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A Competing Values Approach to Small Family Business Succession

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Introduction

Small family businesses (farm, farm-related, and non-farm):

Represent a critical component of the U.S. rural economy.

Involve several parties:

- a) Family employees
- b) Non-family employees
- c) Non-employee family members

Face issues concerning both the business and the family, which may have competing objectives.

Recent literature focuses on growth, sustainability, and survival (business transfer).

At any given time, as many as 40 percent of U.S. businesses are dealing with ownership transfer in some fashion (Bowman-Upton, 1991).

Difficulty arises from:

Different stakes and levels of objectives of the parties involved

Heterogeneous set of preferences for long-run strategy

Objectives

The objective of this study is to develop a spatial 'competing values' framework to characterize rural family businesses. This will improve our understanding of the complexity associated with conflicts in managerial succession and help researchers and practitioners understand the processes used to navigate ownership transfer in family business settings.

A secondary objective is to analyze the heterogeneity of family businesses to understand different objectives that may be associated with the transition process and how these might give rise to differently effective models of transition. In the present analysis, we focus particularly on business demographic and performance values based on typological definitions developed from the competing objectives framework.

Methods

Method

Adapt Quinn and Rohrbaugh spatial framework for analysis of managerial effectiveness to family business succession problem.

Develop a spatial context for characterizing rural family businesses. Use the spatial orientation to adapt standard models of succession to the particular objective orientation of a family business.

Graph: Spatial Model of Competing Values in Succession

Structure (vertical axis): ranges from most equitable to most advantageous

Focus (horizontal axis): ranges between singular focus on the business or on the family

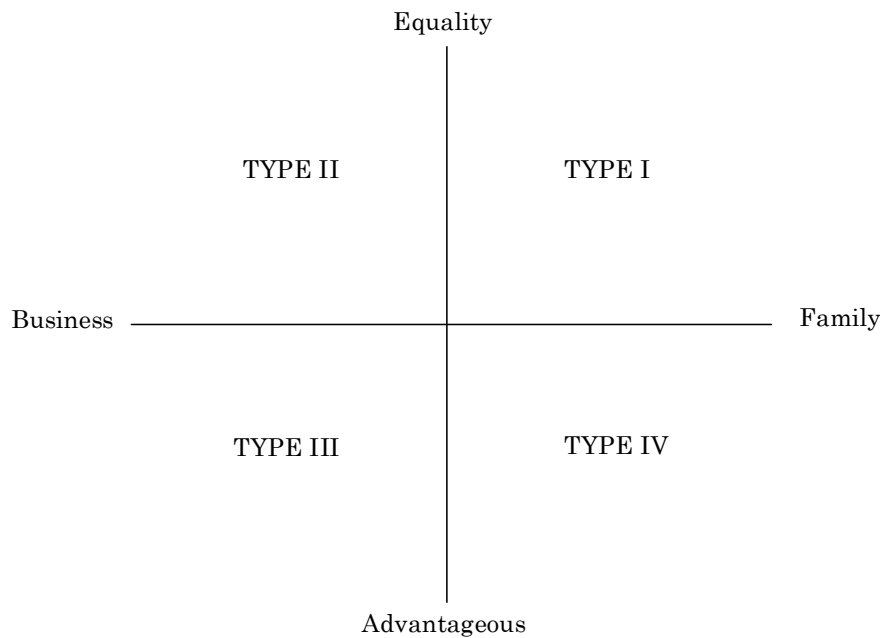


Figure 1. Graphical Interpretation of Competing Values

Using data from a survey of family businesses, we design a measurement concept of business and management objectives that relate to the axes in figure 1.

The responses to the family business survey questions are organized by scoring responses to Likert scale questions in accord with their agreement with one of the poles of the two axes in figure 1. This yields a spatial orientation of family business values following the schema in figure 1. With this spatial model in hand, we can then use activity and performance information of family businesses in the survey to analyze firms which are competing values neighbors.

The graph allows us to create the numerical types (displayed in the quadrants) of family businesses based on their position on the spatial graph.

