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Exploring the Financial Dimensions of Lebanese SMEs: Comparative Study between Family and Non-family Business

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ABSTRACT

This study investigates the financial dimensions of family and non-family SMEs in Lebanon from 2005 to 2016. Based on 81 family SMEs and 45 non-family SMEs, the results reveal that family SMEs have outperform the non-family SMEs during economical and political instability period. In addition, the results show that family SMEs rely on long term debts (LTD) more than non-family SMEs. Oppositely to non-family SMEs, when the level of risk increased with local and regional instability in the period between 2005 and 2011, the results reveal that family SMEs enhanced their needs of financial resources by developing their LTD and lowering their short term debts. Finally, the results show that family SMEs have more capacity than non-family SMEs to preserve their performance and increase their effort by selecting an overinvesting strategy during instability periods.

Keywords: Family Firms, SMEs, Financial Strategy, Capital Structure, Investment
JEL Classifications: G3, G24

1. INTRODUCTION

Family firms are the dominant form of organization across the globe, in emerging as well as in more established economies. Families control between 70% and 90% of all firms worldwide (Zellwegner, 2017). Many researches have been interested in exploring the business model of family firms, which still remains an issue of ambiguity. Generally, literature seems to confirm a better financial and economic performance of family firms. Family ownership, family control and involvement of family members have been analyzed as source of competitive advantage in comparison with other types of companies. However, analyzing the financial advantage of family firms needs more investigations in some special context, such as the context of crises. So, it seems particularly interesting to shed new light on family firm's financial singularities in periods of troubles since minimal research has been carried out in this field (Bauweraerts and Colot, 2013).

Lebanon offers a significant experimental fields for this type of research since Lebanese family firms have been supporting the consequences of political troubles during more than decade. By referring to history, Lebanon had been characterized by many political crises between 2005 and 2016 driven by two different sources. From 2005 till 2010, the troubles were mainly determined by internal political incidents such as bombings, assassinations and internal wars. Later, from 2011 till 2016, the political troubles were caused by external incidents, where the Arab Spring protests and the Syrian civil war had played the principal role.

In fact, Lebanese family firms are characterized by their small and medium size since 95 % of companies in Lebanon are SMEs (Matta, 2018). Despite all the negative consequences of internal and external political troubles, they have continued playing an important economic role. The percentage of family

SMEs contribution to national GDP was estimated at 85% in 2016[1].

By recognizing the significant aspect of family SMEs in Lebanon, the objective of this study is to compare the financial strategies between family and non-family SMEs during the Lebanese political instability. Thus, the major contribution of this research is to fill the gap in literature on the following questions: What are the different financial strategies of family and non-family SMEs during periods of political instability? Are the family SMEs capable to have higher level of financial performance than that of non-family SMEs? And finally, what are the determinants of financial performance and strategies of family and non-family SMEs during instability periods?

Despite the lack of information and all the complications in defining family firms and SMEs, the empirical study based on family and non-family SMEs attempts its objective. Thus, the results provide an important contribution to literature. They present significant knowledge on family and non-family SMEs by clarifying important aspects associated to their financial performance and strategies during instability periods.

Accordingly, the research is divided into three principal parts: Section (2) presents the survival challenges of family firms SMEs during periods of instability, section (3) describes the financial behavior of family SMEs, section (4) presents the method, data and the empirical findings, finally section (5) concludes the research paper.

2. SURVIVAL CHALLENGES OF FAMILY SMES DURING PERIODS OF INSTABILITY

The survival objective of the business represents one of the most powerful challenge for family firm leaders, who are personally identify with their companies. Normally, family firm's leaders are primarily accountable to themselves and their families (Cater and Justis, 2009). This strong identification with business leads owners of family business to think more creatively (Pervin, 1997), because they wish to maintain the security of their families. The failure of the firm is not simply accepted. Leaders in family firms avoid to be engaged in myopic short-term decisions (Chrisman et al., 2004). Their management is based on long-term orientation. In their point of view, economic and financial objectives are significant, but other objectives such as intra-familial altruism, firm longevity, and intra-generational succession are much more imperative for family businesses (Carney, 2005).

Survival objective is not always guarantee. Literature results are confusing. For example, Poza and Daugherty found that 30% of family businesses fail to survive the transfer from the first to second generation in 2014. For the same year, FOBI's survey showed that the average age of the family businesses in West Michigan was 50 years old and 11% were over 100 years old. Moreover, the survival objective becomes a central challenge for family firms during crises period. They can survive, if the entrepreneur's decision making had been improved, while the perceptions of the enterprise's situation held by the family and other stakeholder were taken into consideration at early stage of a crisis (Bodmer and Vaughan, 2009). With the power of family control, regulating committees like supervisory board, have an important role because it leads to mitigate crises by increasing the communication level with different stakeholders.

During period of environmental uncertainty, family systems and business systems reinforce each other and strengthen the business for the benefit of all involved parties (Sirmon et al., 2008; Corbetta and Salvato, 2004a; Anderson and Reeb, 2003). Family firms can achieve their success due to their long term orientation and their "familiness" (Habbershon and Williams, 1999; Chrisman et al., 2003). They "invest for the future or undertake initiatives with significant short- term costs," even during crisis (Miller and Le Breton-Miller, 2006. p. 78). The absolute leadership and decision - making control afforded to a CEO - chair in family firms help to favorably position the business and ease its course during times of economic difficulties, particularly in recession time. What is good for family may also be good for other stakeholders (Braun and Latham, 2009). Family firms place more weight on family and social ties, loyalty, trust and stability, which can increase goal congruence in crisis period (Corbetta and Salvato, 2004b). However, the presence of large blockholder in family firm can reduce opportunistic behaviors and enhance family firm's performance. Bloch et al., (2012) revealed that founding - family firms overperform during financial and economic shocks. Focusing on the Japanese case, Amann and Jaussaud (2012) argued that family firms achieve stronger resilience both during and after an economic crisis compared with non-family firms[2].

