Family Versus Non-Family Small Businesses: An Empirical Study of Strategic Posture and Performance

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We hereby certify that this Dissertation submitted by Kenneth E. Botts conforms to acceptable standards, an as such is fully adequate in scope and quality. It is therefore approved as the fulfillment of the Dissertation requirements for the Degree of Doctorate of Business Administration.

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2000

CERTIFICATION STATEMENT

I hereby certify that this paper constitutes my own product, that where the language of others is set forth, quotation marks so indicate, and that appropriate credit is given where I have used the language, ideas, expressions or writings of another.

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ABSTRACT

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This study addressed the proposition that there are differences in strategic postures and performance when family businesses are compared to non-family businesses. A sample of 235 small general construction contractors were mailed a questionnaire to gather data for business type, strategic posture and contract revenue growth rate. Usable questionnaires were returned from 114 companies who self-selected whether they are family or non-family businesses. Respondents also self-typed themselves for strategic posture by selecting one of four possible strategic postures.

Two independent statistical tests were performed to determine if there was any significant relationship between business type and strategic posture and business type and revenue growth rate. A cross-tabulation and Chi-square calculation did not support a significant relationship between business type and strategic posture. A t test did not support a significant relationship between business type and contract revenue growth rate. The conclusions are there are no significant differences in strategic postures and performance when comparing small family businesses to small non-family businesses. This study finds several issues that warrant further attention by researchers. Better data collection techniques are needed for collecting small business information by self-reporting. In addition, the use of more and better incentives could help researchers collect more and better small business financial information. Finally, Strategic typologies adapted to small businesses could help capture the differences between small business types.

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CHAPTER I

INTRODUCTION

Background of the Issue

Family businesses are beginning to be recognized as an important segment of the U.S. economy. Although family businesses range in size from the very small to large multinational corporations, they are predominately small businesses (Kirchhoff & Kirchhoff, 1987; Shanker & Astrachan, 1996). The economic importance of family businesses is believed to be considerable. Although little substantive data exist on the size or distribution of family businesses (Dreux, 1990; Shanker & Astrachan, 1996), writers have estimated that family businesses represent 90% to 98% of all U.S. businesses (Beckhard & Dyer, 1983a; Hershon, 1975; Stern, 1986), and represent 40% to 60% of gross domestic product (GDP) (Becker & Tillman, 1978; de Visscher & Bruel, 1994; Ward & Aronoff, 1990). A recent study indicates the percentages are somewhat overstated depending on the family business definition used (Shanker & Astrachan, 1996). Regardless of the numbers, family businesses are a significant component of the U.S. economy.

The field of family business has drawn the attention of numerous researchers (Dyer, 1986; Handler, 1989; Ward, 1987; Hollander & Elman, 1988; Westhead & Cowling, 1998; Wortman, 1994) and is based on family business systems theories as derived from general systems theory. As a new field, the study of family businesses is still not well defined with regard to clear boundaries that distinguish them from other types of businesses (Wortman, 1994). For this reason, definition is considered the number one methodological research issue facing family business researchers (Handler, 1988).

Not only is a definition of a family business a major issue for the family business field, but definitions of various private business types are also a major issue for researchers attempting to classify private businesses or working on another private business type. Indeed, entrepreneurship, a more established field than family businesses, is still grappling with these issues (Brockhaus, 1994).

As of this writing, there are three major research fields that focus upon specific types of private businesses. Two of these fields are family businesses and entrepreneurships. The third field attempts to classify private businesses based upon ownership and management.

Research that focuses upon family business definitions and perceived differences from other business types compare family businesses with all other business types labeled as non-family businesses, i.e., family businesses versus non-family businesses.

A second strategy attempts to categorize private businesses into four types based on ownership and management. These four private business types are: family businesses, owner-managed businesses, entrepreneurships and professionally managed businesses.

These definitions or differences are considered important because structure, processes (behaviors) and outcomes are believed to result from differences between business types. It is ironic that there is little consensus within the literature regarding definitions or classification schemes, and for this reason any significant behavioral or outcome differences between private business types may not exist.

Some researchers have attempted to establish distinct classifications between family businesses and other business types such as entrepreneurships, owner/managed businesses and professionally managed businesses (Carland, et al., 1984; Daily & Dalton, 1992; Daily & Dollinger, 1992; Daily & Thompson, 1994; d'Amboise & Muldowney, 1988;

Handler, 1989; Kirchhoff & Kirchhoff, 1987). Clear and distinct classifications between business types will provide basis for further research into business structures, processes, and outcomes. While researchers have yet to reach a consensus for an appropriate classification of business types (Daily & Thompson, 1994), research efforts should continue to help better separate family businesses from other types of businesses.

