

The Australian Centre for Entrepreneurship Research
'CAUSEE' Research Briefing Paper



THE ROLE OF FAMILY IN NEW BUSINESS START-UPS

September 2010

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Highlights

- Family background matters – Australian business founders tend to follow their family heritage.
- Family involved in founding teams – presents a mixed picture.
- Family funding – founders tend not to gamble the 'family silver'.
- Business wisdom – family represents a source of information and advice.
- Industry focus – small differences between family and non-family teams.
- Aspirations and motivations – non family teams display higher aspiration and motivation levels.
- Start-Up Success – family involvement appears to not influence the outcome.



Industry Partners



Australian Government
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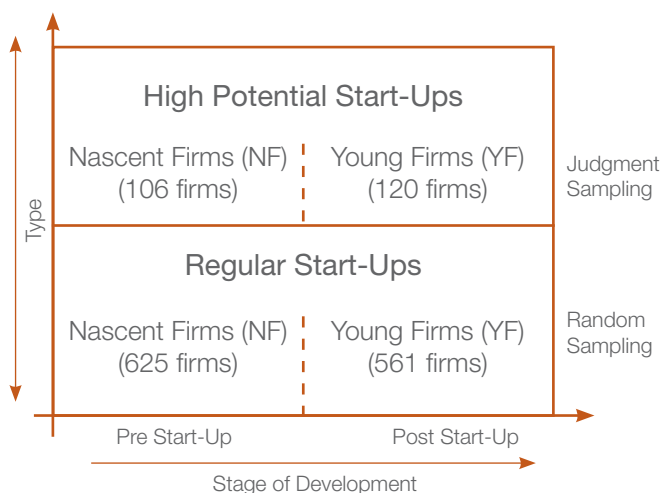
The CAUSEE Study

The Comprehensive Australian Study of Entrepreneurial Emergence research project, or CAUSEE, is Australia's largest entrepreneurship research project. It is the largest study of business start-ups ever undertaken in Australia and is the only large-scale study to track ventures over time. The project provides an exciting opportunity to improve our understanding of independent entrepreneurship in Australia.

CAUSEE has identified a sample of approximately 600 emerging, but not yet operating (Nascent – NF's) business start-ups. As well, the project has also identified a further sample of approximately 600 newly established young firms (YF's) that had already commenced trading. In addition, high potential, high growth firms have been identified and considered as a separate sample. All firms are being tracked over a four year period.

CAUSEE aims to uncover the factors that initiate, hinder and facilitate the process of emergence of new economic activities and organisations. Unlike much previous entrepreneurship research, the CAUSEE project does not put a singular focus on the 'entrepreneur(s)'. Assessing key characteristics of the venture including the venture idea, such as the degree and type of novelty the emerging venture has compared to what is already in the market, are also an important part of the research. Equally importantly is looking at the venture and the outcomes it may achieve along with the relationship between the characteristics of the venture idea and achieved outcomes.

Figure 1: From where was the data obtained?



The Focus of this Report

This report uses data from the first two years of the CAUSEE study and focuses on the role of family in new business start-ups.

While CAUSEE was not designed specifically to probe deeply into family matters the study does reveal interesting information on family orientated aspects including parental role models, family involvement on the start-up team, and family as a source of funding and advice. These findings can also be related to other information gathered as part of the comprehensive phone interviews that are used to gather the research data for CAUSEE.

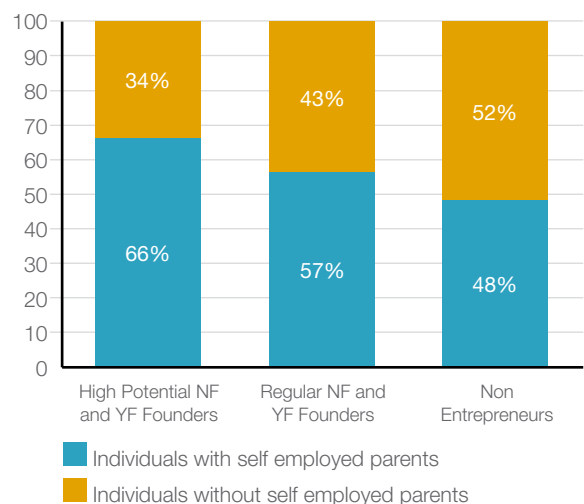
Furthermore we are also able to compare firm founders with non-founders and 'Regular' NF and YF start-ups with their 'High Potential' counterparts in terms of their degrees of family involvement.

