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Start-Up Capital and Chinese Entrepreneurs: The Role of Family

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This paper examines the formation of the initial capital structure of Chinese start-up firms. Contrary to the predominant view of Chinese family business, this study found that family funding is not the major source of start-up capital under certain conditions. Employing two surveys conducted separately in Hong Kong and the mainland of the People's Republic of China, it was revealed that Chinese entrepreneurs seek initial funding from their family rather than from outsiders only if they expected lower transaction costs and lower levels of family interference in the business. The implications of the findings for entrepreneurship of ethnic Chinese communities in East Asia are discussed.

The nature of the capital structure of start-up ventures is critical to the ultimate success of those ventures (Cassar, 2004). For example, it has been argued that both the level and the sources of start-up capital can play a critical role in the success of the firm (Cooper, Gimeno-Gascon, & Woo, 1994; Florin, 2005). The amount of capital has been widely examined, and it is generally acknowledged that its absence is one of the defining characteristics of such firms (Marlow & Patton, 2005), which helps to explain the liability of newness that impacts new firms so negatively (Aldrich, 1999). But the source of the capital also impacts the success of the venture (Cassar). This perspective about capital has been far less examined. While the source of capital has been recognized as having a significant role in the success of a venture, the topic of why entrepreneurs seek out different sources is yet to be examined in detail. This paper fills this gap by examining the source of start-up capital for businesses in ethnic Chinese communities in East Asia.

Entrepreneurs are recognized as often turning to informal investors for start-up capital (Mason, 2006). The informal investors can vary from business angels who invest in firms for themselves to capital provided by family members. In either case, these financiers are typically informal and not organized as a business for such funding operations. In particular, family members have been widely acknowledged as playing a critical role in entrepreneurial ventures (Steier, 2003). For example, it has been found investigating over 30 countries that capital from close family members—parents, siblings, uncles, and the like—account for 42% of informal capital as reported by the surveyed entrepreneurs

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(Bygrave, 2005). Friends and neighbors make up the next biggest group, contributing 29% of informal investment. Thus, among informal investors, the dominant group providing financing is family followed by friends.

Yet while there is support for the predominance of family and friends as the funding source for entrepreneurial ventures, these two groups are not necessarily equal in appeal to the entrepreneur. In analyzing such issues, it needs to be recognized that financing of entrepreneurial ventures are set in social settings and as such are influenced by a network of social relations (Hoang & Antoncic, 2003; Steier & Greenwood, 2000). Thus, rather than focusing on all entrepreneurs, it is more appropriate to limit an examination to a specific set of entrepreneurs that are set in common networks of social relations (Zimmer & Aldrich, 1987). It has been argued that the most dominant single entrepreneurial ethnic group in the world is the Chinese (Weidenbaum & Hughes, 1996). While the People's Republic of China (PRC) is widely recognized as a growing economic power that is driven in large measure by entrepreneurial ventures (Timmons, 1999), the ethnic Chinese are also a dominant entrepreneur group around the world, driving the entrepreneurial vitality of nations such as Malaysia, Thailand, Indonesia, Vietnam, and even increasingly Japan (Ahlstrom, Young, Chan, & Bruton, 2004; Beech, 2002). Thus, in this manuscript, we will focus on ethnic Chinese.

It is widely believed that in the ethnic Chinese community, family is central to the funding of new ventures and their growth (e.g., Redding, 1996). For example, Ahlstrom et al. (2004, p. 273) wrote, "Overseas Chinese owners of large firms historically have funded their firms internally [from family and close associates] and this was true for the entrepreneurial firms in our sample." But there is some evidence that this is not always the case. For example, Zimmer and Aldrich (1987) found that 49% of Asian entrepreneurs in England used funding from friends, whereas only one-third of the Asians raised capital from their family. In another study focusing on Chinese-speaking entrepreneurs in Hong Kong and Shenzhen, Au and Kwan (2005), using the Bygrave (2005) data set, found that friends and neighbors (Hong Kong: 56.8%; Shenzhen: 68.9%) are approached more often than close family (Hong Kong: 30.5%; Shenzhen: 8.8%) to provide start-up capital. A new study in Hong Kong replicated this pattern in 2007 (friends and neighbors: 51.0%; close family: 34.9%) (Thomas et al., 2007). In a longitudinal study conducted in Singapore, Wong, Lee, and Ho (2006, figure 18), principally examining Chinese entrepreneurs, found that equity from investors other than the owner (about 25%) is a larger source of start-up funding than family members (about 15%).[1]

Thus, there seems to be a conflict between established belief on the role of family in Chinese entrepreneurial ventures and practice, which deserves attention. Employing a social-embeddedness perspective on entrepreneurship (Aldrich, 1999), this research will therefore explain and study the financing choices of ethnic Chinese start-up firms. It will explore why ethnic Chinese invest in family business and if that level of investment is as widespread as some believe. The contributions of this study include expanding empirically the social-embeddedness perspective into socio-psychological aspects of family ties (Karra, Tracey, & Philips, 2006; Mason, 2006) and reexamining the role of family in ethnic Chinese entrepreneurs amidst the changing environment (Yeung, 2006).

1. This study was conducted in 2006 as a tracer survey modeling on the Panel Study of Entrepreneurial Dynamics. Equity from investors other than the owner (about 25%) is a larger source of start-up funding than family members (about 15%). Unless financial institutions in Singapore are starkly different from those in other countries and would take a risk on start-ups, investors other than the owner were probably friends in this study. The researchers did not distinguish the ethnicity of the respondents. Nonetheless, since the majority of the population is Chinese, their findings probably reflect the behaviors of ethnic Chinese, although diluted by the behavior of other ethnic groups.

Chinese Family Values and Family Involvement in Business

Ethnic Chinese both inside and outside of China often face a scarcity of resources, which forces peasants to rely on the family for protection and fulfilling various needs (Fukuyama, 1995). Confucian culture reinforces the focus on the family with the perspective that family was the central operating unit of society (Tu, 1984). As part of this, there was the strong emphasis on family relationships with that between father and son as pivotal due to the moral obligation of filial piety.

