

Family Business Strategies: A Comparative Study

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Abstract

The limited research that exists examining the relationship between ownership structure (family business status) and strategy has provided conflicting results. This paper empirically examines this relationship. The findings suggest that some differences exist in how family businesses compete in the market place, but our conceptualization of the strategy construct may limit our ability to measure the actual differences in strategies.

Introduction

The importance of the role played by family business in the U. S. economy has been noted and discussed by numerous writers (Gersick, Davis, McCollom Hampton & Lansberg, 1997; Ward, 1987). It is well accepted that family business is the backbone of the U. S. economy. Beckhard and Dyer (1983) estimated that over 95% of all business establishments in the U. S. are family-owned or family-controlled. Other researchers (Kirchhoff & Kirchhoff, 1987; Sexton & Van Aucken, 1982) have estimated that 80% of all businesses in the U. S. are family-owned firms. It has also been stated that approximately 50% of the gross national product of the U. S. is generated by family firms (Ward & Arnoff, 1990). Yet, until recently, the study of family firms has largely been neglected by researchers. While this has been changing somewhat in recent years with the interest in family business succession, there are still many areas related to family businesses that need to be examined for a more complete understanding of family business to be developed (Wortman, 1994).

Strategic Management and Family Business

One of the important areas of research that theorists have found lacking is the field of strategic management as it relates to family business (Wortman, 1994; Ward, 1988). However, researchers have repeatedly argued that conceptually the strategic planning processes and the resulting strategies of family businesses differ significantly from the processes and strategies of nonfamily firms (Ward, 1988; Harris, Martinez & Ward, 1994). It is argued that these differences exist because of the contradictions that arise between the family system and the business system. Ward (1987) states that "the very nature of business often seems to contradict the nature of the family. Families tend to be emotional;

businesses are objective. Families are protective of their members; businesses, much less so. Families grant acceptance unconditionally. Businesses grant it according to one's contribution" (p. 54). These differences between family and nonfamily firms are not necessarily negative or positive for family businesses, but they do have the potential to significantly impact the decision making processes and outcomes of these organizations.

Theorists conducting reviews of the entrepreneurship and family business literature have also called for more research and more rigor in the research conducted in the field of strategic management of family business (Brockhaus, 1994; Hoy & Verser, 1994). Wortman (1994), for example, reviewed strategy research on family firms during the last decade and was able to identify only twenty-six articles related to this topic. Emphasizing the lack of empirical rigor in the studies, he stated that "due to the absence of actual data analysis in many studies, the opportunity to utilize even simple statistics is possible in family-owned business research" (p.18).

Harris, Martinez, and Ward (1994), in their review of the strategy literature related to family business, identified characteristics of family businesses that influence strategy. These include:

- "Inward" orientation (Cohen and Lindberg, 1974)
- Slower growth and less participation in global markets (Gallo 1993)
- Long-term commitment (Danco, 1975)
- Less capital intensive (Friedman and Friedman, 1994)
- Importance of family harmony (Trostel and Nichols, 1982)
- Employee care and loyalty (Ward, 1988)
- Lower costs (McGonahy, Walker and Henderson, 1993)
- Generations of leadership (Ward, 1988)
- The board's influence on implementation (Ward and Handy, 1988)

Although the authors identified these characteristics of family businesses as elements that affect strategy in family businesses, they did not postulate any specifics. Their conclusion was that "the assessment of these family business characteristics and their influence on strategy leaves more questions than answers" (p. 171).

Others have argued that a general lack of strategic planning in family businesses has contributed to the high failure rate among family businesses as they attempt to survive from one generation to the next (Ward, 1988). The inward orientation of family businesses has been discussed as affecting the family members' perceptions of the business environment (Davis, 1983). It is suggested that the family system attempts to create and maintain a cohesiveness that supports the family "paradigm." This paradigm is described as the core assumptions, beliefs and convictions that the family holds relative to its environment. Information that is not consistent with this paradigm is resisted and/or ignored. Davis suggests that this resistance to information that runs counter to the family paradigm results in less change on the part of family businesses in comparison to nonfamily businesses.

Others (Daily & Dollinger, 1993; Daily & Dollinger, 1992) have come to similar conclusions, arguing that nonfamily firms pursue more growth-oriented strategies. They explicitly state that "since professionally managed firms should grow at a faster rate than the family-owned and -managed firm there should be significant differences in the strategy pursued by the firm" (Daily & Dollinger, 1993, p. 82).

