Actual and Intended Growth in Family Firms and Non-Family Owned Firm: Are They Different?

Abstract

Purpose

Drawing on motivation theory and family business literature, we investigate the influence of family effect in growth behavior of small-and-medium-sized enterprises (SMEs) in the UK.

Design/methodology/approach

We first compare the actual and expected growth of family and non-family-owned SMEs. We then compare the growth behaviour of small family firms managed by owner-directors and small family businesses co-managed by family and non-family directors with the non-family-owned SMEs.

Findings

We find a negative effect of family ownership on actual and intended small business growth behaviors. In addition, our findings also suggest that small family firms co-managed by non-family and family directors are no different from non-family owned firms, in terms of reporting past actual growth in employment size and turnover as well as expecting growth in workforce size and turnover. We also observe a significant difference in anticipating sales growth between family-controlled and non-family-controlled firms. However, this difference is not explained by the heterogeneity of a top management team.

Practical implications

The study has important implications for managerial practice to family firms and on policies that improve the growth of SMEs. Specifically, the competence of managers and decision-makers matters considerably in evaluating the efficient operation of the business and maximising economic growth in SMEs.

Originality/value

The study makes two important theoretical contributions to small business growth literature. Firstly, our findings underline a negative family effect in the actual and expected growth behaviour of SMEs. Secondly, the mode of family ownership alone may not sufficiently capture family effect and offer a thorough understanding of growth behaviour in SMEs.

1. INTRODUCTION

There is a long but limited tradition of literature that contributes to the understanding of the relationship between family ownership and small business growth (Daily and Dollinger, 1992; Daily and Thompson, 1994; Maherault, 2000; Gallo *et al*., 2004; Rutherford *et al*., 2006; Oswald *et al*., 2009; Hamelin, 2013). Generally, the relationship is characterised as being starkly polarised in the family business literature (Nordqvist *et al*., 2008). On one hand, the stewardship perspective supports a positive effect of family ownership on growth as the owners and managers of family businesses act as the stewards to ensure the continuity or longevity of the enterprise and its mission (Miller *et al*., 2008). On the other hand, the stagnation perspective portrays a more negative picture of family businesses, arguing that its difficulties in growth and survival are attributed to resource restrictions (Chandler, 1990; Grassby, 2000), conservative strategies (Poza *et al*., 1997, Allio, 2004), and family conflicts such as succession difficulties (Jehn, 1997; Schulze *et al*., 2003). The scarce empirical evidence, however, has been inconclusive with negative (Hamelin, 2013; Oswald *et al*., 2009; Rutherford *et al*., 2006) as well as insignificant relationships being reported (Gallo *et al*., 2004; Daily and Thompson, 1994). This line of research has exclusively investigated the ownership dimension of family effect on small firm growth, disregarding the allocation of decision rights or governance structure.

A group of authors suggests that growth of a small business is at least partially determined by the entrepreneur or manager's motivations and intentions for expanding the business (Davidsson, 1991; Baum *et al*., 2001; Davidsson *et al*., 2002; Wiklund *et al*., 2003; Delmar and Wiklund, 2008). This argument is supported by the psychological construct of motivation theory which states that growth is an important outcome of entrepreneurial efforts which are closely linked to the individual's motivation (Davidsson *et al*., 2002). Specifically, small business managers' beliefs, in relation to the consequence of growth, shape their overall growth attitudes and motivations towards expanding the business (Wiklund *et al*., 2003). The proposition has important growth implications for small family businesses, as one distinguishing characteristic of such firms is that the owners and managers are often one and the same, i.e. members of the founder and/or owner family maintain a hands-on presence in the daily management of the company. The family business literature has long argued that the role of family as an emotional system has a strong influence on a given individual's development and values (Stein, 1985; Bernal and Ysern, 1986). More recently, drawing upon behavioural agency theory, the increasingly used perspective of socioemotional wealth in family firms posits that family-CEOs are motivated by non-family socioemotional wealth objectives rather than economic and financial performance (Gomez-Mejia *et al*., 2007; 2011).

Yet, a large majority of existing studies use family ownership as a primary proxy variable to investigate the family effect on actual and intended business growth, whereas the family effect of owner-management concentration on small firm growth remains invisible. Hence, the purpose of the present study is to close the gap by exploring the combined effect of family ownership and involvement on small firm[1] growth. Following the prior work (e.g. Miller *et al*., 2014; Chittoor and Das, 2007), we group SMEs into three categories: 1) non-family owned firms that are presumably run by externally sourced professional managing directors, 2) family firms run by directors who are owning family-members, and 3) family firms which are managed by professional managing directors along with co-directors who are family members. Here, professional managing directors are equated with external, non-family, non-owner managers who are expected to bring in 'objectivity' and 'rationality' to the

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[1] In the present study, small businesses refer to firms with less than 250 employees, i.e. small-and-medium sized enterprises (SMEs).

family firms (Chittoor and Das, 2007; Gersick *et al*., 1997). Three growth indicators (sales, employment and turnover) are gathered from the first wave of UK *Longitudinal Small Business Survey* (SBS 2015), to proxy the three incidence of growth.

The remainder of the paper proceeds as follows. Section two reviews the primary theoretical framework (i.e. motivation theory and family business literature) and empirical evidence. Section three describes the data and defines the variables. Section four presents the results. Section five discusses the findings and concludes the paper. The final section provides some implications for future research and managerial practice.