Unless otherwise stated any differences or effects we comment on are 'statistically significant' at the five per cent level – that is, they are likely to reflect true differences or effects in the entire population of Australian start-ups.

Does Family Background Matter?

Our analysis suggests that having a business orientation in a founder's family background often encourages firm creation. While the proportion of interviewed non-founders who has/had at least one self-employed parent is also high – 48 per cent – Figure 2 shows it is even higher among firm founders. While this over-representation of individuals with self-employed parents may not appear surprising, this effect was not found in a similar study in the US where data was gathered from 1998 to 2000. Furthermore, the presence of parental role models is even higher for 'High Potential' start-ups.

Figure 2: Presence of Parental Role Models



There are no marked differences between NF and YF, but the tendency is for the prevalence of parental role models to be slightly lower in YF start-ups.

Within the CAUSEE sample there are many firms that are started by more than one founder. Therefore, the proportion of start-ups that have at least one founder with a self-employed parent is even higher than indicated in Figure 2. Nearly two thirds of our random sample of NF and YF start-ups have at least one founder with self-employed parents.

- Individuals with parents who have owned a business are more likely to start one.
- The proportion of start-ups with at least one owner with self-employed parents is even higher.
- The presence of parental role models in new ventures is generally high in Australia.

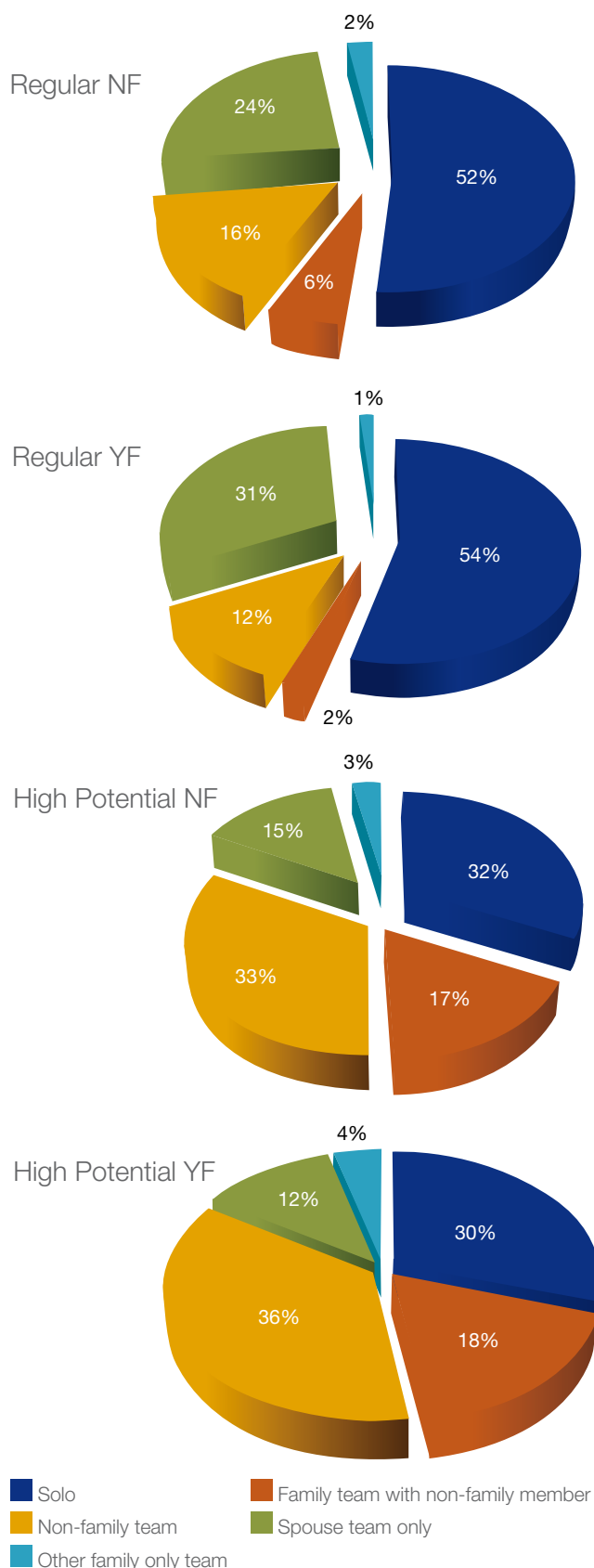
Overall these results indicate an important relationship between the family and firm creation. Self-employed parents seem to positively influence the likelihood that their children start their own firms, and these start-ups appear to be over represented in the 'High Potential' category. Furthermore, many of those who have not yet started their own firms (Nascent) are also identified as having parental role models. Despite these findings the role model effect does not necessarily imply any direct involvement in the ventures.

