CONSERVATISM: AN EXPLANATION OF THE FINANCIAL CHOICES OF THE SMALL AND MEDIUM FAMILY ENTERPRISE

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Introduction

The financial behavior of the family firm is a recurring topic in the literature. Hirigoyen's pioneer research (1984) reveals the specificity of the financial behaviors of industrial family medium-sized companies[1] compared to those of the other categories of firms. This type of firms set out effective structures enabling them a better financial management because, on the one hand, they have a long term vision and, on the other hand, are not accountable for short-term results (Dreux, 1990), especially for unquoted firms. In addition, the desire to transmit the firm to the next generations would more encourage the effective management of capital (Gallo and Vilaseca, 1996). Precisely, the long-term horizons of the family firm make it possible to qualify its capital as "patient financial capital" (Reynolds, 1992). Indeed, this capital is invested for long periods without threat of liquidation contrary to "ordinary" financial capital which generally have a due limit corresponding to the end of investment (Dobrzynski, 1993). The firms having this type of capital would be able to pursue more creative and innovating strategies.

Besides, family firms, of small and medium size especially, are characterized by the lack of financial resources. Ward (1987) observes that poverty in capital which is necessary to finance the needs of the family and the business is a factor which inhibits growth. Two explanations justify the lack of financial resources in SME. The first makes responsible the financial markets. Indeed, investors would be very hesitant as for investing in these firms (Mahérault and Lyagoubi, 2002). Many family firms SME are not able to meet the necessary conditions, or sometimes unwilling to set up the adequate organizational answers, to facilitate their access to the external capital (Davis and ali., 2000). The second explanation is about internal obstacles. To achieve its goal of durability, the family firm tries to evolve in a more or less hermetic universe. Accordingly, external financial intervention is avoided because it can deteriorate the independence of the firm.

The small and medium family enterprise is characterized by a strong conservative attitude. How does conservative orientation influence the financial choices of the small and medium family enterprise? This theoretical contribution tries to answer this question. For Kreiser and ali. (2002), the family firm in general adopts a strategy of a conservative growth dedicating the "living company" model. Such a company consecrates long-term survival instead of financial performance as the main objective to be pursued. Accordingly, highly aware of its identity, it privileges financial conservatism and maintains a narrow control on strategic decisions in family hands. The analyzes of Hirigoyen (1985) join this idea since the author emphasizes that the industrial family SME does not furnish a true effort to increase its market share because it is mainly preoccupied by controlled growth.

The analysis will be done in two steps. After pointing out the main dimensions of the financial conservatism of family SME: internal financing and avoidance of the external financial involvement, the analysis will explain the manifestations of conservatism and its sources. The paper will be concluded by reflections as for the strategies enabling to avoid, limit or even eliminate the impacts of conservatism.

[1] The recurring problem of the family firm definition will not be tackled. On this question, see: Allouche and Aman (2000).

1. Independence orientation and financial choices

Family SME seeks to be financially independent. The theory of resource dependency provides an explanation to this attitude: the higher the dependence on capital is, the more the potential financier would dispose of an increased influence in the decision-making within the firm (Davis and ali., 2000). As the requested resources are lower than the available resources, the suppliers have the right to exert a considerable control on those which require the supply (Pfeffer and Salancick, 1978). From the agency theory point of view, external financing in family SME, even if it does not involve agency problems between owner and managers may draw its specific batch of agency problems with outsider financier (banks and minority shareholders). Thus conflicts can occur as the outsiders' objectives relating to the control of organizational performance and, for the financial ones in particular, to the liquidity, payback and the debt interest, would be opposed to those of the insiders pursuing growth, value creation, and profitability or growing returns for the shareholder (Davis and ali., 2000). These antagonisms are exacerbated because of information asymmetry which could develop, on the one hand, between the owner (as a borrower) and the bankers and, on the other hand, between the owner (as an issuer of shares) and the purchasers of these shares.

