Myers, 1984).

Another approach to capital structure is the Tradeoff Theory that states that a taxable corporation should increase its debt level until its tax advantages of borrowing against the costs of financial distress is balanced. Debt level is expected to be increased to the limit where the marginal value of the tax shield is equal or lesser to present value of possible financial distress costs (Delcours, 2007). Financial distress is defined “in terms of potential bankruptcy risk using an accounting based index of such risk” (Sudarsanam & Lai, 2001, p. 184). The optimal capital structure under this theory is calibrated to reflect firm characteristics at a given point in time and uses contingent methods to value interest tax shields (Ju, Parrino, Poteshman, & Weisbach, 2005).

The Pecking Order Theory (Myers, 1984) describes a hierarchy of financial choices for a firm, which starts from internally generated financing to debt and lastly, outside equity (Seifert & Gonenc, 2008). The Pecking Order Theory suggests that management would prefer equity financing in favor of debt financing in view of information asymmetry condition and the benefit of reduced transactions costs. Based on this theory, highly profitable firms will tend to use internal funding, whereas firms with low profitability tend to use external financing. Asymmetric information also influences decision making in regards to the selection of sources of financing. Managers with inside information that points at favorable results of investment would favor debt over equity. The decision rule seems to be "Issue debt when investors undervalue the firm, and equity, or some other risky security, when they overvalue it" (Myers, 1984, p. 585).

Family firms are prone to conduct their business using information asymmetry, seeking their own interest prior to that of other stakeholders (Fama & Jensen, 1983). This behavior may lead to moral hazards that jeopardize trust. On the other hand, the assumption that information asymmetry drives the pecking order in family firms has been questioned by Leary and Roberts (2010), who indicate that pecking order behavior appears to be driven by incentive conflicts or agency costs rather than information asymmetry. Trade-off and Pecking Order theories are considered ‘stable mates’ rather than competing theories (Fama & French, 2005; Leary & Roberts, 2010).

Agency theory induces a positive relationship between level of debt and shareholders’ value (Berger & Bonaccorsi di Patti, 2006). There are two forms of agency conflicts: manager-shareholders and creditors-shareholders, where the conflict between manager and shareholders is about fulfilling the respective parties’ individual interest (Berger & Bonaccorsi di Patti, 2006). The creditor-shareholder conflict may occur when managers borrow money to repurchase shares to lower the corporation's share base and increase shareholder return. In this case, stockholders will benefit, but creditors will be concerned given the increase in debt that would affect future cash flows. According to Jensen and Meckling (1976), when debt is increased, the agency costs of equity holders might be reduced and the opposite effect might happen when equity holders increase their capital in the firm. These situations can produce conflicts between debt holders and shareholders (Jensen & Meckling, 1976).

Since not all outside investors of a company have the same information, there are some models of capital structure based on Signaling Models of capital structure, which suggest that managers use leverage to signal firm prospects to poorly informed outside

investors (Ross, 1977). The signaling hypothesis model states that high-value firms are able to use more debt financing because debt has its dead weight costs, which make less valuable companies more likely to fall into bankruptcy – and hence predicts that firms with the best earnings and growth prospects will employ the most leverage. This model states that firms with higher value would use more debt as it has less probability of being insolvent – hence suggesting that firms with high growth rate and large size would prefer debt financing (Chen, 2004).

There are some limitations to these approaches. In the existing international studies of capital structure, most studies are made in different countries with very different legal, regulatory, and market institutions, making it difficult to differentiate firm-level effects from country-level effects (King & Santor, 2008). Additionally, “the modern theory of corporate finance has not been developed with small businesses in mind” (Ang, 1991, p. 1), and, according to Berger and Udell (1998, pp. 615-616), “the private markets that finance small businesses ... are so different from the public markets that finance large businesses.” Moreover, most research has been focused on either public companies or privately held small and medium enterprises with little consideration of family business (Harris & Raviv, 1991). Additionally, not much has been written about how leaders of family companies make their financing decisions (Romano et al., 2000). That leads to the question: What determines capital structure of family business?

In response to that question, Barton (1989), for example, identified that financial, personal and social variables influence family business capital structure decisions. For example, perceived risk, attitudes of the family toward risk, use of internal finances to clear debt, control of the company, age of the firm, debt and equity ratios, and values and

goals of the management in combination with internal and external contextual factors influence family business capital structure. Romano et al. (2000) found that firm size, family control, business planning and objectives are also associated with debt. Romano et al. (2000) also found that equity and retained profits are probably used to achieve growth in sales for owners of large businesses and young firms. Moreover, equity is less preferred for older firms and for those firms that want to retain family control (Romano et al., 2000). In addition, family reputation is more likely to create longer-lasting economic consequences with external parties such as bondholders or banks developing a negative relation between debt yields and founding family ownership (Anderson, Mansi & Reeb, 2003).

Understanding the capital structure of a family firm implies taking into account several additional factors which might not be considered by non-family companies – factors such as agency costs (Berger & Udell, 2006), the “pecking order” (Myers, 1984), cost of capital (Poutziouris, 2001), owners’ characteristics (Pettit & Singer, 1985), and multidimensional returns (Zellweger, 2006). In this section of the literature review, I will consider agency costs and the pecking order approach. Owners’ characteristics and cost of capital will be considered later in the literature review.

2.3.1 Agency costs in family firms

Jensen and Meckling (1976) made it clear that the interests of the company’s managers and its shareholders are not always perfectly aligned. The authors emphasized that the separation of ownership and control creates agency costs, defined by the sum of the monitoring expenditures by the principal (designed to limit activities of the agent), the bonding expenditures by the agent (to guarantee that the agent will not take certain

actions that would harm the principal or to ensure that the principal will be compensated if he does take such actions), and residual losses (as a result of reduction in welfare of the principal caused by decisions of the agent). Agency theory then explains the relationship between principals and agents in business (Gerhart, 2010). According to Villalonga and Amit (2006), the classic owner-management problem described by Jensen and Meckling (1976) represents Agency Problem I, in which a manager's decisions may be oriented to gain personal advantages; for instance, managers avoid relying on external finance because it would subject them to the discipline of the capital market, Myers (1984). The problem is mitigated by the large shareholder's greater incentives to monitor the manager. In Agency Problem II, the large shareholder may use its controlling position in the firm to extract private benefits at the expense of the small shareholders.

To counter or deal with agency relationships, agency costs must be incurred (such as control mechanisms, incentive alignment, etc.). If the large shareholder is an institution such as a bank, an investment fund, or a widely held corporation, the private benefits of control are diluted among several independent owners. As a result, the large shareholder's incentives for expropriating minority shareholders (Agency Problem II) are small, but so are its incentives for monitoring the manager, so we revert to Agency Problem I for those firms. If the large shareholder is an individual or a family, it has greater incentives for both expropriation and monitoring, which are likely to lead Agency Problem II to overshadow Agency Problem I. In fact, because large individual and family shareholders are frequently involved in management as well, Agency Problem I may be eliminated in these firms, (Villalonga, 2004). Altruism and kinship in family firms offset

some of the inefficiencies of the system, making managers more willing to use debt and bear the threat it poses to their individual wealth (Schulze et al., 2003).

Another expression of the agency problem takes place in the conflict between shareholders and bondholders, the so-called risk-shifting problem. Shareholders have incentives to expropriate bondholder wealth by investing in risky, high expected-return projects, whereas bondholders demand higher rents, and insist on protective covenants and monitoring devices, resulting in a higher cost of debt capital (Jensen & Meckling, 1976). Bond investors, however, view founding family ownership as an organizational structure that better protects their interests, and that is why debt costs seem to be lower in family companies (Anderson et al., 2003).

Agency costs are also due to conflicts between debt and equity investors (Myers, 1977). These last types of agency conflicts take place especially when there is a risk of default. The risk of default may create what Myers (1977) referred to as an “underinvestment” or “debt overhang” problem. In other words, high levels of debt can depress spending and investment. Firms with high debt must devote more cash to interest payments, so they have less money available for spending and companies with weak balance sheets might also find it harder to obtain external funds for new investment projects. When these companies can raise external funds, they must pay a higher rate, which increases their cost of investing. In this case, debt will have a negative effect on the value of the firm.

Building on Myers (1977) and Jensen (1986), Stulz (1990) developed a model in which debt financing mitigates overinvestment issues but aggravates the underinvestment problem. The model developed by Stulz (1990) predicts that debt can have both a

positive and a negative effect on firm performance, and presumably both effects are present in all firms. As for value creation, being a family business reduces Agency Problem I costs because ownership and management interests are typically aligned, and obtaining resources might be easier (López-Gracia & Sánchez-Andújar, 2007). If the family holds control in excess (Agency Problem II) through multiple share classes, pyramids, cross-holdings or voting agreements, these mechanisms may reduce shareholder value, with the reduction in value being proportional to the excess of voting over cash flow rights (Villalonga & Amit, 2006). On the other hand, Carney (2005) states that family firms may mitigate agency costs because of their parsimony (capital deployed sparingly and used intensively), personalism (unification of ownership and control in the owner), and particularism (families may employ alternative decision criteria than those based on pure economic rationality). Anderson and Reeb (2003) add the firm's long-term survival and the family's concern for the firm's (family's) reputation as mechanisms to mitigate agency costs.

Yet speculative arguments alone cannot unambiguously predict agency relationships (Morck, Shleifer, & Vishny, 1988). Empirical researchers find it difficult to obtain direct measures of the magnitude of agency costs since they are confounded with a variety of factors that are beyond the control of management (Berger & Bonaccorsi di Patti, 2006). Besides, there is no conclusive evidence that incentive alignment by CEO pay or equity ownership achieves significant organization performance (Nyberg, Fulmer, Gerhart, & Carpenter, 2010). Some family firms reduce agency costs by keeping wages of family members working in the business below market levels, thus risking the loss of valuable human capital to competitors and creating distortions in salary schemes. By

hiring family members, companies feel they need not implement expensive audit process, performance assessment procedures, or alignment strategies such as training or bonuses, based on the expected reliability of people bounded by family ties (Lansberg, 1983).

Exerting tight monitoring systems would have repercussions for familial relations causing misalignment and, as a consequence, increasing agency costs (Schulze et al., 2003).

Extant literature seemingly supports that family firms have lower agency costs of debt (lower debt financing costs) which then raises the question why family firms do not take on more debt as part of their capital structure.

2.3.2. Pecking order approach in family business financing

Myers (1984) posited that, in general, firms meet their financial needs in a hierarchical manner – first, by using internal equity (owner's capital input), followed by borrowing from commercial lenders, and finally, by using external equity (issuing stock). Two bootstrapping mechanisms to finance family businesses stand out: personal assets; and Family Investment Enterprise (FIE). The former calls for resources from family members and the latter is the decision of the family to pool the proceeds after a sale into a common ownership arrangement (McEahern & Winget, 2009). Financing the family firm from inside offers advantages such as coordinating goals and objectives, achieving economies of scale, gaining greater access to investments, diversifying risk, and estate planning efficiencies. Among the disadvantages, the authors mention administrative costs and burdens, lack of privacy, and other family issues. Sinking all of the resources into the family business could put investors in serious financial straits.

When testing pecking order theories, Helwege and Lian (1996) find that all types of firms that can access capital markets do not follow the pecking order approach. On the

other hand, Lopez-Gracia and Sogorb (2008) strongly support the theory that small firms behave differently from large firms when choosing financing for their companies. There are also different academic approaches to the pecking order theory in family firms, including that of Barton (1989), which states that family companies follow a pecking order not only for financial factors but as a means of keeping control in three dimensions: hold a significant part of the capital; retain significant control over the company, which depends on the distribution of capital and voting rights among non-family shareholders, with possible statutory or legal restrictions; and hold top management positions. The financial point of view theory is that family firms strongly stick to the pecking order of financing (Blanco-Mazagatos, Quevedo-Puente & Castillo, 2007; Poutziouris, 2001; Romano et al., 2000; Zoppa & McMahon, 2002). To the contrary, Berger and Udell (1998), for example, found that in later stages of life cycles, not all family businesses choose external debt instead of family debt in order to maintain control as long as possible.

2.4 Dynamics of family life

Family and business can be seen as interpenetrating systems, which can overlap to the point of being considered a single system (Basco & Pérez Rodríguez, 2009). The strong interactions among family and business are innate to family businesses and are the source of the distinctive nature of this type of organization (Pieper, 2010). When referring to dynamics of family life, I include various aspects of family behaviors that affect the business and the ownership of the business, such as: emotional pressures and stress (Craig & Lindsay, 2002); team dynamics and family relations (Astrachan, 2010); decision making processes (Gersick et al., 1997); family control (Anderson & Reeb,

2003); family system behavior (Poza, 2010); family power (Miller & Le-Breton Miller, 2006); family entrenchment (Kroll, Wright, & Theerathorn, 1993); ownership schemes (McMahon & Stanger, 1995); ownership dilution (Schulze et al., 2003); family and conflict (Pieper, 2010); and so on.

The dynamics of family life affect strategic decisions for both the family and the business (Brunninge, Nordqvist, & Wiklund, 2007; Craig & Lindsay, 2002; Dyer & Handler, 1994; Van Auken & Werbel, 2006). Financing entrepreneurship, for instance, entails a certain degree of “irrationality” since some decisions can be affected by emotional pressures through loneliness and stress, and venture performance can be affected by team dynamics (Craig & Lindsay, 2002). Conditions unique to family firms may lead some members to develop a heightened sense of entitlement yet weaken bonds to the organization. Family members’ incompetence, opportunistic behaviors, and/or ethically dubious actions can impede the firm’s success, potentially resulting in a scandal that could lead to the firm’s demise and negative economic impact on employees, customers, and other stakeholders (Kidwell, Kellermanns, & Eddleston, 2012). In this research, I intend to explore how family dynamics and behavioral patterns influence the selection of specific strategies for financing and structuring – in distinct proportions – the capital of the family company and vice-versa. For example, what influences certain families to prefer financing growth with a specific proportion of private equity funds, and others to prefer financing growth with additional bank debt? Likewise, this literature review aims at understanding how the way a family firm structures its financing affects its owning family’s dynamics. For example, resorting to debt to finance growth or expansion may demand collateral or guarantees from family members, an obligation not

all family members may be willing to accept. In the event of default, it might jeopardize family cohesion. Other families would not welcome ESOPs (Employee Stock Ownership Plans) as a financing strategy due to the sensitive family information that becomes open to employees.

2.4.1 Conflict in the family firm

The apparent irreconcilable differences among family members spur conflict. Within the large literature on conflict, referred to as a situation in which seemingly incompatible elements exert force in opposing or divergent directions (Heitter, 1990), two types seem to make a positive contribution to family firm growth: cognitive and process conflict. Cognitive and process conflict are work-related conflicts that are void of negative emotions and thus, thought to be beneficial to performance because they increase options, prevent premature consensus, and foster employee involvement. Cognitive conflict centers on disagreements that are related to the work-at-hand and the strategies being pursued, while process conflict refers to the discussions about who is responsible for which tasks (Jehn & Mannix, 2001).

Another type of conflict is relationship conflict, which refers to interpersonal issues, individual norms and values, and personal taste (Pieper, 2010). It usually involves emotions that emerge from unresolved or uncommunicated situations. Their very emotional nature makes communicating issues difficult, which in turn makes reaching an acceptable level of rationality difficult. Family- relationship-based conflicts arise from different reasons, becoming a hindrance to cohesion, harmony, multigenerational success, and performance. Identity conflicts involve family members' need to differentiate themselves from family expectations and act as autonomous persons; role conflicts center

on degrees of confusion and disorientation among roles when family members work together; succession conflicts, related to owner and leadership issues, are included in this spectrum of relationship related conflicts (Danes, Leichtentrit, Metz, Huddleston-Casas, 2000).

Family cohesion is easily affected by divorce, sibling differences, reciprocal blaming for unfortunate investments, conflict of interests, intromission of in-laws, uneven allocation of family resources, and so on. The combination of conflict coming from within the business and conflict coming from within the family compounds the effects of conflict in family firms (Harvey & Evans, 1994). The dynamics of family firms' conflict is based upon the following features:

- members of a family group of co-workers often fight about issues underlying those over which they claim to be angry;
- reasons for sustaining the conflict are often stronger than the family members' desire to solve the conflict;
- issues at stake are not linear but rather circular or systemic; they usually do not have a cause leading directly to an effect, and they usually are not traceable to one party's behavior at a specific moment;
- the conflict follows a dynamic pattern and the shared long-term goals often override separate interests and sometimes override common material interests (Kaye, 1991).

Kidwell et al., 2012) argue that dysfunctional behavior of family members can be manifested by unethical or obstructive acts that damage the firm. The perception of unfair justice within the family – for example, when a parent finds it hard to discipline poor

performers or shows preferential treatment toward certain family members – can create potential spillover effects on relationships in the family, prompting a proclivity for deviant and potentially unethical behaviors unique in family firms. Family businesses often hire family members who impede the firm by shirking responsibilities and consuming unearned perks, being generally less able, committed, industrious, or ethical – or they have interests less compatible with the firm than the owner anticipated (Kidwell et al., 2012). Matters related to shared vision, values, principles and strategic planning often lead to conflicts because participants may become irrational in seeking what they consider to be right. Conflicts over love, loyalty, the threat of personal loss, and unresolved leadership succession have a capacity to keep returning to the same emotional source to recharge their animosity, creating a dysfunctional family climate.

Outsiders such as potential investors, banks, and venture partners assess these setbacks prior to entering into business agreements of any sort with family businesses. Family conflicts may signal high risks for investors who could counteract risks by requesting collaterals, harsh loan conditions, and high debt rates. From another perspective, families experiencing conflicts become a ground for investors' opportunistic behavior, taking advantage of the feelings of frustration, disappointment, fatigue, and even anger among family members by offering quick and cheap financial fixes to get a way out in exchange for their shares or other assets.

2.4.2 Reputation in the family firm

According to Sonnenfeld and Spence (1989), the level of debt family companies carry tends to be low to avoid damaging family reputation and to prevent losing everything the family has in case of loss of the capacity to repay. Besides, cost of debt

financing is higher for family firms with family member CEOs relative to family firms with non-family CEOs. This may be more attributable to founder descendents than to founder CEOs, due to the fact that descendants are more likely to detract from firm performance (Anderson et al., 2003).

Lenders ponder some features of family dynamics when it comes to collateral requested when acquiring debt. For example, family members having a non-diversified investment portfolio are mainly concerned with the long-term survival of the firm and prefer to pass the firm to their heirs rather than to consume the created wealth (Ang, 1991). Further, family firms are more concerned about the reputation of the firm and their family due to their sustained presence in the firm (Bopaiah, 1998; Anderson et al., 2003). In addition, family firms would also be characterized by a cohesive management structure, self-regulation, and personal contacts with external parties (Bopaiah, 1998). Such characteristics suggest that undiversified family shareholders reduce the risk for bondholders, resulting in lower agency costs of debt. As such, family firms incur a lower probability of pledging collateral or personal commitments.

On the other hand, Voordeckers and Steijvers (2006) found for a sample of small private firms that family ownership increases the likelihood of collateral being required. Private family ownership increases potential shareholder-bondholder agency problems when obtaining high amount loans. Familial altruism could cause higher agency costs because of the higher likelihood of 'free riding' by family members, entrenchment of ineffective managers or predatory managers. Therefore, family firms incur a higher likelihood of having to pledge collateral (Steijvers, Voordeckers & Vanhoof, 2010).

As to the impact of IPOs on the family subsystem, Marchisio and Ravasi (2000) found that besides facilitating entrepreneurship and growth, family companies go public because of visibility and standing of the company. García Pérez de Lema, Duréndez, and Mariño (2011) also found reputation and status as motives for going public, as they may be means to increase the prominence, prestige, and status of company stakeholders. Reputation and social networking are many times motives to go public because doing so can improve the external relations of the company with different stakeholders and bring about internal changes in planning and accounting. However, Brau, Francis and Kohers (2003) concluded that the liquidity effect of the decision to go public is traditionally assumed to be one of the primary reasons for IPOs, particularly in the presence of factors such as industry concentration, high-tech industry affiliation, current cost of debt, relative “hotness” of the IPO market, firm size, and insider ownership percentage.

Yet, despite the existence of the previously mentioned studies on family dynamics and their influence on the capital structure of the family firms, Barton and Gordon (1988), in Zellweger, Frey and Halter (2006), propose that researchers should take a broader managerial perspective which considers nonfinancial and behavioral factors as perceived business risk (Kale, Noe, & Ramirez, 1991; Matthews, Vasudevan, Barton, & Apana, 1994), and also consider individual managerial perceptions and preferences (Norton, 1991); however, Margaritis and Psillaki (2010) still argue that the associations between family business dynamics and the capital structure of family firms has not been put together concisely. For example, might it be that a family in conflict desires capital from outside expert investors to help mitigate that conflict? Or perhaps not wanting to be open about their disagreements, families in conflict might desire to use only internally

generated funds. When does the potential airing of family blemishes outweigh the benefits of an IPO? If there is a highly competitive dynamic in the family, might they be more likely to want access to capital markets so they can more readily afford displays of success?

2.4.3 Family firm's transparency in business

Effective and timely disclosure of reported earnings, corporate governance practices, and early warning for a given magnitude of bad news provide the tools for a more comprehensive assessment of financial risk, a key element for potential investors. Ali, Chen and Radhakrishnan, (2007) reported that earnings are of better quality for family firm as compared to non-family firms. Likewise, the authors mentioned above posited that family firms are more likely to warn about poor earnings through management earnings forecasts. Family firms make less voluntary disclosures about corporate governance practices in their regulatory filings, however, thus reducing the transparency of corporate governance practices to facilitate getting family members on boards without interference from non-family shareholders. The capital structure chosen by the family will then be related to the demands of disclosure of investors/lenders, and the compliance disposition of the family.

Financial theory regarding the cost of capital states that the cost of capital is a market-based function of the characteristics of the investment, not the investor. This theory suggests that a firm's cost of capital does not depend on a "family effect"—the quality of the relationships of the family members among themselves and with the firm. However, not all financial economists' assumptions regarding the cost of capital hold for the family firm (McConaughy, 1999).

2.4.4 Systems models in family business

To understand better the effect of financing structure on family dynamics, I will first describe the family business as a system, and then explore different family dynamic typologies of family companies. To explain the family business organization, Tagiuri and Davis (1982) developed the three-circle system model to represent the interactions that occur within a family business. In their model, the authors define the family business system as three independent but overlapping subsystems: business, ownership, and family. These three subsystems and their overlaps are used to illustrate how individuals in family business make decisions or develop strategies that fulfill the goals of each subsystem and the whole family business. This model also supports our consideration of the associations that occur in a family-owned firm (Tagiuri & Davis, 1982).

Astrachan (2010) suggests that families are systems whose members interrelate with each other, and their attitudes affect the entire system. In addition, families are groups attached by principles, normative values including altruism and reciprocity (Stewart, 2003), and these relational and systemic ties emphasize the importance of understanding properties of the whole, where a single relation can affect the entire system (Cox & Paley, 1997). Even more, the behaviors of individuals can be better understood in the context of the whole system (Poza, 2010).

Correspondingly, other models can also help one to understand how family dynamics affect the company's strategic decisions and vice-versa. For example, Gersick et al. (1997) and Lansberg (1999) characterize different ownership structures and posit that ownership evolves from "controlling" owners to "cousin consortiums," with each stage facing different dynamics and decision making processes in the business subsystem.

Since the owners of family companies are family groups, families and family dynamics affect the strategic process of the business (Astrachan, 2010). When company inefficiencies or succession problems emerge on the horizon, for example, buyouts of family firms become a reasonable option. In many of those cases, the family firm constitutes a potential target for incumbent managers interested in acquiring a controlling share of the company (management buyout). Private equity companies may be stirred by the prospect of bringing in a new and efficient management team to streamline performance or set new bearings (management buy-in) (Scholes, Wright, Westhead, Bruining, & Kloeckner, 2009).

2.4.5 Family business dynamic typologies

Dyer (2003) suggests that not all family firms are alike because of the different dynamics found in families that own and manage their family firms, and he suggests using typologies to present differences and commonalities in organization forms and outcomes of those forms. The typologies presented by Dyer (2003) suggest different types of performance, and the question his model presents could be what typologies are those that lead to better performance. He concludes that family dynamics typology would be a way to understand how family dynamics affects agency costs and family assets based on family typologies.

In the same way, since capital structure is a strategic decision (Barton & Gordon, 1988; Romano et al., 2000), it seems worth using a family business typology that includes decision making to understanding how family dynamics affect decision making about capital structure. In fact, the Constantine (1993) model proposes four types of

families according to its decision-making dynamics. Those family dynamic typologies are:

- The closed paradigm family, in which the family relies on family hierarchy of authority which regulates processes and decision making.
- The random paradigm family, an egalitarian family system where each member has independent thought and action, and where collective needs are met through individual initiatives.
- The open paradigm family, where a democratic approach for decision making is used as the family's collective goals and values are achieved through integrating individual needs.
- The synchronous paradigmatic family, where no family member needs to be told what to do because they have agreements relating to values and goals that regulate family processes and decision-making. It is argued that, in synchronous paradigmatic families, all family members internalize the rules.

I will be using the Constantine model in this project because of its relation to family dynamics and the decision-making processes (Constantine, 1993).

2.4.6 Interconnections of family and business capital structures

Haynes and Avery (1997) suggest that most of the research on small businesses financing overlooks the interconnection of family and business finances in business owning families. Instead, the research focuses on models of profit growth, the risk-tolerance predilections of the owner-manager, and the financial and regulatory structure of corporate financial markets, or it uses samples from the upper boundaries of what constitutes a "small" business (Haynes & Avery, 1997). As for large private family firms,

some more recent studies (Anderson & Reeb, 2003; López-Gracia & Sánchez-Andújar, 2007) do take into consideration family dynamics and their influence on capital structure decisions and vice-versa.

2.4.6.1 Dynamics of family control and capital structure

The dynamics of owning family control and its influence on the family business and vice-versa has been studied by many researchers. For example, Anderson and Reeb (2003) found that combining ownership and control allows concentrated shareholders to exchange projects for private rents. In that way, controlling families may take resources away from profitable projects to satisfy personal interests, forgoing maximum profits for external shareholders. This entrenchment occurs when managers gain so much power that they are able to use the firm to further their own interests rather than the interests of other shareholders.

The same entrenchment phenomena might occur in firms with widely distributed ownership and without large-block owners, where boards may appoint outsiders and are not vigilant or fail to exercise their fiduciary authority over insiders, thus favoring entrenchment (Walsh & Seward, 1990). Family CEOs usually have disproportionate power compared to their share of ownership; they also hold a larger tenure than those in non-family firms (Miller & Le Breton-Miller, 2006). In addition, boards of family firms are usually smaller (Jaskiewicz & Klein, 2007), and are loyal to the family so decisions are rarely questioned (Kroll et al., 1993). These factors also favor entrenchment.

Moreover, family firms are usually risk-averse, and this proclivity makes them prefer less risky financial options (less debt), because an increase in debt increases the risk of loss of family control to banks or investors, default on payments being the worst

scenario (McConaughy, Matthews, & Fialko, 2001). Other studies show how family decisions, when based on a need to maintain control, affect the potential of optimal leverage (McMahon & Stanger, 1995), or the difficult situations family firms may face if they seek control but relinquish outside capital (López-Gracia & Sánchez-Andújar, 2007). These patterns of control dynamics and entrenchment over investment priorities and capital structure posit a challenge to optimal performance, and may affect confidence of non-family investors on the ability of the family to run the business objectively.

Highlights of other studies relating to control and family dynamics include:

- the possibility of improving management successions despite the risk of losing control through Initial Public Offerings (IPOs) (Dig & Pukthuanthong, 2013);
- the cost of going public because of the risks of losing control (Becchetti & Trovato, 2002; Berggren, Olofsson, & Silver, 2000; Gompers, Ishii, & Metrick, 2004);
- the family fear of losing control as their companies go public (Benninga, Helmantel, & Sarig, 2005; Berggren et al., 2000; Giudici & Paleari, 2000; Marchisio & Mazzola, 2002; Marchisio & Ravasi, 2000);
- the considerable control many family companies have even after several years post IPOs (Jaskiewicz, González, Menéndez, & Schiereck, 2005; Marchisio & Mazzola, 2002);
- the importance of the agency costs of equity arising from the separation of ownership and control of firms whereby managers tend to maximize their own utility rather than the value of the firm (Jensen & Meckling, 1976).

To guarantee family control of the firm, families tend to reduce their potential financial resources, thus limiting their entire resource structure. Consequently, this trade-off lacks financial resources that affect the development, growth opportunities, and long-term survival of private family businesses (Blanco-Mazagatos et al., 2007).

2.4.6.2 Dynamics of owners' characteristics and capital structure

Owners' characteristics are important when studying the capital structure and decision making of family companies. Nevertheless, with the limited public information available, studies on capital structure focused primarily on company characteristics until the early 1980s. After the publication of the U.S. Census Bureau's 1982 Characteristics of Business Owners database (U.S. Bureau of the Census, 1987), research on capital structure and financing began to include characteristics of the owners as well as characteristics of the firm.

Age may cause the controlling owner to avoid investments that other family members favor because he or she views the investments as too risky or as personally threatening – in the case, perhaps, of their requiring the controlling owner to learn new skills (Schulze et al., 2003). In terms of gender, women are more likely to choose entrepreneurship as a career for reasons of family stability and flexibility, while men are primarily motivated by growth and wealth (Rutherford, Muse, & Oswald, 2006). Female-owned and operated small and medium size enterprises (SMEs) are less financially successful than male-owned and operated SMEs (Fasci & Valdez, 1998).

As for other owner's characteristics, Bates (1991) used a sample taken from the census database to examine the dollar amount of debt financing incurred by small business owners to find that the owner's age and education influence financial business

decisions. College-educated non-minorities and those with managerial experience consistently received larger loans than other nonminority borrowers, other things being equal. This study also indicates that highly educated owners with large equity inputs meet the conditions bankers consider when they determine the size of the loans, particularly in SMEs.

Business decisions made by a family member/owner who is not employed by the company may center more on dividends, while business decisions made by a family member/employee who is not an owner may focus on expansion and growth (Gersick et al., 1997). Family firms may be headed by owners who look to satisfy more personal goals before financial goals, as opposed to growth-oriented firms that seek growth as a primary goal. Owners that attempt to address family concerns before business concerns often constrain growth and development (Budge & Janoff, 1991). Pettit and Singer (1985) suggested that the capital structure of small firms (not necessarily family-owned enterprises) is determined in part by: the interaction of the owner's preferences for risk and return, because most small business managers have most of both their human and financial capital placed in the firm; characteristics of the firm, such as its legal form of organization, because of tax effects on different types of organizational forms; and the direct (such as higher interest rates, closer banker's relationships, more collaterals) and indirect (such as restrictive covenants, more stringent limitations, direct management assistance from the banks) costs of various financing packages.

Family tensions impact business decisions. Divorce is the most extreme and increasingly common manifestation of "overload" that family members endure in an attempt to satisfy both work and family roles (Greenhaus & Beutell, 1985). Galbraith

(2003) found that divorce had a negative and significant impact on a number of performance measures, including size and profitability. Possibly the most common organizational manifestation of work/family tension is turnover among family members (Beehr, 1995). This is caused initially by role conflict that family members feel between their roles at work and their roles at home. It is magnified by the fact that family members cannot get away from each other since they are often part of the home life as well (Kaye, 1991). This evidence of family/work tension can impede growth and possibly lead to failure. Families are also vulnerable to a form of inertia that can paralyze decision-making and threaten firm survival (Meyer & Zucker, 1989).

In addition, there are other characteristics of business owners that may affect the financial structure and decision making in family companies and vice-versa. For example, Haynes and Avery (1997) contend that the reasons family firms use debt for financing is still debated, and that given the linking of personal and business debt (which banks often require to receive debt financing), the debt structure of small-business owners is probably different from the debt structure of other types of owners. Moreover, aside from their firms' mere size, family firms fear going into the stock market because the legacy the founders wish to leave to their families could be lost along with their privacy (Brau & Fawcett, 2006; Cabrera & Santana, 2001; Crocker, Hartzell, Jarl, & Kallberg, 2008; Post, 2011; Rossouw, 2009; Wu, 2006). As a consequence of this interaction or "peculiar logic" driven by owner managers' personal inclinations concerning growth, risk, and ownership control, the company could be handicapped for competing in the future (López-Gracia & Sánchez-Andújar, 2007). One can conclude,

then, that characteristics of business owners affect the financial structure of family companies and their decision-making, and vice versa.

2.4.6.3 Dynamics of succession and its influence on capital structure and vice-versa

Both in family and non-family businesses, succession is a continuous process that demands new sources of money that can overcome the costly, scarce, and heavily short-term funding (Poutziouris, 2001). Moreover, the capital structure of a family firm is affected by the fact that many families deem survival to be a main concern along with bequeathing assets to descendants. Therefore, they are more likely to maximize firm value rather than shareholder value when a divergence occurs between the two (Anderson, 2003). Schulze et al.'s (2003) work is interesting in this regard as it also points to the relevance of ownership dilution in a succession process as a possible dynamic that impacts the capital structure of family firms. Some regression outcomes, for instance, support a U-shaped relationship between family ownership dispersion and leverage (Bjuggren, Duggal & Giang, 2012).

In terms of family companies, according to Gersick et al. (1997), the ownership of a family firm generally goes through three broad phases of dispersion: the controlling owner stage, the sibling partnership, and the cousin consortium. In the controlling owner stage, founders usually lack access to the public markets, so investments are limited by the availability of funds internally generated (Romano et al., 2000). Small business owners typically have undiversified personal financial portfolios, meaning that much of their wealth is tied up in the business and is therefore illiquid. In addition, because of personal financial guarantees, small business owners do not have the benefit of limited liability, even when the business is incorporated. At this stage, the business suffers from

the problem of imperfect or incomplete information, often referred to in economics literature as the problem of asymmetric information leading lenders and investors to counteract asymmetries by refusing to lend or invest (Coleman & Carsky, 1999).

For the reasons mentioned above, the controlling owners of family firms, and in particular the founders, will at the beginning be very motivated to use debt to finance their chosen investments. Although Harijono (2005) reports that family firms seem to employ, on average, 20% more in debt than non-family firms, Sonfield and Lusier (2004) show that 40% of first generation family firms use equity funding more than debt funding, and that very few of these first generation firms are incorporated. In contrast, Anderson and Reeb (2003) find that insider ownership – either by manager or families – has no impact on capital structure decisions at all. Families employ somewhat less debt (18.42%) than non-family firms (19.34%); however, the findings are not statistically significant.

In the sibling partnership stage, the principal shareholder is not the founder of the family firm, but siblings. Siblings tend to be more conservative when making investments due to their sense of entitlement. They believe that investments may add risk and threaten the value of their anticipated inheritance (Wiseman & Gomez-Mejia, 1998). When ownership is dispersed and the firm enters the sibling partnership stage, debt financing seems to decline. One reason for this may be that the agency conflicts within the family become too extensive as each sibling tries to maximize his or her family's utility. The firm may then be trapped in a status quo-like situation where none of the siblings or the principal will be willing to take on more debt and thus, more risk. As most of the family

wealth is invested in the company, the risk taking is assumed to be minimized by the employment of less debt (Bjuggren et al., 2012).

On the other hand, family firms may employ more debt in order to control the self-interests of the family agents, to limit the negative consequences of altruism within the firm. It is argued that altruism causes parents to increase their generosity, which can result in a dilemma where their children 'free ride' (Schulze et al., 2001). In order to discipline and avoid the free riding problem caused by family members, the usage of debt may be more extensive than the agency theory predicts (Bjuggren et al., 2012). Kaye and Hamilton (2004) likewise believe that descendants are less likely to employ a highly leveraged capital structure, as they are more concerned about wealth preservation than about wealth creation. This conservative orientation also concurs with the stagnation theory suggested by Miller, Le Breton-Miller and Scholnick (2008).

In contrast, other studies show that only 11% of second-generation family firms use equity funding more than debt (Sonfield & Lussier, 2004). In the cousin consortium, ownership is even more dispersed, and it is less likely that a single individual owns a controlling or majority interest in the firm. Inside directors, it follows, should be less concerned with consumption and more concerned about the future value of their assets. The end result is an increase in the alignment of interest that exists among board members and, hence, reduced agency costs. Cousin consortiums' managers are both more willing to use debt to pursue their objectives and, because of the dispersion of ownership, more able (and more likely) to bear that risk (Schulze et al., 2003). In contrast, Sonfield and Lussier (2004) show that 33% of the third generation family firms use more equity funding than debt funding.

Moreover, Molly, Laveren and Deloof (2010) as well as Kaye and Hamilton (2004) establish that the transfer of ownership from the first to the second generation appears to negatively influence the leverage of the company. Nevertheless, Molly et al. (2010) posit that, in later generations of family firms, this effect could be reversed because next-generation family members are often more concerned with wealth preservation than with wealth creation. A result of this attitude can be lower debt for the company and lower orientation toward firm growth because of a lack of external financing (Molly et al., 2010).

Zellweger (2007) suggests that, to family shareholders, ownership and capital are an entrepreneurial legacy to be passed on to the next generation of the family. And while the decision to go public gives outside investors access to company equity and family firm owners risk losing control through an IPO, it is also a strategic decision which improves or overcomes management succession problems. Marchisio and Ravasi (2000) explain that, as generations go by, the number of shareholders increases, and their ties to each other and to the company loosen. The fragmentation of the ownership increases the probability that a family shareholder wants or needs to sell or to exchange stock. Internal factors in relation to the lack of specific skills in family business (Garcia-Perez, 2011) also supports the move to going public as a way to attract professional managers, thus ensuring a most effective strategic direction, and in the long run, the survival of the firm (Ding & Pukthuanthong, 2013; Jaskiewicz et al., 2005; Marchisio & Mazzola, 2002). Other research indicates how going public helps family companies to deal with liquidity needs of senior generations associated with cashing out and paying estate taxes (Astrachan & McConaughy, 2001).

Another example of the influence of capital structure on family business succession dynamics is given by means of an investment of a private equity investor or a private equity fund in a family company. Private equity funds usually invest for short periods of time, or sometimes impose other special requirements. The risks of prompting the exit of this equity investor might reduce the involvement of next generation of family members because their commitment and trust decline (Marchisio, Mazzola, Sciascia, Miles, & Astrachan, 2010).

2.5. Family business differences from non-family listed companies

Family businesses are unique and pursue strategies different from those of other companies (Chrisman, Chua, & Sharma, 2005; Zhara & Sharma, 2004). Habbershon and Williams (1999) posit that the uniqueness of family businesses results from the mixing of family and business life. In its essence, a family firm shows a family's influence over the strategic direction of a firm, the intention of the family to keep control, a particular family firm behavior and unique, inseparable, synergistic resources and capabilities arising from family involvement and interactions. A family's vision and intention for trans generational sustainability leads to the institutionalization of the perceived value of the combined family and business systems. In fact, when compared to publicly held companies, family firms have a long-term perspective (Le-Breton-Miller & Miller, 2006). They sometimes pursue other than merely financial goals such as: the satisfaction of needs for belonging, affect, and intimacy; the perpetuation of family values through the business; the preservation of the family dynasty; the conservation of the family firm's social capital; the fulfillment of family obligations based on blood ties rather than on strict criteria of competence; and the opportunity to be altruistic toward family members

(Gómez-Mejía et al., 2007; Zellweger & Astrachan, 2008). Family firms frequently reach a match of family proprietorship with brand identity (Craig, Dibrell, & Davis, 2008).

