Exploring financing decision making in Swedish family firms

An outlook on crowd equity
Acknowledgements

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Thank you!

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Henrik Johansson    David Tingåker
Abstract

Family businesses and financial decision making is a growing topic of research. It is of value given the impact family businesses have on many economies. Family businesses are regarded to have it more difficult to attain feasible financing and also being led by another logic compared to non-family businesses. Characteristics attributed to family businesses are that they take non-financial values in to consideration, and aims to preserve the so called Social Emotional Wealth. Therefore this thesis aims to explore financial decision making in the context of family businesses and extend current research by looking at a new financing alternative, crowd equity. The purpose aims to be met by a qualitative study, with the FIBER model as base. Interviewing family business owners and management, and explore their reasoning linking it to crowd equity as a financing form. The findings in this study is in line with much of existing literature, concluding that the reasoning behind financial decisions are to a large extent motivated by non-financial factors, such as ownership and control of the businesses. The risk of losing control over the business by raising capital via equity financing is one argument against that form of financing. If equity financing is an alternative, then crowd equity seems to have characteristics that could be of interest for family businesses.

Keywords: Family Business, Family Firms, Crowd Equity, Social Emotional Wealth, FIBER
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1 Introduction

The following chapter introduces the background to the topic of this thesis and is followed by the problem statement and the purpose of study. Furthermore, the research questions, definitions of key words, delimitations, and disposition are presented.

1.1 Background

Family businesses are the most common form of companies in Sweden. According to Statistics Sweden, family businesses facilitates more than one third of all employments and one third of Sweden’s gross domestic product (GDP). This is not unique for Sweden, but rather a reality worldwide. Family firms represents between 70-80 percent of entities depending on country and plays a key role in different economies (Motylska-Kuzma, 2017). Family businesses are represented within every sector, excluding the public sector, and has characteristics that separates them from other companies regarding ways of financing and governance (Focus on business and labour market 2016, 2017). Even though family businesses constitutes the majority of firms in Sweden, they are regarded as having other characteristics than non-family firms (Dreux, 1992; Achtenhagen, Melin & Naldi, 2013; Berrone, Cruz & Gomez-Mejia, 2012). Family firms are represented among publicly listed as well as privately owned companies, and varies from small firms to large multinational corporations. Some example of large companies that are regarded being family firms are pharmacy giants Novartis and Roche, but also other well-known actors as Walmart, Oracle, Samsung, Volkswagen, Nike and Foxconn. They are either owned and/or lead by founders or succeeding generations (Stern, 2015).

Michiels and Molly (2017) argues that family firms are a heterogeneous group and the differences within the group of family firms, could arguably be larger in contrast to the common comparison between family and non-family firms. Family firms differentiate themselves to non-family firms mainly because of the family influence, values and non-financial motives (Berrone et al., 2012). According to Ward (2008) family firms are more idiosyncratic in their values, which fosters a stronger corporate culture and therefore gives the business a competitive advantage. Therefore one of the main differences between family controlled and non-family controlled firms is the informalities and
impact of the decision making process, since outcomes from the decisions are not only impacting the organization but also the daily life for many of the stakeholders in the company (Sharma, Chrisman & Chua, 1997).

The special characteristics of family firms can be a significant factor when reasoning and choosing between financing alternatives. It is however crucial to attain feasible financing in order to ensure growth, stability and survival of businesses (Motylska-Kuzma, 2017). The European Union has showed that attaining financing is especially tough for family firms (European Commission, 2015). With technological development new financing options has evolved, via the internet crowd equity has become one (Mollick, 2013). The traditional trade-off for family firms have been to either increase the financial risk, by adding leverage or lose control by selling shares, can now partly be challenged.

In order to understand the logic behind financial decision making within family firms, the framework of Social Emotional Wealth (SEW) may be used (Berrone et al., 2012). The model introduces the aspect that family firms are usually driven by non-financial aspects, even when handling and reasoning regarding financial decision making.

1.2 Problem

Even though family firms are an important factor in many economies, the research field is still emerging (Chrisman, Chua, Kellermanns, Matherne III & DeBiicki, 2008). Michiels and Molly (2017) states that more research is needed regarding the important topic of financial decision making in family firms. Current literature shows signs of inconsistencies, and the logic of family firms is hard to prove and describe, but nevertheless important. Early research by Modigliani and Miller (1958), elaborated that in a perfect capital market, the understanding of financial decision making is irrelevant. That assumption has been challenged, and several researcher has concluded that it is relevant (Michiels & Molly, 2017).
The logic of family firms is to a large extent driven by values, and a will to preserve an emotional capital - hence, not solely by financial returns. A characteristic represented within family firms is a strong will to own and control their business, but also a risk aversion. This can be conflicting with a traditional financing options. Shareholder logic, as one example, focuses on growth, profit and quarterly dividend (Martin & Gomez-Meija, 2016), and bank loans, induce an increase in the financial risk (Motylska-Kuzma, 2017).

Given that adequate financing is key to being able to continue to develop and run a company (Motylska-Kuzma, 2017), and that family businesses struggles to attain financing (European Commission, 2015), it becomes relevant to further investigate new financing alternatives in the light of family businesses.

1.3 Purpose

The purpose of this thesis is to explore and broaden the field of research regarding family businesses and financing alternatives. Not many studies have been performed investigating crowd equity and family firms, hence that will be the objective of this thesis. Given that less than 2 percent of the articles covering “financing decisions in family businesses” focuses on crowdfunding and other alternative financing decisions (Michiels & Molly, 2017), the research has potential for novel findings. The objective is to investigate family firm values and how they reason regarding financing decisions. It will be contrasted by looking at a crowd equity as a potential financing option for family firms. This will be done by further explore how crowd equity is attainable in the Swedish market for companies. By identifying how the family businesses reasons and identifying factors using the FIBER model the aim is to get a deeper understanding of financial decision making.

This will be developed based on the framework of SEW, given that family firms are keen to preserve the SEW-capital (Berrone et al., 2012). By using SEW, which is a relative new framework in order to explore the characteristics of a family firm this thesis may fill a purpose of contributing to the implementation of the FIBER model as well. In addition to extending the model of social emotional wealth, the thesis may be of interest of family businesses as well as investors. To family businesses in order to understand the financing method crowd equity and potential links to the firm and for investors as a way of better
understanding family businesses. By combining these two perspectives it could potentially lead to partly answer the question if crowd equity could help fill the funding gap.

1.4 Research Questions

Q1, How does family firms reason behind financing decisions?
Q2, Which family factors influences financing decisions?
Q3, Could crowd equity be a feasible financing alternative for family firms?

1.5 Definitions

Crowdsourcing - extends beyond financing and calls the crowd in order to allocate ideas, resources and possibly funding as well. Crowdsourcing can be a way to outsource certain processes in order to create new product ideas or concepts (Mollick, 2013).

Crowdfunding - the umbrella term for different ways of raising funds from “the crowd”. There are four main types donation based, reward based, crowdlending and crowd equity (Mollick, 2013).

Crowd equity - Raising capital by addressing a crowd. The exchange consists of share and monetary funds, in a non-public company. The stock market and performing an IPO is not included in the concept of crowd equity (Mollick, 2013).
**Family Businesses** - the definition used in this thesis regarding our primary data is adopted from the European commission. Throughout the text the terms Family Business, Family Firms and Family Organizations are used without any separation regarding definition. One of following criteria’s must be met:

1. The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child, or children’s direct heirs.

2. The majority of decision-making rights are indirect or direct.

3. At least one representative of the family or kin is formally involved in the governance of the firm.

4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital. (European Commission, 2018).

However, as the European Commission, Statistics Sweden and others are referring to there is no coherent and generally accepted definition of what the exact criteria’s are in order to be categorized as a family businesses. Therefore there may be a variance in definitions in the collected material from secondary sources.

**Financing decisions** - All decisions connected with optimization of capital structure, which translates into effective engaging the debt and equity as well as the internal and external sources of capital in financing the activity of the company (Motylska-Kuzma, 2017).

**Initial Public Offering** - The first sale of stocks to the public in order to raise capital, before being publicly traded. IPOs are traditionally performed via the stock market (Nasdaq, 2018).
1.6 Delimitation

The definition of family businesses is broad, and non-consistent. This provides a broad spectrum of possible definitions which can affect the interpretation of findings. In existing literature the definition used is not always presented, providing a potential risk of comparing non-equivalent companies. The heterogeneity of family firms is described in existing literature, increasing the risk of interpreting the family firms based on the different assumptions (Michiels & Molly, 2017; Motylska-Kuzma, 2017).

The framework of Social Emotional Wealth (further explained in section 1.5 and 2.2) is a relative new framework. Much of existing literature is conducted by a concentrated group of researcher which has potential of limiting the objectivity. The same apply for crowd equity, which is a topic where a limited amount of previous research can be found. Given the limited amount of research conducted (Moritz & Block, 2014; Short, Ketchen, Allison & Ireland, 2017), irregularities may be given a misleading importance.

1.7 Disposition

This thesis is composed by nine main sections. The first chapter is followed by the frame of reference, outlining the major findings within the literature and describing key models. The frame of reference covers the literature that this thesis is based upon. It also covers existing companies in Sweden facilitating platforms for crowd equity as well a description of the industry as whole. In chapter three the method used in order to collect primary data will be presented, along with a motivation regarding the choice of method. The empirical data found will be presented in chapter four, followed by analysis in chapter five. Chapter five also links back to chapter two and the objective is to bridge the literature with the analysis. It leads up to chapter six where this thesis conclusion will be presented, and the research questions are to be answered. The final part in chapter seven will be a discussion of the work presented and suggestions for further research will be elaborated. References will be found in chapter eight, and appendix in section nine.
2 Frame of Reference

This chapter covers literature that was relevant for understanding Family Businesses, Crowd Equity and Social Emotional Wealth, and later provided a basis for the analysis of empirical findings.

2.1 Literature review

2.1.1 Financial decision making

The initial search for literature for a better understanding of family businesses and financial decision making generated two important findings. A newly published literature review conducted by Michiels and Molly (2017), “Financing Decisions in Family Businesses: A review and Suggestions for Developing the Field”. It covers 131 articles published in 1977-2016, published in 64 different journals. The literature review itself is published in Family Business Review, a journal with an ABS rating of 3 (Family Business Review: Key Stats, 2017). Given that the review covered an extensive amount of relevant articles and was published in a well-considered journal it formed a relevant base for the work of this thesis. Additional an exploratory study examining the current status on the research field of financial decision making in family firms conducted by Motylska-Kuzma (2017), provided valuable insights. The two papers formed the foundation of our frame of reference. Additional searches via Google Scholar, Primo, ScienceDirect, and SAGE was made in order to find complementary articles published 2017. The articles found did not provide any additional major insights on the topic.