In addition, Gallo and Sveen (1991) argue that “family businesses often follow strategies that are narrowly focused on customer needs in local markets” (p. 183). They argue that these strategies are difficult to change due to the family system’s influence on the business. Family businesses are therefore less likely to expand internationally than nonfamily businesses.

While there appears to be a significant amount of anecdotal evidence that the strategies pursued by family-owned and managed firms are significantly different from the strategies pursued by nonfamily firms, the empirical evidence showing that this actually occurs is weak. However, several empirical studies that attempt to examine this issue have been conducted.

Empirical Research

Donckels and Frohlich (1991), in their study of 1132 small- and medium-sized businesses in eight European countries, also identified differences between family and nonfamily businesses which suggest differences in strategies. Their results suggest that family businesses are more risk-averse, less growth-oriented, need fewer socioeconomic networks, and are more conservative in their strategic behavior than nonfamily firms. This study did not attempt to classify the firms according to any typology based on the strategic behaviors that they exhibited.

Several empirical studies attempting to identify differences in strategies of firms based on their ownership structure have been published recently. These studies present somewhat conflicting findings.

Daily and Dollinger (1992, 1993) published two studies of family business issues that examined the relationship between business strategies and ownership structure (i.e. family-owned vs. nonfamily-owned) in 104 manufacturing firms in Indiana. These two studies utilized the same data set; therefore, the results of the data analysis of the strategy/ownership structure relationship were identical. Using contingency analysis, the researchers found some significant differences in strategies followed by family-owned firms versus those followed by nonfamily-owned firms. They measured the strategy construct utilizing a strategic orientation, self-typing framework based on Miles’ and Snow’s strategic typology. Their results suggested that the major differences between the two groups were that family businesses were more highly concentrated in the defender group, while nonfamily businesses were more highly concentrated in the reactor group.

Daily and Thompson (1994) also examined the relationship between ownership structure and strategy in 104 wholesale firms in the heating and air conditioning industry in North America. However, rather than measuring the strategy construct using Miles’ and Snow’s typology, they used strategic postures (Dsouza, 1990). This approach utilized twenty-five variables that were designed to assess the strategic posture of the organization. A factor analysis was then conducted and resulted in the identification of four factors. A Manova was then conducted and was found to be nonsignificant. The results did not show significant differences in strategic postures between family- and nonfamily-owned businesses. “No relationship was found between a firm’s elected strategies and its ownership structure” (p.246).

These limited findings do not provide any conclusive results. Rather, they suggest that the differences in strategy between family and nonfamily firms may be more subtle than originally

postulated. This study attempts to further this investigation by: 1) obtaining data from multiple top-level managers in family and nonfamily businesses, 2) using a multiple item measure of strategy, and 3) controlling for other organizational variables that have been shown to be related to organization strategy (i.e., types of customers and product).

Therefore, this study will test the following hypothesis.

Hypothesis: Strategies pursued by family businesses will be significantly different from strategies pursued by nonfamily businesses.

Method

Sample Selection and Data Collection

Organizations were selected using directories of manufacturing and service organizations within a midwestern state. Organizations that reported having fewer than 250 employees but more than 25 employees were sent a letter requesting participation in a research project, and a follow-up telephone call requested an appointment to meet with the CEO's/owners. If they agreed to be interviewed and to participate, the logistics of questionnaire distribution and return were agreed upon to ensure confidentiality.

Data were collected from top-level or strategic managers who were defined as individuals who were knowledgeable about the organizations' strategies. Based on this definition, the CEO/owners indicated which individuals would be considered "Strategic Management."

In most organizations questionnaires were distributed by company mail, with completed questionnaires returned to the researchers by U.S. mail. In a few organizations, questionnaires were distributed and collected on site by a member of the research team. Using this procedure data were obtained from top-level managers in 86 small business organizations, resulting in 422 total respondents, 418 of which provided complete data. The number of respondents per organization ranged from one to twelve, with the mean number per organization being 5.17.

Dependent Variable

The twelve items describing the strategic orientation of the organization were based on Miles and Snow (1982), but in a bi-polar format. The items were scored such that a high number represented a "prospector" strategy. Table 1 presents the questions along with descriptive data for each question.