The importance of distinguishing business types is based upon the basic premise that ownership type affects business processes and outcomes (Handler, 1989). Business ownership type affects business performance, an important outcome, according to Khan and Rocha (1982). A considerable amount of research has examined the relationship between business ownership type and outcomes (Birley & Norburn, 1987; Capon, et al., 1990; Daily & Dalton, 1992; Daily & Dollinger, 1992; Krause, 1988).

One approach has been to apply agency theory (i.e. Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). Agency theory is related to differences in goals and objectives of owner/managers versus managers who have no ownership interests (i.e. Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). Studies by Birley and Norburn (1987) and Daily and Dollinger (1992) have indicated a relationship, while studies by Alcorn (1982), Daily and Dalton (1992) and Krause (1988), have not.

Some researchers have classified businesses by the way they compete (Dess & Davis, 1984; Galbraith & Schendel, 1983; Miller, 1987). Numerous classification schemes called strategic typologies have been developed and used in attempts to capture the various ways businesses compete. These typologies are useful in determining and measuring various outcome relationships.

Research examining the relationship between ownership type, strategic posture, and outcome has yielded inconclusive results. Daily and Thompson (1994) attempted to establish a relationship between ownership type and strategic posture. They proposed that ownership type affects business strategy and business outcomes and examined whether or not family businesses compete differently from entrepreneurial, owner/managed, or professionally managed firms and if outcomes varied accordingly (Daily & Thompson, 1994). The study did not find a relationship between ownership type, strategic posture, and outcome.

Daily and Dollinger (1992) bifurcated firms into family-owned and managed and professionally managed to determine if outcomes varied based on the two types. They found that family-owned and managed firms had better performance than professionally managed firms and attributed the relationship to agency theory. Daily and Dollinger (1992) did not disclose if all family-owned and managed firms were considered professionally managed. Many non-professionally managed firms do not meet any definition of a family-owned business. Many are individually owned and managed, or owned and managed by a group of people who are not members of one family.

A study by Daily and Dollinger (1993) found a relationship between business type and strategic posture. This study used the Miles and Snow (1978) typology to compare family and non-family small manufacturing companies. The Miles and Snow (1978) strategic typology has been used extensively to classify businesses by their strategic posture or archetype. One of the key theoretical propositions of the Miles and Snow (1978) typology is that there are four generic archetypes or postures by which all businesses can be classified (Hambrick, 1983b). A strategic posture or archetype is a pattern of competitive intentions or strategic characteristics (Namiki, 1989). These competitive intentions or strategic characteristics are also known as strategic orientations. Donckels and Frölich (1991) also compared many attributes, including strategic attributes, of family and non-family businesses. Although they did not use a strategic typology, they did compare many strategic variables and found a relationship between certain strategic variables and whether businesses were family or non-family businesses (Donckels & Frolich, 1991).

A recent study by Gudmundson, Hartman, and Tower (1999) however, did not find support for differences in strategic postures when comparing family businesses to non-family businesses. This study used the Miles and Snow (1978) strategic typology as a starting point to arrive at two strategic labels. Their methodology included extensive personal interviewing with business owners and representatives to arrive at each company's strategic label. Although the Gudmundson, et al. (1999) research question was basically the same as that in this study, the methodology was somewhat different.

Further research is needed to determine how family businesses are different or similar to other business types. Reclassifications of various business types may also be needed to determine if there are differences in strategic postures of the various business types and if different business types have different outcomes. Valuable information would be obtained by determining the real strategic and performance differences between family and non-family owned businesses.

Research Undertaken

Purpose of the study

The purpose of the study was to determine if small family businesses are different from small non-family businesses based their strategic posture or archetype and their performance. The propositions presented in the literature are that family businesses are different from other business types and that business type affects strategic posture (i.e. competitive intentions or strategic characteristics).

It was this researcher's contention that family businesses have strategic postures that are not significantly different from non-family businesses and furthermore do not perform significantly different from non-family businesses. The information generated by this study provides additional insight into our understanding of strategic postures and performance of family businesses and non-family businesses

Research Question and Hypotheses

This study was undertaken to answer the following research question: How do small family business strategic types and performance differ from strategic types and performance of small non-family businesses?

The null hypotheses and hypotheses for this study were:

Null Hypothesis H(O)1:

There are no significant differences in the proportions of strategic posture types reported by small family businesses and small non-family businesses.

Hypothesis H(A)1:

There are significant differences in the proportions of strategic posture types reported by small family businesses and small non-family businesses.

