Spring 2015

Does a family-first philosophy affect family business profitability? An analysis of family businesses in the midwest

Maria Victoria Iglesias
Purdue University

PURDUE UNIVERSITY
GRADUATE SCHOOL
Thesis/Dissertation Acceptance

This is to certify that the thesis/dissertation prepared

By Maria Victoria Iglesias

Entitled

DOES A FAMILY-FIRST PHILOSOPHY AFFECT FAMILY BUSINESS PROFITABILITY? AN ANALYSIS OF FAMILY BUSINESSES IN THE MIDWEST

For the degree of Master of Science

Is approved by the final examining committee:

María I. Marshall
Chair

Craig L. Dobbins

James K. Binkley

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Approved by Major Professor(s): María I. Marshall

Approved by: Gerald E. Shivley 4/28/2015

Head of the Departmental Graduate Program Date

DOES A FAMILY-FIRST PHILOSOPHY AFFECT FAMILY BUSINESS PROFITABILITY? AN ANALYSIS OF FAMILY BUSINESSES IN THE MIDWEST

A Thesis

Submitted to the Faculty

of

Purdue University

by

Maria Victoria Iglesias

In Partial Fulfillment of the

Requirements for the Degree

of

Master of Science

May 2015

Purdue University

West Lafayette, Indiana

Para mamá, papá, Rodri, y Bjørn

ACKNOWLEDGEMENTS

I would like to thank my thesis committee members Dr. James Binkley, Dr. Craig Dobbins, and especially my major professor Dr. María Marshall for their help and support.

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ABSTRACT

Iglesias, Maria Victoria. M.S., Purdue University, May 2015. Does a Family-First Philosophy Affect Family Business Profitability? An Analysis of Family Businesses in the Midwest. Major Professor: Maria Marshall.

Previous family business literature has analyzed how various management strategies or family tension has impacted profit. However, profit can vary due to the different family values and goals placed on the firm. The purpose of this study was to investigate how the business philosophy of a family business influenced profit. The present study sought to examine how the family business' philosophy, as in if they have a family-first or business-first orientation, influences profit. This study also investigates how the distribution of the business to the next generation, as well as how hiring family members who may not have the qualifications to key management positions, could decrease family business profit. Results showed that a family-first philosophy did not have a statistically significant effect on profit, while distributing the business to a family successor positively affected profit. The attitude that family members should be hired to a key management position regardless of their qualification did not significantly affect business profit. A firm's transfer plan positively impacted business profit.

CHAPTER 1: INTRODUCTION

A family business without profit will not survive in the long-run. Profitability provides a measure of success for the business, as well as a source of capital to help expand the business. The profitability of a family business also helps attract new investors who will help them finance future projects and production. The longevity of the business is dependent on profitability because it allows the business to adapt to changes, and it also provides a cushion for future heirs to continue its growth.

Following a family-first or a business-first business philosophy may have various effects on the profitability of the business. Different values, goals, and management strategies are applicable to either type of philosophy. A family-first or a business-first mentality could inevitably effect decisions about succession, management, labor, or even debt. While the profitability of a family-first family business is used to provide for family needs, the profitability of a business-first family business is used to provide for business needs. The desires of the family can lead a family-first business owner to hire family members regardless of their qualifications, leading to a negative effect on the business if they are not fit for the position. The needs of the business can generate a dysfunction in the family because family members are competing with the business for resources, which can also be a source of negativity for the profitability of the business.

Previous research has looked into the affects various management strategies have on family business success and profit. Sorenson (1999) studied how using competition among family members or accommodation of family members by the manager could impact the family business. James Jr. (1999) analyzed how the managerial strategy of separating ownership from management could impact firm value. The effect of family tension on profit has also been investigated by Herlund and Berkowitz (1979). They found that redefining roles and tasks to the younger generation creates a source of tension with the older generation because they are not ready to relinquish ownership of the family business. Davis and Tagiuri (1989) noted that the work environment is strongly influenced by the clarity of roles within the firm, along with individual work style and power held within the business.

However, few studies have investigated how much effect family business philosophy has on business profitability. As previously mentioned, profitability can vary within these businesses due to the different values and goals placed on the business by the family. Therefore, this study will look at the effects a business philosophy of family-first or business-first could have on business success and profit. The study will also investigate how the future distribution of the business and its management strategies can affect firm profit. The investigation will include an analysis of other areas such as how resource competition or the ability to resolve business conflict, to name a few, could impact profitability. Owner characteristics as well as business characteristics will be taken into account. Results will be discussed in terms of what educational programs and workshops should be created by business consultants in order to help family businesses grow and successfully perform.

CHAPTER 2: LITERATURE REVIEW

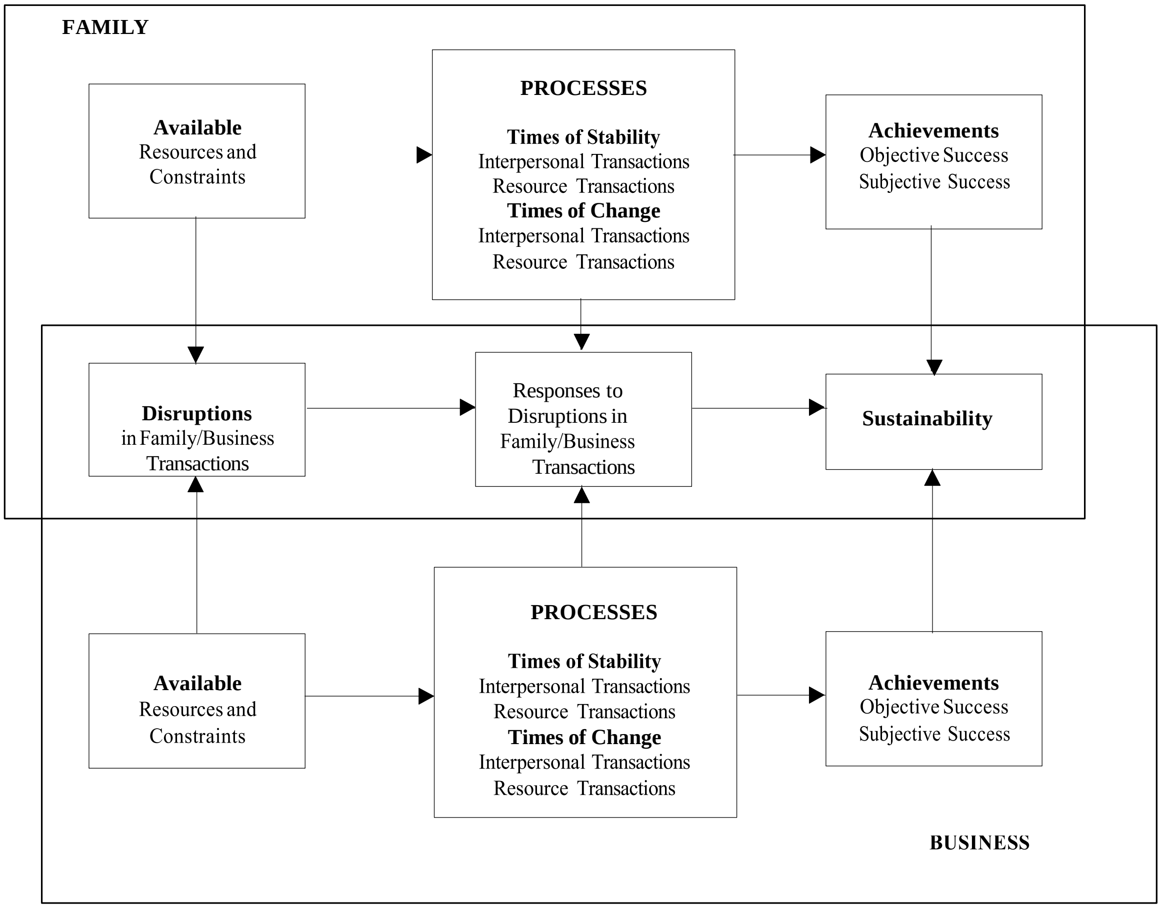
The following chapter discusses the theoretical framework and literature that helped shape the problem and analysis. The literature review looks at various areas for example business goals, succession, and management strategies that are believed to have an impact on the success and profitability of the business. A section of this chapter is dedicated to the literature that has studied family-first family businesses or business-first family businesses in order to provide more context to these two types of business philosophies.

Sustainable Family Business Model

The theoretical framework that guided this study is the Sustainable Family Business Model (SFBM), which was first introduced by Stafford, Duncan, Danes, and Winter (1999). SFBM was further developed by Danes, Lee, Stafford, and Heck in 2008. The purpose of the SFBM study is to show that during times of stability, a resilience capacity is created by patterns of resource and interpersonal transactions between the business and the family. Resilience during times of change means that the family business is able to adjust resources, constraints, and processes to internal and external disruptions (Danes and Brewton, 2012). Constraints are socio-cultural, legal, economic, or technical limitations to resource use (Danes and Brewton, 2012). The resilience capacity allows the family business to address stresses during time of change or disruption that are either normative or non-normative (Stafford, Bhargava, Danes, Haynes, Brewton, 2010). A normative disruption occurs due to changes in the family structure or events such as family vacations or holidays (Stafford et al., 2010). A non-normative event can be a natural disaster. During a time of disruption, the family and the business system interact by exchanging resources and constraints (Stafford et al., 2010).

