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Supplementary material

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How do family business goals shape the financing preferences of family firms' finance teams?

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Introduction

Family businesses face unique challenges when determining the optimal financing strategy that aligns with their various family business goals. Despite the importance of this issue, the literature on the potential impact of the multidimensional family business goals (Basco, 2017) on financing preferences, particularly regarding innovative financing forms, remains unstudied (Schickinger et al., 2018).

In family firms, the owning family's concentrated ownership position grants significant discretion in setting business goals based on their unique desires (Mazzi, 2011). Family firms pursue both financial and non-financial objectives (Motylska-Kuzma, 2017; Vandemaele & Vancauteran, 2015), and these goals can impact their financing preferences (Koropp et al., 2014). More specifically, empirical research shows that organizational identification, family goals, attitudes, and norms toward external financing influence behavioral intentions and financing preferences (Achleitner et al., 2009; Koropp et al., 2014; Neckebrouck et al., 2016; Schickinger et al., 2018). Other studies highlight preferences for debt, equity, or family capital (Jansen et al., 2023) but often overlook how family goals translate into preferences for innovative financing methods, such as entrepreneurial finance, and deviate from traditional financial theories (e.g., pecking-order theory (Myers, 1984)). Therefore, this study investigates how family business goals shape the financing preferences of family firms' finance teams for less traditional sources. Drawing on the multidimensional nature of family business goals, which encompass both economic and non-economic orientations, as well as family and business goals (Basco, 2017), we hypothesize that these goals significantly influence the preference for entrepreneurial finance (e.g., private equity, venture capital, business angels, etc.) in family firms. Our research focuses on the team level, as financing decisions in family firms are typically made jointly by the family firms' finance

team, including the CEO, CFO, and key family members (Cordoba et al., 2024; Feltham et al., 2005; Michiels & Molly, 2017). Since these members hold diverse individual goals and perspectives, their interactions are crucial in shaping a family's financing preferences. Specifically, we investigate *how family business goals shape the financing preferences of family firms' finance teams*.

This study contributes to family business research in two key ways. First, it expands the focus beyond socio-emotional wealth (SEW) by incorporating a multidimensional framework that considers family and business goals, as well as economic and non-economic goals (Basco, 2017). In addition, we extend the insights of Basco (2017) by integrating the multidimensionality of family business goals into a financial perspective, considering the family's financing preferences. Second, by analyzing financing preferences at the team level, this study highlights the collective nature of financial decision-making in family firms and the importance of considering their goals as a team (Michiels & Molly, 2017; Motylska-Kuzma, 2017).

Theoretical background

Basco (2017) and Kotlar and De Massis (2013) state that multiple and competing goals enter the decision processes of family firms, not only those focusing on socio-emotional wealth (SEW). Basco (2017) classifies goals as multidimensional constructs combining two scales: economic versus non-economic orientation and family versus business goals. While research has been conducted on the impact of family-centered non-economic goals (i.e., SEW goals) on capital structure decisions and preferences within family firms (Chrisman et al., 2012; Chrisman et al., 2013; Molly et al., 2019), the multidimensionality of family business goals and their impact on family firms' financing preferences has not been studied before. Furthermore, the Upper Echelons Theory (Hambrick & Mason, 1984) explains that top management teams significantly influence

firms' strategic decisions and preferences. In the context of family firms, we consider that the family firms' finance team significantly influences the firms' strategic decisions and preferences, especially financing preferences, through family business goals. By integrating the Upper Echelons Theory and the multidimensionality of those goals, we argue that the family business goals of family firms' finance teams are crucial in shaping their financing preferences.

Based on the existing literature, we hypothesize that family firms' finance teams with a higher focus on family-centered non-economic goals have a lower preference for entrepreneurial financing forms because they might be reluctant to hand over (part of) the control of the family firm (Achleitner et al., 2009; Croci et al., 2011). Similarly, family firms' finance teams with a higher focus on family-centered economic goals have a lower preference for entrepreneurial finance forms because they concentrate on family financial security, family security, and income (Basco, 2017), making them more risk-averse toward risky, innovative financing forms, such as private equity (Achleitner et al., 2009; Gómez-Mejía et al., 2007; Schickinger et al., 2018). The lower preference for entrepreneurial finance is also posited for business-centered non-economic goals because family firms depend more on internally generated capital (e.g., retained earnings) to ensure their operational goals, product and service development, and survival (Daskalakis et al., 2013; Poutziouris, 2001). In contrast, family firms' finance teams with a higher focus on business-centered economic goals have a higher preference for entrepreneurial finance forms because they focus on financial and economic outcomes (Basco, 2017), which might suggest that they prefer company growth and investments, therefore, prefer long-term debt (e.g., venture debt) and external equity (Achleitner et al., 2009; Daskalakis et al., 2013; Romano et al., 2001).

Methodology

To test the hypotheses, we target a sample of family CEOs/CFOs, nonfamily CEOs/CFOs, and key influential family members (i.e., family firms' finance team) with a central focus on Belgian privately held family firms. The sample size is expected to be around 200. The data collection consists of survey-based research with questions regarding the financing preferences toward entrepreneurial finance and their goals individually and as a team. This allows data to be collected from a large sample of private family firms. The survey is structured as follows: First, the respondents fill in on a five-point Likert scale how important each family business goal item is (anchored at 1 = very little importance to 5 = extremely important). These family business goals 'items' are abstracted from the study of Basco (2017), more specifically, the multidimensionality framework of family business goals (economic vs. non-economic, family vs. business orientation). Second, there will be a list of all types of finance forms, including entrepreneurial finance forms, such as private equity, venture capital, etc., and more traditional financing forms, including retained earnings, bank debt, etc., where respondents can opt for their preferred financing forms. In addition, we are still optimizing the survey with additional elements, such as the proportion of importance given to the chosen preferred financing forms.

After data collection, we first abstract the descriptive statistics and correlations to summarize financing preferences across different family firms' finance teams and identify initial patterns between the family business goals and financing preferences. Additionally, we use multiple regression to test how family business goals predict financing preferences. Thereafter, we employ Ordinary Least Squares (OLS) (Basco et al., 2022) to explore the relationship between family business goals and the financing preferences of the family firms' finance team while

controlling for firm size, company age, industry, ownership structure, generational stage, and financial performance.

Potential Contributions

This research idea is still under development. We are currently further developing the arguments for the hypotheses and concretizing the methodological aspects. To conclude for now: With this research project, we aim to contribute to the multidimensionality of family business goals through a financial perspective. In addition, this research employs a distinct and multifaceted approach, focusing on the team level in a familial and financial context. The team context is highly relevant in family firms where financing decisions are taken centrally and collectively. Additionally, our results have practical implications for family managers, highlighting the importance of understanding how family business goals determine financing decisions and preferences in family firms where the family has decision-making power. However, this research has a limitation in that we examine the intention/preference for a particular form of finance and do not delve deeper into the actual use of these forms. On the other hand, this also has benefits, as we better frame the demand effect from the applicant's perspective (i.e., the family firm's finance team) and thus do not include supply and demand. Future research can dive deeper into both the supply and demand sides in the context of using innovative financing sources.

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