Furthermore, family involvement in ownership, management and governance makes family businesses different from non-family businesses (Klein et al., 2005). Families also add distinct family resources to their companies – labor, values, and trust capital – that are difficult to match by non-family companies (Sirmon & Hitt, 2003). Because family firms have a longer time horizon and hold patient capital, they are not as concerned with short-term results as are many non-family firms (Dreux, 1990). Also, the desire to perpetuate the business for future generations provides a special incentive to manage capital (Sirmon & Hitt, 2003). As a consequence, family firms' strategies differ greatly from non-family counterparts.

López-Gracia and Sánchez-Andújar (2007) have obtained results suggesting that family business characteristics lead them to employ financial policies unlike other businesses. Some family firms set their financial policy by a trade-off between tax savings and the likelihood of financial distress derived from debt, as in the trade-off theory. The pecking order theory also explains family businesses' particular financial behavior. These studies indicate that growth opportunities, financial distress costs, and internal resources appear to be the main factors that differentiate the financial behavior of family firms from that of non-family businesses (López-Gracia & Sánchez-Andújar, 2007).

There is also indication that family firms apply longer time horizons in their decision making. According to Ward (1997), family firms often try to pass their firms on to the next generation that will lead the firm (Ward, 1991), and work an entrepreneurial

heritage that spans generations (Cruz, Nordqvist, Habbershon, Salvato, & Zellweger, 2006). Moreover, unlike other shareholders, family company shareholders frequently are committed, patient capital holders, without need for prompt liquidation in the short run (Dobrzynski, 1993). Because of their patient capital, they are capable of pursuing more creative and innovative strategies (Kang, 2000; Teece, 1992).

Family firms may benefit from long-term investments by implementing low cost of capital strategies. As the annual default risk of an investment diminishes with increasing holding period, the risk-equivalent cost of equity capital of firms with longer planning horizons (e.g., family firms) can be lower as well. The perseverance strategy represents investment strategies in which long-term-oriented firms invest in lower return but equal risk projects than their more short-term-oriented counterparts. The outpacing strategy comprises investment projects with higher risk and equal return than those of the short-term competitors (Zellweger, 2007). For example, McMahon and Stanger (1995) suggest that the family's main concern is to pass the company across generations, so family managers will base financial decisions more on how those decisions affect family control than on a complete valuation of complicated financial issues (e.g., optimal leverage). Family businesses also tend to hold conservative financing policies to shield their assets from risks and hand them on to future generations. Conservative financing policies are defined by a stronger preference for using internal resources for financing, less investment in intangible assets, a lower level of debt, a high intensity of capital in the hands of a single family, and a stationary ownership structure – characteristics that direct them toward rejecting the possibility of sharing control of the business with external partners (López-Gracia & Sánchez-Andújar, 2007).

Habbershon and Williams (1999) posit that the uniqueness of family businesses results from the mixing of family and business life. In addition, the dynamics of the family may affect the significance of the non-financial and financial goals (Harris, Martínez, & Ward, 1994). Over time, performance of the company along financial and non-financial goals may affect family dynamics as well (Pieper, 2007; Pieper & Astrachan, 2008).

2.6 The effects of family dynamics on financial/non-financial goals and vice versa

The neoclassical models and theories solely consider financial issues and exclude non-financial concerns (Lubatkin, 2005). Besides, capital structure and financial behavior seem to deviate from the neoclassical paradigm, because behavioral finance appears to provide more appropriate explanations of financial managers' behavior (Vasiliou & Daskalakis, 2009). Furthermore, research shows that owners of family companies not only have financial goals, but other goals apart from financial goals (Anderson & Reeb, 2003; Gomez-Mejía, Nunez-Nickel, & Gutierrez, 2001), and those goals do not necessarily benefit the business itself (Pollak, 1985). This characteristic is important because, according to Stonehill, Beekhuisen, Wright, Remmers, Toy, Pares, and Bates (1975), traditional theories prescribe that a firm should choose its debt ratio only to minimize cost of capital and to achieve the financial goal of maximizing the shareholders' wealth; these are theories that do not take into consideration other than financial goals.

There are many examples of non-financial goals family businesses might have. Those non-financial goals relate to employment of family members (Chrisman, Chua, & Zhara, 2003), emotional health and family cohesion (Pieper, 2007), respect and

reputation in the community (Ehrhard & Nowak, 2003; Khatri & Ng, 2000), brands that bring recognition to the family (Demsetz & Lehn, 1985), legacy values in certain traditional business of the family (Sharma & Manikutty, 2005), socioemotional wealth (Gomez-Mejia et al., 2007), opportunities for future family generations that do not make sense from a pure financial perspective (Fama & Jensen, 1983a), and lowering risk for the family by means of diversification into other business activities not necessarily value driven from a financial point of view (Gomez-Mejia et al., 2007). These non-financial goals are not always analyzed (Zellweger, 2006), and not much attention is given to how these non-financial goals affect the capital structure of family firms.

Another important issue is that the owning family's financial and non-financial goals may change over time according to the family age and the stage of the business lifecycle (Churchill & Lewis, 1983; Robinson, Pearce, Vozikis, & Mescon, 1984; Ward, 1987). Early in the life of the business, owners must spend time positioning the firm in the market, and as it ages, owners redirect their energies to managing the entity (Ward, 1987). Zellweger (2006) presents evidence that company owners often tend to give value to many emotional factors and substitute them for financial outcomes. As this happens, and owners follow non-monetary goals such as prestige, independence, employment for family members (Sharma, Chrisman, & Chua, 1997), these owners' subjective needs and preferences may end up skewing positively or negatively the cost of capital (Zellweger, 2006). For example: as family companies strive for independence, owning families may become averse to projects characterized by low independence (in terms of equity levels), but high returns. The projects accepted by these families will likely be chosen according

to the independence in the way they can be financed, even if the projects have a higher cost of financing (Zellweger, 2006).

Worth analyzing is how the high exit costs of leaving the family business impact the behavior of family members and particularly inside directors and family shareholders. There generally are not liquid markets for private family business stock, and selling shares means relinquishing rights and benefits, not to mention foregoing or reducing the share expected as inheritance. The socio-emotional costs are also high when a family member employed in the business leaves the company: loss of intimacy, reduced status, breaking familial expectations, and severing family ties. These high costs tend to lock shareholders and family employees into a firm, making the conflicts that arise more persistent and a convergence of interests more difficult to achieve (Schulze et al., 2003).

2.7 The effects of family dynamics on the cost of capital

McConaughy (1999) posits that, according to modern finance theory, cost of capital is an opportunity cost in the sense that it can be the return gained in a similar project in the firm, or seen another way, the return that an outside investor expects to receive when investing in the firm. It is a combination of the cost of borrowing and the return expected by investors or potential investors. This is called the weighted average cost of capital (WACC). The cost of capital to a firm is also a hurdle rate: the minimum rate that an outsider investor will expect to have when investing in the firm (McConaughy, 1999).

Furthermore, knowing the cost of capital is necessary in financial decision making because it is a benchmark for performance, and assumptions are made that economic value to shareholders is created when firms invest in projects with returns above the

associated cost of capital (Copeland, Koller, & Murrin, 2000). If the hurdle rate is set too high, it might happen that many good projects will be rejected simply because they do not achieve the minimum set rate. Similarly, if the hurdle rate is set too low, projects that are not good will be accepted and losses for the company will occur (McConaughy, 1999).

The capital asset pricing model (CAPM) (March & Shapira, 1987), considered as a standard formula for calculating the cost of the equity capital of a project, has some important hindrances when traditional cost of capital is applied to a family business. Among those hindrances is the assumption of constant risk aversion, knowing that when families pledge personal collateral, most of their family estates are invested in the family firm. CAPM is based on diversified investments, but family investors are generally undiversified, having large amounts of their capital tied up in their firms. Their investment is then undiversified. Family firms have a strong preference for control, but CAPM is more oriented toward minority shareholders' interests. Likewise, CAPM assumes inexistence of information asymmetry, but family firms might have more information than non-family shareholders (Zellweger, 2006). Other shortcomings include the validity of beta (a statistical indicator of past volatility of cash flows) in the cost of capital formula, the reliance on historical data, and the irrelevance of the holding periods of the investment (McNulty, Yeh, Schulze, & Lubatkin, 2002). Zellweger (2006) adds to this line of research that the long-term investments horizons of family firms are a source of competitive advantage because of decreasing the risk of the investment in the long run. Zellweger (2007) proposes that firms with a longer time horizon for investments can apply a lower cost of equity for investments, can invest in riskier projects, and can invest in lower return projects than more short-term oriented firms and still have the same

shareholder value. This last issue along with the above-mentioned issues should be considered when computing the cost of capital in a family firm. Finally, another problem is that when applying CAPM to private businesses, the assumption must be made that the business would be valued in line with the listed companies upon which betas are determined and market values are set, and that may not be the case at all (for example, family members employed and family control may greatly reduce the valuation a market would place on a business) (McConaughy, 1999). The cost of capital of family firms has been questioned for many years. For example, De Visscher, Aronoff, and Ward (1995) suggested revising the traditional Capital Asset Pricing Model (CAPM) to include in the cost of equity capital two additional factors: an illiquidity premium (IP), and a family effect (FE). The traditional CAPM was suggested to be affected in the equity capital formula by FE so that $CAPM \times (1-FE)$ where FE could go from 0 to 1, where 0 stands for a restless family or litigious group, and 1 for a family perfectly dedicated and committed to its firm. There is a major shortcoming with this methodology which is not easily solved because of the subjectivity of the family effect factor. A family effect correction indicates a measure of the cost of accepting returns lower than the average market's estimate of the cost of capital, that is, the opportunity costs of its actions. For instance, the family might be content to let a family member run a division because that member derives a great deal of joy from it, despite the fact that others might be better at the job (McConaughy, 1999).

In addition, Adams, Manners, Astrachan, and Mazzola (2004) studied what they considered to be the most difficult component of the cost of capital in the privately owned company, referred to as the cost of equity. The authors argue that the cost of

equity can take any value from one determined using a public company model to the “gut feel” the family members want to have as their return for their investment. Adams et al. (2004) encourage private company leaders to recognize the fact that the cost of equity is simply an expression of their expectations.

Adams et al. (2004) propose that the cost of capital for the equity for private company investors depends on their aspiration goals for growth of the business, and the ability of the business to fund their own liquidity or payout in dividends. In other words, for cost of capital of private companies, Adams et al. (2004) propose equating its goals for growth and payout to its cost of equity. This view, according to Zellweger (2007), is in part discretionary, and it challenges the traditional arguments of traditional finance. Traditional finance would argue that if the investment underperforms the market, the family shareholders would exert pressure to allocate their money in the capital market at higher returns. Zellweger (2007) argues that if the cost of capital can be determined by the owners' requirements, family shareholders are free to substitute monetary goals for non-monetary goals (prestige, family employment, etc.). Adams et al. (2004) go even further when stating that the cost of equity is generally an expression of the expectations of investors.

2.8 The effects of sources of capital on future outcomes

Romano et al. (2000) contend that modern theory of capital structure and its effects on company value is based on the seminal work of Modigliani and Miller (1958), whose theory assumed perfect markets and competition with the necessary information made available. Modigliani and Miller (1958) argue that changing capital structure alters not the value of the firm, but the ways in which the cash flow proceeds to the different

investors. These concepts, however, have little application to family companies, because managers of these companies have other goals in addition to shareholder wealth for their companies, for example, building something for the family, lifestyle needs and personal challenges (Chaganti et al., 1995).

However, in the long run, the appropriate selection of financing sources would have an impact on the selection of the firm's strategy and even on company value (Faleye, Mehrotra, & Morck, 2006). How to craft a capital structure to maximize shareholder wealth is a question that has gained prominence within the strategic management field because of the apparent link between capital structure and the ability of firms to elaborate appropriate strategies to compete and achieve their goals (Simerly & Li, 2000). Masulis (1983), for instance, developed a model based on corporate finance theories which relates firm value to corporate structure. He concludes that changes in stock prices positively relate to leverage changes and those changes in firm values positively relate to changes in firm debt level, supporting the view that the selection of financing source certainly affects firm value.

Romano et al. (2000) developed a model in which family businesses fund their companies from multiple sources and their decisions turn into complex systems that include not only financial but behavioral and social factors. In their model, for instance, service industries and firms whose owners' objectives are to create a lifestyle business and who plan to achieve growth through new product or process development are likely to utilize capital and retained profits as a source of business finance. Romano et al. (2000) also provide empirical support of interactions among owners, firms and family characteristics influencing capital structure.

This bottom up study will help elicit the criteria that top executives of outstanding family firms apply to select financing sources or a combination of them. In particular, it would bring light to the contractual features used to finance their strategic plans with resources from within (interest rate, type of lender, repayment conditions, etc.), and similarly, what the features of family equity are (dividends, investment horizon, required return respectively expected costs of capital, etc.).

2.8.1 Ownership effects on future outcomes

Myers (2001) and Mahrt-Smith (2005) postulate that there are connections between capital structure and ownership structures that influence firm value, although these arguments are difficult to test empirically, according to Berger and Bonaccorsi di Patti (2006), because of confounding factors beyond the control of management. As the authors posit, tests of the agency theoretic hypotheses in the literature generally use financial ratios, stock market values, or some combination of these to measure performance. Such measures usually do not net out the effects of differences in exogenous firm-specific factors beyond management control that may affect performance and which may be confounded with agency costs, factors such as measures of local market prices, firm size, variance of earnings, market concentration, and the regulatory environment.

The relationship between ownership structure and firm performance can be quite different across companies. For example, large ownership stakes reduce the value of the firm due to reducing the probability of bidding by other agents (Barclay & Holderness, 1989). An existing block holder thus represents a substantial impediment to an outsider's obtaining voting control and is able to extract a premium for his block in exchange for

transferring control (Barclay & Holderness, 1989). Other studies also argue that holders of large blocks may negatively affect firm value as they may abuse their position of dominant control at the expense of minority shareholders (La Porta, Lopez de Silanes, Shleifer, & Vishny, 1999). On the other hand, Mello and Parson (1998) posit that ownership structure is an important cause of firm value due to the fact that active investors with large shareholdings play an important role in supervision, which raises the value of the firm and also increases the efficiency for market control.

Extant research shows that family firms outperform non family-owned companies, with ownership being one of the key factors (Anderson & Reeb, 2003; Mazzi, 2011). Family firms have a more parsimonious use of capital, employ more unskilled, cheap labor, use less capital, pay lower interest rates on debt and initiate more profitable acquisitions thanks to their longer horizons; heirs can manage their labor force more efficiently (Sraer & Thesmar, 2007). Firms managed by a descendant of the founder pay significantly less to their managers, and turnover for heirs is less likely than is turnover for professional CEOs in family firms (Sraer & Thesmar, 2007).

In fact, Zellweger (2007) posits that a large share of equity such as that held by a family shareholder will outperform low yield securities because the risk of future outcomes is generally subject to the law of large numbers (the average of the results obtained from a large number of trials should be close to the expected value, and will tend to become closer as more trials are performed). Moreover, Sraer and Thesmar (2007) hypothesize that family firms largely outpace publicly held businesses even in different ownership generations. According to these authors, this result holds for founder-

controlled firms, for professionally managed family firms, and more unpredictably, for firms run by the offspring of the founder.

Adding to the existing literature, Anderson and Reeb (2003) indicate that the relation between family ownership and firm performance is not uniform across all levels of family ownership. They find that performance (using both market and accounting measures) first increases and then decreases based on what level of ownership the family has. When families have the greatest control of the firm, there is a potential for entrenchment and poor performance as it was posited before when relating the dynamics of family control and capital structure.

2.8.2 The effects of private equity funds on future outcomes

Private equity investors are another important source of capital in a family firm (Upton & Petty, 2000), but literature concerning either its effects on future outcomes or the post-listing effect of the relationship between family businesses and private equity investors is relatively limited. Most studies of private equity examine management buyouts or management buy-ins rather than minority investments by private equity investors (Wood & Wright, 2009). In particular, such relationships previously have been analyzed from a unilateral perspective, typically dealing with the entrepreneurs' point of view, not from the entire family business perspective (Astrachan & McConaughy, 2001; Marchisio & Mazzola, 2002). Sometimes the underpinning reason for seeking an investor is to consolidate control, for example, buying out a family member with conflicting views or concentrating ownership in one branch of the family, which, it was argued, would free up decision making within the family firms (Tappeiner, Howorth, Achleitner, & Shraml, 2012).

Among the private equity literature on effects of private equity on future outcomes, Astrachan and McConaughy (2001) find that venture capitalists in closely held IPOs impact performance (Return on Equity), and when private equity funds invest in family companies before going public, their investment creates market credibility because of the expertise and connections of private equity players, and because insiders become more accountable to investors, which in turn increases firm value. Private equity also promotes family business efficiency, reduces risk-aversion proclivity and the use of short-term debt (Schulze et al., 2003). Furthermore, private equity investment in a family company is viewed as a sign of the company's quality (James, 1987). Achleitner, Herman, Lerner, and Lutz (2010) examined the Messer Group, a family-owned German company that evolved from manufacturing acetylene generators and lighting fixtures to producing chemicals for Hoechst (now Aventis) and becoming a world leader in gases and cryogenics; their study helps to explain how corporate governance is changed by means of the investment of a private equity fund and how it helped to create company value. The private equity firm had an influence on operational as well as strategic decisions through their presence on the supervisory board and in the shareholder committee. The deal introduced a management incentive program, and forced divestitures leading to reductions in employment. Differences in the time horizons and priorities of the private equity firm and the family became apparent. The case showed that even though ownership was equally concentrated prior and post-buyout, the deal initiated important changes in how management was supported, monitored, and incentivized, leading to operational improvements in the firm. Along this line, Marchisio et al. (2010) suggest that, incidentally, private equity used to fund corporate ventures may also nurture

innovative actions (passion, management, decision-making, leadership), and help to organize the next generation members. In addition, family holdings allow spin-offs or new ventures that promote entrepreneurship, and favor succession strategies to avoid jeopardizing the financial and social well-being of the family's core business.

However, in contrary findings, a study of listed Italian family businesses by Viviani, Giorgino, and Steri (2008) concluded that being a "family-owned" company does not impact market performance. Consequently, there is insignificant evidence as to the value of private equity funds holding participation in the authors' sample of Italian family firms prior to going public. Additionally, the private equity drive has been connected to asset stripping and short-term actions, and as a consequence, financial and economic returns achieved sometimes have unfavorable implications for research and development, investment, managerial practices, and employment (Wright, 2013).

2.8.3 The effects of Employee Stock Ownership Plans (ESOPs) on future outcomes

ESOPs have gained increasing importance due to government and executive manager support (Carberry, 2011). Governments encourage employee ownership because of the macro-economic effects on economic growth and employment (Weitzman, 1985), and executive managers because of the effect on productivity, cooperation, and information sharing (Blasi, Conte, & Kruse, 1996). This view has both encouraging voices that support this form of equity, and negative voices that claim contrary propositions.

Among the support voices for ESOPs as a way of collecting equity for companies and their future outputs, Liu, Tao, Li, and El-Ansary (2008) contend that this form of ownership gives to the collective owners and the various partners the necessary elements

to build and enjoy trust capital, and to produce positive economic firm performance (Blair, Kruse, & Blasi, 2000; Park & Song, 1995; Quarrey & Rosen, 1987). There is also empirical support that contends that employee ownership has positive future outcomes on employee conduct such as enthusiasm, job satisfaction (French & Rosenstein, 1984; Hammer & Stern, 1980; Klein, 1987), and a superior level of task involvement (Frohlich, Godard, Oppenheimer, & Starker, 1998).

An opposite view held by Guedri and Hollands (2008) proposes that the relationship between employee ownership and firm performance is much more complicated than often described. Their theoretical framework proposes that employee ownership at certain levels may become a motive for agency cost. That might happen because employees' attention to maximizing their own interest against the collective value maximization tends to reduce efficient outputs and control mechanisms. Depressed productivity may simply reflect labor using its voice to enhance its labor-leisure trade-off to attain greater leisure. However, it might also reflect depressed investment in innovation, which might erode the value of current labor's firm-specific human capital (Faleye et al., 2006). Moreover, Ehrhardt and Nowak (2003) posit that labor uses its corporate governance participation to maximize their own equity interests, wages and benefits, and that this often shoves corporate policies away from, rather than toward, share value maximization for all shareholders.

Furthermore, there are some other thoughts on the inefficiency of outputs when employees have a stock representation in the company's equity. Jensen and Meckling (1979) consider institutional representation of employees to be a source of inefficiency in outputs in self-managed firms because their economic horizon differs from that of

investments, and because of management and labor entrenchment. Additionally, Falaye et al. (2006) contend that employee ownership has a negative influence on investment, risk taking, growth, and the creation of new jobs.

In some family businesses, ESOPs have become a means for transferring ownership to employees and gaining tax deferred liquidity (Dreux, 1990). However, family owners might be reluctant to use ESOPs because of the concern over dilution of equity stake (Villalonga & Amit, 2009), and because that dilution of equity can distress the family and negatively affect their financial position (Gomez-Mejía, Makri, & Quintana, 2010). Despite the reluctance of family business to relinquish control of the business by means of ESOP programs (Villalonga & Amit, 2009), family businesses are also inclined to have motivated employees to maintain a competitive advantage aligning employee interest and shareholder's intentions (Le-Breton Miller & Miller, 2006). ESOPs might be a way to motivate and increase the productivity of the work force (Pfeffer, 1995), and diminish monitoring costs (Daily & Dollinger, 1992).

2.8.4 The effects of Initial Public Offering (IPOs) on future outcomes

Research on how family-owned business performance behaves after an IPO is scarce (Jaskiewicz et al., 2005), as is the effect of ownership structure in any specific IPO context (Chahine, 2007). Mazzola and Marchisio (2003) recognize that going public increases shareholder diversification and Carney (2005) contends that keeping ownership in the family limits the firm's financial resources, restricts its resource structure, and inhibits its growth. Moreover, companies going public obtain equity for further growth (Ding & Pukthuanthong, 2013); thus, going public is a way to access another financing source that can fund growth (García-Pérez-de-Lema et al., 2011).

Other studies suggest some of the effects of going public include: making possible funding specific projects (García-Pérez-de-Lema et al., 2011); lowering a company's debt-equity ratio (Ding & Pukthuanthong, 2013); enabling shareholders to hold a more diversified portfolio as well providing additional funds for new investments (Harjoto & Garen, 2005); offering companies an external financing alternative that diminishes the bargaining power of financial institutions (Rajan, 1992); providing a substitutive financing source from bank financing with a lower cost (Holmstron & Tirole, 1993). In addition, through the liquidity provided by IPOs, family firms access an alternative financing source and avoid credit rationing, which can help guarantee the survival of the firm (Bessler & Bittelmeyer, 2008; García-Pérez-de-Lema et al., 2011). Finally, the García-Pérez-de-Lema et al. (2011) study found that strong family involvement has a positive impact on the long run stock market performance of initial public offerings.

As can be observed through this literature review, I have consulted existing literature on family dynamics and capital structure of the family firm without judgment, and I have become acquainted with current state of literature on the subject. Since the family business is the basic unit of analysis in this study and there is such a wide array of working definitions for family companies, I proposed to operationalize a specific family business definition, and to make that the definition used throughout the research process. I chose the F-PEC scale (Klein et al., 2005) for the family business definition, which will give me a continuous assessment of family involvement instead of dichotomous distinction. Then, I reviewed the different approaches of capital structure, most of them related to public companies and large corporations, and concluded that other variables such as agency costs and pecking order approach also influence family business capital

structure decision making. With a better understanding of the existing literature both on capital structure and family dynamics, the variables that influence capital structure decision making, and a specific family business definition in place, I now focus on constructing a solid, effective research design to explore how family influence and family dynamics affect capital structure decisions in family firms and the effects of those decisions and firm performance on the owning family.

CHAPTER 3: METHODS – QUALITATIVE RESEARCH DESIGN

“Theory building seems to require rich description, the richness that comes from anecdote. We uncover all kinds of relationships in our ‘hard’ data, but it is only through the use of this ‘soft’ data that we are able to ‘explain’ them, and explanation is, of course, the purpose of research. I believe that the researcher who never goes near the water, who collects quantitative data from a distance without anecdote to support them, will always have difficulty explaining interesting relationships” (Mintzberg, 1979, p. 113).

The overall purpose of this study is two-fold. On one hand, the thrust of this inquiry is to explore how family influence and family dynamics affect capital structure decisions (sources of equity and debt financing and levels of debt and equity financing). On the other hand, this research aims to explore the practical effects of capital structure decisions on family dynamics. To fulfill these goals, I had to obtain a clear understanding of the capital structure process and how capital structure affected their family dynamics. I also had to understand how these decisions affected family dynamics.

Hermanson (2013) deems qualitative work as the most creative of any research, since it allows one to understand a process, elucidate underlying thinking, perceptions,

and anecdotes, appreciate subtle and sometimes conflicting considerations, and greatly deepen the theoretical understanding. In addition, since research on capital structure of private companies and how these strategic options affect family dynamics is in its infancy, one method for delving into embryonic stages of research is to start with qualitative approaches in order to identify the interactions and interrelations among concepts (Parry, 1998). It merits a qualitative approach to research when little investigation has been made in a topic and especially when the specific variables and important variables to examine are not known (Creswell, 2013). Ultimately, after identifying general theories and yielding initial ideas, quantitative research may develop the literature further through empirical and quantitative testing (Parry, 1998).

This study took place in the South-American country of Colombia, with 11 Colombian family companies as a purposeful sample. Although the sample was restricted to Colombian family companies, some of them multilatin firms, this study contributes to a better understanding of family firms for emerging markets in general. A study by González et al. (2012, p. 627) states that “Colombia is a representative capital market in Latin America from a financial development perspective,” and according to Robert Ward, Global Forecasting Director of the Economist Intelligence Unit (EIU), Colombia has been included as one of the second generation of emerging markets (CIVETS: Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa), with controlled inflation, and stable financial systems.

As posited before, qualitative research is helpful, and sometimes necessary, for exploring local meanings (Bartunek & Seo, 2002), and in the context of this study, for exploring how family influence and family dynamics affect capital structure decisions

and the interactions that create these decisions. Cook and Campbell (1979), well-known advocates of quantitative and experimental approaches in behavioral research, state that “Field experimentation should always include qualitative research to describe and illuminate the context and conditions under which research is conducted” (p. 93). Many quantitative approaches implicitly assume the same meaning for predefined variables across different locations. Qualitative approaches, on the contrary, attempt to increase understanding of local perceptions, to “explicate the ways people in particular settings come to understand, account for, take action, and otherwise manage their day-to-day situations” (Miles & Huberman, 1994, p. 7). Exploration of local meanings by mechanisms of qualitative approaches offers the possibility of stimulating the development of new understandings about the variety and depth with which organizational members experience important organizational phenomena (Bartunek & Seo, 2002). Echoing Bartunek and Seo (2002), the variety and depth to which family members, non-family employees and other stakeholders in family enterprises see capital structure phenomena and their relations with family dynamics is at the core of this project. Utilizing the qualitative approach allowed me to gain in-depth understanding of the relationships and processes involved in family business financing and provided answers to how family influence and family dynamics affected capital structure decisions and vice-versa.

I do not pretend to give explanations of variances in my findings in statistical terms, but the qualitative method I used supplied the data which enables me to give richer explanations of how and why different financing strategies and processes affect the dynamics of the family and vice versa, adapting concepts from Markus and Robey

(1988). Markus and Robey (1988) apply the differences between variance and process theories to explain causality. While variance theories posit a clear relationship between an antecedent and the corresponding effect, process theory asserts that the outcome can happen only under the antecedents, but the outcome may also fail to occur.

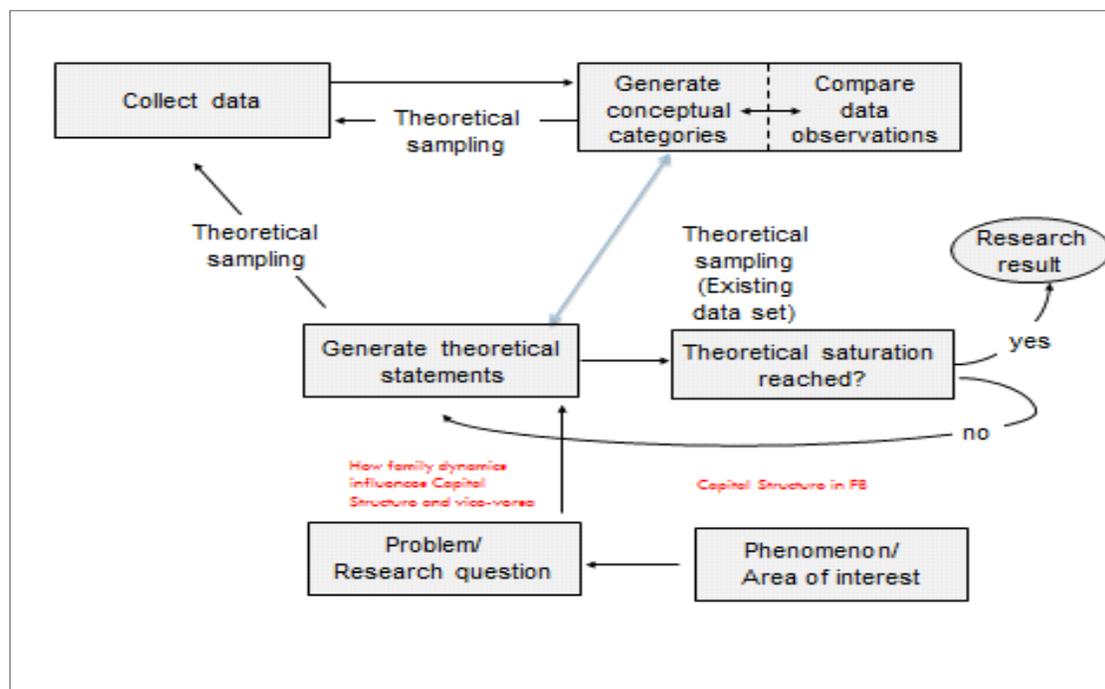
Finally, in pursuing an explanation of how financing decisions in family business influence family dynamics and vice versa, I give a rich and substantial description of this process by means of a qualitative study, using in-depth interviews and studying companies in depth (Hoff, 2013). I hope to make a positive contribution to the family business field not by changing the overall system, as Hermanson (2013) posits, but by turning dispersed individual narratives of success and non-success into meaningful and overarching frames to help family firms understand and decide on the best capital structure to support their businesses without jeopardizing their core family values.

3.1 The grounded-influenced (GT) theory approach

Strauss and Corbin (1998) maintain that grounded theory research provides an improved understanding of a phenomenon about which little is known. Stern (1995) also asserts that a grounded theory approach is appropriate to investigate an uncharted area or to gain a fresh perspective on a familiar situation. Following the grounded theory approach, I uncovered relevant conditions and explored how individuals respond to them and the consequences of their actions (Corbin & Strauss, 1990). This is GT-influenced research, and while the Glaserian and Straussian (1967) approach informs my thinking, I applied Gioia, Corley and Hamilton (2013) methodology to bring qualitative rigor to this research.

The grounded theory (GT) process (see Figure 1 below), which highly influences this research, is a way of generating theory based on conceptual ideas. Those ideas came from participants' main concerns, how they deal with them, and my interpretation of how and why individuals do the things they do. Figure 1 shows how the data collection,

Figure 1. Grounded Theory (GT) Process



Source: Lock (1996, p. 240) and Pieper (Qualitative Methods Class, Kennesaw State University, Fall 2013).

coding, interpretation, and sampling overlap continuously until sample saturation was reached and the concepts collected start repeating. Two analytic operations occurred simultaneously: constant comparisons and theoretical sampling. As soon as I collected data, the data was coded and I decided if more data collection (theoretical sampling) by means of events, activities, interviews, etc., was necessary. When considering financing the family business, initial questions that arose tended to be what the current state of the capital structure of the family business is, and how participants (family managers, non-

family managers, family shareholders, etc.) are dealing with the state of that capital structure.

Several pieces of the process of building theory from GT research have appeared in the literature. One is the classic work on grounded theory development by Glaser and Strauss (1967) and more recently, that of Strauss (1987). These authors have detailed their comparative method for developing grounded theory. The method relies on continuous comparison of data and theory building with data collection. It emphasizes both the emergence of theoretical categories solely from evidence, and an incremental approach to case selection and data gathering.

Glaser and Strauss (1967), moved by the constant use of hypothetic-deductive research at that time, help to solve many problems researchers encountered, according to Casto (2014). Researchers used to collect data from interviews, observations and other methods, and lacked consistent procedures to mold data into theory. Developing different procedures to solve that problem, Glaser and Strauss (1967) found one solution in the GT approach.

According to Glaser (1978), data of all sorts are a fundamental input for GT. All data that the researcher is exposed to when studying a certain phenomenon could help the researcher generate concepts and theory. Not only interviews and observations, but lectures, seminars, newspaper articles, surveys, or statistical analysis are means to develop theory. "All is data," the Glaserian method dictum claims (Glaser, 2001, p. 145). Grounded Theory can happen in different ways (Glaser, 1998). The GT method emphasizes induction or emergence and the individual researcher's creativity within a clear frame of stages.

On the other hand, Strauss (1987) was more interested in the validation criteria and a systematic approach aiming at the generation of theory. Before Strauss' death in 1994, Strauss gave an interview and named three basic elements he believed every grounded theory approach should include (Legewie & Schervier-Legewie, 2004). These three elements are:

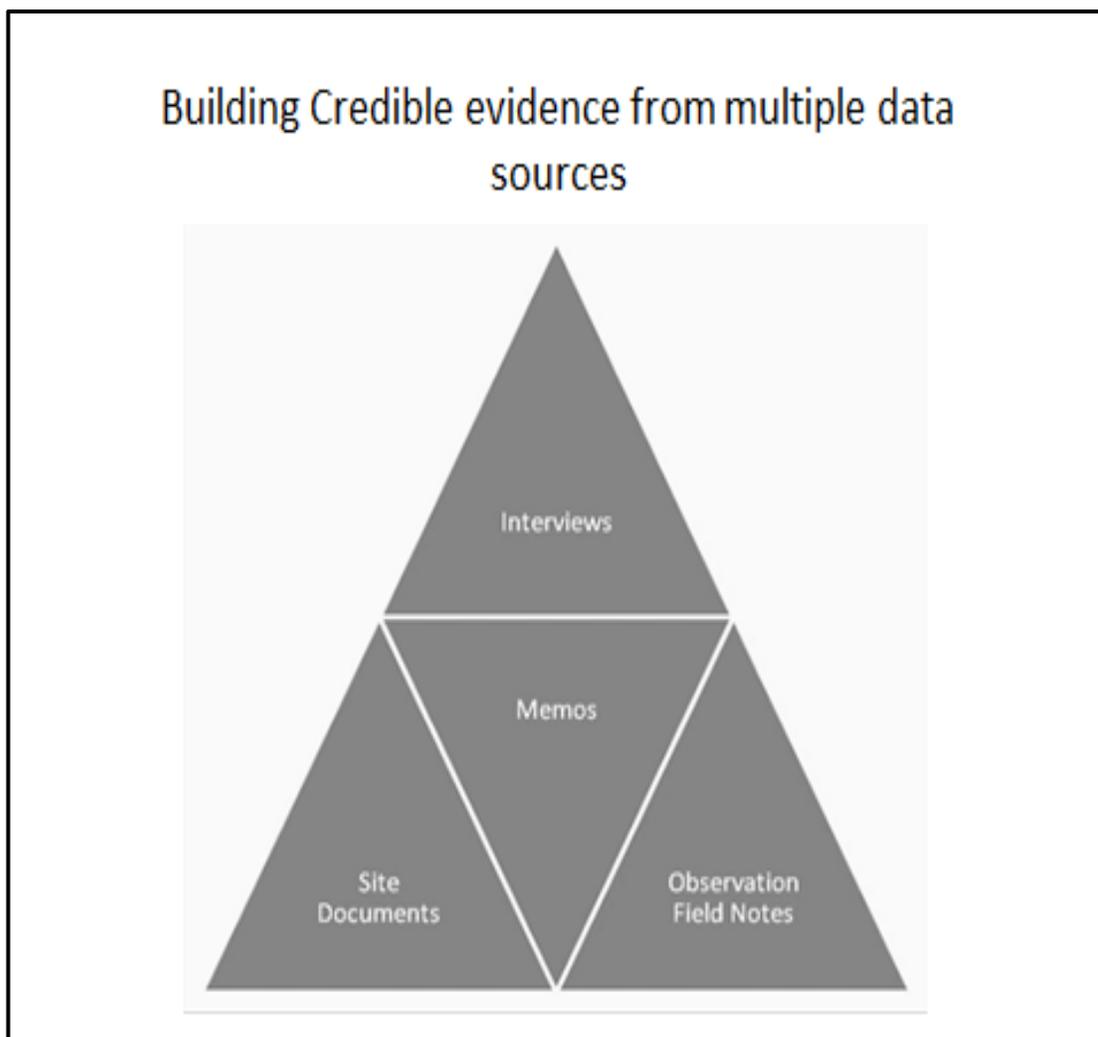
- Theoretical sensitive coding, that is, generating theoretically strong concepts from the data to explain the phenomenon researched;
- Theoretical sampling, that is, deciding whom to interview or what to observe next according to the state of theory generation, and that implies starting data analysis with the first interview, and writing down memos and hypotheses early;
- The need to compare between phenomena and contexts to make the theory strong.

3.2 Data collection methods

To collect my data, I relied on several distinctive data sources (Martin, 2011): interviews with several levels of informants using a minimum, as possible, of one owner, one employee close to the family, and one more person (owner/non-owner) from a different generation from 11 companies; site documents (archival data, annual reports, internal documents, press releases, and websites); and observations and field notes. Then, I triangulated data (see Figure 2 below) to improve objectivity (Mitorff, 1972), to diminish potential biases (Huber & Power, 1985), and to improve the robustness of the resulting theory (Jick, 1979).

Although the analysis of the data collected is explained later, I always had in mind that analysis was necessary from the start, because all the information and observations

Figure 2. Building credible evidence from multiple data sources



Source: Kaczynski, Salmona, and Smith (2013)

collected were used in the next observations and interviews (Corbin & Strauss, 1990). I analyzed first data collected seeking for cues that improved the next gathering of information and data triangulation to capture relevant aspects as soon as they were perceived. When triangulating data, I gave particular attention to the inclusion of all three sources of data represented in Figure 2. This comprehensive use of data triangulation

enhanced the credibility and trustworthiness of the study with connections of evidence to the study design, analysis, and interpretation of findings (Anfara, Brown, & Mangione, 2002).

Gibbert and Ruigrok (2010) also suggest three strategies by means of comparing articles in several journals to address rigor: the first one has to do with concrete research actions rather than abstract criteria; the second suggests that rigor has to do more with internal and construct validity over generalizability as well as reliability; and third, extensively reporting emerging strategies to ensure validity. Case studies also emphasize external validity instead of internal and construct validity (Gibbert, Ruigrok, & Wicki, 2008). While integrated into the data is some quantitative information such as balance sheet information of the chosen companies, I was cautious about using quantitative information recognizing that, as Maxwell (2010) posits, using numbers in qualitative research does not make that research a mixed methods study.

