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FINANCING OF MICRO AND SMALL ENTERPRISES: THE FAMILY AS A SOURCE OF FUNDING

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ABSTRACT

This study aims to identify the characteristics of the sources of family financing in micro and small enterprises, demonstrating the influence of this source in the management, as well as comparing it with evidences found by literature regarding the Organizational Life Cycle Theory and the Pecking Order Theory. 13 interviews were conducted with micro and small entrepreneurs in the cluster of garment located in the of Pernambuco, Brazil. Entrepreneurs, family members and bankers were interviewed to enable the triangulation of information with similar questions for each group. Two main aspects were observed: (1) family members tend to lend resources (usually low values) without demands or interest, and (2) the entrepreneurs feel compelled to resort to banks when relatives borrow with interest. Berger and Udell (1998) postulate that familiar sources can be characterized as internal debit or equity resources. In this research, however, family members do not even require participation in the company's decisions, and interviewees expressed that although family members help, it is important not to mix them with business.

Keywords: Micro and Small Business; Finance; Equity and Debt.

1. INTRODUCTION

Small organizations are increasingly important in the economic environment of developed and emerging countries, with emphasis on the ability to generate jobs and potentially increase the amount of business. According to report from SEBRAE, in 2013, this segment represented 98.2% of the formal enterprises in Brazil, 52.1% of the total existing jobs and 41.4% of the salaries (SEBRAE, 2014).

Despite their relevance, studies on these entities emerged only in 1953, through the work of Christensen, which demonstrated how small and medium-sized companies had specific characteristics, such as a high degree of centralization of power. According to Ribeiro, Corrêa and Souza (2012), only in the 1980s did the interest in research related to the topic emerge, and Boocock (1990) attributed to the Bolton Committee the pioneering initiative to provide detailed information on the financing of small companies in the United Kingdom, in 1970, promoting a scenario prone to academic interest in the area.

Since then, several themes on the segment have been developed, such as the remuneration of small business managers (Watson, 1994; Watson et al., 1996), the process of internationalization (Calof E Viviers, 1995), information and technology systems (Lim E Goh, 1995, Mcgregor and Gomes, 1999), training and human resources (Wong et al., 1997), local networks (Paniccia, 1998), gender issues , 1998), success (Lin, 1998) and innovation (Motwani et al., 1999).

Small businesses have specific characteristics that can turn into difficulties for managers. According to Stroeher and Freitas (2008), among the main difficulties are access to credit, lack of skilled labor, excess burden of taxation and lack of understanding of financial, accounting and management practices.

Such scenario favors an informal environment and encourages the creation of alternative means to the classic financing coming from financial institutions. For example, informal financing, through family and friends, tends not to require elaborate information, nor does it require high interest rates (Abdulsaleh and Worthington, 2013).

Berger and Udell (1998) argue that small firms usually resort to family-based financing, trade credit, or angel investors.

Ayyagari, Demirgüç-Kunt and Maksimovic (2010) have shown some evidence in China that, despite the use of alternative sources of financing, and the consequent informality in the practices adopted in the management of micro and small companies, informal financing from family, friends and suppliers is a factor that drives the growth of small businesses.

The evidence corroborates the idea that firms in their early stages resort to such informal sources, either by easier access to them, by difficulties in obtaining it from the formal market or by the fear of diminishing their power in the decision-making process.

On the other hand, Lee and Persson (2016) state that family loans may come with shadow costs, such as family influence in the business or the feeling of non-professionalization. Therefore, although there are almost no explicit costs in these loans, or the so-called negative costs, characterized by the non-existence of interest and the predominance of several non-updated installments, entrepreneurs of micro and small companies prefer not to use this type of financing.

It should be borne in mind, however, that informal sources of finance can reach an audience that does not often represent the client base of large financial institutions and therefore play a key role in promoting entrepreneurship (Abdulsaleh And Worthington, 2013).

