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Embeddedness and Profitability: The Case of Small Businesses in the US Midwest

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Abstract

Maximizing the profitability of small businesses is key to growing the economy. Small businesses are defined as any independent business with less than 500 employees and make up most businesses in the United States. This study investigates the association between firm profitability and different business goals, aspects of socioemotional wealth (SEW), as well as business/owner characteristics. Socioemotional wealth encompasses nonfinancial values driving businesses. While SEW is frequently associated with family firms it can also be found in nonfamily firms. This study differentiates between SEW aspects like life satisfaction, the renewal of bonds through succession, and identification of the owner with the firm. The data is from the NCR-Stat: Small Business Survey, published by the North Central Regional Center for Rural Development. Using a linear regression for our quantitative analysis no single business goal was found to have a significant association with profitability. However, each aspect of SEW did have a statistically significant correlation with profit. Life satisfaction and the renewal of bonds through succession were positively correlated with profit but identification with the firm had a negative association with profit.

Key words: small business; family embeddedness; profitability; socioemotional wealth

In economics, it is understood that small businesses must be profitable for long-term operation. Ville and Panza (2017) tested this intuition and found that profitability of a firm was highly correlated with a firm's longevity. Profit for the purpose of longevity is discussed by John Ward in his 2016 book, *Keeping the Family Business Healthy.* In his book, he suggests that longevity should be the focus of businesses where owners would like their company to outlast their career. Formal, legal, and recorded business structuring and planning is key to the transfer from one owner to the next. Without profit, business transfers are more difficult and heirs are less likely to want to be a part of the business (Morris et al., 1996). However, profit is far from the only factor in succession, particularly for family firms.

Family business transfers are known to be motivated by relationships rather than market value. An example of a dynamic relationship driving a business transfer would be a current owner who wants to decrease their responsibility for the business and the intended heir pursuing an increase in responsibility. Business transfers represent the renewal of family bonds, which is a key aspect of socioemotional wealth. Socioemotional wealth (SEW) is defined as the utility a business owner derives from owning a firm (Miller & Le Breton-Miller, 2014). This utility is exhibited in the social and emotional benefits reaped by the firm owner from being a part of the business. For example, small business owners often work to preserve their social status, highly identify with their businesses, and derive intense emotional satisfaction from their businesses. These nonfinancial motivations of small business owners are related to ownership control and identity.

Nonfamily businesses also have socioemotional wealth, but it is not as prominent. Nonfamily businesses are therefore usually less motivated by relationship dynamics and more motivated with market value. As such,

small businesses often require startup capital and their access to loans can be linked to the ability to start or take on a business (Holtz-Eakin et al., 1994). Profit is required for family and nonfamily businesses alike.

Business succession or transfer is the anchor to long term success. The health of a business relies on the success of a business transfer from one owner to another. Zellweger et al. (2011) reflected on the differences researchers found in the goals and performance of family businesses that made them unique. They created a family-first framework called the Family Entrepreneurial Orientation to formalize this view of family firms. Often family firms will focus on longevity over short-term business growth. Ward (2016) expands on this and suggests that business owners think in terms of transgenerational entrepreneurship, or how their business will eventually transfer to new ownership. This includes taking steps during the goal setting and structuring of a company to prioritize the future of the company, as well as the present. However, no matter the motivation for the transfer, a poorly managed business transition can put the entire operation at risk, possibly ending in closure.

One of the many measures of business performance is profit, which is an accessible and quantitative comparison tool. Profit is defined as the total income earned by the business minus all operating expenses. Profit alone does not represent a business' possible debt or illiquid assets, but it does give a picture of how much revenue a business is collecting accounting for what it costs to produce a good or service. Profit is necessary for all small businesses so we used profitability as the measure of business performance in this article.

For most small businesses, startup capital and continual profitability are key to long-term operation and business performance. Literature tells us that specific goals and certain aspects of socioemotional wealth improve performance (Latham & Baldes, 1975; Lee & Marshall, 2013; Locke et al., 1981; Locke & Latham, 2019; Terpstra & Rozell, 1994). This article intends to expand upon previous research regarding the relationship between business goals and performance by studying financial and nonfinancial goals. This article also contributes to the existing literature by associating socioemotional wealth with business performance.