2. LITERATURE REVIEW AND HYPOTHESES DERIVATION

2.1 Measuring growth

The intention to perform a certain behaviour (in this case, growth intention) can be driven by various factors, some of which are endogenous or internal (e.g. needs, values, habits and beliefs: see Lee and Wong, 2004) whereas others are exogenous or situational (e.g. difficulty or complexity of the task). In our study, the specific behaviour that is of interest is firm growth. The latter is considered a multi-dimensional phenomenon featured with great heterogeneity (Delmar *et al*., 2003). Generally, growth can either denote merely increase in *amount*, such as growth in output, sales or export, or imply an increase in size or improvement in quality resulting from a *process* of development (Penrose, 1959). From the change-in-amount perspective, growth can be operationalised using a range of different indicators, such as sales, employment, asset, turnover and profit (Weinzimmer *et al*., 1998; Wiklund, 1998). Davidsson *et al*. (2002) conclude that growth is best assessed as size changes over multiple periods using a concurrent and longitudinal design, and suggest that sales growth is the most desirable measure. By contrast, entrepreneurship scholars, taking the process of development perspective, argue that entrepreneurial owner-managers are more driven by growth as development through various forms such as vertical integration, diversification, licensing, alliance or joint ventures (Delmar *et al*., 2003). In this sense, sales growth is considered a consequence rather than a goal. Our analysis of growth intention in SMEs applies the change-in-amount approach by utilising three perceptual indicators: growth in employment size, growth in turnover, and growth in sales. The choice of the growth measures is largely influenced by the information available in our dataset. This approach has been evidenced theoretically and empirically. For example, using transaction cost theory, Chandler *et al*. (2005) explain when growth in sales and employment do and do not move closely together.

2.2 The growth behaviour of SMEs: the role of owner-management structure: family effects

Motivation theories provide the theoretical underpinnings of why people behave in a certain manner. One of the principal concepts in motivation theories is attitudes. An attitude pertains to the valuation of an object or a concept, i.e. the degree to which an object or concept is judged as good or bad (Wiklund *et al*., 2003). One of the dominant theoretical frameworks in the belief-attitude-behaviour literature is the expectancy-value theory of attitude (Ajzen, 1991), which is developed to predict specific attitudes in specific context (Ajzen and Fishbein, 1980). According to this theory, an individual's attitude towards a specific behaviour (e.g. firm growth) is a function of the salient beliefs that he or she holds about eliciting the behaviour. Beliefs associate an object with certain attributes (Wiklund *et al*., 2003). In the case of behavioural beliefs, the object is the behaviour of interest and the associated attributes are the expected results of that behaviour, which can be liked or disliked by the person. Ajzen and Fishbein (1980) stress that the beliefs must correspond to the specific behaviour in relation to action, target, context and time in order to permit understanding and prediction of the attitude. In order to predict a small business manager's behavioural intention of expanding the business to a certain extent, for example, it is of significant importance to evaluate the beliefs of the possible consequences of undertaking such behaviour. As indicated by the expectancy-value theory of attitudes, a plausible reason as to why a small business manager has a great propensity to limit growth is that he/she anticipates some negative consequences of business growth. Alternatively, a small firm manager is more likely to pursue growth strategy if the growth is expected to bring about positive consequences.

Wiklund *et al*. (2003) suggest that the growth-related attitudes and behaviours exhibited by small business managers are shaped by the assessment of the relative importance of economic (e.g. financial outcomes) and non-economic motives (e.g. employee well-being). This line of research is consistent with the growing popularity of socioemotional wealth perspective of family owned and managed firms that owner-managers and family-directors are more concerned about non-financial objectives of the family businesses, such as preserving family controls (Gomez-Mejia *et al*., 2007; 2011). Based on a comprehensive classical work on small business management and motivation (Smith, 1967; Bolton, 1971; Boswell, 1972; Stanworth and Curran, 1973; Deeks, 1976), Wiklund and his colleagues propose eight core areas that can affect small business managers' salient beliefs about growth, *including owner-manager's workload*, *work tasks*, *employee well-being*, *personal income*, *control*, *independence*, *survival ability* and *product/service quality*. Among them, we argue that expected consequences of growth in relation to *control*, *independence* and *survival ability* are consistent with family-oriented values (i.e. *tradition*, *stability*, *loyalty*, *trust* and *interdependency*) as proposed by Lumpkin *et al* (2008). Particularly, the *survival ability* is closely linked to the concept of *stability*, which emphasizes the sense of permanence and security that family businesses can provide. It is self-evident that the owner-managers' need for *control* and *independence* relates to *loyalty* and *interdependency*, because these two aspects of family orientation refer to the degree to which family members are committed to each other and support one another emotionally (e.g. share jobs, triumphs and sorrows) and physically (e.g. sharing resource and money). Together, they provide a useful conceptual framework to understand the difference in growth-related attitudes between owner-managers and professional managers in small family firms. In the following section, we consider how possible consequences of business expansion may be shaped by the small family owner-managers' beliefs with regards to family orientation and attitudes towards growth. Insofar, there are two mainstream but opposing perspectives pertaining to the influence of family effect on SMEs' actual and intended growth behaviour: stagnation versus stewards' perspectives.

