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AN EXPLORATION OF FIRM PERFORMANCE FACTORS IN FAMILY BUSINESSES: DO FAMILIES VALUE ONLY THE "BOTTOM LINE"?

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ABSTRACT

Achieving the founder's vision is considered one of the most important organizational objectives for the continued survival and success of family firms. Yet, family dynamics is usually recognized as one of the main causes as to why less than one third of family businesses survive into the second generation of ownership. Contradicting this, others have found that family firms succeed as a result of the strong family ties that bind them. Thus, it appears that family-run firms are a rich mix of complex and interesting themes at play at any one time. Given this rather unsettled portrait of family businesses, we explore the factors of success for these types of businesses framed around the notion that families might value non-financial performance measures over hard "bottom line" results depending on extant family conditions.

INTRODUCTION

It has long been established that the founder's vision is one of the most important organizational objectives for the continued survival and success of family firms (Ward, 1987). Quite simply, a family business thrives most often by pursuing the objectives envisioned and ascribed to by its creator. As an ongoing concern, it may be that a family business is particularly suited to achieve its objectives in part due to the commitment and effort of family members and the knowledge they bring to the enterprise compared to publicly traded firms. Nevertheless, success in family businesses is affected by a critical factor that can act as a double-edged sword – the family dynamic (Bork, 1986; Cohn & Lindberg, 1974; Foley & Powell, 1997; Janssen & Graves, 2003; Tagiuri & Davis, 1992). Indeed, family dynamics may at least be a partial explanation as to why less than one third of family businesses survive into the second generation of ownership (Aranoff & Eckrich, 1999). It is ironic that the very factors that can launch and sustain a successful new family business may harbor the seeds of destruction as the family business matures and the family increases in size over generations (Beckhard & Dyer, 1983; Cohn & Lindberg, 1974; Ward, 1987). For example, a family business may initially adopt a primary objective of providing income for the family and jobs for family members, but if the employed family members are not adequately trained in business practices and are only marginally involved in key managerial and financial issues of the business, then the business is likely to suffer, especially as succession into the second and third generation occurs (Bork, 1986; Hershon, 1975;Ward,1987).

The objective of providing jobs for family

members speaks to another critical strategic issue of family firms; there may be a completely different set of objectives and, hence, performance criteria for family firms than for publicly held corporations due to the sometimes competing and sometimes complimentary interactions of family, ownership, and management of the business (Tagiuri & Davis, 1992). Moreover, the set of criteria adopted may be unique to each family business, and the foci of performance may drift over time as both the business and the family evolve (Wakefield, 1995). While it is indisputable that financial performance is mandatory for long term success, profit maximization may not be at the top of the objectives list for family firms at critical junctures in their lifespan. This leads to two central questions that frame the study that follows: 1) is it possible that, under these situations, the gainful employment and involvement of family members may become the more salient factors of performance than what mere financial measures indicate; and 2) is it the case that where family members are greatly involved and bring forth diverse views and opinions into the decision-making process, family firms succeed more than fail? Answers to these questions may lead to explanations as to why many small firms still see themselves as succeeding even after closing their door due to financial difficulties (Sullivan, Warren, & Westbrook, 1999). And these answers could lead to altered models of what it means to be a family business and the unique objectives and timeframes of these businesses.

In view of these rather complex questions, this study is merely a beginning, an initial exploration to determine what the success factors of family firms might be. Nine factors argued in the literature are regressed against a multidimensional performance measure that uses a family business owner's satisfaction with volume growth, return on investment, fundamental growth, cash balance, capitalization, positive cash flows, economic value, and profit growth as proxy variables. While the results might offer a clue, no hard evidence is found ascertaining success factors.

We explore these issues utilizing secondary data from the 2002 Mass Mutual Financial Group/Raymond Institute American Family Business (AFB) Survey. Next to the efforts of the Small Business Administration with its massive database of lenders and borrowers, the AFB is the most comprehensive study on family-run businesses ten years running. The survey is an extensive 366 question instrument conducted every five years aimed at creating a richer picture of the operation and make-up of family businesses in the United States, and the results of these surveys have been widely publicized by the Mass Mutual Financial Group and the Coles College of Business at Kennesaw State University.