This article uses North Central Regional Center for Rural Development (NCRCRD) survey data to help refine the relationship between profit and socioemotional wealth. NCRCRD surveyed small business owners regarding topics relevant to this article, such as socioemotional wealth, community trust, business goals, and performance. The null hypothesis of this article is that business owners that prioritize embeddedness/SEW will be associated with lower business profitability. The hypothesis can be broken into two parts. The first is firms that choose profit as the primary goal for their business will make more profit than those that do not. The second is that socioemotional wealth is correlated with lower profit than others. Informed by experts in socioemotional wealth, goal setting theory, and business performance, we created a model to understand how profit is influenced by business goals, socioemotional wealth (embeddedness), and owner/business characteristics.

Literature Review

This section includes the literature review focused on the association between socioemotional wealth, embeddedness, business goals, and profitability.

Socioemotional Wealth and Embeddedness

The concept of SEW was based on value and identity found within a community. SEW has been treated in past literature as a general explanatory concept for noneconomic decision-making factors within family firms (Berrone et al., 2012). The FIBER framework provided a way to measure and further understand the different dimensions of SEW. Berrone et al. (2012) defined FIBER as Family control, Identity with the firm, Binding social ties, Emotional attachment, and Renewal of family bonds through succession. This concept was significant for this research, because the different principles of FIBER have differing relationships with firm

profitability (Martin & Gomez-Mejia, 2016). The focus of this article will be on three dimensions of FIBER referred to as the REI scale which have had the most influence over firm decision making (Hauck et al., 2016; Swab et al., 2020). "R" in the REI framework referred to renewal of family bonds through succession, "E" referred to emotional attachment of family members to the firm, and "I" referred to identification of family members with the firm.

The REI dimensions were all postulated to be positively correlated with business performance, but not all were correlated identically (Martin & Gomez-Mejia, 2016). In comparisons of financial and socioemotional wealth, identification of family members with the firm conceptually had a positive association to overall business performance. Martin & Gomez-Mejia (2016) theorized that in excess, family identification with the firm may begin to have a negative association with financial performance. In the same article, they postulated that renewal of family bonds (succession) was positively associated with performance at the founding stage of the firm, and negatively at later stages.

Socioemotional wealth was originally studied within the context of family firms. However, socioemotional wealth can be measured in both family and nonfamily firms using the REI scale. In family and nonfamily businesses, owners contribute to the company through engagement and direction. Besides involvement in goal setting and administrative tasks, they set the tone and environment of the workplace. This is something that should be just as rewarding to the owner as it is for the employees psychologically. In this way owners should gain socioemotional wealth from their participation in the business, as well as contribute to the socioemotional wealth of their employees. Owner involvement is valuable and rewarding for family and nonfamily firms alike (Aronoff & Ward, 2011).

Small businesses are situated within broader social structures and relationships (Granovetter, 1985). In other words, they are embedded within their communities. Small businesses are embedded within social institutions and cultural norms that affect business decisions and strategic choices. For example, just as in SEW, social obligations may override a pure profit motive. Although the connection between SEW and embeddedness can be particularly evident in family businesses, it is also evident in nonfamily small businesses where the owner's embeddedness in social networks and community relationships reinforces their commitment to maintain their control and the identity of the firm. This description for socioemotional wealth within the workplace applied to all businesses, but in order to differentiate between the socioemotional wealth found in family verses nonfamily firms, two separate terms were used. Socioemotional wealth and embeddedness both refer to the nonfinancial drivers of business decisions. For the purposes of this article, the REI scale used to measure socioemotional wealth was also used to measure embeddedness.

Goals

Goal setting theory has been tested and built on for over half of a century. Setting goals is understood to increase business performance (Latham & Baldes, 1975; Lee & Marshall, 2013; Locke & Latham, 2019; Locke et al., 1981; Terpstra & Rozell, 1994). One such article by Latham and Baldes (1975) on a logging company showed individual goal setting increased employee performance in a way that was comparable to investing a quarter of a million dollars in additional trucks. In one of the original goal setting theory papers, Locke et al. (1981) found that setting specific goals led to even higher job performance than non-specific goals. Lee and Marshall (2013) confirmed this idea that specific goals have a positive impact on business performance but applied it to how the owner influences the goals within a family business. Aronoff and Ward (2011) clarified some ways in which the owner contributed to goal setting, both by setting a "tone" for the workplace and making administrative or financial decisions about what areas of the company to prioritize. Later Locke and Latham (2019) built on their own work by adding details of when to set different types of goals, such as

learning or performance, and added nuance to their understanding of the effect goals have on the subconscious of the employee during job performance. They explained that when people write about their goals it had an even stronger effect on performance.