Relying on the Belgian case, Bauweraerts and Colot (2013) shed a new light on the performance of 108 pairs of large family and non - family firms during global crisis in 2008. They showed that family firms developed idiosyncrasies that made them more resilient than non - family firms. Their results suggest that family firms had strong indicators of resilience that took place when firm showed absorption and renewal capacities.

In 2014, FOBI's survey found that family businesses in West Michigan function differently during an economic downturn. Facing the earnings reduction, 76% of family business owners would reduce or not take a distribution and 58% would reduce or not take a salary. They choose to reduce advertising and R&D expenditures. While family businesses have been criticized as being risk averse, because they have less debt and have non-economic goals, they can function differently during a downturn. FOBI has labeled this phenomenon the "flat spline economic theory of family businesses."

1 Gobal Entrepreneurship Monitor 2016 National Report: Lebanon (www.uklebhub.com).

2 Based on a sample of 98 pairs family and non - family Japanese companies they founded that family firms resist the downturn better, recover faster, and continue exhibiting higher performance and stronger financial structures during and after an economic crisis. Therefore, family businesses were able to recover better or more easily during economic downturn and persisted in their stronger performance.

However, theories as stewardship, agency or resource based, have explained and justified the outperformance of family firms compared to non-family firms in crisis period. They used several arguments related to the influence of stewardship climate, the reduction of agency costs, the possession and utilization of valuable and rare resources that are difficult to copy and non- substitutable. However, some studies had revealed opposed empirical evidence. In period of troubles, family firms faced family conflicts with more tension and severity (Young et al. 2008). Principal-principal conflict between family members contributed to underperform the family-firm during crises (Lemmon and Lins, 2003; Lins et al., 2013).

Family firms underperform during crises also because of their investment strategies. Lins et al., (2013) discovered that family-controlled firms act more conservatively during crisis[3] by reducing investment. Based on a sample of 8500 firms from 35 countries, they found that the cut investment decisions contributed to the underperformance of family-controlled firms compared to non-family firms. The influence of political crises on the family firm stock prices was tested by Huang et al. (2014). Their study showed that family firms or firms with high growth opportunities experienced larger declines in their stock prices and a longer sequential period of decline.

3. FINANCIAL BEHAVIORS OF FAMILY AND NON FAMILY FIRMS

According to literature, a crisis is characterized by ambiguity of causes, effects and means of resolutions (Pearson and Clair, 1998). The management of crisis relies on a specific process, which is composed by: Crisis prevention, response and recovery (Elliott et al., 2005). When firms failed to prevent a crisis, they work hard on minimizing its negative impact by developing more capabilities for decision making and strategies (Kash and Darling, 1998). Specific characteristics of family firms may generate a competitive advantage that seems particularly interesting in understanding their classical financial behavior (3.1) and their adjusted financial strategies during crisis period (3.2).

3.1. Classical Financial Strategies of Family and Non Family Firms

Relying on multiple theories and studies, family firms have demonstrated their financial singularities in their higher profitability, more long-term investment strategy and their financial prudence concerning debt. The outperformance of family firms can be explained from different point of view. Based on agency theory (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983), family firms outperform non-family firms because they support less agency costs by minimizing the separation between management and ownership (El-Abiad, 2009; El-Chaarani, 2009, 2013).

The stewardship theory (Davis et al., 1997; Miller and Le Breton-Miller, 2009), explains that family firms outperform because family members are strongly identified with the firm. The stewardship can be characterized in three different forms: Over continuity, over employees and over customers. Another explanation is provided by the neo-institutional perspective, where the performance of family firm is viewed as a result of a set of values such as altruism (Van den Berghe and Carchon, 2003) and trust (Chami, 1999). Finally, family firms can find additional resources based on the "familiness" concept (Habbershon and Williams, 1999). The intricate connections in family businesses can lead to increase efficiency and strengthen the potential competitive advantage of the firm.

Besides, the diversification strategy in family firms has been considered different from non - family firms. The contingency model explains that owners in family firms may search to preserve their socio-economic emotional wealth. They avoid diversification strategies because they are afraid to lose their socio-emotional wealth (Abdellatif et al. 2010). Gomez-Mejia et al. (2010) suggest that on average family firms prefer less both domestically and internationally diversification than non - family firms. But when diversification arises, they tend to opt for domestic rather than international diversification. For Schulze et al. (2003), family firms avoid diversification because they consider that such strategy requires more external financial resources provided from outside investors and creditors, which increase the financial distress and threaten the financial independence of the company.

Finally, differences in capital structure between family firms and non - family firms have been subject to several international academic researches. Family firms were generally considered different from other firms in their preference to retained profits (Blanco-Mazagatos et al. 2007), and their cautions attitudes toward debt (Abbdellatif et al., 2010; Ampenberger et al., 2011). Moreover, Hamid et al., (2015) have shown the tendency of family firms toward a low debt level during stable environment. They have demonstrated that debt ratio is negatively and significantly related to the profitability of family firms.

3.2. Adjusted Financial Strategies of Family Firms during Period of Troubles

According to the organizational resilience concept (Horne and Orr, 1998) and the resilient organizations characteristics (Coutu, 2002), family firms are likely to be more resilient than other organizational forms facing a crisis. They are more pragmatic, optimistic and able to take transformative actions in presence of unexpected events in order to secure their potential long - term survival (Lengnick-Hall and Beck, 2009). Survived family firms have potentially used tools, materials or methods to generate solutions (Amann and Jaussaud, 2012) for eventual crisis recovery (Michael and Lathman, 2009, 2011).

In previous literature, many developments had treated the potential sources of competitive advantage in family firms (Habbershon and Williams, 1999), coming from their ability to take advantage of more centralized and informal decision - making processes (Morris et al., 1997) and their quick decisions making once

3 On the financing side, Lins et al. (2013) had supported the idea that family - controlled firms behave like other firms during the crisis period, with no evidence of greater access to finance. Family firms had presented the same policies of cash holdings, dividend policy, leverage debt maturity, credit lines, and equity issues, like non - family firms.

required (Ward, 1997). When changes in environment occurs, family firm's leaders are free to make decisions more quickly as family firms are often less bureaucratic than non - family firms (Dreux, 1990). Consequently, family firms have more capacity then non family firms to adopt fast alignment, by changing their classical behavior in terms of diversification and capital structure decisions during crisis period.