An ideal family for the Chinese is an entity in harmony (K.S. Yang, 1998a). Personal discontent and conflict among members are worked out according to an elaborate code of Confucian ethics built around patriarchal principles. Individuals are attuned to these codes and subsume their will under paternal authority. As a result, dissents may be concealed for the sake of harmony. Harmony is a feature that is more emphasized in Chinese societies than in other cultures. Indeed, it is a unique factor in, say, Chinese personality (Cheung et al., 1996, 2001) and Chinese organizational citizenship behavior (Farh, Earley, & Lin, 1997). Nevertheless, Chinese families are not always free of conflict. The family may be fraught with fault lines of inherent tensions (Lee & Mjelde-Mossey, 2004) such as rivalry between brothers and differences between the elder and the younger generations regarding obedience and autonomy (Fukuyama, 1995; Redding, 1990).

A long history of social influence results in "a set of values and their associated attitudes, beliefs, and behavioral norms that are family dominated in the sense that people holding these values adopt family as the basic social unit . . ." (C.-F. Yang, 1988, p. 97). This proclivity is called *familism* value (Hsu, 1971; Triandis, 1995). People holding strong familism value give preference to family membership in terms of support, sacrifice, loyalty, reciprocity, closeness, and respect (Freeberg & Stein, 1996). They also believe that the family looks after the interest of members, and each member, in turn, has to make sacrifices for the collective good (Wong, Maher, Evans, & Nicholson, 1998).

Familism value has been argued as the engine of development for several Chinese societies because it helps to explain why Chinese families participate heavily in start-ups and family businesses (Lau, 1978; Schlevogt, 2002; Whyte, 1996; Wong, 1988). The family helps its members, including loyal employees, to branch out to form new businesses, as social-embeddedness perspective would predict (Aldrich & Cliff, 2003). Capital, goodwill, and referral are given to assist new business start-ups so that the family can be kept intact while expansion can occur. Hence, it is common for family to contribute start-up capital for members and invest in each other's business (e.g., Redding, 1996). However, while it may be common, that does not mean that it is the preferred source of capital of Chinese entrepreneurs. This next section will examine specific factors that may impact or affect the choice of initial sources of capital of a start-up firm.

Hypothesis Development

Family members do not invest out of complete altruism (Karra et al., 2006; Steier, 2003); rather, they expect a return on investments in family businesses just as they would in other investments (Bygrave, 2005). However, these returns in family business may not be all measured in terms of financial returns. The specific effects that may impact the flow of capital that we will examine include the ability of family to better monitor investments in family business and interference of family in business.

Monitoring of Chinese Family Business

Bankers and other outsiders assess default risk and financial return in deciding the amount of money they would supply to entrepreneurs. Due to difficulty in information access and monitoring, they often underestimate the value of the new business and find lending to start-ups risky (Amit, Glosten, & Muller, 1990). Therefore, bankers elevate the interest rate to compensate, apart from other hazards, for higher transaction costs, while other outsiders may choose simply not to supply capital to new firms (Berger & Udell, 2003). In comparison, family can better access information and monitor family members so that they can reduce transaction costs in businesses involving family members (Pollak, 1985). Thus, family can decrease opportunistic behaviors due to the interpersonal cohesion in family (Karra et al., 2006; Steier, 2003).

A strong familism value would enhance transparency and monitoring in start-ups of the Chinese. As discussed earlier, strong familism induces the Chinese to regard family as central in their daily lives. Hence, they tend to be close and loyal to the family. Following the work habits and lifestyles of their parents and siblings is also more likely (Romero, Robinson, Haydel, Mendoza, & Killen, 2004). Under this circumstance, one would follow the standards of conduct among the family, and thus, the need for monitoring is attenuated. Moreover, since family and business activities are inseparable (Kellermanns & Eddleston, 2004; Smyrnios et al., 2003), close family interaction means that work habits and styles become more observable and understandable. As a result, one can gain a better opportunity to assess information about other family members and their rationale regarding investment and business issues (Aronoff & Ward, 1995; Steier, 2003). Hence, we hypothesize that:

Hypothesis 1a: Familism value is positively related to transparency to family members and ease of monitoring of start-ups by family members.

As argued in Pollak (1985) and Steier (2003), if transparency and ease of monitoring of family members can be increased, family members would display less opportunistic behavior and the transaction costs of involving family in business are reduced. An entrepreneur who perceives such a situation of lower transaction costs as likely would consider using family funding. Hence, we propose the following hypothesis:

Hypothesis 1b: Perceiving transparency and ease of monitoring in doing business with family are positively related to the use of family funding as initial capital.

Conflict and Investment in Family Business

Apart from affecting transaction costs, familism value also affects family relationships of Chinese entrepreneurs. Strong familism can cause conflicts as business is mixed with family (Kellermanns & Eddleston, 2004; Smyrnios et al., 2003). A source of conflict in Chinese entrepreneurs originates from filial piety, which is a dominant moral obligation (Tu, 1984). Chinese parents, together with senior members in the family, may restrain and make decisions for the whole family and for individual members. In doing so, they act like benevolent autocrats (Hofstede, 1991) who fulfill their obligation to take care of family interest and well-being (Tu). In turn, other family members also have the responsibility to give up their independence (Lee & Mjelde-Mossey, 2004; Whyte, 1996), even though they may disagree with such decisions (C.-F. Yang, 1988).

Another source of conflict is related to Chinese entrepreneurs' heightened concern of family security (Redding, 1996; Whyte, 1996). Although being a successful entrepreneur requires ambition, creativity, and risk-taking (Timmons, 1999), the Chinese may act more conservatively in an investment after considering the need for security (Redding, 1990). Such a gap in risk appetite and investment expectations between an entrepreneur and the family can result in conflict, especially if family funding is involved in business (Erikson, Sørheim, & Reitan, 2003; Grote, 2003).

As familism value reflects centrality of family in a person's mind (K.S. Yang, 1998b), the stronger a Chinese holds this value, the more he or she is involved with his or her family. As a result, this person feels the pressure to submit to family demands and becomes worried about interference and restriction. Therefore, the following is thus proposed:

> **Hypothesis 2a:** Familism is positively related to feeling family restriction and interference.