The review address the main practically and theoretically challenge to family firms when it comes to financing decisions which is the access to finance, a main but growing area according to the European Commission (2015). To survive and be able to grow the family business it is critically important to have accessible and sufficient financial resources, therefore this attention is endorsed to both aspects (Michiels & Molly, 2017; Motylska-Kuzma, 2017).
2.1.2 Financing Options

In a search to understand the financing options for family firms, the literature reviewed is a selection of different articles, the material found is peer-reviewed. Michiels and Molly (2017) review explore the financing options family firms have traditionally been able to choose between, but also concludes that less than 2 percent of the articles reviewed focuses on alternative financing sources including crowdfunding (Michiels & Molly, 2017). Motylska-Kuzma (2017) also elaborates on existing financing options such as debt and equity financing. In order to build a comprehensive frame of reference additional material where gathered, including “Research on Crowdfunding: Reviewing the (Very recent) Past and celebrating the present”, written by Short, Ketchen, Allison and Ireland (2017). The review explores 27 articles on the subject of crowdfunding, and provides a description of financing options. In order to get a more detailed understanding, single articles derived from the review were, including Romano, Tanewski and Smyrnios (2001), were selected and explored in depth. Romano, Tanewski and Smyrnios (2001) developed a model for capital decision making within family businesses, mapped out the different alternatives and is well cited.

2.1.3 Crowdfunding

In order to get a deeper understanding on the current status of the crowdfunding research field, “Crowdfunding: A literature review and research directions”, written by Mortiz and Block (2014) were reviewed. The review has a foundation of 127 articles and working papers, and reviews the research field from the three main actors, capital-seekers, capital-providers and intermediaries. The review is based on scientific articles initially found by using Google Scholar, searching for the terms “crowdfunding” and “crowdinvesting”. The term crowdinvesting is in German-speaking countries used to distinguish crowd equity from other types of crowdfunding. The initial search were conducted in July 31st, 2014 and gave 531 hits (Mortiz & Block, 2014). Given that the topic itself is relative new, the review concludes that there are not yet a satisfying number of published articles. Economic research papers were their main focus and the papers were classified based on the three main actors of crowdfunding as mentioned above (Mortiz & Block, 2014).
Moritz and Block (2014) as well as Short et al. (2017) concludes that there are a limited numbers of peer-reviewed articles in order to understand, explore and expand the research field of crowdfunding.

2.2 Financial decision making

Driven by the research question to understand how family firms reason behind financial decisions, the review of Michiels and Molly (2017) provided further insights on the subject and was used as a platform for this study.

In order to find relevant articles, the combination of a finance entity and a link to family businesses was searched for in the reviewed articles abstract or heading by Michiels and Molly (2017). Furthermore a majority of the articles focus on the comparison of family firms and non-family firms, more explicitly in two third of the reviewed material (Chua, Chrisman, Steier & Rau, 2012). Hence partly overlooking the difference within the family firms which is stated in the review to be a larger difference compared to the differentiation between non-family firms and family ones (Michiels & Molly, 2017).

Claimed by Michiels and Molly (2017) their study is the first up-to-date research on family firms and financing literature. The articles covered in the review is based on two main types of findings, namely the largest issues concerning debt decisions which consist of 40 percent of the articles. Another 34 percent of the covered material and the second largest topic within financial decisions discussed is equity decisions regarding; venture capital, buyouts, IPO:s, and private equity. 24 percent of the examined articles regards decisions of family firms relating to retained earnings, such as dividend payout, and the last topics of financing decisions are discussed in the remaining 2 percent articles covering other financing alternatives such as crowdfunding, factoring, and leasing.

Examining the theoretical framework applied in the covered articles one theory stands out, used by half of all articles, known as the agency theory which focus on the extrinsic motivation. Not far behind and growing, is the socioemotional wealth (SEW) perspective rooted within the behaviour agency model. The model refers to the owning family’s non-financial intrinsic motivation explaining the difference to non-family owned businesses. Factors such as identity, family influence, and succession of upcoming generation,
constitutes their intrinsic motives. Therefore family firms consider to maintain family control of the firm when their SEW is threatened (Wiseman & Gomez-Mejia, 1998). Hence agency theory and SEW are mainly used to determining hypothesis and explaining the findings of the covered articles (Michiels & Molly, 2017). Michiels and Molly (2017) is surprised by the large quantity of articles that do not have any framework at all, more precise one out of five does not provide any specified theoretical arguments. Where SEW and agency theory is the two most used theories within family firms.

For family businesses the financial decision making is vital to be able to prosper and grow by an effective process. Where the challenges lies within all different aspects of influences such as emotions linked to the family, independence of family influence, succession to the next generation, the relation to employees, the personal identity to the firm, the association with the local community, and the social reputation (Mazzi, 2011).

The literature shows that family firms may differentiate goal orientation where Gomez-Mejia, Takacs Haynes, Nunez-Nickel, Jacobson and Moyano-Fuentes (2007) state that firms have a strong desire to preserve control, influence and SEW where such non-financial objectives importance is cultivated with the generation in control. Therefore the process of financial decision making for such firms often are concentrated on family culture and value to meet their goals (Feltham, Feltham & Barnett, 2005). This is explained by family firms relying on long term relationships and to uphold trust and commitment within their network where the firm view the close partners as an extension of the family itself (de Kok, Uhlander & Thurik, 2006). But by being value-driven combined with tight relationships with the developed network allows family firms to have long term perspective and succeed in the market with a strong business brand identity linked with the family (Le Breton-Miller & Miller, 2006).

As it shows, family firms are driven to a large extent by non-financial motives and reasoning. This does not imply that financial performance or economic decisions are only based on these motives, rather that the logic of financial decision making of family firms are driven and affected by the intentions of retention of control, norms, and the behavioural intentions (Mazzi, 2011; Le Breton-Miller & Miller, 2006). Hence the financial decision making of family firms is greatly affected by the characteristics and
motives by the owner and/or manager’s personal attitude (Heck, 2004). Another characteristic that family firms are known for is by having “warm heart – deep pocket” (Sharma, 2004), which reflects wealth of human emotional capital and financial capital, making these entities among the most long lived businesses in the world (Le Breton-Miller & Miller, 2006). The human emotional capital explains why family firms often prefer or are mainly driven by the non-economic goals rather than the financial results, therefore they protect and foster their SEW and have great concerns about growth (Motylska-Kuzma, 2017). This is also strengthened by Chrisman et al. (2008) where the authors also suggest that the centrality of financial decisions are derived from both economic and non-economic motivation.

The literature review shows evidence of the fact that family firms’ prefer internal generated funds rather than external financial sources such as debt financing and external equity funding (Romano et al., 2001). These results are explained by the perspective from the capital structure managers and/or owners prefers in family firms, where the financing-decision-making is mainly driven by nonfinancial values, risk aversion, and keeping control of the business (Gómez-Mejia et al., 2007). The literature review regarding financial decisions within family firms shows that the covered area still is inconclusive regarding level of debt usage in these types of businesses. This might be explained by the faced trade-off between retention of control and risk aversion where retention benefit debt financing before external equity, and risk aversion which influences the business to adopt a cautious perspective towards debt (Mishra & McConaughy, 1999). The authors Michiels and Molly (2017) highlights that it is more common that family firms are characterised by lower leverage and often linked with break-even results than in non-family companies. Thereby it may explain a stronger aversion in risks are related to financial distress.

From nearly two out of three articles a focus on the comparison between the organizational forms are made, that is family firms and non-family firms. Hence the differences within family firms is often overlooked which is potentially even larger than the variation and characteristics between the organizations of family and non-family entities (Chua et al., 2012). Therefore researchers have addressed the focus on the heterogeneously aspect of family firms to be broadened instead of focusing primarily on
the differences between the two types (Chua et al., 2012; Nordqvist, Sharma & Chirico, 2014). There are a number of authors debating whether family generations negatively affects the debt financing in family firms, where the majority of them points out the importance of the effect that the generational succession have on capital structure. Even though there is a divided perception of the effect of debt, family firms are considered to be reliable customer for banks as they are perceived as having less moral hazard problems.

Therefore family businesses may have a more uncomplicated access to credit and debt due to higher trust by banks as they are considered to be more long-term oriented and trustworthy as their repayments are meeting their obligations (Bopaiah, 1998).

Where evidence show that family businesses are less keen to use leasing as a financial alternative and that the level of financial sophistication changes and tend to increase over generations or by applying an external CFO, non-family managers and/or shareholders (Di Giuli et al., 2011). Findings also show that both private and public family firms tend to take in lower use of external equity, which may be explained by the existing empathy gap, which tend to be large and involving the distance between the controlling family and external investors. Indicating the importance for family firms to retain control prioritized before growth and development financed by external capital (Wu, Chua & Chrisman, 2007). Looking at larger capital intense and cyclical stock market listed family firm’s evidence showed by King and Peng (2013) that firms by such size rather rely on taking in equity as a financing form before debt used for expansions because of the opposing to such alternative linked to financial distress.

As the above reflect the complexity of the main features and characteristics of a family controlled business and its members involved in financial decisions, where the financial logic is driven by not only financial returns but rather family influence and non-economic goals (Chrisman et al., 2008). Therefore the financial options and influential factors of SEW will be further explained in part 2.3 and 2.5 respectively.
2.3 Financing Options

As stated in the literature review, the majority of articles written on the subject of financing decisions in family businesses focuses on equity funding or debt financing. Debt financing was the most common subject, followed by equity funding and lastly financing decision regarding retained earnings and internal financial decisions. In order to further understand what financing options that are available we further explored the work of Romano, Tanewski and Smyrnios (2001). Their work aims to develop a model for capital structure decisions within family firms. A common assumption that also is questioned is that “...in a perfect capital market, only investment decisions are important in pursuit of wealth maximization”, (Romano et al., 2001, p. 288). However as stated regarding financing decision within family firms, several factors are considered when choosing the financing and capital structure. When identifying which factors that are affecting the decision making process they also conclude the main sources for funding. The main funding alternatives are debt, family loans, capital and retained profits and equity. Examples of debt financing can be traditional commercial bank loans, where the bank grants a loan in exchange for an interest paid by the company. Equity financing can be both venture capital, but also via initial public offerings (Romano et al., 2001).

The traditional trade off regarding financing alternatives for family firms are between retention of control, risk and need for external capital. Where the preference for retention of control favours debt financing before equity financing and the preference of risk aversion stimulates the adoption of equity financing (Michiels & Molly, 2017). However there is no consensus on if family firms has higher debt levels than non-family firms. There are several factors working for and against the choice of financing form and capital structure, nevertheless both financing alternatives are used (Michiels & Molly, 2017).

2.3.1 Funding gap

With an understanding of financing options and concluding that family firms have difficulties to attain financing (European Commission, 2015) it lead the research to search for factors constituting that fact.

Funding gap also called equity gap is a term that describes that the supply and demand
for financing is not in equilibrium, stating that the demand for financing is greater than the supply (Lam, 2010; Wilson, Wright & Kacer, 2018). Another way to describe it is the valley of death, meaning that companies fail to survive due to not being able to attain necessary financing. Given that family businesses are essential for the economy and even called the engine of economic growth, the lack of financing alternatives may have severe impact on the economy. They are described as an important actor on growth of economies but also a supplier of employment, productivity and innovation (Romano et al., 2001).