Motivated by their long - term orientations (Miller and Le Breton-Miller, 2006) and their willingness to conserve the firm for future generation (Amann and Jaussaud, 2012), family firms adopt more diversification strategy as business risk increases (Gomez-Mejia et al., 2010).

In critical situation, such as political crisis period, family firms have more courage to seek for new opportunities abroad and to conduct more research and development (Jorissen et al.2005). Furthermore, family firms can adjust their classical attitude toward debt, from caution to acceptance during downturns (Amann and Jaussaud, 2012), or political crises. They are flexible enough to accept these changes in their traditional debt behavior. In addition, they have more chance to attract the creditor's confidence even in crisis period for two reasons: Their long relationships (Menéndez-Requejo, 2006) and their interests which are likely to be more aligned with the firm's objectives (Vaknin, 2010).

4. EXPLORING THE DIFFERENCES IN FINANCIAL STRATEGIES BETWEEN FAMILY AND NON - FAMILY SMES DURING PERIODS OF TROUBLES: EVIDENCES FROM THE LEBANESE CASE

From 2005 till the end of 2016, Lebanon faced many political and economical crises. This period was characterized by high level of internal political tensions and security problems. In addition, during this period, Lebanon was highly influenced by the economic recession, oil price slowdown in Middle East region, Arab Spring protests and Syrian civil war.

During this phase, family and non-family SMEs in Lebanon had been facing the unpredictability and the volatility of internal and external political troubles respectively. For this reason, the research was based on a comparative study between Lebanese family and non-family SMEs during these critical periods. First, the settings of the empirical study are defined below (4.1). Second, the results are presented and discussed (4.2).

4.1. Settings of the Empirical Research

Over the past 15 years, several researches were interested in comparing family to non-family businesses. This study aims to extend knowledge about family SMEs. It explores the impact of crises that derive from the instability of the Middle East region on the financial strategies of family and non-family SMEs.

The settings of the empirical research had been confronted to many difficulties. First, the studies in the field of family firms have been struggled with the need of having a clear and universal definition for what constitutes a family business. Without clear definitional boundaries, researchers in family firms suffered from many methodological problems. According to literature, definitions of family firms share several common elements. The most generally used elements are: Family ownership and management, family involvement and generational transfer (Venter and Farrington, 2009). In order to simply the definition, only family ownership and management elements were selected for this research.

Second, the definition of SMEs needs also some clarifications. SMEs classification depends on the country, the size of the enterprise and may vary from industry to another. Traditionally, SME definitions have been set by using the number of employees as indicator[4]. But today, most countries use a combination of financial indicators (annual turnover or assets on the balance sheet) and the number of employees. Unfortunately, Lebanon lacked a formal unified definition of small and medium enterprises. Definitions differ from public to private sector entities. For example, Banque Du Liban (BDL) considers that a SME is an enterprise with less than LBP 15 billion in annual turnover. However, Kafalat[5] defines SMEs as having <40 employees. In order to broaden the sample size, the BDL definition was applied in this study. Consequently, a family SMEs, is a company with less than LBP 15 billion in annual turnover and has family members involved in its management and capital structure.

Third, with the lack of transparency in Lebanon, researchers have no chance to find a public secondary data about financial variables of Lebanese firms.

After many failed trials and accesses to secondary data, the collection of primary data had begun through 188 websites of Lebanese Small and Medium Family firms. It was clear at this level that the Lebanese family firms are hesitant to reveal any details of their financial structures and their investment strategies over the last 12 years (from 2005 till 2016). To overcome this obstacle, 260 questionnaires were sent to different Lebanese family firms. Only 114 companies accepted to collaborate by answering on the 14 questions of the questionnaire concerning their business identity, their annual turnover and other financial data. From 114 Lebanese family firms, 33 have been eliminated. The sample was finally composed from 81 Small and Medium Lebanese family firms operating in construction, manufacturing, wineries, retails, pharmaceutical, IT, logistic, oil and gas sectors (Table 1).

As the studies of Allouche et al., (2008), El-Abiad (2009) and Abdellatif et al. (2010), the pairs methodology had been used to undercover the sensibility of different financial indicators for both family and non - family firms. This approach is based on matching comparable pairs of family and non - family firms. For this

4 For example, the most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the limit is set at 500 employees for the United States.

5 Kafalat is a Lebanese financial company that assists small and medium sized enterprises (SMEs) to access commercial bank financial funds. Kafalat helps SMEs by providing loan guarantees based on business plans and feasibility studies. http://kafalat.com.lb.

Table 1: Distribution of the sample

Economic sector	Number of family SMEs (%)	Number of pairs (family, nonfamily SMEs) (%)
Construction	14 (17.28)	8 (17.78)
Manufacturing	8 (9.88)	3 (6.67)
Wineries	1 (1.23)	1 (2.22)
Retails	18 (22.22)	12 (26.67)
Pharmaceutical	1 (1.23)	1 (2.22)
IT	14 (17.28)	9 (20)
Logistic	12 (14.82)	5 (11.11)
Oil and gas	13 (16.06)	6 (13.33)
Total	81 (100)	45 (100)

purpose, the same questionnaire was sent to 220 different Lebanese non- family firms. 88 companies accepted to collaborate and 8 were rejected. Only 45 companies were designated as pairs with the non-family firms based on their industrial sectors and size[6].

4.2. Financial Performance, Capital Structure and Investment Strategy of the Lebanese Family SMEs during Instability Periods

To achieve the objectives of this study, financial performance, capital structure and investment strategy variables were selected on the basis of several previous studies. The financial performance was measured by referring to three performance indicators: The return on equity (ROE), the return on assets (ROA) and the return on investments (ROI)[7]. The capital structure was tested by three variables: Total debt (TD), short term debt (STD) and long term debts (LTD) ratios[8].

The potential willing of Lebanese family firm to adopt diversification strategies was measured by two ratios: Capital expenditure - to - fixed assets (CEFA) and capital expenditure - to - total assets (CETA). The type of diversification, whether it is national or international, was tested by a third ratio (International diversification: ID)[9], which was the foreign sales volume ratio. In total, nine financial variables were selected.