Therefore, SFBM states that some family processes are within the family only and some process are within the business only, but there are processes where resources need to be shared at the intersection of family and business boundaries (Danes and Brewton, 2012). Family resources are all taken into consideration in SFBM since they are all contributing to the family firm sustainability, whether they are working directly or indirectly. SFBM provides a system that allows an examination of the owning family's aspects that are not directly within the firm, but that affect the business' achievement and long-term sustainability.

System processes transform inputs into achievements in the short-run, and sustainability in the long-run (Stafford et al., 2010). Capital is enhanced or increased to invest in the business in the short-run or it is available for future processes which will later turn into sustainability. Achievements by the firm are considered current year outcomes such as revenue or goods and services produced. Achievements by the family can be viewed as family functionality (Danes and Brewton, 2012). The viability of the business is created after years of achievement by the family firm. Figure 1 illustrates the Sustainable Family Business Model.



Source: Stafford et al., 1999

Figure 1: Sustainable Family Business Model

Family-First vs Business-First

Family-first family businesses view employment as a birthright and not as something that needs to be earned through qualifications or merit (Carlock and Ward, 2001). Family members that join the business are typically paid the same regardless of their contribution or responsibilities within the business. The purpose of the business is to serve the family, and profit is regularly transferred from the business to the family in order to satisfy needs like education or daily living expenses. However, they are also used for family perks such as buying a new car or building an extension to the house. The family business is a large part of the family-first's identity, becoming a mechanism for supporting their lifestyle (Poza, 2007).

A healthy family system, where there is a high sense of togetherness, is of outmost importance to a family-first business (Carlock and Ward, 2001). A stronger family functionality was associated with family-first (Gudmunson and Danes, 2013). Family needs are made a priority, and decisions that regard the business are centralized. Therefore, the owner is more willing to accommodate the family, neglecting the needs of the business in order to fulfill the desires of the family (Sorenson, 1999).

To reduce or avoid tension, competition is restricted. Family-oriented goals are also given precedence within the business. The family business is centralized, meaning that the owner or the owning family make the decisions and provide guidance to the firm (Basu, 2004). Tagiuri and Davis (1992) found that family-first business owners have multiple goals due to the diverse desires and interactions of the various parties involved in the business. Some of these goals include quality of work or financial security (Tagiuri and Davis, 1992).

Aside from aspiring to involve and work with family members, a family-first business also seeks to transfer the family firm to the next generation (Basu, 2004). However, the continuation of the business depends on the individual family members desire to continue with the business as well as the availability of family business resources (Poza, 2007). A sound business-management principle may be difficult to achieve since putting the family-first creates neglect in making performance appraisals and develop leadership plans necessary for the continuation of the business (Carlock and Ward, 2001). If the next generation does not wish to continue with the firm, it will be sold at the end of the current business owner's generation (Poza, 2007).

Financially, family-first business owners do not rely on family resources to finance the business, nor are they willing to take risks (Davis-Brown and Salamon, 1987; Basu, 2004). Therefore, family-oriented firms tend to have a lower profit and are smaller in size (Basu, 2004). Given family needs are a priority, a business owner is willing to take on more debt if they feel family needs are not being met. This also means that if the family's well-being is at risk, a family-first business is willing to sell part or all of their assets as a means to survive (Davis-Brown and Salamon, 1987).

A business-first family gives precedence to business needs as its name may imply. A business-first family business believes that each generation should establish itself, encouraging external work experience as a means of training for a future position in the family firm. Succession is based on whether the heirs are capable of managing and increasing firm performance. A family business that has a business-first philosophy was found to have longer firm survival (Gudmunson and Danes, 2013). However, they are prone to have lower family functionality due to the owner strictly following business principles that deal with compensation, hiring, and promotion (Carlock and Ward, 2001). These principles are based on merit and qualifications, not on birthright like the family-first philosophy. Business-first owners do not seek to keep management of the firm within the family, and are willing to hire a nonfamily member if they believe none of their relatives are fit for a key management position (Poza, 2007).

Business performance is very important to a business-first business owner. Financially, business-first family businesses tend to have a lower debt to asset ratio compared to family-first businesses. They are not willing to take on loans or use business resources to accommodate family or household needs. Strategic resources are used to reinvest in the business, and the focus is primarily on the profitability of the business, return on assets and revenue growth (Poza, 2007). Reinvesting in the business allows for business longevity, but at a cost of a lower family functionality and increased tension. A high level of family dysfunction could lead to family conflicts that become a threat to business survival. Longevity can also be due to business-first owners having larger business wealth and size, while also being less risk-averse (Busa, 2004). Reinvesting back into the business makes it more appealing for the future generation to continue managing the firm. A summarized description of family-first or business-first philosophies is provided in Table 1.

Table 1: Family-First vs Business-First Family Business Philosophy

Category	**Family-First**	**Business-First**
Membership	There is a place for all family members in the business.	If you're qualified to do the job, you may be able to join the business.
Compensation	Family members are paid the same regardless of responsibilities and performance.	Pay is determined by responsibilities and performance.
Leadership	Leadership is bestowed. Title/office is bestowed by birthright.	Leadership is earned. Company officers control day-to-day operations.
Resources	Business resources are used to support family perks and lifestyle. Family needs come before business needs.	Business resources are used for business purposes. Cash needs of the business has a higher priority than cash for dividends and bonuses for family members.
Training	Outside business experiences may be less valuable than years of service in the family business	Outside business experience makes a valuable contribution to the skills and perspective of the family member. This will benefit the business.

Canadian Farm Business Management Council

Business Goals and Values

Business goals are essential for the success of the firm. Aside from establishing priorities, they also help draw attention to information that is considered relevant to the firm. Goals are another way to measure the firm's success in the market (Willock, Deary, McGregor, Sutherland, Edwards-Jones, Morgan, Austin, 1999). Farmer goals can range from having an economic basis to those that are concerned about lifestyle.

Lee and Marshall (2012) found that business owners who chose a positive reputation with their customers as their most important business goal had an increase in profits over the three year period studied. On the other hand, business owners who chose profit, growth, and viability or financing had a lower profit increase (Lee and Marshall, 2012). Feedback and goal-setting are also used to increase productivity in a family-owned business. Verdin (1986) found sales were increased when employees were motivated by goal setting. Goal setting allows owners and employees to stick with the plan even when times are difficult (Lee and Marshall, 2012).

The values considered important by a family business owner are also important to the success of the business. Some may have economic values like maximum profit or expanding the business, while others find enjoying work as a fundamental value for success (Willock et al., 1999). As Poza (2007) stated in his book, a family business may look to their family values as their businesses' foundation, and they may find that future generations must understand these family values in order for the business to continue its growth and success. These families believe that what drives their company is not only their product but the company values that lie behind that product (Poza, 2007).

The symbolic importance of a family business varies between families and generations. The preservation and protection of assets may be important to families who wish to provide a benefit to the future generation. Business assets are important for a business-first family business because they are a means of generating profit, and they are of great value to the family (Lee and Marshall, 2012). As Poza (2007) stated, a business-first family is concerned with the business' return on assets. The goal of the current family business owner is to transfer a healthy and profitable business if a family member of the next generation establishes him or herself as capable of continuing as successor (James, 1999). This includes transferring well preserved and protected business assets which will be beneficial to the future successor.

However, family-first business owners view the ownership of a business as a means of providing for their retirement once the assets are liquidated. Owners with smaller family businesses view their assets as a way of supporting their family needs later on in life (Mishra and El-Osta, 2007). As Carlock and Ward (2001) stated, a family-first business owner places family and household demands ahead of the family business, so business assets may become a form of income if necessary. This is because to them the business is not a way of life unlike the business-first owner, but a source of funding for their daily life perks (Mishra and El-Osta, 2007). Therefore, the preservation and protection of business assets may not be a goal for a family-first family business owner since they are willing to sell these assets if their personal or household wellbeing is at risk.

Succession

A key component to any family business is the planning of its future succession. An owner or manager is not only controlling future risk within the business when preparing for succession, but they are also showing their commitment to the business. A family business with a family succession plan has a higher return on equity (ROE), as well as a higher operating profit margin (OPM) (Harris, Mishra, and Williams, 2012). The increase in ROE and OPM may show that family businesses are more profitable since family managers have a longer vision for the firm than nonfamily businesses (James, 1999).

The effectiveness of a succession plan is not based solely on whether a new leader has been selected, but also on the health of the firm (Harris et al., 2012). If a family business wishes to pass the business on to the next generation, they must keep the business profitable and attractive for the future successor (Goldberg, 1996). Goldberg (1996) noted that the competitive environment in which family businesses compete creates a need for the family business to revitalize. The results of Goldberg's (1996) research showed that strategic changes and improvements to profitability were encountered during a transfer of leadership in the family business. Barnes and Hershon (1994) noted that organizational development happens when a company is in between periods of growth. Such periods could be during a transfer of management or ownership. Overall, if a family business owner wishes to have an effective succession, he or she must have a business that is viable, or profitable (James, 1999).

