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Executive Master Thesis

Assessing the viability of IPOs as a strategic path for family businesses in Latvia

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May, 2024

Riga

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21.04.2024.

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Abstract

Initial public offerings (IPOs) present an opportunity for family businesses, particularly in alignment with Latvia's plans to enhance market capitalization. This study examines the motivations of family business decision-makers, revealing a range of drivers including financial objectives such as liquidity enhancement and capital expansion, and non-financial goals like improving corporate governance and brand prestige. Firms with a strong family business identity prioritize non-financial factors and control retention, while those less associated with family traditions are more inclined toward financial benefits and the potential trade-offs of control for financial gains. The academic presumption that family business status is disadvantageous for IPOs is challenged, revealing that such identity is viewed as a mark of pride, aligning with data that family businesses often outperform non-family businesses in the long term. The study emphasizes the role of government and institutional support in promoting public listings, particularly as strategic responses to the succession planning challenges that are prominent in the Baltic region. These findings contribute to the understanding of family businesses and IPO dynamics, offering insights for policymakers, institutional stakeholders, and family business leaders seeking sustainable growth strategies amidst generational transitions and evolving market landscapes.

Introduction

Family enterprises, the predominant form of business globally, play a crucial role in the economy (Carbone et al., 2022). This is also evident in the Baltic region, where the Baltic Family Firms Institute (BFFI) reports the existence of 5,225 family businesses (BFFI, 2020). A distinguishing feature of the Baltic business landscape is the ongoing second-generation transgenerational change, as the majority of firms are established in the 1990s (Welscher, 2018). This transition, currently a focal point, is characterized by a shift towards sibling partnerships, marking a new phase in the region's economic narrative.

Capital markets are instrumental in fostering economic growth and wealth creation (Atje & Jovanovic, 1993). IPO is part of capital market development. The trend of IPOs is increasingly prominent in the Latvia, highlighting the significance of capital market development for economic sustainability. Deputy President of the Bank of Latvia, Santa Purgaile, asserts that sustainable national economic development is unattainable without capital market growth. Latvia is currently intensifying efforts to enhance market capitalization, driven by the political will (Ministry of Finance Republic of Latvia, n.d.) to catch up to its neighboring countries by 2027. This strategic move is largely characterized by the push to involve state-owned enterprises in the capital market, a key initiative aimed at boosting the stock market's capitalization to a target of around 9% relative to GDP. This drive is underscored by the need to bridge the substantial gap from 2021 figures, where Latvia's stock market capitalization was a mere 3% of its GDP, in stark contrast to Lithuania's 9.3% and Estonia's 17.4% (LSM, 2023). Beyond state-owned enterprises, the private sector, including family businesses, could also play a pivotal role in achieving the market capitalization objective. Thus, it is critical to understand the motivations driving private entities and whether there is an interest in pursuing IPOs as a strategic growth path.

Despite the rising trend of IPOs, research on family businesses entering public markets remains limited (Binz Astrachan et al., 2019; Carbone et al., 2022; Cirillo et al., 2017), particularly in the Baltic context. Existing studies predominantly focus on the IPO process and post-IPO phase, with the pre-IPO stage largely overlooked. Scholars like Carbone et al. (2022) highlight the necessity of understanding family firms' motivations for IPOs, noting a research gap in family behaviors and motivations (Ravasi & Marchisio, 2003; Chandler et al., 2019).

Family firms, distinct from their non-family counterparts, must consider not only strategic and economic factors but also emotional aspects when contemplating IPOs. (Binz Astrachan et al., 2019; Birdthistle & Hales, 2023; Casillas & Acedo, 2007). The decision is influenced by a balance between maintaining family control and overcoming capital limitations. However, a systematic exploration of family-specific motivations for IPOs is yet to be established (Carbone et al., 2022).

The research, thus, implicitly addresses critical questions regarding the viability of IPOs for family businesses in Latvia and seeks to understand the decision-making process from the perspectives of family business proprietors. It also aims to identify the unique motivations and concerns of these firms, which may differ significantly from non-family businesses.

Studying IPOs in family businesses is challenging due to the limited number of such firms undergoing IPOs and their reluctance to share information (Carbone et al., 2022). This study aims to bridge this gap by examining the pre-IPO phase in family firms, exploring both financial and non-financial motivations for going public. It investigates family firms' financing strategies and their inclination towards IPOs as a financing mechanism. Through interviews, the study seeks to uncover the underlying non-financial factors driving family businesses to pursue IPOs.

It is important to recognize that not all enterprises meeting the definition of a family business identify as such. This dichotomy stems from the potential benefits and drawbacks of integrating family and business identities, impacting organizational culture, authenticity, and conflict management (Wielsma & Brunninge, 2019). The research emphasizes the need to query companies on their self-identification as family businesses, as it could potentially impact their stance on IPO considerations.

The findings could inform policy interventions, recognizing unique traits facilitating family businesses' transition to public markets (Wielsma & Brunninge, 2019; Carbone et al., 2022). This knowledge is valuable for family owners and advisors in navigating the IPO process and post-listing strategies. Given the superior long-term success of family enterprises (Carbone et al., 2022; Tong, 2007; Van Gils et al., 2019; Smith, 2018; Miroshnychenko et al., 2021; Jain & Shao, 2015), market investors are encouraged to trust IPO prospectus information over informal signals (Kotlar et al., 2018; Carbone et al., 2022). This study aims to provide a comprehensive understanding of the factors influencing family businesses in Latvia to go public, offering insights that could reshape market perceptions and aid in the strategic decision-making processes of these pivotal economic contributors. Additionally, it seeks to provide information that will not only facilitate family firms in their growth and financing strategies but also assist market investors and advisors in developing effective approaches to navigate the complexities of the IPO process in the context of family businesses.