A quantitative method to data analysis was used. The data was analyzed using a variety of statistical techniques.

4.2.1. Descriptive analysis

First, the descriptive analysis was applied in order to detect the relationship between performance, capital structure and investment strategy variables for the Lebanese family SMEs over the past 12 years of politic crises (Table 2).

The results reflect that the capital structure of family firms has a significant correlation with their performance. The total debt (TD) and the LTD ratios are positively and significantly correlated with ROA, ROE and ROI. However, the STD ratio is significantly negatively correlated with the performance variables. LTD present more advantage for family firms than STD. The investment strategy presents a significant positive correlation with the performance of family firms and their LTD ratio. CEFA, CETA and ID ratios are significantly positively correlated with ROE, ROA, ROI and LTD. Family firms depend on LTD to finance their investment activities and consequently increase the firm performance.

4.2.2. Family versus non-family SMEs in periods of instability

The average of each financial variable was calculated separately for the pairs of family and non- family firms over the past 12 years. T-test was used to examine the significance of differences between averages, consecutively at 1%, 5% and 10% threshold.

The performance metrics (ROA, ROE and ROI) results indicate that family SMEs had a greater performance than non - family firms during instability periods (Table 3).

Results of Table 3 show that during 12 years of political uncertainty, Lebanese family firms were able to outperform their counterparts. Owners in family firms were mobilizing all their potential sources of competitive advantages (Habbershon and Williams, 1999) to secure and improve the performance of their company during this critical period. Their competitive advantages derive from their particularities, as their strong connections with external stakeholders (Miller and Le Breton-Miller, 2006) and identification to their business (Pervin, 1997).

In chaotic environment, firms should have the flexibility and the ability to resolve potential problems and make quick decisions. The Lebanese family SMEs outperformance explains that they were able to take advantage from their centralized and informal decision - making processes (Morris et al., 1997) to resolve their problems more quickly than non - family firms (Intihar and Pollack, 2012). Bjuggren and Sund had found a similar result in 2004. They revealed that family SMEs develop idiosyncratic knowledge that improves their performance in critical periods. In addition, Amann and Jaussaud (2012) had considered that survived family firms have potentially the ability of using any tools or materials to create solutions when crisis arises. According to Michael and Lathman (2011), the long - term goal orientation helps owners in family firms to favorably position their firm for eventual crisis recovery.

By relying on agency theory, Young et al. (2008) explained that family firms outperform during crises because they support less agency costs. In such difficult time, families will search to preserve the wealth and the security of their firms. In consequence, they controlled the tension between controlling and minority shareholders better than non- family firms.

For the capital structure dimension, the results of Table 4 demonstrate that both of the Lebanese family and non-family firms rely on debts as principal financial resource.

6 The companies in the same sector were considered as similar in size if their sales were within 20% of each other. Industrial sector was measured by the type of activity and firm size was identified by the natural logarithm of firm's sales.

7 ROE= Net income/Total equity, ROA = Net income/Total Assets and ROI = Operating income/ Capital employed.

8 The combination of the three capital structure variables was applied in Serrasqueiro et al. (2011), Shubita and Alsawalhah (2012) and Hamid et al. (2015) researches. TD = Total debt/Total Assets, STD= Short term/Total Assets and LTD = Long term/Total Assets.

9 Capital expenditure-to-fixed Assets (CEFA)= Capital expenditure/Fixed Assets, Capital expenditure-to-total Assets (CETA)= Capital expenditure/ Total Assets and International diversification (ID) = Volume of foreign sales/ Total Sales.

Table 2: Correlation Pearson correlation test

	ROE	ROA	ROI	TD	STD	LTD	CEFA	CETA	ID
ROE	1								
ROA	0.118 0.001***	1							
ROI	0.192 0.000***	0.172 0.000***	1						
TD	0.026 0.093*	0.114 0.036**	0.099 0.022**	1					
STD	−0.073 0.081*	−0.052 0.079*	−0.007 0.064*	0.218 0.000***	1				
LTD	0.110 0.000***	0.164 0.001***	0.109 0.000***	0.299 0.000***	−0.026 0.059*	1			
CEFA	0.167 0.001***	0.194 0.000***	0.218 0.000***	0.167 0.000***	0.045 0.114	0.348 0.000***	1		
CETA	0.146 0.000***	0.192 0.000***	0.216 0.000***	0.145 0.000***	0.049 0.158	0.318 0.000***	0.248 0.000***	1	
ID	0.151 0.001***	0.099 0.045**	0.118 0.020**	0.121 0.067*	0.048 0.058*	0.196 0.073*	0.099 0.006**	0.086 0.035**	1

***, **, *Statistical significance respectively at 1%, 5% and 10%. ROE: Return on equity, ROA: Return on assets, ROI: Return on investments, TD: Total debt, STD: Short term debt, LTD: Long term debt, CEFA: Capital expenditure - to - fixed assets, CETA: Capital expenditure - to - total assets, ID: International diversification

Table 3: Performance of family and non - family SMEs during instability periods

From 2005 till 2016 (average)					
Indicators	**Number of observations**	**N.F.F**	**F.F**	**Different**	**Significance**
ROE	528	0.996	2.563	1.398	0.000***
ROA	533	0.988	1.355	0.239	0.024**
ROI	519	0.984	1.976	1.175	0.000***

***, **, *Statistical significance respectively at 1%, 5% and 10%. ROE: Return on equity, ROA: Return on assets, ROI: Return on investment

Table 4: Capital structure of family and nonfamily SMEs during instability periods

From 2005 till 2012 (average)					
Indicators	**Number of pairs**	**N.F.F**	**F.F**	**Different**	**Significance**
TD	534	69.967	67.038	0.089	0.010**
STD	522	55.594	39.951	9.787	0.084*
LTD	531	17.383	29.136	9.886	0.000***

***, **, *Statistical significance respectively at 1%, 5% and 10%. TD: Total debt, STD: Short term debt, LTD: Long term debt

Results of debt ratios provided in Table 4 indicate that the Lebanese family SMEs were flexible enough to change their traditional conservative attitudes toward debt during the past 12 years. They have been relying on creditor's confidence and their public relations with banks to facilitate credits acceptance. They were flexible enough to change their classical debt - behavior and accept to have, approximately the same total debt level as non-family firms [TD (F.F) = 67.038 and TD (N.F.F) = 69.967].