We employed this data source because no other richer data on family-run firms is publicly available for exploring these issues. The dearth of data in this realm does speak to the assertion that "investigating the characteristics and dynamics of...[private family]...firms will continue to prove difficult for academic researchers...since very little public information exits" (Murphy, 2005; p. 123). And a search of the Research Insight® financial database, which showed no privately held company disclosed any pro forma statements, seemingly echoes Murphy's (2005) assertion. In this sense, this study is an important effort at shedding light on a particularly opaque window on this facet of the American business landscape.

BACKGROUND

Family business is rightfully viewed as being different from other businesses in that it is a system created by the overlapping subsystems of ownership, management and family (Bork, 1986; Dyer, 1986; Taguiri & Davis, 1992). Gersick, Lansberg, Davis, & McCollum (1997) extend the concept of Taguiri and Davis' Venn diagram by pointing out that there are seven critical areas in the diagram that may be friction points for

the family business; each of the variables (family, business, and ownership) may create conflict as well as the combinations of ownership-family, ownership-management, family-management, and ownership-family-management.

In their study of conflict in family firms, Sebora and Wakefield (1998) found evidence for carry-over relationships between business and family as hypothesized by several scholars. These carry-over relationships may be most salient at the friction points identified by Gersick et al. (1997). Wakefield (1995) discovered that families that interacted positively in social settings also interacted positively inside the business. Therefore, when functioning smoothly, a cohesive family unit may be a source of strength to the organization; however, a family consumed with internal conflict can result in insufficient attention focused upon business needs and increases the chance of failure (Kets de Vries, 1993).

Due to the seven critical conflict zones within family business, constant fine-tuning is essential to keep the business and the family healthy. Over time, changes in the family, ownership of the business, or the business itself can create problems for the entire system. For example, a family business entering its third generation of ownership may experience multiple family members tied to one another by a variety of familial relationships, and each of the relationships will experience carryover between family interactions and business interactions. Each individual's role may become unclear, and each family member may bring his or her own agenda into the business. As a result, who makes key decisions becomes murky in later generations of the business, absent clear managerial direction (Wakefield, 1995), but this may reflect how the family and business normally operate.

If decisions become complicated in the family business, we may expect that performance could suffer. Hershon (1975) suggested that the family dynamic affects the performance of the family firm in both positive and negative ways. Indeed, the performance measures selected as the most important to the family firm may be affected by family dynamics and the family situation.

Typically, performance in a publicly traded firm is straightforward and relatively easy to measure; the focus is on financial measures such as profit, ROI, ROA and EPS. Profit is essential for family firms as it is for any other type of firm, but sometimes other concerns may override the drive for profit maximization For example, employment of family members or service to the community may score high on the set of objectives for the family firm. Moreover, there may be family relationships that enhance or inhibit organizational performance. If the family has major expenses, for example, cash flow may become the dominant priority. If the family is interested in wealth creation and passing on the estate to future generations, then building illiquid assets and ownership of the maximum possible amount of stock may be the focus for the business.

In addition to key family characteristics that Wakefield (1995) found to be significant predictors of conflict in his study (i.e., number of generations in the business, number of family members working in the business, age of the incumbent, level of education of the incumbent, and the presence of outside boards of directors), other variables are considered in this study: owner's gender, number of years incumbent has held office in the organization, the amount of debt held by the family business, the percent of family ownership of the firm, and the overall level of family support for the business. These variables are investigated as to their relationship to firm performance in the effort to find salient factors peculiar to family firm success.

HYPOTHESIS DEVELOPMENT

A review of the family business literature

suggests interesting linkages between performance and family firm characteristics. On this evidence, we offer the following nine hypotheses.