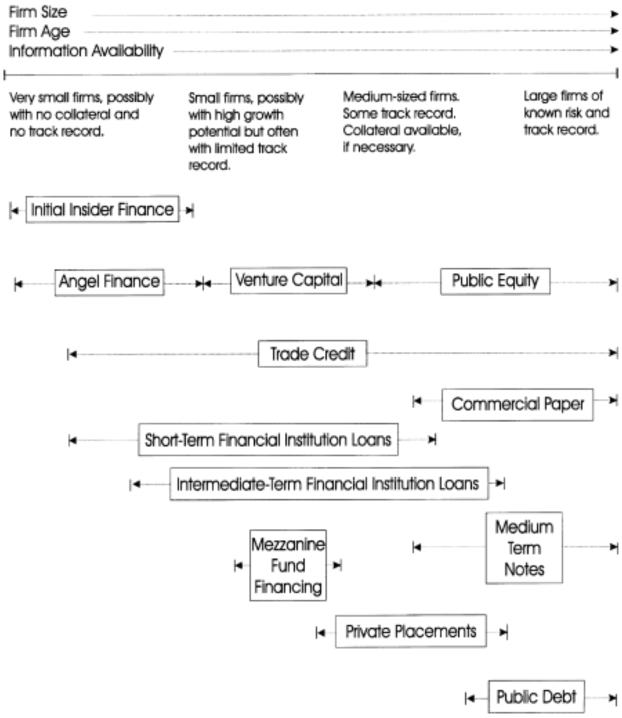
The objective of this paper is to show, in light of the approach of financial theories, the characteristics of family financing in micro and small enterprises. For this purpose, interviews were conducted with entrepreneurs, family members of the interviewed entrepreneurs and bankers.

2. LITERATURE REVIEW

2.1 Capital Structure and Organizational Cycle Theory

It is possible to observe that, at each stage of growth, the company has alternatives of financing that are increasing as to the degree of enforceability of information transparency. The younger the company, the cloudier is the disclosure of information, making it risky for institutions and other actors to provide resources at low cost. Therefore, a company that starts its business has difficulties in obtaining financing due to its lack of transparency (Huyghebaert and Van De Gucht, 2007).

Figure 1 - Sources of Resources and Business Continuity



Source: Berger e Udell (1998).

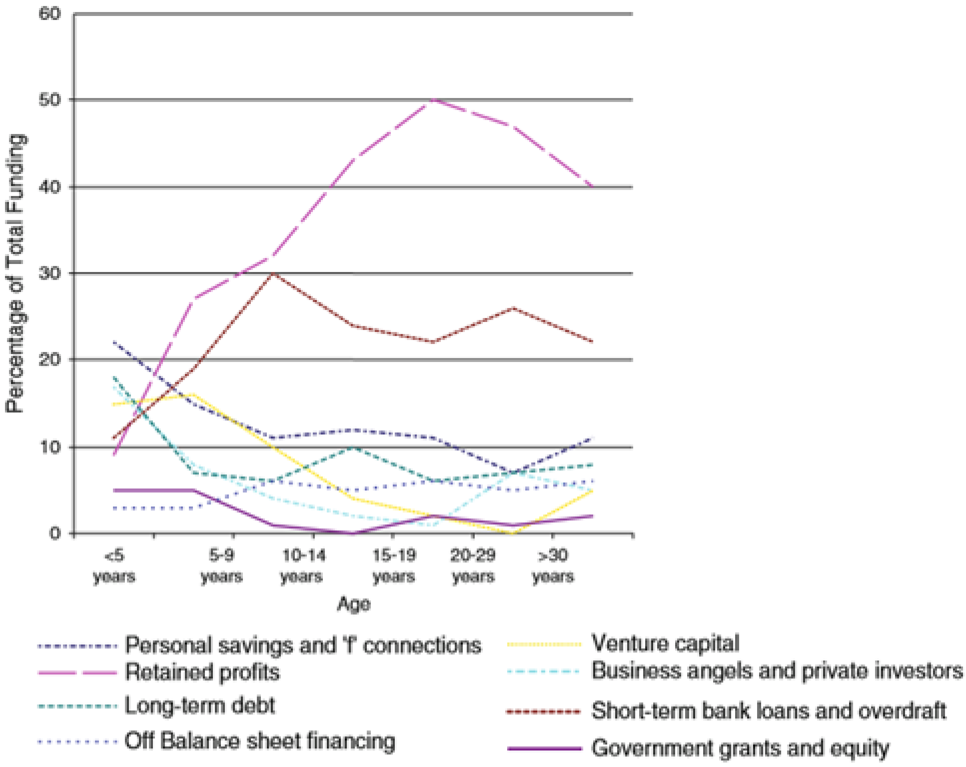
It is common to begin small businesses with the resources of the owner and his acquaintances, such as relatives and friends; over time, these sources will gradually become less used. Although Berger and Udell (1998) explain that this representation is generic and cannot be applicable to all companies, it expresses a contextualization of what is common to occur. After all, it is not uncommon for companies to obtain sources of funding other than those foreseen for the stage to which they belong. This synthesis, according to the authors, only emphasizes the sources that can become more important or get more prominence at each stage.

