Asia Pac J Manag
DOI 10.1007/s10490-017-9525-0

How perceived risk and return interacts with familism to influence individuals' investment strategies: The case of capital seeking and capital providing behavior in new venture financing

Thomas A. Birtch[1,2] **· Kevin Yuk-fai Au**[3] **·**
Flora F. T. Chiang[4,5] **· Peter S. Hofman**[1]

Abstract Drawing on social capital and agency theories and using a multi-study research design, this study examined how perceived risk and return interacts with familism to influence individuals' investment strategies in new venture financing, both capital seeking and capital providing behavior. We found that individuals high in familism are more likely to seek capital from and provide capital to family members than non-family members for new ventures. However, such relationships are more complex than prior research suggests because when individuals' risk and return

✉ Flora F. T. Chiang
fchiang@hkbu.edu.hk

Thomas A. Birtch
Thomas.Birtch@nottingham.edu.cn

Kevin Yuk-fai Au
kevin@baf.msmail.cuhk.edu.hk

Peter S. Hofman
Peter.Hofman@nottingham.edu.cn

1 Department of International Business and Management, University of Nottingham Ningbo China, 199 Taikang East Road, Ningbo 315100, China

2 Institute for Manufacturing, University of Cambridge, 17 Charles Babbage Road, Cambridge CB3 0FS, UK

3 Department of Management, The Chinese University of Hong Kong, No.12, Chak Cheung Street, Shatin, Hong Kong

4 Department of Management, Hong Kong Baptist University, 34 Renfrew Road, Kowloon Tong, Hong Kong

5 Department of Organizational Behavior and Human Resource Management, China Europe International Business School (CEIBS), Hongfeng Road, Pudong Xinqu, Shanghai 201203, China

Published online: 26 August 2017

perceptions are included these interact with familism to differentially influence capital financing behavior directed at family versus non-family members. Contributions to theory and potential avenues for future research are discussed.

Keywords Familism · New venture financing · Informal investment · Social capital theory · Agency theory · Entrepreneurship · Family business

Capital seeking by entrepreneurs and capital providing by investors represent the demand and supply side of new venture financing, respectively. Although entrepreneurs typically rely on their own capital during the initial start-up phase of their new ventures when such resources are exhausted or when capital needs are beyond their ability, entrepreneurs typically seek additional capital financing from alternative sources, especially from informal investors (e.g., family, friends, and angel investors). This is in part because more formal sources of financing, such as venture capital, private equity, and institutional investment, are often not available to entrepreneurs during the early stages of a new venture (Bygrave, 2005). In particular, prior research has shown that family can play a significant role in entrepreneurial activity, including opportunity identification (Sardeshmukh & Corbett, 2011), business involvement (Kowaleswski, Talavera, & Stetsyuk, 2010), support (Erikson, Sørheim, & Reitan, 2003; Rodriguez, Tuggle, & Hackett, 2009; Steier, 2003), networking (Pistrui, 2001), strategies used (Miller, Le Breton-Miller, & Scholnick, 2008), personal and venture success and growth (Au, Birtch, Chiang, & Ding, 2013), and form of financing (Koroppe, Kellermanns, Grichnik, & Stanley, 2014). Yet, despite these important advances in our understanding about the role of family in new ventures, we know little about how one's centrality towards family or familism value, a distinct socio-psychological value that reflects an individual's predisposition towards family and may differentially influence attitudes and behavior towards family versus non-family members (Fukuyama, 1995), might influence one's investment behavior. This study examines how familism and the perception of risk (and return) interact to influence individuals' investment strategies in new venture financing, both capital seeking and capital providing behavior.

Drawing on the theories of social capital and agency (Burt, 1997; Eisenhardt, 1989), we argue that because individuals tend to trust, relate, and identify more strongly with family members than with non-family members (characteristics of strong familism) and because transactions between family members may have less information asymmetry than those between non-family members that they are more likely to favor family in their capital seeking and capital providing behavior in new ventures. As scholars have asserted, family related transactions are unlikely to be wholly economic in nature because they entail additional considerations, such as the socio-emotional and affective needs of the family (e.g., concern for the welfare and collective interest of the family, Gómez-Mejía, Cruz, Berrone, & De Castro, 2011; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Zellweger & Dehlen, 2012). Moreover, role obligations, social ethics, and trust, such as that exemplified among family members, foster the closer alignment of interests between transacting parties and minimize potential agency problems (e.g., control and monitoring, information asymmetries, and opportunistic behavior, Steier, 2003). Hence, capital seeking and