The 'stagnation perspective' advocates a negative picture of involving owning family members in the management team, and argues that family firms represent an inferior and largely dysfunctional form of organisation thus, subject to a number of critical weaknesses (Miller *et al*., 2008). The stagnation literature proposes several motives behind family owned firms adopting peculiar and conservative growth behavior. Firstly, among all firm-level resources, capital structure may have the most pronounced impact on SMEs pursuing further development and expansion (Rutherford *et al*., 2006). In comparison with externally sourced managers, owner-managers of family businesses are more likely to eschew external financing and rely on internal financing in order to avoid equity diversification and maintain control (Chandler, 1990; Grassby, 2000). For many family business owners, maintaining business ownership, independence and family control are top business priorities (Kotkin, 1984; Neubauer and Lank, 1998). In addition to this, the owner-manager's need for autonomy is also related to family altruism (i.e. loyalty and interdependence), that firm-level resources are shared or demanded by other family owners, members and managers. For instance, parents behave altruistically towards their offsprings, in terms of using company resources to offer investments and/or to provide employment opportunities to their children who possess little or inadequate amounts of knowledge, skills and abilities (Schulze *et al*., 2003; Lubatkin, 2007). Owner-managers have a strong desire for control, and it is their quest to be more inclusive in their management styles and decision-making processes. Taking additional loans and sharing equity may be precisely the perquisite for achieving growth, however, this may be at the expense of losing independence and control in relation to lenders (Wiklund *et al*., 2003). As a result, owner-managers are restricted to taking decisions in their own interest and to allocating the company resource freely (Molly *et al*., 2010). These negative consequences of growth undermine owner-managers' beliefs and feelings of autonomy, and thus lead to a negative attitude towards growth.

Secondly, the firm's *survival ability* associated with increased size is another expected consequence of growth that affects a small business manager's attitude towards expansion. Small family firm owners are said to be deeply concerned about the survival, stability and long-term prospects of the business, as a significant amount of family fortune, reputation and future are at stake (Miller *et al*., 2008). In this sense, the high risk of failure (Morris, 1998) and the potential destruction family wealth (Sharma *et al*., 1997) may impede owner-managers' intention to engage in risky business expansion activities and thus growth ambitions and opportunities (Poza *et al*., 1997; Allio, 2004). According to behavioural agency theory, owner-managers of family firms may avoid intelligent business risks to preserve the socioemotional wealth of family members (e.g. keep family control of the firm, avoid risk), and in doing so they may sacrifice economic performance (Gomez-Mejia *et al*., 2007; 2011; Wiseman and Gomez-Mejia, 1998) and their personal interest such as financial income and other disposable economic benefits (Ashwin *et al*., 2015). By contrast, the agency theorists posit that the separation of ownership and management requires principals (i.e. shareholders or owners) and control agents (i.e. managers) either by direct monitoring and supervision or through use of monetary incentives that align the interests of both the agent and principals (Greenwood, 2003). The latter mechanism indicates that non-family managers are more prone to opportunistic behaviours and are more risk-tolerant, because financial performance of the firm is closely linked to their monetary rewards.

Thirdly, the possibility of increased conflicts between majority and minority shareholders in relation to business expansion is another determinant of owner-managers' attitudes towards growth. Given that divergent groups of shareholders may pursue competing goals in pursuit of growth, family-owned firms provide fertile grounds for relationship conflicts (Miller and Rice, 1988; Boles, 1996). For instance, conflicts may emerge as a consequence of discrepancies between financial (e.g. increasing sales) and non-financial goals (e.g. secure family employment), or disparities between family (e.g. maintaining family control over the business) and business objectives (e.g. global market or international expansion). In other words, growth may lead to conflicts among the members of family shareholders, which can jeopardise the survival of the firm and hamper the optimal functioning of the family business (Kellermanns and Eddleston, 2007; 2004; Jehn, 1997). These expected negative concerns of expansion in relation to survivability and permanence of family businesses may lead to a more negative owner-manager's attitude towards growth.

The opposing view that propose a much more positive picture of the relationship between family effects and growth behaviours of SMEs has been voiced in stewardship perspective. According to stewardship theory (Davis *et al*., 1997), the stewardship of family owners and managers originates from their socio-emotional attachment to the firm, which can be significantly high, because the firm can serve the needs of security, social contribution, belonging and family standing (Ashforth and Mael, 1989; Gomez Mejia *et al*., 2007; Langsberg, 1999). The stewardship of family business leaders is deeply embodied in the continuity or longevity of the enterprise and its mission. In managing the family business, family executives and managers serve as socially embedded enablers of both the company and the family through securing the long-term benefit of various family members (Miller *et al*., 2008; Gomez-Mejia *et al*., 2007).

Miller and Le Breton-Miller (2005) suggest that stewardship over the continuity can be manifested in three forms of business-growing activities. Firstly, family firms tend to emphasize more on introducing new offerings through investing in new products technologies. A group of scholars suggest that family businesses are concerned not so much with quarterly earning but the long run continuity of the enterprise through investing for the long run in developing new products and technologies (James, 2006; Weber *et al*., 2003; Gallo and Vilaseca, 1996). Secondly, family firms are more likely to stress on their reputation in the market as a resource to achieve long-term robustness of the business (Eddleston and Kellermanns, 2007; Barney, 1991), in terms of improving their existing customers' loyalties and attracting new clients. Thirdly, investments into the continuity of the family firm are geared towards the broadening of the market boundaries, such as penetrating into the existing markets or expanding into new ones (Miller *et al*., 2008). Hence, stewardship over continuity stems from the intention of passing the family firm to succeeding generations and ensuring the long-survival and prosperity of the firm. Such orientation inspires owners and managers to exploit entrepreneurship opportunities and actively engage in growth strategies and entrepreneurial ventures in family-owned SMEs.