Table 1: Descriptive Statistics for Strategy Items

		Percent Responding					
CURNEW	Grow primarily by extending current products/services to current customers	1 9	2 24	3 36	4 28	5 4	Grow primarily by offering new products/services to new customers
EMPHAS	Emphasis on efficiency by carefully controlling administrative and operating costs	1 6	2 21	3 37	4 29	5 6	Emphasis on effectiveness by seeking out new opportunities to respond to customer needs
CHGSTRU	Divisions/Departments are changes/modified to meet changes in the environment	1 7	2 21	3 32	4 32	5 8	Divisions/Departments remain constant through changes in the environment
DIVLAB	Employees are expected to perform several different jobs if needed	1 1	2 8	3 25	4 40	5 26	Employees are expected to perform one job well
LEADFOL2	Usually introduces procedures which are followed by competitors	1 6	2 14	3 39	4 31	5 10	Usually follows the lead of competitors
WRITRUL	Rely on extensive use of written rules, policies and procedures	1 7	2 21	3 27	4 31	5 14	Rely on limited use of written rules, policies and procedures
STABNEW	Concern is how to protect a stable product/service line to clearly defined markets	1 4	2 17	3 35	4 35	5 9	Concern is how to locate and satisfy new customer opportunities with new products or services
MAINEXP	Concerned with maintaining current operations and control	1 5	2 20	3 28	4 39	5 8	Concerned with the successful expansion of new products/services
RISKINV	Strong preference for low risk, moderate return investments(e.g., for certain 10% R.O.I. after tax)	1 15	2 29	3 37	4 15	5 4	Strong preference for high risk, high return investments (e.g., 20% after tax with a chance of earning nothing)
FINANCE	Policy of growth primarily through internally generated funds (retained earnings).	1 25	2 27	3 21	4 21	5 6	Policy of growth primarily through external financing (borrowing or capital issues)
LEADFOL1	Typically responds to competitors actions	1 5	2 19	3 41	4 29	5 6	Typically initiates actions to which competitors then respond
INTRO	Seldom the first to introduce new products/services, operating technologies, etc.	1 7	2 17	3 35	4 31	5 10	Often the first to introduce new products/services, operating technologies, etc.

Independent Variables

To determine which of the organizations were family businesses, a research assistant called each organization. Using a structured questionnaire with branching, the assistant asked to speak to someone familiar with the organization's ownership. This person was then asked if the organization was family owned or considered a family business. If the response was no, the respondent was asked if the company had ever been a family business and, if so, when the transition to a nonfamily business had occurred. Based on these responses each organization was classified as either a family business or a nonfamily business.

To more fully understand the potential relationship between family and nonfamily businesses, two other organizational level variables were studied: market type (industrial vs. consumer) and product technology (providing services vs. producing goods). Based on information obtained from the CEO/owner, two researchers classified each organization into one of the two market types and into one of the two product technologies. If there was disagreement about the classification, a third researcher reviewed the information and determined the classifications to be used. These two classifications resulted in a two-by-two classification scheme across the 86 companies. To ease referencing, product technologies will be referred to as "Product" and market types as "Market."

Table 2 presents descriptive statistics for each of the four organization types resulting from the two-by-two classification used in this study. Each of the cells in the table shows both the number of organizations which were not family businesses and the mean number of respondents for nonfamily businesses, and the number of organizations that were family businesses and the mean number of respondents for family businesses.

	Business	Consumer
Manufacture		
Non Family Businesses	13	3
Mean Number Responding	6.69	6.67
Family Businesses	14	5
Mean Number Responding	4.14	5.20
Service		
Non Family Businesses	22	12
Mean Number Responding	4.30	4.67
Family Businesses	12	5
Mean Number Responding	4.92	3.40

Data Analyses

To determine whether or not the twelve strategy items represented a unitary concept, a reliability analysis (Cronbach Alpha) was performed which resulted in an Alpha of .70, indicating marginally acceptable internal consistency.

To test the hypothesized relationship between ownership structure (family business status) and strategy, a 2 x 2 x 2 analysis of variance (ANOVA) was performed. The multi-factor ANOVA performed to test for the three hypothesized main effects would also identify any significant interactions, which would in turn affect interpretation of any significant main effects. One unique feature of the data collected for this study is that multiple top-level managers responded for 81 of the 86 organizations, allowing for assessment of both individual and organizational level effects. In order to assess the effects of the independent variables for both levels, the ANOVA was performed twice. The first analysis used data provided by each respondent as the unit of analysis. The second analysis used data aggregated by organization as the unit of analysis. These data will provide a unique opportunity to compare the effects at each level of analysis.