The initial sources are characterized by internal resources, and by those coming from family and friends. Later, external resources are used, which may be debt (from banks and other financial institutions) or equity (venture capital).

Mac an Bhaird (2010) argues that it is possible to verify a tendency to the Pecking Order Theory, given that, over time, companies seek to use, as a priority, retained profits. Secondly, it is seen that the source of financing originated from short-term loans also presents itself significantly, which also corroborates the Pecking Order Theory.

The results found by the author can be seen in Figure 2.

Figure 2 - Financial Cycle of Organizations



Fonte: Mac an Bhaird (2010)

In the graph, the initial source of the companies is commonly the resources from connections close to the owner. Sources tend to be more robust as the cycles change.

Berger and Udell (1998) claim that, because of the unclearness of accounting information and the difficulty of obtaining external resources (a consequence of the unclearness itself), companies use their personal resources and resources from their acquaintances in the first stage. This period is represented by the "very early" phase, usually when the company is still developing the product or the concept of business. However, the results of the research carried out by Mac an Bhaird (2010), shown in Figure 2, depicts the use of this source over time, even in companies over 30 years old, being it representative, almost constantly, of 10% of all of the resources used.

2.2 Empirical Evidence of Sources of Financing of Small Business

The assumptions of capital structure theories, such as the hypothesis of an efficient and rational market and the desire to maximize profits, lead to a scenario that is sometimes not applicable to micro and small enterprises, thus ignored by studies carried out in Finance, as stated by Keasey, Martinez and Pindado (2015). Many papers do not consider, for example, the various limitations that such organizations have, such as restricted access to capital and high sensitivity to external events (Chaganti, Decarolis and Deeds, 1995).

Small companies do not usually seek resources from third-party capital as large companies do, especially because in those, the role of the manager is associated with the owner, who prefers to safeguard his influence in the company's decision-making process, as stated by Barton and Matthews (1989) and Levin and Travis (1987). Moreover, unlike the theory about the tax benefits in sight of the choice of indebtedness predicts, small firms do not enjoy this benefit because they generally adopt a tax regime that does not allow the use of such advantages (Mcconnel and Petit , 1984). Lastly, small businesses have a lower ability to take risk of bankruptcy compared to larger ones.

Hence, small firms, like younger firms, often resort to sources of family-based financing, trade credit, and angel-angel (business angel finance), as sustained by Berger and Udell (1998). Romano, Tanewski and Smymios (2000), analyzing the capital structure of family firms, reinforce this link by negatively correlating the company's life with family loans.

Serrasqueiro and Nunes (2014) also verified that small hotel companies in Portugal have, as external sources of capital, resources coming from the owner or from friends and family, especially in face of the restriction of access to the capital market, as already confirmed by Ang (1992).

However, these results do not necessarily confirm a generalized feature of lesser use of bank financing. A report published in 2012 points out that capitalization through financial institutions represented the main source of financing for small and medium-sized enterprises in the euro area, 33% of which relate to bank loans and 41% to credit lines, as pointed out by Nogueira da Silva and Braga (2014). Nevertheless, the authors agree on the difficulty of using formal sources of credit by SMEs, pointing out, among other reasons, the non-obligatory elaboration of certain accounting documents and the greater risk of default. La Torre et al. (2010) had come to a similar conclusion, adding that this difficulty is accentuated in emerging countries, possibly because of the greater centralization of the offer of financial services (diminutive access, including physical access to the financial institution), which are also less adapted to small enterprises, not being compatible with the local reality of micro and small business.