Wilson, Wright and Kacer, (2018) explains that one contributing factor to the funding gap is information asymmetry. The funding gap therefore can be developed as the spread between actually supplied capital and the capital that would have been supplied if there were well-informed, competitive markets (Wilson, Wright & Kacer, 2018). It is especially prevalent when it concerns new ventures where an uncertainty may surround both potential customer base as well, a lack of track record and new technology. The information asymmetry hinder investors to make reliable revenue projections and risk assessment, leading to the fact that investors do not invest, which creates the funding gap. It is described previously by Berger and Udell, (1998), who also concludes that one important bridge of this phenomenon is the act of financial intermediaries, providing the market with information by screening and reviewing small companies (Berger & Udell, 1998). Hornuf and Schmitt (2016) presents that the funding gap also could be created in the void between banks, venture capital, private equity and family and friends. They mean that some firms are too risky for banks, while their revenue is insufficient to bear the cost associated with private equity and venture capital, but their capital need is too extensive for friends and family to be able to fund.

Wilson, Wright and Kacer, (2018) focus their work on the equity market and venture capital investments, but concludes that the phenomena of a funding gap also exists within the debt market. Lam (2010) concludes that venture capital is a rare source of financing compared to informal sources such as friends and family and states that the funding gap is unlikely to be narrowed. In contrary by actively managing relationships and bootstrapping the financing process could have a positive effect on the funding gap.
2.3.2 New financing options

Due to the rapid technological development during the 21st century and the broad number of internet users new financing alternatives has arisen (Mollick, 2013). New alternatives may help bridge the funding gap. One example of a new financing alternative that has been made possible via the internet is crowdfunding. It is a new way for firms to attain both knowledge, ideas and financing (Mollick, 2013; Hornuf & Schmitt, 2016). Given the limited amount of literature covering crowdfunding and family businesses, it resulted in the purpose of bridging the two. It is of interest since crowdfunding has potential of bridging the funding gap (Hornuf & Schmitt, 2016).

2.4 Crowdfunding

Background

The development of crowdfunding which is the general term for different ways to receive financing from a broad audience. It has emerged and been inspired by concepts such as microfinance and crowdsourcing (Mollick, 2013). Mollick (2013) derives the definition of crowdfunding based on concept of microfinance from Morduch (1999) and crowdsourcing and new product development (NPD) from Poetz & Schreier (2012). Microfinance is the idea of serving low-income households with small loans, providing finance alternatives to those who have been excluded from access to traditional bank loans (Morduch, 1999). The small financing being as low as 75 USD is usually the first step into investing in self-employment activities and one way to overcome poverty. The loans usually does not require any collateral and are being amortized over several month up to a year. Having gained popularity in countries such as Bolivia, Bangladesh and Indonesia, it has spread too many other parts of the world such as other parts of Asia, but also including Africa and the United States. The concept shown to be successful in many ways and the repayment rate were 95 percent in 1999 (Morduch, 1999).

Crowdsourcing on the other hand is rather a way to include the “crowd” to receive input on new product development, instead of solely relying on a firm’s marketers, engineers and/or designers (Poetz & Schreier, 2012). There have been two lines of thought, one stating that product development should be driven by professionals and the other one stating that user innovation show signs of having high commercial attractiveness. Examples often use to show users ability to innovate and develop products are open
source software’s like Apache and Linux (Poetz and Schreier, 2012). There are less extreme examples such as companies opening up for external input, among others, Dell. Dell launched their product development initiative named IdeaStorm. The objective was to let customers from all over the world provide insights and product improvements, the initiative generated over 10’000 idea submissions. The definition of crowdsourcing according to Poetz and Schreier (2012) is to address an unknown, potential large “crowd” in an open call in order to outsource the idea generation.

When studying crowdfunding one can see how the two concepts merge together. Crowdfunding could be seen as a combination of addressing a crowd for input as well as financial support. The financial aid provided by crowdfunding, is potentially bridging the so called funding gap, serving a similar purpose to companies that have not yet reach a stage where they a mature enough to raise venture capital, go to the stock market or raise extensive bank loans. It is also a possibility to let the crowd equity investors contribute with knowledge but also work as marketers.

There are several platforms offering different types of crowdfunding globally. Giving it potential to remedy the lack of financing alternatives for small and medium sized companies (Hornuf & Schmitt, 2016). It has been a promoted financing form in several countries (Nehme, 2017). Some examples of active platforms are Kickstarter (U.S), Indiegogo (U.S), Crowdcube and (U.K). In Sweden there are a number of actors both international and domestic offering different kinds of crowdfunding. Finansinspektionen give a number of examples in their report Crowdfunding in Sweden – an overview (2015).

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<td>Innovestor, Arantus, OIKO Credit, Solid Beans</td>
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Crowdfunding can be defined as an umbrella term for a number of financing alternatives. There are four main forms of crowdfunding (Mollick, 2013; Nehme, 2017), listed as followed:

1. Donation based
2. Reward based
3. Crowd lending
4. Crowd equity

The main concept, reaching out to the crowd in order to receive financing is the same within all four categories. The difference between them is what the funder receive in exchange for the monetary donation/investment.

Donation based and reward based crowdfunding is not to be regarded as an investment, since the main objective is not to receive a financial return. It is rather a way of supporting products, projects and ideas. Donation based crowdsourcing is regarded as a philanthropic act, where donors fund different campaigns because they like or believe in the idea. There is no expected reward or credit expected to be received by the donor. The reward based model is according to Mollick (2013) the most common, even though it is expected to receive a reward it is not regarded as an investment given that the reward may not match the monetary fund’s given. The reward received by backing project can be of various kinds, it can be credits in a movie, the ability to be a part of the product development or receive a discount when backed-product is first launched.

The remaining two concepts crowdlending and crowd equity is two forms of crowdsourcing where one of the incentives is to receive a financial return on the invested capital (Nehme, 2017). Crowdlending is where a loan is divided into small portions that individuals can invest in. The crowd acts as a bank lending out their money and receives an interest as compensation. Today this exist in several markets, Sweden being one. There are two main forms of crowdlending including peer-to-peer (P2P), peer-to-business (P2B). The final category of crowdfunding is crowd equity. It is more similar to traditional equity investments such as investing in the stock market. Using crowd equity, the investor invests money in order to receive an equity share of the company that is raising capital.
P2B lending is a relatively new option in the Swedish market. To our knowledge there are three providers: Tessin, Kameo, and Fundedbyme. Tessin only provides the possibility to invest in property projects, while Kameo and Fundedbyme provide P2B loans as business financing. The three actors entered the market tightly followed by each other: Tessin launched in 2014, Kameo and Fundedbyme in 2016 ("Affärsidé - Styrelse och Ledning - Kameo", 2018; "Om oss på Tessin", 2018; "Finansinspektionen ger klartecken åt FundedByMe's låncrowdfunding", 2018).

Much of existing literature covering the different alternatives of crowdfunding focuses on crowdlending and reward-based crowdfunding (Hornuf & Schmitt, 2016). With the purpose to explore and expand existing literature this thesis will focus on crowd equity.

There are currently two Swedish companies that provide platforms for crowd equity: Fundedbyme and Pepins. Given that this thesis focuses on Swedish family firms and crowd equity, the focus will be on Swedish providers of crowd equity.

### 2.5 Crowd equity

#### 2.5.1 Platforms

Today in Sweden there are two primary platforms for crowd equity, Pepins and Fundedbyme (Tuvhag, 2018). Pepins received its first permission from the Sweden's financial supervisory authority (Finansinspektionen) in 2007, and additional permissions in 2009. Fundedbyme became registered but not supervised in 2015 (Finansinspektionen, 2018). Pepins is a full-service platform, offering a network for matching corporations with the crowd, facilitating a platform for trading and a forum for owner interaction. By conducting a reversed merger, Pepins acquired the “alternativa listan” and it became the platform for conducting the trading. Pepins have permission to perform advisory, as well as facilitating trading and deposit financial instruments.

Fundedbyme offers a platform for crowd equity and crowdlending, but does not provide a full-service platform. Fundedbyme only provides the function of matching investors with fundraisers, but does not engage actively in facilitating the capital raise, stating: “FundedByMe is solely the provider of the electronic meeting platform (an electronic service)” ("Användarvillkor", 2018).

In order to build a more comprehensive understanding of how crowd equity is attained
in the Swedish market, and to build the context before interviewing the family businesses, Pepins was chosen as the example. Pepins were chosen since they have a model that covers more aspects of the capital raise and are active throughout the process and have additional permissions from the Swedish supervisory financial authorities.

### 2.5.2 Pepins

Pepins facilitates all aspects regarding surrounding the process from both investors and companies regarding crowd equity. By looking at Pepins from a theoretical family firm perspective, looking to raise funds. Pepins initially performs a due-diligence process, and selects candidates to conduct a capital raise process with. By doing so they review the companies aiming to raise capital and provide the potential investors with relevant information. After the initial phase, they present an offer, regarding targets and limit for the investment round, price per share and an investing memorandum. After marketing the actual investing period begins, it is time limited and there is a span for how much funds that must, and can be raised. One case example is an ongoing financing round for United Space, a company providing shared and flexible office space solutions ("Kontorshotell för Co-working i Stockholm", 2018). The price per share presented is 50 SEK/share, and the minimum amount of capital needed is 18'000'000 SEK. Pepins provides a model where if the capital requirement is not met the process is reversed and there will be no new shareholders. The upper limit is 30'100'000.

After the initial funding, Pepins facilitates a platform where the shares can be traded. Usually there is a time gap between the companies receiving the funds and when the trading starts, in order to give the companies the ability to make use of the funds. Being able to invest them in their business in order to be more competitive. Pepins usually have trading periods once every quarter (Pepins, 2018). Which is a difference compared to the Swedish stock market that is open Monday to Friday, every week.
Compared to the traditional stock market Pepins also creates an owner structure that is an alternative way of structuring. Investors do not become direct owner in the mother company, instead Pepins creates a new holding company, with the sole purpose of owning and managing the shares in the mother company. This means that the mother company only receives one new shareholder, the holding company.

The sector classification of companies that have received funding via Pepins varies, some examples are Alvestaglass, an ice cream manufacturer, Kronfönster who manufactures windows and Paradox Interactive, a computer game developer. The equity raised stretches from AIK Hockey, 9 million SEK to Paradox Interactive, 105 million SEK and Pepins themselves, 100 million SEK (Pepins, 2018).

**2.6 SEW, five dimensions**

The Socioemotional Wealth by Gomez-Mejia et al. (2007) have been constructed as a differentiator of family firms to better be able to explain why such firms behave differently. The model derives from the behavioural agency theory as a general extension, where the earlier theory by Gomez-Mejia, Welbourne, and Wiseman (2000) comprise and integrate behavioural theory of a firm, agency theory and the prospect theory. Arguing when family owners facing an issue affecting the socioemotional endowment the economic logic is not the main consideration or guidance, hence decisions may be taken leading to higher risks for the firm in order to protect the socioemotional endowment. Therefore Berrone, Cruz and Gomez-Mejia (2012) have generated a five dimensional model named FIBER of SEW to provide a more intuitive understanding to why family firms make diverse strategic choices compared to non-family firms. Even though the SEW is considered still as a quite new concept it has been widely used to explain “non-financial aspect of the firm that meets the families affected needs such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty” (Gómez-Mejia et al., 2007, p. 106).