Literature review

Family firm contribution to global economy

Family firms stand out as the predominant form of business worldwide, fundamentally distinguishing themselves from non-family counterparts in both structure and contribution to economic growth (Carbone et al., 2022). In the 2023 family businesses generated $8.02 trillion, up 10% from 2021. They're outpacing the global economy's growth, which the IMF notes was 6% in 2021. Family firms grow almost twice as fast as advanced economies. Over 30% of these businesses are over 100 years old, with the majority in Europe (Robertsson, 2023). According to European Family Businesses federation, between 65-80% of European firms are family-owned (EFB, 2023). Such is not the narrative of Latvia, due to only regaining independence in 1991. Following independence, Latvia embraced a market economy, fostering the growth of numerous new family businesses (Welscher, 2018). However, due to their delayed entry into the business arena, the region has experienced a slower business development pace. The Baltic Family Firm Institute (BFFI), a central organization supporting family businesses in the region, has a registry of 16,035 companies. Of these, 5,225 are family businesses as of 2020, making up approximately 30%, which remains a significant economic contribution. The BFFI methodology defines a company to be family-run if an individual or several people sharing a surname own more than 50.01% (either directly or indirectly) and at least one family member serves on the board (BFFI, 2020).

Family business unique characteristics versus non-family businesses

Different definitions of family businesses cause struggle to academics and businesses alike (Birdthistle & Hales, 2023), however there is a common agreement, that family businesses differ to non-family enterprises, and therefore should be looked at from different focus (Casillas & Acedo, 2007). Family businesses are distinguished by several core features: family control, with members holding majority ownership and shaping strategies. They focus on longevity, aiming to pass the business across generations, and uphold family values. Emotional ties to the business are strong, influencing decisions and company culture. Succession planning is essential to maintain continuity. Moreover, these businesses emphasize building strong relationships with stakeholders and often engage in philanthropy, reflecting a commitment to community welfare (Birdthistle & Hales, 2023). Understanding these attributes is vital for this study, as they significantly influence the interconnectedness of family businesses within the context of IPOs. These characteristics will be examined more closely to comprehend their synergistic effects.

Diversifying capital markets: The entry of family businesses via public offerings

Family businesses contribute to capital markets through public offerings by diversifying and enriching the market with unique investment opportunities. When a family-owned company goes public, it introduces a new set of values, long-term strategic perspectives, and often a proven track record of stability and resilience into the market. However, despite family firm prevalence and the significant control they have over the market, there is a scarcity of research on family firms and the IPO process. Carbone et al. (2022) conducted a systematic review of family businesses entering IPO, scrutinizing 41 academic peer-reviewed journals from 1995 to 2020. Their analysis spanned four levels—firm, family, individual, and contextual—to offer a multidimensional perspective on the IPO process within family-run entities. The principal finding of Carbone et al. (2022) is the notable deficiency in research conducted in this field. Jain & Shao (2015) highlight a gap in the literature concerning the corporate policy choices and performance implications for family firms transitioning from private to public ownership. While Cirillo et al. (2017) point out family firm significant presence in Europe's stock market who hold the majority of shares in 27% of all publicly traded European companies. The gap between significant role of family business impact and lack of information available raises questions about whether family firms are leveraging IPOs to their advantage to fund investment opportunities as effectively as non-family firms, an aspect that remains largely uninvestigated. In the context of Latvia, the importance of developing capital markets is highlighted by a statement from Krišjānis Kariņš (Ministry of Foreign Affairs Republic of Latvia, 2023): "[..] we need to develop capital markets with a high growth potential in a targeted way that will serve as the basis for faster economic growth and increase in the level of public welfare." This perspective is in line with the current activities in Latvia (LSM, 2024), indicating a strategic commitment to cultivating capital markets as crucial to the region's economic progress. Equal current focal point of the region is family business succession as the region is experiencing first wave of generation change. Anete Pajuste (2022), a Finance Professor at the Stockholm School of Economics in Riga, discusses the evolution of businesses in recent decades: "The last thirty years have seen significant changes in how firms are governed, with the original entrepreneurs nearing retirement. Family firms play a vital role, but face challenges like succession." Family business succession could play a role in the development of capital markets. Effective succession planning enables these businesses to access funding through capital markets for smooth transitions. By going public, a family business can facilitate succession, offering liquidity and retaining control. This process necessitates transparency and accurate valuation. Improved corporate governance during succession also attracts external talent and investors. Thus, well-executed family business successions play could play a pivotal role in strengthening capital markets. However, there's a no research within the region regarding the potential and willingness of family businesses to go public. This paper aims to address this gap by understanding the motivations behind family businesses going public and exploring whether succession planning could be one of the underlying motivators.

The drive to go IPO: Motivating forces in family businesses

The motivations propelling family businesses towards IPOs remain a compelling yet unanswered puzzle. Limited research exists on the motivations behind family firms' decision to go public and how they navigate the demands of the capital market (Cirillo et al., 2017). First and foremost it is a financially driven decision – an access to capital (Ravasi & Marchisio, 2003), but most often it is not all there is to it. Mazzola and Marchisio (2002) points out that family businesses find a compelling reason to pursue an IPO, as it allows them to address issues related to professionalization within the company. It is true that family firms often lean towards maintaining their private status to retain control (Carbone et. al., 2022), yet there are motivations, like opportunity to streamline generational succession (Poutziouris & Wang, 2004), that on the other hand could propel them towards going public.

Carbone et al. (2022) have methodically organized the existing research on family businesses transitioning to public ownership into three stages: the antecedents (pre-IPO), IPO process and IPO consequences. The antecedents phase primarily revolves around deciphering the underlying motivations that compel family businesses to contemplate an IPO.

However, Carbone et al. (2022) highlight that within the antecedents' phase, research is notably scant (with just 5 out of 41 papers), and predominantly utilizes agency theory (total 17 out of 41 papers), an economic perspective focusing on self-interested individuals in contract-based firm structures (de Camargo Fiorini et al., 2018). This reliance on agency theory raises concerns, as it may inadequately address the diverse motivations behind family businesses, which are better explained by other theories like Signaling, Socioemotional Wealth (SEW), and Stewardship, predominantly used in other phases of research. Consequently, the limited research scope and theory selection in the antecedents' phase mean we still lack a comprehensive understanding of the non-financial motivations driving family businesses to pursue an IPO.

Obstacles and hurdles: Family businesses and the IPO dilemma

Institutional investors often view family businesses as lacking professionalism and primarily focused on self-interest (Leitterstorf & Rau, 2014). The limited and subjective information available makes family IPOs seem risky. Holmén & Högfeldt (2004) explain that underwriters and investors see the family as self-serving, prioritizing their own financial gains, leading to potential risks in profit extraction. This creates a negative image for potential investors, making them hesitant about investing in family-operated firms. Such concerns could also make family businesses wary of going public, fearing the risk of IPO failure.