Null Hypothesis H(O)2:

There is no significant difference in performance (contract revenue growth) reported by small family businesses and small non-family businesses.

Hypothesis H(A)2:

There is a significant difference in performance (contract revenue growth) reported by small family businesses and small non-family businesses.

Research Assumptions and Methodology

This study examined a cross-sectional sample of small privately held businesses within the State of Georgia. The sample consisted of 236 family and non-family businesses (Donckels & Frohlich, 1991; Gudmundson, et al., 1999; Lee & Rogoff, 1996, Riordan & Riordan, 1993; Westhead & Cowling, 1998).

The questionnaire used in this study was designed to measure three variables. The three variables were business type, strategic posture type and performance. All three variables were self-reported by the respondents using validated scales and procedures. Both hypotheses use the same business type independent variable. Respondents were asked to categorize their company as either a family business or non-family business. A control question was included to determine the respondents' consistency with the business type identifier question. An additional classification procedure was added for inconsistent answers to the control question. Telephone interviews were made to determine the reasons for the inconsistencies and to reclassify where appropriate.

Strategic posture and performance were the two dependent variables, one for each hypothesis. Strategic posture was determined by asking respondents to select from one of four unlabelled generic descriptions of strategic types that best describes their company. The strategic types self-reporting scale (James & Hatten, 1994) is based on the Miles and Snow (1978) strategic typology. Performance was operationalized by requesting respondents to provide their contract revenue grow rate for 1996 to 1998.

The appropriate statistical techniques for the two hypotheses are contingency table analysis (Chi-square) and t-test (ANOVA). Contingency table analysis was used to identify any differences in proportions of strategic types between the two business type categories. A statistically significant difference (1% level of significance) was enough to cause the null the hypothesis to be rejected. A t-test was used to determine the means and standard deviations of contract revenue growth of the two business types. A statistically significant difference in means (1% level of significance) was enough to cause rejection of the second null hypothesis.

Definition of Terms

Agency theory: Differences in goals and objectives of owner/managers versus managers who have no ownership interests.

Strategic typologies: Classification schemes that attempt to capture the complete and dynamic nature of strategy based on non-quantified observations.

Strategic postures: Archetypes that represent patterns of competitive intentions or strategic characteristics.

Strategic orientation: Strategic postures or archetypes.

CHAPTER II

REVIEW OF THE LITERATURE

Introduction

The recognition that family businesses are an important element of the U.S. economy has contributed to the emergence of the multidisciplinary field of family business. Drawing theories from management and family systems, general systems theory provides the field with its theoretical basis for contrasting family businesses with other business types (Hollander & Elman, 1988). As with any new, evolving field, additional understanding requires much work on the field's conceptual base and empirical testing of the field's concepts. According to Wortman (1994), the field lacks a comprehensive framework and lacks comprehensive models. Progress in these areas has been hampered because of unclear boundaries and a myriad of competing definitions. Handler (1989) contends that the number one methodological issue in family business research is the lack of consensus on a definition of what constitutes a family business and the need for clear criteria for distinguishing family businesses from other types of businesses.

Researchers have attempted to establish distinct classifications between family businesses, entrepreneurships, owner-managed businesses, and professionally managed businesses (Carland, Hoy, Boulton, & Carland, 1984; Daily & Dalton, 1992; Daily & Dollinger, 1992; Daily & Thompson, 1994; d'Amboise & Muldowney, 1988; Handler, 1989; Kirchhoff & Kirchhoff, 1987). Unfortunately, these researchers have failed to reach a consensus as to the appropriateness of this classification system. The importance of distinguishing business types is based upon the basic premise that ownership type affects business processes and outcomes (Handler, 1989).

Strategic postures, or types, are consistent patterns of decision making which characterize the way businesses tend to compete (Galbraith & Schendel, 1983). By identifying prototypical strategic behaviors, researchers attempt to classify businesses by the way they compete (Dess & Davis, 1984; Galbraith & Schendel, 1983; Miller, 1987). These classifications are useful in determining and measuring various outcome relationships. Numerous conceptual and empirical classification systems, or typologies, are available, but there is no consensus as to those most appropriate.

Research on the relationship between business types and strategic postures is somewhat limited and has yielded mixed results. Some studies support a relationship between ownership types and strategic postures (Daily & Dollinger, 1993; Donckels & Frölich, 1991). Other studies have not found a relationship (Daily & Thompson, 1994; Gudmundson, et al., 1999).

A review of the literature is presented in the following sections:

1. Family business classification issues.
2. Private business classification issues.
3. Strategic posture typologies.
4. Research concerning the behavioral and performance differences between family businesses and other private business types.

