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Financing Family Businesses, Non-Family Businesses, and One-Person Businesses : Case of Morocco

Hind MALAINE
National School of Business and Management (ENCG)
Mohammed I University
Oujda, Morocco

Fatima BOUTALEB
Faculty of Law, Economics and Social Sciences
Hassan II University
Casablanca, Morocco

Abstract:- This article is an exploratory survey of sources of financing for family and non-family businesses. Access to appropriate sources of financing remains a constant expectation, mainly for family businesses which constitute one of the most important segments of the Moroccan economy. The aim of this research is to show the extent to which family and non-family businesses are funded in total, through external funds and financing and their sources of funding. In order to do so, we apply a single sample of GEM (2017-2018) reporting the financing of family and non-family businesses in Morocco. A representative sample of 295 companies was interviewed in Morocco in 2017- 2018 by the Global Entrepreneurship Monitor, with reports on their financing.

The findings in this paper suggest that this research can help policy makers to formulate a program of SMEs' support at different stages of the entrepreneurship chain in Morocco.

Keywords:- *Family Business; Non-Family Business; One Person Business; External Financing; Sources of Financing.*

I. INTRODUCTION

Today, the family business is at the center of scientific research in both Francophone and Anglo- Saxon literature. Indeed, the scientific research focused on this area is diverse (Donckels and Frohlich, 1991; Friedman, 1994; Allouche and Amann, 1995; Allouche and Amann, 2000). In so far as the financing of family businesses and non-family businesses, we find that the theory of control and the theory of the agency's own funds costs to those of the theory of debt agency costs clearly explain the first two theories conclude that family businesses are less indebted than non-family businesses, while the third shows the opposite relationship.

Jensen and Meckling (1976) examined this issue and concluded that there are agency costs specific to each type of funding. The more a type of funding is used, the more specific agency costs will increase. As a result, a firm must consider the relative increase in agency costs associated with each type of funding before choosing the one it will use.

Modigliani and Miller (1958) argued that the value of the firm depends on its profitability and not on its capital structure. The Modigliani and Miller approach states that the market value of a firm is affected by its operating income, apart from the risk involved in the investment. The theory stated that the value of the firm is not dependent on the choice of capital structure or financing decisions of the firm.

Further, Donaldson (1961) gives birth to the theory of hierarchical financing by proposing a preference for self-financing, then debt and ultimately actions. Self-financing is of great importance for the managers of the family business. It replaces all other sources of financing and therefore it saves the heads of enterprises from paying excessive interest on in financial institutions. In addition, it gives more freedom to the managers of the company in using these funds.

For Handler (1989), it is therefore good to distinguish between family businesses and non-family ones, but also to differentiate between companies.

To better understand family businesses, they must be distinguished from non-family businesses and individual businesses.

A business is classified as a family business, anon-family business or a one-person business. These three types of businesses can be defined as follows:
(1) A family business is a family-run enterprise, to the extent that it is both owned and managed by a family;
(2) A non-family business is an enterprise run by a group that is not a family, that is, it does not belong primarily to a family or is not primarily family-run;
(3) A one-person business run by one person, without any other

In Morocco, family businesses account for most of the economy and largely contribute to economic growth and job creation. To this end, we want to shed light on how these companies are financed. evolution of the needs of family enterprises compared to non-family enterprises, hence the question of this research is, among Moroccan companies, to what extent family businesses are financed, in total, by own and external funds, and what are their funding sources?

II. THEORETICAL BACKGROUND AND HYPOTHESES

The specificity of the family business comes from the fact that it combines a company and a family, two universes that each has its own needs and objectives (Hirigoyen, 2009). According to Beckhard and Dyer (1983), the family business is a set of two subsystems, the enterprise and the family, which are characterized by reciprocal interaction. It is this interaction that determines the fundamental character of the family business and defines its specificities (Davis, 1983). Indeed, several empirical studies according to many authors (DeAngelo and DeAngelo (1985), Agrawal and Nagarajan (1990), Gallo and Vilaseca (1996), Mishra and Mc Conaughy (1999), Mignon (2000), Mc Conaughy (2001).), Gallo (2004), Allouche (2007), and Chibani (2016) show that family businesses have lower debt levels than non-family businesses. The family business has managerial and shareholder characteristics that can influence its financing decisions. It is the fact that the control of capital is largely in the hands of the same family, on the other hand, the strong interference of the family in the management of the company and the fact that the shareholders have a willingness to transfer the business to the next generation.

However, the derogator of a family business is often a shareholder and a member of the family of control.