Ultimately, the family firm appears to be resistant to the adoption of financing modes other than internal ones. Conservative and independent, it seems strongly predisposed to implement or at least to adhere to the recommendations of the theory of hierarchical financing. The assumption of pecking order theory was developed by Myers and Majluf (1984). In addition, its origins go back to Donaldson (1961) who observed that firms usually abstain from issuing shares and borrow only if the investment requires more funds than the existing cash-flows. Accordingly, there would be an order of adoption of financing modes: internal financing, long-term loans and finally issue of equity. In their empirical study, Belletante and Paranque (1998) corroborate this thesis when observing that the management of quoted SMEs expresses a real reserve to practice capital increase thus translating a hierarchy in their financing preferences. The research carried out by these authors shows that the call for capital stocks is the last solution considered by management of quoted SMEs (even if they could chose it more easily than the management of unquoted SME), although they believe that this resource is less expensive than debt (Belletante and Paranque, 1998). Particularly to the family firm, Khan (2000) observes that this entity, when obliged to make evolve its financial structure, should adopt a path formed by three phases of financing: Initially, during the first phases of growth, internal financing is privileged (1.1), then a first external phase through debt is considered (1.2.1) and finally a second external phase, through financial markets or opening of capital could be envisaged (1.2.2).

1.1. Internal financing: privileged source of financing

"*The cash flow is the first accounting line which I look at, well before the benefit*", declares Michel Haag, chairman of Météor, a French family firm. His father and uncle voluntarily pursued the same policy by limiting the distributed benefit. Accordingly, the firm invested each year 12% of its sales turnover while having a minimum recourse to debt. In general, the family firm favors internal financing of its activities by the retention of profits and the constitution of reserves. In addition, since the indebtedness is not always easy because of the mistrust of banks with regard to small and medium firms, most of the time it would be simpler to be self-financed.

Internal financing is a process which consists in financing the needs by means of resources drawn from the firm's activity. Thus, it enables to avoid the recourse to external funds. Two benefits are required. On the one hand, the risk of the firm does not increase contrary to debt. In addition, the firm prevents from creating conflicts of interests between shareholder (owner) and creditor. Moreover, contrary to the issue of equity, internal financing is not accompanied by a dilution effect. Finally, it has the advantage of avoiding revealing information, relating for example to future projects and investments, to investors in case of external financing.

The family firm which decides to internally finance its needs would make it at the expense of other financial decisions. There is an opposed relation between internal financing and distribution of dividends. Hirigoyen (1982, 1984) observes that the majority of unquoted family firms do not distribute dividends. Likewise, the results obtained by Calvi-Reveyron (2000) show that family firms are less generous than other categories of firms as for the distribution of dividends[2]. Thus, the percentage of capital held by management seems to have a negative impact on the rate of distribution (Calvi-Reveyron, 2000). Indeed, a generous dividend policy limits, all things being equal, internal financing and then intensifies the need for recourse to financial markets for the realization of investments (Easterbrook, 1984). In addition, it increases the financial risk of the firm (Calvi-Reveyron, 2000) and limits the free cash-flows[3] available to the management. In sum, the family firm is able to draw on its incomes in order to constitute internal financing. Therefore, Jenster and Malone (1991) observe that many of these firms hold abundant liquidities which do not necessarily find relevant uses.

However, the internal constitution of financial funds is not always easy. Indeed, some family firm's specific events could involve a consumption of its financial resources. The financing of succession planning, retirement or other personal projects can push the owners to quickly harvest the "fruits" of the activity rather than to reinvest them (Ward, 1988). Galbraith (2003) observes, for example, that a particular event like divorce or separation would draw a decrease of short-term financial performance which suggests that a consumption of financial resources occurs. Sometimes also, it is necessary to satisfy the shareholders' major requirement which is distribution of dividends or generally funds to family members. Ward (1988) underlines, nevertheless, that a good growth of the business may sometimes not satisfy the economic needs of a family growing in size and standards of living.

1.2. External financing

Family SME is reticent to open up financially to outside. The pecking order theory suggests that between debt and equity issue, the firm primarily chooses the first method, because its cost, i.e. interest, would be generally lower than probable dividends to be distributed. We will discuss the position of family SME with respect to debt and opening of capital.