Therefore the SEW is used as a framework to give the reader a better understanding of the nature of family firms in their decision making process. Hence the five dimensions that SEW is composed of is provided in section 2.6.1 to provide a profound insight.
2.6.1 FIBER

(F) Family control and influence: Strategic decisions and control are made by family members that have great influence over the firm in order to contain both the direct and indirect influence of the business, regardless of the financial considerations (Gomez-Mejia et al., 2007). Therefore the power to control from an owners perspective is prominent regarding the types of decisions that are to be made and at what time. Control itself can be utilized from different hierarchical levels within the family firm, most common is the direct control implying a family member being CEO or chairman of the board (Villalonga & Amit, 2010). Having key positions within the firm allows the decision makers to appoint the top management team (TMT) members, hence being able to influence the future control of the business, but it is not unusual owners engage in multiple roles as a way to gain information and exercise authority (Sciascia, Mazzola & Chirico, 2012). The control and election of the TMT is commonly held and taken by the founder or a superior family coalition mostly to preserve the ownership and influence by the family (Bjuggren & Sund, 2012), enabling the handover to the next generation with greater ease since passing on the business is a vital long-term goal for family firms (Berrone et al., 2010), strongly linked to the fifth dimensions of SEW.

(I) Family members’ identification with the firm: The second dimension acknowledge the close identification of family members and the business. Where the owner of a family firm, especially the founder, is often inseparable linked with the identification of the firm, which also often shares the family’s name (Matherne, Waterwall, Ring & Credo, 2017). Implying from a stakeholder’s perspective that the family firm have both internal and external interests to attain, mainly driven by the intrinsic motives (Carrigan & Buckley, 2008). Neubaum, Dibrell and Craig (2012) comprises internal stakeholder commonly as employees, managers, shareholders, and owners that is the actors depending on the success of the business and potentially rewarded thereafter. Due to the strong identification with the firm, internally the owner and family top managers not only seek to influence the attitude of employees but also the internal processes and service management towards customers and the products the firms provide (Teal, Upton & Seaman, 2003). Family members identifying strongly with the firm tend to be concerned to maintain a professional image to external stakeholders such as customers, suppliers, community and government (Micelotta & Raynard, 2011), also strengthen by Gallucci,
Santulli and Calabrò (2015) stressing the importance for family members to build a strong family brand. Findings by Campopiano and Massis (2014) and Stanley and McDowell (2014) provides insights of family firms’ higher attention to corporate social responsibility (CSR) to increase their esteem from the community. But the authors also conclude that family firms are more likely to be more committed to pursue long term sustainability goals compared to non-family firms in order to enhancing the reputation and marketing from sustainable and environmental friendly actions.

(B) Binding social ties: The third dimension emphasize the social relationship and the joint benefits provided by SEW that evolves and captured in the ceased network. Where the feeling of social capital, relational trust, closeness, and interpersonal solidarity (Coleman, 1990) is considered more important compared to the financial gains that is a more common driving factor within non-family firms (Gomez-Mejia et al. 2007). Meaning that family firms consider close business partners within the supply chain as an extended part of the family ties itself (de Kok et al., 2006), since commitment, belonging, and identifying with the firm is fundamental for family members (Miller & Le Breton-Miller, 2005). Even though there is no direct economic benefit of engender a strong social relationship with members of the extended family this may explain why family firms are more engaged in their communities trying to improve the welfare in their surroundings in exchange of receiving recognition of generosity (Berrone et al., 2012).

(E) Emotional attachment: Is useful to better understand why members of a family firm acts unselfish to each other as to some extent stated in the social ties but this dimension refers rather to the emotions, moods, and attitudes from the family business aspect. Holt and Popp (2013) argues that family firms are more emotional driven by the deeper affective familial relationship, greater intimacy leading to greater individual freedom, and emotions functions as a vehicle of the succession of dynastic ambition and virtue. Berrone et al. (2010) reasons that family businesses are emotional attached and can to some extent be explained by the unclear boundaries between family life and the professional life. Therefore both positive and negative emotions emerge and affects events in the daily situations within the family business system (Gersick, Davis, Hampton & Lansberg, 1997). Emotions in family business settings have prior been studied in terms of the issues and the negative impacts of the subject and where the issues indirectly have
been focused on the family conflicts, personal relationships, and family culture. Researchers have noted that emotions in the context of family firms have long been understudied (Holt & Popp, 2013), nevertheless emotions for SEW’s fourth dimension is highly relevant to explain the decision making process within family business in order to understand why family members are altruistic to each other and why they most likely consider other family members to be trustworthy (Cruz, Gomez-Mejia & Becerra, 2010). Berrone et al. (2010) mentions another difference between family and non-family firms regarding the dysfunctional aspect between the two. In a non-family organisation a dysfunctional relationship or negative conflicts often ends with a termination of the employee, but in a family firm where the emotions attachment is of greater impact the persistence and hope that the situation by time will eventually return to harmony between the parties involved (Fletcher, 2000).

(R) Renewal of family bonds to the firm through dynastic succession: Berrone, Gomez and Mejia’s (2010) last dimension involves the intention of handing over the business to future generations. The dynasty continuum is an important factor for family firms where owners may extract private benefits of preserving the control of the company within the family (Sacristán-Navarro, Cabeza-García & Gómez-Ansón, 2015). Making it even harder for family business owners to sell the company since they are strongly linked with family pride, heritage, and traditions (Byrom & Lehman, 2009). Also strengthened by Kellermanns and Eddleston, (2007) stating that a common goal for family firms is to maintain the business for future generations to inherit and run. Depending on the shareholder structure and family influence the long-term view may lead to implications and conflicts within the owners regarding the succession of the business for the continuous of the dynasty (Sacristán-Navarro, Cabeza-García & Gómez-Ansón, 2015), Berrone et al. (2010) adds to the literature of the intentions to pass on the business and preserve the family values by foster a strategy of investing in the future generation to build capabilities, and learning.
3 Methodology & Method

This chapter provides a description of the underlying research philosophy that influenced this study and the research method is discussed as well.

3.1 Methodology

To determine which research technique required for the purpose of this study it is important to understand the different underlying research philosophies. From the variety of scientific ideologies two main traditional paradigms are commonly used in research studies, positivism and interpretivism. They are used to help as a guidance to find a suitable research approach. Positivism is commonly associated with quantitative studies and interpretivism linked to qualitative studies (Collis & Hussey, 2014).

From carefully evaluating the research alternatives suitable for this kind of study, interpretivism, emphasised a qualitative approach where the subjective and humanist view of collecting data originates was chosen. Given that the purpose is to understand reasoning and identify factors affecting decision making it was concluded that the research would be guided by interpretivism, conducting a qualitative study. When interpreting the collected data, the reasoning, beliefs, feelings and perception of the participants is key in order to be able to answer the research question (Saunders, Lewis & Thornhill, 2009).

The intention was to first identifying a target group to be able to collect and validate the research data, then select a suitable data collection method, in our case semi-structured interviews. When designing the interviews, fellow researchers and mentor were consulted to ensure that relevant questions for the gathering of the research were formulated. When designing the questions, there were no predetermined assumptions regarding the findings. However given that the framework of SEW has been used in previous studies, it provided confidence that it could be used to
fulfil the purpose of this study. SEW and the FIBER model were chosen since it focuses on the intrinsic values of financial decision making rather than extrinsic motives.

### 3.1.1 Contextualization

Given that qualitative data is affected by and a product of the social, cultural and in this case economical context it is important to understand those factors in order to interpret the collected data correctly (Collis & Hussey, 2014). The context itself affects the respondent and interviewer perspective. In this study context that may affect the answers could be which industry the company is working within, their financial stability and family history. As one example, answers could be affected depending on what industry the companies interviewed are active within. Some industries are fast moving and early adopters, compared to certain others. This could affect the answers, but not necessarily be explained by the framework of social emotional wealth.

By looking at the context from a country perspective one can conclude that Sweden is a country with a well-developed financial markets. A newly released report from Euroclear “Aktieägandet i Sverige 2017” (2018) concludes that almost a fifth of the Swedish populations owns shares, implying that it is a well-known form of financing. Digitalization has been prevalent during the last year including new ventures such as BankID, Tink, and Klarna. According to a report by Atomico “The State of European Tech” (2016), Sweden is one of the leading countries regarding fintech investments. This could be arguments to show that the context regarding the financial markets are innovative, supporting new ideas.

### 3.2 Method

The method is the approach for collecting and analysing the data for the study (Collis and Hussey, 2014). The process of the research and how it is designed depends on the authors preferences and philosophy, where the researcher have a freedom of choice hence methods may vary between different researchers (Saunders et al., 2009). Depending on the research question which should drive the research design to support solving the stated problem, the purpose of the study may develop and prosper along throughout the process (Collis and Hussey, 2014). Where the study may have multiple purposes such as; exploratory which is used to gain more insight on the phenomena where there is little or
no information, descriptive used to explain different aspects of the target phenomenon and its sample characteristics, or explanatory most useful to investigate the patterns of connection between variables often used in experiments (Collis & Hussey, 2014; Saunders et al., 2009). Given that research regarding family businesses and financing decisions are relative new an exploratory approach were found suitable. An exploratory research approach will be used to collect information through several family firms to provide new insights to the field. Where such approach is used to explore the phenomenon as the direction of the study has more than one clear possible outcome (Yin, 2009).

### 3.2.1 Data collection

Besides the comprehensive literature review a collection of data was processed through two stages, first to be collected was the secondary data consisting of existing regulations, terms and conditions of the Swedish crowd equity platforms. Accessed through websites. The second stage involves the collection of primary data through interviews of managers or owners that have power of influencing financial decisions within the family firms.

#### 3.2.1.1 Secondary data

In order to build the context, to understand how to construct the interview questions, secondary data was initially collected. Given that there are a limited amount of literature covering the field of crowdfunding and crowd equity, especially in the Swedish market, data was collected from responsible authorities and companies providing crowdequity. The data was primarily collected via web pages, reports and in one single case, a well renowned newspaper.

Multiple (five) platforms were initially evaluated to get a better and deeper understanding of how they differ in offerings and functionality, then two was selected. Even though the study was aimed to understand what Swedish platforms offered their domestic family firms other European crowd equity platforms were examined as well in order to get a broader picture and a better detailed understanding in how they function. The information provided a possibility to understand where to position crowd equity compared to traditional equity and debt financing as well as contrasting that option with other financing alternatives.
By gathering information from multiple sources it allowed the thesis a broader perspective and a deeper understanding of the forces impacting the chosen topic, and was needed for the process of formulation driving research questions (Collis & Hussey, 2014).

