OFFICIAL

COOPERATIVE MULTISTATE RESEARCH PROPOSAL

PROJECT NUMBER: NE-167 (Rev.)

TITLE: Family Business Viability in Economically Vulnerable Communities

DURATION: October 1, 1999 through September 30, 2004

STATEMENT OF THE PROBLEM:

Family businesses are the heart of the American economy, contributing a major portion of the country's production, employment, and income. Not only are most of businesses in the United States family owned and controlled, but such enterprises are responsible for almost half the nation's gross domestic product and total wages (Ibrahim & Ellis, 1994; International Family Business Program Association, 1995; Shanker & Astrachan, 1996; Ward, 1987). Although some small business startups may be the culmination of life-long dreams, studies of entry into and exit from a small business (Evans & Leighton, 1989), self-employment (Blau, 1987), and business continuity (Winter & Fitzgerald, 1993) suggest that starting a business can be a response to two directions of economic change. First, in hard times when family's economic resources are reduced, perhaps by unemployment, a family business may be a means of maintaining household income. Second, when times are good, a household may be able to afford to funnel a portion of current income to the startup of a business.

In most research on family businesses, the emphasis has been placed on the economic aspects of business ownerships and less attention given to interaction of the family-business relationships. In contrast, the focus of the previous regional research project, NE-167R, "Family Businesses: Interaction in Work and Family Spheres" was on analysis of the relationship between family and business viability.

Of equal concern is the relationship between the family, the business, and the community. How does the social and economic environment of the community affect family processes and business viability? How do family businesses contribute to community viability and sustainability? Recent changes in federal and state systems for supporting needy families have led to renewed emphasis on such questions. Federal reform instituted time limits for assistance, underscoring the necessity for employment that provides a living wage. Such demands have placed additional pressure on less populated communities that already are struggling to retain their existing employment base, attract new jobs, and maintain their infrastructure. Community issues have affected families and family businesses through changes in the tax base and in available services (e.g., increase in taxes may reduce net business income but at the some time increase services),

For many communities, particularly rural communities, a partial answer to such issues is the development of viable family businesses, businesses that would not only support their owners and their families, but provide good jobs within the community for other earners as well

(Astrachan, 1988). These trends point to the priority that must be given to the examination of ways businesses, families, and communities mutually relate to create the best conditions for success from all three perspectives. In particular, it is necessary to investigate family, business, and community viability in locations where the need for viable family businesses may be the greatest. The purpose of the proposed research is to study the interactions among family, business, and community systems in economically vulnerable communities over time. The strength of the proposed study lies in its use of the 1997 database of households with family-owned businesses constructed through the NE-167R, Cooperative Regional Research Project entitled "Family Businesses: Interaction of Work and Family Spheres."

JUSTIFICATION OF THE RESEARCH:

The proposed regional research will extend the work of the NE-167R group which examined the relationship between family viability and business viability among families who own and operate businesses. The NE-167R researchers developed and empirically tested more precise definitions of family as opposed to nonfamily businesses than had been done previously, and thus were able to establish more precise empirical estimates of the prevalence of family-owned businesses. In addition, NE-167R regional research scientists completed a comprehensive examination of the family factors and business factors that are associated with both family viability and business viability. To strengthen generalizations of the findings of NE-167R, it is essential to continue joint regional research in order that consistency of conceptualizations, sampling and methods can be coordinated effectively. Findings from a study of businesses and families within economically vulnerable communities in only a single state or even several states would not be generalizable to a wider population and thus would cause justifiable questions regarding external validity and provide results of limited use.

There is evidence of substantial variation for economically vulnerable communities among regions of the United States. Some communities are considered vulnerable because of their geographic location or high out-migration of youth. Other communities, such as agricultural communities that depend on exports to foreign countries, particularly the Pacific Rim, might be classified as vulnerable due to international currency volatility or unfavorable trade policies. Only via a large pooled sample from a substantial number of states can such variation be represented so that findings can be generalized to other communities.

A regional research effort by scientists from multiple disciplines provides for highly efficient use of human and financial capital. Moreover, the importance of the comprehensive nature of a project in which time, money, and people combine to investigate a national sample cannot be overemphasized.

The proposed revision fits within the current Government Procedures and Results Act (GPRA) priorities for USDA-CSREES, namely "to enhance the opportunities and the quality of life among families and communities." The justification for this proposed regional research effort lies in its methodological approach, variability among communities represented in the national sample, and its cost effectiveness.

RELATED PREVIOUS AND CURRENT WORK:

This section is divided into eight parts. First, existing literature on economically vulnerable communities is reviewed. This is followed by a comprehensive summary of what is known about business and economic development. Third, the research literature about family businesses is summarized. In addition, theory and research in three areas critical to the proposed project and its conceptual models are reviewed in the next three subsection: family resource management, family functioning, and the interface between the business and the family. Finally, the last two subsections include a summary of the results from the current NE-167R project and followed by a summary of other current regional research compared to this proposed regional research project.

Economically Vulnerable Communities

In 1996, 14.1 million Americans chose to work for themselves, and they comprised 9.8% of all workers in the U.S. (U.S. Department of Health and Human Services, 1997). The nonagricultural economic segments showed a steady increase, while agricultural business and self-employment have shown a steady decline since 1980 (Becker, 1984; Steinmetz & Wright, 1989; U.S. Bureau of the Census, 1997). Despite the decreasing importance of agricultural business ownership and self-employment, these segments of rural areas are vital and stable components of rural economies (Lin, Buss, & Popovich, 1990; Miller, 1985, 1989, 1990, 1991; Mokry, 1988).

In the U.S., it is becoming commonplace to promote business development and self-employment as a component of economic development equal in importance to industrial recruitment. Traditional economic development policy and research have yet to address fully the complex nature and dynamics of rural economies, so that it remains difficult to design and implement effective strategies in rural areas that promote business development and entrepreneurship (Amos, 1987; Aram & Coomes, 1985; Bartik, 1991; Berney & Owens, 1985; Bruno & Tyebee, 1982; Carlino & Mills, 1987; Hansen, 1972; Kent, 1982; Steinnes, 1984). Self-employment, including business ownership and home-based work, offers flexibility and adaptability in the rural economy, adds diversity not only to employment choices but also to the mix of services and products available within the rural community, and increases community productive capacity.