Additionally, this could clarify why not every family business self-identifies as such. Wielsma & Brunninge's (2019) framework outlines three levels of how family businesses perceive themselves: 1) Family Preservation - The business's identity is closely tied to the family, prominently featured on their website; 2) Family Enrichment - Focuses on products and services, with the family's traditions supporting quality; 3) Family Subordination - The company acknowledges family ties but emphasizes its own independent merits. For instance, companies like Miele and Bacardi credit their generational legacy for their success, whereas brands like Nike and Volkswagen don't advertise themselves as family businesses (Van Gils et al., 2019). Family businesses are sometimes perceived as opportunistic and unprofessional (Binz Astrachan et al., 2022). Yet, Binz Astrachan et al. (2022) also emphasize the importance of recognizing the diversity within family and business structures, suggesting that a one-size-fits-all approach to formalization isn't always ideal.

Fernando et al. (2013) note that while institutional investors often avoid family firms, effective financial regulations could lessen these external worries. This underscores the vital role of policymakers in crafting rules that boost investor confidence and encourage more investments in family enterprises. Additionally, family business advisors can play a key role in advising these firms on mitigating risks while seeking new funding.

During the IPO process, family businesses face specific challenges due to their ownership and governance structures. Family owners usually resist selling their shares to maintain their socioemotional wealth and preserve their legacy (Carbone et al., 2022). This emotional attachment might lead them to accept more underpricing in their IPOs, a strategy that reduces the risk of failure and lawsuits while keeping family control, but also means potentially losing out on capital.

Moreover, having family members on the board is a double edge sword. It can limit diverse perspectives but also fosters a strong cooperative environment, which can be beneficial for the firm's short-term performance post-IPO. This suggests that the family element, despite its drawbacks, can offset some of the challenges faced in the IPO process (Carbone et al., 2022).

Leveraging family business strengths in the IPO arena

Having previously examined the disadvantages, it is also crucial to recognize that family businesses frequently receive a positive market reception during IPOs, which is most apparent in the long-term increase in their stock value (Carbone et al., 2022). These businesses are intent on showcasing their commitment to long-term objectives and value creation. This contrasts with 'short-termism' observed in non-family businesses, where an emphasis on immediate results often overshadows long-term ambitions, potentially eroding competitive advantage and economic sustainability (EY, 2014).

The retention of shares by family businesses during IPOs is interpreted as a signal of long-term commitment, as per signaling theory (Ding & Pukthuanthong, 2013). Tong (2007) affirms this long-term orientation, revealing that family firms in the S&P 500 between 1992 and 2003 reported higher quality financials, suggesting an investment strategy focused on the long haul, reputation management, and effective managerial oversight. However, the correlation between family involvement and long-term performance isn't uniform globally. While in Germany and Spain, strong family ties correlate with positive post-IPO stock performance, the opposite was reported in Italy (Cirillo et al., 2017). Upon going public, family businesses must adapt to the professionalization of management. The challenge lies in combining the unique skills of family managers with the complexity of operating in the public market. Over time, a blend of family and non-family management can enhance performance (Carbone et al., 2022). Family involvement also brings customer loyalty and organizational trust, bolstering competitive advantage (Chandler et al., 2019; Wielsma & Brunninge, 2019), additionally, Family Firm Image results in the perception of genuine brand authenticity (Zanon et al., 2019). Yet, family involvement and long-term view can clash with the investors' preference for immediate financial returns, potentially leading to greater IPO underpricing due to a mismatch of objectives between family and investors (Chandler et al., 2019).

Displaying a family business image can drive growth and better results, affecting how decisions are made, how the business is passed to the next generation, and which goals are seen as important. This image can also attract a broader audience and avoid common biases that suggest family businesses aren't as efficient or professional (Van Gils et al., 2019). Cirillo et al. (2017) bring attention to IPO failure aftermath as it carries economic and social costs, deterring other family firms from entering the market. However, causes of failure should not be linked entirely to family involvement, there are external factors or the company's intrinsic characteristics. Prior to an IPO, a firm's performance is indicative of its future, with those showing pre-IPO losses more likely to fail.

In addition, having a top management team (TMT) with the experience to handle complex market conditions is essential for the longevity of a firm post-IPO (Cirillo et al., 2017; Carbone et al., 2022; Ding & Pukthuanthong-le, 2009). Regrettably, family managers are often perceived as lacking professionalism, irrespective of their qualifications or their ties to the business. This perception is typically reversed for non-family managers. Such stereotypes are not constructive for enhancing comprehension of professional management in publicly traded family businesses. It has been noted that the advantageous impact of having a family CEO within a TMT is markedly stronger when the CEO is well-educated and experienced (Cirillo et al., 2017).

Finally, beyond what has been discussed, family businesses possess a distinctive trait that serves them well in business operations—local embeddedness. Carbone et al. (2022) suggest that being deeply rooted in the local context not only spurs family firms to grow faster but is also viewed favorably by external investors. Echoing this sentiment, investment banker Mihkel Torim from LHV Bank notes that investors see great value in the local ties of family businesses, a benefit that non-family businesses do not enjoy as much (Personal communication, January 19, 2024).

Regardless of the mixed advantages or disadvantages, one clear fact stands out—family businesses show better financial performance than non-family firms over the long term (Carbone et al., 2022; Tong, 2007; Van Gils et al., 2019; Smith, 2018; Miroshnychenko et al., 2021; Jain & Shao, 2015). This success calls into question the assertions of agency theory, which highlights self-interest and a lack of professionalism. While agency theory points out certain weaknesses in family businesses, these can often be mitigated by policy interventions and guidance from family business consultants. However, it's not as clear-cut when considering whether non-family companies can emulate the inherent long-term perspective of family businesses, which is deeply rooted in their values and culture. Complicating matters further is the market's potential misinterpretation of family involvement as an indication of a lower willingness to take risks and pursue less aggressive financial strategies (Chandler et al., 2019). Ultimately, this dilemma reduces to the investor's own goals and risk-reward calculus: the choice between quick, high returns that may never materialize, or steady, long-term growth.