Data

National Family Business Survey, 2007.

Asks questions business (orientation and performance), family (number and extent of member involvement), and practices and beliefs toward business succession process.

Surveyed sample is limited to families in which at least one person owned or managed a family business, and met the required criteria (see further sample selected in Winter et. al., 1998).

Approach to Analysis

Compare business demographic and performance indicators between the four types of family businesses as created by the spatial model.

Results

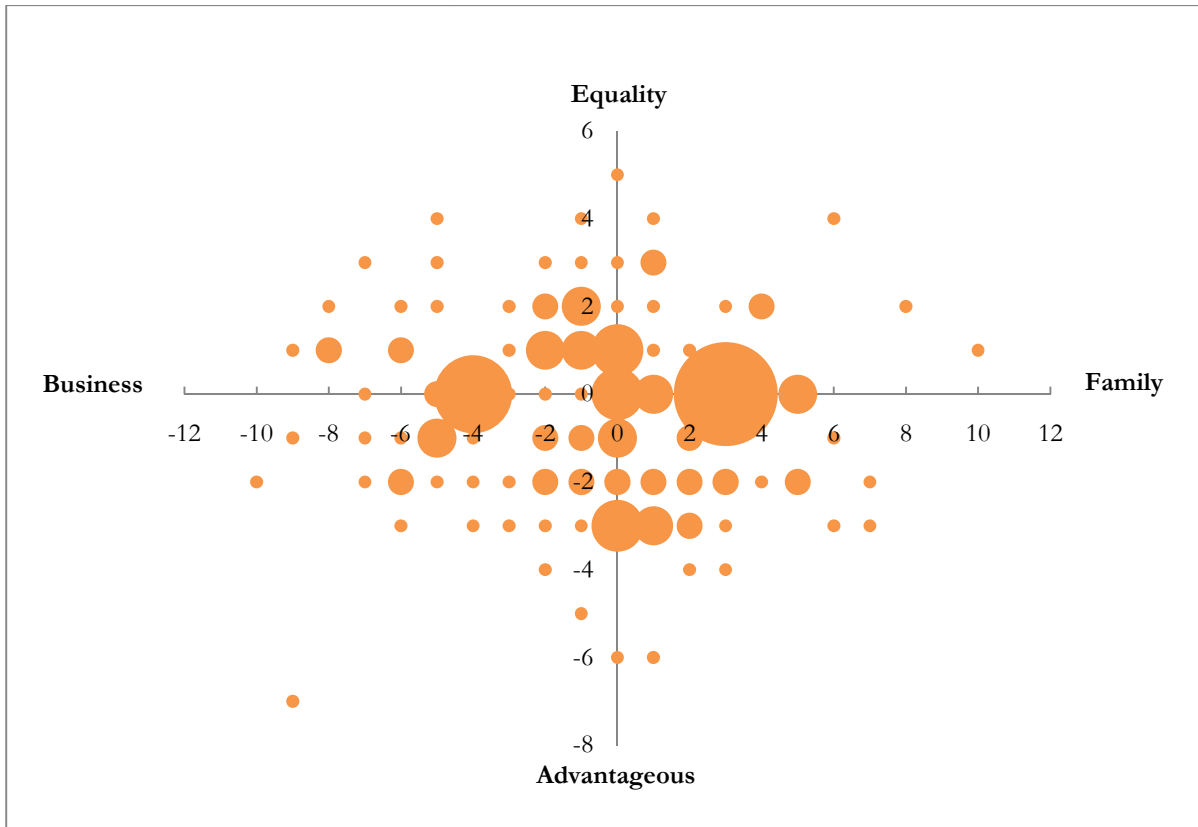


Figure 2. Competing Values in Family Business

- Family businesses respond to survey questions in a manner that tries to balance the competing values of management.
 - This likely reflects the design of the survey which allows a respondent to both prioritize family oriented choices as well as business oriented choices in separate questions.
 - Also reflects the inherent conflict in balancing these approaches. Further testing between centrally located businesses and outliers (those most removed from the origin) will yield insight into performance advantages and disadvantages from balanced versus non-balanced approaches to objectives associated with competing values.
- Family businesses are spatially dispersed quite evenly (see figure 3 below) with the majority favoring equality or fairness in business practices and choices.