Empirical studies that have examined the effects of family involvement (i.e. family ownership, and owner-management structure) on growth have produced mixed results. With respect to the individual effect of family ownership, the findings of the studies by Gallo *et al*.'s (2004) and Daily and Dollinger's (1992) suggest that family ownership is statistically insignificantly related to business. Others (e.g. Hamelin, 2013; Oswald *et al*., 2009; Rutherford *et al*., 2006) observe a negative relationship between ownership structure and small business growth behaviours, lending support to the stagnation perspective. Evidence suggests that the positive impact of family ownership on growth is relatively rare. On the other hand, empirical research which focuses on the owner-management structure on SME's growth behaviour has been largely scant. Where it is available, inconclusive results also have been reported. For instance, Barth *et al*. (2005) examine the role of owner-management on the productivity in 438 Norwegian establishments with more than 10 employees, and find that family firms managed by a person hired outside the owner family are equally productive as non-family-owned firms, whereas family businesses managed by a person from the owner family are significantly less. Their findings sustain even after controlling the endogeneity of management regime. On the other hand, in a study of 409 US manufacturing firms, Zahra (2003) explores the family effects on firm growth as operationalised by international expansion, and finds that a positive effect of owner-management structure on internationalisation of a firm's operation.

To sum up, the literature examines the influence of family effect (e.g. family ownership, and owner-management structure) on SMEs growth behaviours and has generated a rather ambiguous picture, where positive, negative and nonsignificant relationships all seem to be valid somehow. Hence, no a priori relationship is posited in the present study. Instead, we propose to investigate the following two important research questions adding more recent evidence into the debate:

> ***Research question 1:*** Does family ownership affect actual and intended growth of SMEs?
>
> ***Research question 2:*** Does owner-management structure explain differences in growth patterns between family and non-family-owned SMEs?

3. METHODOLOGY

3.1 Data

The Small Business Survey (SBS) 2015 is a nationally represented employer dataset in the UK, which is based on a stratified sample of SMEs that employ up to 249 people, inclusive of those with no employees. The survey is the latest in series of annual and biennial Small Business Surveys (SBS) dating back to 2003,[2] and the first wave of the *Longitudinal Small Business Surveys* (LSBS) which were commissioned by the Department for Business, Innovation & Skills (BIS). It is a large-scale telephone survey of 15,502 UK small business owners and managers, comprising of 13,620 from IDBR (n=72,388; response rate =18.8%) and 1,882 from Dun and Bradstreet (n=21,481; response rate=8.8%)[3]. The respondents of the

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[2] Due to changes to questions asked and the sampling methodology, data collected from Small Business Survey 2015 cannot always be compared with previous SBSs.
[3] Firms extracted from IDBR are VAT registered or had employees; whereas Dun and Bradstreet contains sampled firms with unregistered zero employees non-VAT paying businesses that are not included in the IDBR.

survey are owners and managers who are some of the most senior people in day-to-day control of the businesses. The survey provides useful insights into a range of issues in UK small organizations, including business performance, growth and success, business network and innovation, financial issues and the use of business support and recruitment and training aspects.

3.2 Dependent variable

Given the availability of information in SBS2015 dataset, we were able to include and analyse three growth indicators (i.e. turnover, employment and sales) separately. The first one is *Growth in employment size*: Managerial respondents were asked to indicate whether the number of employees on the payroll increased in the 12 months or is expected to increase in the 12 months after, score 1 if ‘more than currently’; otherwise 0. The second one is *Growth in turnover*: Managerial respondents were asked to indicate the extent to which the turnover of business grew in the 12 months before or is expected to grow in the 12 months after, measured on a seven-point scale (0, ‘no or shrinkage’; 1, ‘0-4%’; 2, ‘5-9%’; 3, ‘10-14%’; 4, ‘15-19%’, 5, ‘20-29%’; or 6, ‘30%+’). Our third measure of growth is *Growth in sales*: Measured by the percentage the SME aim to grow sales in 3 years’ time, measured on a seven-point scale (0, ‘no’; 1, ‘1-9%’; 2, ’10-24%’; 3, ’25-49%’; 4, ’50-74%’; 5, ’75-99%’; or 6, ‘100% or more’).

3.3. Family effect: family ownership and owner-management structure

Family ownership is measured based on one item (Q1): 'Is your business a family owned business, that is one which is majority owned by members of the same family?'. The response is evaluated on a binary scale: '*yes*' or '*no*'. In addition, a second item (Q2) – 'Does your business have any directors in day-to-day control of your business who are not owners or partners?' allows us to construct the owner-management structure variable. To this end, we grouped SMEs into three categories: 1) non-family owned business if the response to Q1 is '*no*'; 2) family business run by owner-managers only if Q1 score '*yes*' and Q2 score '*no*'; and 3) family business that have non-family managers in daily control of the business if Q1 and Q2 both score '*yes*'.

3.3. Control variables

In line with prior research (e.g. Olson *et al*., 2003; Barth *et al*., 2005; Sciascia *et al*., 2012), we control for firm size, age, types of industry, legal status, geographical locations, presence of working owners/partners, number of sites in operation, and firm capability (see Appendix A1). Firm size is measured by the number of employees currently on the payroll. Firm age is constructed by the number of years the firm had been trading. Industry type is coded into 14 different categories based on UK Standard Industrial Classification (SIC) 2007. Legal status is summarized into four types: sole proprietorship, company, partnership and other. Geographical location is derived based on the region or state (i.e. England, Scotland, Wales and Northern Ireland) where the business is located. The working owners/partners work in the business is measured by whether they are present or not. The number of sites is constructed by the log of the number of sites in operation including the head office in the UK. Firm capability is constructed by a composite score of capabilities for people management, developing and implementing a business plan and strategy, developing and introducing new products or services, accessing external finance and operation management (Cronbach's alpha =0.74).

4. RESULTS

4.1 Analytical techniques

To examine empirically the relationship between family ownership and management involvement on growth in SMEs, we estimate probit (i.e. growth in employment size) and ordered probit regressions (i.e. growth in turnover and sales), while controlling for a range of firm characteristics. Though both coefficient and marginal effects of probit and ordered probit estimations are reported, our analysis is primarily drawn on estimation results of marginal effects because both modelling are concerned with how changes in the predictors translate into the probability of observing a particular outcome (for further discussion see Wooldridge, 2009).