Family on Founding Teams: A Helping Hand by Spouses...!

Nearly 50 per cent of the founders in the 'Regular' start-ups sample, and close to 70 per cent of those deemed to be 'High Potential' start their business in conjunction with at least one more person. In addition as shown in Figure 3 there are also large differences in family involvement between 'Regular' and 'High Potential' teams. Amongst the 'Regular' start-ups group spousal teams (including *de facto*) dominate. Here there is also a marked difference between NF and YF, suggesting that the survival likelihood is higher for spousal teams. The NF-YF difference for mixed family/non-family teams is also sizeable but the survival rate is lower, possibly suggesting that this type of team relationship is more conflict prone.

While over 96 per cent of the spousal teams were mixed-gender, the incidence of same-sex spousal teams in venturing is higher than in the general Australian population as a whole (ABS 2001 data reports that only 0.5 per cent of all families include same sex couples). Within this minority group, all-male spousal teams are more common than all-female spousal teams (consistent with a similar Swedish study but not with US findings).

Figure 3: Family Involvement in Founding Teams



Amongst 'High Potential' YF firms the non-family teams make up 36 per cent of the team based start-ups while in 'Regular' YF firms non family teams represent 12 per cent. This difference is similar for NF firms. For YF firms spousal teams are much less frequent than amongst 'Regular' YF start-ups. In contrast the proportion of 'other family only' teams (other than spousal teams) is remarkably low, hovering around 5 per cent.

- Spousal teams are relatively commonplace while other family team combinations are relatively rare.
- Among 'Regular' start-ups spousal teams appear to have higher survival rates than other teams while mixed family/non-family teams appear to have lower survival rates than other teams.
- Family teams, especially spousal teams, are much less prevalent among 'High Potential' start-ups.

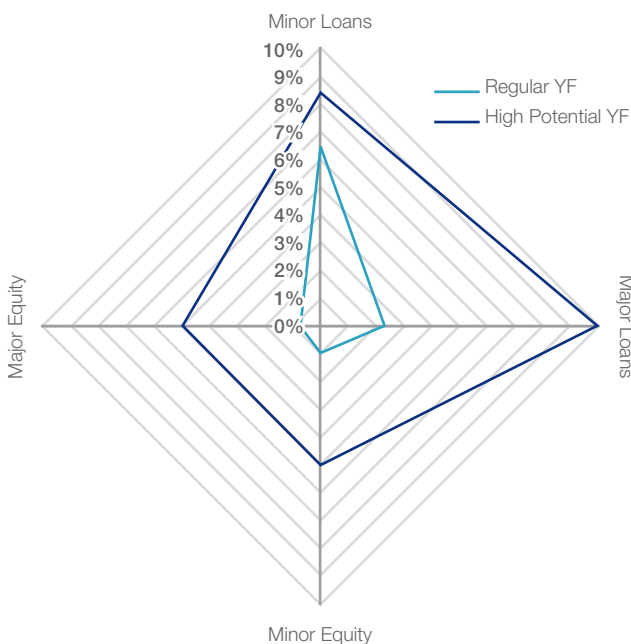
In all, the results for family involvement in the founder team paint a mixed picture. On the one hand, family involvement is less prevalent among 'High Potential' start-ups, which, not surprisingly, appear to have more professionally composed teams. On the other hand there is indication that spousal teams have higher survival rates.