Family Business Classification Issues

Family Business Theory

According to Wortman (1994) there is no overall conceptual framework for the field of family business. The difficulty in developing an overall framework arises from the multidisciplinary nature of family business. While disciplines such as psychology, sociology, economics, organization behavior, organization management, and general systems contribute to the family business field, the social sciences have made the largest contribution (Wortman, 1994). Most of the conceptual work has focused on the theoretical and content aspects of family business strategy (Churchill & Hatten, 1987; Dreux, 1990; Hollander & Elman, 1988; Kepner, 1991; Whiteside & Brown, 1991). This stands to reason because the family business field was created to understand the relationship between family dynamics and business performance (Dyer & Sanchez, 1998). These conceptual works make up most of the theoretical foundation of family business. As will be discussed in the following sections, there has been little empirical research to support the theoretical foundation of family businesses (Riordan & Riordan, 1993; Wortman, 1994).

The field of family business draws its theories primarily from management and family systems. The linkage between business systems and family systems has evolved from various approaches to understanding family businesses. These approaches have been grouped by Hollander and Elman (1988) into four family business streams of thought; the rational approach where the family is excised, the approach that focuses on the founder, the stage and phase of growth approach, and the systems approach. The first three streams of thought comprise the earlier research approaches used in the field to study family businesses (Hollander & Elman, 1988). The one common theme among all three research approaches is that the two entities, family and business, are interrelated and interactive (Hollander & Elman, 1988). Consequently, systems theory underlies three of the research approaches and has evolved as the fourth, and last, stream of thought. Systems thinking has become the field's primary paradigm because of the realization that there is some interrelationship between families and the businesses they own and manage (Hollander & Elman, 1988). This realization is not surprising given that general systems theory is the generic base of most organizational and management systems and of family systems. General systems theory and open systems theory are considered universal and apply to all organizations (Pinder & Moore, 1979).

General systems theory, the basis for family business systems thinking, has its origins in von Bertalanffy's (1968) biology work applied to humans. Basically, general systems theory focuses on the whole while realizing the parts are interrelated, interactive, and open. The parts are open in respect to themselves and to their environment and may be mutually influenced. Accordingly, organizations, which are the sum of their parts, may not be understood by analyzing the parts individually. The initial thoughts linking organizations to their environments were based on general systems theory (Lawrence & Lorsch, 1967; Thompson, 1967).

According to Alderfer (1976), the parts of an organization are equivalent to sub-units of the organization. These sub-units are open to their environment and, at the same time, each sub-unit maintains a boundary that separates it from its environment. Sub-unit boundaries must be maintained for internal stability and, simultaneously, the organization must successfully adapt to its environment (Alderfer, 1976). The organization's stability requires that sub-units be coordinated and regulated (Miller & Rice, 1975). These sub-unit requirements are necessary so that organizations can secure and process resources efficiently (Aldefer, 1976). The concept of interrelated open parts and their boundaries and the concept of stability are important to family business systems thinking.

The classical work of Davis and Stern (1988) applied open systems thinking to family business settings. Davis and Stern (1988) proposed that there are three interrelated components of a family business; the business system, technology and marketplace, and family processes. They noted that family business systems must have several attributes. These attributes are; clear and consistent boundaries, internal processes, and social structures capable of resolving family problems and, appropriate business task structures buffered from family problems (Davis & Stern, 1988). In contrast, Beckhard and Dyer (1983b) proposed that family businesses are complex systems that include the interacting family and firm subsystems. They also stated that the family business system could include other subsystems such as the founder as an entity and linking organizations like a board of directors (Beckhard & Dyer, 1983b). These two approaches to family business systems thinking reflect opposing views as to the wholeness of family business systems. Both viewpoints have supporters and there is no consensus for the most appropriate view.

The model that established a family business as two distinct, interacting systems, the family system and the business, is generally attributable to writings by Davis (1983) and Lansberg (1983). This model evolves from the rational approach used by previous researchers who sought to demonstrate that family involvement in the business was usually detrimental to the business (Cohen & Lindberg, 1974; Levinson, 1971). However, the family system does influence the business and the two systems are often in opposition to each other (Kepner, 1991). Earlier, Miller and Rice (1967) noted that there are two distinct and overlapping groups in a family business. They also called the family a sentient system wherein loyalty ties exist between the family and the business (Miller & Rice, 1967). These loyalty ties help ameliorate the potential opposition between the family and the business. Davis (1983) proposed that a family and a business combine to produce a joint system that operates from rules of the separate systems but are adapted to organizational needs. Supposedly, the interaction between the two systems and the combined organization's adaptation establishes the family business's character and uniqueness (Davis, 1983).