Part of the current debate has focused on regaining and/or protecting the economic vitality of rural areas in the U.S. The three important components of a healthy rural market and economy remain the following: a strong and thriving local agricultural market (National Research Council, 1991, 1995); availability of employment opportunities; and the social infrastructure of families and the community. Each of these components is integrally linked with the other two. Employment opportunities, particularly business ownership and self-employment, are vitally connected to the economic viability of communities and to the social and economic well-being of rural families and further ensure viability of the traditional agricultural base in most rural areas (Fuguitt, Brown, & Beale, 1989; U.S. Department of Agriculture, 1994). Researchers have expanded the frontier of rural economic development research and policy (Barkley & Hinschberger, 1992; Fox & Murray, 1991; Hansen, 1988; Miller, 1985, 1989, 1990, 1991). Mokry (1988) has suggested that more attention be paid to indigenous business enterprises in rural areas and to examining how to remove barriers to such activities by building a supportive environment. Henry, Drabenstott, & Gibson (1987) also have argued that the uniqueness of rural areas demands specific research and policy attention.

Hirschl and Brown (1995) contend that vulnerable communities as measured by poverty rates in the U.S. are concentrated in the central cities and in small towns and rural areas. Fitchen (1995) notes that poverty is not evenly distributed geographically in the U.S. and suggests that rural poverty is growing worse. She documents several reasons for the increase in vulnerable communities in rural America: a) economic causes, b) migration patterns, and c) social and behavioral trends.

In addition, Fitchen provides four economic factors that contribute to poverty conditions and, in turn, to community vulnerability. Fitchen (1995) contends that economic factors are supplemented by various migration patterns that also lend themselves to poverty and the phenomenon of vulnerable communities in rural America in four ways. These include immigration and settlement of immigrants in rural places, internal migration of poor people to towns with new employment opportunities, internal migration of poor people to rural towns with limited employment, and differential migration away from rural places. Fitchen also lists social and behavioral trends that increase people's vulnerability to poverty: single parenthood, teen parenting, inadequate education, self-destructive behaviors (e.g., drug and alcohol abuse, family violence and sexual abuse) and erosion of extended family support systems. She concludes that there is no single cause of poverty; rather, it is grounded in a variety of interacting and interconnected variables.

Over the years, various plans to help vulnerable communities and groups have been established by institutions concerned with job creation (Balkin, 1989). Findings from a study by Green, Fleischmann, and Kwong (1996) suggest that, during the 1980s, local economic development policies had little influence on the number of jobs created in the manufacturing and service sectors within cities. Various policies such as financial incentives to businesses, promotional activities, revitalization programs, and other improvements have been established to promote job creation (Green & Fleischman, 1989). These investigators suggest that local investment in infrastructure and education may encourage job creation.

Tigges and Tootle (1990) examined effects of labor supply and labor demand on underemployment levels in urban and rural labor market areas. They gave special attention to the consequences of global industrial competition and gender-related labor market issues. These issues include problems with service sector jobs such as retail sales, which contribute to low-wage employment and poverty-level lifestyle. In another study focusing on underemployment, Yetley (1988) looked at earnings lost from underutilization of workers and noted that in rural areas workers experience more earnings loss from low wage employment than from other employment. The opposite was true in urban areas.

Lichter and Constanzo (1987) studied the effects of demographic characteristics, human capital, and industrial mix on unemployment. They concluded that the disadvantages of rural employment probably reflect limited opportunities and options in rural areas. Rural labor markets also appear less efficient as compared to urban markets in matching persons to jobs.

A previous study, NC-182, which focused on rural families and their economic well-being, identified vulnerable communities by ranking counties based on change in per capita income from 1979 to 1985. The list of counties was then divided into quartiles with the declining counties identified as the bottom quartile. A sample of declining communities was drawn from this bottom quartile (Bauer, 1990; Hira,1990; Keefe, Walker, Kratzer, & Avila, 1990; Varcoe, 1990; Wilhelm, 1990). The Thematic Issue of *The Journal of Family and Economic Issues* (1993, Fall) presents the findings and methods from the NC-182 project research (Bauer, Hira, Wilhelm, Varcoe, & Thomas, 1993; Fitzsimmons, Hira, Bauer, & Hafstrom, 1993; Hira, Fitzsimmons, Hafstrom, & Bauer, 1993; Hyun, Bauer, Hogan, 1993; Walson & Fitzsimmons, 1993).

Business and Economic Development

Analyses of income and hours worked among business owners and the self-employed tend to yield considerable complexity regarding the nature of self-employment. Typically, the income of business owners and the self-employed as a group varies widely, with significant numbers of individuals in both high and low income classes. On average, they earn less per hour than their wage-earning counterparts and tend to work longer hours for lower wages (Aronson, 1991; Fredland, 1985; Fredland & Little, 1981). About 14% of all business owners earn less than the minimum wage. Business ownership and self-employment can, however, generate capital gains as well as wage earnings. These capital gains and the longer hours worked by business owners and the self-employed may account for the finding of some studies that business owners and those who are self-employed tend to receive a higher rate of return on educational investments, despite their lower earnings per hour. Related findings also suggest that business owners may experience non-monetary benefits, expect relatively higher future incomes, or place a high value on being self-employed (U.S. Small Business Administration, 1996). Earnings of self-employed persons are often supplemented with other income. Among older workers, self-employment is usually not the sole or even major source of income, but instead is often used to augment retirement income.

Although there are regional and state differences, business ownership and self-employment fared well in rural areas in terms of both the incidence of new starts and survivors for the time period of 1978 to 1986 (Lin, Buss, & Popovich, 1990; Miller, 1985, 1990, 1991). Rural areas are competitive with urban areas in fostering new business starts. Miller (1991) has shown that in rural areas small businesses grow faster and survive better than larger corporations. At the same time, surviving small businesses in rural areas expand employment opportunities at about half the rate of such businesses in urban areas. Flora and Johnson (1991) have concluded that small firms are the fastest growing segment of business enterprises in most sectors of metro and nonmetro areas. In addition, small businesses often play a major and vital role in the economic activities of rural communities. New rural businesses contribute substantially to employment opportunities and diversification (Lin, Buss, & Popovich, 1990).