By showing a strong commitment to their business goals and a long-term vision, family businesses can use their IPOs to not only get immediate funding but also build trust with shareholders that lasts. This gives them an advantage in the competitive public market. Given that family businesses often outperform non-family firms financially in the long term, it's clear that investors should have more confidence in relying on the official information in IPO documents rather than informal signals (Carbone et al., 2022; Kotlar et al., 2018). This trust can lead to a stronger partnership between family businesses and their investors, promoting enduring success in the competitive public market. The listing status makes family businesses more resilient and able to perform better during crises, and also prompts to consider the long-term investment horizon (Minichilli et al., 2015)

Family business succession planning and IPO as (gradual) exiting strategy

Deciding whether to pursue an IPO is not a straightforward decision for family businesses; it should align with their strategic goals. The drive to go public can be motivated by financial or non-financial reasons (Cirillo et al., 2017). Financial incentives are typically more clear-cut, often boiling down to the need for debt or equity financing as part of a growth strategy and the availability of capital (KPMG, 2014). On the other hand, non-financial drivers, such as the imperative to 'professionalize or die' (Binz Astrachan et al., 2022) or considerations around succession planning (DeTienne & Cardon, 2010), are less clear-cut. Given the current focus on succession in the Baltics region it's worth exploring how an IPO could impact this area. DeTienne and Cardon (2010) suggest that in the available literature, entrepreneurial exit is often associated with failure. Various exit routes: acquisition, IPO, family succession, employee buyout, independent sale and liquidation, vary depending on factors like prior entrepreneurial involvement, industry knowledge, age, and educational background. IPO as an exit strategy is viewed as high risk/ reward level and requires certain skillset. DeTienne & Cardon (2010) highlight that the existing literature primarily emphasizes the influence of family businesses on IPO valuation rather than exploring IPO potential as an exit strategy. Over the next decade succession will remain a critical concern for family businesses worldwide (KPMG, 2019; DeTienne & Cardon, 2010). This holds true for the Baltic region, especially at the present moment, as it undergoes its initial transition of generations (Pajuste, 2022). Succession is a challenging and vital issue for family businesses, involving the transfer of control to the next generation and the leader's eventual departure from the business. It is not easy for a 1st generation owner to leave the business (KPMG, 2019), but an IPO offers a gradual departure from the business. While both IPO and acquisition are viewed as high-risk, high-reward exit strategies, only an IPO provides the owner with the opportunity to remain engaged with the business to some capacity (DeTienne & Cardon, 2010). An IPO, while often seen as an unconventional exit strategy, can present an enticing option for business owners with ambitious growth aspirations. While it's true that IPOs are typically associated with companies looking to scale rapidly and achieve significant market presence, they can also serve as a means for entrepreneurs to retain control and continue driving the development of their business even after going public.

Understanding the potential benefits and drawbacks of an IPO compared to other exit options, such as mergers and acquisitions or private equity investments, allows entrepreneurs to tailor their approach to align with their long-term objectives and vision for the company. By weighing factors such as valuation expectations, regulatory requirements, and the level of scrutiny associated with being a public company, business owners can navigate the complexities of the IPO process with confidence and clarity.

Research methodology

This study employs a qualitative research methodology by utilizing semi-structured interviews as data collection tool due to the necessity of gaining a deep understanding of how family businesses in Latvia perceive the prospect of going public. The research specifically focuses on the pre-IPO phase, also known as the antecedents phase, to narrowly examine and understand the considerations of family businesses. The target population for this research comprises family businesses operating in Latvia, with the sample selection emphasizing representation across diverse industries and sizes (Appendix_B). To ensure a focused and relevant study, selected family businesses should be in the stages of undergoing the IPO process, considering or having a perspective of an IPO, while excluding those already publicly listed.

The sampling process leverages the Baltic Family Firm Institute (BFFI) Database, which encompasses all firms in the Baltic region meeting specific criteria: either revenues above EUR 2 million or total assets above EUR 2 million and revenues above EUR 1 million. This excludes banks and holding companies. In this research, a family business is defined as one where more than 50.01 percent of shares are held (directly or indirectly) by a family, with at least one family member holding a board seat. This list of family firms is created using a combination of Python coding and manual verification, covering data from 2012 to 2022, as sourced from the Bureau van Dijk Orbis database.

The dataset under examination has been refined to focus exclusively on Latvian enterprises. This decision was taken in recognition of the disparate market capitalization status among the Baltic states and, more crucially, due to differing attitudes toward the prospect of an IPO. The intended sample size is 10 firms. The selection of the 10 companies for this research originated from the BFFI database, which was subsequently refined to include only companies with a minimum revenue of 5 million euros in 2022, focusing on established enterprises. The researcher then used personal contacts to secure access and communication channels with these companies. Emphasis was placed on selecting companies that are publicly known to have issued bonds, as this indicates a higher level of experience and engagement with capital markets.

The sample companies span a range of industries, including wholesale, retail, manufacturing, construction, health, social work, and information and communication, classified according to their NACE codes. The varied spectrum of annual revenues for the year 2022, from €5.6 million to €42.9 million, allows for an analysis across different revenue tiers: €5-10 million, €11-20 million, and €21-50 million.

To fulfill the research objective of elucidating the motivating factors behind family firms' consideration of IPO, a preliminary control question regarding their contemplation of an IPO as a strategic avenue for growth is administered to potential participants. Firms not engaging in IPO deliberations are not eliminated from the sample; rather, an alternative set of interview questions are employed to elucidate the rationale behind their selection of divergent growth strategies. This approach captures diverse business philosophies and strategic orientations, particularly focusing on the underlying reasons for or against IPOs and the adoption of alternative mechanisms for corporate expansion.

Another aspect of the methodology involves identifying the business's self-perception, whether family businesses listed in a database also self-identify as such, in order to determine if academic assumptions about these businesses align with their own perceptions. The methodology focuses on understanding how these businesses view themselves, whether they align with family preservation or family enrichment. This distinction is important because it affects how these businesses perceive and engage with their status as family enterprises.

Data collection was conducted through 10 semi-structured interviews with key decision-makers from family businesses in Latvia. The research ensures that all interviewees are in positions of decision-making authority: founders, CEOs, or board members, to extract in-depth information on both financial and non-financial motivators from the perspective of those at the helm of these businesses. To ensure the confidentiality and protection of the interviewees, all interviews are conducted anonymously. This approach is particularly important considering the findings of Carbone et al. (2022), which suggest that family businesses may engage in more opaque financial processes. By maintaining the anonymity of the participants, the study aims to encourage open and honest communication, thereby enhancing the reliability and depth of the qualitative data obtained.