A contribution of this article is to explore how financial and nonfinancial business goals are associated with business performance. The previous studies found that goal setting benefits individual performance but did not find whether the goals affected the business at an overall level. Less research has been done in this area, a gap that this article tried to close. Terpstra and Rozell (1994) confirmed that firms that use goal setting saw increases in individual performance as well as profit growth at an overall business level than those that did not. They found a difference by industry classifications, but only within the retail/wholesale industry.

Business goals such as profit, customer satisfaction, or longevity are often linked to owner and business characteristics. Accordingly, we account for these characteristics within the model. It was suggested by Ward (2016) that longevity should be the goal for businesses where the owners are concerned with transgenerational succession, which is associated with renewal of bonds (R in the REI scale). He also believed that to do this, the business must consistently enact change and engage in new ventures to grow and be transferable to future generations. Openness to new entrepreneurial ideas was central to longevity as well as the renewal of bonds within the business (Ward, 2016).

Business Performance

There are many ways to measure business performance, and to be comprehensive an article could analyze many different aspects of a firm such as its type, structure, assets, debts, profitability, and longevity. Financial performance is related to management practices as well as company characteristics (Maes et al., 2005). While some studies did use accounting ratios such as the operating ratio, net profit ratio, return on investment/net worth, or gross profit ratio to measure business performance, these studies could only focus on a few companies at a time (Maes et al., 2005). Other studies used qualitative measures such as owner and employee perceived firm profitability, quality of output, or willingness of banks to provide loans (Jarvis, 1999). This article used profitability as a quantitative measure of business performance. Profitability serves as a fundamental measure of business performance because it directly indicates whether a business is creating value and generating revenues that exceed its costs.

A country's market structure, legal system, and managerial risk preferences are all characteristics of a business that can contribute to their performance along with owner and business characteristics. These attributes each have different effects or relationships with the profitability of the firm (Arai & Hirota, 2023). While this article did not control for different state market structures or risk preferences, it did control for business owner demographics and business characteristics. Business owner demographics included variables such as owner age, education, race, and sex. Examples of business characteristics included business structure, number of employees, business age, and industry.

Data & Methods

The dataset used in this article was collected by the North Central Regional Center for Rural Development in 2024 (Wiatt et al., 2024). The purpose of the NCR-Stat: Small Business Survey was to learn more about small business owners and the benefits they provide to their employees. The survey was completed by 1,287 small

business owners in the north central[1] region of the US. Information collected and used in this article included owner and business characteristics, as well as socioemotional wealth, trust in the surrounding community, and financials. This data was made publicly available by the NCRCD to inform small business decision making and relevant policies. The downloaded bundle included the dataset already coded for the survey variable names in Excel; however, Stata (Release 18, 2023) was used for the statistical analysis.

A small business is generally described as any independent business that employs fewer than 500 people (US Small Business Administration Office of Advocacy, 2025). By this definition, 99.9% of businesses in the US are small businesses. In the United States small businesses employ 61.7 million people and account for 62.7% of the net job increase in jobs for the last 20 years. Small businesses also make up 32.6% of US exports which makes them an important part of the US economy (US Small Business Administration Office of Advocacy, 2024).

We used an OLS regression to conduct a quantitative analysis of the relationship between business performance and SEW/embeddedness, business characteristics, owner characteristics, as well as business goals. As noted earlier, the article has two null hypotheses. The first hypothesis was that businesses owners that identify profit as their primary business goal will have higher profit than business owners that do not. The second hypothesis is a test of whether SEW is positively associated with profit. To add some specificity to this second hypothesis, we will use R (renewal of family bonds) and I (identity with Fthe firm) from the REI socioemotional wealth framework. Martin & Gomez-Mejia (2016) postulated that within the REI scale, R and I both had a significant positive correlation with business performance. In this article profit will be used to measure business performance.