Aronson (1991) and others (e.g., Casson, 1991) have begun to conceptualize the business owning and self-employment experience manifested as labor market behavior; however, little attention has yet been paid to possible rural and urban differences. Moreover, there is a paucity of empirical work that specifically incorporates rural dimensions in analyzing individuals and their business owning and self-employment experiences.

Issues relating to business development also are addressed in literature that encompasses location theory, economic geography, and migration. In this body of literature, the central questions addressed are why certain activities have located where they are and how this location choice changes over time. Although locational theory and empirical work are plentiful (Cushing, 1987; Greenwood & Stock, 1990; Herzog & Schlottmann, 1991; McNamara, Kriesel, & Deaton, 1988; Schmenner, 1982; Scott, 1986), most studies either have not focused on rural areas or have failed to examine them in detail. An analogous situation exists for migration research as it relates specifically to self-employment (Greenwood & Hunt, 1984; Gruidl & Pulver, 1991; Muth, 1971). One important exception is Mayo and Flynn (1989), who examined firm entry and exit linkages within rural areas as well as urban settings. These researchers revealed that manufacturing entries and exits have a lower impact in rural settings than in urban areas. In addition, the entry into rural economies of nonmanufacturing firms appears to be important for the subsequent entry of manufacturing firms.

A growing body of literature about small business firms suggests that firm size is important in determining success of the business. Jovanovic (1982) concluded that for firms of the same age, small firms will tend to fail at a higher rate than large firms, and that for firms of the same size, younger firms will tend to fail at a higher rate than older firms. Empirical research by Bates (1991) and Dunne, Roberts, and Samuelson (1987) supports Jovanovic's claim that firm size and age are important determinants of the financial success of the firm.

The effect of firm size has been addressed in an extensive body of literature on small business finance and economics. The literature on economies of scale shows that smaller firms effectively are excluded from public debt and equity markets and are charged higher prices by lenders because the administrative costs of processing their loans are high in relation to loan size (Constand, Osteryoung, & Nast, 1991; Gaston, 1989; Krinsky & Roteberg, 1991; Murphy, 1983; Rhyne, 1988; Stoll, 1981; Stoll & Whaley, 1981). The small business loan default literature indicates that small firms have a higher probability of failing and subsequently defaulting on their already-expensive loans (Bates, 1991; Jovanovic, 1982).

Edwards (1964) and Scott (1977) showed that smaller firms pay high interest rates in markets where the lender has some degree of price setting (or market) power. Given that 91% of the small businesses recently surveyed by the Federal Reserve Board use commercial banks for some financial services, high interest rate charges and other financial service fees imposed on small businesses have some degree of public policy import (Cole & Wolken, 1996; Elliehausen & Wolken, 1990). In an analysis of another type of market failure, that of asymmetric information, small firms were more likely to be excluded from financial markets than large firms because lenders have inadequate information about borrowers and their products (Stiglitz & Weiss, 1981).

Therefore, smaller firms have a higher probability of being excluded from financial credit markets than larger firms.

The demands and needs of small business owners sometimes need to be addressed through public policy decisions. Development policies are more effective when designed to fit local conditions, including market gaps and failures as well as community resources — natural, material, and human (Miller, 1991). Consequently, factors specific to family, business, and community viability within the targeted locations will be examined in greater detail in this proposed research. Some previous work has been completed by Kean, Gaskill, Leistritz, Jasper, Bastow-Shoop, Jolly, and Sternquist (1998) and has shown that a change in population and the length of time a business was in the community influenced competitive strategy choices. In turn, business environment was an indicator of community retail performance.

Also, the study of business performance in general has a long history with extensive works (for a comprehensive review of the literature, see Ensley & Spencer, 1997). Models of business performance traditionally have included the following: characteristics of the entrepreneur (Brockhaus, 1989; Carland, Hoy, & Boulton, 1984; Gaskill, Jasper, Bastow-Shoop, Jolly, Kean, Leistritz, & Sternquist, 1996; Katz & Gartner, 1988), business strategy (Covin, 1991; Covin & Slevin, 1989; Miller & Besser, in press; Sandberg, 1986), and industry structure (Cooper, Willard, & Woo, 1986; Ensley & Banks, 1992). Others have developed this theory further by adding dimensions of the environment (Dess, Ireland, & Hitt, 1990; Kean, et al., 1998; Steans, Carter, Reynolds, & Williams, 1995) and entrepreneurial teams (Cooper & Daily, 1997; Ensley & Banks, 1992; West & Meyer, 1994). Even though most businesses are family businesses, no researchers to date have offered a comprehensive view of business performance by including family characteristics in the case of family businesses. The data from the current project and this proposed research will add such a significant contribution to the current business performance literature.

Family Businesses

A general definition of a family firm refers to an organization whose ownership or management decisions are influenced by its relationship to a family or group of families (Glueck & Meson, 1980; Green & Pryde, 1990). Pratt (1986) defined the family business as "one in which two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles or ownership rights." Using a different approach, Donnelley (1964) presents seven conditions, the presence any two of which indicates a relationship between a family and a firm: 1) kinship is one of the factors determining management succession; 2) family members are on the corporate board; 3) institutional values are associated either formally or informally with a family; 4) the behavior of family members is seen as reflecting on the firm, regardless of an individual's relationship to the business; 5) financial stock is held by family members for other than financial reasons; 6) the positions of members of the family are influenced by their standing in the firm; and 7) the personal careers of family members are influenced by the needs of the firm.

More recent work by Litz (1995) conceptually identified family businesses based on ownership, management, and intention to transfer. He developed a nine-fold typology of business types and identified four of the nine business types as family businesses or potential family businesses. Although his conceptual work developed definitions of family business further, the definitions were not applied to empirical data. Handler (1992) identified four ways in which theorists usually define family business: degree of ownership and/or management by family members (Barry, 1975; Covin, 1994; Daily & Dollinger, 1992; Dunn, 1996; Rosenblatt, de Mik, Anderson, & Johnson, 1985; Rue & Ibrahim, 1996; Sharma, Chrisman, & Chua, 1997; Winter & Morris, 1996); degree of family involvement (Handler, 1992; Narva & Druex, 1996; Shanker & Astrachan, 1996; Taguiri & Davis, 1996); potential for generational transfer (Donnelley, 1964; Fiegener, Brown, Prince, & File, 1994; Ward, 1987); or multiple criteria (Astrachan & Kolenko, 1988; Dannhaeuser 1993).