Research has shown that the education of the owner or manager may affect the succession process. Mishra and El-Osta (2007) found that as the education level of the owner or manager increases, the probability of having a succession plan that involves a family member decreases. The education level may cause them to delay their succession planning due to the fact that they wish to find the best qualified successor, who may not be a family member. Aside from delaying the identification of their successor, the business owner may also wish to increase the profitability of their business and make it more attractive for the next generation. The successor may be the child of the owner. In caring for their child's well-being, the owner may wish to invest more in the business and reach near optimal investment so his or her child will take over a successful business (James, 1999).

Increased family debt may also affect in-family succession (Mishra and El-Osta, 2007). While debt may improve welfare and enhance business growth, it may also cause a slowdown in business growth (Cecchetti, Mohanty, Zampolli, 2011). Therefore, debt could affect profit due to unpaid or underpaid obligations. As mentioned before, a succession plan does not only depend on the successor chosen to lead the business, but also on the health of the business. A business with a high debt to equity ratio may cause the successor to sell some or all of their assets in order to pay back the debt that are owed.

Preparing for family succession may be aided or hindered by the participation of other family members. Davis and Harveston (1998) found that the closer their relationship to the owner or manager, and the higher their position within the family business, the more influence these family members will exert over succession planning. Danes, Stafford, Haynes, and Amarapurkar (2009) found that family emotional help, support and interactions contributed to firm success.

The shadow of the business founder may hinder the succession planning process for those in the second generation (Davis and Harveston, 1998). This is due to the influence the founder may still be having over their successor(s), and their wish to continue the success of their former business. Firm founders may have a hard time transferring the business, fearing that other family members will look down at them for not being in a leadership role (Ward, 1997). An owner may go into semi-retirement, leaving for a period of a few months, coming back to assume the role of president or CEO of the company (Ward, 1997). The return of a founder after a business transfer can be detrimental to the business.

The owner's desire to maintain control, or influence, in not only the leadership of the business but also in the business' assets, may lead to an inadequate transfer of the estate. Without an adequate estate plan, the successor may have to sell some or all of the businesses assets in order to pay the business taxes owed (File and Prince, 1996). Overall, this would create a negative effect on profit since the business will be losing assets that generate profit.

Management tasks or ownership may be given to a nonfamily member when the current owner or CEO of the family business feels that no family member is qualified. The business may also be passed on to a nonfamily member if the heirs find the business unattractive, which could be due to a lack of profitability. While the family members may still be part of the board of directors, the nonfamily manager may help innovate the company making it more appealing for a future family generation (Poza, 2007). Key management positions may also be given to a nonfamily member due to the fact that a potential successor is still too young to assume responsibility within the business. Another reason why a nonfamily manager may be appointed to the position is because current family members are in conflict over past events, thus hindering the future success of the business (Poza, 2007). Business success has been traditionally based on number of employees or its financial performance. However, success can also be measured by owner autonomy or job satisfaction (Walker and Brown, 2004). Therefore, family conflict may hinder the future success of the business in the sense that it may lower owner satisfaction or the balance between work and family.

Management Strategies

Family inclusion in the business may create a complex and conflicting business environment, where family related problems may be viewed as more important than those related to the business. How a family conflict is resolved may carry over to how a business conflict is resolved. A business owner who does not wish to separate the family business from family time may find themselves dealing with separate forms of conflict management strategies. Some of the management strategies they may use are competition or accommodation (Sorenson, 1999). In using competition the solution provided by the owner is forced because the owner is not taking into consideration the concerns of their family or employees. On the other hand, a business owner that is highly concerned about others may sacrifice the success of the business in order to please either their family or employees (Sorenson, 1999). Nevertheless, both of these management styles are negative for the business because competition hinders relationships, and accommodation keeps a business owner from asserting themselves as an authority figure. Management that is affected by family conflict may not be able to focus or reach their business goals, which could cause a potential decrease in profit.

A strong business may be founded on a strong, united family. Research has found that family members working for the family business are more productive than nonfamily members (Sharma, Chrisman, and Chua, 1997). However, Kirchhoff and Kirchhoff (1987) noted that family members' productivity does not mean an increase in profit. They found that as family productivity increases so do their wages and salary due to an increase in business sales and revenue (Kirchhoff and Kirchhoff, 1987).

A study done by Weigel and Weigel (1990) showed that while the older generation was not satisfied with the amount of time spent together as a family, the younger generation desired less contact and more independence. The younger generation also felt that they were overworked and underpaid (Sharma et al., 1997; Weigel and Weigel, 1990). A lack of payment creates resentment among family members, but a small family business has the greatest need for unpaid family labor. According to Kirchhoff and Kirchhoff (1987), there is no correlation between unpaid labor and profitability in small family business, eventually creating a cycle of family involvement. Family members will eventually be paid once the business becomes more profitable. However, there may always be a feeling by family members of being underpaid.

A business may have a managerial strategy of separating ownership from managerial duties. However, there are two different opinions on how this may affect business profit and firm value. James (1999) stated that a firm that separates ownership from management may be valued higher since managers are motivated to invest according to market investment rules, and not by the entire family system. Similarly, the owner wants to ensure that investments are efficient since his income is derived from these investments. On the other hand, Jensen and Meckling (1976) stated that firm value is reduced when ownership and management are separated. Since it is difficult to create a contract that specifically specifies the desires actions of the manager by the owner, the value of the firm may decrease (Jensen and Meckling, 1976). The necessary actions of mentoring the performance of the manager, as well as running the risk of non-beneficial investments by the manager could also lower the value of the firm (Jensen and Meckling, 1976).

Family Tension

In a study conducted by Herlund and Berkowitz (1979) family business stressors were divided into two arenas: familial and non-familial. Familial stressors arise from marital relationships, farm succession, rivalry among siblings, or having children under the age of six (Herlund and Berkowitz, 1979). Tension may be generated when two generations are working together due to the desire for control and authority in delegating jobs and orders to business workers (Weigel and Weigel, 1990). Both generations are working together as a means of phasing out the older generation, eventually having the younger generation take full control of the business. However, redefining roles and handing out tasks to the younger generation creates a source of tension due to the older generation's reluctance to give up their business (Hedlund and Berkowitz, 1979). Redefining goals can be a stressful time not only for the family, but for employees, too. A lack of clear leadership can create a fear that the future of the business is uncertain (Ward, 1997).

The work quality between the first and second generation, or between owner and successor, is affected by the life stage of each individual. The work relationship is strongly influenced by the clarity of each individual's role in the business, the work style of each individual, and the type of power they have within the business (Davis and Tagiuri, 1989). For example, a child in his or her teens or early twenties is trying to distinguish themselves from the owner and family. Memories of childhood conflicts are still present in their mind creating tension and a lack of communication between them and the owner (Davis and Tagiuri, 1989). This could cause poor work interactions which can affect productivity, financial decisions, and the success of the business. The work relationship may also be strained after the children return from college because they have high expectations and ideas for the business. This could cause the owner to feel that their authority is being challenged creating a strain in the work relationship (Davis and Tagiuri, 1989). For some family businesses the success of the business is not defined by its profitability, but rather by the family's job satisfaction. A poor working environment could cause a negative impact on the family business's success because it depends on the stability of the family (James, 1999).

Including the younger generation in the decision making of the family farm could also lead to marital stress because the wife could be losing some of her previous responsibilities (Weigel and Weigel, 1990). Marital stress is also created when the husband places higher priority on the business rather than the family, which includes paying business debt with household funds or the wife not having a clear role in the business (Danes and Lee, 2004). The overlap of family and business may be beneficial during the beginning stages of the business due to the necessity of family labor to increase profitability. However, as the business matures conflicts of interest arise between the needs of the business and the family, which inevitably have an impact on the business performance and its success. Research has found that balance between family and business can be a major factor of family tension (Danes, Loy, and Stafford, 2008). As mentioned before an older business may also be faced with increased family tension due to a lack of role clarity and unfair workloads (Danes, Zuiker, and Arbuthnot, 1999).

Business performance is also affected by the diverging interest of family members. Some family members like the owner or successor, may wish to invest more financially in the firm in order for it grow. However, other family members may wish to have increased security in their personal comfort (James, 1999). This could create a conflict of interest over the strategic decisions of the business. Diverging interests increase as the business ages. Some family members may take up different areas of the business, like marketing or production. The aspiration to improve their area of work causes these family members to compete for business resources (Ward, 1997). Some family members may also wish to expand the business geographically, while others think expansion can wait a few years.

Given that a family company aspires to keep the family system healthy, there is a restriction of competition within the firm, which may hinder the success of the business. Competition could be viewed as essential for the survival and growth of the firm since it provides new and innovative ideas. New ideas allow the business to effectively adjust to the changing economic environment (James, 1999). Other financial stressors that affect business performance are not controlled by the family. Stressors such as the weather, government policies, or a machine malfunction are factors that create a strain in the success of the business.

Other Factors Affecting Business Success

Business success is also affected by the demographics of the owner such as gender and human capital. It is also affected by the characteristics of the business for example the size and location of the business, the age of the business, and business debt.

The gender of the firm owner can play a significant factor in the success of the business. Haynes et al. (2000) found evidence that a household's financial statement may show the success of the family business if the owner is male, but not necessarily if the owner is female. This research points out that male owned businesses tend to have a higher level of liability, business assets, equity, and income than female owned business (Lee, Jasper, and Fitzgerald, 2010). Due to the tendency of women making the family a priority rather than the success of the business, a female owned business may have smaller annual sales and return on assets compared to a male owned business. This statement was found to be true by Danes and Lee (2004) where profit was identified to be the most important goal for the husband rather than sustaining a good family relationship.