Before estimating the model, we used a correlation matrix to check for multicollinearity. While there was no perfect multicollinearity in the model, imperfect multicollinearity was discovered. See Table 1 for the correlation matrix. The only correlation that was above the acceptable level (> 0.5) was between Combined SEW E and Combined SEW I. Because they are both aspects of SEW, it is not unusual that there would be a lot of overlap between the some of the variables. For the sake of accuracy two test models were run, one with only Combined SEW R and Combined SEW E and another with Combined SEW R and Combined SEW I. Because the second model with R and I had a higher R^2, it was chosen for the final model.

The final conceptual model used for the OLS regression is:

$$\begin{aligned} Profit = \ & \alpha + \beta_1 Direct\ to\ Customer + \beta_2 Family\ Business + \beta_2 Farm\ Business \\ & + \beta_3 Business\ Not\ Operated\ by\ Founder + \beta_4 Number\ of\ Employees \\ & + \beta_5 Property\ Owned + \beta_6 Incorporated\ Business + \beta_7 Years\ in\ Operation \\ & + \beta_8 Residential\ Property + \beta_9 Cash\ Flow\ Problems + \beta_{10} Services\ Sector \\ & + \beta_{11} No\ College + \beta_{12} Experience + \beta_{13} Hours\ Per\ Week + \beta_{14} Unmarried \\ & + \beta_{15} Female + \beta_{16} Minority + \beta_{17} Satisfaction + \beta_{18} Combined\ SEW\ R \\ & + \beta_{20} Combined\ SEW\ I + \beta_{21} Business\ Goals \end{aligned}$$

The regression model was made up of four types of variables: business characteristics, owner characteristics, measurements of SEW/embeddedness, and business goals. Business characteristics included business purpose, configuration, industry, age, number of employees, cash flow problems, and type of property

[1] The north central region comprises the following states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

used in operation. Owner characteristics included education, experience in industry, hours spent at work, marital status, sex, and race.

The best quantitative measure of business performance available to us was profit reported from the year 2022. The survey question was phrased like this: "In 2022, what was the profit of your business? (As a reminder, profit is the difference between the amount your business earned and the amount that your business spent in buying, operating or producing goods and/or services.)" The responses were given by selecting a box that represented ranges of profit. The ranges started at $0 or negative, then increased up to $10,000,000 or more. Respondents that selected "I refuse to answer" were treated as missing values. Profit was then turned from a categorical variable into a continuous variable by assigning the midpoint of each category's range as a numerical value. Finally, to reduce standard errors, the we took the log of profit (lnprofit) and it was used as the dependent variable.

Many variables that contributed to the fit of the model were categorical, so the responses had to be grouped by what was intuitive but kept the original integrity of the question as well as to transform outliers. For example, the variable race was made from the survey question posed to business owners "What do you usually identify as your race? (Check all that apply)". There were eight options given, including a write-in response for a race not otherwise included in the list. There were a total of 1,288 business owners in the sample, and 1,012 of them identified as White. Therefore, it made sense for the purpose of this article when grouping responses to put all respondents that did not identify as White into one category (Minority) for the variable race.

The REI scale measures different aspects within SEW, as defined in the literature review. The survey posed three statements for each aspect of REI and owners selected how much they agreed with the statement from strongly disagree to strongly agree. The statements were slightly different depending on if business owners had indicated that their business was a family business or not. For example, the first statement used to measure how much a family business values renewal of family bonds was worded, "Continuing the family legacy and tradition is an important goal for my family business." The equivalent for nonfamily business had similar wording: "Continuing the business' legacy and tradition is an important goal for my business." All responses (family and nonfamily) were considered because the purpose of this article is to look at SEW in both types of businesses. An overall view of SEW is key to embeddedness as well, as was developed in the literature review.

The categories of business goals were regrouped to better reflect the data. The three categories chosen were profit, positive reputation with customers, and family/longevity oriented. The purpose for the last category was that literature has shown longevity usually is or should be a primary consideration in family businesses, in a way that is unique to those businesses. There were significantly less respondents in those categories (family and longevity) than there were for profit or customer reputation, which also contributed to this grouping.

Results and Discussion

See Table 2 for definitions and descriptive statistics of the variables in the model. The data had a majority of direct to customer, nonfamily, non-farm, and first-generation businesses. Most owners owned the property their business operated on, and their business was configured as something other than a sole proprietorship or partnership such as a limited liability company or corporation. The average number of employees over the entire sample was 17.37. However, this average had a standard deviation of 47.05 employees, so there was a large variation in business size. The average age for businesses was 16.60 years with a standard deviation of 20. Only a little over half of the respondents said their business operated on a non-residential property. Fifty-two percent of small business owners reported that they had experienced cash flow problems in the last year. Sixty-three percent of businesses were part of the services industry, which was close to the 69% of businesses that operated direct to customer, as was expected.