A number of researchers argue that firm size must be considered in defining family businesses. Obviously, some large firms, for example, The Washington Post, Patagonia, and Campbell's Soup, can be considered as "family firms" according to the preceding criteria. Indeed, as noted above, a number of researchers have found interesting differences between small and large firms; even though not all these investigators have looked at family businesses, their findings are highly relevant.

Beyond the definitional literature, Upton and Heck (1997) suggest that the previous family business research falls into five main areas: a) a systems perspective; b) business succession from perspectives of the founder and the successor, as well as the process of succession; c) use of professional managers and boards of directors; d) strategy and growth issues; and e) research modeling. Much of the previous research suffers because conceptual frameworks are missing, definitions are inconsistent, and/or sampling and data issues exist; all these suggest the need for better research (Handler, 1989b; Wortman, 1994, 1995). It is also the case that much previous literature ignores the intricate and complex nature of the family side of the family business. The primary focus of the literature has been the business and its succession.

The systems perspective literature includes debate on the nature of family business and the number and relationship of systems and subsystems (Cox, 1982; Davis, & Tagiuri, 1981; Lansberg, 1988; Miller & Rice, 1967, 1970; Moen, 1996; Nelton, 1986a; Whiteside & Herz-Brown, 1991) The bulk of previous family business literature addresses succession in the family firm. Several studies address the frequency and nature of the general succession process (Astrachan & Kolendo, 1994; Beckhard & Dyer, 1983a, 1983b; Bowman-Upton & Dugat, 1987; Christensen, 1953; Danco, 1982; Dean, 1992; Handler, 1990, 1994; Jaffe, 1990; Malone, 1989; Mandelbaum, 1994; Ouh, 1995; Ward, 1987). Many studies have examined succession from the perspective of the founder (Ambrose, 1983; Barnes & Hershon, 1976; Beckard & Dyer, 1983a; Berenbiem, 1984; Bowman-Upton, 1989; Danco, 1980; Davis, 1982; Davis & Stern, 1980; Davis & Tagiuri, 1989; Dyer, 1986; Handler, 1994; Hershon, 1975; Lansberg, 1988; Levinson, 1971; McClelland, 1961; Peay & Dyer, 1989; Schein, 1985; Sidwell, 1989; Sonnenfeld & Spence, 1989). A few studies have sought to explore the successor's viewpoint (Barach, Gantisky, Carson, & Doochin, 1988; Birley, 1986; Blotnick, 1984; Boswell, 1972; Fiegener et al., 1994;

Friedman, 1991; Goldberg & Wooldridge, 1993; Handler, 1989a; Patrick, 1986; Seymour, 1993; Stavrou, 1996; Upton, 1990). Sons are most often the chosen successor (Alcorn, 1982; Blotnick, 1984; Danco, 1982; Davis, 1982; Davis & Tagiuri, 1981; Finney & Wambsganss, 1990; Levinson, 1971; Montagno, Kuratko, & Hornsby, 1991; Patrick, 1986; Rosenblatt, et al., 1985), whereas daughters rarely are identified as potential successors (Barnes, 1988; Bowman-Upton & Sexton, 1987; Dumas, 1988, 1989; Lyman, 1988; Rosenblatt, et al., 1985; Salganicoff, 1990). Finally, a number of studies have attempted to delineate the process of succession (Ambrose, 1983; Astrachan & Kolendo, 1994; Barach & Gantisky, 1995; Barach, et al., 1988; Bowman-Upton & Dugat, 1987; Churchill & Hatten, 1987; Dumas, Dupuis, Richer, & St-Cyr, 1995; Fiegener et al., 1994; Handler, 1990, 1992, 1994; Handler & Kram, 1988; Harvey & Evans, 1994; Iannarelli, 1992; Keough & Forbes, 1991; Lansberg, 1988; Lansberg & Astrachan, 1994; Longenecker & Schoen, 1978; Malone, 1989; McGiven, 1989; Patrick, 1986; Rosenblatt, et al., 1985; Seymour, 1993; Stavrou, 1996; Stempler, 1988; Upton, 1990; Ward, 1987; Welsch, 1993).

Professionalization of the family firm suggests the need or desire to use professional managers (Christiansen, 1953; Donnelley, 1964; Dyer, 1986, 1989, 1994; Goffee & Scase, 1991; Hollander & Elman, 1988; Kahn & Henderson, 1992; Lansberg, 1983; Levinson, 1971, 1987; Munson, 1963; Ponthieu & Caudill, 1993; Upton & Seaman, 1991) and/or boards of directors (Alderfer, 1988; Barach, 1984; Danco & Jonovic, 1981; Dyer, 1986; Ford, 1989; Heidrick, 1988; Jonovic, 1989; Nash 1988; Schwartz & Barnes, 1991; Sidwell, 1989; Stern, 1986; Ward, 1988a; Ward & Handy, 1988). Other literature discusses strategy and growth issues (Alcorn, 1982; Barry, 1975; Begley & Boyd, 1986; Benedict 1979; Berenbiem, 1984; Brown, 1995; Daily & Dollinger, 1992; Daily & Thompson, 1994; Dunkelburg & Cooper, 1982; Friedman & Friedman, 1984; Harris, Martinez, & Ward, 1994; Hoy, McDougall, & Dsouza, 1992; Hoy & Verser, 1994; Malone & Jenster, 1992; Nelton, 1986b; Poza, 1988, 1989; Poza, Alfred, & Maheshwari, 1997; Rue & Ibrahim, 1996; Silverzweig & D'Agostino, 1995; Tagiuri & Davis, 1992; Upton, Sexton, & Moore, 1995; Ward, 1987, 1988b).