4.2 The effect of family ownership on growth

To address our first research question, we examine the effect of family ownership on SMEs growth on employment size, turnover and sales. The probit estimation results for the influence of the family ownership in relation to growth in workforce size are presented in Table 1. The results suggest that the probability that a family business reported an actual growth in employment size during the 12 months before is significantly lower than the non-family-controlled business and so is the expected growth in workforce size for the 12 months after. The ordered probit estimation outcomes for growth in turnover and sales are shown in Table 2. We observe that the family firms not only are less likely than the non-family-owned businesses to experience an increase in turnover during the year before, but also less likely to expect an increase in turnover in the year after and sales for the three years after. In line with prior studies (e.g. Hamelin, 2013; Maherault, 2000), our findings support a statistically significant and negative effect of family ownership on small business growth.

[Table 1 and Table 2 about here]

4.3 The effect of owner-management structure on SMEs' growth

We now turn our interest to the second research question. The probit estimation results for growth in employment size are presented in Table 3. Owner-management structure has a negative effect on the growth of SMEs. Specifically, family firms with owner-managers involved in the day to day control of the business is 5.1 percentage points less likely to experience an increase in workforce size the 12 months before than non-family-owned managers (Panel A), and 3 percentage points less likely to expect increased employment size in the 12 months after (Panel B). However, there is no significant difference in growth behaviours between family firms which appoints externally sourced directors and non-family-owned businesses.

[Table 3 about here]

The ordered probit estimation outcomes for growth in turnover and sales are shown in Table 4. The influence of owner-management structure on actual and expected growth in turnover is negative. More specifically, the possibility that a family firm ran by owner-managers only experienced growth in turnover during the year before is significantly lower than non-family-owned firms, regardless of the percentage of growth rate (Panel A). The actual growth patterns of family businesses with external managing directors involved in daily control of the businesses do not differ significantly from that of non-family-owned firms. These results also apply to expected growth in turnover (Panel B). Panel C shows the coefficient and marginal effect results in relation to expected growth in sales in the three years after. Overall, the results suggest that family firms are less likely to expect a boost in sales than non-family-controlled firms, regardless of the composition of the management team. In other words, there is a significant difference in anticipating sales growth between family and non-family-owned organisations, however, the difference is not explained by management regime.

[Table 4 about here]

5. DISCUSSION

Research on the impact of family effect on small firm performance has emerged since the early 1990s. However, studies that investigate the influence of family effect on small business growth remain relatively scarce (Hamelin, 2013), with a large majority of research devoted to the effect of family ownership and overlooking the family effect of management structure in business expansion. Drawing on motivation theory and family business literature, we investigate the family effect on SME's actual and intended growth captured by three growth indicators, i.e. employment size, turnover and sales. We first examine the relationship between family ownership and growth behavior of SMEs, and secondly we compare the business growth of family firms managed by family directors, family firms co-managed by non-family and family directors with non-family-owned firms managed by externally sourced directors.

Supporting evidence reported in prior studies (e.g. Hamelin, 2013; Oswald *et al*., 2000; Rutherford *et al*., 2006), we find a negative relationship between family ownership and actual and expected growth in employment size, turnover and sales, suggesting that family SMEs are not only less likely to experience growth during the past 12 months but also less likely to grow business in the coming year(s). Furthermore, our findings suggest that this growth variation can be explained by the difference in composition of the top management team. That is, family firms that have both externally sourced professional directors and family-directors are no different from non-family-owned firms, in terms of reporting actual growth in workforce size and turnover for the past year and anticipating growth in the next 12 months. It can be argued, for example, that non-family managers and directors may contribute to positive growth of small family businesses, both by bringing a set of management ability, skills and knowledge and by reducing the disruptive potential of a family socioemotional agenda (Blumentritt *et al*., 2007; Klein and Bell, 2007; Miller *et al*., 2013). These findings collaborate with evidence of the recent study by Chang and Shim (2015) who further went on to state that the growth strategies are even more active, once the professional managers are graduates of elite universities, because they did not have to contend with any legacies of the family even though they keep their high ownership controls. One potential explanation of these results, albeit tentative, is that small organizations with same individual(s) from owner family of the business dominating both ownership and management of the firm and who are highly family-oriented have a strong desire of passing the business to succeeding generations (James, 1999) and allowing key business decisions to be shaped by the family (Chua *et al*., 1999). Another plausible explanation as to why small firms with the presence of external, non-owner, non-family managers and directors in the top management team are more likely to report actual and expected growth, lies in the tenets of agency theory. The separation of ownership and management requires the appropriate incentive mechanisms, usually in the form of financial incentive, linking the leader work performance to the economic and financial performance of the firm (Greenwood, 2003). In this sense, non-family directors and managers have a stronger tendency to engage in entrepreneurial and risk-taking opportunities to not only maximise their financial incomes but also to build up good managerial reputation.