Potential tension and conflict may decrease the desire of Chinese entrepreneurs to be financed by family members, especially as they prefer less conflict and more harmony (Friedman, Chi, & Liu, 2006; Yan & Sorenson, 2006). Family responsibility and family involvement are positively related to business–family conflict (Byron, 2005; Carlson & Kacmar, 2000). Greenhaus and Powell (2003) argue that family concern leads people not to take part in some work activity in order to mitigate family conflict. Thus, even though the amount of initial capital is positively related to subsequent firm performance (Cooper et al., 1994), Chinese entrepreneurs possessing high familism value would decline family funding as a way to avoid conflict in family. Thus we hypothesize:

> **Hypothesis 2b:** Feeling family restriction and interference in business are negatively related to the use of family funding as initial capital.

Method

A survey on ethnic Chinese who began the entrepreneurial process in Hong Kong (Study 1) and a survey on entrepreneurs in mainland China (Study 2) were conducted to test the hypotheses. The survey and data items are discussed in detail next.

Design and Respondents

Study 1. We surveyed participants in events organized by Youth Business Hong Kong, a nongovernment organization modeled on the Youth Business International of U.K. This organization provides loans for youngsters (between 18 and 35) to start their business. A total of 371 questionnaires were distributed at six seminars and workshops, and 209 of them were completed. The response rate was 56.3%. Seven questionnaires were dismissed due to missing data; 202 questionnaires were analyzed.

Respondents were mostly male (60%), and 97% of them were under 35 years of age. The average number of close family members was 3.96 (standard deviation [SD] = 1.84). The median values of personal and family monthly income were HK$9,800 (U.S.$1,260) and HK$22,500 (U.S.$2,892), respectively. Their education level was above the average of Hong Kong youngsters, as 53% of them had tertiary or university education. None of them had received less than a high school education. About 36.7% of them reported to target at retailing; 13.9% were at food industry; 8.4% were at hi-tech business; 6.0% were at advertising; and the rest were in other industries.

Study 2. Dozens of graduate students of a large business school in Beijing were trained and then assigned to 12 different cities in the PRC. They tried to find and interview entrepreneurs listed in local business directories who had recently formed their businesses. Entrepreneurs answered the questions, written in Chinese, by recalling what happened when they set up their companies. The entrepreneurs chose whether they wanted a face-to-face interview or completed the questionnaire themselves for later collection.

A total of 404 entrepreneurs agreed to participate, and 130 valid questionnaires were eventually collected (32% success rate). Respondents were mostly male (64%) and had an average age of 35.3 years (SD = 9.4). The average number of close family members was 5.59 (SD = 3.03). They reported an average monthly income of RMB3,485 (SD = RMB 5,844) or U.S.$448 (SD = U.S.$751) when they started the business. Only 33% of them had a university education, and 7.6% of them had only a primary school education. The majority of them finished secondary school or professional school. About 10.6% of them claimed to be operating in hi-tech business; 12.2% of them were in manufacturing; 31.2% were in commerce; another 31.2% were in service industries; and the rest were in agricultural and other industries.

Dependent Variables

Respondents were asked to indicate their sources of start-up capital in a table in both studies. Several variables were created from such information to indicate the source of capital after considering the purpose of this study and the categorization of previous studies (Bygrave, 2005; Zimmer & Aldrich, 1987). In Study 1, three dichotomous variables were created to measure the involvement of parents, siblings (sisters and brothers), and friends. To capture meaningful information in the variables for a group of adult entrepreneurs, two more categories were added in Study 2.[2] First, a spouse is usually available as a source of capital for mature entrepreneurs. The same applies to clients, coworkers, and banks, as they became possible sources of capital for individuals with work experience. Five dichotomous variables were thus created to measure the involvement of spouse, parents, siblings, friends, and outsiders who had no family relationships (friends, coworkers, clients, angels, banks, and others). The variables were coded "1" to indicate capital involvement.

Independent Variables

Study 1. Chinese familism value as defined in this study, i.e., shared common interest of the family and harmonious relationship in the family (referred to as "familism" later), was measured by two sets of scales considering the uniqueness in indigenous Chinese values. The first is familial interest and the other is family harmony. We could not find existing scales that completely fit into the context of this study, so we adapted validated scales from related disciplines and created new items based on our understanding of the concepts whenever it was necessary. Family harmony was measured by four items adapted from the Chinese Personality Assessment Inventory (Cheung et al., 1996), which provides a comprehensive measure of personality for the Chinese (Cheung, Leung, Cheung, & Zhang, 2004). A sample item is "Keeping good relationship with family members is important." Familial interest was measured by four items developed for this study. The sample item is "Long time goals of family are closely related to mine."

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2. Mature entrepreneurs in Study 2 usually had spouse and coworkers before they started their business whereas young, would-be entrepreneurs usually did not.

In addition, we measured how respondents might analyze their decision according to the transaction cost framework; specifically, whether they found it easier to obtain information from family members than outsiders by an item, "The transparency levels of doing business with family members are higher than those with friends." Moreover, parental control was measured by two items adapted from Lau, Hau, Cheung, Lew, and Berndt (1990). A sample item is "My parents always control my behaviors." Family interference in business was measured by three items that we developed for this study. A sample item is "I do not want my parents to provide seed capital to my start-up, since they will affect the freedom of my decisions." All of the items were measured by a 5-point scale (1 = strongly disagree; 5 = strongly agree). Descriptive statistics and reliability of the scales are shown in Table 1.

Study 2. Based on the same conceptualization discussed for Study 1, the constructs were operationalized similarly. Since the study was conducted second, it was operationalized slightly differently for the purpose of improving and extending the findings of Study 1. In particular, whereas parental control and restriction was emphasized in the first study, this study focused on the business side and asked respondents to indicate expected personal freedom and perceived pressure from family if they became involved in business with family members. Moreover, ease of monitoring in a family business was measured in addition to information transparency. This captures transaction costs perceptions more completely.

Familism in Study 1 was used together with the familism scale from Gaines et al. (1997), which addresses the importance of family to respondents.[3] A key item for family importance is "I cannot imagine what I would do without my family," while that for family harmony is "Keeping a good relationship with family members is important." The items were measured using a 5-point scale (1 = strongly disagree; 5 = strongly agree).