The size of the business also varies by gender with women tending to have smaller business than their male counterparts (Loscocco, Robinson, Hall, and Allen, 1991). Gender differences in work outcome can be explained due to the fact that prior to their entry into the work force, men and women have different socialization and training which eventually shapes their work (Loscocco et al., 1991). Women that own their own business were previously either middle to lower-level managers. As opposed to the men who were more likely to be executives (Loscocco et al., 1991). Their previous experience has an impact on the performance of the business and its success since there could be a difference in making investment decisions between genders.

A form of human capital is education. Education from formal, non-formal, and informal schooling have shown to increase farmer productivity and success, especially in increased efficiency (Weir, 1999). Weir defined formal schooling as going to an educational institution. Non-formal education was defined as including apprenticeships or internships. Informal education was defined as the experiences gained through work. Education has shown to increase productivity by improving labor quality, increasing the ability to adjust to economic changes, and increasing the successful adoption of innovations such as technology (Weir, 1999). Improved attitudes towards taking more risks, adopting new idea, and reaching out to external services was correlated to education by Weir (1999). An owner with more education can quickly and more accurately adjust to changes. They can also allocate resources more efficiently during these changes (Huffman, 1974). An increase in education increases an owner’s available information allowing an easier adjustment period. A study of Ugandan farmers by Hyuha, Bashaasha, Nkonya, and

Kraybill (2007) found that farmers with little to no educational experience had a less profitable business compared to educated farmers.

The education level of the owner, as discussed previously, may affect succession. The owner may take longer to process information, allocate resources, and consider new technology that may increase the success of the business, and therefore delay its transfer to the next generation (Mishra and El-Osta, 2007). The owner's education may have an impact on the health of the business especially in taking risks and investing in innovative technology that may increase the company's productivity. In order to have a successful management transfer a business must be profitable and attractive to the next generation. Education also leads owners to perceive and pursue new business opportunities that could potentially lead them to an augmented business success (Robinson and Sexton, 1994).

Education can also relate to the training and other professional initiatives by the business to increase their employees' level of knowledge, skills, and experience which will eventually lead to an increase in employee satisfaction and performance (Marimuthu, Arokiasamy, and Ismail, 2009). The economic environment surrounding the business is constantly changing, causing the business to constantly incorporate innovation to create superior competitive advantage. A competitive advantage will allow the business to be successful as well as sustainable. The age of the business owner also has an impact on business success. Van Praag (2003) noted that small business owners who start below the age of 32 have a negative effect on the success of their business. A reason for this is that if their business fails, younger business owners may have other attractive business options than older business owners (Van Praag, 2003).

Investment in human capital generates higher organizational commitment (Marimuthu et al., 2009; Iles, Mabey, and Robertson, 1990) as well as greater business and economic growth (Groetz and Hu, 1996). Investment in human capital in a family business could be a parent teaching their child from an early age their family values, social development, nature and life, as well as farm work (Kim and Zepeda, 2004). Teaching the child from an early age allows them to have the training and informal education that ensures organizational commitment by the child as well as the continuation of firm success (Poza, 2007). The development and introduction of new technologies through human capital investment allows the company to develop their employees into high-skilled professionals (Nordhaug, 1998). An employee with a higher set of skills is more productive, has a positive attitude, and is able to allocate resources more efficiently.

Economic outcomes of the business have been found to be influenced by the size and age of the business, as well as the age of the owner. A new firm does not have an established client or customer base, and is still working on their organizational structure, creating a liability of newness (Loscocco et al., 1991). Investors may be more reluctant to invest in a new company (Amran, 2011). The liability of newness causes the firm to run a greater risk of failure because they depend on the generosity of family members or strangers, they have not solidified their legitimacy, and they are also ineffective competitors against other established organizations (Carroll, Freeman, and Hannah, 1983). An older business benefits from an established reputation allowing it a higher margin on sales (Glancey, 1998).

The size of the firm is also an important determinant of firm success. A study by Aldrich and Weiss (1981) showed that there is a strong correlation between workforce size and firm income. Therefore, an owner with no employees tends to have low firm income. A business larger in size may be more profitable because they benefit from economies of scale (Glancey, 1998). In the past, the owner of the larger business invested outside profits and personal income in order to finance its future expansion. A positive relation between profitability and growth was associated by Glancey (1998) when stated that a small business' main source of capital is its retained profits so it can avoid external lenders from claiming part of their business.

Firm location can be an attribute to business success. Businesses located in rural areas are not constrained by size or higher factor prices due to an increase in competition for resources such as labor and land (Glancey, 1998). Urban firms may not be as profitable as those located in rural areas due to the higher costs and expansion limitations (Williams and Jones, 2010). However, firms in urban locations are closer to the market, and are better positioned to make adjustments according to market changes.

Debt and family loans are negatively related to retained profits and business success. Small firms may be driven to finance with debt rather than equity because of necessity not by choice since they do not have the same access to capital as large, public firms (Coleman and Cohn, 1999). Since they rely more on debt capital, they are more susceptible to financial problems and failure. Smaller firms face high rates of interest, and lenders may mitigate the risk of lending to a small firm by requiring collateral or personal guarantees (Coleman and Cohn, 1999; Rungani and Fatoki, 2010).

Internal equity may be limited to small firms because insufficient profits may not be generated, and personal family resources of the owner may be limited. As the firm increases its profit, it will increase its use of internal equity. Small businesses may also lack a sound trading history like larger firms, and they may also lack sufficient assets to use as collateral (Rungani and Fatoki, 2010). The age of the firm also determines the amount of debt used. Firms that recently started may not have access to debt financing due to a lack of trade history. However, as they become more established they increase their assets and their trade history, alleviating the problem of moral hazard, and facilitating financial borrowing (Rungani and Fatoki, 2010). Therefore, the use of debt is a determinant of business success since it may be needed to finance the business until it has enough profits to use its internal equity.

Hypotheses

Family-First as a Determinant of Profit

Family-first family businesses tend to limit competition in order to have a greater sense of togetherness and harmony among family members. While family-first may not necessarily focus on preparing their children for the succession of the family business, they do focus on maintaining a healthy family system. The importance of this system means that the family-first business owner will accommodate family demands. Accommodation and a lack of competition may prevent new ideas from coming into the business, hindering business performance and profit (James, 1999).

Opposite to family-first, a business-first philosophy encourages competition. They believe in order to work in the business a family member needs to prove that they are qualified for the position. Competition in a business-first family firm could improve the business' competitive advantage over that of a family-first. A growth in competitive advantage provides the business with an increase in profits as well as business success. Business-first does not focus on for the health of the family system, but rather on the health of the business. This means that decisions for the business are more important than those concerning the family. Given the literature review, the following hypothesis was developed:

> Hypothesis 1: A family-first family business is likely to have a lower annual business profit than a business-first family business.

Business Succession Plans as a Determinant of Profit

Business performance is affected by the diverging interests of the family. While some family members may wish to invest business profits back into the business, other family members may wish to have an increase in security and personal comfort (James, 1999). Diverging interests in the family can create a conflict of interests over the strategic firm decisions. A firm that does not have optimal investment could hinder profit and thus its growth. Financial struggles may lead a firm to sell some of its assets in order to pay off debt. They may also be forced to sell or give the business to a nonfamily member because the family is not capable of continuing with the business, or they see the nonfamily member as more qualified to take over the firm.

A family that wishes to have a family member lead the family business will strive to have a profitable business. A healthy, profitable firm will provide not only an incentive for the future generation to continue with the family business, but also with the resources necessary to help it grow. Harris et al. (2012) found that a family business that has a family succession plan has a higher return on equity and operating profit margin. Therefore, the following hypothesis states:

Hypothesis 2: A family firm with an owner that plans to sell or give the business to a family member will have a higher profit.

Management Strategy as a Determinant of Profit

The CEO or owner of the family business may find that no family member is qualified as a business successor, passing the business on to a nonfamily manager. While the family members may still be part of the board of directors, a nonfamily manager may help bring innovative ideas and technology to help the business grow. Family conflict of interest could also cause the family business owner to transfer the firm to a nonfamily member because they believe family tension will hinder the business' future success. Family-first views entrance into the family business as a birthright. Therefore, they may hire a family member as a key manager even if they are not as qualified, causing profit to decrease. They view the family business as a mechanism to support their lifestyle, and hiring a nonfamily member to manage the business could be viewed as a threat. The impact of maintaining a family member in a key manager position and its effects on profit will be analyzed through the following hypothesis:

Hypothesis 3: A family business with an owner that agrees that key management should be maintained by a family member, even if a nonfamily member is more qualified, will have a lower business profit.

CHAPTER 3: METHODOLOGY

This chapter begins by presenting an overview of the survey, followed by an analysis of family-first versus business-first business philosophies. A descriptive statistical analysis of all variables is provided along with tables for both non-farm and farm family businesses. In order to provide a more detailed study, non-farm and farm family businesses are separated as a means of seeing the effects each variable can have on these two types of family businesses. The chapter concludes with an overview of the ordinary least square (OLS) models used for this study.