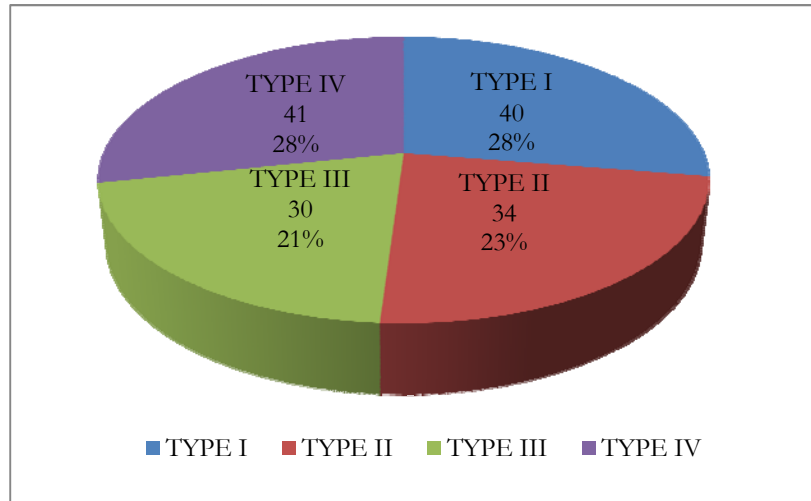


Figure 3. Type Classification

Table 1. Business Demographics Classified by Type

| Variable | Mean | | | |
|------------------------------|--------------|--------------|--------------|--------------|
| | Type I | Type II | Type III | Type IV |
| Number of Employees | 2.13 | 3.17 | 4.19 | 3.10 |
| No.of family members work 07 | 1.35 | 1.43 | 1.32 | 1.36 |
| Household Size | 3.00 | 3.09 | 2.74 | 2.67 |
| Spouse Work in Business | 0.58 | 0.63 | 0.57 | 0.64 |
| Home Based Business | 0.60 | 0.57 | 0.71 | 0.64 |
| Work Hours/Week | 40.13 | 39.31 | 43.87 | 47.14 |
| Work Weeks/Year | 49.33 | 46.26 | 46.84 | 47.02 |
| Work Hours/Week (Spouse) | 16.88 | 16.94 | 16.61 | 25.81 |
| Work Weeks/Year (Spouse) | 31.03 | 29.00 | 26.77 | 33.00 |
| Pay Yourself | 0.38 | 0.40 | 0.19 | 0.24 |
| Work in Another Job | 0.25 | 0.20 | 0.26 | 0.19 |
| How Successful | 4.20 | 3.91 | 3.84 | 3.55 |
| Gross Income | 254269.70 | 293362.50 | 323519.23 | 234787.88 |
| Profit | 175033177.00 | 228634500.00 | 193616435.00 | 214311495.00 |
| Share Value Change | 2.38 | 2.11 | 2.37 | 2.21 |
| Total Assets | 316747.83 | 384518.52 | 688000.00 | 642516.13 |
| Total Liabilities | 73322.58 | 72633.33 | 132370.37 | 99705.88 |

Advantageous v. Equality

- Smaller percentage of those typed as ‘advantageous’ pay themselves a salary.
- ‘Advantageous’ businesses own higher value of assets.
- ‘Advantageous’ businesses possess lower value of liabilities.

Family v. Business

- 'Business'-typed businesses employ more employees on average.
- 'Business'-typed businesses reported slightly more gross income.

Conclusion

Family businesses face a permanent duality in their choice structure, what benefits the family and its optimal operation may not coincide with choices made for the business. Ward's central thesis is that successful family businesses must first self identify their values before they can begin a consideration of optimal choices in business planning and structure. A particular area in need of further research related to family business planning is the transition function, which governs the interaction of family generations involved in the business. The role of individual well-being and varied interests across and within generations expands considerably on the complexity involved in decision-making. Our continued work on the competing values framework will explicitly consider models of business succession, outlining the principles which are common and divergent for different values based spatial orientations.