3.2.1 Memoing

Memos provided an essential source of evidence as important as data gathering itself (Corbin & Strauss, 2008), supporting the role of “researchers as instrument”; memos are featured in Figure 2 at the center of the triangle (Kaczynski, Salmona, & Smith, 2013). Memos are supposed to reflect ideas in process for personal use, suggests Schram (2003). I used three types of memo writing to track and manage the study, as advised by Kaczynski et al. (2013): methods, reflection, and analytic. I used methods memos to record changes in the design of the project and to describe reasoning behind such changes. Reflections memos described my personal journal of reflexivity. Finally, I wrote analytic memos to switch between inductive and deductive ideas while interpreting

meanings. I also used the analytic memos to answer the research questions, trying to establish in each of the questions the way to answer them by connecting the codes in the different documents through the query tool in the ATLAS.ti program, whose use will be explained below. Without a doubt, this made the analysis of the research documents and interviews much easier.

3.2.2 Interviewing

My main source of data were 30 semi-structured and flexible interviews conducted in 11 family businesses in Colombia over the year 2015, in Spanish, with a duration of one to two hours each, resulting on average in a 20-page, single spaced transcription¹. The first interview took place in January 2015, and the last one in December 2015. The semi-structured interviews, although having predetermined questions (see Appendix), were flexible enough to allow the interviewer to make new questions while the interviewee was telling his/her stories. In some cases, when the need to interview the same person twice became evident, this was done with full cooperation from the interviewee, in some cases only just to complement previous information. All the interviews were done personally, except for one which was done via Skype.

As mentioned earlier, I used an interview guide (See Appendix) with open-ended discovery questions that broadly outlined the topics of interest in financing family business and family business dynamics. The interview guide I used is based on techniques for semi-structured interviews, characterized by elements from both structured and unstructured interviews. A fixed set of sequential open ended and discovery-oriented

¹ The transcriptions were done by a trustworthy and reliable person, allowing me to dedicate more time to coding and analyzing data.

questions were included in the guide, but additional questions were introduced during the interview to facilitate further exploration of issues brought up by the interviewees, thus almost taking the form of a structured conversation (Huber & Power, 1985).

During the execution of this dissertation, 30 interviews were carried out with shareholders, presidents, managers, family members and/or advisors related to 11 different family companies, of different sizes, that at different times have used different types of financing, and that belong to different sectors of the Colombian economy. Tables 1 and 2 on the following pages present the interviewees' basic information and the companies referred to in each interview. These two tables also describe the interviewees by their respective "aliases," their relationship to the business and the family, and if family members, to which generation they belong.

De Massis and Kotlar (2014) posit interviews are a targeted and very efficient means to collect empirical data. Ultimately, total interview number was determined by theoretical saturation in each family business. As mentioned before, I interviewed between one and three key people with different perspectives of each business: at least one shareholder, one employee close to the family, and in some cases one more person (owner/non-owner) from a different generation, because different generations appear to have different thoughts about the leverage of the company (Kaye & Hamilton, 2004).

Table 1. Company Information

Company Alias	Sector	Interviewee's Alias	Position	# Interviews
Tasty	Food	AT	President	1
Tasty	Food	BT	Chief Marketing Officer	1
Tasty	Food	CT	CEO Foreign Branch	1
Lunch	Food	AL	Advisor	1
Lunch	Food	BL	Board member	1
Energy	Manufacturing	AE	President	1
Energy	Manufacturing	BE	CFO	1
Energy	Manufacturing	CE	Board member	1
Cash	Financial	AC	President	1
Cash	Financial	BC	Board member	1
Cash	Financial	CC	Board member	1
Gown	Legal Services	AG	CEO	1
Gown	Legal Services	BG	President	1
Gown	Legal Services	CG	CEO	1
Harvest	Agro-industrial	AH	Board member	2
Parts	Automotive	AP	President	1
Parts	Automotive	BP	Advisor	1
Parts	Automotive	CP	CEO	1
Brick	Construction	AB	Board member	1
Brick	Construction	BB	New Business Leader	1
Brick	Construction	CB	Board member	2
Mortgage	Financial	AM	President	1
Mortgage	Financial	BM	Board member	1
Mortgage	Financial	CM	CEO	1
School	Pulp & Paper	AS	President	1
School	Pulp & Paper	BS	CEO	1
Whole	Retail	AW	Board member	1
Whole	Retail	BW	Board member	1
			n=	30

Table 2. Interviewees' position and family generation

Interviewee's Alias	Position	# Interviews	Employee Yes/No	Family Member	Board Member	Generation
AT	President	1	X	X	X	Second
BT	Chief Marketing Officer	1	X	-	-	
CT	CEO Foreign Branch	1	X	X	X	Second
AL	Advisor	1	X	-	X	
BL	Board member	1	-	X	X	Second
AE	President	1	X	X	-	Second
BE	CFO	1	X	-	-	
CE	Board member	1	-	X	X	Second
AC	President	1	X	-	-	
BC	Board member	1	-	X	X	Second
CC	Board member	1	-	X	X	Second
AG	CEO	1	X	X	X	Second
BG	President	1	X	X	X	First
CG	CEO	1	X	X	X	Second
AH	Board member	2	-	X	X	Third
AP	President	1	X	X	X	Second
BP	Advisor	1	X	-	-	Fourth
CP	CEO	1	X	-	-	Fourth
AB	Board member	1	-	X	X	Third
BB	New Business Leader	1	X	X	-	Fourth
CB	Board member	2	-	X	X	Fourth
AM	President	1	X	X	X	Second
BM	Board member	1	-	-	X	
CM	CEO	1	X	-	-	
AS	President	1	X	X	X	Third
BS	CEO	1	X	X	-	Third
AW	Board member	1	-	X	X	Second
BW	Board member	1	-	X	X	Second

Although high quality work has no magic number of interviews, Reay (2014), in her editorial in *Family Business Review*, states that around 30 interviews is the common appropriate number suggested; however, much of the interviews' quality is dependent on the depth and breadth of the areas covered. Reay (2014) also suggests that a few in-depth

interviews in a topic area in which there is little knowledge can be powerful and valuable. Since I conducted in-depth interviews with people with different perspectives, I covered what I believed to be an ample spectrum of the subject matter. I made sure that the sampling choice followed grounded theory prescriptions for theoretical sampling.

The qualitative interview is the most common and one of the most important data gathering tools in qualitative research (Rubin & Rubin, 2005). Kvale (1983, p.176) defines the qualitative research interview as “an interview, whose purpose is to gather descriptions of the life-world of the interviewee with respect to interpretation of the meaning of the described phenomena.” Furthermore, the aim of the interview is to focus in “specific situations and action sequences in the world of the interviewee” (Kvale, 1983, p. 176). Rubin and Rubin (2005) suggest that qualitative interviews are like night goggles meant to examine that which is looked at but seldom seen (Rubin & Rubin, 2005, p. vii). I collected a large set of my data from in-depth interviews because interviews are one of the major approaches in collecting data in qualitative research (Kvale & Brinkmann, 2009). I designed interviews to find interviewees’ memories of personal experiences related to financing their family business. My interview aim was to obtain basic information from each company in regards to financing and its relation to family dynamics. For this, I tried to interview three people in each company, in order to have different perspectives. However, this was not always possible due to different particular situations in each company and family. I also aimed for each company interviewed to have a particular type of financing (trade financing, bank loan, stock exchange flotation, private equity funds, retained profits, and ESOPs), and to have had said financing in different proportions. What emerged through the interviews was that some of the

companies in the sample could provide combined information related to different types of financing, since they themselves had been through different processes at different times; thus, one interviewed company could possibly provide different financing perspectives.

Kvale and Brinkmann (2009, p. 2) describe the research interview as a “professional conversation” where “inter-views” are exchanged and “knowledge is constructed in the inter-action between the interviewer and interviewee.” In this conversation, the ritual turn-taking is more formalized than in informal encounters (Farr, 1984). Although various media of communication can be used to reach this objective (Opdenakker, 2006), to have a “professional conversation,” I focused on formal personal interviews as the appropriate mode to collect sensitive information, except for two extension interviews which were held via Skype. As far as the logistics of the interviews are concerned, all the interviews were recorded with previous permission from the interviewees to facilitate later transcription. Interviews took place at family and non-family members’ offices in Colombia. I believe the familiar setting made the interviewees comfortable so they spoke more freely. Respondents were told the purpose of the study, and anonymity was assured.

In order to obtain as much information as possible on the phenomenon I was investigating, my role was to put the interviewee at ease, establishing rapport while maintaining control of the discussion (Brewerton & Millward, 2001). Moreover, as Strauss and Corbin (1998) posited, I believe the value of my professional background contributed to the development of this project based on grounded influenced theory. My experience as a family business consultant and as a non-family CEO of several family businesses in Colombia was very helpful in developing alertness and sensitivity when

conducting interviews and collecting qualitative data (Glaser, 1992). While it can also introduce bias into the study (Gioia et al., 2013), I felt assured that my working experience had furnished me with the ability to set up an empathetic environment to build trust among the interviewees and put them at ease; I also feel I possess the alertness and sensitivity needed to discover and make sense through this research process.

I audio-recorded the interviews for easier authentic transcription and analysis later. To analyze the interviews and information, I followed Gioia et al.'s (2013) procedures in order to add rigor and improve the presentation of this research. The 1st-order analysis gave me a number of categories that tended to explode to more than three hundred codes at first. Then, as research continued, I started looking for similarities among the different codes and I gave names to those categories (2nd-order analysis), reducing them to a more manageable number. I then gave those categories labels and started to consider what made sense of what was happening there, and I was ready to formulate other questions for the next interviews, looking for concepts and tentative relationships.

When in 2nd-order phase, I was always looking for emerging themes and focused on concepts that did not have theoretical referents in the literature. Once there was a workable set of themes and concepts, I looked for new themes and emergent aggregate dimension. This led to the basis for data structure which helped to configure a visual aid to conduct a better analysis (Gioia et al., 2013). I continued with this process until no new themes and insights emerged from the data. At this stage, I had what Glaser and Strauss (1967) call theoretical saturation.

As mentioned before herein, I also used some secondary data, in some cases provided by the interviewees themselves, such as: a case study prepared by a Colombian university for one of the family groups, describing its story and how the company obtained financing at different times in order to overcome a financial crisis and keep the business afloat. In addition, I used a paper written by one of the interviewees, a second-generation family member, who tells his own story working alongside one of his uncles (a founder of the family business). In this paper, the interviewee tells the story of the family from his own point of view, with a special emphasis on one of his uncles, founder of the business, and a person of particular qualities for that time and for the business.

To the extent possible, I searched for financial information from each of the companies interviewed, and from some of the companies that made up the company group, when the family interviewed belonged to said group. In such cases, it was not always possible to obtain all the financial information. In those cases, where the financial information could be obtained, it was obtained only for the last three years; thus, it is important to consider that the capital structure of the past three years might not reflect the comings and goings that some of these companies have experienced in terms of capital structure. Therefore, the interviews produced information that was impossible to deduce from the financial statements alone.

3.2.3 Theoretical saturation

Data saturation or data redundancy is reached when nothing new is being added by participants in a study when they offer their ideas (Morse, 1995). Charmaz (2003) explains that saturation comes when putting new data into categories already devised. It entails bringing new participants into the study until the data set is complete (Morse,

Barret, Mayan, Olson, & Spiers, 2002). In other words, saturation will be reached when the data gathered yields scarce returns, when nothing new is being added (Bowen, 2008). Theoretical saturation, in effect, is the point at which no new insights are obtained, no new themes are identified, and no issues arise regarding a category of data (Strauss & Corbin, 1998). Following these theoretical saturation parameters, the same elements from previous interviews started to be repeated after interview number 27; thus, I considered that enough saturation had been reached with the data already gathered.

3.2.4 Sampling

With the sample chosen, the idea for the interviews was primarily to explore in depth how family influence and family dynamics affect capital structure decisions and vice versa. Since no rules govern the size of the population sample in a qualitative study (Kaczynski et al., 2013), I used purposeful sampling which I believe is the most useful way to sample in this case. Purposeful sampling represents a distinction in the practice of qualitative research. As this is qualitative research, I strategically selected “information-rich cases” that provided knowledge regarding the issues of importance to the purpose of the study (Patton, 2002). This sample was deliberately selected where I believed it was representative (Guest, Bunce, & Johnson, 2006). To clarify the difference between theoretical and purposeful sampling, the definition of theoretical sampling is:

“Theoretical sampling is purposeful selection of a sample according to the developing categories and emerging theory... and the process is controlled by the emerging theory” (Coyne, 1997, p. 623). Glaser (1978) defines theoretical sampling as “...the process of data collections for generating theory whereby the analyst jointly collects, codes, and analyses his data, and decides which data to collect next and where to find them, in order

to develop his theory as it emerges. This process of data collection is controlled by the emerging theory, whether substantive or formal” (p. 36). Then data collection is guided by a sampling strategy called theoretical sampling and, unlike purposeful sampling, the sample is not selected from the population based on certain variables (Chenitz & Swanson, 1986), rather, and as Ramachandran (1998) asserts, a single but meaningful case can be a very powerful example of the sampling method and sample size used in qualitative studies. As far as the sample size is concerned, and based on the above-mentioned example, sample size is less a matter of quantity and more a matter of quality of information gained from the sample (Crouch & McKenzie, 2006). Crouch and McKenzie (2006) posit that sample sizes in qualitative studies, which may or may not be fixed prior to data collection, depend on the resources and time available to tab them, as well as the study’s objectives. In this case, the sample size was fixed a priori as a broad benchmark, before the data collection by means of the interviews, and taking into consideration my availability of time. In any case, I had in mind the feasibility of theoretical saturation (the point in data collection when new data no longer brings additional insights to the research questions), so as to make adjustments to conduct more interviews if necessary. I let theoretical sampling guide the process.

Qualitative research such as that I used herein benefits the most because I found large variance in the capital structure of family firms in my sample, and in the different moments throughout the life of the companies; the more variance there is among the firms in the dependent variable, i.e. capital structure, leverage levels, and financing, the richer the results. Therefore, my criteria were to determine that the sample contains the different types of financing one can find in a family company in different moments and to

explore the phenomenon in question in as many facets as possible. That is why I did a careful assessment of my case studies prior to conducting the interviews.

In 2010, CONFECAMARAS (Federation of Chambers of Commerce of Colombia) estimated at 511,000 the total number of family firms in Colombia (Portafolio, 2010). In 2005, 46.8 % of the large enterprises were family firms. Although they span all of the economic sectors, they are mostly in retail, real estate, and financial services. Their share of the GNP was 21%. Their share of total investments was 23.5% (Danieles, 2006). Moreover, nearly 63% of them are moving toward the second generation (Portafolio, 2010).

In order to have representation of all the financing types in family business, I looked first into several databases searching for medium-sized companies (with reported assets between 5,000 to 30,000-fold minimum wage and large companies over 30,000-fold minimum wage (Bancoldex, 2014), that represent different capital structures, have their operations and businesses in different sectors of economy, and find themselves in distinct generational stages.² This large variance in the capital structure of family firms, the dependent variable, would surely render ample and sound information and insights for my research. I finally came up with a set of eleven companies that comply with the above said criteria. Moreover, I had to make sure they wanted to be part of this study and would release enough family and business information as possible, within a confidentiality agreement, to support my insights. The chosen companies represented cases where family businesses have changed or are contemplating a change in capital structure, so that I could look at the family dynamics effects. To collect valuable

² In 2014 the Colombian's monthly minimum wage was equivalent to US 313 Dollars

information from different viewpoints, I interviewed at least a family firm Director/CEO, and/or a top manager and/or a family member for each of the selected organizations.

In Colombia, there are several recent family companies changing their capital structure. Carvajal and Corona are just a couple of examples:

- Carvajal SA is a Colombian family business conglomerate (with business in education, packaging, office furniture, information services, pulp and paper, communication solutions and technology) more than 100 years old, with shareholders up to the sixth generation, more than 24,000 employees, and with factories and offices in 16 different countries. One of the business units of the family business conglomerate placed and sold preferential shares without voting rights in 2012.
- Corona, another family business conglomerate (ceramics, plumbing, retail home products, etc.), sold a minority part of its industrial business in the second quarter of 2014 to Victoria Capital Partners, an international private equity fund.

In selecting the sample population, 11 Colombian companies were chosen, some of them even multilatin companies founded and operating in Colombia, that would provide different stories at different moments in time, and different perspectives in regards to the type of financing used. Likewise, I tried to understand through the interviews, the different individuals related to the companies selected (these individuals were chosen together with the president of each company); how the different shareholding families behaved at a certain moment in order to decide what type of financing was the most suitable according to their strategy, perspective and moment in

time. The companies chosen decided to participate with enthusiasm in the project, having as a basic premise: the help that their own experience might provide to other family companies, not only in Colombia, in regards to their future financial decisions.

To that effect, different size companies were chosen from different sectors of the economy (banking, financial services, food industry, consultancy, auto parts, construction, agriculture), that were representative of different types and proportions of financing. Amongst these companies there were also six family groups established as business groups, according to the Bogota Chamber of Commerce, with investments in several subsidiary companies. All the companies interviewed were founded more than 45 years ago, and three of them are more than 100 years old. Two of these companies are still controlled by first generation shareholders, with second-generation family members as employees or members of the Board of Directors. Four companies are controlled by second-generation family members, three companies are controlled by third and fourth generation family members, and one company (second generation) is no longer controlled by the family since they sold their shares on the Colombian stock exchange.

Another way to approach the financial choices taken by family firms is by considering how and in which degree family paradigms described by Constantine (1986) are related to the firms' capital structure. Constantine grouped families into four categories: open, closed, random and synchronic paradigms. The families of the sample did not fit in any of them as a whole; however, there were several features that show a clear identification with the typologies they were assigned to in the table below. This relationship between typologies and capital structure demonstrates the validity of systems theory, which explains how the family, business, and ownership subsystems nurtured by

the context become interdependent and evolve to become well-defined entities with adaptive financial mechanisms for growth and survival.

Table 3 groups the interviewed business owning families according to the family typology model proposed by Constantine (1993) which classifies families into 4 types: open, closed, synchronous and random paradigms. This classification was made according to what was perceived in the interviews. In this study, six firms showed a closed paradigm behavior pattern, three were open, one was random, and one synchronous paradigm.

Table 3. Family Paradigm

Company Alias	Sector	Family Paradigm			
		Open	Closed	Synchronous	Random
Tasty	Food				X
Lunch	Food		X		
Energy	Manufacturing	X			
Cash	Financial	X			
Gown	Legal Services	X			
Harvest	Agro-industrial		X		
Parts	Automotive		X		
Brick	Construction			X	
Mortgage	Financial		X		
School	Pulp&Paper		X		
Whole	Retail		X		

- Closed paradigm families rely on a family hierarchy of authority, which regulates processes and decision making. They tend to have a traditional authority and pursue conformity to norms to assure continuation. Family and

family identity come first and loyalty is encouraged. Using a qualitative classification method, most of the sample companies were found to belong to this group (Lunch, Harvest, Parts, Mortgage, School and Whole). Most of the oldest and largest, they are also all from traditional regions of Colombia where family values still hold and give identity or they are descendants from Middle East immigrants. Founders have held extended tenures and lasted long enough to see several generations. Their boards include external members. Authority is hierarchical to secure abiding by clear norms and procedures. All these families created holdings - including Mortgage in the financial sector - that follow this traditional behavior in which debt is close to zero. In School, debt surpassed the amounts agreed upon by the family, causing great concern and distress. Closed paradigm families also rely in retained earnings to fund their endeavors. Likewise, they have favored alliances, except Lunch, as a means to avail themselves of appropriate know-how and reduce risks. Some even regret having had a fund as a partner instead of a business ally to supply complementary capabilities.

- In the open family paradigm, a more democratic approach for decision making is used, and the family's collective goals and values are achieved through integrating individual needs. These firms are rather new in the business and have few members working in the organization. Their capital structure is flexible enough to seek different sources of financing, and they are more prone to taking risks. Companies belonging to this paradigm belong to different sectors: industry (Energy), Financial (Cash), and Services (Gown). It is

revealing that they all have promoted ESOPs. Though they are not into IPOs, they have private equity investors and use retained earnings as a source of financing growth. All of these features are consistent with an open-minded view of business and favoring trust with their employees.

- The firm whose behavior is closer to the random family paradigm functions within an egalitarian system where each member has independent thought and action, and where collective needs are met through individual initiatives. This particular company is a male sibling partnership in which each member shows respect for the other's decisions in his area of control and authority. This egalitarian scheme allows more room for creativity and expansion to other regions and countries. Tasty is the only company matching these features. It is a second generation company, a sibling partnership with close family ties. They expanded operations overseas, preserving the autonomy among its members. They use different sources of financing and agree on asset shedding to leverage their investments, showing a bent for new endeavors without keeping strong ties with the past.
- In the synchronous paradigmatic family, no family member needs to be told what to do because they have agreements relating to values and goals that regulate family processes and decision-making. It is argued that, in synchronous paradigmatic families, all family members internalize the rules. Bricks shows a series of distinctive features that makes it fit into this paradigm: an entrepreneurial bent that spans over four generations; a balanced mix of family and non-family members on the Board that makes decision making

more democratic; a well-defined and enforced family protocol that approves nonfamily members working in the core business but restricts participation of relatives except in spinoffs; robust family and corporate governance; and solid partnership with outstanding international firms. Brick uses almost all forms of financing including cross investments with multinational companies.

Research departments and spinoffs are aligned with their long term views.

To analyze how the different companies in the sample fund themselves, the following classification in regards to financing and/or capital structure was chosen:

- no or little outside funding, including debt;
- lots of debt but no outside equity;
- private equity and giving up control;
- private equity and not giving up control;
- partnerships giving up control;
- partnerships not giving up control;
- public listing and not giving up control;
- public listing and giving up control;
- internal funding; and
- funding through ESOPs.

The following table describes the different methods used by the companies in the sample to finance their operations at different moments in time, and it can be noted that

Table 4. Capital Structure

Company	Bank Loans	IPO	ESOP	Trade Financing	Private Equity Funds	Alliances and Acquisitions	External Investors	Retained Earnings	Asset Shedding	Special Purpose Vehicles	Institutional investors
Energy	High		High	High		High	High	High	High		High
Parts	Low		High	High		Medium	Medium	High			
Mortgage	Low				High	High	High	High		High	High
Cash	High		High		Medium		Medium	High		High	High
Harvest	High			High		High	High	Low	High		Medium
School	High	Low*	Low	High	Medium	High	Low	High	High		
Brick	Medium			High	Medium	High	High	High			High
Whole	Low	High*	High	High		High	High	High			High
Lunch	Low			Medium	High		High	High			High
Tasty	High			High				High	High		
Gown	Low		High					High	Medium		

* School Holding is not in the Stock Exchange
 * Whole was sold in the Stock Exchange, and it was the first family company to negotiate shares in the Stock Exchange

there is not one single type of funding, but that their capital structure is made up of a combination of different types of funding.

Furthermore, the F-PEC scale developed by Klein et al. (2005) is a tool intended to assess the extent and manner of family involvement in and influence on the enterprise. As explained in Chapter 2, it considers three dimensions: power, experience, and culture. In this study, key questions from interviews and other sources of information such as financial data and companies' reviews served as proxy for the F-PEC questionnaire. (See Table 5).

Table 5. F-PEC Assessment

Company Alias	Sector	Position	Employee Yes/No	Family Member	Board Member	Generation	F-PEC		
							Power	Experience	Culture
Tasty	Food	President	X	X	X	Second	10	8	10
Tasty	Food	Chief Marketing Officer	X	-	-				
Tasty	Food	CEO Foreign Branch	X	X	X	Second			
Lunch	Food	Advisor	X	-	X		4	4	4
Lunch	Food		-	X	X	Second			
Energy	Manufacturing	President	X	X	-	Second	10	5	10
Energy	Manufacturing	CFO	X	-	-				
Energy	Manufacturing		-	X	X	Second			
Cash	Financial	President	X	-	-		10	5	10
Cash	Financial		-	X	X	Second			
Cash	Financial		-	X	X	Second			
Gown	Legal Services	CEO	X	X	X	Second	10	5	10
Gown	Legal Services	President	X	X	X	First			
Gown	Legal Services	CEO	X	X	X	Second			
Harvest	Agro-industrial		-	X	X	Third	10	10	10
Parts	Automotive	President	X	X	X	Second	10	5	10
Parts	Automotive	Advisor	X	-	-				
Parts	Automotive	CEO	X	-	-				
Brick	Construction		-	X	X	Third	7	8	10
Brick	Construction	New Business Leader	X	X	-	Fourth			
Brick	Construction		-	X	X	Fourth			
Mortgage	Financial	President	X	X	X	Second	4	8	8
Mortgage	Financial		-	-	X				
Mortgage	Financial	CEO	X	-	-				
School	Pulp&Paper	President	X	X	X	Third	10	10	10
School	Pulp&Paper	CEO	X	X	-	Third			
Whole	Retail		-	X	X	Second	10	7	6
Whole	Retail		-	X	X	Second			

As to Power, I found that eight of the 11 companies studied show a high level of control. Ownership is concentrated within the family, and several family members work in the organization and hold positions on the Board. Relative lower power position of family firms is the result of letting investors in the organization and Board, or as a result of a policy that allows nonfamily members as employees.

In the experience dimension, one firm is in the first generation, six in the second, three in the third, and one in the fourth. This data is consistent with information from the Superintendencia de Sociedades, the Colombian government agency that oversees companies' compliance and performance. Their data show that most Colombian family

firms are undergoing a transition process from the first and second generation to the next, since most of them were founded in the 1970s. The overlap of family and firm values and family business commitment determine the culture of a family firm on this scale. A remarkable eight of the companies studied acknowledge that core family values have been transferred and are lived up to in the business by means of becoming employees or by informing decisions as board members. This contrasts with family companies that have sold significant stock to private equity funds, and have experienced how some core business values are no longer implemented and enforced under the new administration. In regard to the type of financing used by these companies a variety of different capital structures and the proportions of financing were used to fulfill their strategies, especially their growth strategy, as well as to carry out investments in different projects. Initially, it was thought that each company chosen would represent just one particular type of financing; however, through the data and interview analysis, I found that one company could represent different types of financing, and that throughout time it had financed itself in different ways. In other words, it could be said that the sample chosen, though small and not chosen randomly, would be representative of the population that I was seeking to analyze (Hair Jr. et al., 2007), and thus it would be very suitable to this effect. What is more, Crouch and McKenzie (2006) establish, as was mentioned before, that more important than sample size is the quality of the information gained from the sample, and I believe that to be the case in this instance. The companies chosen in the sample included combinations of financing sources such as different types of debt (trade debt, e.g., a credit from supplier; bank debt; and other debt, e.g. private loans; and family capital). There were also other sources of capital for family companies with different

combinations: IPOs (in which two of the families retained control and the other did not), private equity, and employee's equity (ESOPs in the US).

The chosen companies gave me a purposeful sample, but before selecting the specific companies, I made sure that I had access to the information needed for my research.

Following the recommendations of Corbin and Strauss (1990), chosen companies were from the very beginning representative of the phenomena I sought to study. This theoretical sample allowed for an analysis in terms of concepts, properties, dimensions, and variations to achieve better consistency and representativeness.

3.3 Data analysis and coding

Given the GT approach I used, data collection and analysis are intertwined.

During this process, I organized the data seeking to answer my questions: "how do family influence and family dynamics affect capital structure decisions and vice-versa?" In a qualitative research study, according to Kaczynski et al. (2013), data analysis is like making sense of a puzzle. The authors posit that what one has to do is to place the small pieces on a table. Then, one has to become immersed in the task of constructing a picture, or a series of pictures since the analysis may render a few. The analysis starts then by coding the different interviews and documents. Codes may be classified in two ways: Top-down coding and Bottom-up coding. Top-down coding comes from what the researcher thinks might result according to the literature he has reviewed. An example of this type of coding would be: family conflicts, communication, and the generation in charge of running the company. Bottom-up coding comes from the analysis of the different documents. An example of this would be the different values that resulted from examining the interviews: intrinsic values, tradition-related values, control-related values,

etc. These codes were created as the interviews were being analyzed. From my observations, I generated memos and in them I saved some ideas.

During the initial coding process more than 300 codes were generated, and as I gained more experience with the analysis, this number was reduced and some codes merged with others. My final list after coding, reviewing the codes several times, and grouping them, reached 100 codes.

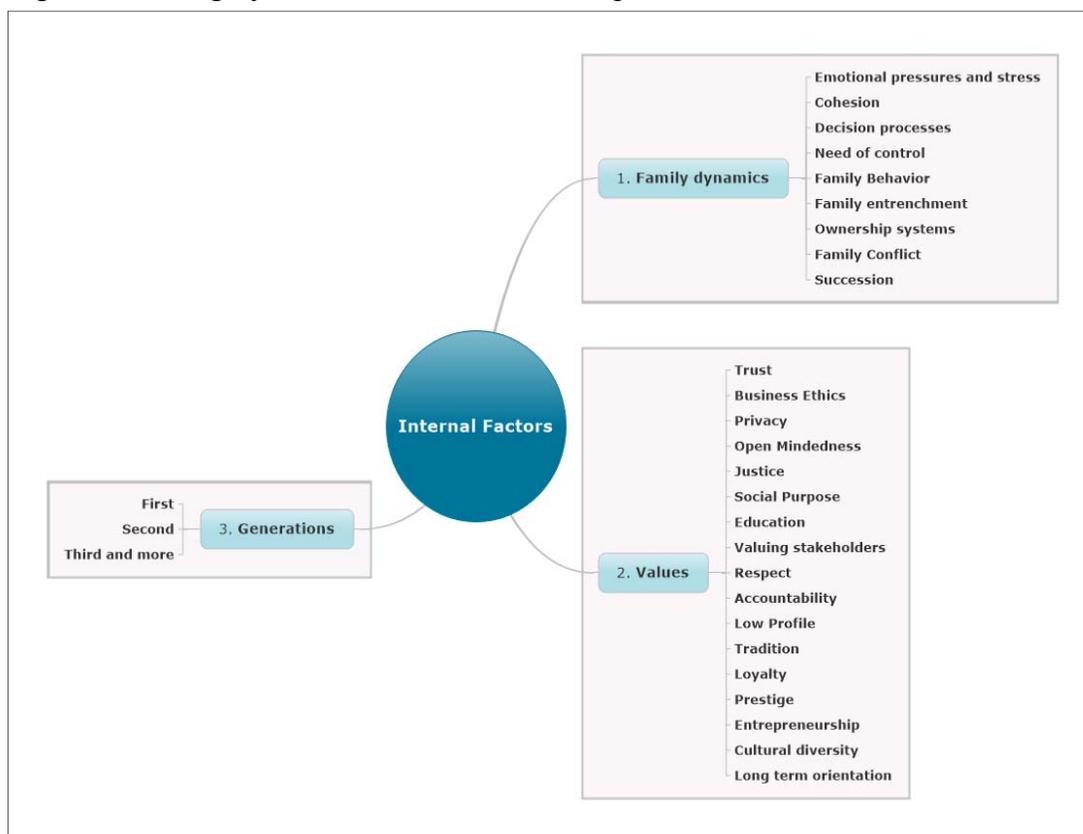
Finally, the authors recommend asking oneself whether one of those pictures of the puzzle is the real picture, and if it makes sense to others. If not, one has to keep on digging and interrogating the evidence to find a more real picture so that it makes sense to others as well (Kaczynski et al., 2013). Jorgensen (1989, p. 107) gives a similar idea to that of Kaczynski et al. (2013). The procedure, according to Jorgensen (1989), entails breaking up, separating, or disassembling the research materials into pieces, parts, elements, or units. That was how, in some cases, when a code had many elements I would break them up in subcategories that expressed the ideas in a better way, and at the same time the ideas would group themselves in families, in the same way as the codes. An example of a code family is shown in Figure 3. The initial codes were grouped into categories (family dynamics, values and generations) to then be named as internal factors (theme), according to Figure 3.

With facts broken down into manageable pieces, Jorgensen (1989, p.107) posits that the researcher then sorts and sifts them, searching for types, classes, sequences, processes, patterns or wholes. The aim of this process is to assemble or reconstruct the data in a meaningful or comprehensible fashion. Seidel (1998) goes even further, explaining that data analysis is a symphony of three components, and noticing which is

which entails consciously searching for evidence (top-down coding) or randomly finding new aspects and supporting this searching by coding procedures (bottom-up coding). He compares data analysis with doing the laundry: after washing and sorting, clothes are piled up in separate heaps.

Finally, researchers look for reoccurring patterns and relationships in the data by asking how the pieces of the puzzle fit together. In this case, and using the ATLAS.ti program, I found out through the co-occurrence of codes how these families of codes were related to the different types of capital structure and to the different families of documents. All of these steps led to general insights about the studied phenomenon, and shed new light on how to answer the research question. To this extent, I organized the codes and this allowed me to understand how family dynamics related to the capital structure of each company in the sample.

Figure 3. Coding System. Internal factors - sample



Gioia et al. (2012) offer a method for improving rigor of grounded research and posit a methodology beyond merely identifying the applicable concepts. They cite some interpretive and qualitative researchers (Langley, 1999; Lincoln & Guba, 1985; Locke & Golden-Biddle, 1997) who have noted that interviews and analyses should not be separated as they proceed together. As the interviews take place, codes and categories emerge, and the numbers of codes and categories explode at the front end of the study (Gioia et al., 2013; Glasser & Strauss, 1967).

Based on previous studies I have explored, I anticipated between 50 to 100 1st-order categories in the first 10 interviews as Gioia et al. (2013) posited, but the first order

categories initially accounted for more than 300. As the research advanced, I focused on the similarities and differences among those categories to reduce the number of categories to a more manageable number (100). Then, I gave labels or phrasal descriptors to those new categories at a more abstract level, also called 2nd-order themes (external and internal factors). Aggregate dimensions (external and internal factors) helped to explain the phenomena I observed. It was like putting on the table the array of codes to start answering how the puzzle on the table (Kaczynski et al., 2013) made sense. Putting all of these pieces on the table, I started making sense of the array of themes at a more abstract level by organizing first order codes into second order (theory centric) themes, (Pieper, 2013). It is like the notion of axial coding (Strauss & Corbin, 1998).

In this 2nd order analyses, I found concepts from the themes suggested to describe how families and family dynamics influence the capital structure of the company and vice-versa. I especially focused on new concepts – theories that do not have referents in the existing literature or existing concepts, for example, the relationship between family conflicts and capital structure – that move to new domains as Gioia et al. (2013) explain. I also followed the advice of Pieper (2013) to distil second order themes into overarching theoretical dimensions (when appropriate).

Finally, Pieper (2013) advises to assemble terms, themes, into a “data structure,” a pivotal step in the entire research process (Gioia et al., 2013). Moreover, both Pieper (2013) and Gioia et al. (2013) advise to follow that step with the help of tables and visual aids. Those visuals show how the analysis has advanced from raw data to terms and themes over the process, such as in the tables presented herein.

Furthermore, Miles and Huberman (1994) have also outlined specific techniques for analyzing qualitative data. They include a variety of devices such as tabular displays and graphs to manage and present qualitative data without destroying the meaning of the data through intensive coding. Then, I make use of tables, graphs, relationships between codes, visuals, and link the research questions to data sources and evidence of findings with the help of the ATLAS.ti program. In the same way, Anfara et al. (2002) demonstrate transparent strategies to make those tables, to respond visually to misconceptions on the lack of scientific value of qualitative research. This way of constructing the analysis gave me the rigor for this qualitative research, according to Pratt (2008) and Tracy (2010) as stated by Gioia (2013, p. 20).

Once I had the visual aids and tables built, making sense of those findings was the next step. Going back to the allegory of the puzzle of Kaczynski et al. (2013), the puzzle has to make sense of the several revealed pictures. “Understanding an issue from within a larger set of relationships imparts a significance to what otherwise might seem to be contradictory, random ideas or events. Sense making is about such things as placement of items into frameworks, comprehending, redressing surprise, constructing meaning, interacting in pursuit of mutual understanding and patterning” (Weick, 1995, p. 6). No doubt, this took time and patience not to conclude too abruptly (Gelman & Hill, 2007). Then, understanding the issue or sense making is about the reasonableness of the plausibility of the facts, (Weick, 1995). The idea was to become familiar with each case as a stand-alone entity. As Eisenhardt (1989) suggests, “In these situations, theory building from case study research is particularly appropriate because theory building from case studies does not rely on previous literature or prior empirical evidence”

(Eisenhardt, 1989, p.548). The core category in this process was previously defined: capital structure. It was found how this category related to other categories (family dynamics) and vice versa, and what resulted from the analysis of all the data is like a circular drive from capital structure to family dynamics and from family dynamics to capital structure. Since these results are the main product of this work, they shall be analyzed later on.

3.3.1 Computer-assisted qualitative data analysis software (CAQDAS)

Although the analysis of the appropriateness of using computer software for qualitative inquiries is beyond the scope of this proposal, I would like to mention the underpinning reasons for my decision to use this tool, and also to explain why I chose ATLAS.ti as an instrument to help in my qualitative examination. The use of software packages as a means of undertaking qualitative research is becoming more common in social sciences (Mangabeira & Fielding, 2004). For example, Peters and Wester (2007), in their study of how qualitative data analysis may support the qualitative analysis process, conclude that the use of computer programs during qualitative analysis seems undisputed nowadays. However, acceptance of software-based data analysis protocols has not been universal. Some authors even suggest that CAQDAS has been found to be costly and has not given superior results (Dolan & Ayland, 2001).

The two perspectives indicate that CAQDAS should be used with care (Atherton & Elsmore, 2007). Atherton and Elsmore (2007) also advise qualitative researchers to be “reflexive” when addressing ordering the qualitative research with CAQDAS, by discussing this explicit dimension in the methods section of their papers. In any case, computer software could be of great help in qualitative research (MacMillan & Koenig,

2004). The use of software packages in qualitative research should be combined with other approaches to rejuvenate the data and facilitate the analysis (Atherton & Elsmore, 2007). Moreover, computer-supported qualitative data analysis also allows systematically organizing and exhaustively analyzing data, and many papers would benefit from using this type of technology (Gephart, 2004).

Additionally, McMillan and Koenig (2004) who studied the literature connecting CAQDAS to methods, found that grounded theory is the dominant methodology for CAQDAS users, and comes out of a process of coding, conceptualization and categorization (Allan, 2003). As a follower of grounded theory in this proposal, I went always from coding, to writing memos, then to modeling. The CAQDAS facilitated the iterative process of data collection, data coding, analysis, and modeling. I took into consideration that the CAQDAS is only a tool for organizing data (Gilbert, 2002). In much the same way, ATLAS.ti is a computer analysis tool that enabled me to code and retrieve, build ideas, and conduct analyses of my data. With its advanced multimedia capabilities, ATLAS.ti allowed me to work with text, interviews, and even videos if needed, making it an invaluable research analysis tool (Friese, 2012).

Nevertheless, using the ATLAS.ti package was a challenge. Learning how to use the technological package, learning about the qualitative research method, and carrying out the research, all at the same time, became an important learning process. As I mentioned before, coding the interviews resulted initially in more than 300 codes. Then, merging some codes with others that had similar meaning reduced those early results to 100 codes. They were then organized into categories of superior order.

Using the different aspects of the ATLAS.ti program was very useful. The analytic memos made it possible to organize the ideas and the “queries” raised during the analysis, answering the questions and establishing the relationship between the documents and the different interviews. As is well established by the basic premises regarding the use of technological packages, the analysis is not done by the package itself; however, its use does help to strengthen the analysis which otherwise would become too complicated due to the amount of data generated.