1.2.1. Debt

Family SME avoids external financing and debt, in particular. Schulze and Dino (1998) observe that approximately a third of American family firms affirm not to have debt and that the

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2 Currently, in France the direction of this relation seems to be reversed since the family firms are tending to distribute more dividends because of the ISF (French Tax on Wealth).

3 Free Cash-Flows are the cash-flows in excess after the distribution of the funds necessary to projects having a positive net present value with a correct cost of capital. JENSEN (1986) recommends distributing the free cash-flows to shareholders in order to reduce the resources controlled by managers and thus their power. Indeed, the disadvantage of such a situation would be that management escapes from market control by carrying out non-profitable investments.

2/3 asserts to have a "debt/ equity" ratio lower than 25%. A more recent study shows that, on average, family firms have not less debt than nonfamily firms (Hagelin and ali., 2006). However, owners with high "voting rights/capital" ratio are associated with firms with less debt (Hagelin and ali., 2006). For Minton and Wruck (2001), many firms adopt a conservative financial policy implying less debt than dominant financial theories predict. These firms hold a lot of available funds as well as a balanced treasury which enable them to finance their expenditures in an internal way. Thus, by relying on costly internal capital, there would be a negative impact on growth and financial performance because those firms do not benefit from debt leverage effect. Besides, for Schulze and ali. (2003), the behavior of owner-managers with respect to debt depends on the market state. They would be more favorable to debt in periods of market growth than in periods of stagnation. Moreover, Minton and Wruck (2001) observe that financial conservatism is temporary. Indeed, 70% of the firms they observed change posture as for debt and 50% do it in the five years. Theoretically, Schulze and ali. (2003) believe that altruism and family firm specific relationships can render owners more disposed to be involved in debt and to assume risk that debt may entail as for their individual wealth (Schulze and ali., 2003).

1.2.2. Opening of capital

The opening of capital has other specificities. Quotation, for example, could involve a major change of the ownership structure and thus the firm's governance because of the entry of external shareholders. Davis and ali. (2000) explain that the family firms are obliged to share governance responsibilities in order to facilitate the acquisition of critical resources while remaining sensitive to the expectations of family members. The influence of outsiders, within the board of directors, for example, would be more intense as the need for an external financing and an access to the money markets increases. For Ehrhardt and Nowak (2003), a sale of shareholders' equity by initial public offerings involves a second consequence: because of the importance of the initial returns, it causes a wealth transfer from the current owners to the new shareholders.

The opening of capital, and to the extreme the dependence[4], worry the family firms because it is likely to create an agency relation between at least two unequal poles of shareholders of different nature (Adam-Ledunois and Vigoureux, 1998). In opposition to the process of opening of the firm by an engagement in a cooperation relation, which can affect only one activity or a function of the firm, the dependence of the family firm has a more global direct effect which limits the firm's independence as for the whole strategic decisions (Adam-Ledunois and Vigoureux, 1998). Indeed, the capacity and the willingness of the external entity to direct the strategic decisions would involve an attenuation of firm's independence. Generally, the minority shareholder in a medium-sized company is not regarded like a simple holder of a receivable amount indexed on the firm's prosperity and does not agree to give up completely the main prerogatives of his voting rights at the profit of the majority (Adam-Ledunois and Vigoureux, 1998). Two reasons explain this position. First of all, because the supplier of external capital (the principal) would hardly control the majority's actions (assimilated to the manager: the agent) due to weak information transparency (e.g. non-quotation of the firm, absence of a market of managers), agency costs would be important. Thus, the need for controlling as well as possible these costs, in situation of opening of capital, constitutes an explanatory factor of the necessary implication of the external entity in the decision-making process of medium-sized companies. The second reason is that none non-controlling associate in medium-sized companies can do without a minimal implication because of the weak liquidity of its investment (when there is no quotation).

[4] A firm becomes dependent if its equity is controlled by a coalition of persons (e.g. a family) together with minority shareholders such as financial institutions, banks, or venture capitalists.