Transaction costs were also measured differently from Study 1 in terms of wordings and format. We asked respondents, "If you involve in a start-up with family members, how would you evaluate the situation?" and asked them to indicate their perceptions on semantic differentials. Respondents indicated their perception of information transparency on a scale "the level of information shared (1 = low; 5 = high)." They indicated their perception of ease of monitoring on another scale, "The ease of monitoring costs and profits" (1 = difficult; 5 = easy). After the transaction costs items, respondents indicated personal freedom they expected to have in family business (three items; $\alpha = 0.62$) and perceived family pressure (two items; $r = 0.46$). In the format of semantic differential, an exemplar item of personal freedom is, "Own personal freedom in making decisions" (1 = little; 5 = plenty) while an exemplar item of family pressure is, "Consequence of not listening to family members" (1 = not serious; 5 = serious). Lastly, the respondents were asked to indicate if family capital is viewed as a loan or an investment using the same measure as in Study 1 (0 = investment; 1 = loan).

Note that common method variance is less of a concern in the present studies because the dependent variables and independent variables were captured in different formats

3. The scales of Gaines et al. (1997) were added as an attempt to increase the richness of family importance. These items were administered to the respondents together with items on power distance (Hui, Au, & Fock, 2004) and traditionality (Farh et al., 1997). The last two scales were added to ascertain the distinctiveness of familism. Factor analysis clearly indicated that familism is different from the related scales of traditionalism and power distance, and, as expected, familism items clustered into family importance and family harmony subscales.

Table 1

Descriptive Statistics and Correlation Matrix

Variable	Mean	Standard Deviation	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1 Gender	0.40	0.49																				
2 Age (5 categories)	2.59	0.55	0.03																			
3 Education (6 categories)	4.07	1.40	−0.05	0.09																		
4 Experience with business plan (3 categories)	2.28	0.76	0.05	0.04	−0.04																	
5 Past start-up experience (0 = No, 1 = Yes)	0.35	0.48	−0.14*	0.04	−0.03	−0.11																
6 Family size	3.96	1.84	0.13	0.07	−0.04	0.00	−0.10															
7 Monthly household income	5.02	2.11	−0.08	0.15*	0.26**	−0.14	0.13	0.08														
8 Skills or experience related to new business (0 = No, 1 = Yes)	0.62	0.49	−0.13	0.18*	0.00	−0.17*	0.15*	0.03	0.09													
9 Start-up status (0 = idea, 1 = implemented)	0.41	0.49	−0.17*	0.03	0.09	−0.16*	0.33**	−0.06	0.17*	0.24**												
10 Growth aspiration (8 categories)	5.07	1.99	−0.17*	−0.04	0.05	−0.01	0.19**	−0.03	0.04	0.13	0.21**											
11 Meaning of family capital (0 = loan, 1 = investment)	0.46	0.50	−0.11	0.01	0.01	−0.09	0.04	0.01	−0.05	−0.01	0.05	0.01										
12 Interested third party (0 = non−friend, 1 = friend)	0.37	0.49	−0.11	0.07	−0.18*	0.10	0.12	−0.06	0.02	0.10	0.01	−0.12	−0.03									
13 Transparency	3.20	1.08	0.16*	0.06	0.04	0.09	0.03	−0.05	−0.02	−0.09	−0.01	0.01	0.00	0.08								
14 Familial interest	3.29	0.66	0.00	−0.03	0.15*	−0.01	0.03	−0.08	0.10	0.00	0.04	0.10	−0.06	0.07	0.20**	(0.57)						
15 Family harmony	3.85	0.59	0.04	0.14	0.04	−0.01	−0.03	−0.11	0.03	0.01	0.04	0.07	−0.05	0.05	0.23**	0.41**	(0.57)					
16 Parental control	2.26	0.89	0.09	−0.11	−0.14*	−0.02	−0.09	0.01	−0.23**	0.09	−0.09	−0.12	−0.03	−0.02	0.02	0.07	−0.15*	(0.51)				
17 Parental interference in business	2.99	0.88	0.11	−0.10	−0.05	0.05	−0.16*	−0.01	−0.20**	0.00	−0.19**	−0.09	−0.01	0.08	0.09	0.22**	−0.02	0.47**	(0.62)			
18 Capital sought: parents	0.36	0.48	0.10	−0.16*	−0.06	−0.04	−0.08	0.00	−0.07	0.00	−0.11	−0.24**	−0.04	0.15	0.17*	0.12	0.06	−0.09	0.04			
19 Capital sought: brothers and sisters	0.15	0.35	0.08	−0.15*	−0.20	0.11	−0.13	0.11	−0.02	−0.32**	−0.32**	−0.12	−0.01	0.06	0.18*	0.06	0.03	0.15	−0.05	0.31**		
20 Capital sought: both parents and siblings	0.40	0.49	0.13	−0.15	−0.11	−0.02	−0.12	0.02	−0.05	−0.18*	−0.18*	−0.25**	−0.08	0.15*	0.16*	0.10	0.09	−0.04	−0.01	0.92**	0.51**	
21 Capital sought: friends	0.30	0.46	−0.19*	−0.16*	−0.02	0.09	0.00	0.05	−0.10	0.15	0.15	0.01	−0.02	−0.09	−0.09	−0.01	0.17*	0.17*	−0.15	−0.14	−0.09	−0.15

* $p < 0.05$; ** $p < 0.01$. Figures in parentheses are reliability measures.

(Mitchell, 1985). The dependent variable is an expectation concerning financial choice, whereas the independent variables are scores from Likert-type scales. Further analysis shows that method covariance should not cause undue influence on the results (Podsakoff & Organ, 1986).[4]

Control Variables

Variables that reflect the competence and risk of the respondents in being an entrepreneur (Cassar, 2004; Romano, Tanewski, & Smyrnios, 2001) were controlled in the analyses. This reduces some of the possible confounding effects for significant results.