Data

The data used are from the 2012 Intergenerational Farm and Non-Farm Family Business Survey. The 2012 Intergenerational Farm and Non-Farm Family Business Survey was a 30-minutes telephone survey of rural family businesses. The sample consists of 2,097 small and medium sized farms located in Illinois, Indiana, Michigan, and Ohio; and a random sample of 1,059 small Indiana businesses. The final sample fielded by the University of Wisconsin Survey Center consisted of 3,156 cases from April 2011-February 2012. Cases with no contact information were removed for a total of 2,163 viable cases. The sample contains 736 observations of which 721 are complete interviews and 15 are usable partial complete interviews. Overall, the response rate was 34%. The sample for this thesis was reduced from 736 observations to 576 after cleaning the data of missing observations.

This study will use the 2012 Intergenerational Farm and Non-Farm Family Business Survey's definition of a family business. According to the survey a family business has at least one of the following characteristics:

1. At least one other member of the family has an ownership interest in the business or is likely to have a future ownership interest in the business.
2. At least one family member of the family works for the business at least part-time.
3. The business was inherited from a family member.
4. The business owner plans to transfer the family business to a son, daughter, or other family member.

Dependent Variable

Family business profit midpoints are used for the dependent variable. In the survey, profit is divided into 12 categories that range from 1 ($49,000 or less) to 12 ($5,000,000 or more). Due to the wide range within each of the categories, the midpoints of each category are used. Table 2 details the corresponding midpoint to each of the 12 family business profit categories. The nonlinear relationship between the dependent variable and the other variables led to a log transformation of business profit in order to generate the desired linearity of the model.

Table 2: Profit Midpoints Detailed Distribution

Dependent Variable		Description	Percent
Log of Profit Midpoint	*Log*{	\$25,000: Profit = \$49,000 or less	75%
		\$75,000: Profit = \$50,000-\$99,000	13%
		\$125,000: Profit = \$100,000-\$149,000	6%
		\$175,000: Profit = \$150,000-\$199,000	1%
		\$250,000: Profit = \$200,000-\$299,000	1%
		\$350,000: Profit = \$300,000-\$399,000	0.7%
		\$450,000: Profit = \$400,000-\$499,000	0.7%
		\$550,000: Profit = \$500,000-\$599,000	0.2%
		\$700,000: Profit = \$600,000-\$799,000	0.2%
		\$900,000: Profit = \$800,000-\$999,999	0.5%
		\$3,000,000: Profit = \$1,000,000-\$4,999,000	0.7%
		\$5,000,000: Profit = \$5,000,000 or more	0%

Independent Variables

Family-First vs Business-First

In order to better define what a family-first business philosophy is in this study, a few questions are analyzed from the survey. Using these questions Table 3 describes the business philosophy for non-farm family businesses (N=174) and Table 4 describes the business philosophy for farm family businesses (N=402). Context is provided by comparing how a family-first family business would respond to the question versus the response of a business-first family business, or the response of businesses that are neither family-first nor business-first oriented.

The independent variable Family-First is derived by combining the following two questions: “How often does the business come first?” and “How often does the family come first?” Responses are measured on a scale from 1 (never) to 5 (all of the time). The variable was dummied into a 0, 1, 2 scale, where 0 represents business-first family business, 1 represents family businesses that are neither family-first nor business-first, and 2 represents family-first family businesses. A family business is defined as business-first if they state that the family never or hardly ever comes before the family business. On the other hand, a family-first family business states that the family comes most of the time or all of the time before the business. A family business is defined as neither family-first nor business-first if they state that the family comes first some of the times before the business. Twenty-two percent of non-farm family businesses and 30% of farm family businesses identified as having a family-first business philosophy. The variable Family-First is believed to have a negative effect on family business profitability due to business needs being secondary to that of the family.

Family-first business owners believe that all family members have a right to join the family business regardless of their reputation. Therefore, an heir's right to join the business is used in Tables 3 and 4. The statement analyzed is "Each heir has the right to join the management team of the family business regardless of their qualifications." Responses are measured on a scale from 1 (strongly disagree) to 5 (strongly agree). Overall, 15% of business-first, non-farm family businesses, and 24% of family-first, non-farm family businesses strongly agree with the statement. Farm family businesses varied a little from non-farm respondents with 18% of business-first and 17% of family-first, farm family businesses strongly agreeing with the statement.

Family firm owners may not wish to lay off a family member due to the fear of creating family tension. Having the family name may create a sense of status within the business, keeping a family member from being fired regardless of their qualifications.

Thus, the statement “Business layoffs should be based on performance, not family status,” is analyzed using a scale from 1 (strongly disagree) to 5 (strongly agree). Overall, 59% of business-first, non-farm family businesses, and 61% of family-first, non-farm family businesses strongly agree with the statement. Fifty-three percent of business-first and 57% of family-first, farm family businesses strongly agree with the statement.

A family-first family business will make investing in family needs a priority, while leaving the needs of the business as secondary. This is believed to be the opposite of a business-first family business who views the business as a priority. Therefore, the following statement is analyzed and included in Tables 3 and 4: “Family members should make it a priority to invest in the family business first and then finance other personal investments.” Responses are measured using a Likert scale with one 1 being strongly disagree and 5 being strongly agree. Twenty-eight percent of business-first, non-farm family businesses and 16% of family-first, non-farm family businesses strongly agree with the statement. Farm family businesses showed the opposite with 16% of business-first, farm family businesses, and 26% of family-first, farm family businesses strongly agreeing with the statement.

The distribution of the business is also important to someone who is family-first because as Busa (2004) noted, family-first businesses aspire to transfer the business on to the next generation. Future business distribution is used as an independent variable in the study model as well as analyzed in Tables 3 and 4. The variable is derived from the question: “Please tell me which of the following approaches to distributing your family business to the next or future generation best describes what you expect to happen: the business will be sold to someone outside the family; the business will be sold or given to a family successors; or the business will be liquidated?" The variable is described as 0 if the business will be sold to someone outside the family or the business assets will be liquidated. The variable is equal to 1 if the business will be sold or given to a family successor. Fifty-six percent of business-first, non-farm family businesses, and 53% of family-first, non-farm family businesses state that the business will be sold or given to a family member. Farm family businesses differed with 64% of business-first, farm family businesses, and 57% of family-first, farm family business stating that the business will be distributed to a family member. Passing the business on to a family member is believed to have a positive effect on family business profit.

Table 3: Business Philosophy Description for Non-Farm Family Businesses (N=174)

	Description					
	Heirs Have Equal Right to Management					
		Strongly Disagree	Slightly Disagree	Neither Disagree nor Agree	Slightly Agree	Strongly Agree
	Business-First	33%	31%	3%	18%	15%
	Somewhat	33%	27%	6%	20%	14%
	Family-First	32%	24%	5%	15%	24%
	Layoffs Based on Experience Not Family Status					
	Business-First	2%	8%	5%	26%	59%
Family Business Philosophy	**Somewhat**	4%	5%	8%	30%	53%
	Family-First	0%	3%	10%	26%	61%
	Business Investment a Priority					
	Business-First	10%	36%	5%	21%	28%
	Somewhat	17%	31%	10%	19%	23%
	Family-First	21%	18%	21%	24%	16%
	Future Business Distribution					
		The business will be sold to someone outside the family/business assets will be liquidated.			The business will be sold/given to a family successor.	
	Business-First	44%			56%	
	Somewhat	52%			48%	
	Family-First	47%			53%	

Table 4: Business Philosophy Description for Farm Family Businesses (N=402)

	Description					
	Heirs Have Equal Right to Management					
		Strongly Disagree	Slightly Disagree	Neither Disagree nor Agree	Slightly Agree	Strongly Agree
	Business-First	34%	18%	3%	26%	18%
	Somewhat	28%	30%	6%	24%	11%
	Family-First	32%	23%	7%	22%	17%
	Layoffs Based on Experience Not Family Status					
	Business-First	3%	13%	5%	26%	53%
	Somewhat	2%	9%	8%	36%	46%
Family Business Philosophy	**Family-First**	3%	7%	7%	26%	57%
	Business Investment a Priority					
	Business-First	18%	15%	18%	33%	16%
	Somewhat	13%	28%	16%	23%	19%
	Family-First	20%	19%	12%	23%	26%
	Future Business Distribution					
		The business will be sold to someone outside the family/business assets will be liquidated.			The business will be sold/given to a family successor.	
	Business-First	36%			64%	
	Somewhat	34%			66%	
	Family-First	43%			57%	

Management Strategy

Some family business owners believe that key management positions should be held on performance and qualifications due to the impact a manager's leadership could have on profit. On the other hand, there are family business owners who believe that key management positions should be based on birthright and continually held by family members. The independent variable for key management held by family is generated from the statement: "Key management positions should be held by family members even if a nonfamily employee may be more qualified." Responses are measured on a 1-5 scale with 1 being strongly disagree and 5 being strongly agree. The mean for non-farm family businesses is 2.45, with most businesses owners strongly disagreeing with the statement. Farm family businesses have a mean of 2.76, with the majority of business owners slightly disagreeing with the statement. Key management held by family members regardless of their qualifications is believed to have a negative impact on business profit because poor leadership can cause a decrease in sales or production.