This result was previously detected in Japan and Spain during crises. In 2012, Amann and Jaussaud found that Japanese family firms accepted to increase their debts level. In 2006, Menéndez - Requejo considered that the Spanish family firms were flexible enough to maintain their strong relationship with creditors.

Other results in Table 4 indicate that debt preference differs between family and non - family firms. The averages of LTD and STD ratios illustrate that the Lebanese family firms had rather privileged long term on STD. Similar results were found by Colot and Croquet in 2006 and Blanco-Mazagatos et al., in 2007. Based on the sample of our study, the average of LTD ratio was 29.136 for family firms and 17.383 for non- family firms, with a significant difference at 1% threshold. However, the average of STD ratio was 55.594 for non-family firms and 39.951 for family firms, with a significant difference at 10% threshold.

Finally, the investment strategy of Lebanese family and non - family SMEs measured by the three main ratios (CEFA), (CETA) and (ID) is presented in Table 5. The results illustrate that family SMEs preserve a dynamic investment strategy even during political troubles.

Results in Table 5 indicate that Lebanese family SMEs had been exploring new investment opportunities during the past 12 years. Averages of capital expenditure - to - fixed Assets (CEFA) and capital expenditure - to - total Assets (CETA) ratios reveal that family firms require a higher mobilization of funds to acquire more assets. Differences in CEFA and CETA between family and non- family SMEs are all significant at 5% threshold.

During crises, family firms adopt long - term orientations (Amann and Jaussaud, 2012), conduct more development strategies (Jorissen et al., 2005) and present higher investment rates (Bauweraerts and Colot, 2013). Motivated by their strong

willingness to protect their companies, Lebanese family SMEs select an overinvesting strategy covered by LTD.

According to Gomez-Mejia et al. (2010), family firms diversified their activities with the increasing of business risk. Under the pressure of crises, Lebanese family SMEs had been seeking for foreign sales opportunities. This result is revealed by the international diversification ratio (ID). The average of ID ratio shows that family SMEs take the lead in overseas markets more than non - family firms. ID ratio is 12.816 for family firms and 8.701 for non - family firms, with a significant difference at 1% threshold.

4.2.3. Determinants of financial dimensions of family and non-family SMEs

To accomplish this research, the regression models were implemented (Table 6) to discover the determinants of financial performance, capital structure and investments of family and non family SMEs in Lebanon.

In this study, two different periods were considered. The first period was characterized by high level of internal Lebanese instability (bombing, assassination and violence) and dated from 2005 to 2010. The second period was characterized by regional economical and political instability (Arab Spring protests, economic recession, slowdown of oil price) and dated from 2011 to 2016.

For these two issues (family vs. non family and internal vs. external), two control variables were considered:

"T*F*IPC$_{i,t}$" a dummy variable that stands for the Type of the Firm "*i*" in period "*t*" during Internal Political Crisis period. TFIPC is equal to 1 for family SMEs during internal political troubles. Otherwise, in case of non-family SMEs, TFIPC is equal 0.

"T*F*IPC$_{i,t}$" a dummy variable that stands for the Type of the Firm "*i*" in period "*t*" during External Political Crisis period. TFEPC is equal to 1 for family SMEs during external political troubles. Otherwise, in case of non-family SMEs, TFEPC is equal 0.

The determinants of SMEs performance are presented in Table 7. P1, P2 and P3 show the regression results of three types of performance (ROE, ROA and ROI). Table 7 reveals that the three models (P1, P2 and P3) are highly significant since P = 0.000. The Adjusted R-squares for models 1, 2 and 3 are respectively 61.3%, 71.8% and 64.9%. This means that 61.3% of variations in ROE, 71.8% of variations in ROA and 64.9% of variations in ROI are explained by the selected variables.

According to beta coefficients, the performance of Lebanese SMEs is fundamentally dependent on their types. Family identity has a positive and significant impact on the financial performance during both of internal and external instability periods. Beta coefficients of TFIPC are 0.462, 0.528 and 0.545 when the dependent variables

Table 5: Investment strategy of family and nonfamily SMEs during instability periods

From 2005 till 2012 (average)					
Indicators	**Number of pairs**	**N.F.F**	**F.F**	**Different**	**Significance**
CEFA	492	3.491	6.272	2.781	0.044**
CETA	468	1.956	3.638	1.682	0.036**
ID	484	8.701	12.816	4.115	0.000***

***, **, *Statistical significance respectively at 1%, 5% and 10%. CEFA: Capital expenditure to fixed assets, CETA: Capital expenditure to total assets, ID: International diversification