Wakefield (1995) found significant support for the number of family members working in the family business. As a corollary, we offer the following hypothesis:

> *H1: The perceived satisfaction with firm performance increases with the number of family members who are involved with the business.*

An interesting finding in Wakefield (1995) is the inverse relationship of age to conflict. Because of experience, the older incumbent may be better at controlling the conflict friction points in the organization. However, the older incumbent may also have multiple objectives, perhaps conflicting, for organizational performance toward the end of his or her tenure with the organization. The incumbent may want increased cash flow in preparation for retirement, yet simultaneously maximize wealth creation in the form of assets to be passed on to subsequent generations. Younger incumbents, especially successors to older incumbents, may experience greater conflict due to their introduction of new ideas or because of inexperience at leadership. Thus, the second hypothesis is:

> *H2: The perceived satisfaction with firm performance increases with age of the owner(s).*

Previous research demonstrates that there is a difference in the way male owners and female owners both view and run their organization (Singh, Hills, Hybels, & Lumpkin, 1999; National Foundation for Women Business Owners, 1998; Butner & Moore, 1997; Gillian, 1982; Kamau, McLean, & Ardishvili, 1998). Male owners tend to be more competitive, have larger networks, and want to "keep score." Female owners, on the other hand, are more nurturing and supportive in the work environment (Butner & Moore, 1997). While financial performance is important for survival, the female owners may see the need to keep score in financial terms irrelevant to their primary objectives for the business. Therefore, the third hypothesis is:

> *H3: The perceived satisfaction with firm financial performance is higher for male owners than for female owners.*

Brockmann and Simmonds (1997) make the argument that managerial success is positively correlated with age. It follows that the firms led by successful, experienced managers must also experience success in terms of performance. Thus, the fourth hypothesis is:

> *H4: The perceived satisfaction with firm performance is positively related to the leader's number of years in the top position.*

Sebora and Wakefield (1998) discovered a surprising positive relationship (opposite of the hypothesized direction) between education of the incumbent and conflict over money, management control, and strategic vision. Also, educated incumbents may have been exposed to a higher level of financial analysis than their less educated counterparts. Congruent with Sebora and Wakefield's findings, and the heightened analytical capabilities of educated incumbents, our fifth hypothesis is:

> *H5: The perceived satisfaction with firm performance is positively related to the leader's years of education.*

Lack of organizational slack may be a significant cause of conflict in organizations, while an abundance of resources may lead to a sense of complacency among organizational members (Bourgeois, 1981). The amount of debt could heighten concern among members that there are scarce financial resources and that improved

financial performance is imperative in order to meet the debt load. Therefore, the sixth hypothesis is:

> *H6: The perceived satisfaction with firm performance varies inversely with the amount of firm debt.*

Schwartz and Barnes (1991), concluded in their study of 262 family businesses that outside boards are helpful in providing unbiased views of the organization, force management accountability, and are generally better for their business. None believed that their outside board members were a waste of time. Also, more outside board members were perceived as more satisfying than fewer. Ward and Handy (1988) in a non-random survey found that 88 percent of firms using outside board believed their boards to be useful and valuable, compared to 68 percent of those using inside boards expressing the same opinion. Mueller (1988) suggests that outside board members can act as a catalyst or change agent, reducing problems associated with group think. Theoretical propositions and empirical evidence therefore suggest that family firms using outside board members make better decisions and should, presumably, perform better too. Hypothesis 7 reflects the expected influence of outside boards of directors on the perceived role of performance:

> *H7: The perceived satisfaction with firm performance is positively related to the number of non-family board members.*

The amount of ownership of a family firm held by family members creates a vested interest in firm performance. Congruent with Hershon's (1975) theoretical construct of the inverted "U" between conflict and performance, Davis (1983) suggests that family members will create a work environment and culture that leads to superior organizational performance. The more that family members rely on the family business, the more they may exert pressure on the organization to produce positive results for their investment, given they may realize the opportunity cost of their capital. Hence, we make the following hypothesis:

> *H8: The perceived satisfaction with firm performance is positively related to the percentage of ownership of the business by family.*

Perceptions of whether the family and business share similar values, the family supports the business, the family is loyal to the business, and whether or not the family is a positive influence can impact workplace effectiveness. Family influence on business performance may be mitigated by: 1) strong leader characteristics, based on Hambrick and Mason's (1984) Upper Echelons Theory (for our purposes, technical skill, tenure, educational background, financial skill sensitivity, general management skills, and people skills); or 2) carryover relationships between family members. Wakefield (1995) found strong support for carryover relationships between family members in social settings and family members in the work environment. Thus, if there is strong leadership accepted by family members working in the organization or family members are generally cooperative as family members, they should also agree that business success is based on the pooled interdependence of family members, leading to greater support for the business. Therefore, we test the following hypothesis:

> *H9: The perceived satisfaction with firm performance is positively related to the family support for the business.*

The complete regression model to be tested is depicted in figure 1 below.