Study 1. Gender was coded "0" for male and "1" for female. Age was categorized into seven groups (1 = age 17 or below; 7 = age above 65) and education into six groups (1 = primary school or below; 6 = master's or above). Monthly household income was divided into nine categories (1 = below HK$5,000; 2 = HK$5,000–9,999; 3 = HK$10,000–14,999; 4 = HK$15,000–19,999; 5 = HK$20,000–24,999; 6 = HK$25,000–29,999; 7 = HK$30,000–39,999; 8 = HK$40,000–59,999; 9 = above HK$60,000) (HK$:U.S.$ = 7.8:1). The business experience of respondents was measured in three aspects. First, they were asked about their experience with business plan writing (three choices: "0" = written before, "1" = learned how to write, "2" = not at all). Second, the respondents answered whether they had start-up experience before (code "0" = no; code "1" = yes). Third, the dummy variable of start-up status captures whether the respondents are only in the planning stage (coded "0") or implementing the idea (coded "1"). In addition, respondents chose one out of eight options (1 = "no expectation"; 5 = "2 times"; 8 = "20 times") as an indication of their growth aspiration. Family size was also measured, as capital may be more available with a larger family. Respondents were asked to indicate the number of close family members (spouse, parents, and siblings).

Respondents were asked whether they would regard an acquaintance who invested in their business as a friend (coded "1") or not (coded "0"). This variable was intended to capture how they perceive an investor with whom they have no previous relationship. Lastly, how people evaluate funding from the family was measured by an item. The respondents were asked, "If you need family capital for start-up business, will you view the capital as a loan or an investment?" A dummy variable was coded "0" when the answer was loan and "1" when the answer was investment.

Study 2. Firm characteristics controlled are whether the firm was high-tech and whether the goal of the firm was of high growth (expected to grow five times or more in the next 3 years). The characteristics of the entrepreneur controlled include gender, age, education, skill, and growth aspiration. Growth aspiration of entrepreneurs was measured with an item adapted from the Global Entrepreneurship Monitor questionnaire. Respondents indicated the goal of being an entrepreneur. Those whose goal is "for a living," "extending on personal interest," or "don't want to work for others" are categorized as low growth (coded "0"), whereas those whose goal is "seeking a successful career" or "pursuing a profitable opportunity" are categorized as high growth (coded "1"). Income of the entrepreneur just before starting up the venture was not included because it is highly related to education, age, and other demographic variables.

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4. We checked the existence of method covariance based on exploratory factor analysis. The results did not show a dominant first unrotated principal component (eigenvalue: 3.37, 16.04%). Similarly in Study 2, we checked the existence of method covariance based on exploratory factor analysis. The results did not show a dominant first unrotated principal component (eigenvalue: 2.02, 22.4%).

Results

Study 1

Correlation was used to test whether familism value is related to family monitoring and family interference. As shown in Table 1, the correlation of familial interest and business transparency was 0.20 ($p < 0.01$), and that of family harmony and business transparency was 0.23 ($p < 0.01$). Hence, familism is significantly related to business transparency in the Chinese family, supporting hypothesis 1a. Moreover, the analysis shows that hypothesis 2a is partially supported. Parental control had significant correlation with family harmony ($r = -0.15$; $p < 0.05$) but not familial interest ($r = 0.07$, n.s.). On the other hand, parental interference in business was significantly correlated with familial interest ($r = 0.22$; $p < 0.01$) but not family harmony ($r = -0.02$, n.s.). A partial correlation analysis with the control variables revealed similar results.

Logistic regression analysis was conducted to test the hypotheses related to initial capital seeking. Control variables were entered into the equations first, followed by the explanatory variables, which explained additional variance in all equations. The pseudo R-squares of the models of parents, siblings, and friends increased 0.15, 0.08, and 0.13 ($p < 0.01$), respectively. Hypotheses 1b and 2b suggest that perceiving transparency in doing business with family members and expectation of parental interference would affect the seeking of start-up capital from family, i.e., parents and siblings.

Results presented in Table 2 (Model A) show that respondents tended to seek capital from parents if they viewed a higher transparency level in doing business with family members ($\beta = 0.56$; $p < 0.01$) and perceived lower levels of parental interference ($\beta = -0.72$, $p < 0.01$). Results in Model B show that the choice of siblings as investors was also significantly related to transparency but not parental interference. Respondents who perceived higher transparency in doing business with family members ($\beta = 0.95$; $p < 0.05$) had stronger intentions to seek initial capital from brothers or sisters. Parental interference is less diagnostic of assessing brother's or sister's inference and therefore does not affect the decision to involve siblings. These results support hypotheses 1b and 2b. A few control variables such as age also affect the choice of initial capital. Since they are less relevant for hypothesis testing, the details of their influence are not reported here.[5]

Factors that discourage Chinese entrepreneurs to seek funds from family should motivate them to find their friends, as friends' capital can act as an alternative. We thus tested to see if factors that influence respondents to seek family capital would exert opposite influence on seeking capital from friends. Results in Model C suggest that respondents who perceived more parental control on them ($\beta = 0.50$; $p < 0.10$), perceived more parental interference in business ($\beta = 0.78$; $p < 0.05$), were more likely to approach friends for initial capital. Perceiving transparency in doing business with family members is not significant ($\beta = -.19$, n.s.), although in the expected direction. These results hence reinforce the findings concerning hypothesis 2b and, to a certain extent, hypothesis 1b.

Study 2

Similar to Study 1, correlation analysis was used to test whether familism value may affect entrepreneurs' perceptions of family business involvement. The results in Table 3

5. We created a categorical variable to represent family funding (parents and siblings) and analyzed it using the same models. Similar analyses were conducted for Study 2. The results are more or less the same and lead to the same conclusion.