CHAPTER 4. ANALYSIS AND RESULTS

Before presenting the results of this research, I am going to discuss the design of this chapter to make its content easier to understand. First, in the manner of a journalist describing an event, I am going to present some of the interview results related to the importance of capital structure. Other than when necessary for clarification, I will not add my own dialogue, letting the interviewees' words reveal how some external and internal factors influenced the capital structure of the companies in the sample, and vice versa, how the different types of financial structures affected family dynamics. External factors are those that relate to national and international economic and political situations, and they are common to all types of financing; it is the context referred to by the interviewees. The internal factors, on the other hand, are specific to individual sample companies; these are interviewees' thoughts and ideas that express or reflect the situation or atmosphere within the business and the family that led to different capital structure decisions.

To list and explain the internal factors, a table for each type of financing is presented. Each table shows in what ways that specific type of capital structure affects and is in turn affected or influenced by the individual internal factors presented in the table. This influence can be seen through the referenced quotes of the interviewees. The internal family factors analyzed are family dynamics, family values, and generations, and, in some cases, the tables and their analysis show some of the internal business

factors that contribute to a particular type of financing. Each table is then followed by a richer, fuller description in the words of individual interviewees involved in or affected by the financial decisions made. While the data was being gathered through interviews and additional documents were being obtained, an inductive analysis was being performed following the methodology of Gioia, et al. (2012), and constant comparisons were also being made according to what Strauss (1987) indicated. These elements of the analysis were very important because they allowed the gathering of data to be made in a rigorous manner, and in the same way, to perfect the sample and the gathering of data via the interviews afterwards. This methodology also allowed the organization of topics and superior dimensions, and the discussion of the ideas outlined in the interviews.

I started the analysis identifying initial concepts that influenced the different types of financing in the companies in the sample, using in some way the same language that the interviewees used in their own sentences, to the extent possible, or as Van Maanen (1979) says, codes of first order. Then, I would observe the different relationships amongst these codes of first order so as to organize them in topics of higher order. Subsequently, I chose the topics and organized them in superior dimensions to see what frameworks were developing as the analysis progressed. This procedure, even though difficult to describe in a linear way, continued until the interviews did not reveal any additional relationships between the same concepts.

4.1 The importance of capital structure in the sample analyzed

According to AC from Cash, capital structure becomes somewhat sophisticated, and somehow this same structure is necessary for the growth of family companies. He says, “in these financial structures one must be sophisticated and assertive” (P9:173-173),

and he adds, “I think the challenge of all these financial structures is how to properly ensure the growth of the company into the next decade” (P9:169-169). He believes that family companies have changed with time and that, with all changes that Colombia is facing now, it is necessary to “guarantee tickets for the future”:

“I believe the capital structure of family companies must be given a lot of thought, because we are no longer running the same companies as before. The companies we are facing today are more global, more regional, we have to open markets. Colombia is a country with great expectations, but also with great question marks. We don’t know what may happen with the peace processes, how are they (the companies) going to change, and finally, I do believe that we have to guarantee tickets for the future with a clear capital structure” (P9:153-153).

As a company, he says, they have to look at new ways to finance, not just maintain what they already have. *“...The capital structure today becomes more important than their own strategy, their own family, and their own products (P9:153-153)”* I think the challenge of all these financial structures is how to properly ensure growth towards the new decade” (P9:169-169). And, finally, AC claims that little importance has been given to the study of private companies. Most of the research done has been on public-owned companies. AC believes that, “...it is time to give importance to the study of private family companies” (P9:198-198).

4.2 External and Internal factors that influence the different types of financing and vice versa

According to the analysis of the interviews and documents, a number of internal and external factors influence the different types of funding used by the family

companies in the sample at a given moment in time. External factors include the global economy in general and the Colombian economy in particular. Internal factors are divided in two levels: family and business. At the family level there are values associated to the family, family dynamics, and the family generation currently running the company. These are considered important factors that influence capital structure at a certain moment in time. At the business level, it was found that the size and age of the company are factors that influence its capital structure. Even though external factors such as the national and international economy could have also affected companies that are not family companies over the same time period studied, in the sample analyzed it can be seen how these external factors affected family dynamics, and/or the capital structure of these companies in particular.

This section describes how each of these internal and external factors influenced the capital structures and/or the family dynamics in more detail, for each type of financing found. In order to explain such influences some quotes from the interviews, or some extracts from the documents analyzed, are referred to, and said quotes or extracts are connected to the capital structures found and to the family dynamics, respectively. At the same time, and conversely, the consequences and effects that the capital structure has had on family dynamics when the family has decided to take a particular type of financing, are analyzed.

Table 6. External and internal factors

External factors	Internal factors
Economic conditions: global and national	Two levels: Family and Business

4.2.1 External factors

The economic conditions in which companies operate, whether family companies or not, are factors that all companies must take into consideration when finding and deciding on the most appropriate capital structure. Even though the external factors that follow could apply to any type of company (family or non-family), they must be considered because they are factors that contributed strongly to the decisions about capital structure and have influenced in some way the dynamic of the shareholding families included in the sample.

Reading the environment and the context in which family companies operate becomes of utmost importance. One sample interviewee said:

“Undoubtedly, one of the most important assets of an entrepreneur is the ability to read not only the national economic environment but also the global environment, and take a financing stand in regards to it.... Even though [the founder] exercised very restricted practices in his work, and applied principles that were kept intact during his management, in the long run the stubborn founder did accept change, as long as it obeyed context needs or specific moments in a financial or economic situation.” (P33:244-244).

In this instance, economic conditions refer to the global economy on one hand, and to the Colombian economy on the other.

4.2.1.1 Global Economy

In the case of Whole, according to AW, reading the context implies studying what happens not only in Colombia, but also abroad, in order to understand what has to be

done in regards to the capital structure of the company. For Whole, the answer lay in including a strategic international partner. In AW's words:

....” This meant, first, to study and understand what was happening around the world, in countries that were experiencing similar economic opening processes. Although, thanks to President Gaviria’s administration (1990-1994), Colombia was entering a world full of new opportunities, it was also exposing itself to a voracious contingent of competitors, many of them with multinational power. After several trips and much global research, the Board understood that one of the first effects of an economic opening process was that local players must face external harassment and unfriendly takeovers, amongst other challenges. All this had happened in countries such as Argentina, France, and the United States, cases that were examined in much detail to make our decision of bringing in a partner” (P33:295-295).

4.2.1.1.1 Global economy and international alliances

Another interviewee from Whole (BW), comments on the role international competition played in their decision to bring in this capital strategic partner: *“Since an economic opening was taking place around the world, large companies started to look at emerging countries with special interest. Our non-family manager ...began to receive information that we were going to be eaten alive by foreign companies. That is why we started to think seriously about bringing in not a local partner, which we already had, but a global partner that would give us a good foundation to project the company towards the future” (P35:053-053).*

When talking about globalization and competition, it is also important to take into account the global strategic partners that help to confront the great challenges of the competition, as was in effect done by Mortgage Group. Its president said: “I am convinced that the business has been globalized, and I don’t know where we would be going if we were alone, by ourselves” (P26:050-050). Another interviewee, manager of one of the financial companies from the same group, comments on banking agreements at a global level: *“I think that Basel and the changes coming in the near future, including the arrival of Colombian banks to American funds and to the US stock exchange, are going to be an enormous pressure for our business to grow, and hence our debt”* (P9:085-085).

4.2.1.2 Global economy, bond issues and trade financing

The quotes below demonstrate how the global economic environment affected several of the sample companies’ capital structures, and in turn, how that economic condition shaped the way those companies chose to finance their operations. Even events such as 9/11 affected the different types of financing that were under preparation at that moment. The Energy family, for example, who were preparing a public bond issue to be sold via the stock exchange, explains:

“In 2001 we almost issued bonds in the stock market. But, as the saying goes, ‘There’s many a slip between the cup and the lip.’ The credit rating was B+, and this was around the time of 9/11 when investors were more cautious. The financial system told us, ‘it is not worth it to burn the company’s image and not be able to place the issue’... And since we had bank credit available at reasonable

interest rates, we decided to abort the issue and take the bank credit instead”
(P6:053-053).

Energy’s finance manager adds that the international oil price situation made Colombian companies reluctant to be financed with external providers of parts and raw materials, because of the risk of a high devaluation of the peso currency. *“With the news regarding the US surplus oil inventories and the possibility of oil barrel prices falling to USD20,00, the effects on our companies are very complicated, and we are already witnessing them.... Because of that, times are uncertain for our accounts payable in US dollars, and for our general financing strategies”* (P8:042-042).

4.2.1.2 The Colombian economic crisis and capital structure

In every interview, when talking about financing and capital structure, the country’s economic and political environment at a certain moment is also present. The Colombian economic and legal context, as well as the country’s stock exchange situation is considered here, as these are elements mentioned in interviews that relate to company financing decisions and to capital structure. The country’s situation at the end of the 1990s and the beginning of the following decade affected all companies significantly and at the same time had an impact on family dynamics. One interviewee recalls:

“Colombia, as the majority of Latin American countries, suffered one of the most profound economic crises of all its history during the years 1998, 1999, and 2000. At that time, when the UPAC [constant value unit] system was in place, with galloping inflation, an unemployment rate of nearly 20%, and increases in interest rates reaching levels of 40% to 60%, all of this contributed to a large

scale chain of mortgage loan defaults by buyers of real state, making financing a very complicated topic for our companies” (P23:5-5).

Another interviewee added:

“The company’s second difficult situation was in the year 1999... Interest rates reached 80% that year, and to make matters worse, at the end of 1998 the government launched a fiscal reform that created a sales tax for our product and imposed a 16% rate...This, plus a 30% annual inflation rate from the year before. This entire situation within a few months meant that the business was on the verge of disappearing, and our financing became very complicated due to the fear of banks and investors” (P1:103-103).

Another interviewee, the CEO of Mortgage Group, made the following comments regarding the competitive context during that period of time:

“The pressure of the ‘competitive context’ was one of the main drivers of the capital structure change in our company. Towards mid-1998, when Banco de la Republica [Colombia’s central bank], noticed a very large flight of capital in foreign currency, it started an exchange rate defense by establishing an exchange rate control system, something that drastically increased interest rates and made us think very seriously about capital structures” (P23: p4).

Those high interest rates, said AL, right-hand of Lunch’s CEO, dissipated the companies’ future credit appetite. “On the other hand, our fear of credit comes from a long time ago as a result of the high interest rates that Colombia had at one time,” he explains. “When interest rates were 3.5% a month, debt was prescribed in our case. Today, we still keep the custom of no debt” (P4:44-44).

AM of Mortgage adds that many banks in the country had to turn to special credits from the government. “Of course, a financial crisis in 1999, especially in the real estate sector with the old UPAC system. . . . few of us remained alive. We asked for credit, we turned to Fogafin [a lending fund for banks],” AM said. ” All of this left a mark on the family stress. ’Our company’ is an animal of a certain size; it has its dynamics, when it turns to the wrong side it can take the whole group down with it” (P26:021-021).

4.2.1.2.1 Economic crisis and the social aspects of Colombia, and their effect on family dynamics

The economic crises that the country has experienced have had both positive and negative effects on family dynamics. In one of the sample cases, it led to the second generation showing solidarity for the family company. In another case, it exacerbated family conflict, and in another, economic crisis led to family panic.

In effect, one of the sample companies that had never allowed any member of the next generation to get involved in the family business considers the country’s economic policy changes to have created a good opportunity for the second generation to join the company, by invitation from the first generation:

“I couldn’t have joined the company at a more disturbing moment, since Colombia as well as our company were experiencing radical internal transformations. On the one hand, in 1990, the country was experiencing the first changes produced by the neoliberal politics of President Gaviria, which would eventually lead to a new political constitution, and an impetuous opening of the economy... It was, then, a time of discoveries, especially in regards to our own selves, both in our capacity as Colombians and as entrepreneurs” (P33:291-291).

And at Tasty, one of the family members who had decided to take a sabbatical came back hastily to run one of the operations at a time of economic crisis and high levels of debt, said an interviewee. “One of my brothers who had decided to take a sabbatical to travel the world, when he saw this difficult situation, he said ‘I come back to the company and take charge of this operation,’ and he has been running it since. This is to illustrate the impact that an economic crisis has on family dynamics (P1:119-119).”

However, the effect of an economic crisis which leads to internal funding and high levels of debt can also be seen in family conflicts:

“When there is money everyone in the family smiles, when there isn’t any and dividends cannot be distributed then people become different. And maybe that circumstance, the crisis of 1999, came at a time when it helped us identify and see that when there is an economic crisis, this produces a company crisis, which can lead to a family crisis, and the family crisis can lead to the end of the company...” (P26:015-015). *“The crisis in 1999 affected us tremendously, because the company crisis produced a family rupture that could have eventually led to the end of the company”* (P26:013-013).

Moreover, economic crises can also produce family panic:

“Anxiety, and in some cases almost panic in the family. The most recent crises that I’ve experienced have been the one in 1997 when the construction sector collapsed, and the one in 2008 – 2009 when sales crashed down in our business in the United States. There was panic due to a lack of liquidity, and a series of consequences that resulted from this, such as an increase in the level of debt. It was a great concern for the family” (P25:30-30).

As a consequence of an economic crisis, family dividends may be suspended or reduced, and this produces family angst. At the same time, the family shows solidarity to the company in this difficult situation: “If a company is not doing well, and dividends are not paid, then there is a risk of having a load on your back... and that kind of pressure is very strong” (P14:036-036).

Generally, values and principles affect the way family faces the crisis. One interviewee family member said, “obviously, the reaction of the family in the meeting was of concern and uncertainty about the country’s situation, but they also accepted the proposal of the Board of Directors to stop dividend payments for about a year, while the company EBITDA stabilized itself and the level of debt went down. This, to show solidarity to the company and to the employees who had also not received a salary increase” (P25:078-078).

Worth mentioning here is that, in Colombia, there is an additional very important aspect that has had clear effects on the dynamic of entrepreneurial families and in the capital structure of companies, and that is the lack of public safety that the country has experienced for the past 50 years. This fact has caused many members of the young generations to go study abroad, which means that some of these youngsters have not had a lot of contact with their family companies; thus decreasing the sense of commitment to the company by this absent generation. AM, one of the interviewees, says the following:

“My father’s kidnapping changed our lives forever. Violence has many different manifestations in this country. My children believe that here you need to have bodyguards. That is the country that they have experienced. They went abroad to study and distanced themselves from the country” (P26:103-103).

Due to these circumstances, many family members live abroad, and this makes the decision-making process very difficult, and decreases the level of commitment these family members have for their family company.

4.2.1.2.2 Colombian legal context and capital structure.

The legal environment mentioned by the interviewees also affects the capital structure of companies. For example, one sample company founded by immigrants explains why its capital structure included at first several people that were not relatives of the founders. “At the end of the ‘70s,” they said,” President Lopez left a very particular law stating that if a company had foreign shareholders, then the company was considered foreign and that meant double taxation for the companies. As a result, many international or multinational companies at that time had to be nationalized, and became Colombian with friends and/or front men as shareholders in order to solve this taxation problem” (P18:031-031).

While the previous statement reflects the historical effect of the legal environment on company, legal issues remain a consideration in structuring a company’s finances. Currently, for example, consolidating the debts of business groups in Colombia becomes a legal obligation in time, an interviewee says. “Now with IFRS [International Financial Reporting Standards] we have to consolidate the balance sheets from all our companies. Being a business group, we have to consolidate debt, also applying IFRS. Each company is independent and has its own Balance Sheet and P&L statement, but we have the obligation to consider the consolidated debt. Anyway, we see that we have to understand the consolidated business, which doesn’t mean that we don’t notice certain small things in the separate companies” (P3:27-27). Moreover, the “thin capitalization rule” now in

effect makes the cost of bank credit more expensive, and makes company capitalization become more important, says one of the interviewees:

“Our business is highly leveraged, and now we have a complicated situation with the government because they created a “thin capitalization rule”, which means that companies can only deduct interests according to a certain debt to equity ratio; i.e., you can only have debts for n times your equity, [and] if you exceed this ratio then those interests are not tax deductible. Obviously, this has been hard on us because this project is highly leveraged, which means that our net profit will be seriously affected if we don’t capitalize” (P3:17-17).

4.2.1.2.3 Colombian stock exchange and capital structure.

Trading shares and listing the company in the stock exchange has not been easy for the companies analyzed, because in Colombia, capital markets are not significantly developed. In the words of one interviewee, “I hope this doesn’t sound derogatory, but we do not have a Stock Exchange, nor do we have a stock market; we have a ‘tiny exchange’ and a ‘tiny market,’ it doesn’t have volume, nor depth, nor professionalism. What has happened in the last years in regards to the stock market activity is a shame, an embarrassment; it shows an absolute weakness” (P13:143-143).

Following is an example of one company’s experience (Whole) with the stock market not as well developed at the US or some European markets...:

“At that time, the beginning of the ‘90s, when we floated the company, the national stock market was incipient and shares worked in a very clumsy way. Actually, the selling process was quite rustic, because it meant that a buyer, accompanied by the company’s CEO and CFO, would approach a seller. The

former would define a price and make an offer, and the latter would accept or reject it. Those dynamics were tremendously rustic, especially because they lent themselves to unscrupulous shareholders buying massive quantities of shares at prices favorable to their interests, but not necessarily to the seller's interests” (P33:309-309).

And the Colombian stock exchange logic does not appear any less controversial today:

“The Colombian stock market today has a logic that one doesn't understand. As a result of acquiring a business 'abroad,' our company results were not the best, and evidently the share price had to go down due to that investment. It has been two or three years since that, the “abroad” business is doing well now, and currently the company situation is very different. The first semester of this year was spectacular, and in spite of that, the share price does not go up..... It is a thinly traded stock and we cannot explain what happened... We already fixed the company and the stock price does not go up” (P27:25-25).

In the opinion of another company in the sample, Bricks, floating a company nowadays -- not only a family company but any company -- will depend on the perception that people have regarding the conditions provided by the Colombian Stock Exchange. “I don't think the Colombian Stock Exchange works well,” the Bricks interviewee says. “There isn't enough liquidity, the companies that trade there feel that it's not a sufficiently developed market” (P25:073-073). Thus, BB says, one must look for a different type of financing. “Instead of floating the company or acquiring more debt,” BB says, “we decided to bring in a strategic partner that invests in new related and

non-related businesses. They have a very interesting network to open new paths and opportunities for us in new businesses and to make acquisitions (P22:048-48).

4.2.2 Internal factors

Some internal factors significantly influence the type of financing that the companies in the sample look for. Amongst these internal factors are values, different family dynamics, and the current generation of the shareholding family. However, as AW of Whole points out:

“In regards to the subject of the capital structure of companies, there is not much written about family companies because the great majority of business literature is dedicated to searching and explaining ways to maximize company value without considering other very important issues, such as what happens within the family when these types of decisions are made. Nevertheless, there are no textbooks that concentrate on ways to make this process something more real ...”
(P33:357-357).

4.2.2.1 Values as an internal factor in the development of the capital structure

As the patriarch of one of the companies analyzed succinctly states, “Among the key issues worth discussing when talking about capital structures of family companies, are how the family’s values are represented in management, risk, debt levels, liquidity, and the desirability of IPOs” (P80: p10). As an example, another interviewee brings up the issue of the way in which the family chose a strategic partner that modified the capital structure of one of their companies, which demonstrates the importance of values in the decision making process on the part of both parties: *“In regards to the strategic partners,*

I don't think it was a difficult sale in so far as they saw, on one side, that the values and the way of doing things in both companies were aligned, and on the other, that there was an added value which was complementary to what we could offer them, in particular, our own values and a mutual complementarity” (P25:066-066).

4.2.2.1.1 The concept of values.

First, it is important to determine what values are which is established by the consistency of their general meaning as defined in literature according to Koiranen (2002). Some of these definitions are:

- “A value is a conception, explicit or implicit, of the desirable which influences the selection from available modes, means and ends of action” (Kluckhohn, 1951, cited in Rokeach, 1973, p. 10).
- “By values we mean ideas about what is desirable” (Athos & Coffey, 1968, p. 100).
- “Values are desirable end-states” (Guth & Tagiuri, 1965, p. 125).
- “Values are global beliefs about desirable end-states underlying attitudinal and behavioral processes” (Conner & Becker, 1975, p. 551).
- “Values are generalized, enduring beliefs about the personal and social desirability of certain modes of contact or end-states of existence” (Rokeach, 1973, p. 5).
- “Values are the bedrock of any corporate culture” (Deal & Kennedy, 1983, p. 21).
- “Values refer to people’s reasons for acting and judgements about such reasons” (Ozar, 1997, p. 645).

Further, the previous literature distinguishes between:

- Lived vs. espoused values (Gatrell, Jenkins, & Tucker, 2001, p. 164). In the interviews, the values mentioned that are related to capital structure are the values that the interviewees currently adhere to, not those they aspire to but do not live by at present.
- Material vs. spiritual; societal vs. individual; co-operative vs. competitive values (Parikh, Neubauer, & Lank, 1996, p.3).
- Explicit (open) vs. implicit (hidden) values (Bjerke, 2001, p. 35). In the case of this research, the values might not be explicit per se, but they become explicit through the interviewees' attitudes and behaviors.

4.2.2.1.2 Values that stand out in entrepreneurial families, and how they relate to the different types of financing

The table on the following pages describes the main values that emerge from the analysis of the interviews, and how they relate to a type of financing. The column on the left presents the theoretical concept of each value experienced by the families. The column on the right describes some of the behavior adopted by the families when considering the use of financing and shows the behavior of families in relation to the different types of financing.

Table 7. Values, definitions and illustrative quotes

Value Concept	Type of financing/illustrative quotes
Trust: "...a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another" (Rousseau et al. 1998)	<p>1. IPO: <i>"As long as there are holders of company papers it means that someone valued them, and considered them to be a good investment. They trust the company, and the family who owns the company"</i> (P14:65-65).</p> <p>2. Private Fund: <i>"The void that NN's death left in my father's head unconsciously</i></p>

	<p><i>turned into a lack of confidence to continue running the business directly, and suddenly turned into an incentive to diversify the risk when he felt he no longer held the reins of the company” (P7:24-24).</i></p> <p>3. Debt: <i>“Banks trust the way we manage our companies, and that is the reason they call on us to buy their services” (P20: 116-116).</i></p> <p>4. Alliances: <i>“Friends and partners have been with us from the beginning and have respected our leadership based on trust” (P26: 33-33 / P34: 45-45).</i></p>
<p>Business ethics: “...rules, standards, codes, or principles which provide guidelines for morally right behavior and truthfulness in specific situations. Individual actions conform to justice, law, fact, reason, or truth” (Lewis, P. V,1985).</p>	<p>1. Financing outside the banking sector: <i>“Ambition leads to ruin. The family is not interested in a market which lies outside the banking sector, nor in deals outside the law” (P9:173-173).</i></p> <p><i>“We finance ourselves with institutional resources, not with resources from outside the banking sector” (P09:095-095).</i></p> <p>2. Alliances: <i>“During the Due Diligence process we confirmed that our allies have had an honorable track record for generations, and that gives us confidence” (P14:71-71).</i></p>
<p>Privacy: “refers to bits of information that, for one reason or another, are kept hidden or controlled so as to elude attention, observation or comprehension. In a sense, secrecy is a necessary strategy in excluding one's opponents from information so as to generate the conditions for efficient governance. On the other hand, privacy protects us from the possibility of an unfair exchange of self-disclosures, criticism and vulnerability. Privacy provides security” (Wexler, M. N.1987).</p>	<p>1. IPO: <i>“In order to protect privacy some entrepreneurial families prefer not to float their companies in the Stock Exchange” (P25:077 / P74:049-049).</i></p> <p>2. Alliances: <i>“It is acceptable to have a partner at the company level, not at the holding company level, due to issues of control and privacy” (P25:77-77).</i></p>
<p>Open-mindedness: “beliefs relating to the way in which members approach the views and knowledge of others, and incorporates the beliefs that others should be free to express their views and that the value of others’ knowledge should be recognized” (Tjosvold & Poon, 1998)</p>	<p>1. IPO: <i>“In order to float the company in the Stock Exchange it is necessary to have a new mentality, training for it, and the ability to adapt to regulations” (P13:121-121).</i></p> <p>2. Alliances: <i>“In Colombia, the multinational was looking for an institution with an open mind to take advantage of and adopt quickly their</i></p>

	<p><i>contribution in terms of processes, methods and risk management, decrease process time, and improve the productivity and efficiency of the operation” (P23: p12).</i></p>
<p>Justice: “consistency of the procedure across persons and across time. Suppression of bias by the decision-maker, accuracy of information, correctability (e.g. appeal procedures), representativeness (all phases of the allocation process must reflect the basic concerns, values and outlook of all individuals), ethicality to conform to all personal standards of ethics and morality” (Van der Heyden, L., Blondel, C., & Carlock, R. S. 2005).</p>	<p>1. ESOP: <i>“To act fairly with company partners, paradoxically brings about conflicts in the family” (P12:107-107)</i></p> <p><i>“Our family company honors the commitments with our partners by not applying our majority rights in cases where we could apply them” (P2:20-20).</i></p>
<p>Social Purpose: “refers to the inclusion of social and environmental concerns in business operations and in interactions with stakeholders. It encompasses transparency, stakeholder dialogue, sustainability reporting together with value creation, environmental management, environmental friendly production systems, and human capital management (Van Marrewijk, M. 2003).</p>	<p>1. Alliances: <i>“Protecting the employment of our workers is criteria we use to choose alliances” (P34:063-063).</i></p> <p>2. IPO: <i>“In our decisions we always have the expectations of our shareholders present; ordinary people who trust that our management will add value to their shares” (P28:039-039).</i></p> <p>3. Internal financing: <i>“We increased the salary of our employees, and in order to do it we did not pay dividends that year” (P22: 27-27).</i></p>
<p>Education and development: personal development involves mental, physical, social, emotional, and spiritual growth that allows a person to live a productive and satisfying life within the customs and regulations of their society. This is achieved through the development of life skills. (Muchena, K., Howcroft, G & Stroud, L. 2015).</p>	<p>1. <i>“The third generation is not yet involved in the business, some of them study in Europe and in the U.S; they are getting an education to become professionals or directors and to be able to make better decisions” (P2:74-74).</i></p> <p>2. <i>“We have a career and a training plan for our employees so that they can make better decisions” (P13:73-73).</i></p>
<p>Valuing Stakeholders: “Valuing and respecting minority shareholders includes protection against conflicts of interest in three dimensions: transparency in transactions between binding parties (transparency index) accountability of managers in the case of damaging transactions between binding parties (directors’ accountability index) and the shareholders’ ability to sue directors and officers for misconduct (Ease of shareholder suits index)</p>	<p>1. External partners: <i>“The partners have completely trusted our management style, we have also been very respectful of the minority shareholders; in some cases, when there has been a management mistake, they have been compensated at our cost. We have been generous partners; we have never</i></p>

<p>(Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A, 2008).</p>	<p><i>applied our majority rights” (P2: 20-20).</i></p> <p>2. Alliances: <i>“We offered the partners that we would take charge of the production process in Colombia, build the plant, contribute with our know-how, very good conditions for them” (P16: 46-46).</i></p>
<p>Respect for the culture: organizational culture, is the pattern of basic assumptions which a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, which have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein, E. H.1989).</p>	<p>1. Trade financing: <i>“The respect that suppliers and insurers had for our organization was so strong that after the fire they trusted our employees to specify how much inventory had burnt down” (P33:130-130).</i></p> <p>2. All types of financing: <i>“My parents founded the company and they established it under very clearly defined values that we, members of the second generation, have continue to apply when looking for financing” (P1:51-51).</i></p>
<p>Accountability. ‘Being answerable to audiences for performing up to certain prescribed standards, thereby fulfilling obligations, duties, expectations, and other charges. Accountability creates identifiability by linking individuals to their actions and resulting outcomes. In family firms, when individuals do not feel their identity is compatible with the task, possibly because it does not use their knowledge, skills and abilities, they are less likely to feel obligated to perform at a high level, and are more likely to use the excuse that circumstances interfered with their control over the performance outcome. (Guidice, R. M., Mero, N. P., & Greene, J. V.,2013)</p>	<p>1. Internal financing: <i>“Once, the family decided to stop the payment of dividends so that our employees could keep their jobs” (P21:082-082).</i></p> <p>2. Debt: <i>“My parents taught me the value of the responsibility of banks. It is preferable to become poor, but to honor the clients’ deposits. That is worth gold” (P35:124-124).</i></p> <p>3. Trade financing: <i>“Our suppliers are not worried if we owe them money. None of our companies has gone bankrupt or defaulted on its debts, in spite of having had difficult periods” (P18:132-132).</i></p>
<p>Low profile: “...to avoid ostentation, behaving in a simple way, naturally, spontaneously, rejecting protocol and preferring informality. Simplicity helps to do business with realism, accepting risks and not collapsing in the face of adversity. Not standing out does not mean having low performance; it means having a great ability to learn, listen, and value what other people are, say and do.” (Gómez-Betancourt, G., 2005).</p>	<p>1. Internal financing: <i>“We are frugal; we do not get into debt in order to pay dividends; we reinvest for new projects” (P4:030-030).</i></p> <p><i>“Our financing is done with the company’s internal resources. If we distribute dividends we are damaging the company’s internal generation of</i></p>

	<p><i>resources to continue growing” (P8:046-046).</i></p>
<p>Tradition: “Tradition refers to the stock of knowledge, competencies, materials, manufacturing processes, signs, values, and beliefs pertaining to the past” (Messeni Petruzzelli & Albino, 2012).</p>	<p>1. Alliances: “<i>A good strategic partner for diversification is another entrepreneurial family that shares values and long-term investment perspectives” (P7:081-081).</i></p> <p><i>“The partners saw in us an alignment in values and management, as well as a complementary added value to their business” (P31:066-066).</i></p> <p>2. IPO: “<i>I am not interested in selling the company to buy luxury things. I love working in it, it is my reason for being, I have great friends here” (P18:088-088).</i></p> <p><i>“The family must float a minority interest to reduce risk and to continue with the family tradition of having control” (P28:39-39).</i></p>
<p>Loyalty: “...commitment to a person, cause, country, or ideal, stemming from natural kinship, personal attachment, collective purpose, or common identity” (Roth, J. K., 1995).</p>	<p>1. Alliances: “<i>The AM family chose this partner because it offered to protect the jobs and loyalty of their people” (P34:063-063).</i></p> <p><i>“As a principle, we had the loyalty of our partners who would support the business even with their own capital” (P32:045-045).</i></p>
<p>Prestige: “...feeling of pride for belonging to an organization that is believed to have socially valued characteristics and may feel inclined to bask in its reflected glory. This is expected to occur most strongly when members believe that important outsiders (such as customers or shareholders) see the organization in a positive light. Perceived external prestige influences organizational identification. The more prestigious one perceives one's organization to be, the greater the potential boost to self-esteem through identification” (Smidts, A., Pruyn, A. T. H., & Van Riel, C. B., 2001).</p>	<p>1. ESOP: “<i>There were some small shareholders. When my father founded CASH, he would give shares to important people to make the company prestigious, and he would do the same with the Boards of Directors” (P3:032-032).</i></p> <p>2. Debt: “<i>There are entrepreneurial families who tarnish their reputation by receiving funds from money laundering activities in order to solve a crisis, or to achieve growth” (P14:056-056).</i></p> <p><i>“We have had, and still have, a very good reputation with banks and as debtors; banks give us credit smoothly</i></p>

	<p><i>when we need it, but we don't like having big loans" (P:65:045-045).</i></p> <p><i>"Banks give us very competitive interest rates. Historically, we have always complied with our payments, and that is our characteristic" (P8:34-34).</i></p> <p>3. IPO: <i>"To list the company on the Stock Exchange is a matter of reputation for some people, and even if there are other good financial alternatives, prestige is their main motive" (P14:067-067).</i></p>
<p>Entrepreneurship: "an entrepreneurial firm is one that "engages in product-market innovation, undertakes somewhat risky ventures and is first to come up with proactive innovations. It applies strategy-making practices used to identify and pursue opportunities arising in the environment. The entrepreneurial orientation is a combination of innovativeness, proactiveness and risk-taking (Garcés-Galdeano, L., Larraza-Kintana, M., García-Olaverri, C., & Makri, M.,2016).</p>	<p>1. Debt: <i>"Companies must make long-term bets and go into debt, and for us innovation is part of the philosophical values of entrepreneurship, of creating companies and financial and social value in an environment" (P22:22-22).</i></p> <p>2. Financing in general: <i>"In my experience, the objective is to have a strong, solid company to develop the business ventures of our children. Today we have a more independent society, our children are more open, in part because we gave them the opportunity to travel and study abroad. The world is more global for them and they have a different spirit, and I've begun to perceive that all those ideas and expectations they have are going to be more personalized" (P9:145-145).</i></p>
<p>Cultural Diversity: "Harmonization of cultural diversity requires knowledge about the culture they interact with (language, traditions, beliefs, rules, etc.), personal skills (clear communication, correct understanding etc.) and personal orientation (empathic interaction, emotional reactions, tolerance, etc.). The identity of an enterprise is given by its culture, because it gives it a unique set of features and personality, that distinguish it from other organizations" (Popescu, S., & Roata, S.,2012).</p>	<p>1. Alliances: <i>"Diversity is important, but with cultural affinity between partners" (P26:35/P21:130).</i></p> <p><i>"Cultural diversity in alliances enriches the family" (P35:91-91/P34:65-65).</i></p>
<p>Long-term orientation: "Long-term orientations could be defined as priorities, goals, and most of all,</p>	<p>2. Asset Shedding: <i>"The money from a sale is saved for a possible future</i></p>

<p>concrete investments that come to fruition over an extended time period, typically, 5 years or more, and after some appreciable delay. Long-term priorities include good stewardship aimed at reducing risk or building up resources. Long-term goals are more specific and might involve achieving enduring quality—or innovation leadership” (Breton & Miller, L., & Miller, D., 2006).</p>	<p><i>investment, like a war chest” (P26:55-55).</i></p> <p>3. Trade Financing: “<i>We have created alliances with foreign suppliers because we manage significant inventories, and you need to have credibility to make transactions without letters of credit” (P20:126-126).</i></p>
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4.2.2.2 Family dynamics and capital structure, and vice-versa

As posited in the literature review chapter, when referring to family dynamics I include various aspects of family behaviors that affect the business and the ownership of the business, such as: emotional pressures and stress (Craig & Lindsay, 2002); team dynamics and family relations (Astrachan, 2010); decision making processes (Gersick et al., 1997); family control (Anderson & Reeb, 2003); family system behavior (Poza, 2010); family power (Miller & Le-Breton Miller, 2006); family entrenchment (Kroll, Wright, & Theerathorn, 1993); ownership schemes (McMahon & Stanger, 1995); ownership dilution (Schulze et al., 2003); family and conflict (Pieper, 2010); and so on.

4.3 Types of financing. Influence of internal factors.

Below is a description of internal factors (family dynamics, values, and generations) with their respective influence on the different types of company financing, including the interview quotes and the documents that describe those behaviors.

Likewise, the right column describes some effects of the different types of financing on family dynamics, values, and the generations in charge of running the company.

4.3.1 IPOs giving up control

IPOs giving up control refers to the company or companies in the sample that relinquished control by floating the company on the Stock Exchange. The illustrative

case below is the company, Whole. The table describes and explains the family dynamics, values, and some generational aspects that were noted in the interviews and that led to the decision by the family to sell the company on the stock exchange; it also describes some of the effects on the family's dynamics as a consequence of said flotation. The table also describes some family conduct that has led other companies to avoid flotation on the Stock Exchange, according to unquoted but related comments by some of the other sample companies who have not relinquished control.

Table 8. IPOs giving up control

INTERNAL FACTORS			
Family dynamics that lead to IPOs		Consequences of IPOs on Family Dynamics	
Family Dynamics			
. There was neither business emotional cohesion nor family cohesion among family members, they only had some financial business cohesion given by dividends.	P35:043-043	Avoid conflicts by giving dissatisfied shareholders a route to exit and give family unity	P27:015-015 P32:53-53
Family focusing more short term than long term,	P32:105-105	Had a disintegrative impact on the family as it was persuaded to not consider where it was to be in the long term	P32:105_195
Shareholders are not unified in their goals for the business and their responsibilities to others	P32:93-93 P22:41-41	It encourages individual business ventures.	P32:93-93 P22:41-41
Different goals from different family branches	P32:53-55	Contributes to family cohesion, emotional health of the family	P33:357-357 P32:93-93
		IPOs maintain justice perception among family members	P33:357-357
Family stress due to company growth	P3:58	IPOs create conflict due to different vision from external shareholders and from the family	P22:041-041 P70:045-045
Conflicts originated by selling shares within the family	P32:075-075	Family feels at ease because shares have a value and can be traded	P33:357-357 P32:53-55 P35:043-043
Low motivation of female family members, and of new generations	P33:091-091 P32:105-105	Floating the company dissolves the entrepreneurial family as such, due to: <ul style="list-style-type: none"> •One-person, absolute leadership without any shared vision or objectives; •Succession has not been planned by the family; •Family members without business training 	P33:261 P33:303 P33:63 P33:373

Previous partners formalize company governance before flotation	P35:026-026		
Entrepreneurial family has short-term vision. Succession issues are not discussed	P32:105-105		
Lack of emotional link to the company on the part of the women and the second generation of the family	P35:079-079	Break-up of entrepreneurial family, each member follows their own path	P32:091-091
Values			
Privacy. To protect their privacy some families, prefer not to float their companies	P25:077-077 P74:049-049		
Prestige. Looking for prestige, the family decides not only to list the company, but also the Stock Exchange on which it is going to be listed	P74:067-067 P35:026-026	Listing the company on the most important Stock Exchanges gives prestige to the family, and the possibility of having other sources of financing in the future	P14:63-63
Business venture. Look for resources to finance personal projects, diversify, and reduce risk	P32:93-93	It encourages individual business ventures. Diminish risk. Peace of mind	P22:041-0 P32:93-9341
Generations			
Lack of interest and commitment from new generations	P35:079-079 P32:105-105		
Lack of training from new generations	P35:079-079		
First generation seeks peace of mind via liquidity	P75: 075-075		
		Family members feel more secure and at ease as a result of company growth and strengthening of corporate governance	P35:043-043 P75:089-089
Second generation has no family connection nor is it linked to the business: sees the company as an investment to grow and sell	P32:53-55		
Aging first generation	P75: 075-075		
Knowledge of previous generations encourages or limits the use of the Stock Exchange	P35:026-026 P22:041-041		

4.3.1.1 IPO Giving up control and family dynamics

In the case of Whole, a company that relinquished control to external parties via the Stock Exchange, the purpose when the family company was created was the well-

being of the family, but there was no long-term vision or plan for a family company; this definitely influenced the family's decision to list the company on the Stock Exchange and sell their shares:

“When the company was created there wasn't a real entrepreneurial family purpose. That was a very big error. Apart from creating a business that could provide comfort to the family, there wasn't a long term projection on the part of the founders. They didn't think about mechanisms that would allow the next generations to continue, in a structured way, with the flag that they had raised... A very valuable ownership and management scheme could have been preserved, and it was lost. I said it many times, but they didn't like for me to say it. It was as if I were criticizing them” (P32:105-105).

The family's short term vision instead of looking in the long run had an effect on their capital structure decision to sell the company on the stock exchange; but, at the same time, the IPO also had a disintegrative impact on the family as it was persuaded not to consider where it was going to be in the long term.