Parisotto and Rosa (2004) found that 90% of SMEs are financed by their own resources, and that, despite a high funding of 50% of the sample through banks, this was focused on working capital.

Given the variety in the way resources are obtained, studies such as that of Mizumoto et al. (2010) sought to identify factors that may or may not be related to the survival of companies in an emerging economy. Among these factors are social capital, or the origin of resources, human capital and management practices. The authors noted that, in a predictive logistic model, as well as in the Cox model for predicting bankruptcy, the fact of using own resources, or those from relatives or friends, did not present any significance with the survival of the companies, unlike the results obtained by the analysis of the "managerial practices" factor.

In order to verify the financing decisions in family companies, Keasey, Martinez and Pindado (2015) revealed that family companies with large participation of the owner tend to use more debts in order not to dilute control, being this result more significant when observing younger companies.

In Brazil, Miranda et al. (2008) showed that 57.6% of the micro markets surveyed tend not to use financial institutions to obtain resources. One of the reasons that explains the smaller use of banking resources in Brazil by small companies is the lower customization of services directed to the sector, as evidenced in the study by Villela and Soares (2009). On the other hand, in countries like Italy, the author found banks acting locally with the clusters. The study by Silva et al. (2014) suggested that access to financing is one of the three most important factors considered by micro and small enterprises.

It should be noted that financial institutions expect the borrowed funds to be guaranteed, requiring a demonstration of repayment capacity. In turn, relatives or family members tend not to require statements and reports to understand the financial situation (Lee and Persson, 2016), and the requirements in these cases may be of other types. Both sources are fundamentally different regarding the degree of “demandability” of the loans.

Companies are expected to act according to the requirements of each source, taking into account the particular requirements of each one of them and performing certain procedures or management practices compatible with the different informational needs.

3 METHODOLOGY

The interview is a qualitative strategy that can be face-to-face (individual), by telephone, e-mail, or with a focus group, as portrayed by Creswell (2010). The method used in this research was the face-to-face interview, whose advantage is to obtain information from the participants when they cannot be directly observed (using the observation method). Creswell (2010) argues that this method has the disadvantage of capturing indirect information and that it is filtered from the respondents' point of view.

It is common for a protocol or interview script to include a "header, date, location, name of the interviewer and name of the interviewee" (CRESWELL, 2010, P.216). The first questions should leave the interviewee more comfortable to answer the most relevant ones.

The interview scripts were elaborated according to three profiles of participants: the entrepreneurs, the relatives and the agents of credit (bank). The choice of these groups is based on the need to confront the information provided by the entrepreneurs about their management with the main providers of credit (family and personal resources and / or financial institutions).

The script was elaborated based on the constructs of literature and specific objectives of the research. The blocks (profile, sources of funding and relationships between practices and sources or funding), the topics, which specify the blocks, and the respective questions were identified. It should be noted that some of these questions were developed for entrepreneurs, and two more groups of questions were developed for bankers and family members.

Access to entrepreneurs occurred through the initial contacts obtained in the cities of Santa Cruz do Capibaribe and Caruaru, in Pernambuco, Brazil. In view of the difficulty of access and availability of the interviewee, 13 interviews were conducted, of which 4 were businessmen, 2 family members and 4 credit or bank agents. Two of the interviews were conducted as an "open interview": one with the president of a clothing association in Santa Cruz do Capibaribe, and other with a group that had access to the BNB Microcredit program.

In obtaining data through qualitative methods and techniques, it is common to keep in mind concerns and sensations. When analyzing the data, one can see that someone else should have been interviewed, or that a question only arose at the end of the analysis, or even that the confrontation of the interviews gave rise to new questions. According to Merriam (2015), such insecurities are common in qualitative data collection. Consideration should also be given to practical and theoretical aspects, such as time and resources allocated to obtain the data.

In consonance with the author, ideally, the best way to provide security for the quality of the information is through saturation: the interviewer continues to interview new individuals until he realizes that there is no addition of new information to those already obtained, or that the addition is not relevant.

