

Family financing is anything but foolish

October 31 2014, by Kate Bourne

Borrowing money from a family member or friend to start a business is often considered dangerous, both financially and emotionally, however new research conducted by an entrepreneurial expert at the University of Adelaide has found within-family financing often strengthens rather than destroys relationships.

Dr Gary Hancock, in the University of Adelaide's Entrepreneurship, Commercialisation and Innovation Centre, investigated the phenomenon of within-family [financing](#) for new ventures in his PhD thesis.

According to Dr Hancock, within-family finance is more common than what people might think, with 83% of Australian [entrepreneurs](#) who require some form of finance to start a [business](#) receiving their funds from a family member or friend.

"Borrowing money from a financial institution for a start-up can be problematic because the loan is almost always against the assets of the entrepreneur rather than from a corporate business perspective, therefore the entrepreneur needs to have a means of paying the loan back that is separate from the business venture," Dr Hancock says.

"Due to tough lending conditions, entrepreneurs often look for funds from other sources including venture capitalists and government grants, with the majority of Australians requiring funds for a new venture borrowing it from family and friends," he says.

Dr Hancock says despite popular belief, his research found within-

family financing to be anything but foolish.

"Within-family financing doesn't often cause issues within the family, even if the business doesn't succeed," he says.

"Money is usually only given to the entrepreneur if the family member can afford to lose it, and if both the financier and the entrepreneur have the same perspective about the business and career ambitions," he says. "The financial arrangement results in a joint-vested interest in the new venture, which often brings people closer together."

"People who engage in this particular entrepreneurial behaviour also show a high-level of care towards their relationships, a strong sense of the future and a determination to achieve. Therefore entrepreneurs often work hard to succeed and repay the family financier."

Dr Hancock says within-family financing funds largely go unaccounted for in the Australian economy because tax policies don't support the scheme.

"Capital gains tax actively discourages this activity, or at least encourages people not to report it in fear it may be tax ineffective," he says. "Given within-family financing is so widely practiced in Australia, estimated to account for 1.26% of GDP, a supportive tax scheme might increase reporting and further aid entrepreneurs."

Provided by University of Adelaide

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