Additionally, the different family branches had very different interests, and they thought that the Stock Exchange was criteria to value the company: *“In the future, some of them (especially members of the second generation) would want to leave and this was going to constitute a problem in order to value the company. What criteria were we going to use to value the company? The buyer's criteria, or the seller's criteria?...”* (P32:53-53) In this case, the cause of placing the company in the stock exchange was not only the need for an independent valuation of the shares but also the differences in goals of family

members. These causes also imply lack of cohesion and even poor communication among different generations as the following quotes make clear.

Since there had already been a family conflict when a private sale of shares had taken place, everyone wanted to prevent this from happening again: “A few months later, the seller said that “he had been hit on the head,” even though the buyer was the same family. That could have damaged the family relationship, which wasn’t very close, but it was good” (P32:075-075). The above quote also implies that IPOs avoid damaging family relationships and cohesion, which occurred when internal stock selling happened among family members.

Being listed on the Stock Exchange also provided an easy way out for those relatives that wanted to sell, some of whom did not have any interest in nor training to continue running the company. There was neither business emotional cohesion nor family cohesion among family members; they only had some financial business cohesion given by dividends. The lack of knowledge about company matters combined with the lack of long term goals for this non-cohesive family were also important issues in the decision to go through the stock exchange. According to BW:

“We saw that strategically it was important to list the company on the Stock Exchange, and we worked towards that end. But we were also aware that the different family groups were only interested in their dividends, because they had no training, because it was comfortable to receive money, put it in their pocket, and sleep peacefully. None of them was a business person nor had they any training to run the business. They thought it was more important to have their

shares listed, and to have the Stock Exchange as a vehicle to sell their shares at any time. If not, it [selling shares] would have been impossible” (P35:043-043).

Liquidity and the possibility to trade the shares in a fairer manner also motivated this decision. At the same time, the IPOs maintained justice perception among family members: *“Once the company has been valued, that wealth has to be tradable for the partners. The creation of an exchange mechanism is necessary in order to make equity something interchangeable. That was the objective of a group of shareholders, but not all of them. Nevertheless, the great effort made by the Whole family benefitted everyone” (P33:357-357).* Thus, in the second generation, the company is no longer considered a family business; it is now seen as an investment that needs to increase its value in order to be sold. Said one interviewee, *“The company was considered more as an investment; how much dividend is it paying; how much is its value going to increase in the future, because for many family members the goal was to increase its value and sell. They did not have any impact on the company, they were not on the Board of Directors, and they did not make any decisions” (P35:079-079).* In other words, second generation family shareholders were only investors. They did not consider themselves a family business because there was not cohesion as business family.

BW sheds more light on the family cohesion dynamics that brought Whole to this point in its history. *“During the 90’s” he said, “my uncles wanted to transfer their responsibility to the second generation, but none of the sons from that generation had any interest in the company. I am the eldest nephew, and in reality I had no link whatsoever to the company” (P32:049-049).* Moreover, female family members had no motivation because they were excluded from any business issues:

“Furthermore, in spite of my uncle being very generous with some family members, there were others that were not even allowed to go into the stores: the wives. His sisters-in-law were not allowed to work in the company, and they could never visit their husbands during working hours. Neither was it expected that they would give their opinion about the business. And if they did, they were met with such scolding that they learned never to do it again. Where they could ask about some business topics, very superficially, was at home where they had a bit more authority” (P33:091-091).

This lack of involvement on the part of the women combined with the lack of competencies on the part of the second generation acted as triggers to listing the company on the Stock Exchange: *“We analyzed many circumstances to see what could be the best, not only to increase the value of the equity, but to preserve the company in different hands in the long-term.... We reached the conclusion that the best thing was to list the company on the Stock Exchange” (P32:53-55).* Whole’s situation makes clear the importance for family shareholders to be educated in business matters and/or shareholder responsibilities if they want the company to be transferred to next generations.

This family considered it more convenient to sell their shares on the stock exchange not only to increase the value of their equity, but also to solve shareholders’ liquidity issues, the second generation’s lack of interest in running the business, and the first generation’s interest in having financial security. Floating the company provided not only liquidity for shareholders, but also allowed the family to turn their investment into cash. The members of the first generation who had initially capitalized the company and had all their money invested in it could not continue to contribute additional funds needed

for growth; by selling, they were satisfied. *“Maybe the founders felt more comfortable having financial resources after having invested and capitalized during all their lives. The older members were already very old. I would say that was the fundamental reason to sell their shares on the Stock Exchange”* (P32:075-075), says a cousin who was a member of the Board of Directors. Lack of succession planning by the first generation was another reason for the family to sell because there was no knowledge transfer as a consequence of bad communication among different generations.

In Whole’s instance, listing the company provided enough money to maintain family cohesion, promoted individual family business ventures, diminish risk, and improved the family’s emotional health. The company grew, and its government became stronger, something that supported new, subsequent issues. Moreover, they maintained family cohesion:

“The only family members interested in continuing were the family directors, no one else was interested. There was an ongoing issue about diversification because to be concentrated in only one sector, in only one company, was not very sound financially. They wanted to remain in Whole, but not with 100%, because there could be a turn in any direction. All of them sold to diversify, start their own business ventures, or make investments.” (P32:93-93). *Being in the stock exchange gave the family peace of mind. “...Several share issues followed this one. The mechanism to float the company on the Stock Exchange was decisive. The improvements in the corporate government were an indispensable tool to make the company management more confident”* (P32:089-089). *The IPO gave the management more confidence to continue growing because of better*

governance. "...The family remained on the Board of Directors until we decided that the cycle had come to an end, and we decided to sell all our shares to a multinational company. It was a painful sale, but we maintained the family unit" (P32:191-191)

In other words, giving dissatisfied family shareholders a route to exit favored family unit.

Some additional comments some interviewees made regarding listing a company on the Stock Exchange are worth mentioning. First, a decisive element for a successful flotation is to have had, before the floating process, foreign partners in the capital structure, "...strategic partners that helped to manage the company, well-known individuals, important members of the business world" (P35:026-026). Second, with regard to listing on the Stock Exchange, the Brick family comments they learned a great deal from a previous generation's experience regarding participation in the stock market, which influences their decision not to do so again:

"When my grandfather's company became public it started to lose, because it started to concentrate on the short-term, in meeting the needs of short-term investors, and it missed the opportunity to undergo a technological reconversion to turn it into an efficient company, to diversify, to integrate forward or backwards. ...And that is when, during the 70's, this company went from being the biggest company nationwide to the slightly medium-size company that is today, with a lot of problems, with a tradition and an enigma... As a result of that experience, amongst others, listing the company nowadays is not an option for us" (P22:041-041).

According to BB, Stock Exchanges do not understand the meaning of being a family company, and it is not clear how to balance the interests of external shareholders with those of family shareholders:

“In an organization, I wonder how to balance long-term bets, such as a technology spin-off, with the short-term bets of minority shareholders on the Stock Exchange, who are interested in seeing their share price skyrocket in a matter of hours... to win with a share value increase. They (the Stock Exchange) do not understand the skeleton inside, the flesh and the muscle of a family company, what really makes it valuable, its ability to create value, which for me is not the share price, but the capacity that a machine made up of technology and human beings (family and employees) has of working well, of generating cash and being able to reinvest it, and of growing making short, medium, and long-term bets”
(P22:045-045).

4.3.1.2 IPO Giving up control and family values

Family values in some way influence, positively or negatively, the decision of listing the company on the Stock Exchange. For example, in regard to privacy, listing Bricks today would not be an option, especially if referring to the holding company, due to privacy issues and to the fear of losing the balance between short and long-term investments, says CB, a family member who sits on the Board of Directors:

“I don’t know, but I believe the second generation would be worried if the listing on the stock exchange would be at the holding company level, because there would not be a family vehicle to retain control and privacy. They would be concerned that listing the company would make it a target for a takeover, or that

the share price could plummet, and the mentality regarding investment terms and executive incentives could change. There are serious consequences, which is why we need to be prepared, and know to what extent we can mitigate the consequences of an eventual listing on the stock exchange” (P25:077-077).

Furthermore, says CG, family privacy and detaching himself from the management would be elements that his family considers important to avoid floating the company at this time:

“I would say that listing a company in the stock market is not the best financing mechanism for a reason: Companies must have transparency protocols in regards to the market. Many family companies don’t want this because they would have to share private company information. It’s like getting naked, in other words, “what you see, is what you get. Buy me” (P14:049-049).

Listing the company can mean prestige for the family, and the possibility of having other sources of income in the future. As CG explains, “Financial experts said that it was best to go to the London Stock Exchange because it was cheaper and there was more liquidity. This family thought that reputation-wise it was better to be in the New York Stock Exchange, a decision totally based on reputation... (P14:067-067). And a Whole family director adds,” It was a simple mechanism, not very elaborate, but it allowed Whole the power to access capital markets in a stronger way further down the line” (P32:081-081.)

Regarding the effect of entrepreneurship on giving up company control, AW, a Whole family director, said, *“The only family members interested in continuing with the company were two cousins, no one else was interested. There was an ongoing issue about*

diversification because to be concentrated in only one sector, in only one company, was not very sound financially. They wanted to remain in Whole, but not with 100%, because there could be a turn in any direction. All of them sold to diversify, start their own business ventures, or make investments.” (P32:93-93). And in terms of family dynamics, it would also imply that they were not unified in their goals for the business and their responsibilities to others; they wanted to pursue their separate interests more than their joint interests in the business.

4.3.1.3 IPO Giving up control and generational aspects

In terms of generations, the first generation at Whole was not interested in listing the company on the Stock Exchange:

“While Whole founders still had total influence in the company, they never thought about the Stock Exchange or anything similar to obtain funds, or negotiate the shares because there was no need; they had enormous quantities of cash, very well managed, strong in commercial terms, and the shares on the stock exchange didn’t move very much” (P35:031-021). *“...The company had no need to use the Stock Exchange, because it had good cash which allowed them to finance their own growth and any financial requirements”* (P35:035-035).

The second generation, however, had more interest in the liquidity produced by investment on the Stock Exchange, and in having the necessary income to establish their own business ventures. A second generation member says, “One of the first things that came to our heads was that we should register the company on the Stock Exchange” (P35:041-041).

4.3.2 IPOS not giving up control

Unlike Whole, in the case of School, the family did not want to lose control of the company. They were even less open to losing control of the family holding company, even though several family members who were interested in listing the holding company. The shares issued on the Stock Exchange were preferential shares with a minority participation right. The following table shows a summary of family dynamics and their influence in regards to listing the company on the Stock Exchange, but without giving up company control. It also shows how listing the company influences family dynamics and presents the values that influence the decision to list the company, and the generational dynamics for or against doing so.

Table 9. IPOs not giving up control

INTERNAL FACTORS			
Family dynamics that lead to IPOs		Influence of IPOs on Family Dynamics	
Family Dynamics			
		Avoids conflicts by giving dissatisfied shareholders a route to exit and give family unity	P27:015-015 P32:53-53
Cohesion. The lack of financial and emotional cohesion mechanisms motivates listing the company as a viable option to obtain liquidity	P22:42-42 P27:49-49	Expedites valuing the company, and facilitates conversations regarding the price and sale of shares, if needed.	P27:015-015
The family's strong participation in the company motivates listing it, but without giving up control	P80: p2		
The family's sense of belonging to the company motivates listing it, but without giving up control	P80: p1-2		
Ensure the family's power in the decision making process when maintaining control. Fear of losing control	P27:22-22		
Values			

Prestige. Fear of using the stock exchange because it may give the impression of wanting to change the company's identity for cash, a negative image for the company and the family	P80:p8	A minority listing on the stock exchange has complicated a little the way company decisions are managed by the family	P27:22-22
Tradition. Minority flotation, reduces risk and continues family tradition of control and total power	P28:039-039	Responsibility. The family company and the family managing the company take on a new responsibility towards external investors. Minority flotation also reduces risk	P28:039-039
Generations			
The founding generation is not inclined to finance the company with shares	P18:082-082 P31:068-070 P35:031-03		
Members of the second and next generations are more inclined to float the company. For the elders it is too complicated	P28:115-115 P35:041-041		

4.3.2.1 IPOs not giving up control and family dynamics

In School's case, the situation is different from Whole, because after floating the company, the family did not give up control of the subsidiary, and the family has maintained a strong link to the company. The family has a strong tradition of many years running the company, and many of its members work in it. The family company has a family and a corporate governance, and the family has a great sense of belonging to the organization. Nevertheless, says one interviewee, "the liquidity issue" and the "ease of valuing the company" equally influenced the decision of listing one of the subsidiary companies. In many ways, family members saw floating the company as a rehearsal. "It was trying out a way of financing where we had certain concerns, but in one of the subsidiaries, not the holding company, without running a big risk, and just to see how it worked" (P27:15-15). In terms of liquidity, one family member proffered the benefits of

being in the stock market: “The family always thought it was a good idea to float the company because there is this idea that the stock market can provide a company valuation faster, and that it is an easy way to obtain liquidity in the sense that if I need to sell my shares I can do it more easily” (P27:015-015). The idea of having the company on the stock exchange gives the family unity in some way, because it gives liquidity without having to go through an evaluation process for the shares. The shares are sold at the stock exchange price. In the Whole company, it is clearly mentioned that when a family shareholder wanted to sell before they were in the stock exchange, there was conflict because of the price settlement: “What criteria were we going to use to value the company: The buyer’s criteria, or the seller’s criteria?” (P32:53-53).

Maintaining control and responsibility means that the family has freedom to continue making many business decisions, even if its subsidiary company is listed on the stock exchange:

“Since the holding company is closed, we manage all the other subsidiaries with a lot of freedom in many aspects. We don’t have to ask permission from anybody. The Board of Directors meets, discusses, decides, and that’s it. When there’s a listed company it’s not like that. At the holding company we look at a group of private companies, and then we look at one that is listed; it’s like a ‘different child.’ When we discuss any issues, there is always the question... and what are we going to do with the company that is listed on the stock exchange? It forces us to follow other procedures, it’s different” (P28:039-039).

For example, floating the company has created a big responsibility from the family towards the external shareholders. As one interviewee remarked, ” ...Anyway, when I

walk on the street I feel a big responsibility because there are people who come up to me and say 'You are the new company president; I bought shares at this price and now it's falling, don't forget about us, please maintain the price'" ³ (P28:039-039).

At Bricks, according to family history, the lack of family cohesion mechanisms resulted in an earlier generation of the family that was very easily convinced to float the company:

"Another reason that led one of the big ... Colombian companies to lose its flag could have been that [listing the company on the stock exchange]. What a pity that my grandfather is not alive to have these conversations about a disunited family. A disunited and disconnected family is very easy to convince of following a certain path, and maybe the path to float the company was a mistake. Could it be that they didn't know how to manage that path because they were a disconnected family? Very possibly. Intuitively I would say that yes" (P22:42-42).

School's president agrees with the importance of a united or cohesive family.

Having shares in the family company should provide some type of visible and frequent return, however small, he says, to maintain cohesion. However, he believes there must be other types of cohesion mechanisms, not only financial:

"Managing family cohesion is difficult if we want to maintain ownership within the family, it is complex. I'm always concerned about these people (shareholders), I want them to think that what they receive from the company is worth it, that they like it. If not, they go and sell their shares because what is the point of having them, if they don't represent anything? That's why I keep saying that we have to

³ The share price on the Colombian stock exchange was falling to levels that were much lower than the IPO prices.

invent other things to distribute to shareholders, without putting much financial pressure on the holding company” (P27:49:49).

4.3.2.2 IPOs not giving up control and values

The reputation of the School family was considered when discussing listing the company on the stock exchange. “School has been investigating the possibility of going public with individual operating companies or the entire holding company to gain a large infusion of cash...”(P80:p8), said an interviewee. He described the widely varying opinions expressed by family members. “Multiple family members recalled one of the patriarchs was adamantly opposed to taking the holding company public. Others, including family-council members saw benefits in a large initial public offering (IPO) for the holding company. The family approached the IPO discussion very carefully, largely to ensure that they preserved School’s strong reputation in the community by avoiding the perception they were willing to trade the company name for cash (P80: p8).

4.3.2.3 IPOs not giving up control and generational aspects

First generations are not very convinced about listing their companies on the stock exchange, and they prefer to manage them in a more family –oriented way, as asserted by some of the interviewees. For example, AP explains, “They didn’t have the dimension or significance to go into the capital markets. They always considered that the company was only to be managed in a family-oriented way” (P18:082-082). And CB from Bricks declares, “I don’t think they [the first generation] would’ve accepted it, even less in the situation the stock exchange was at the time, and it isn’t better now. It didn’t work efficiently, and didn’t have the transparency mechanisms or offer the protection they

were looking for” (P31:068-070). In fact, when a young member of School proposes floating the company, he is met with opposition:

“My perception is that in every Board of Directors there are members who have more influence than others. Generally, they are older people, and those who don’t want problems; they always find a negative example to knock everything down. They tell us “look at the case of this big local company with extraordinary results and yet its shares are not traded. Why would you want that, and the employees? One can say that it is a particular case, that we have to make sure we do not resemble that company too much, nor think that that company represents all the companies in this industry” (P28:115-115).

4.3.3 Different levels of debt and internal factors

As in previous cases discussed, some internal factors influence how much debt is acquired by entrepreneurial families. Amongst those factors are: family dynamics, family values, and the family generation presently running the company. Likewise, the debt level of companies influences family dynamics. The table below shows the influence that family dynamics, family values, and the generation in charge of running the company have on the acquisition of debt. The table indicates how high or low company indebtedness influences family dynamics.

Table 10. Debt

INTERNAL FACTORS			
Influence of family dynamics on debt		Influence of debt on family dynamics	
Family Dynamics			
Crisis, succession: death of family leader	P12:23-23 P54:092-092	Strengthens the family’s decision-making mechanisms	P16:14-14
Conflict with a family member	P15:19-19	High indebtedness produces family conflicts	P79:029-029

Financial crisis of a family member	P15:19-19	High indebtedness produces family crises	P10:039-039 P57:113-113
Financial cohesion: Acquire debt to distribute dividends and keep family unity	P16:13-13	High indebtedness demands mortgages and higher interests that produce stress in the family	P1:103-103
Family fears the arrival of competition	P72:029-029	High dependency on large banks produces fear of default and the subsequent loss of access to bank credit	P14:32-32
		Low debt gives peace of mind	P4:034-034 P9:113-113
Fear of losing control of the situation leads to low debt	P22:040-040	Low levels of debt in the holding companies keep peace in the family	P34:151-151 P34:087-087; P32:039-039; P31:74-74 P26:91-91
Bad experiences with high debt lead the family company to low debt	P22: 040-040; P26:091-091	High indebtedness strengthens the decision-making process within the family	P16:18 -19) P16:14-14
Fear of a financial crisis within the company. War chest anticipating a crisis	P25:99-99	High indebtedness guaranteed by land mortgages. Risk for the family	P16:9
Values			
The family's peace of mind leads to low indebtedness	P54:034-034; P31:074-074	High indebtedness produces humility within the family	P23: P7
Reputation. Favors credit and low interest rates	P6:52-52 P26:91-91 P15:036-036	High indebtedness produces respect for the legacy and cohesion	P28:014-014 P48:059-059
Reputation leads the company to low levels of debt	P26:091-091		
Family tradition leads to low levels of debt	P4:034-034; P4:014-014		
Prudence leads the family to low levels of debt	P34:151-151		
Generations			

First generations are usually averse to the risk associated with high indebtedness. They would rather sleep debt-free	P18:047-047	In partnerships between siblings there is dialogue in regards to debt, and the freedom to accept debt according to the percentage of ownership	P14:39-40
In the First Generation, the Pater Familiae decides about debt levels	P72:059-059		
INTERNAL BUSINESS FACTORS			
Insufficient previous studies	P6:8-8		
Modernization processes, equipment	P72:029-029		
Company's financial crisis	P12:23-23		

4.3.3.1 Family dynamics and debt

Succession and family crises are decisive factors of the capital structure of family companies, particularly of debt. One interviewee said these factors may include “difficult family situations, such as when a patriarch dies, or when a partner leaves, as was our case, or when there is a crisis that force you to finance the company with debt to bear the crisis” (P12:23-23). Nevertheless, in some instances, higher debt can provide solutions. For AL, for example, debt solved some succession issues. “To deal with the problems of succession, we ended up acquiring more credit. We solved the problems of succession, but acquiring debt is not to the family’s liking” (P4:092-092).

Family conflict can also lead to debt. In one company with a very high level of debt, conflicts between siblings grew so intense that taking on more debt to buy out one brother seemed to be the only way to resolve the issue. “The company has a very high debt because it acquired loans to buy out a brother who couldn’t stand the others. The company wouldn’t have such debt if the owners hadn’t been a family” (P15:19-19).

On the other hand, the family's fear, whether it be of a financial crisis or of an attack from the competition, can also lead toward taking on debt, especially when there are open bank credit lines. One interviewee recalls, "The EBITDA decreased during the second half of 2008 and the first half of 2009, and with the uncertainty regarding the financial system and not knowing if our credit lines would remain open, the Board of Directors decided to use all the lines to the fullest, and thus increase our cash cushion" (P25:078-078). CB agrees, and considers debt as an opportunity to anticipate the availability of resources for an eventual bank crisis:

"At the end of 2008 we were over-indebted, in part due to a conscious decision taken by the Board and by the management to use all available credit lines in order to increase our cash cushion, because we didn't know which other banks were going to fail and if liquidity sources were going to dry. Our leverage increased very much but most of the funds were in cash as a preventive measure in case all credit lines dried out... The family Council was very worried. I don't think we reached a 3.5 net debt/EBITDA, I don't remember the exact figure, it was over 3, which was high enough to generate fear" (P25:99-99).

In AG's case, the family's fear of an attack from the competition, led to the company acquiring debt. "Another milestone of debt is fear, the fear we have as a family company of the arrival of fierce competition." To prepare, he said, "and to strengthen and anticipate ourselves to the arrival of new competitors, we opened credit lines to tackle those alleged crises in a better way" (P12:029-029).

Finally, in terms of low debt levels, peace of mind, and family tradition, fear of losing control and prior bad experiences with high debt play important roles as family dynamics that influence some companies in the sample to keep debt low:

“The policy of AM’s father is that the less debt you have, the more peace of mind you have. On the other hand, that situation has been true for a long time as a result of the high interest rates in Colombia. When interest rates were 3.5% per month, debt was prescribed in our case. And... We maintain that tradition on until today” (P4:034-034).

As far as fear of losing control and prior bad experiences:

“The family has a conservative policy relating to debt. Eight years ago we had a financial crisis and we had a high level of debt with sales going down. Since then, we understood we have to have covenants in our company to maintain low levels of debt” (P22:040-040).

On the contrary, worth mentioning is that, in several of the family groups analyzed that were organized through a holding company (Lunch, Mortgage, Brick, Energy, and Parts), debts are very low or null to give peace and unity to the family (P34:151-151; P34:087-087; P32:039-039; P31:74-74; P26:91-91); however, in all of them except for Lunch, the owners are second-generation siblings, which will be discussed in the next chapter.

In the case of debt, some other quotes from interviewees speak to the feedback loop from capital structure to the family. For example, most people think of the negative consequences of debt (more stress and more fighting) as claimed by AC, who says, “...But obviously, debts generate a lot of concern for families because they feel that they can no longer sleep peacefully at night, because a debt is a debt” (P9:113-113). Or as the

CEO of School says, “Financial results were very poor during many years, a very high level of debt, and that situation in any family business would not work because it creates fights that when they ignite, they start to take a different path” (P28:029-029).

BC gives a warning regarding the risks of debt, saying, “...but when difficult times arrive, a high level of debt can lead to a very complicated family and company crisis” (P10:039-039). That kind of high level of company debt produces a lack of trust between family members:

“From the moment the company has a high level of debt, the family managers had to leave the Board of Directors. The General Manager and any other manager could not be on the Board. This created a company standstill, not only because the situation did not allow the start of new projects, but also because politically there was no desire or enough confidence to explore other type of business opportunities. It was a psychological effect where we stood still with our expertise, and didn’t explore new things due to the lack of confidence produced by the high level of debt” (P16:18 -19).

Still, some interviewees like AT mention the positive consequences of debt on family cohesion. He says, *“without a doubt, in 34 years of history there have been difficult moments when the debt capacity of the company has been limited, and it has required a family effort. This in some way has positive impacts within the family, such as the return of my brother who had moved abroad. He came back to support us”* (P1:059-059). And AB’s situation was similarly positive, for “the debt problem brought us together and forced us to make a decision together, which was to think about the future of the company and of the family, because at the end they are both aligned. That was a

difficult decision that had a positive impact, because it brought us together around a very difficult decision” (P21:144-144).

A variety of other interviews contained positive feedback related to high debt and some aspect of family dynamics. For example, AM, president of Mortgage group, says, “the crisis and the high level of debt made us humbler, and that attitude was critical for everything that happened afterwards in our group” (P23: P7). And the CEO of School says that, despite the high indebtedness, ”... there is a lot of respect for the legacy that was left to us; the family has been respectful. In other families this would have meant a big problem. In this case, I don’t know if it has been God’s fate, or principles, or religious beliefs that things are going to get better, but something has prevented it” (P28:014-014).

The president of a School subsidiary predicts that family dynamics prevents the family from selling, in spite of the dividends paid which, due to the high indebtedness, are not what the family could get if they had another type of investment:

“This level of debt has forced the family to deal with a difficult situation, but there is too much respect for the legacy, for what we have received from my father, my grandfather, the founders. Any member of the family could say, for example, if this yields 2%, why not sell and go invest where I can get 10%. Anyway, the probability of a family member selling his shares is very low. In any other family the members would have run away. Not here, due to values, to family legacy. It is something unique” (P28:021-021).

In the case of Harvest, the bank understood that they had to lend money to the company to maintain the financial cohesion between family partners and to keep the company operational:

“The company had a loss during one or two years. It was impossible to distribute dividends because there was no profit. It was necessary to negotiate with banks so they would accept something unusual: that the company had to acquire more debt in order to be able to give something to the partners, dividends that had not been generated.... with the understanding that if the family could not live off of the company, then it would be impossible to sustain the partnership and the family unity” (P16:13-13).

4.3.3.2 Values and debt

The image of the family and its reputation contribute to obtaining credit, and to lower interest rates when negotiating bank loans. The president of Energy claims, “an interesting fact about this company is that it has had a very good name within the financial system and very good credits approved. We never default or fall behind on payments. I think that has made easier the possibility of having credit at reasonable cost conditions” (P6:52-52). And the president of Mortgage says something very similar, that also leads to low indebtedness:

” The Mortgage name is worth a lot to us. People admire the story of Mortgage. Someone very close to me, to the Superintendent, and to the president of Banco de la Republica (Colombia’s Central Bank) came to me and said “people believe what you say, you are the only one they believe in.” I learned that from my father. If you play dirty, the day you need banks they are not going to listen. At the time of Mortgage’s crisis when we had to go to Banco de la Republica, they always believed in us. Image is fundamental” (P26:91-91).

Furthermore, BM, a member of his board also states: “They are very cautious when they take debt. They always look at the indebtedness in a very cautious way” (P34:151-151)

On the other hand, as the result of the bad reputation of a partner, Harvest had to obtain a loan to buy out his shares in an effort not to have the reputation of the company affected:

“We ended up with an intruder inside our family company overnight. This created a huge conflict, starting with a total break-up with the family group that sold the stake to the intruder, and it also brought an enormous problem from a legal, reputational, and governmental point of view” (P16:036-036), (P15:036-036).

Generational aspects and debt

First generations are usually averse to the risks associated to debt. It is worth illustrating that statement with the following quote from an interviewee:

“Regarding the level of debt, that depends on each person. My father and my uncle only studied until first and second grade, respectively. For them it was very important when I graduated from university, ‘finally a member of the Parts family graduates, he is a professional.’ In some moment I said, ‘Dad, our own money is very valuable, it is better to use borrowed money.’ Banks at that time lent money quarterly in advance, but our business produced more than that. After attending university and spending some time in Boston, I considered that one’s own money is more expensive than money borrowed from a bank. I gave a lecture to my father, and I remember he said: ‘Son, I am impressed; you know a lot and you have learned, and I feel very proud of you. But, what I am going to tell you is that there is a very important ingredient in business which is to be able to sleep peacefully, and I sleep peacefully as long as I don’t owe anything to anyone, and

as long as I can pay everything that I owe.’ That policy has always been maintained in our group” (P18:047-047).

Also, the decision-making process in regards to debt changes if the next generations are already involved in the company, say CG from Gown. “In the first generations where there still is a Pater Familiae....., the person that has been successful is used to doing whatever he pleases in regards to debt, and finds it very difficult to share the decision-making process with the second generation” (P12:059-059). “...Typically, there are some siblings or nieces/nephews that are inside and others outside. Let’s say that, since it’s a question of ascending authority, if the Pater Familiae is not present, then what you have is a relationship between three peers who might say ‘I’m not going to acquire debt, I don’t want to compromise my shares, if you want to do it, then do it with your own shares” (P14:39-40).

4.3.3.3 Internal business factors and debt

In one case, the over-indebtedness was the result of an uninformed decision made without proper preliminary research:

“In my opinion, the preliminary studies were not done with the precision needed to make this decision and this purchase; I don’t remember the details, but that purchase had a very high leverage component” (P6:8-8). “...Banks understood this. Obviously, they demanded all types of guarantees and precautions for repayment, and eventually the situation was overcome, but those were very difficult years that produced many consequences for the family and the company. Therefore, we saw the need to strengthen the decision-making mechanisms,

because we could not repeat an investment of such scale without proper analysis, just because someone thought it was a good idea” (P16:14-14).

4.3.3.4 External factors specific to debt

There are a couple of external factors that are specifically related to debt. These factors refer to the subject of guarantees and the size of banks in Colombia. The first is mortgages. During difficult financial times in Colombia, banks lent money aware that clients would not be able to repay their loans; thus, the important thing for banks was to have a mortgage or a significant part of a property as guarantee. This, of course, created a lot of stress for the family. One of the founders interviewed comments about the collateral required for bank loans, “Look, these machines for you are just old junk that you will not be able to sell, they are very specialized and have no market.... Basically, I need you to renew this credit for two more years and I’ll show you that I can repay it” (P1:103-103).

The second external factor is bank size:

“In Colombia, bank credits are still very common, but the financial sector is very small. If you have a company with a debt of COP [Colombian peso] 500,000 million, approximately USD 200 million, which for many banks abroad is not a significant figure, here in Colombia you need a 10-bank syndicate to finance it. Since the market is so small, companies tend to depend on the most important banks, and banks have a lot of power. If they know that one of them changed the terms of a client, or demands payment instead of refinancing, or does not lend to that client anymore, then all the other banks are going to do the same, and that company is no longer going to have any financing in this country” (P14:32-32).

4.3.4 Private equity fund giving up control

Food, one of the companies in the study, chose a private investment fund to finance itself at a certain point in time, and somehow gave up control via a shareholders' agreement where most of the important decisions were left to the fund. In the following section, the internal family factors that influenced that decision are examined, as well as the consequences of having chosen this type of financing.

Table 11. Private Equity Fund giving up control

INTERNAL FACTORS			
Influence of family dynamics on Equity Funds		Influence of Equity Funds on family dynamics	
Family Dynamics			
Lack of confidence from the patriarch to run the business by himself influences the decision to bring in a fund	P7:024-024	Improve family communication and cohesion	P7:036-036
Succession, strengthen the skills of new generations	P7:024-024	Minimum contribution of knowhow from the fund produces family stress	P7:029-029
		Conflicts of interest between the fund and the family produces family stress	P7:031-031 P7:033-033 P4:98-98
		Exit of family managers produces relief	P7:033-033 P4:98-98.
Values			
Open mind to accept investors	P26:83-83		
Family reputation. Attracts investment funds	P23: P.12		
		Reputation. Having top of the line companies as allies brings reputation to the family	P23: P.12
Generations			
Lack of trust from the first generation towards the second generation	P7:029-029	Intergenerational conflict. Founders want to continue participating, but now they can't because they are minority shareholders	P7:086-086

4.3.4.1 Private Equity Fund giving up control and family dynamics

In one sample company, Lunch, the death of a patriarch and a lack of confidence in the second generation's readiness to step into the leadership void the death created led the remaining patriarch to bring in a private equity fund; the hope was that doing so would improve management and help the company achieve better financial results. While the arrival of the fund does bring positive effects for the family, strengthening the trust and improving communication between family members, the different investment perspective between the family and the fund also produces negative effects in the family. A clear conflict of interest between the family vision and that of the fund became apparent, and resulted in bringing in an external manager. BL recalls the evolution of events:

“Normally, in the course of my father’s business life, despite him being the visionary, the one who structured deals, the one who saw potential and took the decision to enter or not, he was always accompanied in some way by his brother who, unfortunately, died. His death left a void in my father’s head that unconsciously turned into a lack of confidence to continue running the business directly, and suddenly turned into an incentive to diversify the risk, because he didn’t have the reins of the administrative management” (P7:024.024). “... confidence came back when the outsiders arrived to propose the deal, due to the two reasons that I mention: diversify risk, and the arrival of professionals to run the business. This gave my father peace of mind. What you don’t realize at that moment is that those private funds have financial expertise, but operation-wise they bring little or nothing” (P7:029-029). “...From the beginning we realized

that the investment perspectives were different. We, as a family, thought more in the long-term, sustainability, our clients, our employees, they thought about figures and returns” (P7:031-031). “...I moved to the Family Office, and we brought in an external manager” (P7:033-033).

According to an advisor to Lunch, “BL’s exit from the company management didn’t produce major problems in the sense that for the family, it was better that he steps aside because his double role as shareholder and manager, having a fund as partner, and other additional partners, was not a convenient situation. It was a relief for everyone when that situation happened” (P4:98-98).

On a positive note, the family who had been distant in a certain way, now becomes closer and there is cohesion as a result of the arrival of the fund:

” This situation brought us closer; we realized how such difference in perspective should bring us closer as a family. My father gave me his full support in this. It brought us much closer than what we used to be before the Fund came in... Then, all family members became more allies in trying to design a strategy that was convenient for the business in general, but also for the interests of the family” (P7:036-036).

The effect of bringing in the fund was then the unity of the family, although the patriarch is still convinced that he can continue running the business as he did before the arrival of the fund:

“Unity came as a result of having to talk and discuss often what was happening. We have our discussions with my father because he thinks the family is still running the company. They demand results from us without realizing that our

hands are tied, we can no longer manage the company because that role is now performed by a third party. I cannot give orders to the managers' subordinates. That is impossible. That shade of grey has not been understood by my father; he cannot digest it because he wants to solve the problems that he sees, but we cannot act directly. We have to go to the General Manager and make these observations, and maybe the results cannot be seen as fast as my father would like (P7:086-086).

4.3.4.2 Private equity fund giving up control and values

AM from the Mortgage family believes it important to have an open mind to receive capital investments and grow the business as needed. “There may come a time when our family loses the control” says AM, “and we have to open up this, receive people and have the capital to undertake big projects that we have not been able to do so far.” (P26:83-83). Moreover, having an important and well-known investment fund increases the reputation. “In 2007, after analyzing several investment options in Colombia,” AM recalls, “a very prestigious international firm looked proactively for Mortgage, and at that moment decided to buy 49.7% of the holding company. For us it was as if you were invited to the White House, or as if you receive the news that your daughter is going to marry the prince of England” (P23: P.12).

4.3.5 Private equity not giving up control

Several companies in the sample have brought in private investment funds and retain control of their companies without giving it up to the fund. This case includes Cash, Mortgage, and Bricks. As in previous cases, there are some internal family and business factors that influence the decision to have a private investment fund in the

capital structure of the company, but in this case, the fund does not acquire control of the company. Within the internal factors mentioned are family dynamics, values, and the generations that influence the decision making process. Likewise, it can be seen how making this decision affects family dynamics.

Table 12. Private Equity Fund not giving up control

INTERNAL FACTORS			
Influence of family dynamics on Equity Funds		Influence of Equity Funds on family dynamics	
Family Dynamics			
Fear of debt leads the family to desire a fund as an investor	P21:053-053		
Family aware of risks wants to diversify its shareholding	P22:053-053		
Family cohesion to make decisions regarding the Fund	P3:042-042 P21:068-068 P21:72-72	Exit mechanisms make the family feel at ease	P25:073-073 P26:114-114
		A partner's crisis forces the family to accept 100% of a debt risk, when their shareholding is only 50%	P16:54
		A majority shareholder made the family negotiate the sale price causing a division	P33:373
		High degree of emotional stress in the decision making process	P20:176
Family accepts the Fund at a company level, not at the holding company level, for fear of losing control	P25:77		
Values			
Prestige and experience of the firm and the family attract investors	P16:43-43	Fund brings peace of mind to the family	P31:034-034
		Pride and commitment	P3:042-042
		Partners with ill-reputation or bad behavior damage the company and expose it to a loss of prestige	P16:21-21
		Funds interested in a quick return offer little knowhow. This produces angst in the family	P28:99-99

The Fund is accepted when the family is well-organized	P21:49		
		Short-term vision of the Fund produces stress in the family	P4:6 0-60
Generations			
New generations prefer allies more than partners	P7:57-58		
INTERNAL BUSINESS FACTORS			
Funds bring in a different culture that contradicts the local one	P20:176		
Growth required new capital	P22:053-053		
		Turn the Fund into a strategic ally	P21:0 53- 053
		Added value is important in many processes	P31:0 34- 034
		Value in analysis and decision-making process	P31:0 34- 034
		Bring in knowhow, expertise	P31:0 34- 034
		Change the business vision	P57:1 13- 113
		Business is formalized, seriousness, sustainability, transparency	P3:04 0-040
		Access to additional credit	P3:04 0-040
		National and international guarantee	P3:04 0-040
		Acquisition of other partners	P10:1 29- 129
		Funds with long-term vision favored diversification, strengthening, and autonomy	P3:40
		Business becomes professional	P25:1 35- 135
		Better option than IPO in terms of control, diversification, and reduction of risk	P22:4 8

4.3.5.1 Private equity fund not giving up control and family dynamics

The family's fear of debt leads to the arrival of a fund. The family feels uneasy in regards to leverage, and a way to grow without leverage is with the entrance of a private

investment fund. This can be deduced from a comment made by a member of a family who decided to include a private equity fund as a company shareholder, in spite of the differences in vision between the family and the fund:

“In 2013, it was decided that to comply with the vision and the strategic focus, it was necessary to obtain an amount of capital higher than the one available from the family and the company. It was not deemed convenient to increase the level of debt so we started looking for a strategic partner... Then an important percentage was sold to an Equity Fund... Thus, they are our partners in one of the businesses” (P21:053-053).

The family did not want more debt, but it traded the concern of additional debt for the tension of a different vision. *“It doesn’t mean that because we have a partner with a short-term vision there isn’t any tension between the short and the long-term. It’s inevitable, but the family didn’t want any more debt. We could’ve continued growing in a moderate way, but the family wanted to grow at a faster rhythm, so we needed new capital. The organization made the decision fully aware that there were very clear threats” (P22:053-053).* Additionally, investment funds many times bring in “expertise,” and that fund member’s expertise is valued by the family. And while the business vision may have a more short-term focus, the fund brings peace of mind for the family as a result of not having more debt:

“The business vision changes, but behind that short-term vision there are studies that have helped us... those studies have been carried out by the member of the Board who comes from the fund, reassuring us in regards to the figures. Obviously, debts generate a lot of concern for families because they feel that they

can no longer sleep peacefully at night, because a debt is a debt, and the fund reassures us with its capitalization” (P9:113-113).