Factor Variables

Family firm owners may not wish to lay off a family member due to the fear of creating family tension. Having the family name may create a sense of status within the business, keeping a family member from being fired regardless of their qualifications. The statement "Business layoffs should be based on performance, no family status," was used to investigate layoffs based on performance. The statement was measured using a Likert scale with 1 being strongly disagree and 5 being strongly agree. Both non-farm family businesses and farm family businesses strongly agree with the statement, having a mean of 4.28 and 4.18, respectively.

Family Business Goals

Family business goals help establish priorities and help measure family business success in the market. The question "Please tell me which goal is the most important to you: profit, a positive reputation with customers, business survival, keeping the business in the family, or the opportunity to work with family members?" is used for business goals in the study. The variable was made into a binary variable with 0 being if the respondent found profit, a positive reputation with customers, or business survival to be of most importance. The variable equals 1 if the respondent found keeping the business in the family or working with family members as the most important goal. Eighty-four percent of non-farm family business owners found keeping the business in the family or working with the family as most important, while 75% of farm family business owners answered likewise.

Succession

In order to avoid competition or family tension that could disrupt succession plans, business owners may choose to share business ownership equally among future heirs. The heirs' equal right to management is created from the statement "Each heir should share equally in business ownership even if this distribution of ownership is not the most profitable for the business." A scale ranging from 1 (strongly disagree) to 5 (strongly agree) is used to measure responses. The average for non-farm family businesses is 2.59, with a majority stating that they strongly disagreed with the statement. Similarly, farm family businesses had a mean of 2.64, with a majority of business owners stating that they strongly disagreed with the statement provided.

Business owners may make investing in the business before investing in personal needs a priority. Business investment as a priority is created from the question: “Family members should make it a priority to invest in the family business first and then finance other personal investments.” A scale ranging from 1 (strongly disagree) to 5 (strongly agree) is used to measure responses. Most non-farm family businesses slightly disagreed with the statement, having a mean of 3.02. On the other hand, farm family businesses have a mean of 3.11, and the majority of business owners strongly agreed with making the business an investment priority. Investing primarily in the business before financing personal needs will have a positive effect on business profit since more monetary resources are being put back into the business.

A firm that has a transfer plan has the potential of being more successful since the succession of a business does not only depend on the successor selected, but also on the health of the business. The variable for management transfer plan is based off of the question: “Which of the following best describes the stage of the planning process your management transfer plan is in currently: you have not started yet, you have just begun, you have an oral agreement, you have a written plan, you have started implementing your plan or you have finished transferring management?” The majority of both non-farm and farm family businesses stated that they had not yet started with their management transfer plan, with a mean of 2.38 and 2.23, respectively.

Family Tension

The work environment in a family business is strongly influenced by the clarity of each family member's role within the firm. Conflict over business authority is derived from the question "How much tension is generated by confusion over who has authority to make business decisions?" Responses for the question are measured using a Liker scale from 1 (none at all) to 5 (extremely large amount). The majority of non-farm family businesses answered that there is no family tension generated due to a conflict of authority with a mean of 1.70. Farm family businesses answered likewise with a majority of business owners stating that there is no family tensions due to unclear business roles with a reported mean of 1.75. Conflict over authority will have a negative impact on the profit of the business because it takes away from the job satisfaction and productivity of the business.

Diverging interests within the family may lead to a competition between family resources and business resources. Family versus business resource competition is created for the model using the question "How much tension is generated by competition for resources between the family and the business?" A Likert scale ranging from 1 (none at all) to 5 (large amount) is used to measure the responses. Both non-farm and farm family business owners not only state that no family tension is spawned due to a resource competition, but they also had the same mean of 1.61. Resource competition among family members will have a negative impact on the results of the model. As mentioned before diverging family interests within the business could create conflict over family business decision, potentially keeping investment at suboptimal levels.

The inability to resolve business conflicts among family members can hinder firm revenue. Diverging solutions to the business conflict can cause poor work interaction among family members which can eventually affect productivity, performance, and financial decisions. The question "How much tension is generated by failure to resolve business conflicts among family members?" is used for the resolving business conflicts. The question uses a scale ranging from 1 (none at all) to 5 (large amount) to measure responses by business owners. Overall, non-farm and farm family businesses stated that there is no tension created due to a failure to resolve business conflicts. Non-farm family business have a mean of 1.56, while farm family businesses have a mean of 1.70.

Deciding between what is best for the family and what is best for the business may lead to tension within the family, affecting business profitability. Therefore, the variable for deciding between the family versus the business is created using the question: "How often do conflicts arise where a decision has to be made in favor of what is best for the family versus the family business?" A Likert scale ranging from 1 (never) to 5 (most of the time) is used to measure responses. Both non-farm and farm family businesses state that some of the time conflicts arise due to having to decide between the family and the business. Non-farm family businesses have a mean of 2.56, while farm-family businesses have a mean of 2.66.

Other Factors Affecting Business Profit

Gender was described as 0 if the respondent is male and 1 if the respondent is female. Past literature has found that female family business owners tend to have smaller annual sales and return on assets compared to male business owners (Danes and Lee, 2004). This is because women tend to have a smaller family business than men, which could be due to making family a priority rather than the success of the business (Loscocco et al., 1991).

Marriage is also used in the model with the study using 6 different categories to define marital status: 1.) Married, 2.) Divorced, 3.) Widowed, 4.) Separated, 5.) Never Married, 6.) A member of an unmarried couple. The variable was made into a binary variable with 0 representing business owners that are not married, and 1 representing those that are married. The majority of non-farm and farm family business respondents are married. An increase in family tension could be due by the husband, wife, or partner placing the business as a priority, or not setting clear roles between the house manager and the business manager. Tension in a marriage or a couple could be caused by having children under the age of 18 living at home. The variable for children was denoted by 0 representing respondents with no children under 18 living in the house, and 1 if they had children living in the house.

The generation of the business owner may also affect the profitability of the family business. A family business owner that is first generation may still be establishing themselves, having a liability of newness due to their efforts at establishing an organizational base. A scale ranging from 1 (first generation) to 5 (fifth generation or more) is used to measure responses. A majority of both non-farm and farm business owners are first generation.

The size of the family business is measured by the amount of employees working, either family members or other. The size of the family business could have a positive impact on the firm because a correlation between firm size and business profit has been found in past literature (Aldrich and Weiss, 1981). A larger business may have more sources of capital, avoiding external lenders from claiming parts of the business. Leaving the two variables as continuous variables, family members employed in the business and total employees is used as a measure for business size. On average both non-farm and farm family businesses have 2 family members working. On the other hand, a non-farm family business has an average of 11 employees, while a farm family business has an average of 9 employees. The larger a firm's workforce the more profitable it will be since business size can also be a determinant of profit and production. The square root of the variable for total employees is taken to see if there is a diminishing return to hiring a lot of employees.

The education of the family business owner is taken into account using a scale from 1 (never attended school or only attended kindergarten) to 7 (graduate degree). The majority of non-farm and farm family business owners have a 4-year college education. The education level of a business owner may positively affect the profit of the family business. A higher education level may allow the owner to invest in new, innovative technology, and new opportunities that may increase the productivity of the firm. The age of the business owner and its diminishing return are also used in the model. The average age for non-farm business owners is 56, and 57 for farm business owners.

Business Profit Model

Two OLS models are used to analyze profit in non-farm family businesses and farm family businesses. Both models analyze how succession, management, owner characteristics, and family business characteristics among others affect family business profit, where Y equals the log of the profit midpoints (i.e. Y= \$25,000; \$75,000; \$125,000…\$5,000,000).

Anderson, Sweeney, and Williams (2001) provide an example of a linear model, which is as follows:

$$Y = \beta_0 + \beta_1 X + \epsilon \qquad (1)$$

Let Y denote the dependent variable and:

X: Independent variable

β_0: Intercept that indicates the expected value of Y when X is zero.

β: The amount of increase or decrease in Y when X increases by one unit.

ϵ: Random error

Table 5: Statistical Analysis for Non-Farm Family Businesses (N=174)

Variables	Range	Mean	Median	Mode	Percent
Family business profit midpoint	$0-$5,000,000	$69,971.26	$25,000	$25,000	
Family-first business philosophy	0-2				22
Business distribution	0-1				51
Key management held by family	1-5	2.45	2	1	
Layoff based on performance	1-5	4.28	5	5	
Business goals	0-1				84
Heirs equal right to management	1-5	2.59	2	1	
Business investment a priority	1-5	3.02	3	2	
Management transfer plan	1-5	2.38	2	1	
Conflict over business authority	1-5	1.70	2	1	
Family vs business resource competition	1-5	1.61	1	1	
Resolving business conflicts	1-5	1.56	1	1	
Decide between family vs business	1-5	2.56	3	3	
Female	0-1				40
Married	0-1				91
Children	0-1				34
Generation of business owner	1-5	1.3	1	1	
Family members employed	0-12	2.5	2	2	
Total Employees	0-225	11.39	5	2	
Education	1-7	5.48	6	6	
Age of business owner	22-82	55.42	56	52	

Table 6: Statistical Analysis for Farm Family Businesses (N=402)

Variables	Range	Mean	Median	Mode	Percent
Family business profit midpoint	$0-$5,000,000	$76,741.29	$25,000	$25,000	
Family-first business philosophy	0-2				30
Business distribution	0-1				63
Key management held by family		2.76	2	2	
Layoff based on performance		4.18	5	5	
Business goals	0-1				75
Heirs equal right to management		2.64	2	1	
Business investment a priority		3.11	3	4	
Management transfer plan		2.23	2	1	
Conflict over business authority		1.75	2	1	
Family vs business resource competition		1.61	1	1	
Resolving business conflicts		1.7	1	1	
Decide between family vs business		2.66	3	3	
Female	0-1				40
Married	0-1				89
Children	0-1				38
Generation of business owner		1.66	1	1	
Family members employed	0-12	2.54	2	2	
Total Employees	0-225	9.15	4	2	
Education		5.50	6	6	
Age of business owner	22-82	55.73	57	58	

CHAPTER 4: RESULTS AND DISCUSSION

Two ordinary least squares regressions are used to analyze non-farm and farm family business profit in the 2012 Intergenerational Farm and Non-farm Family Business Survey. Variables are under categories such as business philosophy, business distribution, management strategy, as well as owner and business characteristics. Given that non-farm and farm family businesses may operate differently from each other, two OLS regression models are used to see the effects of the variables on these two types of family businesses.