Table 2

Results of Regression Analyses

	A. Seeking capital from parents (0 = no, 1 = yes)				B. Seeking capital from siblings (0 = no, 1 = yes)				C. Seeking capital from friends (0 = no, 1 = yes)			
	Model 1 (Base)		Model 2		Model 1 (Base)		Model 2		Model 1 (Base)		Model 2	
	B	SE	*B*	SE	*B*	SE	*B*	SE	*B*	SE	*B*	SE
Constant	2.84	1.49	0.88	2.40	1.48	2.18	–0.65	3.48	0.95	1.56	3.29	2.64
Gender	0.20	0.38	0.10	0.45	–0.19	0.57	–0.73	0.73	–0.94*	0.44	–1.30*	0.52
Age	–0.75*	0.35	–0.98*	0.39	–1.14*	0.54	–1.39*	0.64	–0.72*	0.37	–0.75*	0.42
Education	–0.01	0.14	0.03	0.16	0.14	0.23	–0.13	0.26	–0.04	0.15	–0.19	0.17
Experience with business plan	–0.22	0.25	–0.32	0.27	0.20	0.37	0.22	0.46	0.40	0.27	0.56*	0.30
Past start-up experience	–0.04	0.43	–0.28	0.48	–0.04	0.68	–0.18	0.80	–0.23	0.45	–0.11	0.47
Family size	0.03	0.09	0.11	0.10	0.13	0.12	0.22	0.15	0.14	0.10	0.12	0.12
Monthly household income	–0.06	0.09	–0.14	0.10	–0.01	0.14	0.03	0.18	–0.10	0.10	–0.03	0.11
Skills or experience related to new business	0.35	0.40	0.53	0.46	0.32	0.59	0.53	0.71	0.18	0.43	0.10	0.48
Start-up status	–0.15	0.20	–0.22	0.45	–1.12**	0.39	–2.98**	1.15	0.46*	0.22	1.25*	0.49
Growth aspiration	–0.19+	0.11	–0.30*	0.13	0.03	0.15	–0.09	0.17	–0.11	0.11	–0.09	0.13
Meaning of family capital			–0.19	0.42			0.21	0.67			–0.26	0.46
Interested third party			0.87*	0.43			0.59	0.65			–1.01*	0.49
Transparency			0.56**	0.21			0.95*	0.37			–0.19	0.21
Parental control			–0.03	0.29			–0.60	0.41			0.50*	0.29
Parental interference in business			–0.72**	0.27			0.65	0.46			0.78*	0.31
Familial interest			1.13**	0.40			0.61	0.62			–0.06	0.41
Family harmony			–0.11	0.43			–0.94	0.68			–0.90*	0.48
–2 log likelihood	183.63		156.03**		93.63*		78.68**		165.42*		142.11**	
Degree of freedom	10		17		10		17		10		17	
Cox & Snell R^2	0.08		0.23		0.15		0.23		0.12		0.25	

* $p < 0.05$. ** $p < 0.01$; $^{+}$ $p < 0.10$.
N of parents = 150; N of siblings = 149; N of friends = 150.

Table 3

Descriptive Statistics and Partial Correlation Matrix

Variable	Mean	Standard Deviation	1	2	3	4	5	6	7
1 Family importance	3.79	0.97	(0.67)						
2 Family harmony	4.35	0.84	0.39***	(0.85)					
3 Perception of family funding (investment vs. loan)	0.42	0.50	0.08	–0.17*					
4 Ease of monitoring	3.36	1.34	0.12	0.06	0.16				
5 Information transparency	3.82	1.32	0.20*	0.22**	–0.03	–0.01			
6 Perceived personal freedom	4.11	0.82	0.19*	0.28**	–0.04	0.03	0.05	(0.62)	
7 Perceived family pressure	3.04	1.05	0.10	0.03	0.03	–0.10	0.05	–0.29***	(0.46)

Figures in parentheses are reliability measures. * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$
Controlling for gender, age, education, skill or experience related to new business, expected return, goal of new business, and industry.

suggest that family importance and family harmony, as hypothesized, were positively related to transparency in doing business with family ($r = 0.20$; $p < 0.05$ and $r = 0.22$; $p < 0.01$) and perceived personal freedom in family business ($r = 0.19$; $p < 0.05$ and $r = 0.28$; $p < 0.01$). Therefore, consistent with hypotheses 1a and 1b, familism value is again found related to transparency and family interference.

Logistic regression was used to analyze the data similar to Study 1. The models of spouse, friends, and outsiders received good support (change in pseudo R-squares: 0.10, 0.10, and 0.09 respectively; $p < 0.01$). For the model of siblings, the explanatory variables (transaction costs and family interference) increase the explanatory power of the model on top of the control variables (pseudo R-square = 0.06; $p < 0.10$), although the overall model is insignificant. On the other hand, the model for parents was not significant. Since entrepreneurs recalled their past behavior, it may be why the overall explanatory power of the models is not as good as the concurrent data in Study 1. Below we focus on findings related to the hypotheses.[6]

Results in Table 4 (Model A) suggest that seeking initial capital from a spouse was positively related to information transparency ($\beta = 0.61$; $p < 0.01$) but negatively related to personal freedom ($\beta = -0.73$; $p < 0.05$). Seeking initial capital from parents was also examined, but results show that no variables were significant (see Table 4, Model B). Note that Study 1 used items to tap on parental control and interference. The variables of this study focus on family restrictions and just parental control. This may also explain why the model does not explain the seeking of initial capital from parents well. Furthermore, results in Model C indicate that seeking initial capital from siblings is also negatively related to personal freedom ($\beta = -0.57$; $p < 0.05$). Altogether, these findings suggest that entrepreneurs who expected more freedom in a family business tend not to seek initial capital from spouse and siblings, probably for fear that personal autonomy would be restricted. The results also suggest that transparency in doing business with family would

6. Note also that we did enter family importance and harmony in the models. They did not explain any additional variance, so they are not reported to maintain a focused discussion.

Table 4

Results of Regression Analyses

	A. Seeking capital from spouse (0 = no, 1 = yes)				B. Seeking capital from parents (0 = no, 1 = yes)			
	Model 1 (Base)		Model 2		Model 1 (Base)		Model 2	
	B	SE	*B*	SE	*B*	SE	*B*	SE
Constant	–4.04	1.70	–4.73	2.65	–1.46	1.45	0.70	2.13
Gender	0.81*	0.45	1.00+	0.51	0.50	0.41	0.40	0.42
Age	0.04	0.02	0.04	0.03	–0.04*	0.02	–0.05+	0.02
Education	0.27	0.23	0.27	0.25	0.32	0.21	0.38+	0.22
Skills or experience related to new business	0.61	0.46	0.74	0.50	0.09	0.40	0.15	0.42
Growth aspiration	–0.08	0.54	–0.09	0.59	0.19	0.47	0.29	0.49
Goal of new firm (0, 1)	–0.65*	0.28	–0.68*	0.31	0.15	0.24	0.21	0.25
Hi–tech industry (0, 1)	–1.06	0.90	–1.10	0.95	–0.55	0.68	–0.48	0.70
Perceived personal freedom			–0.73*	0.31			–0.26	0.26
Perceived family pressure			0.03	0.26			–0.30	0.23
Information transparency			0.61**	0.22			–0.17	0.15
Ease of monitoring			0.16	0.20			–0.01	0.16
Perception of family funding (investment vs. loan)			0.15	0.51			0.07	0.42
–2 log likelihood	128.53		113.71**		151.49		148.47	
Degree of freedom	7		12		7		12	
Cox & Snell R^2	0.09		0.19		0.08		0.10	