Owner demographics were not atypical for a survey done in the north central region of the US. Slightly over half (51%) of business owners attended a four-year college or had gone on to further education. Most business owners had slightly over 20 years of experience in the industry their business was in and spent a little less than 40 hours a week at their business. While this average for hours worked per week may seem low, as many business owners (especially in the founding stage) spend much more than that to grow their business, the survey also contained many part-time owners, and this variable had a standard deviation of 17 hours. Fifty-six percent of owners were married and 58% were male. As is frequently found in studies done in the north central region of the US, most respondents or 79% identified as White.

The average life satisfaction of business owners was 7 out of 10 with a standard deviation of 2, meaning most respondents said they were at least halfway satisfied with their life overall. The REI scale refers to three aspects of socioemotional wealth (SEW). To review: R stands for renewal of bonds through dynastic succession; E stands for emotional attachment and I stands for identification with the firm. The average response for renewal of bonds was 4.7 which would have been between the options neither disagree or agree and slightly agree, with the average being closer to agree. The average response for emotional attachment was 5.4 which would have been between the options slightly agree and agree, with the average being closer to slightly agree. The average response for identification with the firm was 5.5 which would have been between the same options as emotional attachment, with the average being halfway between agree and slightly agree.

Business goals were divided somewhat evenly over the three main choices. Thirty-three percent of owners reported profit as the most important goal for their business. Forty-six percent reported their main priority to be a positive reputation with customers. Twenty-one percent reported that family or longevity was their focus.

Model Results

Table 3 shows the results for the OLS regression for small business profitability. Business characteristics that were found to be statistically significant in this data set were primary business purpose (direct to customer), number of employees, business configuration (incorporated business), residential property, cash flow problems, and services. A business whose primary operation was direct to customer had 0.56 times or 44% lower profit than a direct to business operation. The number of employees had a slight positive correlation with profitability, which was found to be statistically significant. Each additional employee is associated with approximately a 1.3% increase in profit. Business configuration has a positive relationship with profitability and businesses that are incorporated make approximately 119% higher profit. Small businesses that operate on residential property tend to make 49% less in profit than firms that do not. As would be expected, there was a strong negative correlation between cash flow problems and profit. Firms that reported experiencing cash flow problems made 75% less profit than those that did not. Businesses in the service industry made 39% less profit than those in other industries.

The two owner characteristics that were found to be significant in this article were race and hours spent per week by the owner. In this dataset, minority owned firms made approximately 150% higher profit than white owned firms. This finding is consistent with other findings that minority-owned small businesses are becoming an increasing part of the economy (Toussaint-Comeau & Williams, 2020). However, that minority firms made higher profit than White-owned firms in this survey presents a contrast with other literature asserting that minority-owned businesses struggle more than white owned businesses in gaining capital to start and keep their business in operation (Toussaint-Comeau et al., 2019; Toussaint-Comeau & Williams, 2020). Owner hours worked per week also had a positive correlation with profit. An increase of one hour in work

increased profit by 45%. To contrast, other studies did not find this to be significant in the study of management practices and their effects on performance (Maes et al., 2005; Wiatt et al., 2024).

The first hypothesis was that businesses that identify profit as their goal would have greater profit than businesses that do not. Because none of the regression estimates were statistically significant for business goals, we reject the null hypothesis that there is a difference in profit between different business goals. This is likely not unique to the data used in this article as other studies have found that specific goals do not have significant differences in business performance (Terpstra & Rozell, 1994).

Both aspects of SEW were statistically significant to profit. A one-point increase in the owner satisfaction scale increased profit by 28%. The second hypothesis stated that the R and I aspects of SEW are differently correlated to profit. As mentioned previously, measuring different aspects of socioemotional wealth is difficult because they are interrelated by nature. E was removed from our final model but was not significant in the original model either. Each SEW aspect was measured through three questions and a seven-point scale for how much the owner agreed with each statement, one being total disagreement and seven being strong agreement. A one-point increase in the scale measuring reported agreement with the statements regarding renewal of bonds resulted in a 28% increase in profit. A one-point increase in the scale measuring identification with the firm resulted in a 16% decrease in profit.