METHODOLOGY

Data

As noted previously, data for this study were from the 2002 Mass Mutual Financial

Figure 1 - Hypothesized Model

$$\begin{aligned} &VGROWTH*Y_1 \\ &+ ROI*Y_2 \\ &+ FGROWTH*Y_3 \\ &+ CASHBAL*Y_4 \\ &+ INVCAP*Y_5 \\ &+ POSCASH*Y_6 \\ &+ EVALUE*Y_7 \\ &+ PROFITS*Y_8 = X_0 + FAMPART*X_1 + AGEOWNER*X_2 + GENDER*X_3 + \\ &\quad TENURE*X_4 + EDUCATE*X_5 + PCTDEBT*X_6 + NFBOARDS*X_7 + \\ &\quad PCTFAMOW*X_8 + INFLUENC*X_9 + \varepsilon \end{aligned}$$

Group Raymond Institute American Family Business (AFB) Survey, an extensive dataset available from the executors of the survey at the Coles College of Business at Kennesaw State University. Among numerous demographic, familial, and operational information collected, respondents were asked to rate their level of "satisfaction" with various measures of their business' performance (see Table 1). We posit that, in view of the reticence by family-owned firms to disclose information, perhaps the authors of the AFB survey opted for greater participation, versus the blurred picture just a few (willing disclosers of) financial performance measures might paint. For that reason, the authors of the AFB survey may have chosen to simply ask about financial performance indirectly. Whatever the case, family business owners were asked to self-report their satisfaction with volume growth, return on investment, fundamental growth, cash balance, capitalization, positive cash flows, economic value, and the profit growth of their businesses. We assume that an owner's report of "satisfaction" represents a positive change in the financials in question and the strength of that feeling (1=extremely satisfied, 2=very satisfied, 3=somewhat satisfied, 4=slightly satisfied, 5=not at all satisfied, 6=don't know) is an indicator of the strength of that change relative to some previous benchmark. Given the exploratory nature of this study, it was felt these self-reported assessments were good workable proxy measures in lieu of hard financial data.

/While a total of 1059 businesses responded to the original survey, 533 cases were excluded due to missing data giving an n of 526. In doing so, we chose to sacrifice data comprehensiveness for truer relationship measures given such a large sample could well overstate any linkages between dependent and independent variables (Lambert & Durand, 1974; Hair, Black, Babin, Anderson, & Tatham, 2006). This tradeoff for understated but more significant relationships was deemed necessary due to the nature of the dependent variable set and the analytical technique undertaken in the study as are discussed in the study limitations.

Analysis

The dependent variable set in this study was firm performance as assessed by the principal firm owner in terms of a six-point Likert "satisfaction" scale described in the data section above. The result was a multidimensional "firm performance" variable that was tested against the nine family business variables (see Table 1) using canonical correlation analysis (CCA). Groupings of variables in this way necessitated a robust technique that can easily employ categorical and ratio data as input, hence the choice to make use of canonical correlation analysis. An added benefit from employing CCA in SPSS is that the procedure automatically computes regressions for each of the variables in the dependent variable set which will jointly be used to test our nine hypotheses.