	C. Seeking capital from siblings (0 = no, 1 = yes)				D. Seeking capital from friends (0 = no, 1 = yes)			
	Model 1 (Base)		Model 2		Model 1 (Base)		Model 2	
	B	SE	*B*	SE	*B*	SE	*B*	SE
Constant	–3.21	1.60	–4.02	2.47	–0.30	1.76	–1.35	2.90
Gender	0.51	0.44	0.68	0.48	–1.21*	0.61	–1.36*	0.69
Age	0.00	0.02	0.01	0.03	–0.01	0.03	0.01	0.03
Education	0.43+	0.23	0.45+	0.24	0.06	0.26	0.06	0.29
Skills or experience related to new business	–0.21	0.44	–0.14	0.46	0.01	0.52	–0.27	0.58
Growth aspiration	0.17	0.52	0.17	0.55	–0.21	0.59	–0.95	0.71
Goal of new firm (0, 1)	0.02	0.26	0.06	0.28	0.40	0.32	0.67+	0.37
Hi–tech industry (0, 1)	–0.62	0.74	–0.68	0.77	–19.95	10,151.03	–19.87	9,468.41
Perceived personal freedom			–0.57*	0.29			0.77+	0.40
Perceived family pressure			0.22	0.26			0.63*	0.30
Information transparency			0.26	0.18			–0.21	0.20
Ease of monitoring			0.13	0.19			–0.19	0.22
Perception of family funding (investment vs. loan)			0.16	0.48			–1.77*	0.70
–2 log likelihood	134.03		125.05		102.88+		88.06**	
Degree of Freedom	7		12		7		12	
Cox & Snell R^2	0.05		0.11		0.09		0.19	

Table 4

Continued

	E. Seeking capital from outsiders (0 = no, 1 = yes)			
	Model 1 (Base)		Model 2	
	B	SE	*B*	SE
Constant	−1.77	1.40	−0.87	2.25
Gender	−0.47	0.41	−0.75	0.46
Age	0.04*	0.02	0.05*	0.02
Education	0.31	0.20	0.33	0.22
Skills or experience related to new business	−0.01	0.39	−0.04	0.43
Growth aspiration	-0.85^{+}	0.49	−1.30*	0.55
Goal of new firm (0, 1)	0.40^{+}	0.23	0.46^{+}	0.25
Hi-tech industry (0, 1)	0.68	0.66	1.25^{+}	0.72
Perceived personal freedom			0.35	0.29
Perceived family pressure			0.19	0.24
Information transparency			0.07	0.15
Ease of monitoring			−0.40*	0.17
Perception of family funding (investment vs. loan)			−1.06*	0.47
−2 log likelihood	158.04		144.51**	
Degree of freedom	7		12	
Cox & Snell R^2	0.14		0.23	

* $p < 0.05$; ** $p < 0.01$; $^{+}$ $p < 0.10$.
N of Spouse = 130; N of Parents = 130.

lower the risk of working with family members and is conducive to seeking initial capital from spouse. Therefore, hypotheses 1b and 2b are supported.

Like Study 1, seeking initial capital from friends and outsiders was also tested, as these sources can substitute for family capital. The results were found to reinforce the findings related to seeking initial capital from family. As show in Table 4 (Model D), the results show that personal freedom ($\beta = 0.77$; $p < 0.10$) and family pressure ($\beta = 0.63$; $p < 0.05$) were related to the involvement of friends, suggesting that entrepreneurs seek capital from friends so that they can maintain personal freedom and avoid pressure from family. Lastly, seeking capital from outsiders (friends, coworkers, clients, angels, banks, and others), shown in Model E, was negatively related to ease of monitoring ($\beta = -0.40$; $p < 0.05$). These findings suggest that it is desirable to use outside funding when monitoring family business is perceived as difficult. As in the case of seeking capital from friends, entrepreneurs can maintain more autonomy if family funding is perceived as investment, which renders family interference more plausible.

Discussion

Out of the observations that ethnic Chinese entrepreneurs may prefer friends to family for start-up capital (e.g., Wong et al., 2006), we explored explanations inspired by studies on venture financing (e.g., Amit et al., 1990; Mason, 2006; Steier, 2003) and Chinese familism, which is a central concept for explaining Chinese entrepreneurship (e.g., Redding, 1996). The contribution of this study is best viewed as an empirical test of socio-psychological explanations (e.g., Mason) regarding why Chinese entrepreneurs seek initial capital in a way different from what's expected according to the literature (e.g., Wong, 1988). While theoretical discussion (e.g., Aldrich & Cliff, 2003; Pollak, 1985) and interview findings (e.g., Ahlstrom et al., 2004; Steier) have painted a rich picture, empirical studies based on quantitative data are still lacking in putting ideas into clearer focus. Using different samples and operationalizations of the key constructs, the present paper is a step forward in testing theoretical ideas in the literature.

Overall, the results support the proposed explanations, particularly when the findings from the two studies are considered together. Findings in Study 1 first show that familism value was found to be related to transparency of family business, parental conflict, and interference in business. This suggests that familism value affects the perceptions of transaction costs and interference of family among ethnic Chinese entrepreneurs. Second, the seeking of start-up capital from the family (either parents or siblings) was found to be related to transaction costs. Specifically, those who believe that business information is more transparent in family are more eager to receive family capital. On the other hand, people who experience more parental control and expect more parental interference in business were less eager to solicit family capital. These findings are in line with the theoretical predictions that close relationships alleviate the value gap of venture potential (Amit et al., 1990) and that people are inclined to avoid family conflict when business decisions are involved (Greenhaus & Powell, 2003; Pollak, 1985).