The financing of family businesses is either self-financing or using sources of external funding. The criteria for choosing indebtedness of companies thus seem to be guided by the existence of a ratio-target, optimal in the long term for the company. Some authors, notably Fama and French (1997) and Remonola (1990) integrate the two theoretical frameworks of the STT (The Static Trade-Off Theory) and the POT (Pecking Order Theory) or hierarchization of the financings. The asymmetry of information, which serves as a support for the POT, can indeed be evoked to explain why companies momentarily diverge from these ratios. The hierarchical funding model of Myers and Majluf (1984) is therefore based on the central hypothesis of informational asymmetry. According to this theory, companies will generally tend to favor self-financing first, simply because it is an available resource in the immediate future, if the financing needs presented for investments exceed the amount of self-financing, the company will call for external financing. Also due to the information asymmetries between the agents both inside and outside the company, the company follows a precise hierarchy of funding, inspired by the need for external funds, and not by attempt to find the optimal capital structure. This hierarchy is expressed differently, however, depending on the objective pursued by the manager of the company.

According to Benbayer and Trari-Medjaoui (2009), entrepreneurs generally prefer to finance their projects in such a way as to minimize the effects of external control and dilution of capital. In this vision, they first use their internal resources before going into debt while opening their capital to external investors is a measure of last resort. From the least risky to the riskiest.

Moreover, in the context of the STT "The Static Trade-off Theory" or the theory of compromise, this theory explains how to complete an optimal capital structure that maximizes the value of the company. She argues that the optimal level of indebtedness is achieved when the marginal tax-based economy is offset by the increase in potential agency and bankruptcy costs. One of the problems to be solved to test this theory is much more focused on estimating the target ratio. The notion of target has a significant impact on the medium-term financing choices of companies. As a result, it is preferable to return to the main theories on leverage (net debt divided by equity), in order to identify within each of them factors likely to lead family businesses to resort to less indebtedness compared to non-family businesses. Some studies have been able to decide between the two theories, POT and STT, to show that the POT seems to explain more the financial behavior of companies [(Fama and French, 1999, Chirinko and Singha, 2000 and Frank and Goyal, 2000)]. While others, more recent, have concluded on a combination between the two theories, (Remolona (1990), Opler and Titman (1996), Fama and French (1997), Cash and Cai (1999) and Carpentier and Suret (2000)) show that the regular explanation of the financial behavior of firms remains in the incorporation of the two frameworks of analysis and not in their opposition.

So, in order to conduct this study, our empirical hypotheses are as follows:
Hypothesis 1: The use of external financing is less important for family businesses than for non- family businesses and one-person businesses
Hypothesis 2: Own funds is used more by family businesses than non-family businesses and one- person business
Hypothesis 3: The higher the level of education, the easier it is the access to external funding

III. RESEARCH DESIGN

The population reviewed in this study includes entrepreneurs in Morocco from the years 2017 to 2018. Data comes primarily from entrepreneurship surveys conducted by the Global Entrepreneurship Monitor (GEM Morocco). GEM is the world's largest study of people's involvement in entrepreneurship, conducting an annual survey of the adult population around the world (Bosma, 2013).

A. *Sampling*

A representative sample of 295 businesses were surveyed in Morocco in 2017-18 by the Global Entrepreneurship Monitor, with reports on their financing.

The 295 businesses comprise 105 family businesses, 81 non-family businesses, and 109 one-person businesses.

B. *Measurements*

The analysis in this study focuses on all kind of businesses and their financing decisions.

The following sub-sections describe how each of the attributes is measured. Two types of measurements are considered:

1) *Measurement of financing :*Financing is measured by 2 quote questions in GEM APS :

How much money, in total, will you need to start this new business?

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What amount of your own money, in total, do you provide for this new business?

2) *Measurement of sources :* Sources denotes the main financing sources. The respondents have to answer this question :

Have you received or plan to receive money - loans or credits - from the following people or institutions to start your business?

A Family
B Friends or neighbors
C Employers or co-workers
D Banks or other financial institutions
E Private investors or risk capital
F Government programs, donations or grants
G Crowdfunding

IV. RESULTS

A. *Characteristics of the businesses*

TABLE I. CHARACTERISTICS OF BUSINESSES

	Family businesses	Non-family businesses	One-person businesses
Owners, mean	1,69	2,84	1
Employees, mean	2,09	2,56	0
Motive: opportunity	47 %	44 %	46 %
Sector: Extractive	5 %	9 %	2 %
Sector: Transforming	34 %	32 %	29 %
Sector: Business services	4 %	4 %	1 %
Sector: Consumer services	57 %	60 %	68 %
Gender of	72 %	73 %	74 %
Age of entrepreneur	35,2 y	35,8 y	37,0 y
Education of entrepreneur	12,0 y	12,9 y	10,3 y

Family businesses, non-family businesses and one-person business are similar in gender attributes and sector domination and are equally pulled by opportunity. However, we note that the average of age is higher for one-person businesses and the education is lower for this kind of businesses.