Because we found a significant positive relationship between some aspects of the SEW and profit, we fail to reject the second null hypothesis. The article by Martin & Gomez-Mejia (2016) found both to be significant to performance in family firms, but in ways different than what we found in this article. Findings from Martin & Gomez-Mejia's (2016) article reveal that renewal of bonds (R) only related positively during the founding stage of the firm, whereas in this article the relationship was not differentiated between firms still in the founding stage and firms that were not. Most businesses in our data were still under the control of the founding owner, so this may be why this relationship was significantly positive. Table 4 is a summary of the REI scale and the findings from our article.

In contrast to other articles, we found that identification with the firm is slightly negatively related to profit. Carmeli et al. (2007) argued that more successful firms have higher employee loyalty. Martin & Gomez-Mejia (2016) postulated that higher identification to the firm would encourage owners to do more that was specifically productive for the firm and be opposed to whatever did not support the firm. However, high identity with the firm may lead business owners to choose strategies that increase the reputation of the firm but may not lead to increased profitability.

Conclusion

The purpose of this study was to investigate how different business goals and different aspects of socioemotional wealth were related to small business profitability. The intention was to give practical insights to business owners considering the outcome of the goals of their firm. Using the NCR-Stat: Small Businesses Survey (Wiatt et al., 2024), we built a linear regression model of business and owner characteristics as well as business goals and measures of socioemotional wealth to understand the correlation between these variables and profitability. We found that individual business goals did not have a significant effect on profit, but all measures of socioemotional wealth included in this study did. The socioemotional wealth measures found to be significant were life satisfaction of the owner, renewal of bonds, and (family) identification with the firm.

Identification with the firm was negatively correlated with profit. This was an unexpected finding as Martin & Gomez-Mejia (2016) theorized that overall identification with the firm would be positively related with profit. However, they added an amendment that that in extreme cases, a bias for the firm may limit

activities that would increase profit. One way to think of this is having an excess of firm or family firm loyalty could lead to limiting or distrusting third party involvement and new entrepreneurial ideas. Those who identify higher with the firm could be less objective as it regards firm decision making. This is because those biased in the favor of a particular business may be overconfident in its ability to take a risk or overcautious regarding new entrepreneurial ideas that might improve the firm. In other circumstances where identification with the firm is more associated with identification with the family than the business, priorities could be complicated. As Zellweger et al. (2011) discusses, primarily in family businesses there may be goals outside of the business where to achieve those non-business goals it is beneficial to make decisions for the firm that do not prioritize the firm. Business owners would do well to be wary of attitudes that could discourage good changes in their business strategies or dismissing ideas from third parties such as a board of directors or professionals in that field.

Renewal of bonds had a positive and statistically significant correlation to profitability, which coincides with Ward's (2016) point regarding profit for the sake of longevity. This is no coincidence as renewal of bonds through dynastic succession is the only REI component that is associated with transgenerational entrepreneurship (business succession). Survivorship is known to be an indicator of profitability in the long term and can be the intention for many firms (Ville & Panza, 2017). Small business owners could apply the information that a long-term focus for business is associated with higher profit by deciding what to prioritize in their management decisions. Further studies on this topic could elaborate on what specific longevity or management practices correspond with profit.

Small businesses trying to increase their performance would be advised to set specific, measurable goals. The specificity of the goal is more important than which goal it is in how it relates to business performance (Terpstra & Rozell, 1994). This article provides further evidence that owner characteristics such as socioemotional wealth influence business performance. A take away for small business owners is that business succession is key in terms of day-to-day operation as well as for long-term health. Having a long-term view of business should affect management in the present through planning for business transition as well as setting goals. Achieving goals in the short term can help in the intermediate steps and to gain confidence to accomplish long-term goals.

Owners should not only set goals, but if possible, set them in writing. One way to do this within a business is through transition planning. In the case of incorporated businesses, this can be done by adding stipulations into the operating agreement. This document can be used to determine who can gain ownership of the business, how to set its value, and how a buy-out would work. An alternative would be putting the business into a trust under the care of a trustee to carry out the wishes of the creator of the trust. Small business owners are advised to seek guidance from professionals in business transfers such as an attorney or licensed CPA (Churchill & Hatten, 1987).