In the case of a fund investing in a family company, there should have in place an exit strategy for the fund at the end of the agreement, with which the family is at ease.

For example, a possible exit might be a flotation on the stock exchange:

“When dealing with private equity funds, exit strategies are important... Exit mechanisms have to be very clear to the partners, conditions, criteria, price... In deals with foreigners we have formulas and criteria, the way in which the investment is valued. That prevents conflicts... For us, the exit mechanism is also important, so when it happens there will be a flotation, and if they want to continue they can, but our exit mechanism is already decided, how much did I earn, and good-bye” (P26: 114-114).

In addition, the fund might be limited to investing in one of the operating companies, not at the family holding company level, as mentioned below:

“The family is open to the arrival of a fund. That’s why we decided to bring in a private equity fund. From the beginning, it implied that we had to be comfortable with their eventual exit. As long as what is floated is a company below the holding company, the family has no problem, [and] there are certain advantages” (P25:073-073).

The arrival of a fund also supposes a common understanding among family shareholders, and in this particular case where there is an external manager with a shareholding in the company, a common understanding between this external manager and the family, as was the case at Cash:

“We arrived at the conclusion that we had to give them a participation without ever giving up the majority. They didn’t think about having it either. There is a lot in the shareholders’ agreement between Cash and AC. We need to continue together, that is part of the subject.” (P3:042-042).

The Brick family also describes the common understanding among family shareholders, and the way this common understanding was achieved:

“In order to sign the protocol stating that the fund alternative was validated by most of the family, we had to discuss it for a long time. I would say it was discussed during 2 or 3 years. It matured. Looking at the company’s strategic plans, we considered that it was convenient for its growth. We agreed that the company should grow, and to do it we needed external capital. It wasn’t enough to acquire debt or risk the company’s financial health, then we had to look for capital, and that is why we made the decision that we made” (P21:068-068).

BC adds that the arrival of the fund has represented a source of pride for the family, that the work carried out to bring in the fund was very big, and that the family feels satisfied at what the private fund thinks about them after the relationship they have had so far:

“... and then they were the ones who came, so it was a source of pride for us; even more, what we showed them during the year were our skills and what we had achieved, and they realized it. It’s an acknowledgement of our work, that’s why I say it’s an issue of pride, and then the challenge of doing the deal. One thing is “they approached us. Now, close the deal” (P3:042-042).

Becoming formal is another effect on the business and the family. “In fact, the biggest decision we have ever taken in regards to the capital structure has been the arrival of the fund. It has been an important step, from the perspective of owners, to provide a higher level of demand, of professionalization, to the family and to the company” (P25:135-135). The arrival of a private equity firm fostered discussion and implementation of more formal structures important to guiding and building the business including “... *a family commitment to a very clear and defined corporate government where things are supremely transparent...Then, the Corporate Government has helped us a lot, even to become more formal as a family. Additionally, ...it is a seal of seriousness, of sustainability, of transparency, not all companies have that, and if we have the fund inside it’s a way of saying that it is a company that’s doing things right. It has also given us the possibility to access additional credits...*” (P3:040-040).

Additionally, the partnership with the fund has benefits in terms of acquiring other partners. Said one interviewee, “The fund has more than 20 companies like this worldwide, we are the “jewel in the crown” in terms of the way we have been working and adding more partners to our company” (P10:129-129).

4.3.5.2 Private equity fund not giving up control and values

Cohesion:

“I would say the decision was always made by consensus. Something that has distinguished us is the capacity to generate consensus. We’ve never voted, although there is the possibility of doing so. These are decisions made by consensus” (P21:72-72).

4.3.5.3 Private equity fund not giving up control and generational aspects

According to one interviewee, in hindsight, some of the new generations would've preferred an ally that contributed more than just capital:

“I wish one could find professional corporate allies that have knowledge of the business, that can contribute something more besides capital, maybe knowledge, relations, or whatever, but that contribute a bit more and could be more stable in the long-term” (P7:57-58).

4.3.6 Partnerships giving up control

The arrival of a partner and giving up control supposes some premises on the part of the family; for example, that the partners will contribute more than just capital, i.e. knowledge, relations, stability, and an increase in the value of the company. Some internal factors contribute to the partnership between some of the companies in the sample and other companies, be they family or similar that contribute to the development of the strategic plan of said companies. As in the previous cases, family dynamics and values were observed as were some internal factors that were related to the deals.

Table 13. Partnership giving up control

INTERNAL FACTORS			
Influence of family dynamics on Alliances		Influence of Alliances on family dynamics	
Family Dynamics			
When there is family unity it is easier to get allies. It ensures continuity	P26:033-033	Align with the partner's culture	P35:091-091
Family needs complementarity with other partners	P35:081-081	Family learning	P6:050-050
		Internal trust	P6:049-049 P26:057-057
Bad family relationships and lack of interest in the company	P26:033-033 P35:079-079	Family discipline	P6:050-050
Values			

Diversity yes, but cultural affinity too	P34:65-65 P35:091-091	Cultural diversity from the partnership enriches the family	P35:091-091 P34:65-65
Open mind as a condition to receive new allies	P34:053-053		
Company and family reputation to create trust before the partners	P26:35-35 P21:130-130		
Compatible values	P21:130-130		
INTERNAL BUSINESS FACTORS			
Search for capital, knowledge, relations, and stability contributions, and a value increase	P55:058-058	Alliances contribute knowhow, value and growth to the business	P35:081-081
Positioning, contact network are offered to allies	P21:130-130		

4.3.6.1 Partnership giving up control and family dynamics

The arrival of a partner and giving up control supposes some premises on the part of the family; for example, they may expect that the partners contribute more than just capital, i.e., knowledge, relations, stability, and an increase in the value of the company. As one of the interviewees says, “One can find professional corporate allies who have knowledge of the business, that can contribute something more besides capital, maybe knowledge, relations, or whatever, but that contribute a bit more and can be stable in the long-term” (P7:058-058). And in the case of a multinational as an ally of Whole, “*We bet on the multinational to provide us with their know-how, and to help us improve all aspects of our company, and to value our company more. With that capital we started our own development, growing in terms of stores, buying land, and building facilities*” (P35:081-081).

In addition, other factors may influence the decision to seek a partner. These may include, for example, a bad family relationship, lack of interest, or lack of sense of belonging to the company. AM states, “If tomorrow we fight again, we are going to destroy the business, let’s take advantage of this situation to find a partner, we thought” (P26:033-033). And BW of Whole states:

“For them (the second generation) the company becomes secondary. It is considered more as an investment; how much dividend is it paying; how much is its value going to increase in the future, because for many family members the goal was to increase its value and sell. They did not have any impact on the company, they were not on the Board of Directors, and they did not make any decisions. The different family groups thought only about the value of the company in the mid-term and that’s why they wanted a partner, to increase the value of the company” (P35:079-079).

But to have an ally means to align yourself with the partner’s culture, and for that it is necessary to have a previous learning experience about cultural issues. As explained by BW, difference of cultures does not make a good match for alliances

“It wasn’t easy. The issue of cultures is difficult, but the company manager not only learned very well the topic of mergers and acquisitions, but also knew how to do them, because he had read extensively about the subject. It seems that worldwide, in many cases there have been enormous failures due to cultural problems in companies, and here we managed to do it, and I believe it was successful” (P35:091-091).

When the AM family decided to find a strategic partner, one of the candidates was rejected precisely due to cultural differences. They said, “We thought that the culture of our potential partner who wanted to acquire us didn’t fit well with Mortgage’s culture. We saw all that, the qualitative aspect” (P34:65-65). On the contrary, family companies’ alliances have demonstrated that they give learning, discipline, and internal trust to family companies: “.... The alliance process has been very interesting, the change for the

family has been amazing in learning and discipline. It has been a learning process for us...” (P6:050-050). In the case of Mortgage, the family is more relaxed with the partnership: “... all my family is more relaxed with the new partners, we are good and serious, but these people have a vision we did not have before. Now we believe we can do things in a better way” (P26:057-057). “.... we sleep better with the partners we have” (P26: 058-058).

4.3.6.2 Partnership giving up control and values

An open mind: “... in the case of AM’s family, all generations involved in the business needed to have an open mind as a condition to welcome new partners, be they alliances or private investment funds. AM’s father, first generation, didn’t have any problems in opening his mind to new possibilities, in spite of his advanced age” (P34:053-053).

Family reputation: The reputation of the Mortgage and Bricks families makes the potential partners feel confident enough to enter into the partnerships, as does the cultural match between them:

“One day a representative of an international firm comes knocking on our door. It’s as if your daughter married the prince of Denmark, better impossible. These gentlemen come and do their due diligence. They check everything personally. I tell my siblings that in this type of deals it is not only about the figures adding up. They’ve checked our character, and the seriousness of the company, and we have passed, because for these investors it is not only the figures but also to know with whom they are dealing ... We’re dealing with the Mortgage family, not with anyone” (P26:35-35). “Also, the fact that we are a family group with a good

reputation, with credibility, with values that match theirs as a family company.

We also offer a way of being, a way of acting in accordance to what they are, and in fact we've been partners for more than twenty years. I think it's because of that. We offer them our position here, our network of contacts” (P21:130-130).

4.3.7 Partnerships not giving up control

Within the companies analyzed, several of them have entered into partnerships at different moments of their lives. In this case, we will see the partnerships where company control has not been given up.

Table 14. Partnership not giving up control

INTERNAL FACTORS			
Influence of family dynamics in Alliances		Influence of Alliances in family dynamics	
Family Dynamics			
Cohesion. Consensus leads to the search of a partner	P21:063-063		
Values			
The family and business culture is offered to the partner	P21:132-132		
The family wants to agree on values such as reputation and credibility	P21:130-130		
The family searches for family companies that share their values, knowhow and capital	P21:027-027 P31:066-066 P21:57-57 P31:058-058		
Partners have respect for company values and for minority shareholders' rights	P2:20-20		
We take responsibilities, and offer compensation to partners	P2:20-20 P16:43-43		
Open mind and long-term vision	P34:053-053		
Generations			
Third and fourth generation more open to new partners	P21:063-063		
First generations interested in having partners to achieve complementarity	P: 20:059-059		
INTERNAL BUSINESS FACTORS			

Consider the career path of partners and their value contribution	P31:058-058	Knowledge, international performance, networks, tax issues lead to partnerships	P31:058-058
		Sector and process knowhow lead to partnerships	P16:43-43
		Allies made an important contribution to the company management and perspective	P35:045-045
		A share exchange with a large industrial group gave strength to the company and peace of mind to the family	P35:045-045

4.3.7.1 Partnership not giving up control and values

Just as in the previous case where company control is given up in a partnership, the family's culture plays an important role, in addition to their relations and knowhow about the business. Being successful with minority shareholders also implies having a series of values where they are respected, and where the majority partner also earns the respect of the minority partners. Values play an important role in the culture of partners. According to AB, "We've had an excellent relationship with our partners because we did our homework searching for a strategic partner with whom we had an affinity of values" (P21:57-57).

And those values must be compatible, continues AB:

"Also, the fact that we are a family group with a good reputation, with credibility, with values that match theirs as a family company, all this benefits our partnerships" (P21:130-130). "...51% of Brick and 49% of a big store organization joined forces with an important multinational entrepreneurial family. They are family companies that partnered with a Colombian family company, and who joined their capital, knowhow, and values. That is the reason why we have been able to grow" (P21:027-027). "... We also offer our partners a

way of being, a way of acting in accordance to what they are, and in fact we've been partners for more than twenty years. I think it's because of that. We offer them our position here, our network of contacts" (P21:132-132).

CB agrees, and says, "In regards to the strategic partners, I don't think it was a difficult sale. They saw on one side an alignment in values and in the way we do things, and on the other that there was a complementary, added value in what we could offer them. It was very evident" (P31:066-066).

In addition to the partner's values, there is also the career path, reputation, and complementarity. CB continues, "Besides the partner's values, we consider the career path, reputation, and ability to add value in the business where we operate. We took advantage of the fact that our partner added an important value in regards to the local context of that country, which is difficult not only culture wise, but in relation to taxation which is very complex" (P31:058-058).

And AH explains:

"Some very interesting businessmen came to us, successful in the production and processing business, a company with many years in the business, very well known in the international market, who were interested in having a partner with a strong presence in a tropical country in order to complement their product offering" (P16:43-43).

The third and fourth generations of a well- structured family firm supported the idea of seeking a partner to fund the company growth in the long run, and in a display of strong family cohesion, decisions are taken by consensus of family members to receive such a partner:

“This wasn’t done out of need; it was a decision well thought by two generations, the third and the fourth. We thought in the long-term. We started talking about this and in the protocol it was expressly written that part of the shareholding could be in the hands of a partner. It was very important to include it in the Protocol. That allowed us to decide at a certain moment in time to go and look for a strategic partner. The possibility had become institutionalized. The second generation was no longer present” (P21:063-063).

Mutual respect also figures into a successful working partnership:

“There hasn’t been any negative impact whatsoever, any difference; they have been very comfortable partners, very calm, have completely trusted the way we manage the business, and we in turn have also been supremely respectful of their minority position. In some cases, when there has been a difficulty due to a management mistake, we have compensated them at our own expense. We have been very generous partners; we have never applied our majority rights (P2:20-20).

4.3.7.2 Partnership not giving up control and generational aspects:

“The founders, at the beginning, were interested in having important partners or allies. They were more commercial, with the vision of advanced entrepreneurs, but they had very important partners such as xx who were the industrial allies... Then, Mr. xx had commercial shrewdness, knowhow to manage people, his way of coordinating the company, and Mr. xxx, his partner, the ability to implement ideas in the companies. It was a very important combination, says CP” (P20: 059-059).

“I don’t think they were closed to the idea of having strategic partners, but they had not thought about having financial partners... on the other hand, they wanted an added value that was complementary to what we could offer them. In the case of xx it was very evident” (P31:066-066).

The Pater Familiae’s opinion also depends on what he considers as complementary:

“AM’s father was still alive. He wasn’t in favor of a partnership. He had the notion that xx was in a completely different type of business, and had nothing to do at Mortgage. The idea of complementarity was sold to him and he accepted it. His capacity was already diminished, and he had been formally replaced in the company, but he was the Pater Familiae” (P34:053-053).

In several cases, the second generation tries to forge their own path through entrepreneurship. Different generations have different outlooks, vision, and attitudes:

“The Whole family of the early ‘90’s was much bigger than the one who started the company, and already had a second generation visible and active. New voices and perspectives started to appear little by little, some of them eager to participate with greater influence in corporate decisions, others not so much. While some of us never got tired of examining commercial topics in relation to Whole, other members of the second generation said they wanted to leave the company to create their own business ventures or projects. At the same time, many of my uncles were starting to suffer the ravages of time and show the exhaustion of many years of hard work. Such is the nature of family companies, in which heterogeneous outlooks, ages and attitudes live together (P33:299-299).

4.3.8 ESOPs

Giving shares to some employees as part of their remuneration, as reciprocity for managing the companies, or as a way to stand out in society are some of the reasons why there are external partners, non-family members, in the capital structure of some of the companies analyzed. There are internal factors such as family dynamics, values, and the different generations that have influenced the capital structure of some of the companies analyzed. In this particular case, in some of the companies there are employees and members of the Board of Directors who are partners in the companies. At the same time, the fact of having partners who are employees or members of the Board influences the dynamics of these families.

Table 15. ESOPs

INTERNAL FACTORS			
Influence of family dynamics on ESOPs		Influence of ESOP son family dynamics	
Family Dynamics			
Succession. The founder gave shares to the company manager so he would support his daughters in the business	P3:28-29	Succession: Managing partner supports the family in the business	P3:28-29
Gender discrimination on the part of the Founder	P3:028-029		
Founder's lack of confidence: give shares to important individuals so they would help with the corporate government	P9:123-123		
Values			
Prestige: For the founders to give shares to important members of Colombian society and to personal friends is a source of prestige for the family and the company	P3:32-32		
Trust and Respect. From the beginning, friends and partners accept the leadership of the family based on trust	P26:33 P34:45	Partners hand the leadership to the family	P26:33 P34:45
Generations			
Founders give shares to regional directors	P6:36-36	Partners remain for a long time	P6:36-36

New generations from technology companies are more inclined to offer shares as part of an employee's compensation plan	P28:115	The fact that older generations do not accept giving shares as compensation affects the relationship with younger generations	P28:115-115
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4.3.8.1 ESOPs and family dynamics

The process of succession for management positions and prestige for the family and the company are two elements that are decisive in family dynamics to explain why a percentage of shares are in the hands of third parties in some of the family companies in the sample. For example, the need for the family to stand out in society led the founder to have some important partners. As a result, minority shareholdings were given to important members of Colombian society, and even to personal friends, with the aim of bringing prestige to the family company and to the family. CC comments:

“There were some small shareholders in our family company. When my father founded CASH, he would give shares to important people in order to bring prestige to the company and to the family, and he did the same with the boards of directors. In fact, even former presidents of the country were here as shareholders. That’s what my father was looking for: prestige for the family and for the company. There were some friends of my father, but in very small percentages. We bought their shares afterwards” (P3:32-32).

In regards to the dynamics of succession, there are some comments that reveal some of the reasons why a father decided to bring the company manager into the capital structure of the company. There is the cultural issue of sexism, and the way the founder wanted to protect his children, all of them daughters:

“That’s part of my father’s history. He always searched for someone to be his second in command. Somehow, not having sons, this is my interpretation because

I never asked about it; I imagine that as a male entrepreneur, he didn't want the business that he was leaving to be run by us, women. We were not men, and it was also a way of protecting us, I think, he managed both issues, and all my life since I can remember he was always looking for 'my second in command.' Then, he tried and hired Pedro, but he was not good enough; then he hired Juan, didn't work as well, until he finally found Pablo.... and since my father was the manager, he would hire them as assistant managers, they didn't talk about presidents at that time. Then, he found AC and my father thought he was the most suitable one, and that is the reason he is a company shareholder now" (P3:028-029).

And the manager of Cash adds:

"... Many years ago, the founder decided he needed to give some shareholding to businessmen and important members of society, and of the country to help him promote his business. He ended up giving out a minority shareholding, I could be wrong, but I think it was probably 6 or 7%. He brought them into the Board of Directors. That was his first experience in regards to opening the capital structure, a very valuable experience. He did it with the aim of expanding his business, of having people who could help the organization through the Board of Directors..." (P9:123-123).

4.3.8.2 ESOPs and values

According to BM, trust and respect have been built with the founding partners, and has been maintained since the company's beginning:

“Mortgage is a partnership with a large number of shareholders, including traditional friends and family, and the latter control the company. They have oriented and managed this company successfully to the point that other friends and family happily accept and support this leadership without any controversy (P34:23-23). “...Shareholders’ meetings are pleasant and quick because the shareholders approve the management. The same founding families from 60 years ago are still shareholders” (P26:33-33). “...At a Mortgage subsidiary, the holding company is the most important shareholder, but not the dominant one. Nevertheless, by consensus, by acceptance, the other shareholders have delegated the management leadership to the holding company even if it doesn’t have the majority” (P34:45-45).

4.3.7.3 ESOPs and generational aspects

The first generation gives shares to individuals who manage the company in different locations:

“Generally, there was someone on the way who was going to manage the business in that location. He had been given a shareholding. In other locations it was my father. From the beginning he was with my uncle, then it was our turn; we started to receive company shares” (P6:036-036).

The second generation might think differently than the first generation, and in any case, the thoughts of members from this generation are also different. For example, BS from the second generation states:

“I have employees who have relatives working at Apple, and they receive shares. That is a decision from the Board of Directors. My perception is that some people

have more influence than others. They are older people and those who don't want to complicate themselves; they always find a negative example to knock everything down" (P28:115-115).

And another member of the second generation comments:

"I think the company nor the family would be willing today to create a stock option as in the US. Phantom stock might be the way out, I wouldn't have much of a problem. Some family members who do not work in our company, but in technology companies promote that scheme which looks natural to them. They are young and advise us to do so since it creates incentives. We who have spent years here want to slow down. We know that it is an issue that starts out in the company technology division and services, and starts knocking on the door, but we have not discussed it thoroughly yet" (P27:33-33).

4.3.9 Internal financing

Internal financing refers to capitalization through the retained earnings of a company which has a low distribution of dividends.

Table 16. Internal Financing

INTERNAL FACTORS			
Influence of family dynamics on Internal Financing		Influence of Internal Financing on family dynamics	
Family Dynamics			
When family members are financially independent from the family company they are more willing to receive less dividends	P82:109-109 P78:44-44		
Cohesion. Decision by consensus on the percentage of dividends to be distributed. Not reduce the company's net worth	P21:51-51 P71:42-42 P27:9-9	If dividends are not distributed, and all profits are reinvested in the company, this creates family pressure and conflicts	P74:66-66 P78:044-044

Lack of cohesion leads to prioritizing the distribution of profits leaving company capitalization on a second place	P35:79-79	Financial cohesion. If there are dividends, unity is easier	P28:29-29
Commitment. The sustainability and well-being of the company prevail over personal interests	P21:88-88		
Values			
Family's Sense of Social Responsibility. Employee salary increase meant postponing dividend payments	P22:27-27		
Frugality, focus on working and saving money for a good quality of life in old age. Capitalization, low distribution of profits	P6:111-111 P34:27-27 P26:82-82		
Reinvest and be united even if there are better rate of return offers in the market	P28:21-21		
Generations			
First generations saw results, not dividends, and they capitalized everything. Second generation starts to see dividends	P11:109-109 P6:080-080		
New generations educated abroad lose identity and participation, there is no social or financial capital investment	P2:74-74		
INTERNAL BUSINESS FACTORS			
Stop payment of dividends until EBITDA stabilizes and debt level decreases, and capitalize	P68:78-78		

4.3.9.1 Internal financing and family dynamics

The subject of company financing with the internal resources of the same organization depends in good measure on the family's commitment to the company and on family cohesion, as stated by some of the interviewees. First, it is worth mentioning what AB says in regards to making the decision about dividends:

“The family has never 'milked' the company to finance its lifestyle. By consensus, the family established a Family Protocol. According to it, every year we meet in a

Family Assembly, where all family members older than 18 participate. We are talking about shareholders and non-shareholders. At this Assembly, we decide what percentage of profits is going to be distributed as dividends, according to the company's cash flow” (P21:051-051).

And the same family adds:

“When the dividend issue is discussed in the Assembly there is no voting because it has already been well digested and recommended by the Board of Directors, and supported by the Family Council. Thus, there is a solid consensus from the people who are most involved with the company and the family council” (P31:042-042).

In difficult times, the family's commitment to the company prevails when deciding about the reinvestment of profits:

“When we had to make the decision to freeze dividends it was a very difficult decision. That was around 2009 when global conditions were very difficult. There was a global crisis. We had made wrong decisions. A very expensive plant was set up and it didn't turn out to be productive. Debt indicators went through the roof and reached very dangerous levels” (P21:088-088). “Obviously, the family reaction in the Assembly was of concern and uncertainty about the future, but they also accepted the proposal from the Board of Directors to stop dividend payments for a year in order to stabilize the EBITDA and reduce the level of debt” (P25:078-078).

BB from Brick emphasizes the positive aspects for the family and for the employees of stopping the distribution of profits:

“... ..continue supporting the organization. When the crisis of 2008 hit us, if I’m not mistaken, a decision was taken to send out a compelling message of the family’s commitment and responsibility to the organization. Everyone working for the organization had their salary frozen, without a raise due to the crisis. The family decided to cut dividends by half for a year. This powerful message made clear that the family’s commitment to the organization is for the long term. But ...this was a winning sacrifice” (P22:027-027).

However, when the family’s commitment to the business is low, and there is no sense of belonging to the company, the financial aspect of the dividends becomes the only factor of cohesion, and may be the only incentive that the family has to continue in the company. The latter is seen only as an investment, and then, reinvesting the company profits is not even considered:

“The company was considered more as an investment; how much dividend is it paying; how much is its value going to increase in the future, because for many family members the goal was to increase its value and sell. They did not have any impact on the company, they were not on the Board of Directors, and they did not make any decisions. To reinvest was not even a consideration” (P35:079-079).

When the family does not need the dividends to make a living, it is easier to think about the company’s internal capitalization, as is the case of the family who owns Energy:

“None of us makes a living from the company except the two that work there, but they don’t receive dividends; it is their job and they make a living from their salary. We are all professionals, and many of us have business training, so I think

it is different in regards to the distribution of dividends and the company's internal capitalization" (P15:109-109).

As CG from Gown states, there is a tremendous pressure from the family on company directors for the distribution of dividends:

"If the company isn't doing well and dividends are not paid, there is a risk of having a weight on your shoulders, especially if there are non-family partners...., and this pressure is very strong for us managers, due to the lack of cohesion it generates within the family if dividends are not paid as usual" (P14:066-066).

To prevent family stress due to the non-payment of dividends, the president of one of the companies in the sample, School, established that dividends have to be maintained no matter what, because to stop them when the family has a high standard of living is very complicated. Thus, if the company cannot pay then there has to be another way to do it:

"I have found a series of retail spaces that are rented and produce an income, separate from the company, so I can tell the family members that I am giving them their dividends from the family company, according to the usual philosophy, and that philosophy we are not going to change" (P27:044-044).

And, he continues:

"The company's financial results were very poor for many years, a very high level of debt, and that situation in any family business wouldn't work, because it produces fights, and when those fights escalate they take a different path. It usually ends in a lawyer's office. Not here. The formula that we have would have been a great problem in any other family. There is always the family member who

is loud, but who can be controlled with a dividend check. The problem starts when there is no such check” (P28:29-29).

The topic of capital becomes complicated in closed family companies where growth depends in good measure on the reinvestment of profits:

“Historically, since the company has always belonged to the family and is not open to external investors, then the subject of capital becomes more complex. We have had to reinvest most of the company profits to finance its growth, and have never asked the partners for money. Instead, we have told them “I’m not going to give you a huge amount of dividends because most of what the company produces it’s going to remain here to finance its growth” (P27:9-9).

4.3.9.2 Internal financing and values

Frugality and lifestyle create a mindset of hard work in the family, and of saving for future generations. On interviewee says:

“I don’t know what follows from here on. With our children, we tell them that they have to work, save, and capitalize. For me it’s very hard to see so many people that were close to my father, and who had a good standard of living when they were young, now going through hard times in their old age, really ugly hard times. Your old age should be the same or even better than your youth. It’s important to save to cover the needs that come with old age and to be able to live with peace of mind...” (P6:111-111).

And, at Mortgage, a member of the Board of Directors says:

“The dividend distribution policy has been very conservative, and thanks to this they have been able to amass a great fortune. This policy wasn’t only from AM’s

father and the other relatives in the company. Everyone had the same vision. By distributing very little dividend, and capitalizing most of the profits they have arrived where they are today. We maintain the same policy at present” (P34:27-27).

And AM adds:

“Besides the COP500,000 that the partners contributed initially when the company started, there has never been the need to increase capital; everything we have is the result of reinvesting profits. And that amount was agreed by the initial shareholders who didn’t have enough means. I’m also an advocate of saving” (P26:82-82).

4.3.9.3 Internal financing and generational aspects

First generation: “Before, when my father was alive, we knew that it was the family’s equity, but we only saw the results directly, not the dividends” (P11:109-109).

Second generation: “At Energy, since there are external partners there has been a distribution of dividends. Let’s say that the second generation has seen real dividends in the past decade, or less.” (P6:080-080).

4.3.10 Asset shedding

In some cases, families have opted to sell some assets to finance growth and capitalize their companies. Other times, the growth of some companies comes from the sale of subsidiary companies.

Table 17. Asset Shedding

INTERNAL FACTORS	
Influence of family dynamics in the sale of assets	Influence of the sale of assets on family dynamics

Family Dynamics			
		Succession. Sale of fixed assets to pay for succession expenses	P13:161-161
		Sale of assets causes a family crisis, but returns as benevolence and respect towards siblings	P34:131-131
Values			
		Sale of assets pays a high debt. Family feels sadness, but relief at the same time	P11:79-79
		Long-term vision. Keep resources as a war chest	P26:55-55
INTERNAL BUSINESS FACTORS			
		Growth. The sale of low return fixed assets finances company expansion	P1:47-47
		Some businesses are capitalized with the sale of others	P15:21-21

4.3.10.1 Asset shedding and family dynamics

The sale of non-core assets is mentioned sometimes as in the case of Food, when it is not acceptable to sell a shareholding, or when bank debts become complicated:

“It is not attractive for shareholders to sell 20% or 30% of the company for such multiples. It is preferable to eventually liquidate some fixed assets which at the moment have a low return on investment, and in that way free some capital to maintain the investment rhythm, and use these resources for the acquisition of fixed assets with a higher rate of return such as real estate” (P1:047-047).

The sale of family assets to decrease debt and grow brings sadness, but at the same time relief because they are now able to pay the debt. “Making painful decisions like selling external assets, which have been built over the years, in order to have peace of mind in the future and reduce debt levels. We are synchronized in that this is part of the solution (P11:079-079).

It is painful as well in the case of a succession: "I have seen many borrowing, pledging what they are going to receive in order to be able to pay the cost of dismantling the succession assets. It is more an issue of bank credit or sale of assets. Funeral costs are very high, and medical treatment for terminal illness, and if there is no health insurance, heirs suffer very much..." (P13:161-161).

The option of giving some family assets to the bank as part of a debt payment can cause a family crisis, according to the president of the board of directors of one of the companies, but at the same time, it is given back as benevolence and respect towards siblings:

"I suspect that AM's brother wanted to hand over the company to the bank, and AM didn't want to. If it is true, since AM's thesis won, all the more so, there is benevolence on the part of AM towards his brother, and on the part of the brother, there is respect towards AM. As a result of this disagreement, one of the brothers left the company and caused a serious family crisis" (P34:131-131).

Simply because it is a family company, a business may be capitalized with the sale of or results from other businesses. In one interviewee's opinion, "The company has been capitalized with income from the real estate business. This wouldn't happen if it weren't a family company" (P15:21-21).

4.3.10.2 Asset shedding and values

With the income from the sale of assets or of some of the companies, the family can take a long term view, and have those funds at their disposal for the future expansion or growth of the company:

“I always told these gentlemen that my aspiration was not moving to Paris. I said that we should leave that money abroad, even more with the devaluation that we have in Colombia. That money is there to be used for acquisitions. Our partners know that we have that money to support our future growth” (P26:55-55).

4.3.11 Trade Financing

This type of non-bank financing which allows companies to negotiate payment terms of 30, 60 or 90 days with their suppliers is a common practice, because then there is no need to allocate so many permanent resources (own funds) and long term debts to finance the productive cycle.

Table 18. Trade Financing

INTERNAL FACTORS			
Influence of family dynamics on Trade Financing		Influence of Trade Financing on family dynamics	
Family Dynamics			
We have important credit lines with our main suppliers due to the good reputation of the family who runs the business	P2:32-32	When there was a fire, the suppliers show their solidarity to the family and helped them rebuild the business. They showed the level of trust and respect that the company had amongst the public at that time	P33:130-130
Values			
We are good payers. We are not the company that delays payment thinking “since the supplier doesn’t cost, then make him wait.” In difficult times we talk to our suppliers, and delay payment just a little bit	P6:66-66		
Paying on time and being accountable has resulted in discounts for prompt payment from our suppliers	P8:34-34		
A principle from our organization is to pay suppliers before the due date	P20:118-118		
When there is trust there is no need for letters of credit or payment against delivery. We pay 30-60-90.	P20:126-126		

We even receive goods on consignment			
The organization has built a reputation with suppliers of being a serious company. They feel at ease and prefer that we owe them money.	P20:132-132		
INTERNAL BUSINESS FACTORS			
In the retail business, suppliers credit is common; in the industrial sector it is different			
During the economic crisis, those suppliers that we paid in 30 days, on time, we had to delay their payment to 90 days	P1:103-103		
Suppliers' credit in our case is very expensive because we import goods and equipment. Foreign exchange risk is very high; thus we prefer to be cautious in our use of this type of credit	P2:34-34		
With suppliers we take advantage of seasonality, low exchange rates, and we pay with bank credit. Those are specific requirements	P2:36-36		
We try to obtain the best terms, to the extent that it's possible, but mainly the best discounts for prompt payment	P4:20-20		
Importers that finance themselves with suppliers' credit in US dollars have great risks	P8:33-33		
Factoring is an expensive method of financing with suppliers	P12:81-81		
Some companies have their own business to do factoring with suppliers. In addition to paying later, they pay 90 instead of 100.	P14:31-31		
At the beginning, profits only came from the discount given by suppliers. They sold at factory prices and made a profit from the wholesale discounts	P32:17-17		

4.3.11.1 Trade financing and family dynamics

Suppliers are important stakeholders in organizations, and a relationship of trust is built with them through time facilitating the company's liquidity, better prices, provision

quotas, and above all, a financial cushion in case of financial difficulties. They are a source of non-banking funding with important players in the market, as explained by CE of Energy who says, “We don’t have multilateral credits; we have very generous bank credit lines and only use a fraction of them; we also have very important credit lines with our main suppliers” (P2:32-32).

The relationship with suppliers is symbiotic. When there is a crisis and the relationship is well-established and based on trust and reciprocal collaboration, then suppliers will provide real support to the company, as stated by AW from Whole:

“When there was a fire, our suppliers showed their solidarity with the family and the company and help to rebuild the business. They showed the level of trust and respect that the company had amongst the public at the time” (P33:130-130).

4.3.11.2 Trade financing and values

Being accountable and honoring payment agreements refuels the good relationship with suppliers. As stated by AE of Energy:

“We are good payers. We are not the company that delays payment thinking ‘since the supplier doesn’t cost, then make him wait.’ In difficult times we talk to our suppliers, and delay our payments just a little bit” (P6:66-66). *“...Paying on time and being accountable has resulted in discounts for prompt payment from our suppliers”* (P8:34-34).

To suppliers, paying on time or before the due date shows the culture of the organization. CP of Parts says, “A principle from our organization is to pay suppliers before the due date” (P20:118-118).

Accountability and trust are reciprocal values. A relationship of trust visibly reduces the use of control mechanisms and loan guarantees, as observed by CP of Parts, who says, “When there is trust, there is no need for letters of credit or payment against delivery. We pay 30-60-90. We even receive goods on consignment” P20:126-126.

Accountability and trust also build the prestige of the organization. An interviewee says that suppliers prefer this type of client because “The organization has built a reputation with suppliers of being a serious company. They feel at ease and prefer that we owe them money” (P20:132-132).

4.3.11.3 Trade financing and internal business factors

Even though suppliers’ credit provides liquidity to companies, it also has its risks, amongst which are the exchange rate fluctuations in the case of imports of supplies and equipment. CE from Energy states, “With suppliers we take advantage of seasonality, low exchange rates, and we pay with bank credit. They are specific requirements” (P2:36-36). And in the same sense, BE points out, “Importers that finance themselves with suppliers’ credit in dollars run very high risks” (P8:33-33).

Some companies add Factoring to their suppliers’ credit, obtaining an extension in the payment terms and a discount when buying the same invoices that it issues to its suppliers. CG of Gown says, “They are financing themselves with suppliers, because instead of paying them 100 they pay 90, thus decreasing their liabilities, and instead of borrowing 10 from the bank, they decrease it by financing themselves with the supplier” (P14:31-31).

CHAPTER 5: DISCUSSION

The previous chapter presented the results produced by this research, and therefore, the interviewees “talked” without being influenced by the existing literature. In this chapter, I explore, first, the affinity of this research with concepts from grounded theory; second, I discuss how the interview results illustrate how internal and external factors influence the capital structure of the companies and vice versa and how these factors are debated in the extant literature with a clear application to this research; then, I compare and extend the findings; and third, I reveal the practical application of this research. Finally, I explain the limitations of this work and suggest new courses of action for future research.

5.1 Affinity of this research with grounded theory concepts

As posited in Chapter 3, Strauss and Corbin (1998) maintain grounded theory research provides an improved understanding of a phenomenon about which little is known, as indeed is the case with family dynamics and its influence on the capital structure of family companies and vice versa. Very little is known because, to a large extent, prior research has produced a considerable amount of theoretical and empirical insights only on how publicly held rather than privately held companies’ capital is structured in different geographical regions, depending on cultures, governance codes, or investors’ protection (Chen, 2004).

Chapter 4 is precisely the result of how the fundamental principles of grounded theory described in Chapter 3 were applied. First, the sample was specifically selected, not randomly selected, because it was chosen so that the interviewees had a direct relation to the subject (different ways of financing and their relations to family dynamics) and could freely express their opinions on the matter. As I gathered information through the interviews and secondary sources, I proceeded to code and interpret it. Then, as the ideas for the codes and code or sub-code families started to emerge from the information being analyzed, I then decided what additional data were needed and which additional people needed to be interviewed in each company. It was a constant comparison process from the very beginning of the interview process.

In each interview, I analyzed how the interviewees' family dynamics influenced the capital structure and, vice versa, how the capital structure influenced family dynamics. Similarly, I sought new categories to explore until the interviewees began to repeat themselves and no new subjects emerged. I realized at that moment that I had completed the interviews because I had reached theoretical saturation. In addition, although the capital structure was the original core category chosen when the proposal was first formulated, I could clearly observe how some internal and external factors influencing capital structures emerged during the interviewing process. For example, a new category of internal factors such as values flourished as a precedent to changes in the capital structure; this was a category that was not considered when the literature review was conducted but began to emerge during the first interview I completed.

Following the grounded theory structure provided by Corbin and Strauss (1990), I uncovered relevant internal factors such as family dynamics, values, and family

generations in the different family businesses of the sample and explored how the interviewees responded to different contexts and conditions to finance their family companies; then, I observed the consequences of their financial decisions, and vice versa, how these financial decisions influenced family dynamics. Following Gioia, Corley and Hamilton's (2013) methodology, based on the conceptual ideas that emerged from the interviewees, I added rigor to the research with regard to how the interviewees managed them and how I interpreted them. In addition, following the Glaserian concept (Glaser, 2001, p. 145) that all data are relevant, I also gathered information from the Colombian Superintendence of Companies, the companies' annual reports, some newspapers and magazines, and even some information supplied personally by the interviewees, in this manner following the grounded theory structure provided by Corbin and Strauss (1990). In other words, I applied the following validation criteria:

- Theoretical sensitive coding, generating concepts that emerged from the interviews and related documents;
- Theoretical sampling, deciding who should be interviewed in each company, generally in accordance with the company's CEO; and
- Observing the need to compare the contexts of the companies and of the interviews themselves so that the results were more appropriate.

On the other hand, to meet the grounded theory criteria and considering the recommendation by Gephart (2004) and Suddaby (2006), I would like to specify the following:

- First, the authors noted above suggest that this type of work should be part of an ongoing research program. In this regard, I think my dissertation will be part

of a future research program due to the importance of this topic for the different stakeholders in family companies. The importance of this topic is specified later in the chapter, and the reasons for this work will become very clear.

- Second, although I reviewed the literature at the beginning of this work, I always remained open to new concepts, and as Gioia (2013, p. 21) suggests, I always kept a “willing suspension of belief.” Proof thereof lies in the fact that the internal factor “values” category that emerged in this process was not even initially noted in the literature review. Gioia et al. (2013) feature a methodology that enhances grounded theory development, and they advise initially consulting the existing literature without judgment to allow the discovery of new insights. Thus, I always kept an open mind to the new ideas that were emerging. The observed repetition of and consistent reference to the effect of internal and external factors on the capital structure and vice versa in the interviewees’ answers and in the different documents led to the development of different categories and subcategories that were subsequently organized with the help of the Atlas.ti program.
- Third, according to the recommendations by Gephart (2004) and Suddaby (2006), I clearly establish the contributions of this research to the literature that addresses the capital structure of family companies, and I also explain how it may be useful for the different stakeholders in the next section of this chapter.
- Fourth, as recommended by the above-mentioned authors, in Chapter 2, I explained in a simple but clear manner the different existing theories about

capital structure, and the reason there is a need to differentiate between what occurs at a family company as opposed to what occurs with the capital structure of public companies is clearly stated.