3.2.1.2 Multiple Case study
A case study is helpful to explore a phenomena in its natural environment as Yin (2009, p. 18) defines the case study that “investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. According to Collis and Hussey (2014) it must be constructed to respect the context where management practice, where the importance of the context is crucial. The case itself may involve a particular organization, group of employees, event, or action. Usually the obtained information is collected over a relatively long period of time. In line with the nature of this study Saunders et al. (2009) states that the case study strategy helps answering questions like “what”, “how” and “why”.

Case study research can be based on a single case, but as this study is based on multiple “cases” in terms of top management teams and/or owners from three different organizations a multiple case study approach will be used. As the study draws on the interpretivism method where the understanding of the human action is highly important, combined with a literature review which covers sources providing different perspectives in this case where the multiple case study will contribute to a better understanding in family firms financial decision making and their financial options.

3.2.1.3 Semi-structured Interviews
The method chosen to collect primary data was semi-structured interviews. There are two types of category of questions to ask, closed question or open question. Closed are questions that are quick to answer that does not require a longer reflection by the participant, characterized by a yes or no answer but could also consist of a range of predetermined answers to choose from. As an open question indicate a longer more developed answer based on reflection it allows the researcher to get a more in depth
reflection of the question (Collis & Hussey, 2014). To be able to collect data semi-structured interviews were conducted in order to get answers involving how the family firm’s owners, managers and family members think, do, and/or feel. In order to access the participants’ opinions and understandings to explore what they have in common or what differs. Semi-structured interviews are useful when the logic of circumstances are unclear or when the intentions are to understand the participants constructs. The questions asked is flexible and in nature not standardized where the researcher prepares some questions on the main topic to encourage relevant answers, but where other questions develops during the interview is common for semi-structured interview (Collis & Hussey, 2014). Therefore it is important to understand that it is not only about talking to someone asking any question, rather asking the right ones to guide the research at the right direction influenced by the conceptual framework developed from the literature (Saunders et al., 2009).

Semi-structured interviews were used for this study with predetermined explorational open ended questions to obtain comprehensive insights on the main topic combined with an informal approach where the participant had the opportunity to elaborate and discuss the questions properly without pressure. Some issues required supplementary questions therefore a structured interview approach would have not benefit the research question as well as the chosen approach likewise in terms of an unstructured interview would allow the participants eager to speak freely making it harder to meet the purpose and focus on the questions to provide relevant answers (Collis & Hussey, 2014).
3.2.1.4 Population & Case selection

The population targeted has been evaluated from a number of perspectives, where the main requirement was that the firms were according to our stated definition of family business. Given that the overall objective of this thesis is to investigate the financing decisions to better understand financial reasoning within family firms and if crowd equity could be a feasible financing option, the aim was to collect data from the Swedish family businesses.

In order to find a relevant sample different search engines online were used. After consulting experienced researchers within the field, it was concluded that there are no comprehensive register of family firms in Sweden, to our knowledge.

As it would be not likely to attain all firms in Sweden due to time and cost restraints a non-probabilistic sampling was used. The recommendation was that at least two persons from the owner family or top-management that is influencing the financial decision-making with great insight from both mature financially stable firms to younger firms with financial limitations is represented to provide different reflections and insight to how the research question is discussed.

As time was scarcity in order to meet deadlines it is more important to collect data from multiple managers in fewer firms with more detailed results than fewer experts in numerous organizations (Saunders et al., 2009). Given that the differences within the category family firms may be larger than the differences between family and non-family firms, our objective were to gather data from family firms at different stages. The companies interviewed stretched from start-ups to mature companies with a proven business model with stable cash flow.

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1 Due to an unexpected travel abroad, only one of two main owners and managers could be interviewed in Company B.
3.2.1.5 Primary data

The empirical data was obtained through semi structured interviews of family firms owners and active top managers. Five interviews were conducted face-to-face in the Jönköping region. One person could not take part on short notice, and time becoming a limiting factor in order to replace that loss.

The family business participants held key roles in their respective firms and for the sake of the study it was important that they had experience, influence, and insight of the management and strategy of the business. Out of the five participants four were male and one female.

During the interviews both authors were present and active to better establish an engaged and relaxed meeting but also enable the other author to interpret the answers given in order to probe relevant follow up questions to better target the framing of the question asked. All participants were offered to speak either Swedish or English where everyone chosen to conduct the interview in Swedish as they felt more comfortable in order to share a more developed answer and reasoning. Collis and Hussey (2014, p. 134) stress the importance of conducting an interview with less tension to access the “interviewees world”, and by recording the conversations allowing the authors to focus on the interaction. Therefore the interviews conducted for this study was recorded with the approval from each interviewee but also for the purpose to better capture and link back to the results from the responses.

Another option that was given were anonymity for the interviewees to feel more comfortable to speak freely and to avoid any answers that are not personal reflections. This has been done in the transcription process where code names have been given. Therefore they are labelled as followed; Company A, person A1 and person A2. Company B, person B1. Company C, person C1 and C2. More comprehensive information regarding interview length and questions see appendix in section nine.
3.3 Empirical evidence

The empirical findings were collected over five separate interviews. As the interviews continued, common patterns arose both within the interviews but also when comparing them with each other. After the interview material was conducted a more thoroughly work was processed with transcribing all interviews in order to be able to follow the exact words in writing. This is important in a qualitative study as the authors needs to go back and forth with the findings in order to find the patterns in the process of analysing (Collis and Hussey, 2014). Furthermore in the transcription the exact words were composed and expression and voice tone was also taken into account. As all interviews were conducted in Swedish to offer a more open conversation climate and to get the participant to feel comfortable to express their opinions the material were later translated to English, as it was the best strategy to capture the meaning and what the participants are implying instead of holding the interviews in English.

The process used were guided by Collis and Hussey (2014) and consisted of five stages involving; preparation-, familitary -, interpreting -, verifying -, and representing the data.

After the preparation and getting familiar with the data the coding process began by categorizing the material. This is done in order to find themes and linkage between the different response that are non-standardized and complex in its nature. After the process of allocating key themes, patterns, and relationships that emerged from the empirical findings they were linked back to the suggested theories and the frame of reference.

3.4 Trustworthiness

To evaluate and measure the quality of the research different methods may be applied. Within quantitative studies reliability are often used to ensure it is able to repeat the study, hence testing the consistency. Whereas validity focus on the accuracy and that the study is appropriate tested and analysed (Saunders et al. 2009). Since this research approach is a qualitative study, Collis and Hussey (2014) recommended the concept of trustworthiness, which was originally designed by Lincoln and Guba (1985). Trustworthiness is suggested to comprise of four criteria's for qualitative studies namely; credibility, transferability, dependability, and confirmability.
The first criteria, credibility, concerns if the subject was identified and described correctly, reflecting the confidence of the researchers that the findings are true and accurate. Transferability regards if the findings can be applied in other related situations, circumstances, and contexts. Dependability concerns whether the thesis is systematic and well documented. Confirmability focus on the objectivity and if the process is entirely described and how well the findings are linked with the data (Collis & Hussey, 2014).

Therefore this study is written in a partnership to prevent the issue of being biased. The conducted interviews were well prepared and planned ahead, but not shared in advance in order to prevent invalid information or adjusted answers given. Since interviews were conducted with participants within multiple companies it is important that no information is given on forehand to minimize prior discussion and for the researchers to receive individual reflections and honest perspectives. The participants were chosen based on their insight and influence in each company and where the entire top management team was represented.

In order to achieve credibility and trustworthiness in terms of the result of the study, a multiple case study approach was chosen with embedded units, to make data triangulation possible. Data triangulation is used in order to increase the trustworthiness where triangulation will be applied by looking at multiple cases, the family firms and within the cases, by interviewing two units within each case (Collis & Hussey, 2014).
4 Findings

This chapter presents the empirical findings that were collected in the form of five semi-structured interviews.

4.1 Family Firms

Company A started as a manufacturer of customer goods. The company was founded in 1958, by today's CEO's father. It has been located in the same place in the southern parts of Sweden since the beginning, facilitating both storing, manufacturing and offices. Since the founding of the company, it has reinvented itself several times. As of today it has gone through three bankruptcies, but it has always been restarted. Since the beginning of the 21st century it does no longer have its own production, but has rather become a trading company. This due to the increasing cost of facilitating production in Sweden. Company A works with business-to-business (B2B) affairs.

Person A1 took over the business in 2001, by buying the company from his father. The persons interviewed from Company A is the owner and CEO, belonging to the second generation, person A1, and, person A2, his spouse who also is an owner works primarily with the CSR-strategy, development and implementation for the Company.

Company B, is a production company active mainly within the agricultural industry. The different sectors that the company is active within has been diversified over the years, but the main activity is still with in producing agricultural products. The different business areas works with different customer segments, by the company works both with B2B as well as business-to-consumer (B2C). Company B:s history stretches back to the 1940s, when the first generation began operations. Today the fourth generation operates the company, and also owns it. The third generation is not active in running the company but still owns parts of it.

B1 took over the company together with his cousin from their uncle when they were still studying. Person B1 stated that he and his cousin initially ran the company with what
they described as “gut feeling”. Trying different thing as they progressed. Person B1 and his cousin do not have any formal titles, but they share the operating responsibility and could best be described as CEO and CFO, even though they are active within most parts of the company.

Company C was founded in 2011 but became operational active in 2012. It is located in the southern parts of Sweden and active within telecommunications. They have developed their own product in-house in order to supply the market with efficient telecommunications solutions, working B2B. The product development is finished and they are currently working on signing large, international deals. Company C has production located in Sweden along with their headquarters, but they do also have a research and development office located in Asia. The two persons interviewed C1 and C2, are working with a variety of tasks. C1 is part of the owner family and works with business development and C2 has among other assignments been working with the future solutions for financing of the company.

4.2 Financial decision making

4.2.1 Family Control and Influence

Regarding family control and influence both Company A and B ranked it as a necessity, and of ultimate importance. Implying that it is a combination of an objective with its own value but also a way to keep control of the business. Person A1 stated regarding ownership that, “To me it is very important I must say, and we have had that discussion me and person A2 many times”. Person A1 elaborates on the idea of sharing the company with the employees, “I have talked to my accountant about it at several occasions. I would like to give shares to the employees in order to increase their commitment in the company. I believe strongly in the idea of having loyal employees, and the co-workers feel that they are a part of our success, and should be rewarded for it. But no one supports the idea, everyone just says no, no, don’t do it, you will only cause problems for yourself. Keep being generous, but 15 new owners in the company would limit you capacity of action severely”. “I have listened to their advice and I have concluded that I want to be able to make decisions”.
When interviewing Company A both persons at the company stated that they are guided by strong beliefs and values, this reflects on the company as well. The company’s culture is derived from the background of their family, and the company culture are a product of the same believes that the owner family has outside of the company. Person A2 elaborates on the fact that values are important to them and that by owning the company they are free to affect the culture and values of the company. “Since our values and our direction is important, it becomes essential to be able to be a part and exercise influence”.