The OLS regression model for non-farm family businesses had a total of 174 observations, and 22 independent and factor variables. The degrees of freedom for the model are 173, and it has an F-value of 4.29. A p-value of 0.00, associated with the F-value, shows that the dependent variable is reliably predicted by the independent and factor variables. An R-squared of .38 shows that the 38% of variants are explained by the independent variables. The adjusted R-squared of the log-linear model is .29, and the standard deviation of the error term is .64.

The OLS regression model for farm family businesses had 402 total observations, and used 22 independent and factor variables. The degrees of freedom of the farm model is 401, with an F-value of 4.93. The F-value's corresponding p-value of 0.00 shows that the dependent value is successfully predicted by the independent and factor variables. The R-squared of .22 indicates that the independent variables are able to explain 22% of the variants. The adjusted R-squared of the log-model is .18, and the standard deviation of the error term is .74.

This study focuses on the effects of how being a family-first family business, along with other factors, affects business profit. After controlling for business owner characteristics—for example age, gender, and education—and business characteristics—such as business type, number of employees, and age of business owner—the study found that being a family-first family business is not statistically significant for both non-farm and farm family businesses. Nevertheless, the future distribution of the business, such as selling or giving the business to a family member, proved to be significant for farm-family businesses, positively affecting their profitability. The effects of having key management positions held by family members, even if they are not qualified, is not statistically significant for both non-farm and farm family businesses. Several factor variables are shown to be significant, such as having a management transfer plan or being a female business owner. A detailed discussion of both log-linear model results are provided in this chapter.

Family-First as a Determinant of Profit

As mentioned by James (1999), a family business that wishes to maintain a healthy family system may hinder the success of the business because it limits competition within the firm. However, competition and a little family tension may actually have a positive effect on business profit, helping the business succeed through the new ideas that are generated (Ward, 1997). In this study, hypothesis 1 stated that a family-first family business is likely to have a lower annual profit than a business-first family business. However, the hypothesis was not supported for both non-farm and farm family businesses.

Business Distribution as a Determinant of Profit

Key to the success of the business is its future succession plan. An owner that is preparing for the firm's future succession is not only controlling future risk, but also showing their commitment to the longevity of the business. Therefore, hypothesis 2 stated that a family firm with an owner that plans to sell or give the business to a family member will have a higher profit. The future business distribution for non-farm family businesses is not statistically significant, the hypothesis was not supported for this type of family business. However, selling or giving the family business to a family member is positive and statistically significant for farm family business at the 5% level.

As hypothesized, business distribution is positively associated with profit for farm family businesses who plan to sell or give the family business to a relative. A farm family business that wishes to sell or give the family farm to a relative may have a 21% increase in profitability compared to a farm family business that sells or gives the business to an outsider or liquidates business assets. Findings support a Harris et al. (2012) study which noted that a family business that plans to transfer the business to a family member will have a higher return on equity (ROE), as well as a higher operating profit margin (OPM).

The higher ROE and OPM can be attributed to the owner having a long term vision for the business, striving to make optimal investments for the future generation to have a working income. Findings also support Goldberg's (1996) statement that a family business that wishes to succeed must keep the business profitable and attractive for the future generation. A successor runs the risk of having to sell some or all of its assets if he or she is not provided with a workable income for the business to continue its growth. Therefore, as noted by James (1999), an owner may wish to invest more in the family business so their children will take over a successful business.

Management Strategy as a Determinant of Profit

A qualified manager for a key management position is essential for the growth and profit of the business. The owner of the business may find that no family member is capable to lead the business, hiring a nonfamily member as a key manager. However, another business owner may maintain the less qualified family member as a key manager because they do not wish to cause family tension, or because they view a nonfamily member as a threat to their family business identity. Hypothesis 3 stated that a family business with an owner that agrees that key management should be maintained by a family member, even if a nonfamily member is more qualified, will have a lower business profit. Model results proved to be not statistically significant for both non-farm and farm family businesses; therefore, the hypothesis was not supported.

Other Determinants of Profit

Layoffs Based on Performance not Family Status

Model results showed that a layoff based on performance not family status is positive and statistically significant for non-farm family businesses, but not statistically significant for farm family businesses. A non-farm family business that agrees that an employee's layoff should be based on their performance is positive and statistically significant at the 5% level. Business owners that agree that performance is what determines a layoff will see a business profit increase of 10%. Layoffs that are based on family status may be detrimental to the family business because it is viewed as discrimination towards employees, allowing them to take legal action against the family business (LeGault, 2002). Layoffs that are based on performance allows the family business to maintain a level of equal expectations for all employees. This will keep a sense of fairness for both family and nonfamily employees.

Business Investment as a Priority

Investing in the business as a priority for family members is positive and statistically significant at the 5% level for non-farm family businesses, but not statistically significant for farm family businesses. Profit will increase the more the business owner agrees with making business investment a priority. Investing back into the business before investing in personal needs increases family business profit by 7%. In order to maintain competitiveness in the market, a family business may need to reinvest back into the business. Reinvesting can also help increase shareholder value, which in return increases shareholder commitment to the future growth of the family business (Visscher, Mendoza, Ward, 1995). Family members that make it a priority to invest back into the family business may help generate the future growth of the business (Aronoff and Ward, 1997).

Money put back into the business can be used to improve human capital, infrastructure, or expanding customer service. A balance between how much money the owners reinvest in the business and how much they take back provides an indicator for the health of the family business (Aronoff and Ward, 1997). Putting money in the business allows a non-farm family business to remain relevant and keep up with market changes.

Management Transfer Plan

A key component to the family business is the planning of the business' future succession. Model results showed that the transfer plan of a family business increases business profitability in both non-farm and farm family businesses. A non-farm and farm family business that advances in their management transfer plan, going from not started to having implemented the transfer of management, has a positive and statistically significant effect on profit at the 1% and 5% level, respectively. A non-farm family business that has advanced in their transfer plan will see an increase of 9% in their profit, while a farm family business will see an increase of 7%.

As Harris et al. (2012) stated, an owner is not only controlling for future risk within the business, but they are also showing their commitment to the business itself. Sharma, Chrisman, and Chua (1996) noted in their book that a transfer plan improves the profitability of the firm, and a family business is more likely to remain profitable after the completion of the transfer plan. A succession plan allows a business to assess their liquidity and cash reserves in order to see if they are able to pay debt, taxes, and other transfer costs (McCarthy, 2012). A liquidity analysis provides the business with a value benchmark in the market, as well as an idea as to how the owner will have to pay in federal and state taxes during the succession (McCarthy, 2012).

Succession generates organizational development for the company, which usually happens in between periods of growth like the transfer of management (Barnes and Hershon, 1994) Results support Venter and Boshoff (2007) who found a strong correlation between management succession planning and the profitability of the family business. If the owner wishes to have a successful business transfer, they must have a viable or profitable business (James, 1999).

Resolving Business Conflicts

A rift in the family can be associated with the inability of family members to resolve conflicts within the business, which can inevitably lead to a decrease in firm performance as well as profit. Business conflict is a double edge sword. While it can motivate family members to bring change within the business in the short run, it can inhibit growth and stability in the long run. Model results show that tension created by a failure to resolve business conflicts has a positive and statistically significant effect on profit in both non-farm and farm family businesses. Results are significant at the 10% level for non-farm family businesses, and at the 1% level in farm family businesses. A non-farm family business that has an increase in family tension due to unresolved business conflicts will see a 14% increase in business profitability, while a farm family business will have a 19% profit increase.

Findings can be explained by understanding that tension in the short run can help motivate changes in the business, increasing business performance and growth if those changes prove successful. A struggle within the business can arise due to a slower period of growth in the business. Barnes and Hershon (1994) stated that it is between these periods of slow growth that management looks at where the business is headed, while reviewing its goals. Tension may continue if family members do not agree with the solution to the conflict. Nevertheless, these results need to be looked at further because it is unclear whether these conflicts are short-term or long-term among family members.

Female Business Owners

Research findings by Loscocco et al. (1991) and Danes and Lee (2004), among others, state that female business owners will have lower profit than male owners. Positive and statistically significant results at the 5% level support these findings in both non-farm and farm family businesses. Female, non-farm family business owners' profitability will decrease by 24%, while female, farm business owners' profitability will decrease by 16%.