Risk aversion, search of durability and the will of preservation and transmission of the family heritage underlie the logic of financial independence. Overall, a “state of mind” hostile to change is likely to be disseminated within the organization: conservatism.

2. Conservatism: a dominating context

Conservatism is the attachment to the choices of past (Timur, 1988). The literature treating about political conservatism[5] speaks about *ex post* conservatism consisting in a high prudence as for the choices preferred and carried out by a group, and about *ex ante* conservatism consisting in an aversion testing new ideas (Dearden, Ickes and Samuelson, 1990).

For the literature about cultural identities, conservatism is a cultural dimension related to the look which societies have on the individual as an autonomous entity or as a member a social group. This cultural character would be present in societies dedicating the values of harmony and convenience in relations/groups (Johnson and Lenartowicz, 1998[6]). Values such as moderation, social order, security, tradition and reciprocity of favors are crucial in conservative societies. The maintenance of the *status quo* and also of the harmonious relations not only within the group, but also within society is crucial. Schwartz (1994) identifies three components of conservatism as a collective cultural dimension:

- harmonious working relationships and a social harmony: this characteristic implies, inter alia, the dedication of the group interest at the expense of individual’s even if the group decisions go against what the individuals prefer.
- safeguarding of public image: this image is likely to be ruined when the individuals do not manage carrying out what is expected from them. Some managers try to preserve their image and thus act in a conservative way.
- security, conformism and tradition: this implies a propensity to devote an autocratic and paternalist style of management (Chui and ali. 2002) which can be reflected, for example, in the firm financing choices.

The impact of conservatism is observed and exerted on the level of firm’s governance bodies (2.1), mainly the manager and the board of directors. Even if the family logic and the owner-family’s expectations can explain conservative behavior, other explanations are found in past performance and in the founder’s age. Often, succession constitutes a crucial opportunity to break free from organizational conservatism (2.2).

2.1. The firm’s governance: resistance to change

Which effects does conservatism have on the governance of family SME?

Conservative organizations and particularly family firms are characterized by the persistence and substantial power of old generations who exert a strong supervision on the owner-manager. Thus, conservative firms would have a risk-averse, a not-innovating, passive and reactive style of management (Covin, 1991). Generally, conservatism is associated with the owner-manager (founder) (2.1.1). Indeed, his role in the strategic orientation adopted by the firm

[5] Derived from the Latin term *conservare* and applied to identify the political movements and intellectuals whose purpose is the preservation of social order and the re-establishment of a former order founded in their eyes on natural laws or transcendent data.

[6] Cited by A. Chui and ali. (2002).

is of primary importance. In addition, board of directors[7] exhibits a lack of effectiveness and does not fully play his role (2.2.2).

2.1.1. The owner-manager

The owner-manager of the family firm plays an important role in the strategic posture of his firm. The cultural configuration of the family and the role it gives to the founder explain its disposition to change (Jenster and Malone, 1991). Indeed, when it is patriarchal, i.e. highly depending on its founder, the organization would be less inclined to change and to challenging values and family relations (Moloktos, 1991). A patriarchal family controlling a paternalist organization is the ultimate case of figure (Jenster and Malone, 1991): being dependent to a high degree on its founder, the organization would be unable to promote change as it is not instigated by the founder. However, the founder or owner-manager may be unwilling to promote change. Hambrick, Geletkanycz and Fredrickson (1993) call this tendency to slow down the change "commitment to the status quo" (CSQ). The management believes in the permanent accuracy of current strategies or organizational behaviors (Hambrick et al., 1993). Thus, this type of owner-manager even in fact perceives only one weak need for adjustment of critical changes in the external environment.