Person A1 states that the overall goal is to run a profitable business, but profit maximization is not the main objective. The owner is rather driven by a strong sense of responsibility and accountability, investing in projects that may not make full sense from a strictly financial perspective, but adds non-financial value. Therefore those kind of projects may serve the family, and in some cases the broader community as well. Person A2 emphasize that the idea of sharing the company with someone that does not share their values would be seen as a concern. “That idea would I regard as very difficult...”.

Based on the question if ownership is important for Company B, B1 answers, “Well, yes it is very important. I believe strongly that the further away from the core activities you get when the company is growing, the more difficult it becomes to get a feel for the company. The more people you let become owners, the more anonymous the company becomes”.

C1 explains that even there is a wish to keep family influence in their company. “Company C is partly owned by a holding company, and the holding company is fully owned by our family. There is an idea of keeping Company C as a family business.” C1 elaborates and concludes that even though there is an idea of running a family firm, he does not want to be given anything for free. “I don’t want to be handed anything for free. Then it usually goes bad”. C1 links his answer to the quote that the first generation starts the company, the second manage it and the third dismantles it.
4.2.2 Identification with the firm

Between the two family members interviewed the identification with the company differed. The main owner, person A1 expressed a closer relationship to the company itself, filling a function of something more than just an employment. This was in contrast with person A2, who rather looked upon it as a way of employment. The difference was manifested as one example that person A1 experienced that person A2 called for more clear boundaries between work and family life. Person A2 clearly states that; “Yuk but, the firm is not everything it is not a part of my identity, I am me and the company is the company”.

Person A1 describes that the company has become an extension of his values and beliefs, resulting in a close linkage between him and the company. “One influences and runs the company based on one personality I believe.”

When interviewing person B1, the person also described a strong sense of identification with the firm. Stating as one example that customer complaints could feel personal, since the identification with the company is strong. They have also composed a code of conduct in order to be sure that employees are aware of their family influenced values before getting hired. “It is very much the family inspired atmosphere that we want to be influential. If that does not fit then employees can leave, that is our way of running our business”.

Company C has a similar outlook on identification, C1 states, “I identify myself strongly with the company and its vision”, and further develops that he believes that people have a right to well-functioning telecommunications. By giving access to communication C1 describes that “It will provide them access to many different things, such as knowledge, new experiences”. Regarding Company C the family holding company has a name linking it to the owner family providing a sense of identification.

4.2.3 Binding Social Ties

The identification with the firm is strongly linked to the binding of social ties for Company A and B. Since person A1 and B1 strongly identify with the company and its brands, it become crucial to nurture the social ties of customers and suppliers. A1 explains that
when traveling around the world meeting suppliers and business contacts, it has become important to build relations. A1 explains, “Initially the price is important, but then in the long run, I believe that a relationship to a supplier is crucial in determining in how it works out. It is a part of our basic principles that if we are going to be able to use our company for something that is positive, then we must be able to build relationships.” Stating one example of how the social ties evolves, A1 gives example of a supplier working for a company with between 10000-12000 employees, “when we arrive he takes vacation and want to go on vacation with us, because he thinks it is fun. The last time we visited he invited us to his home in order for us to meet his parent-in-law”.

Person B1 explains that “We say that the deals should be long term, with that said, not meaning that we should not demand a fair price, rather the opposite we should make money on the business we engage in. But maybe we won’t do it at some special occasions if it threatens a relationship, if the customer is not satisfied, then we have to make up for it, at all costs”.

Company C has decided to keep it production in Sweden which is partly linked to their values. C1 concludes, “To keep the volume in Sweden, with everything that comes with it, regarding the Swedish system is linked to our values, it is good to have production in Sweden even though it could be done cheaper somewhere else in the world.” C1 also describes how they care about the relations to their existing investors, “The office is open so everyone can come by anytime”.

4.2.4 Emotional Attachment

Having a close link between the owner and the company, leads to the fact that the ups and downs that the company goes through affects the emotions of the owner. But B1 also explained for the emotional aspect is also a way of governing. By being close to the operations, getting a sense of what is going on and feel with the company enables him to plan and govern efficiently. B1 also explains the fact that emotions are affected by the outcome and result of the company. “It really feels when the company performs good or bad.” C1 elaborates on the fact that that the emotions towards the company affects management decision, stating as one example that his father sometimes does not pay out any salary to himself, but rather is driven by the vision. C1 states, that they are driven by
a vision that in the long-run being able to help others through their success. C1, “We have had plans of starting a small business incubator... in order to be able to listen to different talents from different parts of the society”.

4.2.5 Renewal of family bonds
Even though the interviewed owners, excluding person A2 feels a strong attachment and identifies with the companies there are no planned successors. Person A1, A2 and B1 all argued that their children needed to make that decision by themselves. For Company A it means that as of today, there is no potential successor. Person A1 and A2 have discussed how that situation can be resolved, when it is time for them to make an exit. A2 explains that, “I can not see at the moment who of our children that would like to take over the company. They still have other dreams and thoughts. I haven’t thought “oh how fun if some of a children would like to continue to run our company, because the company is not me”. A1 on the other hand states that “it would have been fund, but they are not interested. They chose their own paths and I have made the decision not to stress our children with that question”. A1 also concludes that given that growth of the company, it becomes a hinder to facilitate a buy out if just one of the children would like to run the company. “If it was valued a 5 million (SEK) when I bought if from my father, then it is probably worth 25 million today. Who should be able to buy out the others, because you can not give a company to one of the children and not let anyone else get anything”.

B1 has a similar attitude towards succession of the company to B1s children, “If they want, I think that is very important, if you want, go, otherwise, do something else. My father always told me, “if you want, you want it, otherwise you will find something else”. B1 also agrees that the growth of the company is becoming an increasing hurdle, regarding succession.

There is a stated will to keep key positions within the family in Company C, but C1 also states that that decision has to be based on competence as well. “My ambition is that if I can perform in a suggested position, then I will take it”.

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4.3 Financing Options

4.3.1 Finance sources used

Since A1 took over Company A they have relied on financing from family and retained earnings and in a later stage financing via the bank. The initial financing where a loan from A1’s father to him in order to facilitate the transaction and succession. A1 states that, “we agreed on a price (for the company), but I would never have been able to put up that money when I entered the company at an age of 40. If I would have gone to the bank and said that I want to borrow 6 million (SEK) to buy that company, they would have said ‘no way, not for buying that company’.” A1 solved the financing issue together with his father and A1 has made annual payment to his father until 2017. Given the growth for Company A they are as of today self-sufficient regarding financing, and solely rely on retained earnings generated by their cash flow to finance investments. A1 describes that they have gone through three stages of financing, “in the beginning the bank would not lend us money, so I had to depend on my father, when we moved forward, they saw that we were worth doing business with, so by then we solved all financing via the bank. By now we have reached a stage where we no longer needs the bank”.

Company B has used bank loans to finance parts of their business, B1 explains “Whatever we want to do, shall be financed via the bank or retained earnings. We are willing to invest 40-50 percent in cash and take a loan of 50-60 percent”. In order to balance the increased risk of leverage, they are going to reorganize the company into separate business units, in order to reduce the risk in their company structure. “At the moment everything is gathered... there is no diversification to reduce the risk”.

Company C made an early reach out to venture capitalists (VC) and receive early seed financing form a firm outside of Sweden. Additional to that they have relied on friends and acquaintances to receive additional financing, by selling shares. C1 concludes “Since we are an early stage technology company, the bank only sees our blood-red income statements.” C2, develops the argument, “they (the bank) can not take into account the future potential of a company, and they rather look at our current assets”.
4.3.2 Awareness of Crowd Equity

The awareness of crowd equity varied widely between the persons interviewed, but one could conclude that the relative newness is a fact, even though several of the interview candidates have heard of the term crowdfunding. Person A1 had heard about the term of crowdfunding, but were not familiar with the terms and suppliers of crowd equity. “I know crowdfunding, it is when you can sell shares via the internet”, “I have a friend that bought shares via crowdfunding”.

Person B1 were familiar with the use of crowdlending. Person B1 had used crowdlending as an investment, by lending money to real estate projects via one of the Swedish crowdlending platforms. “I have invested via (a crowdlending platform) in different projects, I think it is stimulating. Company A, B and C had not used any sort of crowdfunding in order to finance their companies. However Company C have been in contact with several providers of crowd equity platforms and has evaluated crowd equity as a financing option. They have not made a final decision on how to raise future capital needs, but have been looking in to different equity financing alternatives.

4.3.3 Funding gap

Person A1 stated that when he was in need of a loan the bank would not help him, and now when the business is profitable he can get a loan. However today he no longer needs the bank services. A1 states that, “that the bank is never interested to help one when business is bad, but now they are very interested, when business is good, when we no longer need them. It is weird!”. Another view of where a funding gap may prevail is in their continued expansion, “We finance everything by internal funds, but if we would decide for any new major investments, then we would have to go to the bank. But I am not interested to expand and I do not want to acquire any new companies or increase the financial risk. I think this is already more than enough. I am tired in the evenings anyway”.

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Company B did not present any experience of a funding gap. Company C however describes an experience of both a funding gap but also a knowledge gap. C2, “For investors, such as an business angel are usually comfortable investing within a specific sector, but I would argue that in Sweden in general there is a limited knowledge base regarding tech-companies”. C2 explains that they are feeling misunderstood or neglected by the markets inability to understand the technology they have developed.

### 4.4 Financial Reasoning

Both A1, A2 and B1 emphasizes that they are valuing ownership highly in their business. A result is that it affects the choice of financing sources, B1 states, “We have never thought that we should let an external owner in the company”. A1 has a similar outlook on external owners, “You can not have 100 shareholders that interferes with decision making every day, it would become paralyzing”. Both Company A and B has reached a level where the internal generated cash flow are sufficient in in order to reinvest and enabling expansion of their businesses. For B1 it also provides capital in order to keep the leverage relative low, reducing the risk.

Person A1 and B1 argued that they rather grew the companies slow but steady instead of opening up for external capital, and risk to lose control. Person A1 also extended the reasoning behind being driven by values rather than profit. It leads to investments that in an income statement seems like a cost, but the experienced value justifies it. The set of values are of such conviction that faced with a potential period of economic downturn the reasoning may rather be if it would be reasonable to deviate from the personal values to safe the company, or if it would make more sense to let the company default A1 concludes.

Company B explains that the tight identification also lead to concerns regarding if any external owner would enter the company. The identification provided a strong sense of responsibility for the company, meaning that the brand reflected the owner and the owner reflected the brand. Feeling a strong responsibility to protect the brand.

Additional to simply covering their financing needs, C1 also explains that a financially strong external owners that can guarantee that the Company C will provide it product in
“Our customers want to have a confirmation that we will be in business in ten years as well. These kind of products we are selling is nothing you change every year, maybe it has a life cycle of five to ten years”.

**4.4.1 Crowd equity opportunities and threats**

When elaborating on the terms and conditions of crowd equity all individuals identified both threats and opportunities regarding crowd equity as a financing form. Given potential benefits of using crowd equity the two individuals interviewed in Company A reasoned that it could be beneficial as a way to mitigate risk by opening up for external owners. A1 concludes that, “I see it as a very interesting alternative as initial funding”. Both C1 and C2 do regard it as an interesting alternative for companies in an early stage, however they also has experienced that the financing form is so new that it still may be experience growing pains and has not fully matured in the market yet.