Results

The results of both the individual and organizational level analyses indicated no significant main or interaction effects. These results were partially inconsistent with the findings of Seborá, Hartman and Tower (1994), who found that both market and product affected innovation within small businesses. In an attempt to reconcile this inconsistency and to explore the relatively low internal reliability, a more detailed analysis of the strategy measure was undertaken.

The twelve items were factor analyzed (Principle Components with Varimax rotation eigen value cutoff of 1.00), resulting in the extraction of four factors. Table 3 presents factor loadings greater than .30. While the results suggest four clear factors, examination of the internal consistency of the four factors showed that only the first two had acceptable (greater than .70) coefficients. To confirm that these two factors would be extracted with a reduced set of items, a second factor analysis was performed on only the eight items comprising the first two factors. Results of this analysis confirmed the two-factor solution and the defining items for those two factors. The first factor is labeled *Prospecting* while the second is labeled *Industry Leadership*.

Table 3: Factor Analysis of Twelve Items and Cronbach Alpha for each Factor

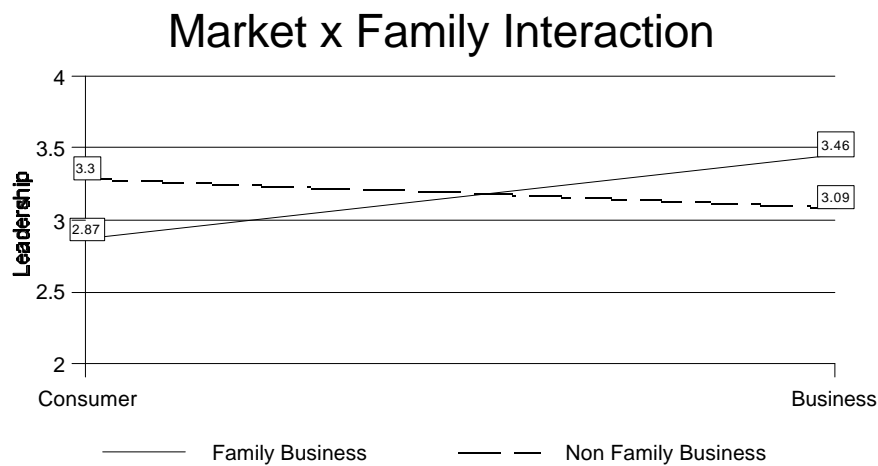
FACTOR ANALYSIS				
FACTOR	EIGENVALUE	PCT OF VAR	CUM PCT	
1	3.56	29.7	29.7	
2	1.38	11.5	41.2	
3	1.21	10.1	51.2	
4	1.08	9.0	60.2	

ROTATED FACTOR MATRIX:

	FACTOR 1	FACTOR 2	FACTOR 3	FACTOR 4
MAINEXPN	.77			
STABNEW	.76			
CURNEW	.69			
EMPHAS	.58			
RISKINV	.53			.41
LEADFOL2		.82		
LEADFOL1		.78		
INTRO	.36	.78		
DIVLAB			.76	
CHGSTRUC			.74	
WRITRUL				.70
FINANCE				.66
Cronbach Alpha	.78	.80	.14	.38

A composite score for each factor was calculated for each respondent by summing responses to items defining the factor, and dividing by the number of items. The first two analyses (one for each strategy measure) performed were ANOVA's using "organization" as the independent variable to determine if members of the same organization responded similarly. (Organizations with only one respondent were excluded from this analysis.) Both strategy variables produced significant effects for "organization" ($F(80,338)=2.39, p < .001$; $F(80,337)=3.76, p < .001$), indicating that members of the organization had similar perceptions concerning the organization's strategy. For each organization the standard deviation for *Prospecting* and *Industry Leadership* was calculated, and then two ANOVA's were performed using the basic design. There were no significant effects, which shows that

Figure 0



respondents from family businesses do not have a more unified perception concerning their strategy than do those in nonfamily businesses.