A first explanation of the stagnancy of the family firm's owner-manager is psychological. Indeed, the founder depends on his firm in order to be defined and to assert himself. The firm is emotionally charged (Moloktos, 1991). In addition, it seems that owner-manager's conservatism would be stronger as his psychological dependence on his deceased or retired father was high (Miller and &li., 2003). Besides, family firms' founders tend to be identified with their own vision of the organization, an inevitably subjective if not erroneous vision. They conceive the organization as an extension of their own identities, and try to maintain, sometimes within nonreasonable limits, an adequacy between the organization and their personal identity. In this sense, Ranft and O' Neill (2001) explain that the desire to maintain the organization in the founder's personally-preferred state constitute a demonstration of a narcissistic behavior and *Hubris*[8]. The consequence of these observations is that the strong personal implication and the commitment become obstacles to opening up and search of change. This individual's attachment to the organization should increase with age. The founder tends to privilege security by avoiding the use of resources to increase growth and therefore causing the stagnation of the business. As he becomes aged, the founder becomes increasingly conservative and risk-averse.

Besides, the owner-manager's conservatism is explained by his neglect of entrepreneurial initiative. For Jenster and Malone (1991), the family firm's founder is likely to reach a state of *plateauing* manifested by a situation of stagnancy which has negative impacts on the firm. He is not aggressive and proactive any more but rests on his laurels. He is less involved in the firm but more in other social activities. Ranft and O' Neill (2001) observe that founders who were successful in the development of their firms see their managerial responsibilities pushing around and limiting their entrepreneurial responsibilities as the firm grows or opens to more owners. From now on, the needs of business management consume more the time and attention of the founder who will devote less time to creative activities such as research and development. Ultimately, the "mixture" of managerial activity and entrepreneurial activity leads to a reduction of the latter. Accordingly, Rubenson and Gupta (1991) recommend that the style of management must change as the firm evolves. Concretely, the founder's attitude must evolve from passionate commitment to non passionate objectivity. The neglect of entrepreneurial initiative is all the more

[7] For the firms which adopt one.
[8] The hybris is a Greek concept which can be translated by "excessiveness". It is a violent feeling inspired by passions and more particularly, by pride.

serious as the firm lives a delegation crisis and an absence of decentralization to children for example. The owner-manager will be unable or unwilling to give up his prerogatives of control but maintains responsibilities and authority in his own hands. As a consequence, the rigidity of the firm will increase.

2.1.2. The board of directors

The board of directors is strategic source of initiative and relevant information and also source of expertise, consulting and control since it must also correct the trajectory in case of deviating management. Schematically, it achieves two missions: a mission of control and a mission of service. According to agency theory, control relates to the appointment, remuneration, discipline and dismissal of management. It is also about adopting the initiatives suggested by the latter and evaluating their performance (Johnson and ali., 1996). The task of service includes the activities intended to improve the reputation and competitiveness of the firm: it is about consulting given to management, establishment of links with the outside and representation of the firm within the community.

However, its role within family SME needs to be moderated. Mustakallio and Autio (2001) argue that the role of the board of directors, measured by its composition and by the intensity of the control it exerts, would be more significant as the implication of the family members in the management decreases - suggesting at the opposite that the more the family is involved, the less decisive the role of the board would be. In general, the traditional family firm is known to have a board of directors whose members, selected according to their status and influence within the family and not according to their knowledge of the activity or industry, occupy their positions for long periods and have insufficient or inadequate professional competences. According to this description, they constitute a barrier to any attempt of change which potentially threats the stability of the firm. Ranft and O'Neill (2001), notice that the founders of high-performing firms are even tempted to weaken deliberately the board of directors of their firms in order to maintain the status quo. The inward orientation is more corroborated in some family firms who simply do not implement such a body (Melin and Nordqvist, 2000).

2.2. The family: source or remedy against conservatism?

According to the analysis of Harris and ali. (1994), the family firm exhibits some rigidity when a change of paradigm is necessary. These rigidities are due to the fact that:

- It privileges internal succession, which is one of its objectives, and dedicates loyalty, whereas new paradigms are more likely to originate from external employees or management;

- The in-house trained successors have a weak external experience whereas new paradigms can be formed on the basis of the variety of personal experiences;

- The heir of the entrepreneur could suffer from a lack of self-confidence whereas the possibility of emergence of new paradigms generally requires a great confidence in its own judgment.

Insofar, does the family constitute the single source of organizational conservatism?