Family Funding: Do Founders Capitalise on the 'Family Silver'?

Undoubtedly, acquiring and securing financial resources is of critical importance to the success of a start-up. With family being one of the four 'Fs' of new venture funding (the others being Founders, Friends and 'Fools') required financial resources are often expected to significantly originate from family sources. However, as Figure 4 shows in the CAUSEE samples, relatively few firms use family contacts as a source of either minor (<20 per cent of total funding needs) or major (>20 per cent of total funding needs) loans or equity participation.

Figure 4: Per centage of Startups Using to Major or Minor extent Family as a Source of Funding

Family Funding in YF



Family Funding in NF

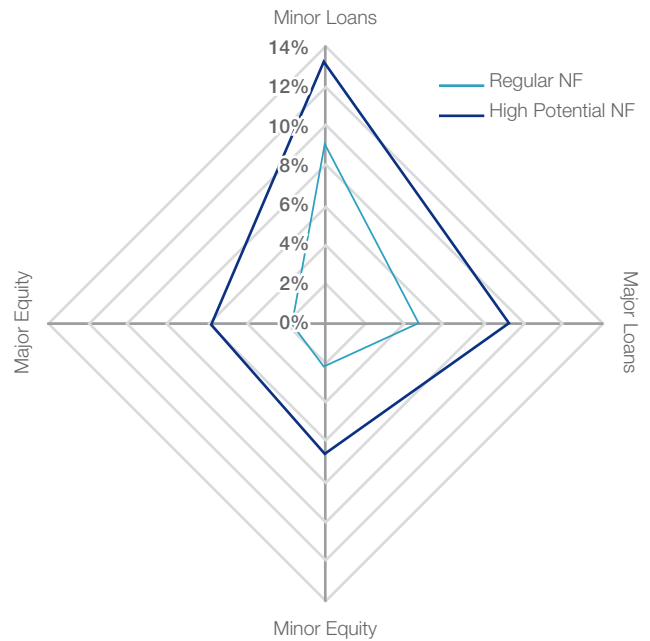


Figure 4 also reveals that the use of family sources of funding is markedly higher among 'High Potential' start-ups. However, the absolute levels remain relatively low and do not necessarily reflect a preference for this type of funding. It is more likely that 'High Potential' start-ups have higher funding needs and therefore use any source of funding to a greater extent. The result may also indicate that the market does not provide funding, presumably to more risky 'High Potential' start-ups, to the extent they need and therefore 'High Potential' founders are forced to turn to family sources as last resort. For 'YF's it was possible to compare the use of family as a source of funding for both the first and second waves of data collection (12 months apart). This reveals no trend towards increased or decreased use of family funding over that time period.

- Relatively few founders use family as a source of funding.
- There is no evidence of increased or decreased use of family funding over time.
- While 'High Potential' start-ups use family funding to a greater extent this may not reflect a preference for this type of funding, given the different funding needs of 'High Potentials'

Therefore, family sources of funding are not as prevalent in business start-up processes as one may think, and possibly counter-intuitively it is more common among 'High Potential' start-ups. These low levels of family funding may also reflect a more realistic perspective, that risking one's parents' home (or retirement funds) for an over enthusiastic business start-up attempt is not a regular occurrence.

Business Wisdom – Do Founders Turn to Family?

As entrepreneurs conceive business ideas, it is generally expected that they use several internal and external sources of information to discuss, verify or reinforce their thoughts and beliefs. In this section we investigate the extent to which family members are an important source of business advice.