To test the effects of Market, Product and Family, four additional ANOVA's were performed; two for each measure of strategy, with one using the individual as the unit of analysis and the other the organization as the unit of analysis. Results for *Prospecting* indicated no significant main or interaction effects for either individual or organizational level analyses. The results for *Industry Leadership* were more interesting, with a significant main effect for Family [$F(1,411)=4.91, p < .03$] and a significant interaction between Family and Market [$F(1,411)=19.7, p < .001$], but only for the individual level of analysis. Given the main effect was included in the interaction, only the interaction effect will be explored.

Figure 1 displays this interaction, which indicates that those organizations which have businesses as their customers do not show a significant difference between family and nonfamily businesses. In contrast, organizations which have consumers as their customers show marked differences between family and nonfamily businesses, with family businesses much more likely to be part of the pack and nonfamily businesses more likely to be market leaders. This is consistent with past theorizing, which has indicated that family businesses tend to have an internal focus. This does not appear when businesses are customers because the close relationship that exists between suppliers and businesses forces organizations to be leaders. Consumers do not communicate their need for innovation as directly. The lack of significant effect for *Prospecting* occurs because this variable focuses on aspects of businesses that are within the scope of existing operations.

Discussion

These results offer some insights into several new aspects of family business strategy research. First, the results indicate that at some level family businesses do differ from other businesses, with family businesses showing less industry leadership when selling to consumers. This could be interpreted based on the relative closeness of the relationship between seller and buyer. Businesses as customers tend to encourage their suppliers to provide quality and innovation through direct communication, while consumers tend to send the message through their buying habits; a much less

direct type of communication. While this raises interesting speculation, the aggregated data raise serious questions about how these differences may manifest themselves in research.

Of more interest and greater consistency in these findings is the conclusion that family and nonfamily businesses did not differ in how uniformly top-level managers perceived the strategy of their business. Likewise, no differences in strategy were employed by family and nonfamily businesses. Generally the uniformity of the results occurred in both individual and aggregate level analyses. The absence of differences in perceived and employed strategy found between family and nonfamily businesses could be real or may be a result of asking the wrong questions.

The current research, similar to previous strategy research, used a measure of strategy that focused on what is being done; responding versus leading change, and prospecting versus defending. Given the theory about family businesses, possibly the questions should have focused not on what is being done in the market place, but on what will be done with funds and why if the business becomes successful. For example, it has been hypothesized that family businesses take a longer term perspective when making strategic decisions in order to secure the business for future generations. This purpose could result in the same strategy as a nonfamily business that simply wishes to maximize profits over the next five years in order to increase the value of the business so that the stock price will increase: same strategy different purpose. Research should focus on whether there are differences between family and nonfamily businesses in why strategies are undertaken, and on what is done as a result of the strategy.

The family firm also appears to be a more complex system than our empirical studies have operationalized to date. It is very likely that lumping all family firms into one group for analysis and comparison may be inappropriate. For example, Hoy and Verser (1994) posit that the roles played by different family members may have an impact on the family firm's tendency to attempt innovation. It is possible that the family structure within the firm could have an impact on the strategies that the organization pursues.

Others (Pascarella & Frohnan, 1990) have suggested that stages of the family life cycle may significantly affect the survival and success of the family firm. This leads to the question of differences between generational ownership of family businesses. In other words, do family businesses in their first generation of family ownership have the same dynamics and, therefore, follow similar strategies as family firms in their third generation of ownership? Anecdotal evidence seems to suggest that this is not the case. Lansberg (1983) discusses some of the challenges that family firms face as they move through various stages of their existence. To deal with the human resource issues, the author recommends that ownership and management should be separated when making these decisions; the firm is to act more like a nonfamily than a family business when making business decisions.

Population ecology (Aldrich & Pfeffer, 1976) also implies that for family firms to survive they must become similar to nonfamily firms. Whether or not the organization is a family business, in order to survive it must adapt to the environment in which it operates. This suggests that older, surviving family businesses will begin to look and act more like other nonfamily businesses within their industry as they age.

Future family business research needs to look more closely at the issues raised in this study. Researchers need to identify the differences that exist among family businesses (strategic purpose, age, generations, etc.) and examine the impact that these differences have on strategy. In addition, we must continue to develop and utilize methods for measuring the strategy construct that are more comprehensive in nature. These changes will greatly advance our understanding of family businesses and strategy.

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