Policy makers interested in increasing the success of small businesses could support policies that protect business transitions. Small businesses make up a vast majority of the US economy and therefore should not be overlooked by policy makers. This article has shown the importance of the renewal of bonds to profitability within small businesses. Ownership transfer can be risky for small businesses, especially within family firms as many of them do not successfully pass into the second generation (Morris et al., 1996; Mishra & El-Osta, 2007). Policy makers could enact policies that incentivize business owners that have the intention to transfer their businesses. Extension programs should assist farm and non-farm businesses during their transition periods.

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Table 1. Correlation Matrix

	lnprofit	Farm Business	Family Business	Primary Purpose of Business	Creator of Business	Employees	Rent or Own	Business Configuration	Years in Operation	Residential Property
lnprofit	1.000									
Farm Business	0.054	1.000								
Family Business	0.010	0.282	1.000							
Primary Purpose of Business	-0.108	-0.285	-0.100	1.000						
Creator of Business	0.151	0.295	0.245	-0.143	1.000					
Employees	0.264	-0.001	-0.036	-0.072	0.162	1.000				
Rent or Own	0.007	0.079	0.085	-0.041	0.058	0.048	1.000			
Business Configuration	0.082	0.106	-0.054	0.083	-0.025	0.008	-0.011	1.000		
Years in Operation	0.099	0.377	0.250	-0.186	0.374	0.023	0.115	0.031	1.000	
Residential Property	-0.176	0.132	0.021	-0.055	-0.177	-0.216	0.262	0.071	-0.054	1.000
Cash Flow Problems	-0.196	0.003	-0.023	0.073	-0.061	0.035	-0.102	0.014	-0.102	-0.006
Services	-0.139	-0.384	-0.214	0.099	-0.200	-0.132	-0.135	-0.104	-0.220	0.032
College	0.024	-0.094	-0.058	-0.103	-0.019	0.068	0.042	-0.154	0.004	-0.030
Experience	0.040	0.226	0.110	-0.176	0.009	-0.058	0.108	-0.004	0.458	0.050
Hours per Week	0.225	0.142	0.072	-0.053	0.079	0.042	-0.030	-0.010	0.151	-0.148
Marital Status	-0.040	-0.150	-0.159	0.183	-0.128	-0.106	-0.162	0.110	-0.140	0.048
Gender	-0.088	-0.146	-0.119	0.191	-0.142	-0.131	-0.095	0.025	-0.175	0.099
Race	0.156	-0.018	-0.001	0.031	0.097	0.259	-0.069	0.003	-0.104	-0.039
Satisfaction	0.246	0.093	0.075	-0.112	0.163	0.156	0.132	-0.060	0.165	-0.112
Combined SEW R	0.157	0.229	0.236	-0.037	0.247	0.112	-0.016	0.069	0.163	-0.089
Combined SEW E	0.067	0.080	0.186	0.057	0.105	0.029	0.012	0.003	0.068	-0.071
Combined SEW I	0.050	0.079	0.037	0.047	0.067	-0.002	-0.019	-0.001	0.059	-0.049
Business Goals	0.016	0.204	0.146	-0.038	0.055	0.032	0.026	0.070	0.126	0.042

Table 1. cont.

	Cash Flow Problems	Services	College	Experience	Hours per Week	Marital Status	Gender	Race	Satisfaction	Combined SEW R	Combined SEW E	Combined SEW I	Business Goals
Cash Flow Problems	1.000												
Services	-0.020	1.000											
College	-0.110	0.171	1.000										
Experience	-0.105	-0.095	0.072	1.000									
Hours per Week	0.073	-0.126	-0.110	0.102	1.000								
Marital Status	0.089	0.083	-0.172	-0.168	-0.006	1.000							
Gender	0.121	0.250	-0.075	-0.188	-0.098	0.181	1.000						
Race	0.031	0.003	-0.070	-0.228	-0.008	0.147	-0.005	1.000					
Satisfaction	-0.305	-0.128	0.148	0.142	0.062	-0.237	-0.126	0.030	1.000				
Combined SEW R	0.058	-0.261	-0.150	-0.009	0.193	-0.028	-0.162	0.175	0.128	1.000			
Combined SEW E	-0.013	-0.099	-0.034	0.046	0.165	-0.057	0.009	0.064	0.195	0.476	1.000		
Combined SEW I	-0.021	-0.033	-0.018	0.045	0.182	-0.020	0.040	0.035	0.154	0.421	0.751	1.000	
Business Goals	0.096	-0.079	-0.031	0.081	0.074	-0.042	0.036	-0.032	-0.004	0.169	0.176	0.133	1.000