The fact that many owners can be an opportunity can also be seen as a threat, A1 continues and states, “The disadvantage then becomes the fact that I assume that the owners want influence in the company”. A2 shares that view and adds, “I believe it would become very tough to cooperate with an owner that only viewed our company as a profit generator”. A2 states that it would be a hinder to open up for external owners that maybe would not support the values and actions of the company, but if that could be validated in advance then it would be regarded as an asset. A2, “I believe it could become a conflict, but with the right person, maybe it could be an asset, but then you have to make sure that we share the same vision somehow”. Company C identifies that acquiring external knowledge by using crowd equity could add value, but given their high degree of technical complexity they do not expect the public to fully understand their technology.

All companies also elaborated on the fact that the larger the companies grew the more difficult a handover to successors could become. Given that there are several family members and only one company. When Company A where small it were possible to hand over by engaging in financing within the family. But given the size the company has grown to, a buyout would be much harder to orchestrate today compared to previous. B1 concludes that crowd equity also could be a way to perform an exit from the company. “It could be a great step to initially sell, let’s say 20 percent of the company, and then bit by
bit sell more and more. So I believe in order to hand over or leave the company (crowd equity) could be a very important part of it”.

C2 additionally contrasts crowd equity with a possible IPO and concludes that crowd equity is a way to minimize overhead costs and shifting focus from the actual product into administration and reporting necessary if being publicly listed. “…if you are going public as a small company it is unnecessary, but in many ways the easiest way to raise capital. But then the transparency must increase, you need to appoint a new CEO, a board and it generates higher cost”. C2 further elaborates that crowd equity seems to be a way to staying as efficient as possible and reducing additional workload associated with going public.
5 Analysis

This chapter provides an analysis of the empirical findings that were presented in the previous chapter.

5.1 Family firms

The firms interviewed for this study represents a selection of family firms with similar characteristics, even though they represent different industries, are owned by different generations and have been in business for a different period of time. It is a simple demonstration of the fact that family firms is not a coherent group of firms but rather a heterogeneous collection of different firms which is observed and identified by Chua et al. (2012).

Our findings shows that they share many common values and defines the goal of their businesses to do something more and identifies other values than just financial profits (Gomez-Mejia et al., 2017). This points in the direction the even though the companies are different regarding their industry, age and maturity, there still seem to be some common denominators based on the fact that they are controlled and influenced by families. This is expressed by a desire to keep ownership and control, as well as identification and building social ties.

5.2 Financial decision making

During the interviews conducted it becomes clear that persons interviewed in Company A and B values ownership highly. It seems to be more than just a tool, but also providing an intrinsic value, especially for person A1 and B1. The sole value of ownership itself seems to be correlated with to which extent the owners identifies themselves with the firm. Person A2 seems to value ownership based on the fact that it gives A1 and A2 the opportunity to control the business as they want, without having to justify their actions to any external shareholders, implying that ownership is a tool. A2 on the other hand does not identify with the company to the same extent as A1. A1 and B1 seems to have a closer identification with the company meaning that the ownership has a value of itself,
arguing that they are driven by intrinsic motives explained by Carrigan and Buckley (2008). Stating that the firms is something that is close to their personal values and identities, being somewhat of an extension of themselves.

The identification with the firms also seems to influence the willingness to bind social ties with suppliers and customers. Where especially A1, A2, B1, and C1 seems to go far beyond what could be expected of a trading company regarding interaction with suppliers in order to build long term relationships. The identification seems to be a part of building social ties in that way that the company seems to be representing the family and owners, in the same way as the owners represents the company. The distinction between the individual and company seems to be blurred. Together the three aspects of valuing ownership, identifying with the firm and binding social ties generates a long-term perspective that influences every aspect of running the firm. As B1 stated, if a customer is not satisfied, then every measure must be taken to make sure that the customer will be satisfied in the end. It may take 10 years before that specific customer becomes profitable, but the logic seems to justify it. These factors also seems to generate the emotional attachment. Owning something that one identifies with, which generates long-term relations, with the line blurred between the individual and company seem to explain the strong emotional attachment. As it may be interpreted, long-term success within the companies provides the owners with something more than profit, it provides deep meaning and value. Given the value the companies seems to provide to the owners, it may seem reasonable that they express enjoyment to see a succession in the future within the family. However, financial growth as mentioned is within the context not only seen as something positive, but somewhat of a potential hinder as well. Both A1 and B1 concludes that the growth of the companies can complicate a succession within the family. However, the will to let the companies stay within respective families seems relative moderate, A1, A2 and B1, all wish that their kids would be willing to take over the companies, but the their independence and freedom is highly valued.

Regarding Company C they states that the value is not as strongly linked to the company but rather linked to the idea itself. Where the vision is partly kept within the actual product, which provides a somewhat of different logic compared to Company A and B. C1 concludes that the aim is to provide the market with their product, implying that they
rather see a product launch, than necessarily keeping the full control over the company. It lets them be more open to different financing options, including equity financing and losing control in order successfully launch their product on a broader market. It could be argued that C1, rather identifies with the idea of being entrepreneurs and businessmen, rather than their current company and product. In order to keep that identity the prosperity of the company is of greater importance than keeping the direct ownership. That is further developed by the vision that by raising external funds, it could help the family start their own business incubator, providing an opportunity to give back to the society. That is rather in line with keeping the long-term goal of being entrepreneurs and innovators, rather than running this specific company. Linking to the fact that values and visions are important but not directly tied to the company.

Regarding their current company, the option is not a question of growing slow and steady, or fast and exponential depending on equity financing, but rather a question of survival. This could be a contributing factor of why the preservation of their social emotional wealth capital is of secondary prioritization.

Additional explanatory factors could be the capital intensive products developed by Company C. Their preference of equity financing seems to be partly explained by the fact that the value their company provides is of second prioritization but also explained by higher capital needs. This is supported in the literature (Motylska-Kuzma, 2017) that concludes that family businesses active within capital intensive industries seems to rely on equity financing to a greater extent. Not allowing the same control of their social emotional wealth capital.


5.3 Financing Options

Company A and B have used two out of three main categories for financing, debt financing and retained earnings/internally generated funds. That is inline by the findings of Motylska-Kuzma, (2017) that emphasize that family firms have a preference for debt financing and retained earnings. The choice of mentioned financing sources seems to be a choice constituted of a number of factors. One could argue that the fact that the bank initially denied Company A the necessary funding lead them to rely on family funds, highlighting a potential funding gap that was covered by family. Implying that initially there were a very limited amount of financing options supplied. Once used to being independent, beside the family bonds A1 states that he does not longer need the bank.

Company B relies on bank loans and retained earnings in order to conduct their investments. However they have a policy on limiting the risk by only conducting leverage up to 40-50 percent. There is no clear link to B1’s family values affecting that decision, but being risk averse is a characteristic supported by existing literature (Gómez-Mejia et al., 2007).

The scepticism towards equity financing, may also be contrasted with the fact that Company A and B today have a strong financial position. They have been able to build their businesses by relying on family funds, debt financing and retained earnings. In contrast to Company C that does not have a product generating revenue at an early stage.

Both Company A and B elaborated that it could theoretically be possible to raise more capital, but asked themselves, for what reason? A1 stated that he was tired in the evening as it was, and B1 did not want to increase the risk by adding on more leverage. Seemingly they are content with current growth and does not see the sole purpose of adding potentially more growth and profit, given that their companies are already profitable.

Given that Company C has had capital needs, exceeding what can be internally generated they have had to rely on external financing. They do not have, what could be seen as the luxury to be independent from external investors but are rather faced with another dilemma. Besides in order to build trust among their customers, being international giants within telecommunication, showing financial strength is a must.
5.4 Financial Reasoning

Given that family ownership and control is of the highest relevance for Company A and B and to some extent Company C, equity financing in general, regardless of which type seems to be a limited option for Company A and B. As equity financing, including crowd equity, will diversify the owner structure and limit or at least affect the control, it seems not to be a fully feasible option. Crowd equity risk to affect the social emotional wealth capital negatively which is against the logic of preserving it (Gómez-Mejia et al., 2007).

As stated the value of ownership seems to be divided into two parts, providing both an intrinsic- and an instrumental value. Being a tool to emphasize family values within respective firm but also a tool to fulfil other means such as contributing to CSR projects and other philanthropic acts, providing a sense of fulfilment. Especially A1 and A2 emphasize that they want to use their company in order to make something good, additionally to running a profitable company. It seems that they both have been getting used to running their company as they want but also are somewhat sceptic to the idea of having to motivate their decision and values for a potential external owner. This could be seen as a practical example of the so called empathy gap described by Wu et al., (2007).

The owners of Company A are aware of that some decision are not generating profit, but it is adding a non-financial value to them, however it may not match the logic of investors. A2 did state that if there were a possibility to choose then external owners, they could be seen as an asset, providing knowledge and ideas how to develop their vision. In practice, there are no such feasible option to regulate who a future owner of share could be.

Company C share the idea of using the company to facilitate opportunities to others, partly being planned with their idea of using potential profits to help people launch their own businesses. They seems to reason that it is better to sell parts, or the whole company and use potential profits to do something new instead of risking the whole business in order to preserve their social emotional wealth.

Given the funding gap as Person A1 confirmed, there can be a situation when debt financing is demanded but not supplied which could call for looking for alternative financing sources. However once the company has grown to that extent that their cash flow is stable enough to induce internal investments, the need for external financing diminishes. The trade-off between fast growth and control may differ from company to company, and be rather a personal preference. Company A and B has had the option to
limit growth in order to being able to keep control. That is an option that seemingly does not exist for Company C. Given that Company C seems to share the values and general characteristics of Company A and B and what the literature defines as “characteristics of family firms”, and still are more open for equity financing, one could argue if that is a consequence of them wanting to preserve their social emotional wealth capital or if it rather is sort of a hostage situation. Meaning that they have to give up their ownership or otherwise risk to end up in financial distress.

5.4.1 Crowd Equity

Crowd equity seems initially to offer something that could be attractive for family firms. Characteristics that seems to match are a more long-term oriented perspective compared to the stock market, reducing ownership spread due to the holding company-structure and possibly adding knowledge and human resources. In small family firms it could be seen as beneficial to use the knowledge of the crowd in-line with the perspective of crowdsourcing described by Poetz & Schreier (2012). According to A1 and B1 they view crowd equity as an interesting new alternative, even though they conclude that they may have outgrown that financing stage. Both Company A and B has reach a stage where their core business keeps growing organically and generating profits. A1 and B1 concludes that the growth pace could be increased, but that they are satisfied with the projected development, and rather keep control and reduce risk compared to chasing additional returns. However they believe that as early stage funding crowd equity has great potential.