A reason for having a lower business profit could be because a female business owner may find that having a good family relationship is more important than profitability. Therefore, resources that could help grow the business are invested in the needs of the family, which limits the growth of the business and its performance. Putting family needs ahead of the firm could signify that female business owners are more risk averse, potentially keeping them from investing in new, innovative ideas or technology (Danes and Lee, 2004). They are also willing to sell firm assets if the wellbeing of their family is at risk. Accommodating the needs of the family leads a business owner to sacrifice business success (Sorenson, 1999).

Lower profit in female owned family businesses may be due to a woman's educational background compared to that of a man. Loscocco et al. (1991) noted in their study that women tended to be lower to middle-level managers before starting their own business, unlike men who were more likely to be executives. A woman' previous experience has an impact on the performance of their business and its success because it may influence their investment decisions in the family business (Loscocco et al., 1991).

Children

Children under the age of 18 who are still living with the business owner may generate tension between the family and the business, especially if the child is below the age of 6. A child demands attention and care that may collide with the demands of the family business (Danes and Lee, 2004). Couples with young children must find a way to dive their time between the family business and the demands of their child (Danes and Lee, 2004). Results showed that having children under the age of 18 had a negative and statistically significant impact on business profit for non-farm family businesses. A non-farm family business' profit may decrease by 33% if a child is currently living in the household. The presence of a child can generate tension over authority and workload between couples, especially if the child is under the age of 5 (Danes and Lee, 2004). Higher business tension can cause a decrease in family business profit because there may be a lack of family functionality, affecting the sustainability of the business.

Total Employees

The number of employees in a family business can be a proxy for the size of the business. It is possible for a larger family business be more profitable because it is able to produce more, benefiting from economies of scale (Glancey, 1998). Due to the firms larger size they may benefit from having a greater bargaining power, and a more efficient production over their competitors (Babalola, 2013). Larger family firms may also enjoy more stability because they are able to generate more sales than smaller family firms (Babalola, 2013).

Model results support the idea that a larger firm will have a higher profit in both non-farm and farm family businesses. Total employees, either part-time and/or full-time, were positive and statistically significant at the 1% level for both types of family businesses. Non-farm family businesses had an increase in profitability of 3% per one employee hired, while farm family businesses showed an increase of 1% per one employee hired. Results support Danes et al. (2008) who found that hiring extra help during periods of increased sales was associated with higher gross revenue. However, there is a diminishing return to having too many employees. As results show, if a non-farm family business hires too many employees there is a diminishing return of -0.01% per employee hired, while a farm family business has a diminishing return of -0.001%.

Table 7: OLS Model Results for Non-Farm Family Businesses (N=174)

Number of obs	= 174
F (22, 151)	= 4.29
Prob > F	= 0.00
R-squared	= 0.38
Adj R-squared	= 0.29
Root MSE	= 0.64

Variables	Coefficients	P>|t|
Family-first business philosophy	-0.010	0.90
Business distribution	0.171	0.138
Key management held by family	-0.043	0.280
Layoff based on performance	0.102*	0.050
Business goals	-0.035	0.818
Heirs equal right to management	-0.008	0.829
Business investment a priority	0.075*	0.052
Management transfer plan	0.091***	0.008
Conflict over business authority	-0.022	0.792
Family vs business resource competition	-0.039	0.565
Resolving business conflicts	0.139*	0.099
Decide between family vs business	-0.048	0.404
Female	-0.239**	0.027
Married	0.143	0.443
Children	-0.327**	0.013
Generation of business owner	0.017	0.783
Family members employed	0.038	0.160
Total Employees	0.026***	0.000
$(\text{Total Employees})^2$	-0.01***	0.000
Education	0.062	0.211
Age of business owner	0.026	0.385
$(\text{Age})^2$	-0.02	0.351

Table 8: OLS Model Results for Farm Family Businesses (N=402)

Number of obs	= 402
F (22, 379)	= 4.93
Prob > F	= 0.00
R-squared	= 0.22
Adj R-squared	= 0.18
Root MSE	= 0.74

Variables	Coefficients	P>|t|
Family-first business philosophy	-0.014	0.814
Business distribution	0.209	0.013
Key management held by family	-0.008	0.779
Layoff based on performance	0.023	0.531
Business goals	0.088	0.326
Heirs equal right to management	-0.017	0.522
Business investment a priority	0.040	0.167
Management transfer plan	0.068**	0.019
Conflict over business authority	-0.037	0.503
Family vs business resource competition	-0.081	0.127
Resolving business conflicts	0.192***	0.001
Decide between family vs business	-0.015	0.725
Female	-0.158**	0.049
Married	0.144	0.252
Children	0.047	0.617
Generation of business owner	0.041	0.248
Family members employed	0.012	0.605
Total Employees	0.013***	0.000
$(\text{Total Employees})^2$	0.001**	0.022
Education	-0.050	0.156
Age of business owner	0.023	0.288
$(\text{Age})^2$	-0.01	0.398

CHAPTER 5: CONCLUSIONS

This study tested how being family-first business philosophy could affect business profit, as well as tested how business profit could also be impacted by the future distribution of the family business. Another area tested was how maintaining unqualified family members in key management positions could impact profit. In order to provide a more detailed analysis, non-farm and farm family businesses were separated and analyzed through log-linear models. The OLS models estimated how business philosophy, distribution, as well as management could impact profitability while also looking at factors such as conflict resolution, gender, and number of employees among other business and business owner characteristics.

Although having a family-first business philosophy has been associated with a decrease in profitability (Danes et al., 2008), study results were not statistically significant in both non-farm and farm family businesses. The future of the family business was statistically significant for farm family businesses, while not statistically significant for non-farm family businesses. Business profit will increase if the family business owner plans to sell or give the family business to a family member. Results concur with studies such as Harris et al. (2012) and Goldberg (1996).

Although, having unqualified personnel in key management positions has been associated with a decrease in business profit (Sorenson, 1999), results for this study were not statistically significant for both non-farm and farm family businesses.

Employee layoffs based on performance not family status was found to have a positive effect on non-farm family business profit. A reason for its positive effect is because it provides a level of expectation for all employees, and maintain a fair work environment. Investing on the family business before personal needs was also statistically significant for non-farm family businesses. Money that is put back into the business can be used to improve infrastructure or human capital allowing the business to remain relevant in the market.

The further along a family business is in their management transfer plan, the more business profit will increase as shown by results for both non-farm and farm family businesses. Results concur with findings by Sharma et al. (1996) which noted that a family business is more likely to remain profitable after the completion of the transfer plan. While tension is believed to have a negative effect on business profit, the failure to resolve business conflicts within the family showed to have a positive effect on profit for both non-farm and farm family businesses. Tension in the short-run may be positive for family businesses, providing a motivation for change in the near future. In accordance to other studies (Loscocco et al, 1991, Danes and Lee, 2004), results showed that being a female business owner could have a negative impact on business profitability. A reason for a decrease in profitability as a female business owner could be because they tend to put the family ahead of the business, which could create sub-optimal business investment. This study provides information that can be used by business consultants to create programs that help guide a family business owner through the various stages of business growth. Significant results provide information in the area that business consultants should be focusing on with these programs. More programs, workshops, and research should be implemented to help guide business owning families in what criteria to pursue when transferring management, how to appropriately handle their finances, and how to resolve business conflicts among family members. Providing families with educational programs about succession could help these family firms increase their profitability and firm value. Overall, more needs to be done for these family businesses to be able to have a profitable business as well as be able to continue past their first succession.

Limitations

Limitations can be noted by the fact that the 2012 Intergenerational Farm and Non-Farm Family Business Survey did not include a diverse group of family businesses. The majority of respondents were white and married, which did not allow for an examination of racial and marital differences among firm owners. The majority of the sample also consisted of farm family businesses with few non-farm observations, which also did not allow to examine changes among different types of family firms.

Using Likert scale questions may generate a disadvantage in the study. A limited amount of answer choices in a Likert scale implies that the space between each option is equal. This may not accurately measure the attitude or opinion of the respondents. However, this does not mean that more options should be provided because it may cause the respondent to become fatigued or confused. Previous questions may also influence future responses. Respondents may also answer questions in a way they feel they are expected to, avoiding extremes or an honest answer.

Directions for Future Research

Further research should be made into why there is a positive effect on profit by a failure to resolve business conflicts among family members. Research can look into whether the positive effect is due to a short-term family tension, or if it is because the increased profitability of the business is causing more conflicts within the family. As mentioned before tension can motivate change within the family and the business, which may have a positive effect on profit.

Alternative measures of success should also be researched. While this study measured success through business profitability, other forms of success could be further analyzed. This is because while some managers view profit as a form of success, others may view job satisfaction or a healthy family system as a form of business success. Being able to sustain their family through the business may be an achievement for the manager, and not necessarily increasing the size or the performance of the business.

Data used for this study was not demographically diverse. Danes et al., (2008a) have conducted research on the effects of ethnicity, families and culture on the experience of various family businesses. Managers from different cultures do not behave the same when operating a family business. It would be interesting to see how different cultural backgrounds affect the profit of the business. This form of research can help business consultants develop programs that are culturally appropriate to use for business interventions.

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