Financing constraints and growth of private family firms: Evidence from different legal origins[†]

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Abstract

We investigate whether family control mitigates the dependence of business growth on internal finance. Firm age and the institutional environment are considered in the study. Our results are based on a new sample of private firms from two regions in which family ownership is widely widespread: Western Europe and East Asia. However, the countries that we cover differ from each other in their legal origins. We find that the growth of private family firms is less reliant on internal finance, thus supporting that family reputation helps to alleviate the constraint imposed by scarce internal resources. Consistent with this interpretation, family firms' lower dependence on internal funds is mainly driven by mature firms. The beneficial effect of family control is especially pronounced in common law countries, in which external providers of funds are more strongly protected. Therefore, family control and a protective institutional environment complement each other to facilitate business growth.

JEL Classification: D92, G32, K40, L25.

Keywords: business growth, financing constraints, family control, institutional environment, private firms.

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