Table 1 – Variable Definitions and Descriptive Statistics

Variables	Description	Mean	S.D.
VGROWTH	= satisfaction with volume growth	2.43	1.11
ROI	= satisfaction with return on investment	2.65	1.20
FGROWTH	= satisfaction with fundamental growth of operating profits	2.38	1.13
CASHBAL	= satisfaction with increases in cash balances	2.46	1.19
INVCAP	= satisfaction with return on investment capital	2.80	1.21
POSCASH	= satisfaction with positive cash flows	2.33	1.12
EVALUE	= satisfaction with economic value added	2.86	1.39
PROFITS	= satisfaction with net profit growth	2.30	1.15
FAMPART	= number of family participants in the business	3.41	2.38
AGEOWNER	= owner's age	58.58	11.78
GENDER	= owner's gender, 1=male, 2=female	1.12	0.33
TENURE	= number of years in office	21.52	12.07
EDUCATE	= owner's education level	3.80	1.27
PCTDEBT	= percent of debt as equity	2.52	1.35
NFBOARDS	= number of non-family board participants	0.73	1.53
PCTFAMOW	= percent family ownership of business	94.21	15.06
INFLUENC	= the extent to which family has influence in business	3.87	1.21

FINDINGS

Descriptive statistics shown in Table 1 indicate that firm owner's average age is approximately 58.5 (AGEOWNER), that their firms employ at minimum 3 family members (FAMPART), and about 1 non-family member sits on the board of directors (NFBOARDS). Owners have held their positions in the firms they founded for about 21.5 years (TENURE) and, for the most part, the firms are 100 percent family owned (PCTFAMOW). Pearson correlations (see Table 2) show the independent variables to have little effect from multicoliniarity. The dependent variable set, as can be expected, is correlated, yet may vary enough that exclusion could miss some important linkage to the nine predictor variables. Moreover, the aim here is to explore relationships rather than establish some strong basis of prediction of family business performance.

Canonical correlation analysis yielded eight canonical functions with canonical correlations as shown in Table 3. Various tests of significance (see Table 3) show the model to be significant at the $p < .01$ level; however, as the greatest characteristic root tests for the eight functions show, only the first function is interpretable ($p < .01$).

In looking at the squared canonical correlations, or pooled r^2, it appears that while root 1 is interpretable the amount of explained variation is negligible at .094, meaning that less than 10 percent of the variation in the criterion variable is explainable by the predictor variable. Another interpretation of the results is, though the full model was

Table 2 – Pearson Correlations

VARIABLES	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
VGROWTH	1.000																
ROI	.529**	1.000															
FGROWTH	.473**	.556**	1.000														
CASHBAL	.443**	.521**	.686**	1.000													
INVCAP	.442**	.807**	.561**	.599**	1.000												
POSCASH	.508**	.597**	.686**	.733**	.623**	1.000											
EVALUE	.392**	.578**	.443**	.438**	.603**	.526**	1.000										
PROFITS	.667**	.694**	.658**	.581**	.570**	.705**	.446**	1.000									
FAMPART	-0.05	-0.04	-0.01	0.02	-0.07	0	-0.04	0	1.000								
AGEOWNER	-0.02	-0.02	-0.04	-0.06	-0.01	-0.06	-0.02	-0.02	.127**	1.000							
GENDER	0.01	0.04	0.04	-0.02	0.05	0.06	0.06	0.04	0.04	-0.04	1.000						
TENURE	0	-0.02	-0.03	-0.02	0	-0.04	-0.05	-0.01	0.06	.620**	-.168**	1.000					
EDUCATE	-0.03	0.05	0.07	0.05	0.03	-0.03	0.02	-0.02	-0.05	-0.04	-0.05	-0.03	1.000				
PCTDEBT	.127**	.167**	.254**	.159**	.147**	.165**	.094**	.228**	0.05	-.135**	0.01	-0.07	-0.02	1.000			
NFBOARDS	-0.05	-.080*	-0.05	-0.04	-0.06	-0.05	0.03	-0.05	0.01	0.04	-0.04	0.05	0.01	0	1.000		
PCTFAMOW	-0.01	-0.03	-0.03	-0.04	-0.03	0.01	-0.07	-0.04	.137**	-0.03	.099**	-0.03	0.04	0	-.386**	1.000	
INFLUENC	-0.02	-0.04	0.02	0.04	-0.05	-0.02	-0.07	-0.01	.240**	0.05	0.06	-0.01	-0.02	0.04	-.103**	.078*	1.000