Figure 5: Family as Source of Information and Advice

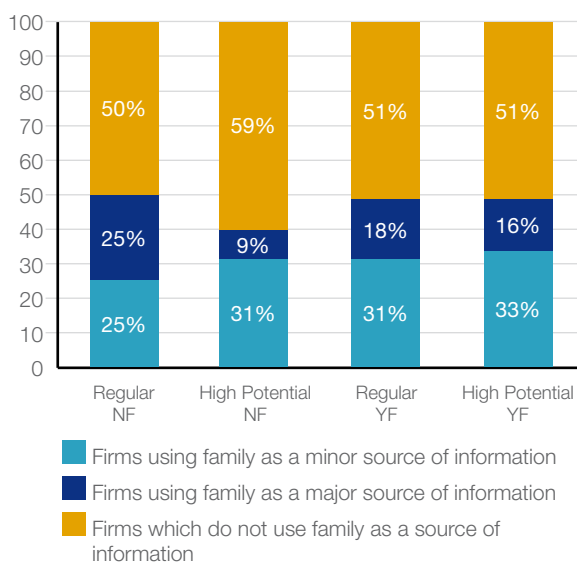


Figure 5 shows that a sizeable proportion of all categories of founders use family as sources of information and advice. It also ranks high in importance (ranking between 2 to 4) amongst all of the 14 sources evaluated, except for the 'High Potential' NF start-ups sub-sample where family is identified as being one of the least used sources of advice.

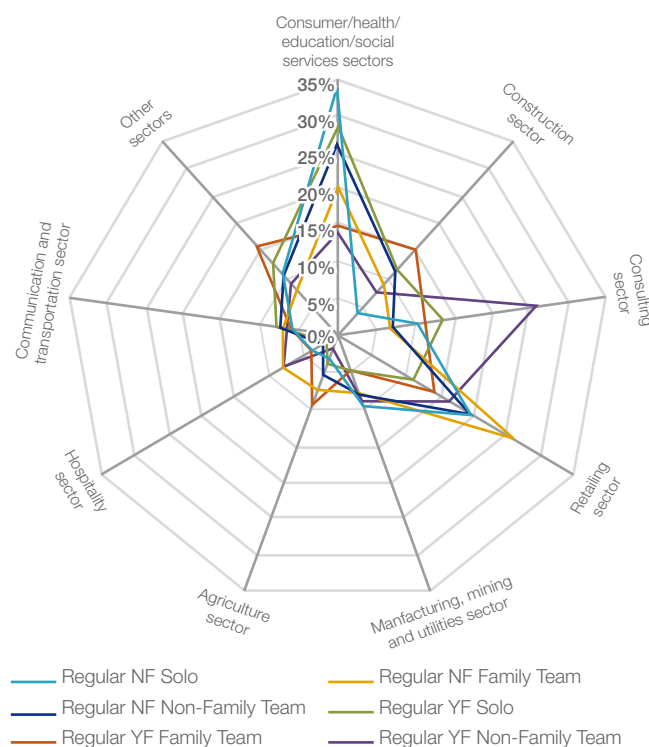
- In general, family members are an important source of information and advice.
- Founders of 'High Potential' NF start-ups are less likely to use family for information and advice.

Generally speaking it seems natural that founders turn to trusted sources for information and advice concerning important issues with great potential financial consequences. Given the high incidence of (prior) business owners in the family (at least among parents as reported earlier) family should not be dismissed as an advice source that lacks relevance or credibility. However, as a typical 'emotionally connected' type of contact, family members may be unlikely to provide the type of pragmatic or complementary information that aids in the development of innovative ventures. They may also be less likely to 'stand up to' an enthusiastic founder. It is conceivable that the need for 'High Potential' start-ups – especially at early stages – to secure advice that is more relevant to high growth or innovative types of firms may contribute to the advice patterns reflected in Figure 5.

Small Industry Differences between Family and Non-Family Businesses

Figure 6 illustrates how categories of founders and founder teams are represented in different industries. This analysis is restricted to 'Regular' start-ups only. Family teams (whether spousal or any other family member combination) appear to be over represented in the Retailing sector, which is also one of the largest sectors generally in numbers of start-ups. However, this difference is statistically uncertain. While a number of team versus solo differences in industry affiliation seem undeniable the only family related difference that is large enough to be deemed certain is that non-family teams are much more likely than family teams to start up in the Consulting industry. Of the YF comprising family teams, 11 per cent were found to be operating in Consulting, while 26 per cent of the YF comprising non-family teams were active in the same industry. Peculiarly, a corresponding difference is not found among NF.

