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Regional influences on the prevalence of family versus non-family start-ups☆

Miriam Bird [a,*], Karl Wennberg [a,b,1]

[a] Stockholm School of Economics, P.O. Box 6501, Stockholm 11383, Sweden
[b] The Ratio Institute, P.O. Box 3203, Stockholm 103 64, Sweden

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ABSTRACT

We integrate insights from family business and organizational ecology into the entrepreneurship field by constructing a theoretical framework that explains how the regional context impacts family and non-family start-ups in differing ways. Regional count data models based on a rich longitudinal dataset reveal that while economic factors such as population size and growth in regions are primarily associated with the number of non-family start-ups, factors related to regional embeddedness, such as pre-existing small family businesses as well as favorable community attitudes toward small businesses, are more strongly associated with the number of family start-ups. Our research provides support for the notion that 'the regional context' is an important yet under-theorized area for research on venture creation and family business.

1. Executive summary

The number of start-ups in specific regions is known to be strongly influenced by the regional environment. Regional factors relate both to the economic prosperity of a region as well as to the social factors prevalent in a certain region. Even though research on entrepreneurship and family business has emphasized that family and non-family businesses differ in their distinctive capabilities and resources, substantial questions remain regarding the mechanisms by which regional factors foster or constrain the emergence of family versus non-family start-ups. We believe that an in-depth understanding of how regional factors foster or constrain the emergence of family versus non-family start-ups helps to shed light on the distinct nature of these two kinds of businesses, and provide valuable implications for policy practice that seeks to facilitate new start-ups in various regions.

In this paper we argue that the family context and the regional environment shape the objectives, visions and practices that family businesses pursue. Social factors, such as community attitudes toward small businesses, and the prevalence of pre-existing small family businesses in a region foster the rise of family start-ups because family start-ups are more socially embedded in their regional communities than non-family start-ups. Drawing on social capital and embeddedness theory, we theorize that family start-ups strive to establish durable relationships with their regional communities. This strategy helps family start-ups to overcome the resource scarcity characterizing rural and more economically deprived regions. By contrast, because non-family

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* Corresponding author. Tel.: +46 705 10 53 66.
E-mail addresses: Miriam.Bird@hhs.se (M. Bird), Karl.Wennberg@hhs.se (K. Wennberg).
[1] Tel.: +46 705 10 53 66.

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start-ups are not exposed to the direct influence of the family, they prioritize a region's objective economic factors, such as overall population size and growth.

We tested our hypotheses using a unique dataset that covers all family and non-family start-ups across the 290 Swedish municipalities between 1991 and 2007. This data is augmented by publicly available data sources on regional characteristics, as well as an exogenous measure of community attitudes toward small businesses. We employ seemingly unrelated regression (SUR) models to investigate systematic differences in how social and economic factors influence the two types of start-ups in a robust manner. Our analysis reveals that non-economic factors are of higher importance for the emergence of family start-ups while economic factors are important for the emergence for non-family start-ups.

Our study has several implications for theory and practice. First, we show that the distinctiveness of family businesses also manifests itself on the regional level. Hence, our study shows that there are systematic differences in how certain regional factors relate to the emergence of family and non-family start-ups. Our findings indicate that the embeddedness and social capital of family start-ups help them overcome resource scarcity even in rural areas. This finding confirms that a region's economic attractiveness is less important for family start-ups than non-economic factors. Furthermore, our results suggest that family and non-family start-ups face a distinct social and opportunity structure. This may have further implications for the survival and growth of family businesses. Given the evidence that family start-ups and non-family start-ups are likely to emerge in different locations, our paper informs policy initiatives aiming at improving geographical conditions to foster new venture creation.

2. Introduction

The regional context has been recognized as a major determinant of venture creation in entrepreneurship research (Davidsson and Wiklund, 2001; Mezias and Kuperman, 2001). Still, although a substantial share of all start-ups are founded by families (Chang et al., 2008; Ruef, 2010), investigations of regional factors influencing the formation of family versus non-family start-ups have received scant attention. This is a noteworthy gap in the literature on new venture creation since family businesses are known to be driven by different dynamics than non-family businesses (Nordqvist and Melin, 2010; Zahra et al., 2004). Understanding which regional factors foster the birth of family versus non-family start-ups is crucial since both types of firms represent strong potential sources for employment and economic growth for particular regions (Chang et al., 2008). While prior studies have primarily addressed differences between family and non-family businesses on the individual or firm level of analysis (Block, 2012; Gomez-Mejia et al., 2007; Littunen and Hyrsky, 2000; Zahra et al., 2004), no study to date has examined how environmental characteristics may foster or constrain family and non-family start-ups differently.

This is an important theoretical and empirical gap in the literature since we know that family businesses often establish durable relationships with the regional community, making social factors especially important to them (Berrone et al., 2010; Colli et al., 2003; Miller and Le Breton-Miller, 2005). If social factors are more important for family start-ups, they might be encouraged by different regional factors than non-family start-ups. Meso- and macro-level investigations of family versus non-family businesses may yield inconsistent or biased results unless such factors are accounted for. Therefore, in this paper, we pose the following research question: Do regional factors impact family start-ups and non-family start-ups in differing ways?

We posit that certain environments may be more or less conducive to specific types of start-ups and theorize that economic and social factors influence the birth of family and non-family start-ups in different yet economically important ways. Specifically, we argue that rural regions characterized by lower income per capita, a large number of pre-existing small family businesses, and favorable community attitudes toward small businesses will exhibit a higher prevalence of family start-ups. Conversely, we argue that regions characterized by higher levels of income per capita, a large number of pre-existing non-family businesses, and population growth will exhibit a higher prevalence of non-family start-ups. In doing so, we address theoretical and empirical gaps in the literature on entrepreneurship and family business, both of which posit that start-up processes are strongly characterized by the economic and social environments that surround them (Aldrich and Ruef, 2006; Chang et al., 2008; Minniti, 2004).

To investigate our hypotheses, we draw on unusually rich multi-level data on all start-ups across the 290 Swedish municipalities between 1991 and 2007. Estimating seemingly unrelated regression (SUR) models of the negative binomial type allows us to simultaneously gauge the effect of the theoretically derived variables on the birth of family start-ups versus non-family start-ups. This method further enables us to investigate systematic differences in how social and economic variables influence the two types of start-ups.

Our theoretical framework and empirical findings contribute to both research in entrepreneurship and family business. We contribute to these fields by showing that the distinctiveness between family and non-family firms also manifests itself on the regional level, a level rarely recognized in comparative studies of family and non-family businesses. In doing so, we respond to recent calls for studies investigating how regional conditions affect family firms (Chang et al., 2008). Our study also highlights the importance of non-economic factors, such as social capital, for nascent firms, thus contributing to the strand of family business research seeking to extend the focus from established family firms to family start-ups (Astrachan, 2003; Chua et al., 2004).

We also contribute to macro-oriented entrepreneurship research by showing that the patterns shaping the birth of family businesses as opposed to non-family businesses differ systematically, lending support to the view that these types of businesses should be scrutinized distinctly in meso- and macro-oriented studies (Ruef, 2000). Enhancing our understanding of how regional factors shape the birth of various types of start-ups is important in advancing theories of venture creation. Our findings show that family start-ups are associated with non-economic factors in a region, while non-family start-ups are associated relatively more with economic factors, demonstrating the distinctiveness in social structure these two types of start-ups face (Stinchcombe, 1965).