Table 1: Characteristics of Interviewees

Interview	*Profile*	*Place of Interview*	*Duration*
1	Business Owner. 3 years of company. Age: 27 years old. Single. Graduated in Economics.	Plant	30 minutes
2	Relative. Entrepreuneur. Age: 46 years old. Married. Studied up to elementary school.	Plant	20 minutes
3	Relative. Entrepreuneur. Age: 33 years old. Married. Graduated in Management.	Shop	40 minutes
4	Bank employee. Age: 49 years old. Married. Graduated in Management.	Bank	50 minutes
5	Business owner. She has been in the company for 5 years. 33 years old. Single. She studied until the second year.	Plant	45 minutes
6	Business Owners. Wife is 29 years old and has finished elementary school. Husband is 44 years old and studied until the first grade. They have owned the present company for 9 years.	Home	60 minutes
7	Business owner. Married. 32 years old. She has been in the company for 3 years. Graduated in Accounting.	Home	50 minutes
8	Business owner. Married 33 years old. She has been in the company for 3 years. Studied high school.	Home	50 minutes
9	Agent in credit union. Married. 33 years old. Graduated in Accounting.	Credit Cooperative	30 minutes
10	(No information)	Local Association	40 minutes
11	Administrative Officer of the CrediAmigo Program.	BNB Agency	40 minutes
12	CrediAmigo Loan Group	BNB Agency	15 minutes
13	Credit Agent of the CrediAmigo Program	BNB Agency	30 minutos

4 ANALYSIS OF RESULTS

4.1 Interviewee profile: tradition, influence of family and previous experience

Understanding the reason for opening a business is important to comprehend the personal motivations and the trajectory of the entrepreneur that led him to entrepreneurship. The literature has shown dubiousness about the benefits of undertaking an enterprise by "vocation", and the negative consequences of undertaken it by “necessity”. It is also mentioned that opening business by necessity leads to worse management and consequent mortality (Vale, Corrêa and Reis, 2014).

It is true that in a cluster, interactions, motivations and management dynamics may be different due to the peculiarity of the environment. Business can be opened out of necessity, by the simple will of setting up an own business or simply by tradition, since in a cluster there is predominance of tradition and mimetic aspects. This characteristic may predominate to the point where tradition configures "the technical framework of competences that the region presents" (Bishop and Schlemm, 2012). According to Sá (2015, p.14), the manufacturing activities object of the present study had a family origin:

> The majority of the clothing manufactures that have emerged in the region over the last decades is domestic. It was within the family [...] and their daily life that the productive process was initiated and developed. Today, it relies on the labor of its members (including children, many from an early age), who introduce and carry out productive activities in the rooms of the house. It is there that the tradition of domestic sewing is applied to the business. Considering the economic constraints of a large portion of the region's population, sewing clothes for the family and even on demand was historically a common activity among the mothers. Even though such domestic productions have become companies, still today the owners and / or their direct relatives command the productive and commercial activities in the absolute majority of cases.

This practice is verified in the first question of the interview, which asked the interviewees to comment on the beginning of the company, the motivations and difficulties. The interviewee 1, for example, comments:

> At first, well ... I tried once to get into the garment manufacturing with a type of merchandise and it did not work. Then I went to work in a fabric store. I got the knowledge, how it worked, the fabric issues, fashion issues too, updating myself a bit in that market. Then I started doing skirts for evangelicals, for the evangelical secretariat. My mother used to do it too, it was a good kick start, because I already had the point of sale? So, primordially, it was my mother. And subsequently, to what I came to get from the fabric store, which was the fabric of new trends, I added value [to this commodity. And the [name of the brand] appeared, and now we are working on that name.

The interviewee 5 had a similar beginning, which involved the family:

> [...] I already had the company ... I had been manufacturing for a long time ... [...] It started with my father. My father started by buying little pieces of cloth, then he gave it to me too, to my sisters too ... [...] and that's how the whole family started, we all started together. [...] Everyone was married ... and each one was developing its own business.

Respondent 8 also mentioned the family. When he explained the reason for starting his own business, he said: "Because I wanted to have something for myself. At the beginning I sewed for my mother, I spent 12 years sewing for my mother ... then I said 'No, I have to do something for myself.' That's when I started".