Figure 6: Differences in Industry Affiliation across Solo Founders, Family Teams and Non-family Teams



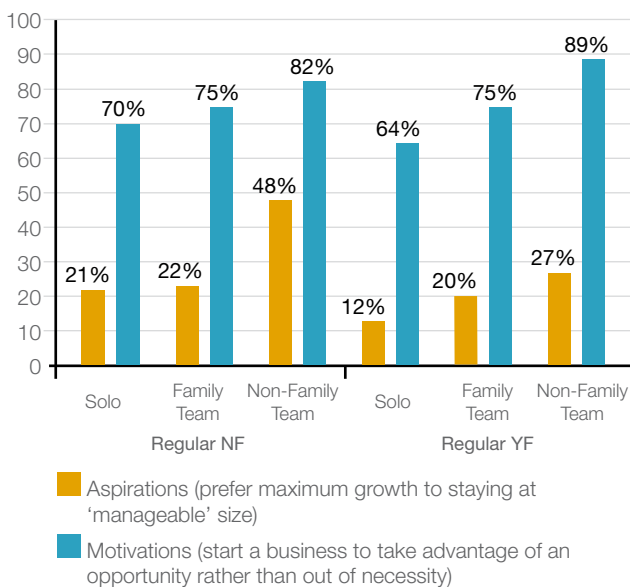
- There are differences between solo ventures and team ventures in some industry sectors, but no significant differences between family and non-family teams.

In all, industry orientation does not appear to be a reliably distinguishing factor for start-ups founded by family teams.

Family, Motivation and Aspiration

We asked a number of questions specifically related to understanding the motivation of founders to start their firms as well as their overall aspirations for the business. Again, we limit the analysis here to 'Regular' start-ups – not least of all because 'High Potential' start-ups were in part identified as such based on the answers to these questions and are therefore different by definition. Responses to these questions suggest that the start-ups founded by family teams tend either to be more similar to solo start-ups than to non-family team start-ups or to take a middle position between these categories. Figure 7 illustrates this for two questions concerning the basic motivation for the start-up and the preference for growth vs. staying at a 'manageable' size.

Figure 7: Aspirations and Motivations



A similar pattern emerges for responses to questions relating to intended spending on research and development and the business' status as 'high tech', although for these dimensions the differences are statistically more uncertain.

- **Family team ventures tend to occupy a middle position between solo ventures and non-family team ventures in terms of aspirations and motivations.**

In all, firms founded by family teams appear less represented in the 'top end' of business start-ups regarding motivations, aspirations and technological sophistication. This is largely in line with the lower representation of family teams – especially spousal teams – reported above.

Family Involvement and Start-Up Success

For Nascent ventures (NF) we have also examined how different aspects of family involvement in the start-up at the time of the first interview relates to its ability to become an up and running firm by the time of the second interview, 12 months later. The family related predictors included in this analysis are those reported previously in this report: the presence of parental role models; the start-up being founded by a spousal – or other family-based team, and the use of family funding and family advice. In the analysis we also included a range of so called 'control variables' describing the type of venture and its initial stage of development.

The results show that none of the family-related variables are meaningfully related to the outcome of the start-up process. Thus, at least based on this particular performance criterion NF with varying degrees of family involvement seem equally likely to successfully complete the founding process and become operational businesses.

- **The degree of family embeddedness in a business start-up appears to be unrelated to its ability to become an operational**

Summary

Our results give a mixed view of the role of family in business start-ups in Australia.

Among the positive factors we find that there is a high presence and evident importance of parental role models; that spousal team start-ups may have higher survival likelihood, and perhaps that it does not seem to be a common occurrence that business founders risk their relatives' assets for the sake of the business.

On the 'negative' side we find that start-ups by family teams appear to have 'lower' motivation and aspirations than their non-family counterparts, and that they are also much less frequent in the 'High Potential' category. In spite of this, there is no clear evidence that the degree of family involvement is meaningfully related to the chances that a start-up attempt will result in an up-and-running business.

Overall, the dynamics of start-ups with high family involvement are probably different from other start-ups in various ways, but this does not necessarily make them more or less successful.

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