Many family businesses do not want, or are unable to employ, professional managers. But little research has been conducted on ways families who own businesses manage and market those businesses themselves, and how they deal with the external environment in which their business exists. Included in the external environment are economic, culture, and political factors and interested stakeholders (such as customers, competitors, suppliers, and policy makers). The closest environment is the community in which a business physically exists. Communities are, of course, vital stakeholders in local family businesses, and a dynamic two-way relationship exists between business and community. Although research continues to be needed that targets family business-community interactions, new findings from the NE-167R project are contributing to the management and marketing literature in this area. For example, Brown, Jasper, Kean, and Douglas (1998) used Higgins' (1994) model of management to develop a 10-item scale of business management for family businesses. The most frequently used business management practice was evaluating the quality of the services or product. The least used management practices were planning advertising and promotions, and development of a written strategic plan. (See also Attachement #4 for Critical Review of NE-167R Project.) Research is needed that targets the family business/community interaction.

The research modeling literature builds on a systems perspective (Davis & Stern, 1980; Miller & Rice, 1967) and points to debate between the use of two or three systems (Bowman-Upton, Seaman, & Dyer, 1991; Churchill & Hatten, 1987; Davis & Tagiuri, 1981; Dyer & Handler, 1994; Hoy & Verser, 1994; Lansberg, 1988; McCollom, 1988) as opposed to just one system overall (Cox, 1996; Hollander & Elman, 1988; Kepner, 1983; Whiteside & Herz-Brown, 1991; Winter, Stafford, Duncan, Danes, & Morris, 1996).

Several researchers have attempted to identify ways that business performance is affected by the fact a business belongs to a family (Blake & Saleh, 1995; Kirchhoff & Kirchhoff,1987; Kleiman, Petty, & Martin, 1995; Rue & Ibrahim, 1996). While these are useful, to date, even those investigators of performance who clearly have tried to be inclusive in their conceptualization of performance (e.g., Cliff, 1997; Cooper & Daily, 1997; Dess, Ireland, & Hitt, 1990; Eng, Dollinger, & Daily, 1990; Ensley & Banks, 1992; Ensley & Spencer, 1997; Steans, Carter, Reynolds, & Jassim, 1997; West & Meyer, 1994) have ignored the potential influence of the owning family on business performance. Again, none of this research has comprehensively conceptualized business performance within the family business setting by delineating the potentially significant ways that families may affect business performance.

The NE-167R regional research project is yielding an array of new studies that include a more in-depth examination of the two-way interface between the business and the owning family than exists in any earlier literature (See Attachment #4 for Critical Review of Current NE-167R Project; see also the section below on "The Family-Business Interface"). For example, Danes, Zuiker, Arbuthnot, Kean, and Scannell (1998) adopted the Fundamental Interpersonal Relations Orientation (FIRO) conceptual model (Doherty & Colangelo, 1984; Doherty, Colangelo, & Hovander, 1991) to investigate the two-way interface among tensions and goals between the family business unit and the family unit. They determined that while goals remain largely separate in the two systems, tensions have overlapping effects. Unfair workloads in the business produce tensions in both systems. However, in general, there was less tension experienced in the business system as compared to the family system.

Family Resource Management

Family economics and family resource management have informed the analyses of the competition for scarce resources within and among families. The most sophisticated model of the competition for scarce resources is Becker's (1965) household production model. Becker modeled the household as a firm that combines market goods and labor to produce household goods, which, in turn, produce utility (Chami, 1997). His model of the household defined household production broadly, and facilitated mathematical modeling of the nonconsumption activities of families. It remained for Deacon and Firebaugh (1975, 1981, 1988) to synthesize systems theory and behavioral theories of management and articulate a framework for analyzing the mental processes that yield the observable production modeled by Becker. Avery and Stafford (1991) have developed a theory of management, scheduling congruity theory, that rigorously incorporates advances in cognitive psychology with Becker's concept of household production.

Although household production theory has been fruitful in explaining aggregate family behavior, resource management theory is better suited to modeling the behavior of individual families. The underlying assumptions of family resource management theory include: individuals would make rational decisions if they knew how; individuals know and can articulate what will yield satisfaction; individuals can accurately anticipate the relative amount of satisfaction; and individual family members have accurate information about the resources available and the activities of other family members.

Throughout the family resource management literature, the process of management is discussed and analyzed as if it is practiced homogeneously throughout all domains of life. Heck, Winter, and Stafford (1992) have cast doubt on this assumption in their analysis of the management practices of 482 home-based workers who were also household managers. In that study, the respondents reported engaging in different managerial practices for their paid work than for household production. Respondents reported knowing and using managerial principles to improve productivity in their home-based work. The respondents said, however, that their use of the same principles was less systematic in their management of family work, supporting the concept of domain-specific managerial behavior.

Further, other analyses by Stafford, Owen, Winter, and Heck (1992) indicated that household managers who are home-based workers utilize a different mix of management practices for family work than managers who are not home-based workers. Home-based workers who were also household managers practice more demand clarification, resource assessment and adjusting than their nonhome-based worker counterparts. In other words, home-based worker/managers use management practices for family work that are different from their own practices for home-based work and different from those of their nonhome-based cohorts. Clearly, family work and paid work interact, and the influence is bidirectional.

Although the work of Stafford et al. (1992), Heck et al. (1992), and Winter, Puspitawati, Heck, and Stafford (1993) documented practices used to balance work and family or to moderate the competition between paid and unpaid work for the family's scarce resources, their work does not clarify whether the observed differences in management are attributable more to the close proximity of the paid and family work or to a spillover effect in which practices in one domain (such as paid work) continue, albeit at a moderated level, in another domain. In their study of family businesses, Rosenblatt et al. (1985) concluded the latter, that practices in one domain continue in other domains of family life. One of the purposes of the proposed research is to clarify further differences and similarities in management practices in the domains of family life and business life.

Most recently, Stafford, Heck, & Winter (1998) have conceptualized household management practices using a 10-item scale based on the Deacon and Firebaugh (1988) family resource management framework. The questions about family management practices were developed to represent the major concepts in the Deacon and Firebaugh (1988) framework. They were modifications of an earlier set of statements used to measure family management in families with a member engaged in home-based employment (Heck, Owen, & Rowe, 1995). The leading statement was, "These next items are about how you manage your household. Think of a scale from one to five, where one means the statement is not at all like you, and five means it is exactly like you." The management concepts represented by each of these questions were: goal setting, sequencing, standard setting, demand clarification, resource assessment, action sequencing, actuating, checking, adjusting, demand responses, and resource changes. The items were not asked in the logical order of the framework, and two of the ten items were negatively phrased and had to be reverse coded. Higher scores indicated practices more closely aligned with what were thought to be better management practices. Checking, adjusting, and output as demand responses were the management practices most often used by the household managers in business-owning households.