The characteristic of family presence is relevant even after the separation of the family from business. Often, when the family member stop participating in the family business to start a separate business, his or her partner is supporting the creation or helping to run the business. Respondent 7, for example, who started working with an aunt, joined the husband's retail company after the wedding. After a while, the spouse encouraged her to inaugurate her own business while he would give continuity to the retail company.

> My husband came up, like, “We need to have a second income, right?”. I felt more motivated because I founded the company. Before, I liked to party…

> [The husband says] I told her ‘I let you party the way you want it, then you will open the company, and you will play it forward ".
>
> [She continues] Then [I realized that] I really like to work. I love it. Even before that we used to work very closely [referring to the retail company].

The couple of interview 6 told that, after the marriage, the wife also entered the management of the company owned by her husband, becoming a company currently run by both. The husband commented on his trajectory before starting the company:

> It wasn’t difficult. Difficult is today, actually [because of the current economic crisis]. Today it is more difficult than before, right? But it was hard. I started with a "small print", stamping for others. Then I started manufacturing, and I saw it was better to close the stamping and just manufacture.

When asked why he chose this activity, he replied:

> Because […] since I was a child I used to work for others, was doing the shopping [of clothing], helping others [in garment related activities]. Everything I learned… [Interviewer: It was something you already had proximity, right?] Precisely, it is. And since I did not give sequence to studying… In our region, if you don’t study, there is nothing else, just clothing manufacturing, right?

The characteristic of it being a local tradition has made the fashion market and the production of garments gain more force. Interviewee 2 also has her own business and said that, as a young woman, there were few factories in the area, and many people like her left the countryside to work in the sewing business in the city center:

> My husband used to travel to seek shelf-ready merchandise to sell out. Then I started doing it. My family always worked in the area, but in the beginning we just resold. At first I worked out in the factories, and he took off to resell. He would pick up and sell, and then he would pay for the rest. Since I was single, I already worked in manufacturing. From the age of 12! Because here in Santa Cruz, it is like this. The [only] job you have is this. And when I came to live here, it [the clothing manufacturing] was already here.

Therefore, necessity, demand for another source of income and financial independence are the most important reasons to explain setting up a business.

The interviewees reported that the insertion in this branch of activity was very natural, because from an early age they were linked to the clothing manufacturing business, whether working for other companies or by family influence. Tradition has advantages, such as that the region benefits from specialized labor to improve production techniques. However, family influence in business has been the subject of discussion in the literature as to be one of the factors that may be associated with the low level of adoption of managerial accounting practices and control in the organization (Lopez and Hiebl, 2015; Lema and Durendez, 2007).

4.2 The Family as Source of Financing: Internal Sources, Debt or Equity?

The influence of the family on management may be related to situations mentioned in the literature as option for late growth, and less usage of management accounting practices (Lema E Durendez, 2007).

However, family can represent a safe source of resources when the business needs. Entrepreneurs can appeal to relatives, finding in them an exit to pay debts or to make investments in the company without the payment of interest and delimited deadlines for compensation. However, Lee and Persson (2016) warn that getting resources through this source can sometimes imply shadow costs. An interviewed couple, when asked what are the benefits of resorting to family resources, expressed in a very remarkable way:

> None, depending on the member of the family. Today the base of our society is practically the money ... For money, you kill, you steal, you do anything! And family... is good to have everyone in your corner, but when you speak of money, everyone becomes your enemy.

Interviewees mentioned the possibility that family members charge interest to lend, and do not agree with this practice, even though it is not a common practice.

In any case, it seems that, familiar or not, any informal loan to natural persons nowadays implies some degree of interest: "It works like this", says the husband: “I want a thousand dollars borrowed. Instantly. It's 5% [of interest rate] with anyone! Family or not”.

These specific interviewees did not seem to agree with the charging of interest by relatives because they have had an unpleasant experience with one of the relatives who is a moneylender. When the respondents turned to the family to obtain resources, the moneylender was the only one to show up:

> [Husband]: We once needed a higher value. He charges 4%. He is loan shark. I've needed it a few times. When I needed it right away, I would get it with him.
>
> [Wife speaks]: But he's family! [He] could lend [without interest]! Isn’t he able to lend? It [the borrowed money] wouldn’t even make difference for him!
>
> [Husband speaks]: But if I need two thousand reais, small sums, he also lends [without charging interest].