The interview instrument (Appendix_A) is designed to distinguish between companies based on their consideration of an IPO as a strategy for growth. Questions are divided into sections, tailored to gather specific insights from firms either contemplating or not considering an IPO. This method ensures tailored and relevant responses reflective of each company's strategic plans.

Research limitations

This study, while offering valuable insights into the considerations of family-owned businesses in Latvia regarding IPOs, encounters several research limitations that merit acknowledgment. First and foremost, the scope of Company sizes in terms of revenue encompasses a wide range, from €5.6 million to €42.9 million. This breadth introduces variability that complicates the drawing of definitive conclusions across the spectrum. Smaller enterprises may face fundamentally different challenges and motivations in considering an IPO compared to their larger counterparts, potentially influencing the applicability of the findings across all revenue tiers.

Additionally, the diversity of industries represented in the sample—from wholesale and retail to manufacturing, construction, health, social work, and information and communication—presents a challenge. The heterogeneity of these sectors means that the strategic considerations for an IPO, including market dynamics and regulatory environments, can vary significantly. This diversity makes it difficult to generalize findings across industries, as each possesses unique characteristics that affect IPO viability and attractiveness.

Benchmarking the potential of going public for the companies involved is also challenging due to the complex interplay of factors that influence such a decision.

Market conditions, regulatory landscapes, and individual Company strategies all play critical roles in determining IPO readiness and success. Without a standardized set of criteria for evaluating IPO potential across diverse business contexts, drawing comparisons and extracting patterns become inherently complex.

Finally, not all companies in the study identify themselves as family businesses, a distinction that impacts their governance structures, strategic priorities, and, ultimately, their considerations regarding going public. The presence of companies that do not self-identify as family-owned within the sample may dilute the focus on family-specific dynamics and considerations in the IPO process. This inclusion highlights the need for a more nuanced understanding of how family identity—or the lack thereof—influences the pursuit of IPOs, necessitating further research that explicitly accounts for this variation.

These limitations underscore the complexity of investigating IPO considerations among family-owned businesses in Latvia and suggest areas for further, more focused research. Understanding the nuances of Company size, industry differences, IPO potential, and the role of family identity remains crucial for developing a comprehensive view of the strategic landscape facing family businesses contemplating public offerings.

Analysis and discussion of results

This study examines the inclination of family-owned enterprises in Latvia to contemplate IPOs, with a particular emphasis on Latvia due to the distinct market capitalization levels observed across the Baltic states (LSM, 2023) and their divergent perspectives on the potential of IPOs. In a personal conversation with Karlis Urbans, KPMG (February 10, 2024), he emphasized the variations among the Baltic states. He noted that Latvia is currently experiencing a significant push towards market optimization. In contrast, Estonia has been active in driving innovative startups towards IPO in previous years. Meanwhile, Lithuania's private sector exhibits comparatively little interest in the public market.

A key aim of this study is to gain a deeper understanding of whether and why family businesses in Latvia consider IPOs, along with the primary motivations and deterrents influencing such decisions. Although this research does not delve deeply into whether companies identifying as family businesses impacts their views towards IPOs, it posits the belief that recognizing whether a business considers itself a family enterprise is crucial. This self-identification can dramatically alter their attitude towards conducting business (Wielsma & Brunninge, 2019), potentially affecting their strategic financial decisions, including considerations around IPOs. By examining these entities' strategic financial orientations, particularly in the context of IPO considerations, the research aims to shed light on the complex interplay between familial identity, industry characteristics, and market positioning. The thesis aspires to equip the market with essential insights into whether family-owned enterprises are contemplating an IPO, their reasons for such considerations, the specific challenges faced by family businesses in this context, and their general perception of the stock market. This objective underscores the effort to enhance understanding of the strategic decision-making framework within family firms in Latvia, particularly in relation to public listings, while addressing the unique hurdles these entities encounter and their overarching stance towards the financial markets.

Introduction to IPO considerations

In the financial landscape of the Baltic region, family-owned enterprises display a nuanced approach towards IPOs. This investigation reveals the varied attitudes of such companies in Latvia towards IPOs, with a mix of strategic engagement and cautious consideration. The interest in IPOs is driven by strategic visions of financial growth and market visibility enhancement, as evidenced by companies considering IPOs as a part of their growth strategy (Company_1, Company_2, Company_3, Company_4, Company_7, Company_8).

In the dataset, five companies have indicated that they are seriously considering an IPO, placing them in a antecedents phase. These firms are exploring the possibility of going public as part of their strategic growth plans. One company stated that they exercised the idea of going public but chose to finance their growth plans with other methods, however might come back to IPO talks if their growth plans will align, thus for analytical purposes listed as company that considers IPO. On the other hand, four companies have stated that pursuing an IPO does not align with their strategic direction. This distinction sets the stage for examining how family firms, in particular, navigate the decision-making process regarding IPOs.

Family firms exhibit distinct characteristics from non-family firms, especially in their approach to IPOs (Carbone et al., 2022. These differences are rooted in governance, values, and strategic priorities. Company_1 and Company_2, for example, stress their adherence to family values and governance, influencing their operational and strategic decisions. This alignment with family values is an advantage, driving long-term strategic decision-making and stewardship over short-term gains.

However, this identity as a family firm presents challenges in the IPO process. A primary concern is maintaining control, a significant aspect for family businesses (Company_1; Company_2; Company_7). This preference for control can be at odds with public market demands for transparency and shared governance, potentially hindering the IPO process. Regarding the aspect of control, while the research sought to ascertain the relevance of self-identification as a family business among enterprises, conclusive results were elusive. Yet a consensus emerged: firms that robustly identified as family businesses exhibited caution regarding control retention (Company_1; Company_2; Company_5; Company_7). In contrast, entities without a strong family business self-identification expressed openness to ambitious growth strategies and were willing to consider control trade-offs for capital gains (Company_4; Company_8). These tendencies underscore the complex interplay between a firm's identity and its strategic financial decisions.

The advantage for family firms considering IPOs lies in their potential to present a stable, well-governed investment opportunity to the market, given their emphasis on ethical practices and governance (Company_2; Company_4). Yet, the challenge remains in balancing the preservation of family values with meeting public investor expectations. This balance is crucial for family firms to navigate the public market successfully, highlighting the distinct considerations family firms face compared to non-family firms in the IPO landscape.