Family Functioning

In 1975, Kantor and Lehr defined three types of family systems: closed, random, and open. Later, Constantine (1986) added a fourth, the synchronous family, and elaborated on ways these types fit together. A "closed family" is one that seeks to maintain the status quo. It engages in activities and attends to ideals and values that maintain continuity with the past. Decisions, direction, and roles are delegated based on how things were done in the past and operations often seem to replay structures of the members' families of origin. Analysis of the systems embedded in and around closed families shows that the family, not the individual or the community, is the most distinct unit — that is, the one with the most definite boundary. "Stability through tradition" is Constantine's characterizing phrase for the closed family.

Constantine (1986) described the "random family" as being directly opposite the closed family. The random family revels in variety and change. It is oriented toward the present and seeks a constant influx of new experiences. Each member is in charge of his or her own direction and action and usually does not coordinate activities with those of other individual members. The individual has the most distinct boundary and interacts within and outside the family with equal freedom. "Variety through innovation" is the random family's motto.

The "open family" combines aspects of closed and random types. Its members seek to introduce some change into the enduring family unit. In doing so, the open family acknowledges ties with the past and incorporates experiences of the present to build a path to the future. Decisions and direction for the family are negotiated among all members. There is little role delineation inside the family, though some delineation based on age may exist. Individual members and the family unit have equivalent boundaries. Members consider the family's identity as important as their own and each other's in determining actions and goals. "Adaptability through negotiation" describes processes observed in open families.

Kantor and Lehr (1975) and Constantine (1986) clearly have stated that family types are not absolute. Families display a mix of typologies in their everyday activities. They are expected, however, to display a propensity toward one type or another. This propensity may be an overall preference for one particular type; it could also display itself in certain behavioral patterns such as being rigidly random or tightly closed. The propensity of a family to be one type rather than another is expected to illustrate standards for effective interaction within a family and assist researchers in understanding the relationships among income-producing work, type and size of family, and various satisfaction measures.

Analysis of items developed to assess family type for the NE-167 sample of families with a home-based worker (Owen, Rowe, & Gritzmacher, 1992) showed that families could be classified more or less along the dimensions postulated by Kantor and Lehr (1975). Further analyses of the NE-167 data explored relationships between family type and classification of home-based work performed and between family type and managerial style (Heck et al., 1995). Such analysis was extended to examination of data from a sample of family-owned businesses; results yielded research findings on which to predicate assistance to families interested in selecting businesses most compatible with their individual family styles.

Owen and Woodard (1998) adopted a family typology approach to describe items from NE-167R used to measure family functioning in families who own and run businesses. The items again implemented concepts from Kantor and Lehr (1975) and Constantine (1986) that portray families as engaging in behaviors that collectively define an internal systemic consistency. Three family functioning types were represented: ordered (closed), individualized (random), and negotiating (open). The family types were measured on four dimensions: time, space, pattern (or meaning), and decision-making style. The mean scores for the individual items were similar across the two sub-samples of respondents. The items identifying negotiating and ordered families were also similar to each other and higher, overall, than the scores for the individualized families. This would indicate that, on the dimensions measured, the managers rated their families as being more like the negotiating and ordered families than the individualized ones. Only the pattern for the individualized family was above the midpoint for potential answers. However, the pattern scores for all family types displayed the highest mean within their type, indicating that families were more certain of what they wanted from life in terms of meaning than they may have been able to actually practice in the everyday demands of using space and time and in the fashioning of decision strategies.

When comparing the household managers to the household/business managers, the tests of significance indicate that the individualized family is distinct from the other two family types on the items but in a different way. The two sub-samples appear to be more distinct on items that identify negotiating and ordered families; only on individualized decision making are the means different in a statistically significant manner for that family type. On space use in negotiating families, there is also no significant difference, while space and decision making are borderline for the ordered family items. These results point to business persons displaying behaviors on certain dimensions that are more like individualized families, consistent with the profiles of entrepreneurs, than would a household manager who may be a complement to an entrepreneur in a family that has a business as part of its collective life. These findings suggest the need to perhaps view a business owner/manager who also manages a household as having a different and more complex set of objectives in mind as he or she makes the daily tradeoffs between work and family life.

To the extent possible, this and other family functioning models will be considered in the proposed project. Additional analyses of family functioning can be tapped through the instrumentation developed by Olson (Olson, 1986; Olson, et al., 1985, 1989; Olson, Porter, & Levee, 1982; Olson, Russell, & Sprenkle, 1983, 1989) and Beavers (Beavers, Hampson, & Hulgus, 1985; Beavers & Voeller, 1983; Lewis, Beavers, Gosset, & Phillips, 1976). These widely used instruments, all of which possess good reliability and validity characteristics, also are grounded in systems theory. FACES III, the instrument that operationalizes the Olson Circumplex Model, can be used to categorize families in several different ways. Commonly, families are identified as being in one of several different categories of a typology that is related to effectiveness in family functioning. It would be useful to explore the type of family functioning style that best meets needs of family members and, at the same time, maintains a viable family business.

The Beavers-Timberlawn Model of Family Competence also uses a typology of families that is related to how well the family meets the needs of its members. Families can be identified as belonging to several different types such as optimal, adequate, and borderline. Optimal and adequate families are more competent in meeting the needs of their members and adjusting in appropriate ways to change and stress. Likewise, these family functioning styles would be predicted to balance needs better in both systems while maintaining a family-owned business (Beavers & Voeller, 1983).

The Family-Business Interface

In spite of the importance of family firms in the U.S. economy, little research has been completed that examines the work-family interface (Ahrentzen, 1990; Heck, 1998a; Kanter, 1989; Pratt, 1986; Upton & Heck, 1997). The dearth of such work means that those trying to provide economic or technical assistance to families who own businesses lack a research base for such assistance.