The expectancy-value theory of attitude (Ajzen and Fishbein, 1980) postulates that an individual's attitude towards a certain behaviour is a function of the salient beliefs that he or she holds about the behaviour. In the context of family businesses, we argue that owner-managers' beliefs and attitudes towards growth are deeply affected and shaped by their special dynamic from the influence of family on business (Hall and Nordqvist, 2008). Particularly, family managers and directors are more prone to embrace socioemotional wealth and goals including maintaining control of the firm, hiring family managers and exhibiting altruistic behaviour than external, non-owner, non-family directors who have no significant financial stake and kinship ties attached to the business (Miller *et al*., 2014). By contrast, the latter managers and directors are more likely to be incentivised to pursue growth opportunities and maximize the efficiency of the operation, because their reputation, personal needs, satisfaction and benefits are closely linked to performance and success of the business. Rather interestingly, Feldman *et al*. (2013) argue that family owned businesses will venture into a growth opportunity only if it is greater than the value it creates for non–family owned businesses as they have other operational motives rather than building up share values. For instance, as Wennberg *et al*. (2011) point out that if the intention of the family owners is to pass on to the next generation, then they would be very risk adverse in prioritizing long term stability and survival over growth.

Nicholson (2008) points out that the negative flip side of family firms in relation to the issues of principal-principal agency can lead to conservative growth strategies with respect to preservations of their undiversified portfolios. As noted by Desender *et al*. (2013), “Family control represents a distinctive class of investors in that they hold undiversified portfolios…” (p14). López-Delgado and Diéguez-Soto (2015) suggest that any type of owner concentrated business will always outperform one that is owner dispersed. Specifically, the lone family owned business will outperform one that is owned by more than one family owner. Essentially, with dispersed ownership there are agency costs which undermine the actual and intended growth, whereas with any owner concentrated business there is stewardship where the agents become role holders. On the other hand, the literature on entrepreneurial orientation in family firms argues that family businesses are not necessarily risk-averse, rather they are inherently more entrepreneurial and innovative, because they are founded on innovativeness and they need to keep the founding entrepreneurial spirits of the organization alive (Hamel, 2007). The findings of S&P 500 firms (Short *et al*., 2009) confirm the existence of an entrepreneurial orientation in family firms which exhibit language, and embrace all dimensions of entrepreneurial orientation.

On the other hand, we find that family firms are significantly less likely than non-family-controlled firms to plan an increase in sales over the three years after. One plausible explanation of this result is that the degree of power that family directors over externally appointed professional managing directors is too large. Sciascia *et al*. (2012) suggest that growth aspirations may be actually maximized when the degree of family involvement in the top management team is at best moderate. Similarly, findings of 893 Italian family firms (Miller *et al*., 2014) demonstrate that non-family leaders outperform when they are not required to share power with co-CEOs who are family members. Given that a substantial proportion of family wealth and fortune is invested in family businesses, small family managers are increasingly cautious about exploring opportunities to expand businesses. As a result, conservative growth policies are more likely to be preferred over the longer horizon.

6. IMPLICATIONS FOR THEORY, FUTURE RESEARCH AND PRACTICE

The study makes two important theoretical contributions to small business growth literature. Firstly, overall our findings underline a negative family effect (i.e. owner-management structure) in the actual and expected growth behaviour of SMEs. The results lend empirical support to a potential interaction of applying and collaborating motivation theory and family business literature in understanding small business managers' beliefs of and attitudes towards growth. It seems that growth of SMEs is driven by motivation rather than value maximisation (Cassar, 2007; Delmar and Wilklund, 2008). The motivation behind the conservative growth behaviour may be tentatively illustrated by favouring family socioemotional wealth versus economic performance (Berrone *et al*., 2010; 2012; Gomez-Mejia *et al*., 2007; 2011), which play a critical role in influencing small family owner-managers' psychological values, beliefs and attitudes towards expanding businesses. Secondly, the mode of family ownership alone may not sufficiently capture family effect and offer a thorough understanding of growth behaviour in SMEs. The study therefore, provides empirical support to the line of research that the growth pattern of an SME is also associated with heterogeneity of top management team (Hart, 2001; Hambrick *et al*., 1996). Using the combined effect of family ownership plus owner-management structure as a proxy variable is a more desirable alternative to enhance the explanatory power of family effect on SMEs' growth.

The study also shed some light on future research. Firstly, we measure the family ownership based on one single item that is available in the *Small Business Survey* (2015) dataset. That is, whether the majority of the firms belong to members of the same family. Future research may benefit from using a multidimensional notion to the concept of family ownership, such as the percentage of family stake in the business. Relatedly, the growth measure in our analysis is based on subjective growth measures from a change-in-amount perspective, given that longitudinal and objective growth measures are not available in our data. Future research is encouraged to use more rigid and objective growth indicators utilizing longitudinal research design, such as profitability and return on equity. Alternatively, growth can also be measured by taking the process of development perspective, especially in the context of entrepreneurial owner-managers (Achtenhagen *et al*., 2010). Secondly, our main focus of the analysis is the family effect on the growth of SMEs, and the arguments are drawn upon small business managers' beliefs and attitudes towards growth and the role of family orientation in shaping owner-managers' beliefs. Future research is encouraged to examine the significance of these explanatory factors behind overly cautious growth behaviour pursued by SMEs, particularly financing capacity and the characteristics of decision-makers (e.g. beliefs and attitudes of owner managers towards growth). In addition to this, given the reliance of cross-sectional data in the current study, our analysis takes the perspective that the study is quite static by covering year of growth figures. In the near future, as new survey waves will be available, panel frameworks can be employed not only to capture the growth dynamics over time and thus make causal inferences but also, distinguish between survivors and non-survivors. Last but not least, our conclusions are drawn in the UK small business sector, however, family businesses vary considerably in risk taking that can affect growth behaviour. Differences can embed in various contextual factors, such as national culture (Perkins, 2000), historical experience (Masurel and Smit, 2000) and environmental dynamics within family firms (Simon, 1996). Future studies may investigate whether and/or examine how these macro- and micro-environmental factors can motivate or hamper small business growth behaviour.