Table 6: Models of WLS regression analysis

Independent variables	Dependent variables	Models
Performance	ROE	$(P_1): ROE_{i,t}=\alpha+\beta_1 TD_{i,t}+\beta_2 STD_{i,t}+\beta_3 LTD_{i,t}+\beta_4 CEFA_{i,t}+\beta_5 CETA_{i,t}+\beta_6 ID_{i,t}+\beta_7 TFIPC_{i,t}+\beta_8 TFEPC_{i,t}+\varepsilon$
	ROA	$(P_2): ROA_{i,t}=\alpha+\beta_1 TD_{i,t}+\beta_2 STD_{i,t}+\beta_3 LTD_{i,t}+\beta_4 CEFA_{i,t}+\beta_5 CETA_{i,t}+\beta_6 ID_{i,t}+\beta_7 TFIPC_{i,t}+\beta_8 TFEPC_{i,t}+\varepsilon$
	ROI	$(P_3): ROI_{i,t}=\alpha+\beta_1 TD_{i,t}+\beta_2 STD_{i,t}+\beta_3 LTD_{i,t}+\beta_4 CEFA_{i,t}+\beta_5 CETA_{i,t}+\beta_6 ID_{i,t}+\beta_7 TFIPC_{i,t}+\beta_8 TFEPC_{i,t}+\varepsilon$
Capital structure	TD	$(CS_1): TD_{i,t}=\alpha+\beta_1 ROA_{i,t}+\beta_2 ROE_{i,t}+\beta_3 ROI_{i,t}+\beta_4 CEFA_{i,t}+\beta_5 CETA_{i,t}+\beta_6 ID_{i,t}+\beta_7 TFIPC_{i,t}+\beta_8 TFEPC_{i,t}+\varepsilon$
	STD	$(CS_2): STD_{i,t}=\alpha+\beta_1 ROA_{i,t}+\beta_2 ROE_{i,t}+\beta_3 ROI_{i,t}+\beta_4 CEFA_{i,t}+\beta_5 CETA_{i,t}+\beta_6 ID_{i,t}+\beta_7 TFIPC_{i,t}+\beta_8 TFEPC_{i,t}+\varepsilon$
	LTD	$(CS_3): LTD_{i,t}=\alpha+\beta_1 ROA_{i,t}+\beta_2 ROE_{i,t}+\beta_3 ROI_{i,t}+\beta_4 CEFA_{i,t}+\beta_5 CETA_{i,t}+\beta_6 ID_{i,t}+\beta_7 TFIPC_{i,t}+\beta_8 TFEPC_{i,t}+\varepsilon$
Investment strategy	CEFA	$(IS_1): CEFA_{i,t}=\alpha+\beta_1 ROA_{i,t}+\beta_2 ROE_{i,t}+\beta_3 ROI_{i,t}+\beta_4 TD_{i,t}+\beta_5 STD_{i,t}+\beta_6 LTD_{i,t}+\beta_7 TFIPC_{i,t}+\beta_8 TFEPC_{i,t}+\varepsilon$
	CETA	$(IS_2): CETA_{i,t}=\alpha+\beta_1 ROA_{i,t}+\beta_2 ROE_{i,t}+\beta_3 ROI_{i,t}+\beta_4 TD_{i,t}+\beta_5 STD_{i,t}+\beta_6 LTD_{i,t}+\beta_7 TFIPC_{i,t}+\beta_8 TFEPC_{i,t}+\varepsilon$
	ID	$(IS_3): ID_{i,t}=\alpha+\beta_1 ROA_{i,t}+\beta_2 ROE_{i,t}+\beta_3 ROI_{i,t}+\beta_4 TD_{i,t}+\beta_5 STD_{i,t}+\beta_6 LTD_{i,t}+\beta_7 TFIPC_{i,t}+\beta_8 TFEPC_{i,t}+\varepsilon$

This table shows the WLS regression models where: ROE is the Return-On-Equity, ROA is Return-On-Assets, ROI is the Return-On-Investment (ROI). TD is the total debt, STD is the short term debt, (LTD) is the long term debt, CEFA is the capital expenditure - to - fixed assets, CETA is the capital expenditure - to - total assets and ID is the international diversification (ID) ratios. The control variables are: Type of the firm during internal political crisis (TFIPC) and Type of the firm during external political crisis (TFEPC). ROE: Return on equity, ROA: Return on assets, ROI: Return on investments, TD: Total debt, STD: Short term debt, LTD: Long term debt, CEFA: Capital expenditure - to - fixed assets, CETA: Capital expenditure - to - total assets, ID: International diversification

Table 7: WLS results for the performance models (P1, P2 and P3)

Independent variables	P1: Dependent variable $ROE_{i,t}$		P2 : Dependent variable $ROA_{i,t}$		P3: Dependent variable $ROI_{i,t}$	
	Standardized coefficients Beta	Sig.	Standardized coefficients Beta	Sig.	Standardized coefficients Beta	Sig.
(Constant)	35.655	0.002***	22.110	0.000***	33.873	0.000***
$TD_{i,t}$	0.206	0.008***	0.135	0.016**	0.169	0.004***
$STD_{i,t}$	–0.116	0.092*	-0.146	0.057*	-0.102	0.053*
$LTD_{i,t}$	0.289	0.009***	0.158	0.004***	0.295	0.007***
$CEFA_{i,t}$	0.141	0.013**	0.134	0.022**	0.182	0.096*
$CETA_{i,t}$	0.125	0.024**	0.112	0.035**	0.199	0.081*
$ID_{i,t}$	0.232	0.003***	0.196	0.001***	0.276	0.006***
$TFIPC_{i,t}$	0.462	0.000***	0.528	0.000***	0.545	0.000***
$TFEPC_{i,t}$	0.644	0.000***	0.743	0.000***	0.766	0.000***
R-square	63.4%		73.3%		71.2%	
Adjusted R-square	61.3%		71.8%		64.9%	
F statistic	30.299		48.139		36.165	
Model significance P value	0.000		0.000		0.000	

Levels of significance: *** 1%, ** 5% and * 10%. This table shows the results WLS regression analysis for performance models P_1, P_2 and P_3. P_1: Dependent variable is Return-On-Equity (ROE), P_2: Dependent variable is return-on-assets (ROA) and P_3: Dependent variable is return-on-investment (ROI). The independent variables are: Total Debt (TD), short term debt (STD), long term debt (LTD), capital expenditure - to - fixed assets (CEFA), capital expenditure - to - total assets (CETA) and international diversification (ID) ratios. The control variables are: Type of the firm during internal political crisis (TFIPC) and type of the firm during external political crisis (TFEPC)

are measured by ROE, ROA and ROI respectively. Consequently, the family control during the internal instability in Lebanon has a positive impact on firm performance. Also, the presence of family on the top of SMEs provides a positive impact on the financial performance during the external political crisis. Beta coefficients of TFEPC are 0.644, 0.743 and 0.766 when the dependent variables are measured by ROE, ROA and ROI respectively.