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Appendix

Table 2. Questions Used to Design Spatial Modeling

| Questions | |
|--|------------|
| X-AXIS: Family v. Business | |
| Please tell me if you respond this way always, often, sometimes, seldom, or never. | |
| When things are hectic at home family members, other relatives, or friends help in the business without pay so you can spend more time with family. | ALT_RES_F |
| When things are hectic at home you put off or skip routine business demands (such as record keeping or file management) to spend more time with family. | DEL_POST_F |
| When things are hectic at home you do more business tasks at home. | PHY_REL_F |
| When things are hectic at home you temporarily shift some business work to others so you can spend more time with your family. | REA_PERS_F |
| When things are particularly busy or demanding in the business family members, other relatives, or friends who usually do not work in the business help out in the business without pay. | ALT_RES_B |
| When things are particularly busy or demanding in the business family members putt off or skip routine household tasks to do business work. | DEL_POST_B |
| When things are particularly busy or demanding in the business family work usually completed home is done at the business (pay bills, make appointments, etc.) | PHY_REL_B |
| When things are particularly busy or demanding in the business some household responsibilities are temporarily shifted among family members so more time can be spent in the business. | REA_PERS_B |
| Y-AXIS Equality v. Advantageous | |
| Do you strongly disagree, disagree, agree or strongly agree with that statement? | |
| When times are tough.... | |
| It is best to have one strong person in charge making decisions. | UNI-CON_A |
| It is best to reach compromises that everyone can agree with. | UNI_CON_E |
| It is best to keep focused on whatever needs to be done to make it through. | INT_EXT_A |
| It is best to keep mind that other may be less fortunate. | INT_EXT_E |
| On a scale of 1 to 5, how much tension exists in your home life? | |
| Confusion over who has authority to make decisions. | OWN_AUTH_A |
| Unequal ownership of the business be family members. | OWN_AUTH_B |
| Failure to resolve business conflicts. | NO_NAME_A |
| Unfair workloads among family members, due to the business. | NO_NAME_B |

Table 3. Variable Names and Coding

| Variable Name | Recode Name | Recode Formula | Axis | Dimension |
|---------------|-------------|--------------------------|------|-----------|
| D3ACB07 | ALT_RES_F | X-3, Del if X>5 | BF | F |
| D6ACH07 | ALT_RES_B | $(-1)(X)+3$, Del if X>5 | BF | B |
| D3BCB07 | DEL_POST_F | X-3, Del if X>5 | BF | F |
| D6BCH07 | DEL_POST_B | $(-1)(X)+3$, Del if X>5 | BF | B |
| D3DCB07 | PHY_REL_F | X-3, Del if X>5 | BF | F |
| D6DCH07 | PHY_REL_B | $(-1)(X)+3$, Del if X>5 | BF | B |
| D3FCB07 | REA_PERS_F | X-3, Del if X>5 | BF | F |
| D6FCH07 | REA_PERS_B | $(-1)(X)+3$, Del if X>5 | BF | B |
| | | | | |
| C3ACB07 | UNI_CON_A | X-3, Del if X>5 | EA | A |
| C3CCB07 | UNI_CON_E | $(-1)(X)+3$, Del if X>5 | EA | E |
| C3HCB07 | INT_EXT_A | X-3, Del if X>5 | EA | A |
| C3GCB07 | INT_EXT_E | $(-1)(X)+3$, Del if X>5 | EA | E |
| D2BCB07 | OWN_AUTH_A | X-3, Del if X>5 | EA | A |
| D2CCB07 | OWN_AUTH_E | $(-1)(X)+3$, Del if X>5 | EA | E |
| D2ECB07 | NO_NAME_A | X-3, Del if X>5 | EA | A |
| D2FCB07 | NO_NAME_E | $(-1)(X)+3$, Del if X>5 | EA | E |