2.2.1. Conservatism and its multiple origins

What are the explanations of the conservative attitude adopted by the family firm? First of all, the interaction between the family and business systems is the central element which prevents the firm from quickly adapting to new conditions (Moloktos, 1991). For Moloktos (1991), when the life cycles of these two systems do not evolve at the same pace, risks of crisis would be important. Because of their interdependence, transition and change are issues to be managed all at the same time by the firm and the family. An illustration of this life cycle non-parallelism could be seen in the passage from the entrepreneurial phase to the administrative phase (Ward, 1987). Indeed, this transition is generally accompanied by a family resistance to change and to accompany the necessary development of the firm. Mustakallio and Autio (2002) advance other reasons influencing family firm's entrepreneurial orientation. First of all, the strategic and operational decision-making processes are often not separated, because the owner-family furnishes at the same time one or more directors and one or more operational managers. The influence exerted by operational decision-making on strategic decision-making combined with the fact that these processes are not explicit would lead to the avoidance of strategic initiative (Mustakallio and Autio, 2002).

In addition, potential conflicts between family members stick on the firm. Thus, the family quarrels can constitute a barrier to the implementation of development plans and then reduce the capacity of the firm to adopt a proactive posture. Moreover, because of the investment of the totality of its wealth in the firm, the family will tend to avoid risk taking. Another explanation of conservatism is about the weak liquidity of the firms' stocks which, in consequence, exempt it from external control of strategies (Mustakallio and Autio, 2002). In addition, because it is difficult to determine the right price of these stocks and to integrate the prospects for future growth into this price, the firm is not interested by its growth and that of the future benefits but rather by the increase in its balance-sheet value (Mustakallio and Autio, 2002).

The former performance plays also an important role in shaping the conservative behavior of the firm. Indeed, various studies observe that the success of the firm creates personal and organizational forces manifested by a certain form of arrogance as for competitive pressures (Ranft and O' Neill, 2001). Personal paradigms which by the past proved their efficacy constitute inhibitors to change. Thus, in spite of the evolution of the environment and performance requirements, the owner-manager could become inflexible and rigid by promoting practices and strategies resulting from past successes and avoiding decisions which can threaten his image or his economic wealth (Ward, 1997). Consequently, he perceives a weak need for adjustment even in case of critical changes in the external environment. The sociologists speak about an impregnation process which occurs during the first stages of existence of the organization. The members of the firm create and learn various routines contributing to firm's performance. However, during time these routines are transformed into habits which in their turn become traditions tending to preserve the initial conditions of success (Kelly and Amburgey, 1991). In addition, a high performance coupled with the firm's age and the duration of founder's activity would exacerbate the forces leading to impregnation and traditionalism. For Mustakallio and Autio (2002), organizations lose their entrepreneurial orientation as they become aged. The more the firm is aged the more it tends to exploit its initial specific advantages. Moreover, the more it learns how to exploit its initial advantage, the less it will be inclined to explore new advantages. Thus, firms having made successfu breakthroughs tend more to privilege exploitation for longer periods and are characterized by a greater inertia (Levinthal and March, 1993). In sum, giving a high importance to traditions and emotionally attached to the firm and stability of ownership, the family firm shows a greater reduction of its innovativity and proactivity than other firms.

In short, family SME exhibits a high strategic conservatism when the strategy hitherto adopted showed its effectiveness. The feeling of stability and acquired profitability constitute a barrier in front of the willingness to discover new outlets for firms' products. A strategy which functions or which functioned well in the past has all the chances to be set up as the firm's strategic paradigm. Therefore, the management is reticent to seek other performance paths and prefers to stick to the strategy which proved reliable in the past (Jenster and Malone, 1991).

A characteristic of family SME is that it is prone to succession which can take place within the family circle. Since founder's and family's attitudes, paradigms and schemas could not be (or hardly) amended, succession constitutes the major opportunity to release the organization from conservatism.