Leaders in family firms are personally identified to their company and their principal objective is to ensure the continuity of their businesses for their entire lives. They are primarily accountable to themselves and their families, while non - family managers are accountable to the stockholders of their corporation (Cater and Justis, 2009). So, with the extra - pressure of the economical and political crisis, they generate more competitive advantage and mobilize their resources to absorb the external political crisis shocks and enhance the firm performance (Cater and Beal, 2014). This result comes in line with Braun and Latham, (2009) findings, who considered that in difficult period coming from economic crisis, family firms use their absolute leadership and decision making control to favorably position their business and facilitating management's reaction. However, non-family firms experiencing the same crisis don't have the same advantage since they will be in charge of appeasing different stakeholder demands.

Beta coefficients for capital structure variables indicate that the performance of Lebanese family and non - family SMEs is correlated with the types of debt. TD variable presents a positive and significant impact on the financial performance measured through P1, P2 and P3 models (at 1% level of significance for ROE and ROI, at 5% level of significance for ROA). Lebanese SMEs have been principally relying on banks to ensure their needs of funds during this critical period of time. So, their performance depends on their total debt levels. However, in crisis period, the operating income of firms might be insufficient to cover interest charges. Thus, too much debt will increase the bankruptcy risk for the firm (Hamid et al., 2015).

Contrary to Pecking order theory (Myers and Majluf, 1984), this result is corroborating the assumptions of the Trade-off theory (Miller, 1977). With Pecking order theory, firms have a hierarchy of financial choices, which starts with internally generated financing, then external debt and finally outside equity (Nadaraja et al., 2011). According to Ting and Lean (2011) a firm with high profits is assumed to have low debts. But, with Trade-off theory, firms with high profit prefer debt financing to further improving their profits (Ahmad and Abdul Rahim, 2013).

Moreover, this positive impact is conditioned by the type of debts. LTD variable has a positive and significant effect on ROE, ROA and ROI (at 1% level of significance). Their beta coefficients are 0.289, 0.158 and 0.295 respectively. But, STD provides a negative and significant effect on ROE, ROA and ROI. Their beta coefficients are −0.116, −0.146 and −0.102 respectively (at 10% level of significance). These results indicate that the Lebanese SMEs have the tendency to use LTD instead of STD to finance their investments and their developments.

Finally, beta coefficients for investment strategies variables indicate that CEFA, CETA and ID provide a positive and significant effect on the performance of Lebanese family and non -family SMEs. However, ID variable has the highest impact in the three regression models. From these results, it is noticed that during political crisis, Lebanese SMEs enhance their performance by relying on the international diversification strategy.

After studying the determinants of SMEs performance, the results in Table 8 consist to explore the determinants of capital structure of Lebanese SMEs (CS_1, CS_2 and CS_3) during instability periods. The three regression models in Table 8 are highly significant.

P - values of CS_1, CS_2 and CS_3 are equal to 0.000 and adjusted R-squares are 57.6%, 44.2% and 63.1% respectively. The selected variables explain 57.6% of variations in TD, 44.2% of variations in STD and 63.1% of variations in LTD.

The results of Table 8 show that beta coefficients of TFIPC are 0.367, −0.131 and 0.472 when the dependent variables are measured by TD, STD and LTD respectively. And, Beta coefficients for TFEPC are higher than that of TFIPC and equal to 0.558, −0.465 and 0.783 when the dependent variables are measure by TD, STD and LTD respectively.

According to beta coefficients, the capital structure of Lebanese SMEs is correlated to the type of ownership and source of instability. During instability periods, family owners of Lebanese SMEs are willing to increase the levels of TD and LTD and decrease the level of STD. Therefore, family SMEs are capable to mitigate their needs of financial resources by having more LTD and total debts during political crisis. Family owners rely on their public relations with banks and benefit from banks facilities to satisfy their needs of LTD (Serrasqueiro et al., 2011).

Moreover, the results in Table 8 indicate that the performance variables have a significant positive impact on debt levels of Lebanese SMEs. The three regression models reveal that only ROI has a significant and negative impact on STD (at 5% level of significance). Therefore, SMEs with high performance level prefer debt financing in crisis periods and especially the LTD. This finding confirms the assumptions of Trade-off theory (Miller, 1977) with preference to LTD on STD.

Finally, Table 8 shows that the investment strategy variables have a positive impact on TD and LTD. However, the three variables of investment strategies have a negative and significant impact on STD. This result indicates that during the 12 years of instability, SMEs have financed their investment by increasing their long term and avoiding STD.

The determinants of investment strategy of family and non-family firms during instability periods are explained in the three models: IS_1, IS_2 and IS_3 (Table 9). Results of WLS regressions present a high significance level since p-value of the three models is equal to 0.000. The selected variables explain 62.8%, 57.4% and 60.1% of the variations in CEFA, CETA and ID respectively.

The values of beta coefficients reveal that the investment strategy is highly dependent on the nature of ownership and the source of instability. The presence of family owners on the top of SMEs has a positive and significant impact on the investment strategies. Beta coefficients of TFIPC equal to 0.384, 0.372 and 0.364 when the dependent variables are measured by CEFA, CETA and ID respectively.

During regional political crisis period, the family SMEs have more tendency to increase their investments. Beta coefficients of TFEPC equal to 0.647, 0.596 and 0.635 in IS_1, IS_2 and IS_3 models respectively.

These findings indicate that when the level of instability increases, family firms increase their effort by selecting an overinvestment strategy. According to the relative literature, family firms are more willing to diversify their business when risk increases (Gomez-Mejia et al., 2010). They benefit from economics in agency costs (Svalland and Vangstein, 2009), to select long-term investment and explore new abroad opportunities (Amann and Jaussaud, 2012). Contrary to non-family firms, they are more inclined to select a higher diversification strategy with no evidence of choosing low- risk industries (Svalland and Vangstein, 2009).