Still according to the spouse, borrowing from a family would be the last financial source to appeal. Only if it is an emergency and if the payment happens quickly, he considers it acceptable: "It is the last resort. If it is for a week or another, that's fine. "

However, the wife points out that sometimes not paying with interest is worse, because the family reacts badly to this situation. The wife mentioned that some interviewees might even deny that there was an explicit interest rate, but that there would be an implicit charge: "I'll tell you the truth. [The interviewee who denies the occurrence of interest] It says just to embellish your research! Because when you do not lend with interest, then he [the moneylender] will telling you flat out [that he lent you the money]. Better to borrow with interest. "

This highlights the hidden costs mentioned by Lee and Persson (2016): "If the family has fewer contractual problems and it is cheaper than formal financing, one would expect that this loan would be the first choice of entrepreneurs. Borrowers should prefer and 'exploit' it. "

Paradoxically, this does not occur in some contexts. The research conducted by Guerin et al. (2012) showed that few rural entrepreneurs in India have resorted to relatives and family members as the first option for loans because they would not like to be involved in debt within the family context. This is reinforced by the wife's response (interview 6) that such a situation is not pleasant, since it generates comments in the family and implicit obligations.

This behavior of almost "aversion" to family resources was not found in other interviews of this research. On the contrary, when asked about family sources, the respondents, in general, stated that they did not incur in additional costs, interest or requirements. This corroborates the study of Lee and Persson (2016), who agree that, in poorer contexts, family loans are often free of interest.

Bygrave and Hunt (2004), for example, demonstrate that approximately half of those who lend informal resources do not charge interest. The consolidation of the mean, payment time and return are presented in figure 3 below, from the authors' study.

Figure 3 - Characteristics of Financing (Bygrave and Hunt, 2004)

Relationship to entrepreneur	Percent total	Mean amount US$	Median payback time	Median times return
Close family	49.4%	23,190	2 years	1x
Other relative	9.4%	12,345	2 years	1x
Friend, neighbor	26.4%	15,548	2 years	1x
Work colleague	7.9%	39,032	2 years	1x
Stranger	6.9%	67,672	2-5 years	1.5x
Total	100%	24,202	2 years	1x

Source: Bygrave e Hunt (2004)

Respondent 1, when asked about the circumstances in which he considers it advantageous to obtain family resources, responds:

> When the investment is small and you will get a quick return. I think it's feasible, and the one you asked for will need it too, right? Then you cannot think like a bank, to pay with two, three years. It has to a quick return.

This same interviewee, asked if the loans are linked to some type of requirement or interest, said that this does not happen, and that the only concern is to return the money quickly:

The fact that these loans are commonly low is in line with Lee and Persson's (2016) argument that entrepreneurs, who may be dependent on family resources, prefer to use formal financial resources when risky investments are involved or when the resources are applied to the company's growth.

In short, although it is not common to charge interest and requirements, family members sometimes demand liabilities, but this practice is not what is expected or well seen by the entrepreneurs. This is in line with the study conducted by Lee and Persson (2016) on obtaining formal and informal resources.

The authors provide examples of some studies: the first, by Petersen and Rajan (1994), suggests that firms tend to adopt a dynamic Pecking Order, since loans are primarily related to family and friends, a reality that progressively changes. The second, by Chavis et al (2010), shows that while companies are young, they tend to use more family resources than banks or formal sources, and that this financial pattern is being reversed as the company advances in time. It should also be noted that, although some family members require a return, companies tend to resort to such sources when they need to and judge such a source as appropriate. Finally, they highlight the characteristic of obtaining lower sums with relatives, compared to banks, and that sometimes there is a deadline for repayment of loans. Respondents, however, say there is no family interference in the business when they borrow money from them.

This result diverges from the classification made by Araújo et al. (2016), which framed family as equity as a source of funding. Berger and Udell (1998) argue that such a source can take the form of debt or equity. The authors assume that the classification of the family as equity implies interference in decisions, their participation in business or an expectation of return on the amount invested. Hence, the fact that family members provide resources would not be an act of "altruism," as Lee and Persson (2016) argue in one of the hypotheses, but rather of hope, participation, and encouragement of relationships similar to assumptions of agency.