N=526, ** $p < .01$, * $p < .05$

Table 3 - Canonical Correlation Analysis Results

Multivariate Tests of Significance (S = 8, M = 0, N = 253 1/2)					
TEST NAME	**VALUE**	**APPROX. F**	**HYPOTH. DF**	**ERROR DF**	**SIG. OF F**
Pillais	.19758	1.45187	72.00	4128.00	.008
Hotellings	.21017	1.48071	72.00	4058.00	.005
Wilks	.81570	1.46804	72.00	3103.71	.007
Roys	.09378				
Eigenvalues and Canonical Correlations					
ROOT NO.	**EIGENVALUE**	**PCT.**	**CUM. PCT.**	**CANON COR.**	**SQ. COR**
1	.103	49.236	49.236	.306	.094
2	.044	20.762	69.999	.204	.042
3	.023	10.822	80.820	.149	.022
4	.020	9.674	90.494	.141	.020
5	. 011	5.073	95.567	.103	.011
6	.005	2.571	98.137	.073	.005
7	.003	1.552	99.689	.057	.003
8	.001	.311	100.000	.026	.001
Greatest Characteristic Root Tests					
ROOTS	**WILKS L.**	**F**	**HYPOTH. DF**	**ERROR DF**	**SIG. OF F**
1 TO 8	.81570	1.46804	72.00	3103.71	.007
2 TO 8	.90012	.96966	56.00	2751.75	.540
3 TO 8	.93939	.76686	42.00	2400.25	.861
4 TO 8	.96076	.68730	30.00	2050.00	.898
5 TO 8	.98029	.51232	20.00	1702.38	.963
6 TO 8	.99075	.39904	12.00	1360.21	.964
7 TO 8	.99610	.33586	6.00	1030.00	.918
8 TO 8	.99935	.16862	2.00	516.00	.845

statistically significant by the Wilk's Lambda (λ = .82 criterion, F(72, 3103) = 1.47 p <.01) test, it means that only about 1 - λ = .18 or 18 percent of the variance is shared by the variable sets, thus, the coefficients for the function will be miniscule at best and basically un-interpretable (Sherry and Henson, 2005). An alternative test of the relationship between variable sets is to check each of the individual regressions for each of the variables in the dependent variable set, these results are shown in Table 4.

As can be seen from these data, it appears only the debt structure of the business (PCTDEBT) is significant across all regressions but, rather than an inverse relationship the correlations are all positive.

Moreover, as can be seen by the coefficients the effect size is again negligible. Other variables that show some correlation are the owner's level of education (EDUCATE) and the number of non-family board members (NFBOARDS); however, the coefficients are negligible and individually they correlate to only one of variables in the dependent variable set, not across the complete set. Yet more evidence of the poor correlation in these regressions is the adjusted R^2 for each of the functions, none of which showed explainable variation between criterion and predictor variables above 10 percent. In sum, the individual regressions seem to sustain the conclusion that, though the complete model is significant, it fails to demonstrate any substantive relationships between aggregate variables (from CCA) and between individual variables (from multiple regression analysis).

Given these results, it appears that hypotheses H1, H2, H3, H4, H6, H8, and H9, fail to be supported. On the other hand, hypotheses H5 and H7 appear to be supported but only quite weakly and only for a single dependent variable, the owners' satisfaction with the firm's cash balance (CASHBAL) and satisfaction with return on investment (ROI), respectively.

DISCUSSION

The correlation between the debt structure (PCTDEBT) and the various financial indicators easily follows from the fact that as owners incur greater debt, they naturally might experience greater volume growth given sensible investments in inventory, or productive capacity, which would lead to greater growth. Similarly, the owner would leverage at a greater percentage with the expectation of increasing profits, which should also result in increases in ROI, investment capital and economic value. Moreover, as the percentage of debt increases, it stands to reason that there should be a natural positive cash flow, and a net increase in cash balances. Similarly, the connection between the owner's return on investment (ROI) and the number of non-family board members (NFBOARDS), may indicate the owner's own level of commitment to "do right" by other people's money, versus strictly the investment of extant family members to which some owners may feel a sense of entitlement. As for the connection between the education and the cash variables, we speculate that the greater the level of education (EDUCATE), the greater the increases in cash (CASHBAL). This is due in part to the fact that the savvy, more educated business owner is aware that many businesses fail because they just cannot pay the bills (Longenecker, Moore, & Petty, 2006). And, while we did not seek to test the fact, these findings do seem to support indirectly Feltham, Feltham, and Barnett's (2005) findings that family businesses tend to depend on a single decision maker on a range of issues, including the level of liquidity.