Family firms going public: "To be or not to be"

In Latvia, businesses are not at a major turning point, but rather in a scenario akin to a niche market driven by the desire to drive Latvian market. However, there is a growing sentiment among these firms towards considering an IPO, indicating a potential shift in their traditional business strategies and openness to public investment opportunities. Among the six respondents in favor of going public, motivations vary. Company_1 sees the IPO as not just a financial access opportunity but also a chance for succession planning, ensuring the company's longevity and facilitating a seamless generational transition. Company_3 emphasizes the importance of market visibility, viewing the IPO as a strategic move to enhance the company's brand prestige and attract talent. Company_2 perceives the IPO as a means to maintain the status quo and achieve recognition for its achievements. Adding to this perspective, Company_7 has given serious consideration to initiating an IPO and intends to revisit the possibility. However, there is concern that the specific characteristics of their industry might not yield a successful IPO outcome. For them, an IPO represents not just a potential for capital gain but also a milestone of professional success. On the other hand, Company_8 is earnestly deliberating an IPO, with their current trajectory firmly aimed towards going public, primarily to secure capital gains. On the other hand, the four respondents (Company_5, Company_6, Company_9, Company_10) who oppose the idea emphasize the benefits of maintaining private ownership, including a collaborative environment free from the pressures and regulations of public markets, enabling them to focus on creativity, innovation, and strategic objectives without bureaucratic constraints. Company_9, despite considering IPOs, chose not to pursue them due to alternative financing methods aligning more closely with their immediate goals. Company_10 also discussed IPOs but has not moved forward, citing an absence of clear benefits and strategic plans for the use of funds. This divisions underscores the multifaceted considerations involved in the decision-making process for family firms contemplating the transition from private to public ownership in Latvia's business landscape.

Alternative financing mechanisms or over cautiousness

Interviewed Latvian family businesses, notably Company_1, Company_5, Company_6, Company_9, and Company_10, exhibit a strong reliance on organic growth and self-financing. This approach points to a cautious stance towards adopting IPOs as a strategic path. These companies have shown a preference for methods that allow them to grow at their own pace and on their own terms. Company_5 illustrates this tendency, emphasizing internal growth and reinvestment of profits without resorting to public markets. Similarly, Company_6 operates akin to a family office, where reinvestment of earnings underpins its financial strategy, enabling a degree of self-sufficiency and autonomy. Company_9, while having considered broader financing options, ultimately found a better fit with government guarantees and bank loans that provided them with the necessary flexibility while allowing them to uphold their independence. Company_10's funding strategy, which primarily relies on prepayments for projects and European funds for development, further underscores the inclination towards self-sustained financing. They approach external funding with caution, evaluating each option's impact on their operational control and long-term strategic plans. This collective preference for internal financing raises the question of whether family businesses might be overly cautious in their financial strategies. By avoiding the pressures and scrutiny that come with an IPO, they maintain control but may also miss out on opportunities for more significant growth and expansion that external capital could facilitate. This topic warrants further exploration to understand the balance family businesses seek between caution, control, and growth.

Motivational factors for IPO: Financial vs. non-financial motivations for IPO

In exploring the motivations behind considering IPOs among family-owned businesses in Latvia, a clear distinction emerges between financial and non-financial incentives, varying significantly across different companies.

Financial motivations

For some companies, the financial motivations to pursue an IPO predominantly revolve around the necessity for capital infusion to support expansion and accelerate growth, adhering to the statement by Ravasi & Marchisio (2003) that the primary motivator for going public also for family businesses is access to financing. Company_3, for example, views IPOs as a strategic decision aimed at propelling growth and increasing market share. Company_8, acknowledges the potential for future capital requirements that underlies the consideration for public listing. The financial aspect of accessing capital markets to enhance liquidity and foster diversification of ownership stands out as a pivotal reason for considering public listings. Similarly, Company_4 sees the financial incentives of IPOs as crucial for growth and leveraging market leadership positions. While, Company_10 remains focused on financing through European funds and tightly managing cash flow, viewing these methods as currently sufficient but is open to reassessing IPO in the future should ambitious plans require that. While the primary motivation for pursuing an IPO is most-often financing, as it serves as a financial instrument, it's important to recognize that an IPO encompasses more than just capital in the eyes of respondents. The emergence of non-financial motivators is increasingly significant, highlighting their critical role in shaping a company's strategic future. It should also be noted that companies such as Company_4 and Company_8, which do not identify strongly as family businesses, have distinctly emphasized financing as the definitive key driver for attracting capital. Conversely, firms with a pronounced family business identity, such as Company_1, Company_2, Company_5, and Company_7, have pointed to non-financial motivators as key drivers in their decision to consider an IPO.

Non-financial motivations

Non-financial motivations play a significant role for other companies, where the focus extends beyond immediate capital acquisition to longer-term strategic benefits. Company_1 and Company_2, for instance, emphasize the enhancement of corporate governance, brand prestige, and operational discipline as key non-financial reasons for considering IPOs. These motivations reflect a broader strategic intent to strengthen organizational structures, attract top talent, and instill a greater sense of accountability and transparency within the company. Additionally, IPOs are seen as a pathway to solidifying their market position (Company_3) by leveraging the reputational and structural improvements that come with being a publicly listed company. Company_1 also cites succession planning as a significant consideration, expressing a willingness to leave the next generation with a structured organization. This corresponds with the assertion by DeTienne & Cardon (2010) that an IPO represents a high-risk/high-reward exit strategy and aligns with the Company_1 perspective that pursuing this route requires a specialized skill set and ambitious growth driven by the second generation. Additionally, this reinforces the insights provided by Poutziouris & Wang (2004), who suggest that an IPO can serve as an opportunity to facilitate generational succession.

Integrating financial and non-financial perspectives

Interestingly, some companies do not strictly distinguish between financial and non-financial motivations but instead view them as interconnected elements of their strategic vision. Company_4, for instance, acknowledges both financial growth and non-financial improvements in corporate governance as integral to their motivation for considering IPOs. Likewise, Company_8, which contemplates the structural benefits an IPO could offer in terms of market regulations and preparedness for future challenges, marrying both financial and non-financial considerations. This integrated approach signifies a comprehensive perspective where financial objectives and non-financial aspirations converge, suggesting that the decision to pursue an IPO is influenced by a combination of factors aimed at enhancing the Company's overall market standing, operational efficiency, and governance structure.