Research based on a model of the family firm as one that consists of stages and phases posits that the family and the business go through developmental and transitional stages that conflict or complement each other in ways that can help or hinder each in meeting its objectives. Hershon (1975) and Ward (1987) have been instrumental in providing theoretical constructs for this approach to studying family firms.

Hollander and Elman (1988) assert that the stage approach illuminates the interactive nature of entrepreneurship, family and business life cycles, and highlights the interdependency of these parts of the family firm. As summarized by Hollander and Elman, the systems approach can encompass other analytical methods while allowing for unique observations of the needs of the subsystems that make up the whole. These researchers caution that using the systems approach may lead to a model that emphasizes macro level analyses or one that emphasizes the study of activities in only one of the component parts. Called the "joined system approach," their model portrays the family firm as one consisting two systems acting and interacting simultaneously. The "joined system approach" allows for use of two separate sets of theories to explore and explicate each component: family systems and business systems theories, respectively.

In their study of family businesses, Rosenblatt et al. (1985) added significantly to knowledge of the manner in which families and businesses interact in the affective domain of people's lives. Particular attention was paid to communication and goals that complemented or were in conflict with family members in business together. Although information on communication is essential to understanding the personal and social aspects of the business-family interface, including managerial strategies, the Rosenblatt study did not address in detail the manner in which families perform complex managerial tasks. They used a systemic model to study families in business and concluded that imbalances in the system occur because patterns of interacting in one system are inappropriate in the other. Although business and family systems may support one another, they also compete with each other for the scarce resources of time, money and human energy.

Beyond the interaction of the family and the business, business viability is essential for sustainability of communities, and businesses can be lost through destructive conflict over goals (Kaye, 1991). The Fundamental Interpersonal Relationship Orientation Model (FIRO), which has its origins in group process (Schutz, 1958), is one that has been used with both family and business systems. It stipulates that inclusion, control, and integration (in that order) are central concepts in maintaining the viability of business (Danes, 1994). As mentioned previously, Danes, Zuiker et al. (1998) used this model to investigate family-business interaction regarding tensions and goals.

During times of economic stress or other crisis times within the family or business systems, the sharing of resources (money, energy, skills) across systems is essential to the continued viability of businesses (Danes & Rettig, 1993; Rosenblatt, 1991). The degree of interface or interconnection between the systems and resulting reactions can affect the family business. In the early stages of the business, a healthy overlap contributes to viability, but it also creates problems as the business matures and can cause some unique problems during times of succession (Ward, 1987). Previous studies have suggested that households engaged in small business ownership have substantially higher debts and a higher probability of borrowing from commercial banks and family members than those households not engaged in any small business ownership (Haynes & Avery, 1997).

Results of the Current Study (NE-167R)

Data collection for the NE -167R project, "Family Businesses: Interaction in Work and Family Spheres," was completed in 1998. (For a complete list of publication see Attachement #4 for Critical Review of NE-167R Project.) Information was collected from all fifty states. Ten percent of all households initially contacted met the investigators' definition of having (or owning) a family-owned business and were eligible for interviews. A total of 1,116 households participated in the telephone survey. "Family" was defined operationally for the study to include households with two or more persons related to each other by blood, marriage, or adoption, and who shared a common dwelling unit. A family-owned business was defined operationally as one in which one or more family members owned or managed a business. To be included in the study, the business manager must have worked a minimum of 312 hours a year in the business, have been involved in its day-to-day management, and have been in business for at least a year.

Data were analyzed both nationally and by regions: (northeast, 16.4%; north central, 30%; south, 33.3%; and west, 20.3%). Communities varied in size; however, overall 49.6% of the communities were classified as rural, and 50.4% were classified as urban. Within the rural category, 11.3% of the respondents lived on farms, 17.5% in rural areas, 7.1% in communities with populations of less than 2,500 and 13.7% in communities of between 2,501 and 10,000. The breakdown of respondents who lived in urban categories (communities with populations over 10,000) indicated that 21% resided in communities with populations of between 10,001 and 50,000 and 29.4% in communities with populations over 50,000.

The majority of respondents were married (92.2%) with an average household size of 3.4 people. The mean household income was $71,510 and 86.8% owned their own homes. In general, families who operated a family business rated their quality of life as a "4" on a five-point scale. Household managers often participated in the family business. Eighty-seven percent of the household managers reported they would rate their level of satisfaction with their role in the family business on a five-point scale at "4" or "5."

The typical family business is a sole proprietorship that is likely to operate from the home (56.6%). The average business is 10 years old. The average family business employs seven persons or fewer. Only a small number of these employees are family members. Seventy five percent of the family businesses employ no family members beyond those living in their own households. In terms of succession, 60% of the business managers interviewed consider it unlikely that the business will remain in the family.

Most family business managers consider their business to be moderate to very successful. They believe themselves to be generally successful in having achieved their company goals, which for most businesses involves establishing a positive reputation. In terms of family life, the most important long-range goal involves establishing good family relationships. Sixty-five percent of the household managers consider their families to be successful in having accomplished this.

Other Current Research

Based on a review of current research, including a CRIS search, there are no other groups studying the duality of management and activities for both family and business in family businesses within economically high risk communities. The primary goal for a new regional project, NC-223, "Rural Low-Income Families: Tracking Their Well-Being and Functioning in the Context of Welfare Reform," is to examine qualitatively the economic well-being of such families over time relative to current welfare reform. More specifically, the objectives of NC-223 are as follows: 1) to track over time the individual and family circumstances, functioning, and well-being of rural low-income families with children in the context of welfare reform; 2) to track over time the changing welfare policy environment as well as community factors that facilitate family support for rural low-income families with children; and 3) to identify and analyze the interactions among welfare policy, community infrastructure, and individual and family circumstances, functioning, and well-being that affect the ability of rural low-income families with children to function in a changed environment of policies and programs. The purpose, scope, focus, and methodology of the NC-223 project are considerably unlike those of this proposed regional research project. NC-223 is directed toward family and effects on the well-being of children. This proposed research emphasis addresses family business viability within vulnerable communities.