Third, we found that transparency of family business, parental control, and familism value are useful in explaining the seeking of start-up capital from friends. Funding from friends, to a certain extent, acts as an alternative or even a substitute to family capital. In general, the direction of the influence, as one may expect, is the reverse of their influence on family capital seeking. That is, parental control is positively related to seeking capital from friends. It is because worry about parental control would prompt a person to look for alternative support from friends and other outsiders. These findings may help to explain why Chinese entrepreneurs tend not to seek initial capital from family (e.g., Au & Kwan, 2005).

As pointed out earlier, the results of Study 1 are based on survey data of would-be entrepreneurs. The data captured their mental plan on starting new businesses. Study 2 used retrospective data from entrepreneurs and a slightly different questionnaire in measurement and format and basically replicated the key findings of Study 1. The two studies together lead us to conclude that Chinese familism value, conceptualized as family importance (or interest) and family harmony in this study, may act as a double-edged sword in affecting where entrepreneurs seek initial capital (Steier, 2003). On the one hand, familism value lowers perceived transaction costs by raising information transparency and ease of monitoring. On the other hand, it increases the tendency of parental and family interference in business, as the family exerts pressure on entrepreneurs and reduces their autonomy. In other words, the findings suggest that lower transaction costs propel Chinese entrepreneurs to obtain funding from family members but not from friends and outsiders because a high level of familism decreases information asymmetry and aligns the evaluations of the entrepreneurs and family members on the new venture. However, increase in restriction and loss of autonomy may cause business–family conflict, so Chinese entrepreneurs decide to obtain funding from friends and other outsiders. Hence, to answer the research question of why Chinese entrepreneurs may obtain initial capital from friends instead of family, we suggest that they worry about the interference of the family and the restriction of their autonomy to develop their business.

These findings, despite their potential, should be interpreted with caution due to limitations in the studies. First, constructs in the studies, such as familism value and transaction costs, are elements of complicated theories. Their rich meanings imply that refined, multiple operationalizations that go beyond this study are required to ascertain the findings of this study. Also, the two surveys are correlational studies. Although they used *a priori* (Study 1) and post-factual (Study 2) data, included control variables, and applied established theories to help point to a logical direction, causality is not definitive without further studies (Mitchell, 1985). Related to this point is also the causal sequence and validity of our theory in the broader context (Schwab, 1980). The argument we made about familism, transaction costs (or family interference), and funding choice may raise a concern of tautology, as funding behavior can be construed as able to reinforce familism. This is possible, although we would argue that the causal means may be recursive as this study revealed the influential mechanisms (e.g., transaction costs deliberation) behind familism on funding choice. These mechanisms are not completely dependent on familism and can be changed by exogenous factors such as better corporate and family governance (Steier, 2003). While a single study cannot answer all questions, we hope that this study can stimulate more research into these broader issues.

Limitations aside, this study has implications beyond new venture financing. The social-embeddedness perspective has suggested that family relations are strong ties and are conducive for resource mobilization of start-ups (Aldrich & Cliff, 2003). This research shows that the family relations among Chinese entrepreneurs, just like other strong ties, are multifaceted in nature. Chinese family ties are not merely channels of information or devices for reaping benefits. They are also useful for delivering emotional support and interpersonal pressure. Sometimes family involvement in business may trigger emotional feelings that interfere with business decisions, and findings may be indicating that fear of interference can become tangled up with the consideration of more funding in starting a business. This suggests that it is a trade-off for Chinese entrepreneurs to embed themselves in family relations (Aldrich & Cliff; Hoang & Antoncic, 2003).

Understanding such trade-offs is particularly important as it can have implications concerning the formation and management of Chinese businesses. If the fear of family interference turns more Chinese entrepreneurs to seek initial capital from friends instead of their family, the business landscape of Chinese societies will not be the same in the near future. This is because the initial capital structure of new firms can exert a path-dependent influence on the growth potential of the venture (Cassar, 2004). Prevalent familism value of Chinese drives close family and kin to contribute capital for start-ups and participate in the new business. Mutual investments constitute an effective network economy, as some scholars argued (Fruin, 1998; Redding, 1990). Nonetheless, most private Chinese companies tend to be family owned, small, and limited in financial and human resources (Fukuyama, 1995; Whyte, 1996). If firms set up with friends replace small, family businesses that constitute the Chinese business community, the network structures of Chinese firms may change to another form together with some of the undesirable features of ethnic Chinese businesses. Most ethnic Chinese businesses are still low-tech. They tend not to accept external financing, worrying about losing control, and cannot invest in R&D and brand-building (Ahlstrom et al., 2004). Even though some of them claim that they are high-tech, they tend to invest in the property market rather than in R&D (Yeung, 2006).

Some researchers have purported that the influence of familism value on the formation of business has already changed together with the evolution in values and demographics in Chinese societies (K.S. Yang, 1988b), as more Chinese entrepreneurs try to escape from the rein of the family (Lau et al., 1990) and adapt to the new environment (Yeung, 2006). Some others argue that parents' rights to exert control over their children are unchallenged and fully accepted in Asian societies founded on Confucianism (e.g., C.-F. Yang, 1988). The views from these camps may need to be reconciled in future research. One way to go is to examine moderators. We suspect that, as a result of the rapid modernization of Chinese societies and globalization, entrepreneurs who vary in traditionality may behave differently (e.g., Farh et al., 1997). Traditionality is defined as commitment to, respect for, and acceptance of the customs and norms of a traditional society (Chen & Aryee, 2007). Because less traditional people see family interference in a negative light (instead of positively like more traditional people do), they feel worried (rather than welcoming) if seeking funding invites family involvement in business. Some of the recent studies (e.g., Wong et al., 2006) may be focusing on less traditional entrepreneurs who are different from what Wong (1988) and others studied decades ago. Looking into traditionality and other values and beliefs (e.g., Hofstede, 1991) as moderators could be a fruitful avenue for future research.

Seeking capital from friends and other outsiders may be a way for ethnic Chinese entrepreneurs to change the undesirable feature of their business. Seeing the problems in their business and the change in the environment (Ahlstrom et al., 2004; Thomas et al., 2007; Yeung, 2006), Chinese entrepreneurs, particularly belonging to the younger generation, may finally be willing to seek external funding and become able to make long-term investment on R&D and brands. This paper may have revealed a major change in how ethnic Chinese entrepreneurs do their business in the future.

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