The caveat to these conclusions is that the findings are preliminary and fit weakly as is obvious from the regressions. Thus, it could be that the more significant contribution of this paper is not the relationships found or not found but, rather, the questions that follow and are possible to study from the AFB survey. For instance, what is the connection between the perceived challenges reported by the respondents and the various financial indicators compared with the respondents' perceived satisfaction with these same issues? Are there indicators to a multidimensional performance variable that have to do with activities undertaken (i.e., family retreats, family councils, family vacations, etc.) by families? Are there connections between operational and strategic planning and the reported satisfaction with the financial indicators? Answers to such questions could be insightful in understanding the nature and strength of family firms.

Table 4 – Individual Regressions

	VGROWTH	ROI	FGROWTH	CASHVAL	INVCAP	POSCASH	EVALUE	PROFITS
INTERCEPT	2.5	2.48	1.93	2.57	2.82	2.40	3.80	2.31
	(0.48)	(0.52)	(0.47)	(0.51)	(0.53)	(0.04)	(0.62)	(0.51)
FAMPART	-0.027	-0.013	-0.01	0.007	-0.03	-0.003	-0.01	0.002
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.04)	(0.62)	(0.02)
AGEOWNER	0.002	0.006	0.002	-0.004	0.001	-0.003	0.003	0.003
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.04)	(0.00)	(0.00)
GENDER	0.085	0.11	0.167	-0.04	0.17	0.16	0.22	0.17
	(0.13)	(0.15)	(0.13)	(0.15)	(0.15)	(0.04)	(0.18)	(0.14)
TENURE	0.002	-0.002	-0.0006	0.00007	0.001	0.0007	-0.006	-0.0001
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.18)	(0.00)
EDUCATE	-0.036	0.05	0.06	0.08*	0.05	0.002	0.03	-0.01
	(0.03)	(0.04)	(0.03)	(0.04)	(0.04)	(0.00)	(0.18)	(0.03)
PCTDEBT	0.089**	0.015***	0.18***	0.08*	0.12***	0.01**	0.10*	0.15***
	(0.03)	(0.03)	(0.03)	(0.04)	(0.04)	(0.03)	(0.04)	(0.03)
NFBOARDS	-0.048	-0.08*	-0.06	-0.04	-0.07	-0.05	0.006	-0.05
	(0.03)	(0.04)	(0.03)	(0.04)	(0.04)	(0.03)	(0.04)	(0.03)
PCTFAMOW	-0.002	-0.006	-0.006	-0.005	-0.006	-0.002	-0.006	-0.006
	(0.00)	(0.00)	(0.00)	(0.00)	(0.04)	(0.00)	(0.00)	(0.00)
INFLUENC	-0.019	-0.04	0.02	0.034	-0.04	-0.04	-0.10	-0.03
	(0.04)	(0.04)	(0.03)	(0.04)	(0.04)	(0.00)	(0.05)	(0.04)
R^2	.020	.041	.061	.022	.034	.021	.027	.038
ADJUSTED R^2	.006	.026	.047	.007	.019	.007	.010	.024
N=526, *** $p < .001$, ** $p < .01$, * $p < .05$								

Managerial Implications

Despite the exploratory nature of this study, there are several practical implications to draw for managers. First, while it is not a forgone conclusion that founders purposely seek the aid and counsel of family members as employees and board members, it does appear that the practice is beneficial both ways; family members are gainfully employed, and the dynamics they create in doing so make such firms a success despite the lack of hard "bottom line" indicators as found by Head (2003). Second, if any practical advice for family firm managers is to evolve from studies that attempt to analyze firm financials, managers must be willing to provide that financial information. Moreover, it is important that both managers and researchers be as thorough and careful in participating and in conducting surveys such as the AFB survey. Indeed, while the AFB survey represents the most comprehensive picture of family businesses outside of that painted by the Small Business Administration, it is a survey that for ten years running now has resulted in few research articles. Such paucity of research could be reflective of an unwillingness by researches to deal with excessive missing values in the data[1].