The result of the current study is consistent with the idea that family resources are characterized as internal resources (as pointed out by Mac na Bhaird, 2010), and may sometimes assume a characteristic of an informal debt (by charging interest), as demonstrated by Berger and Udell (1998).

It should be reiterated that, when they incur interest, entrepreneurs may feel indifferent in obtaining external resources or resources from family members. Evidence shows, however, that, for the most part, family resources are free of costs and requirements, and are less costly than any other source.

4.3 Relationship Between Family Sources and Management

The interviewees differed on the influence of sources of funding on management. Some of them argued that this influence occurs because different sources of funding demand different needs:

> If I borrow from a family member and I do not have a quick turnaround, then your decisions have to work out faster, right? And when you are in a bank, you have some interest rates, but you have a long term, and you still have the decision to pay the interest. [...] [It] Affects [the management], right? Because then you're going to have to have a lot more control, you know? To see what the return really is, what it's giving back.

Respondents 5, 7 and 8 ensured sources of funding do not change the way they make decisions in the company and how they conduct management, but this may be due to the fact that they do not have funds from the banks, but with relatives who did not impose rules or requirements. Respondent 8 said she believed there was only one difference: after obtaining the desired resources, there is a tendency for general improvements to be made in the company, as more resources are available for improvements in management and production. The interviewee, however, does not confirm that there is greater control or better management as a consequence of accountability or obligation.

Such scenario is confirmed by the entrepreneurs (interviews 1, 5, 7 and 8), although the interviewee 8 mentions that he has gone through the situation of being charged by his own father. Interviewee 6 diverges when reporting that using family resources may entail interest, and that the costs of family attrition do not outweigh the use of such a source. Therefore, the family is a source of internal resources and does not influence management. There is evidence, however, that the family can influence management, not when it comes to funding, but through tradition and the way in which the act of undertaking has been taught or passed on. Interviewee 3, for example, stated that his wife (interviewee 7) has been repeating what she learned from her aunt about how to conduct a business: "Everything she [wife] knows, learned from her aunt. What her aunt was doing 10, 15 years ago, she wants to do today. [...] I just wanted to know about the production. She did not care about management."

5. CONCLUSION

The objective of this study was to identify the characteristics of family financing. For this, interviews were conducted in a garment cluster in the State of Pernambuco. Two aspects have been observed: family members tend to lend resources (usually low values) without demands or interest, and entrepreneurs are motivated to turn to banks when family members borrow with interest. Berger and Udell (1998) postulate that familiar sources can be characterized as internal debt or equity resources. In this research, however, family members do not even require participation in the company's decisions, and interviewees expressed that although family members help, it is important not to mix them with business.

Two respondents in the family category (respondents 2 and 3) said they did not impose any demands when lending resources, whether interest or participation in the business and its decisions. They also assert that they tend not to follow the management after the loan and that they trust how the resources will be applicated. Sometimes, when necessary, they ask, superficially, about the destination of the resource. For interviewee 2, the only restriction is the period to return the money, which cannot be too long. Respondent 3 reported that he trusts in his wife and her business, and that he lent when necessary, even though he did not know exactly the fate of the resources.

The strong characteristic of tradition and the cultural family influence in the business can help in understanding why charges and interest rates are not applied when borrowing money. However, it should be noted that such behavior would lead to a characteristic of equity of such financing in companies, which was not found in this study. In order to verify if this characteristic was predominant, the entrepreneurs and their relatives were asked if they followed up the management, accountability or any type of requirement that led to the characteristic of equity. In all the interviews, it was possible to observe that the family, at least by lending resources, does not obtain rights and participations in the company, nor do they directly influence the management.

In addition, relatives lending with interest rate was a commonly criticized practice, suggesting a preference or at least an indifference in resorting to banks in this scenario.

The results of this work are aligned with the Life Cycle Theory (resorting to informal resources when in the early stages), as well as aspects of the Pecking Order, an approach that considers preference to internal resources over external ones. This conclusion is based on the answers given, in which respondents stated that they, when needed, prefer family resources to external resources, such as banks.

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