Table 2. Variable Descriptions and Descriptive Statistics

Variable Name, Variable Type (Name of Reference Variable, if used)	Mean Percentage or Frequency of Variable	Std. dev.
Dependent Variable		
lnprofit: continuous; log of 2022 profit	9.88	3.81
Business Characteristics		
Direct to Customer, Binary (Business to Business)	0.69	0.46
Family Business, Binary (Not a Family Business)	0.38	0.49
Farm Business, Binary (Not a Farm)	0.12	0.33
Business Not Operated by Founder, Binary (Business Founded by Current Owner)	0.19	0.39
Number of Employees, Continuous	17.37	47.05
Property Owned, Binary (Business Property is Rented)	0.63	0.48
Incorporated Business, Binary (Sole or Partner Ownership)	0.61	0.49
Years in Operation, Continuous	16.60	19.99
Residential Property, Binary (Operates on Non-Residential Property)	0.46	0.50
Cash Flow Problems, Binary (No Cash Flow Problems)	0.52	0.50
Services Sector, Binary (Business Not in the Services Sector)	0.63	0.48
Owner Characteristics		
Some or No College, Binary (4 Years of College or More)	0.49	0.5
Years Experience in Current Industry, Continuous	20.47	13.44
Hours per Week, Continuous	38.80	17.00
Unmarried, Binary (Married)	0.44	0.50
Female, Binary (Male)	0.42	0.49
Minority, Binary (White)	0.21	0.41
Embeddedness/SEW		
Satisfaction, Scale from 1 to 10; owner rated personal satisfaction with life as a whole	7.03	2.01
Combined SEW R *(Scale from Strongly Disagree to Strongly Agree from 1 to 7)*	4.69	1.36
Combined SEW E *(Scale from Strongly Disagree to Strongly Agree from 1 to 7)*	5.39	1.21
Combined SEW I *(Scale from Strongly Disagree to Strongly Agree from 1 to 7)*	5.52	1.19
Business Goals		
Profit	0.33	0.47
Positive Reputation with Customers[1]	0.46	0.50
Family/Longevity Oriented	0.21	0.41

[1] We used Positive Reputation with Customers as the reference variable for the other Business Goals in our regression.

Table 3. OLS Regression Analyzing Small Business Profit (N = 1,115)

Variable Name	Coefficient	Robust Std. Err.
Business Characteristics		
Direct to Customer	-0.571**	0.234
Family Business	-0.269	0.229
Farm Business	-0.491	0.385
Business Not Operated by Founder	0.397	0.288
Number of Employees	0.013***	0.002
Property Owned	-0.048	0.220
Incorporated Business	0.784***	0.219
Years in Operation	-0.001	0.008
Residential Property	-0.667***	0.217
Cash Flow Problems	-1.378***	0.223
Services Sector	-0.494**	0.236
Owner Characteristics		
Some or No College	0.204	0.220
Years Experience in Current Industry	0.009	0.010
Hours per Week	0.045***	0.007
Unmarried	0.142	0.218
Female	0.308	0.220
Minority	0.918***	0.226
Embeddedness/SEW		
Satisfaction	0.251***	0.070
Combined SEW R	0.250***	0.095
Combined SEW I	-0.174*	0.093
Business Goals		
Profit	-0.045	0.236
Family/Longevity Oriented	0.076	0.304
Intercept	6.798***	0.799
F(23, 1091)=15.490; Prob > F =0.000; R-squared =0.227; Root MSE=3.3		

* = p < 0.10; ** = p < 0.05; *** = p < 0.01

Table 4. REI Summary of OLS results

REI Scale	Aspect	Coefficient	Sig Value	Statistically Significant Correlation with Profit	Positive Correlation with Profit
R	Renewal of family bonds through dynastic succession	0.250	***	Yes	Yes
E	Emotional attachment	NA	NA	-	-
I	(Family) Identification with the firm	-0.174	*	No	No

Note: Sig Values: * = $p < 0.10$; ** = $p < 0.05$; *** = $p < 0.01$. Emotional attachment was not included in final model; therefore, it has no estimated coefficient or significance value.