2.2.2. Succession: a solution to conservatism

The firm's controlling generation is a variable exerting a strong influence on governance and the strategy of the family firm. In spite of the risk which the succession could provoke on the firm since it can imply the fragmentation of control and ownership and the reduction of size if the firm is divided into separate entities (Yeung, 2000), succession would have beneficial effects as for the strategic orientation. Miller and ali. (2003) identify three types of succession for the family firm: The succession can be conservative, hesitant or rebel. In this last configuration, the general strategy should undergo great changes which touch the extent of product/market portfolio and functional marketing strategies (Miller and ali., 2003). Jenster and Malone (1991) confirm the correlation between succession and change since the adoption of change depends above all on firm's leadership: Indeed, organizational transitions would have more chance to be carried out if a leadership change occurs through firm's transfer from the founder to the successors. The new owner-manager can choose acquisitions, investment withdrawals, expansions, changes of product or market and changes of firm's general policy. However, it is possible that changes induced by this transmission will not be founded on a real will to seize new opportunities but rather by the desire of the successor to leave his own print and to flee the past. Indeed, it seems that a rebel succession is more likely to occur when there is a conflict between father and son (Miller and ali., 2003). In this case, the new owner-manager rejects the legacy of the former generation and the detachment from past and its practices is total.

It is undeniable that the competence of the successor and his leadership qualities constitute necessary conditions to the success of the strategic revival. In this vein, Ward (1987) stresses that if successor's qualities of leadership are weak and its competences limited then the future growth of the family firm would be inhibited (Ward, 1987). For this author, the weak leadership is explained by security and inherited wealth which would deprive younger generations of the desire, the need and the eagerness required to be good entrepreneurs and thus to be able to assume the management responsibilities. If competence is absent or insufficient, strong leadership can thus be followed by periods of conservative strategies and organizational behavior.

Conclusion

This paper analyzes how organizational's conservatism impacts the financial choices of family SME. Through family SME main governance bodies i.e. the owner-manager and board of directors, conservatism influences decision-making and particularly financial decisions and choices.

The successful and sustainable family firm has to renew its business strategy several times as the market and competitive pressures evolve (Ward, 1988). However, the literature suggests that the family system attempts to create and maintain a cohesiveness that supports the family "paradigm" which is described as the core assumptions, beliefs, and convictions that the family holds in relation to its environment (Gudmundson and ali., 1999). Information that is not consistent with this paradigm is resisted or ignored (Davis, 1983). The more the family is conservative the less it works for change.

For this reason, Harris and ali. (1994) suggest that the family firm must carry out some critical tasks to strategy development: Reinterpreting the role of the entrepreneurial hero (the founder); challenging old strategic paradigms and promoting strategic development as process of continuous change.

The succession is an event which is favorable to change. Other favorable actions deserve to be mentioned. Thus, the revitalization of the board of directors may permit to struggle against conservative “temptations”. In particular, outside directors’ contribution would be valuable. This role can be emphasized through the two missions they must achieve: control and consulting. For the first, it is known that outside directors would be more independent and able to defend the shareholders’ interests. As for the second, outsiders would prevent from the dominance of a single line of thought by challenging the assumptions underlying the firm’s strategies and injecting external knowledge. Empirically, research indicates that boards with high proportion of external directors are more intensely involved in strategic decision-making (Judge and Zeithaml, 1992), are ready to analyze the firm’s forces and weaknesses and act as a change catalyst (Muelle, 1988[9]).

Under the assumption of attenuated conservatism, Corbetta and Montemerlo (1995) stress that, in order to receive external financing, family SME must exhibit solid and transparent financial and patrimonial structures. Accordingly, the firm must choose the “rich firm – poor family” model at the expense of the “poor firm – rich family” one. Actually, this latter implies that the family regularly withdraws money from the firm and reinvests it privately thus causing an over-estimation of debt and an inaccurate image of firm’s finance. Besides, Yeung (2002) recommends to the family firm seeking financing on the money market to conform to overall governance, banking and accounting standards. In sum, it is necessary to set up adequate organizational responses to the requests and expectations of financial parties in order to increase the legitimacy of the firm and permit access to capital.

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