For the performance variables, beta coefficients are positive and significant. ROE provides a positive and significant impact on

Table 8: WLS results for the capital structure models (CS1, CS2 and CS3)

Independent variables	CS1: Dependent variable $TD_{i,t}$		CS2: Dependent variable $STD_{i,t}$		CS3: Dependent variable $LTD_{i,t}$	
	Standardized Coefficients Beta	Sig.	Standardized Coefficients Beta	Sig.	Standardized Coefficients Beta	Sig.
(Constant)	26.442	0.001***	32.291	0.039**	39.962	0.000***
$ROE_{i,t}$	0.107	0.055*	−0.096	0.257	0.187	0.008***
$ROA_{i,t}$	0.139	0.017**	0.024	0.175	0.202	0.000***
$ROI_{i,t}$	0.166	0.009***	−0.135	0.033**	0.216	0.005***
$CEFA_{i,t}$	0.109	0.039**	−0.089	0.037**	0.203	0.004***
$CETA_{i,t}$	0.125	0.028**	−0.104	0.042**	0.195	0.010***
$ID_{i,t}$	0.104	0.050**	−0.129	0.041**	0.223	0.000***
$TFIPC_{i,t}$	0.367	0.000***	−0.131	0.033**	0.472	0.000***
$TFEPC_{i,t}$	0.558	0.000***	−0.465	0.000***	0.783	0.000***
R-square	61.1%		56.4%		65.6%	
Adjusted R-square	57.6%		44.2%		63.1%	
F statistic	26.552		21.619		39.459	
Model significance P value	0.000		0.000		0.000	

Levels of significance: *** 1%, ** 5% and * 10%. This table shows the results WLS regression analysis for the capital structure models CS_1, CS_2 and CS_3. CS_1: Dependent variable is total debt ratio (TD). CS_2: Dependent variable is short term debt ratio (STD). CS_3: Dependent variable is long term debt ratio (LTD). The independent variables are: Return on equity (ROE), return on assets (ROA), return on investment (ROI), capital expenditure - to - fixed assets (CEFA), capital expenditure - to - total assets (CETA) and international diversification (ID) ratios. The control variables are: Type of the firm during internal political crisis (TFIPC) and type of the firm during external political crisis (TFEPC)

Table 9: WLS results for the investment strategy models (IS1, IS2 and IS3)

Independent variables	IS1: Dependent variable $CEFA_{i,t}$		IS2: Dependent variable $CETA_{i,t}$		IS3: Dependent variable $ID_{i,t}$	
	Standardized coefficients Beta	Significance	Standardized coefficients Beta	Significance	Standardized coefficients Beta	Significance
(Constant)	36.126	0.002***	32.334	0.009***	40.782	0.001***
$ROE_{i,t}$	0.111	0.044**	0.106	0.027**	0.165	0.007***
$ROA_{i,t}$	0.126	0.071*	0.117	0.068*	0.193	0.000***
$ROI_{i,t}$	0.178	0.005***	0.159	0.024***	0.201	0.003***
$TD_{i,t}$	0.132	0.045**	0.092	0.068*	0.129	0.049**
$STD_{i,t}$	−0.017	0.239	−0.044	0.282	−0.051	0.110
$LTD_{i,t}$	0.276	0.000***	0.202	0.000***	0.213	0.000***
$TFIPC_{i,t}$	0.384	0.000***	0.372	0.000***	0.364	0.000***
$TFEPC_{i,t}$	0.647	0.000***	0.596	0.000***	0.635	0.000***
R-square	65.5%		59.9%		62.8%	
Adjusted R-square	62.8%		57.4%		60.1%	
F statistic	31.799		33.739		34.975	
Model significance P value	0.000		0.000		0.000	

Levels of significance: *** 1%, ** 5% and * 10%. This Table shows the results WLS regression analysis for the investment strategy models IS_1, IS_2 and IS_3. IS_1: Dependent variable is capital expenditure - to - fixed assets ratio (CEFA). IS_2: Dependent variable is capital expenditure - to - total assets ratio (CETA). IS_3: Dependent variable is International diversification ratio (ID). The independent variables are: Return On Equity (ROE), Return On Assets (ROA), Return On Investment (ROI), Total Debt (TD), Short Term Debt (STD) and Long Term Debt (LTD) ratios. The control variables are: Type of the firm during internal political crisis (TFIPC) and Type of the firm during external political crisis (TFEPC)

CEFA (0.111), CETA (0.106) and ID (0.165). The same results were observed when the performance was measured by ROA and ROI. ROA has also a positive and significant impact on CEFA (0.126), CETA (0.117) and ID (0.193). And, ROI has a positive and significant impact on CEFA (0.178), CETA (0.159) and ID (0.201). These results indicate that the performance level of Lebanese SMEs has a direct and important impact on the diversification and investment strategies.

Finally, Table 9 shows that the investment strategy in critical period requires more LTD. The level of LTD has a positive impact on firm's investment strategy. Beta coefficients of LTD equal to 0.276, 0.202 and 0.213 in IS_1, IS_2 and IS_3 models respectively. The results in Table 9 do not reveal any another significant impact of debt level on investment strategies.

5. CONCLUSION

This research provides important clarifications on the financial strategies of family SMEs during periods of political and economical troubles. For more than decade, Lebanon has been suffering from the impact of instability, driven by internal and external political and economical conditions. All over this period, small and medium family firms have outperformed their non-family counterparts. Motivated by their long term orientations and the desire of protecting their companies, family SMEs have demonstrated a high degree of financial performance and flexibility. While non-family SMEs have showed a conservative strategy, family firms have been relying on LTD to increase their debts level and maintain their dynamic investment strategy during instability period.

By considering the impact of instability periods on the financial strategies of family SMEs, results show that family firms generate more competitive advantage than non-family SMEs and mobilize their resources by selecting an overinvesting strategy to absorb the crisis shocks. In addition, results of this study reveal that family SMEs persevere a dynamic financial strategy in periods of troubles compared to their non-family counterparts. They keep on investing by relying on LTD to guarantee their over performance. This financial strategy has been more accentuated with the extra pressure of regional political crises.

Finally, these findings are exploratory since the existence of many limitations. First, with the absence of standardized definition for family firms and SMEs, each research in these two domains suffers from the definition limitation. It is therefore necessary to think about this limitation while considering the generalization of the results to other countries, where the same definitions have no chance to be applied. Second, the results driven from the quantitative approach provide a general presentation for the financial tendencies of family SMEs during political troubles. After this quantitative study, a qualitative approach based on interviews would complete this research by providing a better explanation for the situation.

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