Company C elaborates on the fact that if equity financing becomes necessary then crowd equity seems to be the most attractive alternative, apart from being new. The opportunity of not getting publicly listed gives an opportunity to reduce administrative workload and avoid the short term speculation that has been a characteristic of the modern stock market. However Company C is the only one that emphasize and see a competitive advantage in the technical aspects of crowd equity compared to an IPO.
5.4.2 Attitudes towards Equity Crowdfunding

Given that Company A and B both clearly state that the values of the company are a top priority it gives a sense of protectionism. The ability to keep the ownership within the family is a key to being able to assure that the values are kept intact. Even though both Company A and B could see potential benefits, such as reducing risk, receiving external input and increase growth, neither gave the impression that the benefits outweigh the risk of losing control. It shows that even though crowd equity could from an outside perspective be seen as feasible financing form, it depends on the owner family's relation to ownership. Given that it is difficult to explain personal values and beliefs, it may induce the sense of protectionism. Hence even though it is a seemingly interesting financing alternative, the attitudes are mixed.

Additional to potentially adding a monetary funds to a company the owners identifies alternative benefits such as acquiring knowledge and using crowd equity as a marketing platform. However it does not to compensate for the loss of control.

Company C is looking to build a strong brand as well as trustworthy relations, dependent on their financial position, they expressed concerns given that crowd equity is a relative new financing alternative. Even though the Swedish market has developed fast, and Pepins as one example is under the supervision of the financial authorities, it can be hard to translate for international customers. One argument for why Company C has decided to look at crowd equity, even though knowing it is a new financing form could possibly be explained after recruiting C2. The knowledge and understanding of newer financing alternatives where limited prior the recruitment. It would be in line with the findings of Di Giuli et al., (2011), stating that external top-managers could induce financial sophistication.

5.4.3 Funding gap

Especially Company A and C described an experience of a potential funding gap in the market. Crowd equity seems to have potential to cover the funding gap, supplying the market with risk capital but also information, at a relative low cost. In the long run it could contribute to more jobs being created and stimulating innovation if it would stimulate the development of family firms with not yet met financing needs. Pepins as
one example could help bridge the informational gap, since a part of their process is performing a due diligence process. However, Pepins resources are limited as all companies, and looking at their previous funding rounds, they have been focused on companies working B2C. Even though Pepins as one example could help provide the market with accurate information, they are not an independent reviewer but has an interest depending on if the companies using their platforms succeed in their financing rounds. Company A and B has relatively straightforward business models, which could relatively easily be reviewed from an external party. Company C however questions if an external party would fully understand their technology and product. It implies that it would require special knowledge and resources to fully understand their potential according to them, in order to supply the market with good information.
6 Conclusion

This chapter draws a summary of the main findings from the analysis and attempts to meet the purpose by fulfilling the research questions.

The characteristics and financial reasoning described within this thesis findings and further developed within the analysis match existing literature in many ways. The firms interviewed is to a far extent driven by non-financial motives in several aspects. It leads to that they all take measures in order to preserve their social emotional wealth capital, and is sceptic to work in directions that has potential to threaten the social emotional wealth capital. It is emphasized by their developed answers regarding how they reason, what they let affect the reasoning, and finally what they more or less exclude in their answers. The financial reasoning seems to be linked to the FIBER model, emphasizing the five components. Much of their stated reasoning links back to factors described within the social emotional framework and the FIBER model, emphasizing ownership and control. It seems to be of great importance when reasoning behind financial decision, as it can have an intrinsic value, but also a way of protecting the family members given their close identification and emotional attachment. It induces a sense of protectionism. Regarding the technical aspect of equity financing generally and crowd equity more specifically it seems to lack substantial value to affect the final financing decision. In practice, even though crowd equity is an alternative that may match with the characteristics of family firms, the major obstacle is the question of ownership and control. Given that their main focus when reasoning is on values and factors linking to the FIBER model, hence their answers concerning financial aspects such as profit maximization and rapid growth is of second importance. However the companies are well aware of that their business must be profitable in order to be able to survive, but they are not driven and guided primarily by profits. Another conclusion is that the technical aspects of financing alternatives, such as time frame, costs and execution seems to be left out in the reasoning.
Crowd equity seems to be a feasible alternative for some family firms given its characteristics. The attractiveness as financing form is dependent on the firms’ outlook on the ownership and need for financing.

Given that the definition of family-firms are vague and the composition of family firms’ characteristics are heterogeneous a general answer can not be given. Even though crowd equity offers the possibility to sell only a small part of the voting rights, it still seems to be a considerable constraint. However for family-firms that want to grow at a faster pace or have greater capital needs and therefore are willing to give up some of the ownership, it could be a feasible financing form. It could be concluded that crowd equity could be an effective financing solution, reducing overhead costs and keeping administrative tasks and cost lower compared to a stock market listing.

Crowd equity seems to have potential to fill the funding gap. Given that companies such as Pepins can work as a financial intermediary providing the market with information needed to be able to make investment decisions. The role of a financial intermediary could help counteract the information asymmetry and the opaqueness of private firms. Additional it could counter act the funding gap by attracting capital from investors that are willing to speculate and invest in high risk companies with great future potential, but limited assets and revenue today, in contrast to banks.
7 Discussion

This chapter begins with an outlook of potential implications given the findings and conclusion. Followed by a discussion of the limitations and writing process of this study, and ends with suggestions for future research.

7.1 Implications

Even though crowd equity, with all its different characteristics showed initial signs of being a feasible financing alternative for family firms, its feasibility is surrounded by many complex factors affecting it. Given that family firms are not a homogenous group of companies, rather quite the opposite as presented by Michiels and Molly (2017), it is not credible to draw a general assumption for family firms and crowd equity as a feasible financing alternative. However, it seems to be of interest to keep developing the research of family businesses and financing options in order to work towards more effective financial markets.

7.1.1 Crowd Equity Platforms

The findings of this study may help crowd equity platforms to better understand family firms reasoning and characteristics and therefore help to provide and support future updates needed to improve their service to meet demand. It is also important for the platforms at least in the Swedish market to promote themselves to spread the knowledge about the service, where both Company A and B indicated that they were not well informed of how the process worked as a part receiving funding. Given that the market for crowd equity platforms is relatively new, it is under constant development. It calls for in depth research explaining the underlying structure and its role in the financial markets.
7.1.2 Implications for the academic audience

This thesis purpose was to explore the financing decision making in family firms and crowd equity as financing alternative. The findings has identified both potential benefits and constraints, but could conclude that the framework of social emotional wealth and FIBER seems to provide a good foundation for partly explaining the financial reasoning.

7.2 Limitations

7.2.1 Separating family factors from non-family factors

Regarding some aspects of the financial reasoning it is hard to distinguish between if the logic is derived from the family values or linked to traditional financial reasoning, risk aversion being one example. Stating Company B as one example, that choose not to max their leverage, it could simply be seen as a sound outlook on risk/return, but it could also be explained by other factors. A similar example becomes company C willingness to trade ownership for capital, they show a greater tendency for choosing equity financing, but that is probably not fully explained by the family values but rather a consequence of being active within a capital intensive industry. It becomes interesting from a research approach given the objective to identify financial decision making within family firms.

7.2.2 Case selection

Since the cases are three Swedish firms in different phases the results may differ with more companies involved as family firms are known to be a heterogenetic group. Therefore the different perspectives of the interviewed companies can be explained by the fact of the broad class hence limit the possibility to isolate individual factors. Also since all companies originates from the same national geographical area the findings may not be representing the entire population globally. Since the demographic are skewed toward a more male dominated sample, the answers and perspective might differ with a more equally distributed sample group.
7.2.3 Existing literature

Given that there are a limited amount of published peer-reviewed articles on the topic of crowdfunding, crowd equity and the combination of crowdfunding and family businesses it has imposed a limitation in finding extensive literature.

7.2.4 Time and Experience

Since time is a highly important factor during the period when conducting the study it is clearly the greatest limitation. If more time could be spent on the research, more companies and a deeper approach of the phenomena could have been achieved. As was the restrictions of how the study are presented in terms of word limit, the limit of word prevents a larger study to be conducted. Worth mention is also the limit of knowledge and experience of the researchers. Even though both authors possess good knowledge within family firms and financial alternatives, writing and conducting studies in this manner is a new experience.

7.3 Further Research

As it was experienced when conducting a literature foundation for this study it showed that more literature and acknowledged material is needed both within family firms and their financial decision making, but mostly within the field of crowdfunding and its alternatives. This is strengthened by Mortiz and Block (2014) and Michiels and Molly (2017).

As all companies implied in the findings an understanding of the core business and its value is key for the owners. Therefore further research of what investors in crowd equity value and by what logic, motives, reasoning they are driven by, would be helpful to understand and if they share the passion for the company or what makes them invest.

After the introduction of crowd equity in the Swedish market, crowdlending as business financing has evolved. Given that family firms seems to prefer debt financing prior equity financing, in general, it would be of interest to explore the link between P2B-crowdlending and family firms.
8 References


**Figures:**

Figure A –modified by authors inspired by:

9 Appendix

Interview material

Before the interviews were conducted all participants were given the opportunity to be anonymous, but also asked if they preferred being interviewed in English or Swedish. All participants were given a brief introduction of crowd equity to make sure that there were a mutual understanding of the terms and conditions surrounding the financing form.

Since the data collection consisted of a semi structured interview method the following interview questions provided the researchers a foundation. Where in each occasion individual follow up questions were developed depending on the individual response to allow a more thoroughly answer and insight.

- **Family** control and influence:

  How would you value the ownership and ability to control the company?

  Is the family-ownership and control something that is of greatest concerns for you or the family?

  When using crowd equity, one sell a part of the company in order to raise capital. What is your response to opening up to external shareholders, though you maintain a clear majority of shares?

- **Identification** with the firm:

  How can CE preserve the family identity and image, internal influence, important to build a strong family brand?

  How do you (the family) identify yourselves with the company, is your brand closely associated with the family? Are there clear boundaries between working and private life?
Are your values something potential new investors and employees could see as a hinder, and therefore have problem adopting to or understand?

By opening up for external owners, it could simultaneously build/generate what is called brand advocates, meaning stakeholders that are engaged in the business functioning as a marketing channel to increase brand awareness, how would you value brand advocates?

- **Binding** social ties:

How would you describe your relationships versus yield?

What is most important for you?

What are your thoughts if you would have to explain it to external owners?

- **Emotional** Attachment - “The interpersonal linkages, emotional bonding and affectionate ties that characterize all firms are possibly more complex and embedded in family firms”

Are emotions attached both in success and downturn?

Would you say emotions could impact the choice of external financing?

- **Renewal** of family bonds to the firm through dynastic:

What is your intentions of succession?

Would you say external financing in terms of CE would affect the decision regarding succession?

How would you describe your time-horizon when strategic and/or financial decisions are to be made within the company?
How would you define your relation to risk, where assumptions can be made of debt increases the financial risk, while taking in external capital from CE divides the risk among shareholders?

Based on your experience and the information that have been presented today, which financing alternative would suit you best today among the choices of CE, IPO, debt, or internal generated funds, and why?

As a final question, what do you think CE can offer family firms?