The study has important implications for managerial practice to family firms and on policies that improve the growth of SMEs. Though hiring individuals outside family members at management level may lead to agency problems associated with monitoring and enforcement, the results demonstrate that the involvement of professional managers in family firms leads to a significant difference in explaining growth behaviour in SMEs. Hence, the competence of managers and decision-makers also matters considerably in evaluating the efficient operation of the business and maximising economic growth in SMEs. As Barth *et al.* (2005: 125) suggest, “After all, professional managers are selected from a larger pool of talent”. Current governmental policy towards the development and growth of SMEs mainly focuses on enhancing their financing capability (Hamelin, 2013). The negative effect of ownership structure on SMEs suggests that such policy initiatives should also account for growth behaviour. In risk adverse oriented family businesses, where conservative growth behaviour is prevalent, easing the access to finance may not necessarily promote business expansion. In addition to this, one possible explanation for the family owned companies’ prudent growth strategy is the under-diversification of owner family’s wealth (Naldi *et al.*, 2007). In this case, using venture capital or employing specific insurance/buffer mechanism may reduce the exposure to systematic business risk and encourage owner-managers to undertake entrepreneurial activities sensibly and expand their business regime.

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Table 1: Probit regression estimation results for growth in employment size: family ownership

Dependent variables	**Panel A:** Actual growth in employment size		**Panel B:** Expected growth in employment size	
	Coef.	ME	Coef.	ME
Ownership structure in SMEs				
Family-owned business	-0.123***	-0.043**	-0.076*	-0.029*
	0.040	0.014	0.040	0.015
Controls	yes		yes	
Log likelihood	-3,975.04		-4,172.32	
Chi^2 (degrees of freedom)	577.97(27)		398.13(27)	
Obs.	6,605		6,345	

Notes: ME stands for marginal effects.
Values below coefficients are standard errors.
Estimation results for controlled variables are available upon request.
***p<0.01; **p<0.05; *p<0.10.

Table 2: Ordered probit estimation results for growth in turnover and sales: family ownership

Panel A: Actual growth in turnover	Coef.	ME						
		T_{A0}	T_{A1}	T_{A2}	T_{A3}	T_{A4}	T_{A5}	T_{A6}
Ownership structure in SMEs								
Family-owned business	-0.071*	0.027*	-0.001**	-0.002**	-0.005*	-0.003*	-0.007*	-0.009*
	0.037	*0.014*	*0.0003*	*0.001*	*0.002*	*0.001*	*0.003*	*0.005*
Controls	*yes*							
Log likelihood	-8,250.88							
Chi^2 (degrees of freedom)	484.52(27)							
Obs.	6,011							
Panel B: Expected growth in turnover	Coef.	ME						
		T_{E0}	T_{E1}	T_{E2}	T_{E3}	T_{E4}	T_{E5}	T_{E6}
Ownership structure in SMEs								
Family-owned business	-0.065*	0.025*	-	-0.011*	-0.005*	-0.002*	-0.007*	-0.009*
	0.035	*0.013*		*0.001*	*0.003*	*0.001*	*0.004*	*0.005*
Controls	*yes*							
Log likelihood	-9,365.19							
Chi^2 (degrees of freedom)	589.22(27)							
Obs.	6,169							
Panel C: Expected growth in sales	Coef.	ME						
		S_{E0}	S_{E1}	S_{E2}	S_{E3}	S_{E4}	S_{E5}	S_{E6}
Ownership structure in SMEs								
Family-owned business	-0.107**	0.029**	0.007***	-	-0.012**	-0.009**	-0.001**	-0.013**
	0.033	*0.009*	*0.002*		*0.004*	*0.003*	*0.0004*	*0.004*

Controls	*yes*
Log likelihood	-10,009.48
Chi^2 (degrees of freedom)	834.38(27)
Obs.	6,288

Notes: ME stands for marginal effects.
Growth rates: T_{A0}= none or shrinkage; T_{A1} =1-4%; T_{A2}=5-9%; T_{A3}=10-14%; T_{A4}=15-19%; T_{A5}=20-29%; T_{A6}=30%+.
Growth rates: T_{E0}= none; T_{E1} =1-4%; T_{E2}=5-9%; T_{E3}=10-14%; T_{E4}=15-19%; T_{E5}=20-29%; T_{E6}=30%+.
Growth rates: S_{E0}=no; S_{E1}=1-9%; S_{E2}=10-24%; S_{E3}=25-49%; S_{E4}=50-74%; S_{E5}=75-99%; S_{E6}=100% or more.
Values below coefficients are standard errors.
Estimation results for controlled variables are available upon request.
***p<0.01; **p<0.05; *p<0.10.

Table 3: Probit regression estimation results for growth in employment size: owner-management structure

Dependent variables	**Panel A:** Actual growth in employment size		**Panel B:** Expected growth in employment size	
	Coef.	ME	Coef.	ME
Management in family-owned businesses				
Owner managers only	-0.148***	-0.051***	-0.079*	-0.030*
	0.042	0.015	0.042	0.016
Professional managers in daily control of the business	-0.031	-0.011	-0.042	-0.016
	0.059	0.021	0.06	0.023
Controls	yes	-	yes	-
Log likelihood	-3,378.55	-	-3,946.60	-
Chi^2 (degrees of freedom)	555.17(28)	-	373.68(28)	-
Obs.	6,246		5,992	

Notes: ME stands for marginal effects.
Values below coefficients are standard errors.
Estimation results for controlled variables are available upon request.
***p<0.01; *p<0.10.