In summary, the motivations for considering IPOs among family-owned businesses in Latvia exhibit a complex interplay of financial and non-financial factors. While some companies prioritize IPOs for their financial benefits in terms of capital acquisition and growth facilitation, others place significant emphasis on the non-financial advantages related to corporate governance, brand enhancement, and organizational discipline. Moreover, there are entities that adopt an integrated approach, recognizing the symbiotic relationship between financial and non-financial motivations in shaping their strategic direction towards public listing.

IPO implications on family business dynamics

Impact on structure, culture and the matter of professionalization

The long-term outlook of family businesses is firmly entrenched in their values and cultural identity (Carbone et al., 2022). Interviewed family businesses anticipate IPO could introduce structural and cultural changes, emphasizing the retention of core values and ethos. Company_7 emphasize their family identity, suggesting that an IPO could alter their family-centric culture, which they are hesitant to change. Additionaly, Company_9, are in support of maintaining organic growth and keeping family control, suggesting that structural changes brought about by an IPO might not align with their current trajectory. Company_10 recognizes the need for a narrative that resonates with both their family ethos and the public, understanding the dual requirement of professional management alongside family leadership. This awareness underscores the effort to balance growth with the preservation of family business identity (Company_1, Company_2). Company_2's experience with capital markets underscores the strategic benefit of such endeavors for family businesses, advocating for IPO participation as a governance and risk mitigation exercise, which in turn enhances market resilience. Such view is shared by Company_8 which having prior experience in capital markets states that structural changes that public markets demand are for the benefit of the company itself. This is consistent with scholarly research conducted by Minichilli et al. (2015) that status of being listed helps family businesses become more robust and perform more effectively in times of crisis. Conversely, Company_3 perceives no direct correlation between professionalization challenges and capital market activities, having addressed these issues independently. Complementing this perspective, Company_10 asserts that strong governance is essential for any company, irrespective of its plans to enter the public market. They advocate that good governance should be considered "common sense" for all companies. Notably, Company_1 views the external impetus for IPO readiness as a potent driver for professionalization, suggesting that the preparatory steps for going public could significantly advance professional management and governance frameworks within family businesses. All in all, no respondents identified professionalization as a primary concern regarding going public, that is pointed out as key concern by investors (Leitterstorf & Rau, 2014; Holmén & Högfeldt 2004). While acknowledging potential biases, Company_2 highlights the increased accessibility to high-level education and professional development for family members today, especially in the Baltic region aligning this with Cirillo et al. (2017) who states that CEO among TMT is positive signal as long as extensive experience and high-level education is evident. In line with views of Company_8: the potential for professionalization as a natural progression should complement, not replace, the family's influence within the business. Additionally, the respondents argue that professionalization challenges could be addressed through a series of introduced measures as it is suggested by Fernando et al. (2013): efficient financial regulations may alleviate investor concerns. This emphasizes the essential role of family business advisors in risk mitigation, assuring investors to invest in family enterprises.

Contrary to the concerns raised by Wielsma & Brunninge (2019), almost none of the respondent companies viewed their family status as a detriment in the context of an IPO. The exception is Company_6, which identifies as a family business but chooses not to emphasize this publicly due to societal stigmas in Latvia towards entrepreneurs. Despite this, they take pride in their family business identity and opt for discretion. The other nine interviewed companies underscored their family-oriented identity as a source of pride and significance, as particularly noted by Company_2 and Company_1. Furthermore, Company_10 noted that the way a family business is perceived can vary depending on the audience; for instance, in regions like Germany, where there is a strong legacy of family businesses, this identity can be particularly advantageous. Meanwhile, Company_8, which is undergoing structural changes in preparation for capital market financing, expressed regret over no longer qualifying as a family business. They see it as a significant loss, recognizing the value in maintaining a family business narrative to engage the public effectively.

These findings challenge the notion that family firms, which strongly identify with their family status, would contemplate relinquishing their association upon going public. Rather, it suggests that these businesses perceive their family identity as a strength to be leveraged, not a liability to be mitigated.

Family business challenges and constraints in IPO arena

Control and valuation concerns

Retaining control is paramount for family businesses, as evidenced by their willingness to accept lower IPO valuations to maintain familial leadership and ensure alignment with strategic directions, according to Carbone et al. (2022). This approach underlines the significant value these companies place on maintaining control rather than prioritizing immediate financial returns, as stated by Company_1. The importance of maintaining control has also been emphasized by Company_2, Company_5, Company_6, Company_7, Company_9, and Company_10 as a critical factor in their considerations. The common investor belief that family businesses prioritize control above all is thus confirmed. However, it's critical to acknowledge the benefits presented by family enterprises, as shown by Company_1 and Company_2. Their intense commitment and forward-looking vision, encapsulated in Company_2's readiness to "fight till the last blood drop," distinguish family firms as advantageous. This steadfast dedication, a qualitative aspect, should be considered by investors in conjunction with financial metrics, presenting a unique blend of commitment and resilience inherent in family-run companies. This aligns with Carbone et al. (2022) findings that family firms demonstrate a deep-seated intent to underscore their long-term goals and capacity for value creation, contrasting sharply with the 'short-termism' prevalent in non-family businesses (EY, 2014).

Regulatory constraints and market conditions

The challenges of regulatory complexities and market volatility are significant considerations for family businesses contemplating IPOs, as evidenced by the insights from Company_1, Company_2, and Company_3. To navigate the IPO landscape more effectively and minimize these hurdles, there is an essential need for strategic collaboration with experts and consultants. This approach not only streamlines the transition towards public listing but also aligns with the Latvian political landscape's inclination towards enhancing market capitalization.

Regarding opinions on the Baltic stock market, Company_5 remarks that it is not currently the most appealing option. Yet, there's a tone of optimism for future involvement, especially from government companies going public. This sentiment is shared by Company_9, who, while not specifically addressing the Baltic market's appeal, have considered issuing bonds and explored other financing routes, suggesting a cautious yet open stance towards public markets. Both companies acknowledge the current geopolitical tensions, especially the ongoing conflict in Ukraine, as a major influence on the market's attractiveness and the timing of IPOs. This perspective is shared by Company_4, Company_5, and Company_10, which also understand the cautious approach that investors are likely to adopt in such uncertain times. However, by strategically engaging with specialized consultants and leveraging support from government resources, family businesses can effectively lay the groundwork and prepare themselves for a future when the geopolitical climate is more stable. This proactive preparation will position them to capitalize on improved conditions, making it a more opportune time to pursue public offerings. This approach would avoid current risks and also set a robust foundation for future financial opportunities.