Limitations

It follows that the main limitation in this study was the weakness of the AFB survey data. First, given that the AFB survey was secondary data to this experiment, the design of the survey instrument was originally to sketch the operation of family firms and not necessarily the performance aims of our research. Thus, in lieu of actual financial numbers, it became necessary to "imply" performance through proxy measures of satisfaction with financials. It need not be said that, ideally, it would have been better to design an instrument to collect primary data and to be able to ascertain the instrument's reliability and validity.

Second, the data contain large numbers of missing values for which we found middle ground by limiting the number of cases in the analysis. In doing so, we felt the measured variance in variable sets should be more practical than inferring values on top of data that already contained an "implied" firm performance measure.

Third, given the fact that performance is this case was a multidimensional variable it became necessary to utilize canonical correlation, a technique that according to Lambert and Durand (1975) is problematic because multidimensional variable sets may make "the statistical results...subject to certain vagaries and ...not amenable to straightforward interpretation." Perhaps the lack of meaningful relationships in our data is evidence of the problems Lambert and Durand (1975) allude to.

Fourth, while we have sought to study family-run firms and characterize them in a certain fashion, the fact that we have excluded other types of firms (e.g., large publicly held firms) limits us in generalizing our findings to all firms. Moreover, without a reference set of firms other than family businesses for comparison, identifiable characteristics unique to family-run firms are difficult to ascertain.

Future Research

We propose the following agenda for future studies. First, perhaps a stronger model in some narrower form may be salient from the data, one that utilizes different construct and predictor variables from among the 366 different variables in the AFB survey. Given such a large number of variables, it would seem that the number of plausible linkages would be extensive, provided of course the hypothesized linkages were founded on theory.

Second, perhaps a different picture may surface or the case for the model strengthened if the complete 1059 cases in the AFB survey data set were analyzed. Therefore, rather than employing CCA, it may be more pertinent that a future study analyze a model in the form of structural equations using the LISREL or AMOS software, in view of the argument that structural equation modeling (SEM) is more forgiving regarding missing data (MacCallum, Browne, & Sugawara, 1996). Specifically, SEM works rather nicely with latent variables and it would seem that financial performance, odd as it seems, is a latent variable with numerous "satisfaction" indicators in this case.

Third, given the time and money, future studies should survey family businesses for the hard financial data they guard so closely. The results should be less ambiguous regarding the businesses' financial performance that was such a limiting factor in this study.

Last, we suggest that our model be extended, thus, future research might examine the range of relevant non-financial performance measures and the role these measures play in setting goals for family businesses.

CONCLUSION

This paper attempted to add to the understanding of the relationship between

owner and family variables and the performance of family firms as measured by satisfaction with "bottom line" financial information. It is posited that family firms may be uniquely suited to succeed due to family ties and dynamics over that of publicly traded firms, and that successful performance may be evident in a number of ways beyond simple financial measures such as EPS and ROA. Among others, Canonical correlation analysis and multiple regression were used on multidimensional construct and predictor variables to test the proposed relationships. While the results were exciting and seemingly support our argument in a limited way, the secondary and imperfect nature of the data and the requisite method of analyzing it suggests that more focused research is a necessary but exciting proposition for this line of research.

Family run firms are complex organizations with unique internal dynamics that often shape their objectives and eventual results. Unlike large publicly held firms, family businesses are often small and out of the public eye and, therefore, less scrutinized (Longenecker, Moore, & Petty, 2006). The end result is that family businesses seem to operate with a veil of secrecy that to researchers must seem a tantalizing mystery (Murphy, 2005). If we are to advance pertinent and practical knowledge that spans the disciplines in business, it is paramount that we study these small businesses and somehow begin to read down these veils.

ENDNOTES

[1] A quick search of the ABI/Inform database shows that only 1 article, Davis and Harveston (2001) has been written utilizing the AFB survey, and this on an early predecessor that was conducted by the Gallup Corporation on behalf of the Mass Mutual Insurance Company in 1988.

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