B. *Total, own and external financing*

TABLE II. TOTAL FINANCING, OWN FINANCING, AND EXTERNAL FINANCING

	Family businesses	Non-family businesses	One-person businesses	P-value in ANOVA F-test
Total financing, median	50,000	70,000	50,000	.42
Own financing, median	30,000	40,000	10,000	.23
External	5,000	27,500	5,000	.002
N businesses	105	81	109	

Non-family businesses are more likely to use external financing than the other kinds of businesses.

TABLE III. TOTAL, OWN AND EXTERNAL FINANCING AFFECTED BY KIND OF BUSINESS AND BY CHARACTERISTICS OF BUSINESSES.

	Total financing	Own financing	External financing
Family business	-.01	-.01	-.15 *
One-person business	-.02	-.12	-.27 **
Owners	.11 +	.01	.18 *
Employees	-.03	.02	-.17 *
Motive: Opportunity	-.07	.02	-.15 *
Sector: Extractive	-.04	-.04	-.02
Sector: Transformative	-.03	-.10	.03
Sector: Business services	.14	.08	.08
Gender of owner-manager: Male	.07	.03	.02
Age of owner-manager	.001	.07	-.07
Education of owner-manager	.05	.18 **	-.15
R-square	.05	.08	.17
N businesses	264	241	239

Linear regression with standardized coefficients.

Kind of business has non-family business as reference, and a dummy for family business and another dummy for one-person business.

Sector has consumer services as reference, and a dummy for each other sector.

+p<.10 * p<.05**p<.01 *** p<.001

C. Sources of businesses

TABLE IV. SOURCES OF FINANCING

	Family businesses	Non-family businesses	One-person businesses	P-value in chi-square test
A Family	66 %	60 %	54 %	.21
B Friends or neighbors	32 %	43 %	12 %	.0001
C Employers or coworkers	23 %	27 %	1 %	.0001
D Banks or other financial institutions	29 %	28 %	12 %	.006
E Private investors or risk capital	17 %	11 %	0 %	.0001
F Government programs, donations or grants	10 %	8 %	7 %	.64
G Crowdfunding	0 %	4 %	5 %	.07
N businesses	105	81	109	

Actually, the main sources of financing used is love money. But the most relevant results are about the difference use established between the different kinds of business.

TABLE V. SOURCE OF FINANCING DEPENDS ON THE KIND OF BUSINESS AND ITS CHARACTERISTICS.

	A	B	C	D	E	F	G
Family business	.36	-.50 +	-.50	-.22	.45	.67	1.24
One-person business	.07	-1.42 **	-2.79 **	-.54	-11.15	1.72 *	-9.54
Owners	-.12	.27	.02	-.19	-.34	.85 *	.66
Employees	.29	.54 *	.92 **	.69 *	1.81		
Motive: Opportunity	-.29	-.50	-.50	.49	.34	-.07	1.32 +
Sector: Extractive	-.16	-1.35	.91	1.07	-11.04	3.33***	-9.42
Sector: Transformative	-.03	.16	.19	.20	.62	1.82**	1.71 +
Sector: Business services	-.44	-1.35	-.72	2.22 *	-.56	1.41	-11.35
Gender of owner-manager: Male	-.17	.61	.65	-.18	.57	.91	2.02
Age of owner-manager	-.01	-.002	.01	.02	-.001	.02	.0001
Education of owner-manager	.04	.02	.10 +	.13 *	.14 +	.16 *	.32 *
R-square	.23	-1.09	-3.60 *	-3.84 **	-6.61 **	-8.53**	-12.45*
N businesses	259	260	259	258	258	252	256

Logistic regression.

Kind of business has non-family business as reference, and a dummy for family business and another dummy for one-person business.

Sector has consumer services as reference, and a dummy for each other sector.

+p<.10 * p<.05 **p<.01 *** p<.001

Table V highlights the following results:

The use of external financing is less important for family businesses than for non-family businesses and one-person businesses so hypothesis 1 is confirmed.

Own funds are used more by family businesses than non-family businesses and one-person business so hypothesis 2 is confirmed.

The higher the level of education, the easier it is the access to external funding so hypothesis 3 is confirmed.

V. CONCLUSION

Through this overview of the importance of financing family and non-family businesses, we can say that the family businesses adopt a cautious global financing strategy for fear of losing family control of the company. Indeed, those businesses prefer to be self-financing rather than resorting to external funds. But once their self-financing capacity is achieved, they turn to financial debt rather than opening capital, because this alternative could cause problems of

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dilution of the shareholding and increase of the risk of loss. control of the family business.

Finally, we conclude that the financing mode is considered as an essential factor in the sustainability of the family business.

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