Three other recently completed regional projects, NC-192, W-167, and NC182 have examined related topics. However, the purpose, scope, and focus of each of these projects are notably different from the proposed regional research project. The NC-192 project, "Rural Retailing: Impact of Change on Consumer and Community," was limited to analysis of the retailing base within small communities (Bastow-Shoop, Leistritz, Jolly, Kean, Gaskill, Jasper, & Sternquist, 1995; Gaskill et al., 1996; Kean et al., 1998; Sternquist, Jolly, Leistritz, Kean, Bastow-Shoop, Jasper, & Gaskill, 1997). In contrast to the proposed research, NC-192 limited its business focus to retailing establishments and did not emphasize the family-owned nature of the enterprises. Interactions between business and family were not included.

The W-167 project, "Work, Stress, and Families," was broadly centered on the interchange among the three named concepts with an emphasis on stress. No special consideration was given to family-owned and managed businesses.

The terminated research project NC-182, "Resource Utilization as a Factor in Determining Economic Well-Being of Rural Families" investigated the following: a) effects of external factors, demographic characteristics, and functioning styles on family resource utilization and effects of family resource utilization in achieving family economic well-being; b) development of intervention guidelines for those who assist families in order to maximize family economic well-being; and c) implications of family resource utilization patterns for rural communities. The objectives of the NC-182 project were configured into a conceptual model reflecting external factors, demographic characteristics, and functioning styles as directly influencing family resource utilization and in turn creating direct and indirect effects on the economic well-being of families. Final results projected intervention guidelines and implications for rural communities. The research focused on the family and its well-being and not family businesses.

Several state projects are related, on the basis of their assumptions that family and work spheres are not mutually exclusive, to the proposed research. One of these is using an ecological approach to study three families who are engaged in small-scale farming where family, farm, and environment are viewed as interdependent and interactive. Another project compares adaptive strategies for farm business, family, and personal well-being used by farm men and women. There were also a variety of late 1980s projects related to the farm crisis. None of these projects focus on family businesses within economically high risk communities and the management implications of overlapping family and business activities.

Various other state studies have investigated entrepreneurship, small businesses, and economic conditions in rural areas (Horton, 1995). These studies did not look at vulnerable communities within rural areas, but instead, explored rural communities in general. Several state projects have examined economic concerns related to specific rural issues. For example, Halbrendt, Sullivan, and Wang (1996) studied poverty of women in rural areas in a project, "Entrepreneurial Activities: A Possible Solution to Rural, Female Poverty." Data were collected from focus group interviews in Vermont. Although findings from this study are relevant to this proposal, the limited focus and scope are quite distinct from the broader focus and scope of this proposed national study.

A state study by Zimet (1995) also looked at rural entrepreneurship. The goal in this case was to analyze the experience of founders of small businesses in rural areas in an effort ultimately to enhance economic development. Specific objectives included identification of factors that influence success or failure of new rural businesses, measurement of the impact of these businesses on rural economics, and assessment of the capacity of public and private agencies to assist. Data were collected in Florida via telephone interviews conducted by high-school students. Findings addressed very specific aspects of rural businesses related to consumer needs such as parking, demand for specific products, and convenient shopping hours. The proposed study goes beyond the narrow scope of this Florida project.

Another state study based in Florida (Long, Babb, & Gladwin, 1994) also is entitled "Rural Entrepreneurship." A report by the authors indicates that their data reveal that retail and service businesses are the dominant business types in rural North Florida. For the most part, these firms sell primarily to local residents and export little. Rural business enterprises were compared to determine their similarity with urban entrepreneurs. No significant differences in psychological traits were found between the two groups, nor did there appear to be regional differences. Rural entrepreneurs rely heavily on local financial leaders and themselves for financing business activities. A large proportion of rural entrepreneurs believe they could benefit from additional training and educational assistance in financial and business management. Based on this information, efforts were made to modify some existing financial management tutorials. Investigators conclude that additional tutorials should be made available to provide information on financial management. These findings are relevant to the proposed regional research; however, the focus of the proposed study on family businesses within vulnerable communities is quite unlike this Florida study.

A final state study, entitled "The Significance of Community to Business Social Responsibility," specifically examined social responsibility in rural Iowa communities, and thus, is dissimilar to this proposal (Besser, 1997; Miller & Besser, in press). The goal of one other Hatch study by Schmidt (1997), "Indicators of Small Business and Community Economic Growth," is to improve substantially the dissemination of community-level business information to Vermont residents. Because its focus is on information dissemination, it also diverges considerably from this proposal.

THE CONCEPTUAL MODELS:

The Family Business Viability Model depicted in Figure 1 (Winter et al., 1996) was developed for the Family Business Research Group, a team of 25 researchers from varied disciplines who constituted the NE-167R Technical Committee. The model is intended to recognize that, within a family business, business viability is separate and distinct from family viability, but that there is a critical link between the two. A variety of family and business characteristics ("Available Resources and Constraints"), both financial and nonfinancial, provide the basis for both family and business adjustments and adaptations relative to the family and the business. Family and business processes such as resource management, conflict management, and functioning ("The Way Things Usually Are Done") are viewed as a function of family and business characteristics, and mediators between characteristics and family and business adjustments and adaptations ("Doing Things"). Family and business viability are viewed as functions of adjustment and adaptation, family and business processes, and family and business characteristics. Because this research extends and generalizes the research findings of the NE-167R project, the same conceptual model will be used to examine family businesses within the context of selected community characteristics.

Figure 2 is a graphical portrayal of the paradigm guiding the proposed research. Whereas Figure 1 portrays details of the family and business systems and highlights their analogous structures and processes, Figure 2 highlights the interaction of the community and the business-owning family. At the center of Figure 2 are two semicircles representing the family and its business in 1997 and in 2000. The changes that take place in the three-year interval between interviews occur in the context of the community. In Figure 2 the community is represented by the outer band, consisting of political, economic, and social institutions and systems. These communities in which the families and their businesses reside range from declining to thriving, as do each of the subsystems.

OBJECTIVES:

1. To compare the interaction of family and business systems in economically vulnerable and nonvulnerable communities.

2. To identify the effects of community structure and characteristics on families and their businesses.

3. To estimate the economic and social contributions of family businesses to communities over time.

PROCEDURES:

Methods common to all objectives are discussed in the first subsection. Following that, the objective-based procedures are presented. Researchers from two or more states are committed to developing the procedures necessary to accomplish each objective.

Figure 1. THE FAMILY BUSINESS VIABILITY MODEL