Conclusion and recommendations

The research underlines an interest among Latvian family businesses in exploring IPOs, guided by a blend of financial and non-financial motivations and strategic considerations. Financial motivations include capital access, while non-financial drivers encompass improving corporate governance and ensuring longevity. These firms often rely on organic growth and are cautious about external financing, which is in line with their preference for control and cultural continuity. The decision to pursue an IPO is complex, balancing the benefits of public investment against the desire to uphold family-centric values and management styles, signifying that the inclination towards IPOs is strong but measured, reflecting a deep-rooted consideration of the familial ethos in the face of strategic growth opportunities.

In the context of Latvia's broader economic goals, recently, the Latvian Finance Ministry reviewed 20 state-owned companies for potential stock market listings (LSM, 2024). However, there is no indication of initiatives aimed at encouraging private companies to go public. For Latvia to achieve its target of 9% market capitalization by 2027 and to foster the development of capital markets, it may be beneficial to consider the private sector, particularly family businesses known for their sustained positive performance. Considering the current generational shift in Baltic family businesses, which necessitates succession planning, there exists an opportunity for government bodies and capital market experts to engage and support these businesses in considering public listings as part of their succession strategies. This approach could not only provide a viable succession route but also deepen the capital markets by introducing new public entities.

While there is no definitive answer on whether Latvian family businesses are prepared for IPOs, several are actively considering or have initiated this path. Enhanced support from government and market experts could be significantly beneficial. Due to Latvia's limited experience with market capitalization, bridging the knowledge gap with external expertise is essential. To fully grasp the preparedness and unique challenges of these family enterprises, further research is imperative. Such exploration would extend beyond current IPO considerations, delving into how Latvian family businesses can strategically align their succession plans and legacy aspirations with the opportunities presented by public markets.

Actionable steps

It is essential for government bodies and market experts to actively engage with family businesses to educate them about the benefits and processes involved in going public. Workshops, seminars, and direct consultations could demystify the process and address specific concerns related to family business dynamics. Financial institutions and regulatory bodies should consider developing financial instruments and IPO vehicles that are tailored to the needs of family businesses. These instruments could offer more flexibility in terms of control and governance, making the transition to public ownership more attractive and feasible.

For family businesses at a generational crossroads, integrating succession planning with IPO strategies could provide a structured pathway for leadership transition. This approach could include preparing the next generation for leadership roles through formal education and hands-on involvement in the IPO process. An advisory body comprising financial experts, market analysts, and business owners who have successfully navigated an IPO could be established. With the support of other institutions, perhaps this role could be undertaken by already an existing organization with a philanthropic mission to assist family businesses in the region: Baltic Family Firm Institute. This advisory body would serve as a valuable resource for family businesses considering public offerings, providing advice, sharing best practices, and offering support.

A comprehensive support framework that includes financial incentives, such as tax breaks or grants for family businesses preparing for an IPO, should be developed. Additionally, offering a streamlined regulatory process for family-owned businesses could reduce the perceived barriers to public listing. Promoting success stories of family businesses from other regions that have successfully gone public could serve as motivational case studies. These stories would not only provide a roadmap but also dispel myths and build confidence among family business owners.

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Appendices

Appendix_A: Interview Instrument

No.	Question A	Question B
1.	Do you identify as a family-owned business, and how do you represent this aspect of your identity in public and corporate communications?	
2.	Have you considered IPO?	
	Y	N
3.	Is the key motivational factor financial or non financial?	Why are you not considering IPO as a strategic path ?
4.	If financial why exactly IPO as a financing mechanism?	What factors have led to the decision against pursuing an IPO?
5.	What are the non-financial reasons for IPO?	How do you believe remaining a privately held company benefits your strategic objectives and corporate culture, especially when compared to the potential changes that an IPO might bring?
6.	Do do you anticipate that IPO would change the structure and culture of your family business and how?	How does remaining private allow you to navigate your market position differently than if you were a public entity?
7.	Would keeping control be critically important and why?	Can you outline your company's growth plans for the near future? / What growth strategies are you currently prioritizing?
8.	To what extent would you be willing to accept a lower valuation (underpricing) in the IPO if it means retaining more control?	How are you currently financing your business's growth, and do you believe your internal finances are sufficient for your needs?
9.	Are there any concerns or constraints, such as regulatory or market conditions, that might deter you from pursuing an IPO?	If external financing is needed, what types of instruments or methods are you considering (e.g., loans, private equity, venture capital)?
10.	How do family-specific factors, such as values, governance, and dynamics, influence the decision-making process regarding an IPO?	How has the regulatory environment affected your decision to remain private, and what advantages does this status confer in terms of compliance?
11.	Can you discuss any succession plans in place, and how might the prospect of an IPO affect these plans?	Can you discuss any succession plans in place if applicable and how are you overcoming this challenge? / Would you be willing to share any existing succession strategies you have implemented?
12.	Is there anything else you would like to add that we haven't covered regarding your family business and the consideration of an IPO	Is there anything else you would like to add that we haven't covered regarding your family business in the context of IPO vs staying private?

Appendix_B: Respondents

NO.	COMPANY INDUSTRY	REVENUE TIER (Mil)	RECOGNIZES THEMSELVES AS FAMILY BUSINESS	CONSIDERS IPO	COMMENT
COMPANY 1	G - Wholesale, Retail	21 - 50	Y	Y	
COMPANY 2	G - Wholesale, Retail	21 - 50	Y	Y	
COMPANY 3	C - Manufacturing	5 - 10	N	Y	
COMPANY 4	G - Wholesale, Retail	11 - 20	N	Y	
COMPANY 5	F - Construction	5 - 10	Y	N	
COMPANY 6	Q - Health and social work	21 - 50	Y	N	Towards Family Office structure
COMPANY 7	J - Information and communication	5 - 10	Y	Y	
COMPANY 8	G - Wholesale, Retail	21 - 50	N	Y	Change in family business status due to last activities in capital markets
COMPANY 9	C - Manufacturing	21 - 50	Y	N	
COMPANY 10	C - Manufacturing	5 - 10	Y	N	