- Fifth, in Chapter 3, I clearly explained the methodology based on Gioia (2013), Jorgensen (1989), and Seidel (1998).
- Finally, I chose a grounded theory-influenced qualitative approach (Gioia, Corley, & Hamilton, 2013) to be conducted with selected family-owned companies in Colombia as the best fit for this project, taking into account the type and scope of the research. Stern (1995) also asserts that a grounded theory approach is appropriate for investigations of an uncharted area or to gain a fresh perspective on a familiar situation.

Although public company financing is somewhat familiar, this grounded theory approach allowed for a more in-depth understanding of the relationships and processes involved in situations about which little currently is known (Strauss & Corbin, 1998) such as the capital structure and its influence on family dynamics and vice versa. Nevertheless, also following Gioia's (2013, p. 21) recommendations of always keeping a "willing suspension of belief," the beginning interviews clearly stated that family internal and external factors were an important precedent to the capital structure decisions of companies.

The internal factor designated the values category emerged at my initial interview, which was with AT, when he was talking about the capital structure. After several interviews, I started to observe how internal factors arose repeatedly and how the values, family dynamics, and generations categories continued to be evident throughout the

development of this work. A brief excerpt from the AT interview indicates the internal factor of the “values” context and their importance in decision making:

“This is a second-generation company, founded by my parents, who created the business and established it under very clearly defined values that we, the members of the second generation, have continued to apply. One of the main concerns, apart from the financial concern, has been to firmly observe these values in the decision-making process...” (P1:051-051).

Regardless, from this qualitative approach, it is worth noting the valuable contributions from the external context and the internal situation of companies that help us better understand how financing decisions are made in the family companies in the sample. The emotional aspects and family dynamics involved, the emergence of topics addressed in a pre-established questionnaire, and the simple but illustrative anecdotes and contradictions that give color, weight, and meaning to this research must be noted as well.

All of the above falls within the limitations of a study such as this, but it opens the way for new studies and developments for the future of family companies.

5.2. Capital structure and internal factors.

As can be observed from the different quotations and analyses in Chapter 4, the family dynamics in some way influences the capital structure that is chosen by the sample of family firms. In many cases, the opposite can also be argued: in the sample, companies’ capital structures influence these organizations’ family dynamics. On the other hand, family values and the generations in charge of the company are other internal factors that in some way contribute to the different companies’ capital structures at a given time. In addition, all of the interviews helped observe how the family businesses that were

interviewed are open systems with goals, relationships, values, and dynamics that make family and business considered to be a single system, which is in line with Basco and Pérez Rodríguez (2009). Additionally, it is precisely this interaction between family and company that makes these businesses different from other firms (Pieper, 2010).

5.2.1 Internal Factor: Family dynamics and capital structure

In this research, by means of the grounded theory approach, I explore how family dynamics and behavioral patterns influence the selection of specific strategies for financing and structuring – in distinct proportions – the capital of the family business and vice versa. The interviews clearly establish why families, with their particular dynamics, prefer financing in one manner as opposed to another. In some cases, as shown in Chapter 4, when the interviewees recount their company financing, an inverse relationship between the capital structure and the family dynamics also occurs.

These narratives clearly show how some family dynamics affect decisions regarding capital structure and simultaneously confirm, extend, or contradict existing theories. For example:

- The emotional pressure and stress caused by crisis (Craig & Lindsay, 2002) be it the death of a patriarch, the abrupt departure of a family member or partner, or very specific situations to the socio-political context of Colombia such as the kidnapping of a family member, lead to decisions on additional debt, ownership restructuring, or a contingent succession process, involving a reorganization and remodeling of sources and amounts of financing, as stated by AG from Gown (P12:023-023). And while cohesion is achieved in business families owing to favorable financial results – "In a strong wind,

even turkeys fly" – it can fall apart when debt is high, as expressed by several interviewees from the Cash company (P10:039-039; Q9:113-113). However, the effects of crises may also take a different direction, having a positive impact on cohesion and family unity, as in the case of Brick (P21 082-082), and full solidarity, as in the case of Tasty (P1:107-107), which contradicts one's expectations. High debt served as a unifying factor, as AB from Brick clearly states, "High debt had a positive impact on us because it united us around a very difficult situation" (P21:144-144).

- Relationships between family members also play an important role in the family business's performance (Astrachan, 2010). Good relationships between family members help family companies be more competitive (Milton, 2008) and can somehow improve business productivity. The family members' identification with a legacy, a brand, or a culture can lead to more competitiveness if that very identification is appropriate and corresponds to the positions of the family members in the company when they are employees (Milton, 2008). Good family relationships also lead to cohesion, which allows decision making to be easier (Pieper, 2007; Pieper & Astrachan, 2008). As noted above, the bond of the family members to the company generates a new type of relationship in which new hierarchies and roles are established and participation spaces are created, encouraging the development of leadership and the implementation of skills that do not always emerge within an ordinary family relationship.

The question here would be the following: how do family relationships contribute to a stronger capital structure in the company? How do those capital structures also contribute to improving relationships? Additionally, how do these capital structures contribute to or deteriorate family relationships? To demonstrate the above, several examples from the analysis of the interviews can be presented.

For example, in the case of Mortgage, poor family relationships led to finding a partner who supported the business, as stated by the company's CEO:

"Tomorrow, if we fight again and have a family crisis, we will end up shutting it down (the company). Let's take a chance and find a partner" (P26:033-033).

In turn, finding a partner improved the company's corporate governance and the security of all family members. In the case of Mortgage, the good practices that were adopted as a result of an increased company formalization from having found a strong partner contributed to the family's peace of mind, helped adopt good governance practices in the other companies belonging to the family group, and somehow restored peace in the family's relationships.

- Decision-making processes (Gersick et al., 1997) applied to financial decisions are influenced by family dynamics with respect to who holds the authority to make decisions in the family. When the patriarch has control, he may privilege a particular source of financing, based on the perspective and power of one person. This occurred in the case of Lunch, in which an investment fund was sought to support the company's growth without using the internal resources of the family, which is what the patriarch desired (Q4:140-140).

Decision making is more complex when it becomes part of more formal meetings and when non-family partners are present. This circumstance requires families to deploy new relationship and negotiation skills to reach consensus; these often exhaust the family and are inefficient, according to CP from Parts (P20:176-176).

On the other hand, having non-family partners on the board of directors alters the natural relationships among family members (father-son relationships or sibling relationships) established by birth order. In negotiations and discussions in the board of directors, this alteration allows the emergence of new leadership owing to the academic training and particular talents of new generations. Thus, these new generations participate with more professionalism and autonomy and gain respect from the founders, their siblings, and significant individuals. The latter has clear implications in the improvement of corporate governance, with people feeling freer to express their ideas and make contributions in a new meritocratic structure and not a hierarchical structure established by birth order. This phenomenon can be observed in companies such as Mortgage.

- The need for control by the family (Anderson & Reeb, 2003) also induces particular types of financing, especially when it is a family holding company or an IPO. It must be borne in mind that family decisions, when based on a need to maintain control, can affect the potential of optimal leverage (McMahon & Stanger, 1995). Indeed, the founder of Gown warns of the danger that a family business may be reluctant to admit other partners under the pretext that doing so is complicated. It is a philosophical question of relinquishing the idea and behaviors that are derived from thinking that it is "my company," to embrace from a more open mind a company "that I am part of" (Q13:109-109).

By focusing on the relations between financial decisions and control, Brigham (1992, p. 29) notes the following:

“There is value to being in control, and that value is not easily measurable. As a result, we often observe small businesses taking actions, such as refusing to bring in new stockholders even when they badly need new capital, that do not make sense when judged on the basis of value maximization but that do make sense when seen in the light of the personal objectives of the owner.”

Opening the company to external partners often means relinquishing total control. For this reason, some family companies considered an opening at the level of subsidiaries, not at that of the holding company, to be feasible; thus, good financial opportunities were lost in companies such as School and Brick (P27:10-10; P25:073-073).

An alternative financing scheme via external capital, without the loss of administrative control, is SPVs (Special Purpose Vehicles), which attract partners' resources for specific projects. Although the family business has a minority participation, because of its own knowledge, financial strength, and credibility, it manages and makes decisions, as in the case of Cash (P3:17-17) and Mortgage (P26:89-89)

Regardless, family firms may face difficult situations if they seek control but relinquish outside capital (López-Gracia & Sánchez-Andújar, 2007), and to maintain control, companies often reduce their source of financing, which can affect the firm's development and chances of survival in the long run (White-Mazagatos et al., 2007). The projects that are accepted by these families will likely be chosen according to the independence in the manner in which they can be financed, even if the projects have a higher cost of financing (Zellweger, 2006).

- Family behaviors (Poza, 2010) and capital structure. Respect for the family legacy, the family's religious beliefs, and its consistency in meeting principles and standards are factors of family culture that have helped it have control over debt levels and "appropriately" select sources of financing, as indicated by S from School (P79:014-014).

However, these family principles are not always well understood or followed by external partners such as Investment Funds, which are guided by the interest of obtaining high returns in a short period of time. They exert pressure on the family to perform practices of human resources reengineering by reducing the company's social capital and requiring performance parameters that they consider the only financial reference points. Thus, cultural and relational aspects are not taken into account, which ends up damaging the sense of ownership and co-responsibility of the family, as stated by AG (P12:085-085). These funds are not even able to make great sacrifices, such as reducing or suspending dividend distributions to raise employee salaries and to avoid layoffs, as family businesses do, according to BB (P22:27-27).

On the other hand, as expressed by AB from Brick, the family's behaviors toward its external partners become important in the partners' decision-making process because they are part of the capital of the family business: *"When we make alliances, we also offer our shareholders a way of being, a way of acting, very much in line with what they are, and in fact, we have been partners for over twenty years. I think that's why they seek us"* (P21:132-132).

- Family entrenchment (Kroll, Wright, & Theerathorn, 1993) is defined as "the extent to which managers have the ability and incentives to pursue their self-interest and expropriate wealth from shareholders" (Florackis & Ozkan, 2009). Family members'

incompetence, opportunistic behaviors, and/or ethically dubious actions can impede the firm's success, potentially resulting in a scandal that can lead to the firm's demise and a negative economic impact on employees, customers, and other stakeholders (Kidwell, Kellermanns, & Eddleston, 2012).

In this study, some cases were highlighted in which the shareholders' rights were affected because of entrenchment, which was noted in the literature. One of the companies was acquired through legal tricks through the participation of a non-family partner who abruptly withdrew, disregarding the right to preference of other partners (P16:24-24). In another case, the family decided to capitalize the company to dilute the participation of an investment fund as a strategy to gain control (P16:60-60).

Additionally, in another company in the sample, to buy a shareholder's stock option, the value of some lands was estimated at a lower value than that of the market, forcing minority shareholders to accept that value as a correlate of their shares, devaluing their assets (P15:39-39). The same literature on entrenchment is also verified in cases in which the family-controlled company decided to reinvest profits and reduce dividends or not to distribute them, harming the liquidity expectations of minority investors (P8:49-49).

In the interviews of the companies analyzed, except as set out above, there is no evidence of entrenchment as a generalized behavior. On the contrary, a large proportion of the interviewees affirmed their responsibility to their partners and their management of operations in the interests of the companies rather than from their own personal interest. As an example of such behaviors, BM, a member of the board of directors of Mortgage, asserts the following:

"Mortgage is a company with a large and plural number of shareholders, but there are friends and family of the NNs, and they control several companies. They (the family) have successfully guided and managed the company to the point that other friends and family very gladly accept and support this leadership and there is no controversy. There is confidence in the managers (family members)" (P34:023-023).

Here, it can be observed that the family's respect toward its external shareholders is paid back to it with the confidence that these same shareholders place in the family.

On the other hand, BE, the financial manager of Energy, states how the company is not capitalized with family resources but instead, resorts to banking resources to avoid attacking non-family partners through an increase in its equity holding and does not obtain any particular benefit for the family by increasing its equity holding (P8:18-18). Thus, it is not observed that when families have the greatest control of the firm, they have greater entrenchment, as suggested (Anderson and Reeb, 2003), which instead seems to depend on the same family values that are professed in the family.

- Different ownership systems (McMahon & Stanger, 1995) influence financial decision making to prevent complex situations. These authors refer to small businesses, but the theory presented can easily be extended to family firms, even though their size is not small. Indeed, it can be observed how the Brick and Mortgage companies, which are of a significant size for the Colombian market, face possible liquidity problems in the same manner as expressed by

McMahon and Stanger (1995) for small businesses. In Mortgage, mention is made of a "war chest" accumulated over time as a preventive measure for possible future situations of illiquidity. Additionally, in Brick, high debt arises with the use of all open lines of credit approved to maintain a high cash volume at any given time, thereby preventing possible liquidity problems and low sales as a result of an economic crisis in the country.

The theory of wealth maximization for shareholders, as the only motivation for work, does not clearly apply to family companies either, in which, although the ownership is handed on to different generations, additional elements are added to the utility function, as stated by McMahon and Stanger (1995). A concrete example is the case of Mortgage, which looked for a partner for one of its subordinate companies and found that the option that provided the best financial guarantees was not exactly the option that offered to keep its efficient and loyal employees after the partnership was created. For this reason, Mortgage did not make the decision to partner with that company but instead chose to partner with another that allowed it to keep employees who had remained efficient and who had been loyal for many years. Although this partnership did not solely consider the maximization of economic wealth, it has proven to be successful over the years, also proving for large family businesses the theory of McMahon and Stanger (1995) on other elements that families consider, despite not being the smallest businesses.

Finally, it is appropriate to note here that in addition to consolidating capital to anticipate crises and to make new investments (war chest), various families

noted their willingness to reinvest profits, take on debt, capitalize the company, suspend sabbaticals, and postpone major investments, to keep the company afloat in times of crisis (6:111-111; P34:27-27; P26:82-82; P12:23-23). All of this indicates that wealth maximization is not the sole objective of the family firms in the sample.

- Ownership dilution and its U-shaped effect on the use of debt when market conditions grow (Schulze et al., 2003). To analyze this theory, the ownership condition of the different companies in the sample must be understood; to do so, I use the ownership development described by Gersick et al. (1997). First, in two companies of the sample (Lunch and Gown), the patriarchs are still alive and are active in the business. In the first company, to date, the ownership has not been distributed among the children, and the patriarch has full control of the company. In the second company, the majority ownership belongs to the patriarch and his two sons, each having a minority share in ownership.

On the other hand, the Energy, Tasty, Cash, Harvest, and Mortgage companies are sibling partnerships in which ownership is equally divided among siblings. The Parts company is a second-generation company in which the brother and the company's CEO bought the ownership from his siblings in the company; as a sole proprietor, he divided the ownership among his nuclear family. The Brick and School companies are third- and fourth-generation companies (cousin consortiums); in the first case, their ownership is distributed proportionally to the family branches and, in the second case, with proportional

parts to the family branches but with significant ownership by a non-profit foundation. Finally, the Whole company was a first- and second-generation property when it was floated on the stock exchange. The members of the first generation were already seniors, and those of the next generation were very distant from the company.

It is also worth noting that the Whole, Brick, Mortgage, Energy, and Lunch companies have closed family holding companies with various types of ownership (controlling owner, sibling partnerships and cousin consortiums) with a completely family-owned ownership and in which debt is not even considered as a financial alternative. These holding companies have allowed indebtedness; in some cases, it is moderate, and in others, it is high in subsidiary companies in which there are even external partners and/or private investment funds.

It must be noted that in Colombia, models of succession establish that legally, children generally receive an inheritance that is equal parts of company ownership whereas, in other countries, the dilution of ownership varies in many ways, from birthright to equal distributions. In some countries, the tendency is to hand over a greater proportion of stocks to those working in the companies than to those who do not work in the family business, which does not occur in Colombia, at least in the companies in the sample. Because there is a very wide variety of ownership types in these companies and the study is circumscribed to Colombia, in which succession laws prescribe that succession

is most often evenly distributed, it is difficult at this point in time to establish an appropriate relationship in terms of debt and ownership dilution.

- Family conflict and its impact on family business financing are one of the research trends that may deserve a deeper analysis as a result of this study, in addition to the impact of family relationships on decision making that is related to financing, as discussed above in this chapter. Thus, considering the definition of conflicts, i.e., “a situation in which seemingly incompatible elements exert force in opposing or divergent directions” (Heitter, 1990), it is well known how different types of conflict in families influence the behavior of family groups (Astrachan & McMillan, 2003; Kaye, 1996; Kellermanns & Eddleston, 2004; Smyrnios, Romano, Tanewski, Karofsky, Millen, & Yilmaz, 2003; Sorenson, 1999). In addition, cognitive and process conflicts have been extensively studied (Jehn, 1995, 1997; Jehn & Mannix, 2001), in addition to relationship conflicts (Pieper, 2010). On the other hand, conflicts that are related to the roles of family members (Danes, Leichtentrit, Metz, Huddleston-Casas, 200) and succession conflicts also appear to be related to one or another type of financing in family companies, as is observed below.

The interrelationship between families and family businesses as a result of the relationship of both systems (family and business) is also clear (Pieper & Klein, 2007). This is useful to understand because the dynamics of family life affect businesses’ strategic decisions (Brunninge, Nordqvist, & Wiklund, 2007; Craig & Lindsay, 2002; Dyer & Handler, 1994; Van Auken & Werbel, 2006). To broaden these concepts, AM from Mortgage clearly describes this interaction, in accordance with the above theories:

"When there is money, everybody smiles; when there is no money, the situation changes. And maybe that circumstance... when there is a crisis, the company's crisis may lead to a family crisis, and a family crisis may lead to the shutdown of the company (P26:15-15).

Thus, because of this interrelationship between both systems of family and business clearly explained in the above theories, a company's financial strategy is affected by the conflicts that arise among families, as can be observed in several interviews that were conducted. Despite these interrelationships, to the best of my knowledge, there is no study to date that helps establish a clear link between family conflicts and the financing of family businesses or how company financing contributes to solving or worsening family conflicts.

Some indications in this regard may arise from some excerpts of the interviews and from attitudes presented by the interviewees, in which it can precisely be observed how conflict induces some type of particular financing or, vice versa, how the capital structure can help solve some conflicts or family situations or even aggravate them. The following examples show a clear relationship between conflict and a specific type of financing. Some were already noted in Chapter 4, but to better understand the discussion, they are noted again, referring to the existing theory. For example, as stated by AG, cases of divorce or family breakups that are linked to crises are a turning point in debt, but they are very specific to family companies because divorces end up undercapitalizing or breaking the core of the company, which leads some of the parties to require financing (P12:125-125).

- Process and cognitive conflicts and capital structure

As posited in the literature review, there are several types of conflict; they are categorized as relationship, cognitive, or process conflicts, with process and cognitive conflicts sometimes being beneficial to the business. Cognitive conflicts center on disagreements that are related to the work at hand and the strategies being pursued, whereas process conflicts involve discussions about who is responsible for which tasks (Jehn & Mannix, 2001). Thus, process conflicts refer to disagreements over how a certain task should be accomplished and how much responsibility individual group members should bear (Jehn, 1997). Relationship conflicts, on the other hand, refer to conflicts that are related to interpersonal issues, individual norms and values, and personal taste (Pieper, 2010).

In the case of Harvest, the company went too much into debt and invested in diversification projects that ultimately did not produce any good results. Because the company was run by some members of the second generation who made decisions without consultation, the family decided to dismiss some members of the generation in charge of the company who had taken the company into debt; however, this high debt, in turn, led to conflict resulting from the changes in the administration (Schulze et al., 2003).

In many cases, however, conflicts somehow contributed to improving decision making in the business when there were conflicts resulting from tasks or processes. Some examples are shown below. At Energy a family CEO assumed the authority of the family without its consent – which is a factor that stands out in terms of process conflicts –

However, it led to a more efficient method of making decisions. At Tasty, exercising birthright in financial decision making in a sibling partnership was a clear sign of an abuse of authority and a lack of awareness of the new relationships established in an organization, which are different from family businesses. This situation became an opportunity to improve communication among siblings and to a better role definition within the company

When the Whole group sold most of its shares to a multinational company, preemptive rights (processes) forced the family to accept a company valuation that was below market expectations. The multinational company did not consult the family to review the valuation, and delays forced partners to negotiate separately, not as a bloc, giving the majority shareholder greater bargaining power. This situation generated a considerable amount of tension in the family and stagnation for new businesses. In turn, this situation forced the family to think of better forms of negotiation.

The abrupt departure of a family member of one company after a fight, which according to Beehr (1995) is possibly the most common organizational manifestation of work/family tension, causes an increase in debt as a result of the acquisition of its shareholding to maintain control in the hands of the family and to prevent the sale to external shareholders (P12:023-023). On the other hand, AH from Harvest comments on how a relationship conflict with one of the siblings forced the family to begin a process of stock valuation that obtained different results with insurmountable distances. What was thought to be the solution ended up making the conflict more complex due to the differences in the valuation of the shareholding (P16:025-025). Additionally, as the shareholding of the brother in question could not be bought by the family, he sold his

shareholding to an external, unknown, and undesirable shareholder, changing the company's capital structure, which caused even greater family conflict. AH assures us that it would not have occurred if it had not been a family business (P15:19-19).

The above examples also show the reverse impact of the capital structure on the family dynamics of conflicts and how these high costs tend to lock shareholders as Schulze et al. state (2003), making the conflicts that arise be more persistent and be a convergence of interests that is more difficult to achieve. This vicious cycle also implies high departure costs from the family business, given that it is necessary to make a stock valuation, initiate extensive processes, and reach consensus. Some are not achieved but rather create more stress and attitudes of exclusion of privileges and relationships to those who intend to leave the company. Family members who are dissatisfied with the company or who seek to develop their own businesses prefer to remain in the company to avoid further conflict that could affect the stock value. This is an example of how an unclear process contributes to creating greater conflicts that often also become relationship conflicts if they cannot be overcome.

In contrast, there are other examples of how companies sometimes go into debt to maintain the family's financial cohesion and keep it united:

"Banks decide to give credit to the company so that the company can deliver dividends to the family, with the understanding that the pressure on the family caused by the non-payment of dividends would disintegrate the family with serious implications for business continuity and therefore for the payment for its obligations to those banks. The loan for this payment of dividends somehow

produces greater financial cohesion in the family and allows business continuity"
(P16:13-13).

It is true that the socio-emotional costs are also high when a family member who is employed in the business leaves the company: the loss of intimacy, reduced status, the breaking of familial expectations, and the severing of family ties. However, this has a positive impact on family and business dynamics, with appropriate governance bodies for decision making being established (P:16:14-14).

Conflict among shareholders regarding capital structure

Divergence may exist, not with regard to how goals and strategies should be pursued, but with regard to which goals and strategies should be pursued, and conflicts related to differences in perspectives among members of a family business also have an impact on the different types of business financing or, vice versa, on the dynamics of a family of shareholders. When I refer to vision conflicts, these should be understood as “matters related to shared vision, values, principles and strategic planning that often lead to conflicts because participants may become irrational in seeking what they consider to be right” (Kidwell et al., 2012). Indeed, differences in vision between a private investment fund (short-term vision) and the company’s shareholder family (long-term vision) produce company stagnation, given that partners do not agree on the strategy to follow.

For example, the different perspectives of two generations of shareholders led the Whole company to be floated on the stock exchange to sell the company. In this case, after many years, the first generation was interested in the marketability of its investments; on the other hand, it had never allowed the succession question to be

appropriately addressed in family conversations. They considered the company to be a method of keeping the family together but did not think about future generations as shareholders and company managers. Among other things, this lack of consideration produced a sense of detachment toward the company on the part of successive generations of the family. The second generation was more interested in its own investment projects, with a minimum belonging to the family business.

Thus, in the Whole family, the decision to be floated on the stock exchange was also made to avoid a discrepancy in the company valuation (as occurred in School) because, previously, the family had had problems trading shares with the same family members when there was no procedure to determine their price. In turn and vice versa, being floated on the stock exchange provided better corporate governance to the company and greater peace of mind for both generations, though ultimately, the family may regret having sold one of the leading companies in Colombia and not having fully participated in the development of the company in the country.

Thus, interviews confirmed what has been stated by Pieper & Klein (2007), which is that conflict has a great impact on the development of the company's overall (in this case, financial) strategy, its implementation, its approach, and its ability to explore different alternatives. In addition, this kind of conflict can also impact family dynamics negatively or positively. For example, as BL from Lunch observes, external and internal differences fostered family cohesion around their business: "The inflow of the fund united us much more than we used to be before the fund was introduced (precisely because of this difference in perspectives between the family and the fund)" (P7:036-036).

Role conflict and capital structure

Role conflict is another type of conflict that occurs when the roles, powers, and responsibilities of family members are not well defined in the company or when one family member decides to overstep his or her duties. The most obvious manifestation of this conflict occurs in the intergenerational transfer of leadership, when the founders or the generation in charge do not easily hand over their power, conflicting with younger generations or external managers, partners, or allies. The meaning of "entitlement" is present in the mind of the founder for having created, directed, and participated in the great moments of the company. Examples from the sample companies include:

- In the Lunch case, there is also a role conflict between the father and the son. The father wanted to continue his activity as a father in the company's management. His son, who was in charge of the company, could not convince his father regarding the financial strategy for business growth. The father relied more on an investment fund, with an apparent greater expertise than that of his own son. However, the inflow of a private investment fund led to confusion of roles for the company's founder, who did not easily accept that he could not directly intervene in the company's management, as he did before the inflow of the fund. At Energy, the manager of the family business made borrowing decisions without consulting the family, which caused conflict with the rest of the family. The family then withdrew its support for the manager, causing even greater conflicts.
- One of the siblings at Tasty took over the company's management when the founder passed away, but he kept on exercising his role as the elder brother, his siblings' administrator, taking on responsibilities he could share. One of the

projects he financed with the support of his father before he passed away did not work very well, and his siblings complained about the lack of consultation with them. As expressed by one of the officials of the company, if decisions are wrong, the impacts cut across the entire family, not only the person who makes them (P5:148-148).

Agency conflicts and capital structure

Agency theory and its relationship to family businesses, which has been much studied in recent years, has not given sufficient explanations for understanding how the psychology of families somehow influences behavior in company decisions (Pieper, 2010). According to the literature, agency conflicts in family businesses occur because of the lack of alignment between the management and the shareholders in some cases, and between the management and the bondholders in other cases (Berger & Bonaccorsi di Patti, 2006). Thus, companies attempt to resolve such conflicts in different ways.

One of the mechanisms used by some companies (Bricks and Parts) to align the management with the business objectives and to reduce monitoring costs was the introduction of indicators such as EVA, which are aimed at generating value and not only short-term profitability that tends to benefit management. On the other hand, the founding member of Gown, for example, implemented a mechanism that apparently reduced agency conflict by giving shareholding to the non-family manager of the firm. Accordingly, he had greater influence and authority over the family members who worked in the company, given his double role as managing partner. However, the opposite occurred; the family suffered from this situation because of the abuse of power

of the manager, so much so that the family members working in the company almost withdrew, with severe consequences for family relationships.

Traditionally, when a company is taken over, a new manager, whom the buyers consider reliable and who shares the business perspective of the majority investors, is appointed. As described by the founder of Gown, some family businesses keep the manager of the company, given that he or she has the knowledge, expertise, and vision that gave value to the company. Family businesses cannot have such a broad and specialized social capital for managing all types of businesses.

Succession and capital structure

One of the elements considered to be central to the success of family businesses is the timely, participatory, and fair succession process of the family and organizational leadership, which, among other things, includes the transfer of knowledge, ownership, resources, and developed support networks. According to the president of Parts, access to the capital market aimed to strengthen the corporate governance of the company facing a succession. Following are some examples of how different families planned the succession process through different types of financing for their companies.

In the cases of Whole and Parts, issuing an IPO would become significant in facilitating the succession process. In Parts, the process prior to the IPO would lead to a formalization of the company at a higher level to achieve a clear, orderly succession during the founders' lifetime, thus avoiding possible governance conflicts and facilitating the training of successors other than the founders (P18:100-100). For some families, issuing an IPO thus resolves the issue of family members' links to the company during the succession process. Family members, with or without experience and with or without

intentions to work in the company, would receive economic benefits when selling their shares and would thus be marginalized from the company's governance and management. This would properly work in cases in which the following generations do not have the skills to join or are not interested in joining the company as owners or managers. This IPO would help in developing one's own businesses without affecting the core business, as occurred in the case of Whole.

In the examples below, two different situations show how families proceed regarding the ownership of the next generation, somehow having an impact on the capital structure. Tasty, a trust company that was created by the founder to manage the family's resources remains involved in the financial decisions of the family, limiting investment and growth capacity as established by the founder (P1:23- 23). By contrast, in an exercise performed by Energy to identify the perspectives of the new generations regarding business continuity and growth, they warned that the perspectives of the young generation were very dissimilar. Therefore, the family decided not to force the issue of business continuity and the hiring status of the children. It addressed succession not from the perspective of business growth and financial goals but according to the behavior that must be maintained, coinciding with operational excellence, quality, and social responsibility. Accordingly, the family managed to maintain a significant business for new generations, not so much in growth and the financing of this growth. The family would thus be free to maintain pre-established financing schemes (P2:68-68).

ESOP was an ingenious financing alternative used by the founder of Cash to ensure that his daughters could rely on the advice and support of a non-family manager, who was given a participation rate in the company as an incentive to stay in it and coach

the heiresses to the business. It is interesting to note that, according to one of his daughters, this decision by the founder not only intended to protect them from a high-risk environment but also reflected gender bias regarding his daughters' management skills (P3:28-28). This family created a trust so that one of the sisters abroad could manage her resources in the country without having to participate in the company's decisions (P3:25.25).

In the case of Lunch, in the first generation, the company went through a major diversification process, but in the last years of the founder, assets were sold (asset shedding), focusing investment on the core business, reducing risk and attrition, and reassuring the founder by simplifying the legacy for his children. The manager noted that something similar occurred with Bavaria, a national beer company that was taken over by the Saab Miller group. The generation in charge in that company after the brewery was sold started a process to repurchase the same previously sold companies. Certainly, the second generation of Lunch will proceed to repurchase such assets; it is an oscillating process, according to AL (P4:142-142).

5.2.2 Internal Factor: Values and capital structure

The influence of values, as a whole and jointly with family dynamics, over the capital structure of family companies is a concept that emerges constantly from the interviews in this work. The consequences of human values are manifested in virtually all phenomena that social scientists may consider worth investigating and understanding, Rockeach (1973, p. 3). Therefore, the relationship between values as another internal factor that affects the decisions made by families regarding the capital structure of their companies is worth discussing. Values have been widely researched in relation to the

behavior of management in family companies by, among others, researchers such as W. Gibb Dyer (1986), John Ward (1999) and Guido Corbetta (1999). Although the background and the effects of values on corporate culture and decision making have also been explored to some extent (Hofstede, Neuijen, & Sanders, 1990), according to García-Alvarez and López-Sintas (2001), more often they are merely noted rather than studied in depth. For the above-mentioned family business researchers and scholars, because values guide the behavior of managers in making decisions, in taking positions, and in leading others, studying the effects of values on the capital structure is important for the continuation of family-owned firms and for the families who own them.

In addition, as an effect of values in the decision-making context regarding capital structure, it is worth noting that values, for example, in the case of an entrepreneur, are transferred into business practices (Hofstede et al., 1990). In these cases, values such as ambition, responsibility, honesty, and growth (Kotey, 1995; Casson, 1992) move the explanation of values from the families into the business through the decision-making process. Other values such as open-mindedness and the will to treasure the family legacy are related to long-term survival and to the growth of companies (Bird, 1989, p. 107). To maintain company control and to preserve equity, a synthesis of family and company values is crucial in the long term (Pieper, 2007), even though maintaining control is more difficult as the next generations move into ownership (Schulze, Lubatkin, & Dino, 2003b).

For example, trust facilitates making effective decisions because there is less need to defend positions or protect personal interests. In addition, trust and a good reputation facilitate access to sources of financing for new investments (Salvato & Melin, 2008).

Long-term aspirations allow longevity and trustful relationships with different stakeholders (Tagiuri & Davis, 1996). Values that are related to legacy and long-term sustainability have been found in studies of families and multigenerational family dynasties (Nemilentsev, 2013c). Values that are related to sustainability extend beyond the company to the family and reflect the horizons of a family-shared responsibility in regard to the future of the company (Koiranen, 2002; Nemilentsev, 2010).

Finally, it is worth noting that there has been research that shows an association between the values of growth and social responsibility and the use of debt and external equity. For example, Chaganti, DeCarolis, and Deeds (1995) find that entrepreneurs who are optimistic regarding the growth of their business tend to seek equity rather than debt financing. However, Van der Wijst (1989) observes that founders whose values are based on company growth tend to use a comparatively large portion of debt to finance business development whereas other entrepreneurs who feel a sense of social responsibility to maintain employment levels more often use the debt option. In this research, it is possible to appreciate in a more individual manner the influence of values on the capital structure of family companies. Among the implicit values found in this research with regard to the internal factors in making financing decisions, I would note, for example, the following:

- Reputation: It is clear how financial decisions influence the reputation of family and non-family managers (Bushman, Piotroski, & Smith, 2011; Graham, Harvey, & Puri, 2011) and how, in turn, family firms are more concerned with the reputation of the firm and their family due to their sustained presence in the firm (Bopaiah, 1998; Anderson et al., 2003). Family firms frequently reach a match of family proprietorship with brand identity (Craig, Dibrell, & Davis, 2008), brands

bring recognition to the family (Demsetz & Lehn, 1985), and families seek respect and reputation in the community (Ehrhard & Nowak, 2003; Khatri & Ng, 2000). The significance of previous research is verified when, through IPOs or private investment funds, for example, families are recognized by society and the communities in which they live, as well expressed by the School and Cash families, for which they are proud and respected. Initially, with IPOs, families seek greater respect toward themselves; simultaneously, however, this respect is reflected in bank confidence and definitely helps attract new shareholders and obtain new loans with better conditions and lower interest rates (P18:45-45; Q6:52-52). In other words, it can be stated that sources of capital indeed affect future outcomes, according to Astrachan and McConaughy (2001).

Thinking about which world stock exchange it should be floated on to have a greater reputation, even though the costs can be much higher, somehow reflects the significance of reputation for the family when there is an IPO, as is well expressed by BG from Gown. In addition, the companies in the sample are very careful when they assume the risks involved in a funded project because always "we think of the impact it may have on the reputation of the entire family when we do not honor undertakings with funders," as AH notes. The interviewees agree, saying that reputation is a value that is achieved over time and is nurtured through the generations by honoring their commitments, paying their liabilities on time or before the due dates, and maintaining transparent communication with lending institutions and shareholders.

According to the families, reputation is a non-negotiable value. It is public knowledge that, in Colombia, there is a black market of sources of financing that offer

very favorable credit conditions, i.e., offering 10 units and requiring repayment of only eight, and many companies accept them. The business families of this study appeared clearly reluctant to accept non-bank credit from unreliable sources. Some companies are known for having accepted them, and the financial system has punished them by not granting them credit and by divesting (P14:73-73).

- Risk aversion: As observed, family businesses also tend to hold conservative financing policies to shield their assets from risk and to hand them on to future generations (López-Gracia & Sánchez-Andújar, 2007). Therefore, behavioral theory predicts that decision makers, particularly family firms, prefer to avoid a loss even if doing so means accepting a higher risk or underperformance (Gomez-Mejia et al., 2007). Moreover, family firms are typically risk-averse, and this proclivity makes them prefer less risky financial options (less debt) because an increase in debt increases the risk of loss of family control to banks or investors, with default on payments being the worst-case scenario (McConaughy, Matthews, & Fialko, 2001). Thus, the capital structure of small firms (not necessarily family-owned enterprises) is partly determined by the interaction of the owner's preferences for risk and return because most small business managers have most of their human and financial capital placed in the firm (Pettit and Singer, 1985).

It is a fact that this is a behavior of the companies that were selected in the sample. In the company School, mention is made of a policy of having the value of all of the bank debt in hand. In Cash and Parts, they prefer to have a good night than to stay awake because of debt; in companies in which there is a family holding, debt is null or virtually null due to the fear of losing confidentiality and

the risk that it implies. Brick is not floated on the stock exchange for the same reason above. Here, the fear of losing reputation in case of nonpayment of debt or a drop in the stock price sold to outside investors (School) also applies.

According to Kirchoff (1994), companies are an extended reflection of their founders, and the founders' values (financial and non-financial) somehow define the operation of the company. In this regard, developing a quantitative research, Shariff and Peou (2008) also find a relationship between the values of entrepreneurs and company financing. This relationship can also be very clearly observed as a result of the interviews: the peace of mind that produces a low debt that the founders of Parts seek, with the second generation suggesting going into debt for the implementation of a project but the founders preferring to "sleep debt-free"; the need for confidence in an administration that is considered more appropriate than that of the young successor, with the founder of Lunch seeking a private investment fund that apparently has more expertise in handling businesses than the young successor; the sexism of a founder who delivers a part of the stocks to his manager, in exchange for giving greater support to his daughters (Cash); and the austerity of the founder of Mortgage, who communicates this value to his relatives, friends, partners, and staff members to finance himself with savings and the internal generation of the company.

Risk aversion is not a "congenital phobia" of business families; it has a historical precedent in all of them. Several families made investments that exceeded their capacity to pay; others undermined their assets as a collateral in businesses in which the partners did not assume responsibility for loans acquired.

Many had their dividends affected, or they were even forced to sell assets of great economic and historical value to meet loan requirements. From a transgenerational perspective and with a great sense of responsibility, families are afraid of making investments that can compromise the future of their children, their good name, and the possibilities that new generations will have better living conditions than those of the founders and the generation in charge. It is clear that this perspective regarding risk is tempered by the generations in charge, the structure and formality of corporate governance, experience, and the knowledge of financial issues and opportunities that arise in the economic circumstances. As is observed below, the perception of risk is different between generations, as in the case of Parts, in which the founder prefers not to acquire debt even though his son insists on the fact that the working capital of the company would be less costly if it were obtained through banks and not by using their own capital.

When there is a strong and capable corporate governance, there is less risk of making investment decisions without sufficient research. The risk is greater in cases in which hasty, unwise decisions or those with inadequate information are made (Harvest and Mortgage). Energy was about to make a bond issuance, but the world situation after 9/11 presented significant risks. Ultimately, this transaction was not performed.

Risk aversion may also be viewed as a positive attitude that favors saving capacity (Mortgage) and helps constitute reserve funds or a war chest, attract resources of available credit to anticipate crisis situations (Brick), more carefully

consider and be more selective in accepting partners, alliances, or external capital (Cash), and finance growth with retained profits (Energy).

5.2.3 Internal Factors: generations and capital structure

5.2.3.1 Generations and debt

The ownership of a family firm generally goes through three broad phases of dispersion: the controlling owner stage, the sibling partnership, and the cousin consortium. According to the research, in the controlling owner stage, founders typically lack access to public markets; thus, investments are limited by the availability of funds that are internally generated (Romano et al., 2000). Indeed, in terms of the evolutionary development of the ownership, all companies in the sample have shown this behavior. Regarding the use of capital markets, what is shown in the Whole case is contrary to the theory of access to capital markets.