Table 4: Ordered probit estimation results for growth in turnover and sales: owner-management structure

Panel A: Actual growth in turnover	Coef.	ME						
		T_{A0}	T_{A1}	T_{A2}	T_{A3}	T_{A4}	T_{A5}	T_{A6}
Management in family-owned businesses								
Owner managers only	-0.069*	0.026*	-0.0004*	-0.002*	-0.005*	-0.003*	-0.007*	-0.009*
	0.038	*0.014*	*0.0003*	*0.001*	*0.003*	*0.002*	*0.004*	*0.005*
Professional managers in daily control of the business	-0.050	0.019	-0.0003	-0.002	-0.003	-0.002	-0.005	-0.007
	0.055	*0.02*	*0.0004*	*0.002*	*0.004*	*0.002*	*0.005*	*0.007*
Controls	*yes*							
Log likelihood	-7,860.75							
Chi^2 (degrees of freedom)	454.73(28)							
Obs.	5,680							
Panel B: Expected growth in turnover	Coef.	ME						
		T_{E0}	T_{E1}	T_{E2}	T_{E3}	T_{E4}	T_{E5}	T_{E6}
Management in family-owned businesses								
Owner managers only	-0.068*	0.026*	0.0001	-0.001*	-0.005*	-0.002*	-0.007*	-0.009*
	0.037	*0.014*	*0.0001*	*0.001*	*0.003*	*0.001*	*0.004*	*0.005*
Professional managers in daily control of the business	-0.031	0.012	0.00004	-0.0004	-0.002	-0.001	-0.003	-0.004
	0.052	*0.020*	*0.0001*	*0.001*	*0.004*	*0.002*	*0.006*	*0.007*
Controls	*yes*							
Log likelihood	-8,933.63							
Chi^2 (degrees of freedom)	545.22(28)							
Obs.	5,833							
Panel C: Expected growth in sales	Coef.	ME						

		S_{E0}	S_{E1}	S_{E2}	S_{E3}	S_{E4}	S_{E5}	S_{E6}
Management in family-owned businesses								
Owner managers only	-0.095**	0.024***	0.007***	0.00002	-0.011***	-0.008**	-0.001**	-0.011**
	0.035	*0.009*	*0.003*	*0.0004*	*0.004*	*0.003*	*0.005*	*0.004*
Professional managers in daily control of the business	-0.095*	0.025*	0.007*	0.00002	-0.011*	-0.008*	-0.001*	-0.011*
	0.050	*0.013*	*0.004*	*0.001*	*0.006*	*0.004*	*0.001*	*0.006*
Controls	*yes*							
Log likelihood	-9,034.22							
Chi^2 (degrees of freedom)	916.12(30)							
Obs.	5,697							

Notes: ME stands for marginal effects.
Growth rates: T_{A0}= none or shrinkage; T_{A1} =1-4%; T_{A2}=5-9%; T_{A3}=10-14%; T_{A4}=15-19%; T_{A5}=20-29%; T_{A6}=30%+.
Growth rates: T_{E0}= none; T_{E1} =1-4%; T_{E2}=5-9%; T_{E3}=10-14%; T_{E4}=15-19%; T_{E5}=20-29%; T_{E6}=30%+.
Growth rates: S_{E0}=no; S_{E1}=1-9%; S_{E2}=10-24%; S_{E3}=25-49%; S_{E4}=50-74%; S_{E5}=75-99%; S_{E6}=100% or more.
Values below coefficients are standard errors.
Estimation results for controlled variables are available upon request.
***p<0.01; **p<0.05; *p<0.10.

Appendix

Table A1: Summary statistics (weighted estimates)

Variables	%	Mean	S.D.	Obs.
Dependent variables				
Actual growth in employment size				
More than currently	94.20			15,337
Stay the same or less	5.80			
Expected growth in employment size				
More than currently	71.15			14,636
Stay the same or less	28.85			
Actual growth in turnover				
None or shrinkage	74.49			13,849
0-4%	1.80			
5-9%	4.60			
10-14%	5.70			
15-19%	2.50			
20-29%	5.20			
30%+	5.70			
Expected growth in turnover				
No growth	66.73			14,072
0-4%	1.60			
5-9%	4.40			
10-14%	9.30			
15-19%	2.50			
20-29%	7.40			
30%+	8.10			
Expected growth in sales				
No growth	50.10			14,431
1-9%	8.50			
10-24%	18.60			
25-49%	10.00			
50-74%	5.60			
75-99%	1.00			
100% or more	6.80			
Independent Variables				
Ownership and governance structure				
Non-family-owned businesses	24.04			12,908
Family business with owner-managers only	72.31			
Family business with	3.64			

professional managers				
Controlled variables				
Firm age				
0-5yrs	15.25			
6-10yrs	18.32			15,444
11-20yrs	23.77			
more than 20yrs	42.66			
Industry				
Primary industry	3.40			
Manufacturing	5.10			
Construction	17.76			
Wholesale/retail	9.69			
Transport/storage	5.10			
Accommodation/food	3.39			
Information/communication	6.29			15,502
Financial/real estate	3.50			
Professional/scientific	14.71			
Administrative/support	8.22			
Education	4.97			
Health/social work	5.89			
Arts/entertainment	4.98			
Other service	6.00			
Legal status				
Sole Proprietorship	49.79			
Company	38.71			15,502
Partnership	7.76			
Other	3.75			
Presence of owner/partner in the business				
No	4.15			14,043
Yes	95.84			
Geographical region				
England	87.57			
Scotland	6.31			15,502
Wales	3.95			
Northern Ireland	2.17			
Firm size (number of employees)		1.75	0.03	15,502
Number of sites (log of number of sites in operation in the UK)		0.07	0.005	15,414
Firm capability		3.75	0.01	7,714