Whole, which is also a company of first-generation siblings, acquired such a size because of its organization and development that it had a good acceptance in the Colombian stock market, which would not agree with the IPO theory in a first generation of the family. Instead, School, another company in the sample that is listed on the stock exchange, was already in its fourth and fifth generations when it was listed on the Colombian stock exchange. In the other first-generation companies of the sample, financing for growth and development was always internally obtained through the sale of assets and bank loans, in addition to money from the family and some family friends, as in the case of Mortgage, Energy, Cash, and Parts.

First generations feel that austerity and saving must always be important sources of development and growth for their companies, and dividend distributions are difficult to

accept in this generation. Indeed, the founders hand on austerity values to their children and employees, and the expenses not only of the founders but also of their companies, are carefully measured. The culture and austerity of the founder of Mortgage are widely noted by all of the interviewees from this company (AM, BM, and CM). The three interviewees agree on this statement. Something similar occurs in Tasty, Energy, Whole, Parts, School, and Brick. The distribution of significant dividends is only effective in the subsequent generations and even works to produce the family's financial cohesion in Harvest and School (P27:43-43; P16:13-13).

In the sibling partnership stage, the principal shareholder is not the founder of the family firm but the siblings. According to different theories, siblings tend to be more conservative when making investments due to their sense of entitlement (Wiseman & Gomez-Mejia, 1998). In this case, the use of debt seems to decline, favoring the use of equity capital and also producing low growth, according to the conservative theories of Miller, Le Breton, and Scholnick (2008) and Kaye and Hamilton (2004). One reason for this phenomenon may be that the agency conflicts within the family become too extensive as each sibling attempts to maximize his or her family's utility. The firm may then be trapped in a status quo-like situation in which none of the siblings or the principal is willing to take on more debt and thus, more risk. Because most of the wealth of the family is invested in the company, risk taking is assumed to be minimized by the employment of less debt (Bjuggren et al., 2012). A result of this attitude can be lower debt for the company and a lower orientation toward firm growth because of a lack of external financing (Molly et al., 2010). However, in this research, these theories are not proven. To the contrary, as the number of generations increases, family members are less

“overinvested” in the firm and are more willing to use debt and bear the attendant risk to their individual wealth. Thus, the use of debt is favored by ownership dispersion across generations (Schulze et al., 2003). In this study, the first generation always took less risks, and while the founders survived, debt was very low. Giving some explicit examples from the interviews is sufficient to understand this point. In the School company, for example, debt was always secured by an equal amount in cash while the first generation was alive. Moreover, there was also a very clear debt policy in the sense that debt = cash. In this same company, when the policy of low debt and cash-secured debt was broken with the next generations, this policy break led to many difficulties in the family dynamics that were only overcome by the family’s values of solidarity and respect for legacy, which produced a strong non-financial cohesion in the family. In addition, in Lunch, the founder, who was already in his later years, did not want debt in his group of companies either. He agreed to issue an IPO and to obtain a private investment fund as a capital investor, which, in turn, also produced an effect of family cohesion, as explained above. In Tasty, once the company founders handed the company on to their children, the second generation initiated a diversification process that included new forms of financing, such as trade financing, to launch their products in segments such as superstores and institutional clients (P5:11-15).

Finally, in the Parts company, when the second-generation successor suggested taking the company into debt based on its financial studies on equity costs, his father replied that he preferred to sleep soundly, though he highly respected his successor’s university knowledge – this despite the good arguments that were presented by the successor regarding the importance of the high capital costs of equity capital vs. the

capital costs of borrowed money, which would increase the company's debt. In addition, there is an important issue to discuss here: in several of the family groups analyzed that were organized through a holding company (Lunch, Mortgage, Brick, Energy, and Parts), debts are very low or null, though in all of them, except for Lunch, the owners are second-generation sibling partnerships in which the theories noted as an effect of the defense of the siblings' assets may perhaps apply (Miller, Le Breton-Miller, and Scholnick, 2008; Kaye and Hamilton, 2004). One may speculate and say that, when there are family groups after the first generation, the holding company of these groups maintained policies of very low debt (through holding companies), policies that were established by the companies' founders. In some of these companies, there are SPVs (Special purpose vehicles) in which debt can be high but the family (in these cases, sibling partnerships) maintains control through administration and thus there are no majority shareholding (Cash and Mortgage) generations and ESOPs.

The decision to allow the ESOP scheme not only responds to the family's interests but is also the answer to a regulation of the Colombian government at the time (the 1980s) requiring a minimum number of partners to establish a partnership; for this reason, that number was obtained with the employees who were loyal to the company, as stated by executives from School and Parts. When noting ESOPs, despite the affirmation by Villalonga and Amit, (2009) that family owners may be reluctant to use ESOPs because of the concern over the dilution of the equity stake, the first generations of Energy, Cash, Parts, and Whole took their employees, directors, or even their friends into account to link them as initial shareholders in different companies without apparent fear of the dilution of the family's equity. These shares were bought by the second

generations, who preferred to continue acting as sole shareholders of the companies, among others, to avoid subsequent conflicts with relatives of non-family shareholders (P6:64-64; P18:37-37).

Even in the case of Cash, the founder was inclined to have the manager motivated to maintain a competitive advantage by means of giving him an important part of the company's shares, aligning his interest and his shareholder's intentions, which is according to Le Breton-Miller and Miller (2006), and where the external manager and shareholder of the company had given great help to the family and to the family relations (P3:28-29). Instead, the second generation (the sibling generation) in this company thought that this motivation could be maintained in managers through other mechanisms that did not involve direct stock ownership, i.e., through phantom stocks, mechanisms that, they say, would produce the same motivational effect without the consequences that this stock ownership in external hands could cause a fight or disagreement in the future with the successors of outside shareholders (P10:187-187).

Additionally, regarding ESOPs and generations, the third generation of School is divided regarding the policy of linking its executives to the company's shareholders, according to the interviews with the members of the same generation (AS and BS). In addition, no mechanism was found by which this policy could be implemented in an appropriate manner. The experiences of the younger generations in international companies set the stage for accepting shareholding as performance incentives and as a means to encourage permanence in the company, particularly in the technology sector. The discussion continues, and according to BS, a definition of ESOPs is required because some of the competing companies implement this policy in certain subsidiaries.

5.2.3.2 Generations and sale of shares

Finally, to the extent to which generations progress, family ties decrease, which makes it possible that these generations tend to sell their shares, changing the company's capital structure (Marchisio and Ravasi, 2000). In the cases analyzed, selling Whole on the stock market while the first generation of founders still kept active had nothing to do with generational family development. Instead, the detachment from the company that led to the sale came not as a result of the passing of generations but rather because of the second generation's lack of belonging to the company, given its marginalization. It was also due to the lack of family rules for buying and selling shares within the same family, viewing the stock market as a "practical" method of giving value to shares and providing liquidity, avoiding pricing conflicts. In the case of School, also a large multinational company, selling a percentage of shares on the stock market had more to do with the idea of testing how the stock market and financing a new project would work and also as a valuation mechanism if someone in the family wanted to sell part of his or her shares. In the case of Harvest, selling part of the shares of one member of the family was related to relationship conflict with other family members, as explained above. The sale of shares was also related to the entrepreneurship of new generations, who view this initiative as more interesting and consistent with their capacities, given their fresh academic training and search for self-affirmation and differentiation (P16:108-108). Therefore, it can be concluded that the sale of shares in the companies analyzed had nothing to do with generational passage but rather with the lack of belonging to the company and the need to finance projects and obtain liquidity. Family conflict also played an important role in the sale of shares of Harvest, as expressed in the previous section,

5.2.3.3 Generations and investment funds

The risks of prompting the exit of this equity investor may reduce the involvement of the next generation of family members because their commitment and trust decline (Marchisio, Mazzola, Sciascia, Miles, & Astrachan, 2010). During this study, it was not possible to verify these assertions. The Brick, Mortgage and Cash companies, which maintain minority investments of investment funds, do not note the next generation's interest in leaving the company for the reason presented above, let alone due to a decreasing commitment. Neither does the Lunch company, in which there is a controlling investment fund. On the contrary, what can be observed is the increasing commitment of the next generation to each other and to the company from the investment fund. In the case of Cash, which had a very positive experience with the investment fund, trust was strengthened and generated transparency and good results, owing to which the financial relationship that they had managed to extend beyond the time initially agreed upon. Perhaps we should increase the sample size to examine this theory in more detail.

5.3 Contributions from this work

When considering how the capital structure of a family business is determined, as Romano, Tanewski, and Smyrnios (2001) say, it is important to understand a variety of elements that are internal and external to the companies analyzed. Some important elements include, for example, the following: the years of business establishment (Stanworth and Curran, 1976); industry considerations (Carleton and Silberman, 1977); the business owners' plans and objectives (McMahon and Stanger, 1995); the levels of ownership and management control (Ray and Hutchinson, 1983); industry considerations (Carleton and Silberman, 1977); and the owners' business, social, and behavioral goals

(McMahon and Stanger, 1995). Additionally, and more specifically in terms of the capital structure, it is important to know the following: the tradition that business owners have of favoring a certain method of financing; the use of internal sources of finance; how easily owners relate to outsiders to accept certain types of business partners; and the family values and aspirations that may favor one type of financing over another. Similarly, several family dynamics affect financing decisions and how capital structure affects the family dynamics.

Therefore, this dissertation contributes to the research on the capital structure of family businesses in a number of ways and in a very practical manner. First, the inclusion of internal and external factors in capital structure decisions suggests a new path for future research. The link between family business dynamics and the capital structure of family firms has heretofore not been established concisely or been studied in depth (Margaritis & Psillaki, 2010); this qualitative research has linked some internal factors such as family dynamic variables, family values, and generations so that their influence on the capital structure can be observed in an integral manner. Furthermore, samples of public companies have been used to derive conclusions about family businesses, and the use of data from listed companies to understand small and mostly private family businesses is controversial, and its results are often ultimately inapplicable (Astrachan, 2010). This research sample includes only family businesses, and it makes it possible to observe how families in private companies behave when financing decisions are made.

As Ang states, “the modern theory of corporate finance has not been developed with small businesses in mind” (1991, p. 1), and, according to Berger and Udell (1998, pp. 615-616), “the private markets that finance small businesses ... are so different from the

public markets that finance large businesses.” Moreover, Modigliani and Miller’s (1958) modern finance theory assumes that profit maximization is the only goal of a firm. Although the seminal work of Modigliani and Miller has relevance for public companies (Romano et al., 2000), these concepts have little application to family companies (Chaganti, DeCarolis, & Deeds, 1995) because family firms often have other (non-financial) goals for their businesses (Berrone et al., 2010), as is the case with some of the families that are interviewed in the sample, whose goals are not solely of a financial nature. In this sample, it can be observed how the principles of modern finance theory are not entirely applicable to family companies. In fact, when there are no non-financial goals present in family businesses, the future results can be unfortunate for the shareholding family, as is the case of Whole, according to AW:

“When the company was created, there was not a long-term projection on the part of the founders. They did not think about mechanisms that would allow the next generations to continue in a structured manner. The founder would say, ‘You do whatever you want, don’t bother me with that.’ (P32:105-105).

This lack of planning for generations to come may be the reason the company was sold on the Colombian stock exchange, and today, the family may regret not having a long-term sustainability goal for the company.

The insufficiencies of the current theories regarding the capital structure in family firms warrant a fresh, groundbreaking approach through a qualitative study. Therefore, the use of the grounded theory approach and a sample that was limited to family businesses in Colombia produced the results and the observations presented here. Given these findings, we can appreciate several elements of family dynamics and their influence

on the capital structure of companies simultaneously. Pieper (2010) suggests that greater importance should be given to the psychology of families to explain the behavior of family businesses. Indeed, many financing issues listed in the review of the interviews show a very clear link between the different forms of financing and the family dynamics that appeared in the families.

5.3.1 Contributions for non-family managers

This study can be a valuable tool for family business owner-managers and non-family managers in identifying and promoting the internal and external factors that add value to firms without compromising next-generation family firm development. From a managerial perspective, an exploration of the critical family dynamics aimed at the capital structure in family firms can help create an awareness of both the strengths, which can eventually be implemented through family dynamics, and the weaknesses, which can help avoid damaging behavior if the capital structure produces disagreements and conflicts. Accordingly, family managers (who, in many cases, are also owners) and non-family managers must be careful to observe capital structure issues that may possibly damage family harmony or that, on the other hand, may strengthen it. For practical application, these findings may offer informed advice for managers on how to craft capital structure to pursue certain strategies and how desired outcomes require certain capital structures.

5.3.2 Contributions for family business advisors

When consultants work with family companies, they should understand the benefits of identifying the family dynamics as their starting point. In this manner, they can better advise the family regarding decisions about the different capital options that

they may recommend. Similarly, they will have the opportunity to better predict the possible effects that a certain capital structure may have on the family. Otherwise, the solutions they offer, even if they are convenient for the business, may create family problems and conflicts. Thus, they will be able to offer tailor-made solutions that are related to capital structure, solutions that are convenient for the business and simultaneously convenient for the family.

Financial consultants who work for family companies must bear in mind that selecting sources of financing for these companies not only is related to the capital and opportunity costs but also is linked to many other non-financial factors, which may increase or decrease the return on these investments. These are elements such as the characteristics of the directors, gender, age, the generation in charge, the relationships among family members, their level of experience and commitment, and the values that constitute the family business, in addition to other disturbing factors such as conflicts, divorces, rivalries, and personal interests. This study demonstrates how leading family companies in Colombia from different sectors of the economy have been financially successful and have maintained family cohesion using sources of financing that are in harmony with their culture and dynamics.

Pecking order, risk aversion, and behavioral theory are theories that complementarily interpret the selection of sources of financing for family businesses. Given their transgenerational goals, their proclivity to control, their responsibility to legacy, and their deeper commitment to the company dynamics, they show more conservative attitudes to financial risks. Although this tendency is manifest in the study,

flexibility was also found in the selection of sources for financing business growth and competitiveness.

These findings suggest that, in business consulting, it is important to have comprehensive knowledge of the wide range of sources of financing available on the local and international market, amplified by the different combinations between them, defining the advantages that they offer and the risks that they present in terms of control, decision making, management co-responsibility, limitations to links, capital costs, respect for culture, capacity to dialogue with the family, risk management, the commitment to the company's values and mission, and the understanding and management of family dynamics.

Regarding profitability, many family decisions are counterintuitive. They must be understood, given that they obey principles that cannot always be explained from a purely financial perspective. Going into debt to distribute a few dividends does not make sense unless it is understood that receiving something is an incentive, a method of harvesting and maintaining cohesion, hope, trust in leaders and thus gaining support for new challenges. It means bearing in mind the human condition, according to which capitalizing forever is impossible without seeing tangible results or having few resources to make a gift. This sensitivity to the companies' non-financial aspects will facilitate communication with the family and the joint search for solutions.

5.3.3 Contributions for the banking sector and investment funds

Identifying financial risk is critical for a banking institution. Knowing the characteristics of an entrepreneurial family, its organization, its trajectory, its culture, the family's degree of commitment to the company, and its family dynamics is essential to

make decisions in regard to amounts, interest rates, credit terms, or even the percentage of participation in projects that are developed by these types of businesses. The family's prestige and ability to make sacrifices and offer reciprocal support are important credit guarantees.

Entrepreneurial families are par excellence conservative with regard to risk. Moreover, the values and principles that govern and guide them promote compliance with their credit commitments. In a certain way, family companies have a path of trust ready, in advance, with financial entities for credit requests to finance growth and investment. Investment funds that consider investments or alliances with family businesses must bear in mind the family's own dynamic, culture, and values to balance their return expectations and their different future perspectives, not necessarily opposing, so that mutual trust becomes a factor of transformation. The companies analyzed show different experiences and results from their work with private investment funds, with some being positive and some being negative. Their experience is a learning process for investors and families.

5.3.4 Contributions for entrepreneurial families

This research paper may be useful for entrepreneurial families to the extent that they can identify which sources of financing are most favorable for the company and for the family according to the dynamics experienced by the family at a certain moment in time. Similarly, they can know the advantages and opportunities that entrepreneurial families have in relation to other companies in regard to requirements from banks, funds, and other institutions to minimize the cost of financing. In addition, they should know the advantages and disadvantages of certain sources of financing for entrepreneurial families.

The values, culture, and dynamics of an entrepreneurial family are essential for its growth and sustainability. Its values are distinguishing elements that allow it to optimize its own resources and external resources and to generate trust to attract investors who are committed to the same culture, with the expectation of obtaining better returns in different timelines.

As stated by Harris, Martinez, and Ward (1994), it is also shown in the interviews that the dynamics of the family may affect the relevance of non-financial (e.g., independence, employment for family members, prestige) and financial goals; over time, the performance of the company along financial (dividends, salaries, perks) and non-financial (quality products, archives, corporate social responsibility) dimensions may affect the family's emotional and financial cohesion dynamics as well (Pieper, 2007; Pieper & Astrachan, 2008). This study explores how values, culture, generations, and family dynamics were decisive in configuring the capital structure of important successful entrepreneurial families in Colombia. Finally, it is helpful to articulate the components of family psychodynamics with the capital structure to perceive their mutual implications, with a view to anticipating risk and/or determining the best course of action for company financing; at the least, doing so can help create and develop decision-making mechanisms to select the sources of financing for entrepreneurial families.

5.3.5 Contributions for clients and suppliers

For these stakeholders, the entrepreneurial families in the sample honor their commitments and guarantee their credit even with their own equity because they have at stake the reputation of their company, their family legacy, and the future of their families.

It has been shown how the interviewees in this research link their family values and family dynamics with their financial decision making.

5.4 Limitations and suggestions for future research.

It is evident from the discussion of these results that the study of the link between family dynamics and the capital structure raises many aspects that need to be explored further. The relationship between them is complex, and other internal and external factors that were not been included in this analysis can certainly be found. This in itself implies a future challenge for family company researchers. The purpose of this study was to investigate how family influence and family dynamics affect capital structure decisions, explicitly focusing on the sources and levels of equity and debt financing. Secondly, this research aimed to explore the reciprocal effects of capital structure decisions and firm performance on family dynamics. This study demonstrates the influence of internal factors on the capital structure of companies. Similarly, internal and external factors such as the company size, the generations running the company, conflicts and family crises, and definitely the context in which the companies develop were always present. Nevertheless, this study has its limitations.

First, the study was conducted in Colombia, which represents a couple of potential limitations. In spite of the proposal stating that, according to González, Guzman, Pombo, and Trujillo (2012), Colombia is becoming a benchmark capital market in Latin America from a financial development perspective, and that the information that we had was that the Colombian stock market had become one of the best performing markets in the region (www.stockmarkets.com/exchanges/south-america/colombia-stock-exchange, June 27th, 2014), several interviewees claimed otherwise and spoke negatively

about the situations of the country and of the Colombian stock exchange; this is precisely why they hesitate about floating their companies. Family businesses in Colombia are generally not seeking financing in the stock market, and those that are indeed listed are very large companies.

Second, extending the observations of this study to other countries is not easy because, as King and Santor (2008) say, it is difficult to differentiate firm-level effects from country-level effects in capital structure studies due to the very different legal, regulatory, and market institutions. Simultaneously, a cultural aspect differentiates companies from the range of family-owned businesses depending on the national specificities (Zellweger et al., 2011). Because the dissertation was prepared in Colombia, it could be the case that, if it had been performed somewhere else, the culture and family dynamics could be different. For example, when describing “trust,” Fukuyama (1996) compares China and Japan and explains that their levels of trust are different. In Japan, he says, the levels of trust that people have are much higher than those in China. Thus, this research could be conducted in another country, and the results could be compared and contrasted to the results of this study. On the other hand, one always wonders whether local knowledge, or what works in one part of the world, can then be transferred as global knowledge to other parts of the planet.

Third, Colombia’s economic perspectives at this moment are very difficult to forecast due to the country’s high dependency on oil and coal exports and the global drop in commodity prices, which has resulted in a significant local currency devaluation, making imports more expensive. The importers of goods or raw materials that use suppliers’ financing currently consider this type of credit to be very high risk due to the

exchange rate, which is the same assessment as those who use bank loans in US dollars who now consider them to be very high risk for currency hedging operations and a possible additional devaluation. Were this study to be conducted at another moment in economic time, the results might be different.

Fourth, other sources of financing such as ESOPs have not presented a significant development in Colombia to the extent that researchers can conduct comparative studies that show the reciprocal implications between the capital structure and family dynamics. However, this research demonstrates that ESOPs have been used to show loyalty to employees and to keep good employees attached to the business. The globalization of capital markets will gradually open the door to new forms of financing that entrepreneurial families will explore to the extent that they generate trust and respect for their culture. The research in this field will remain open.

Fifth, despite having obtained financial statements from the companies for the last three years, the interviews were all completed during the past year, and the information derived from them is based, on one hand, on the interpretation that the interviewees made of historic situations and, on the other hand, on their memories of what had occurred. Somehow, this information may have been influenced by the interviewees' memory or by their own interpretation of what had occurred. Additionally, the interview data received and analyzed are very diverse in regard to individual variables such as age, sex, the generation in charge, the economic sector in which the company operates, the family members working in the company, or the family's participation on the board of directors. Therefore, the results neither allow nor pretend to establish categorical or metric generalizations regarding how family dynamics affect the capital structure of

entrepreneurial families. Because it was not possible to interview all of the individuals proposed from different generations because many of them were absent, in the future, a sample could be selected in which the interviewees are from different generations and more time is dedicated to a new study.

Sixth, there is another important boundary for this work which is the sample of family companies in each category of financing which might not be enough. For example, in the private equity category one of the findings was that it improves communication among family members; that might not be always the case. The same is true for the ESOP category where the positive impact on the family might be rare. Moreover, not all partnerships produce aligning of the cultures: the family culture and the partner culture as it appears in these results could not be aligned; not always do allies make important contribution to the family culture; on the contrary, they might destroy it. Not always are families so responsible as to treat minority shareholders with justice; on the contrary, they might be subject to “tunneling” by family members. Not all the families have long term orientation as to save money from asset shedding for future investments; family values are very different in different family businesses, etc. All of these limitations and concerns, in turn, offer great opportunities for future research.

It is also worth noting the following:

- Family dynamics is a concept that, in reality, is impossible to observe. What one observes is simply a person’s behavior at a certain moment, which leads one to suppose that there is a frame of reference in this person’s mind for making decisions. Therefore, a person’s behavior is merely a reflection of this frame of reference. In addition, the personal values of an individual are one thing, and the

values of a social group or of a family as such are another thing. The personal values of an individual are not necessarily the values of a family as a group.

Furthermore, to understand a social system, we use models that, according to Hofstede (1996), are representations that we make of a situation, and these models also include the subjectivity of the person analyzing the answer at any given time – in this case, my own subjectivity.

- It must also be taken into account that there are some family dynamics that develop or change over time and that may be different according to the generations interviewed. For example, the issue of austerity changed according to the generation, when dividends were paid. First generations always were more austere. In addition, different members of the same family may share the same values but not in the same proportion. Thus, a quantitative extension of this research could be convenient.
- Pieper (2010) suggests that greater importance should be given to the psychology of families to explain the behavior of family businesses. Indeed, many financing issues listed in the review of the interviews show a very clear link between the different forms of financing and the conflicts that were appearing in families, and vice versa. Deepening these aspects is therefore necessary.
- It would also be worth determining how the next generations of the companies analyzed will develop with regard to their family companies. Many members of these new generations have grown up in an atmosphere of insecurity that forced them to study and live abroad, with the specific question of whether they will

continue to belong to the companies of their family. Would they sell their shares, changing the capital structure of the company due to a lack of sense of belonging?

I also have a concern, and it is the following: Despite having completed the interviews in an atmosphere of total trust and although the interviewees answered my questions in a calm manner after I guaranteed the anonymity of their answers, it is impossible to ensure the total credibility of these answers. This occurs in any type of research, but I feel that I need to note this issue as a concern.

Additionally, if the sample for this research could be increased and the answers from the different generations could be compared, even interviewing more employees and making comparisons to companies in other countries, then a much better understanding of the subject could certainly be possible. For each family dynamics, if the family has certain types of family dynamics, there could be an instrument that may make it possible to more adequately predict what the possible capital structure would be, and vice versa. In addition, another family dynamic, value, or culture typology could be chosen, as I said before, which would allow a prediction to be made.

Finally, in this study, it was assumed that the family was an entity with defined, predictable characteristics. The family business was explicitly defined, in addition to the variables that compose the capital structure. Today, the very essence of family is discussed in Colombia and in several countries with regard to whether heterosexuality is inherent in its structure, procreation is a necessary objective, or sustainability is a guarantee of its existence. Many factors have changed the face of the family, and in the future, it will be necessary to consider how various family figures make financing

decisions: gay couples, single fathers/mothers, childless couples, and families with adopted children, to name but a few examples.

5.5 Conclusion

The overall purpose of this study was two-fold. On one hand, the thrust of this examination was to explore how family influence and family dynamics affect capital structure decisions (sources of equity and debt financing and levels of debt and equity financing). On the other hand, this research expected to explore the practical effects of capital structure decisions on family dynamics. In order to achieve that purpose, a qualitative grounded, theory influence approach was used. During 2015, I conducted 30 interviews, and collected some other secondary information from 11 family companies, from different sectors, and with different sizes and family generations in command, located in Colombia, although, some of them were multinational. I also chose different types of financing among the family business sample to observe how each type influenced the family dynamics and vice versa. I also found how some external (economic conditions) and internal factors (family dynamics, values and generations) influenced the manner in which families chose different capital structures among the sample companies. The selection of the capital structure more conducive to satisfy the business scope is sophisticated and generally includes a mix of sources which capital intensity varies according to internal, external family factors.

There are some external factors such as the global economy and the internal economy of the country and the effect of such events as the late '90s economic downturn, 9/11, and the subprime mortgage crisis in 2007. These events prevented some firms from either going public, or issue bonds in the stock market since investors became more

cautious. Bank credit remained the main source of leverage instead. Currency fluctuations caused by the fall of oil market prices put pressure on accounts payable in US dollars. High inflation rates in the '90s caused stagnation and fear of banks and investors that would foreclose operational assets left as collateral. Families felt the stress, fear and, in some cases, panic. They reacted differently; some could not resist stress and broke up, while others showed resilience and solidarity focusing on restructuring debt, putting off projects, reducing or deferring dividends distribution, trimming expenses, shouldering higher and risky leverage and even shelving executive sabbatical years. Fifty-four years of political unrest in Colombia forged a climate of financial uncertainty that led family founders to send their offspring abroad to study. This generation grew up with certain detachment from their business and some did not even return to give a hand or find a professional career within the family business.

Internal regulations also call for capital structure adjustments. Business alliances became a strategy used by foreign investors to do business in Colombia when in the '70s a government policy enforced high taxes for foreign shareholders. Partnering with well-grounded Colombian family firms facilitated their entrance or staying in business. In the financial sector, new capitalization rules set smaller debt to equity ratios so brokers can only deduct taxes up to n times their equity. These measures spur creative forms of financing such as Special Purpose Vehicles and families among others.

Furthermore, the selection of financial sources is influenced by internal factors. IPOs giving up control is an option for families in a more mature stage with several branches engaged in long term and costly ventures or for those whose members without proper training demanding resources for entrepreneurship, or spin-offs within a system

where shares are easy to trade. Some acknowledge that floating the company is a matter of prestige aside from securing resources for the future. Going public brings along risk reduction, cohesion and business diversification, but on the other hand, it takes away control, the sense of belonging and, in some cases, increases stress since decisions are taken together with external shareholders that do not necessarily hold the same values. Family privacy is compromised when firms become public. In the case of IPOs not giving up control, family members are more aware of their accountability towards investors and show more willingness to learn. It also prevents conflicts between family shareholders thanks to the ease of liquidity.

As for internal family factors that show a significant effect on the selection of sources of financing, family values stand out as another criteria. Family firms expect value alignment between their own family and business partners, and compliance with codes of business ethics that include but is not limited to respect for the company culture, honoring agreements with employees and suppliers, valuing stakeholders, trust, accountability, cultural diversity, respect for privacy, open-mindedness, justice, social responsibility, self-development, entrepreneurship, prestige, and long term orientation.

A most sought-after value for families is Know-How when it comes to partnerships and letting in investors. Family reputation is an important asset and instrument for negotiation before financial institutions. The fact is that they rarely default and establish long-term credit agreements with banks, obtain low interest rates, lower or no- collateral pledges and offer open credit lines.

As Behavioral Theory predicts, family firms prefer to avoid a loss even if this means accepting a higher risk or underperformance (Gomez-Mejia et al., 2010). Risk

aversion traits are present in all families in this study; however, it is more evident in first generation firms. It prevents decision makers from compromising family assets and reputation in risky businesses that may jeopardize the future of the family in case of default. Debt is not always an option; but it sometimes solves contingency issues in cases of divorces, abrupt succession, conflicts among family members that lead to buy the sibling's share to prevent the entrance of an external shareholder, respond to sudden attack from competitors, and take preemptive actions when credit lines turn scarce.

High debt causes enormous stress in managers and in the family as a whole. Distrust and scapegoating take companies to a standstill. Besides, there is a positive spin when debt is high: families come close together, learn from mistakes, and became humbler, committed personal assets to support the business, accepted cutting and putting off dividends distribution, and kept their investments within the business. Private Equity Funds offer family firms resources to support their endeavors and new ventures, formalize corporate governance, further strategic decision making and reduce risk. They are expected to enhance business operations with new Know How and networking.

Although this paper also presents several limitations for the research done, the contribution of this enquiry will be useful to family business shareholders, managers, board directors and advisors of family businesses when making or helping to make decisions on capital structures for their companies, to foresee the effects that those capital structures can have over the family shareholders and vice versa. My goal was to apply capital structure, family dynamics, and capital structure concepts and theories to family business. In order to achieve that goal, I went through a very delicate examination of several tape recorded and transcribed interviews with kind and generous family members,

board directors and employees from the companies in my sample, who helpfully offered me their time and open information about their companies. I hope this dissertation will be used by many people in the field, and inspire other researches to continue working in this line of inquiry.

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APPENDIX

Appendix

Questionnaire

General Questions

- 1 How would you define a Family Business and what features make your firm one of them?
- 2 Do you believe that family firms outperform non-family ones in your environment? If so, what family and business dynamics favor this advantage?
- 3 What are the non-financial goals, the socio-emotional wealth pursued by the family firm?
- 4 Which sources of financing are the sector and your business acquainted with?
- 5 What sources are more available for your business type or in the nearby market?
- 6 Is there any background on family ventures, or external capital investments that the family may rely on as model of good practices?
- 7 Are the forthcoming generations willing to improve family involvement in ownership, governance and management and honor agreements?

Family & Sources: Do family dynamics affect sources and proportions of financing sought?

- 8 What is the purpose of financing? Growth, expansion, new markets, innovation, diversification, integration, entrepreneurship, keep competitive edge, technological renewal, defend from takeovers, maintain market share, accommodate more relatives, buying out a family member's share with conflicting views, grooming for prospect selling, concentrating ownership in one branch of the family, others? Map out internal and external drivers.
- 9 Family firms are traditionally seen as risk-averse. What would make your family take new external financial challenges?
- 10 What type of sources is the family considering?
- 11 Has the family pondered the different alternatives, the advantage of having one or several sources?
- 12 How the longer time horizon of the family firm may further credit or investment terms with financial firms?

- 13 How to make the family firm reputation a proxy for collateral?
- 14 Do you believe that factors such as Parsimony (capital deployed sparingly and used intensively), Personalism (unification of ownership and control in the owner), and Particularism (families may employ alternative decision criteria than those based on pure economic rationality) is a value added to investors and obtain better lending rates?
- 15 Which features among FB are sought after by investors to secure returns and reduce risks?
- 16 What advantages or value added does being a family firm have in the cultural and business environment compared to non-family firms when looking for fresh capital?
- 17 What issues of the family dynamics may discourage external investors and in what proportion such issues add or subtract to the value of the company, increase debt rates or tighten investment conditions?
- 18 What is the general family Attitude towards debt?
- 19 What family issues in your environment (family conflicts, in-laws, growth of family members, complex succession process, lack of interest in the business by new generations) posit a risk when seeking sources of financing
- 20 Does the financing scheme selected match the life cycle of the family firm? How?
- 21 How company age, tenure, generation in charge, gender of family leaders, family or non-family CEO, character of leaders, family attitudes toward risk, losing-control apprehension, pressing family needs, may influence the decision of seeking external financial sources.
- 22 What correlations do you find between business planning and debt?
- 23 To what extent an unruly or conflicting family firm is considered a handicap or an opportunity for investors?
- 24 To what degree ownership distribution of the firm may affect investor's perspective for financing its projects?
- 25 If financing is intended for entrepreneurship, would it serve to support related or unrelated entrepreneurship?
- 26 Is communication among family members and stakeholders, deep, transparent, frequent and pertaining to address the decision of seeking sources of financing the firm?
- 27 Is this initiative of funding the family business influenced by the character of those in charge of taking decisions? Are they more prone to be adventurous, risk-takers, risk-aversion oriented, conservative?
- 28 Are the firm's Mission and Vision taking into account as criteria for selecting a particular source or combination of financing sources? How to go about if there is not a match?

- 29 What personal and family characteristics (behaviors, patterns) and abilities are required to achieve a new direction on financing the firm? Is the family apt to this challenge? (Strengths, shortcomings)
- 30 What Shareholder's behaviors are conducive and which not for an eventual external financial leverage project? How to make improvements?
- 31 In your own experience, have you gone through a debt service default, financial constraints or lenders pressure? How did the family face such situation? What did you learn?

Sources & Decisions: Do sources and proportions of financing affect strategic decision making?
- 32 What criteria do you take into account for deciding on the appropriate type of financing leverage?
- 33 In which opportunities did the firm change its capital structure? How was the decision made, which sources were considered which not and why? Any impact on the family dynamics?
- 34 How non-monetary goals such as prestige, need of belonging, independence, intimacy, employment for family members and altruism are safeguarded when seeking external sources of financing?
- 35 What financial and non-financial returns will the firm offer to investors as ROI?
- 36 In your business environment, is Private Equity used to finance strategic projects or to make the firm over to create market credibility before going public?
- 37 If equity investors decide to pull out, would be the family willing and ready to regain control?
- 38 What made the firm decide for an ESOP scheme?
- 39 Which financing source helps alleviate most fiscal obligations?
- 40 Does your organization consider the tax advantages of borrowing when deciding on financing your projects?
- 41 How to determine the scope (Financing the whole firm, some units or projects), timeframe, Amounts and proportions for financing the Family Firm?
- 42 What collaterals would back up the expected resources?
- 43 What Changes are expected to occur in the family, business and ownership subsystems after obtaining the resources?
- 44 Should the family proceed in a hierarchical order in terms of financing the business (Pecking Order)?
- 45 Is the cost of equity defined by a rather objective formula, or it is an expression of subjective family expectations?
- 46 In order to streamline family investments and operational costs (mainly from non-core expenses) investors might demand reducing expenses. Would those measures affect

family cohesion, development, communication and key goals? How to prepare for that event?

- 47 Are stakeholders willing to give up dividends or experience a substantial reduction as to get the requested leverage?
- 48 Is it clear to all the incumbents the reasons behind seeking fresh sources of financing?
- 49 Do the family members and stakeholders trust leaders regarding the decision of seeking external sources of financing the firm?
- 50 What mechanisms use the Family Governing bodies to get stakeholders on board?
- 51 If financing is not an option, what's left, what other scenarios should be considered?
- 52 Who is entitled to take the decision?
- 53 Which family decision making paradigm mirrors best your firm: closed, random, open, synchronous?
- 54 Is the family knowledgeable of the expected Requirements made from outsiders and lenders to finance the Family Firm? How are these demands pondered?
- 55 Has the family prepared a due diligence document envisioning a prospective financing option?
- 56 Has the Family Firm conducted an External analysis for this project? Is it necessary, timing? Are all conditions considered?
- 57 What should be prepared before decisions are taken (grooming the firm)?
- 58 In the case of ESOPs, what conditions had the firm in place as to share ownership with employees?
- 59 What would be the process in order to have a well-grounded/informed decision?
- 60 What would be the protocol for consultation among family members and stakeholders?
- 61 Which other voices should be heard to document the decision making process?
- 62 What indicators would signal consensus?
- 63 What would be the role of the Board in decision making?
- 64 An equity fund may require a change in the management and ownership structure of the family business. Is the family prepared to negotiate certain conditions to minimize agency costs or secure staff continuity?
- 65 What's the family perception of sharing/yielding control of Capital, Company, Top Management positions?
- 66 What ownership structure would be acceptable to the FB to keep control and identity?
- 67 Are there strategies in place and human capital to face a power battle, lose control and reaching agreements through negotiations if going public?
- 68 Agency problems arise due to the separation of ownership and management. How is your organization going about it?

- 69 Implications of leveraging through ESOPs: is there real willingness to overcome information asymmetry with the employees. How?
- 70 Was the negotiation to supplement resources respectful of family business differences?
- 71 Were the investor's demands acceptable?
- 72 Did the sources contracted satisfy expectations in terms of costs and vision?
- 73 What elements are not negotiable?
- 74 Are there Transparency procedures in place to track the results?
- 75 Does the organization have in place standardized reporting mechanisms and procedures that satisfy investors' needs?
- 76 What indicators would be set to gauge risk?
- 77 What rules and protocols would help the firm prevent financing consumption by family members or to engage in non-profitable investment for stakeholders?
- 78 How external stakeholders will keep an eye on the company?
- 79 Is it acceptable to the family giving up or deferring new projects as to improve the company capital structure?

Sources&Family: Do sources of financing affect family dynamics?

- 80 Which non-financial goals would the family have to relinquish if accepting certain external sources of financing? Which would be enhanced?
- 81 What collaterals is the Business ready to offer to potential investors? Is there a consensus on the risks the family would shoulder, and is there a willingness to share this responsibility proportionally?
- 82 Is losing face or damaging family reputation in case of failure a deterrent for acquiring debt?
- 83 Aside of diminishing the bargaining power of financial institutions, what other advantages offer IPOs to the family firm?
- 84 What non-financial goals will IPOs achieve for the family?
- 85 Does IPO favor in any way management succession?
- 86 What means of financing has the family traditionally used and what results and collateral effects has it experienced?
- 87 If one of the purposes of the family firm is to maintain, promote and increase socio-emotional wealth, how the decision of financing will directly or indirectly contribute to this purpose?
- 88 How certain types of capital structures or sources of capital may harm family cohesion?

- 89 Are family members willing to reduce income in the present to have a more promising future through financing by debt or alliances?
- 90 Is there any protocol in place in case of default of debt, failure or disagreements to secure family cohesion?
- 91 How to keep the family together when becoming wealthy?
- 92 What implications foresee for culture, cohesion, succession, altruism and reciprocity if adopting an external financing system?
- 93 In the case of ESOPs, are there family issues known by employees that could be used by the latter to press benefits?
- 94 The combination of ownership and control is a key feature of family firms. Investors may see a higher chance of entrenchment. How would you change this vision?
- 95 Were the Values, Mission and Vision affected?
- 96 In case to resorting to debt, how would the company manage the underinvestment phenomena?
- 97 How will Private Equity promote family business' value and outcomes?
- 98 How has the firm counteract Private Equity drives of short term actions and its implications in R&D, investment, managerial practices and employment?
- 99 What changes has the firm experienced after implementing ESOP? (productivity, economic growth, performance, culture, information sharing, cooperation)