Another name given the joint systems approach is the dual systems approach (Swartz, 1989). Although the dual systems approach is basically the same as the joint systems approach, the former introduces the concept that intervention in one system will affect the other system and vice versa (Schwartz, 1989). According to Hollander and Elman (1988), the rational approach roots (where the family is excised from the business) to joint systems thinking forces distinctions between the family and the business and helps define each system's objectives and goals. Therefore, intervention in one system must consider the affect on the other system's goals and objectives.

The dual or joint systems approach is not without its critics. Hollander and Elman (1988) point out that the joint systems rational roots dealt with the potential for conflict and, therefore, there must be two components rather than one whole system. Most of the earlier research involved intervention in dysfunctional family systems that were adversely affecting the family business. Hollander and Elman (1988) posit that it could be the failure of the subsystems to interact beneficially that distinguishes dysfunctional from functional family businesses. Accordingly, the dysfunctional functional dichotomy could represent the joint versus whole system approach.

Whiteside and Brown (1991) maintain that too much emphasis on the dual systems approach distracts from the characteristics of the family business as its own entity. They also contend that too much emphasis on the dual approach results in three conceptual errors. These conceptual errors are (a) the stereotyping of subsystems functioning, (b) the inconsistent and inadequate analysis of interpersonal dynamics, and (c) exaggerated notions of subsystems boundaries and an under-analysis of the characteristics of the whole system.

Numerous writers believe that family processes are an integral part of family businesses supporting the notion of a whole system model (Hollander, 1984; Kepner, 1991; McWhinney, 1984; Ward, 1987). Hollander (1984) developed an integrated model where the family, the business, and the environment are equally important and have permeable boundaries. This model shows that, over time, behavior and transactions among any of the three components respond to elements of family culture, organizational culture, and individual changes (Hollander, 1984). Similarly, Whiteside and Brown (1991) see the family business as a single entity that focuses on its own goals that result from the integration of its parts.

The primary criticism of the whole systems approach is the belief that the approach is undeveloped (Kepner, 1991). Also, critics see systems thinking as involving a macro level view while practical intervention is done on components at the micro level (Keeley, 1980). Consequently, these writers do not believe the whole systems approach reflects reality.

Although there is no consensus as to the appropriate systems approach or the relative importance of one system over the other, the literature does indicate that the systems approach is the primary paradigm for the family business field (Hollander & Elman, 1988). The important point made by Davis (1983) is that the family influence on the business is what determines the characteristics of the family business and defines the family business's uniqueness. The family business is regarded by family business researchers as different from other types of businesses regardless of the systems approach used (Davis, 1983).

Family businesses are different from other types of businesses because of the influence of the family paradigm and family dynamics on the business (Davis, 1983; Kepner, 1991). Within the family system are the emotional elements and loyalty ties that can work against the effectiveness of the business (Benson, et al., 1990; Daily & Dollinger, 1992; Handler & Kram, 1988). Conversely, the family system includes the family values, belief systems, folklore, and needs which work toward the effective management of a successful business (Barry, 1975; Davis & Stern, 1988; Hollander & Elman, 1988; Sharma, Chrisman, & Chua, 1997). Although these family influences are usually considered virtues that help the business to prosper, those same virtues can become weaknesses as the business ages by inhibiting change and producing excessive conservatism (Drozdow & Carroll, 1997). Family businesses must adapt and create mechanisms to successfully manage family influences. That adaptation process for a successful family business consists of four inter-related components per Davis and Stern (1988). Those components are described as: (a) maintaining boundaries between emotional issues and business tasks, (b) developing the means for families to contain and resolve emotional issues, (c) developing task structures and processes that are not dependent upon the resolution of family issues for the business to be successful and, (d) developing structures that maintain organizational cohesiveness (Davis & Stern, 1988).

The family system, through its structure and patterns of interaction, influences the business system through the intense and interpersonal relationships of those who are members of both systems (Davis, 1983; Davis & Stern, 1988; Handler & Kram, 1988; Hollander & Elman, 1988). The business systems' ability to compete depends on how successful the family system adaptation process was in handling family influences. Organizational structure and behavior may be affected by the family (Davis & Stern, 1988). Consequently, business performance may be affected by the rationality of the family business structure and behavior (Handler & Kram, 1988; Hollander & Elman, 1988).

Although systems thinking has become the primary paradigm for the family business field (Hollander & Elman, 1988), there is very little structure for a unified approach to family business research (Wortman, 1994). Family businesses are believed to possess certain characteristics and are considered unique business entities (Davis, 1983). Accordingly, a typology describing how family businesses differ and resemble other business types would aid empirical research (Whiteside & Brown, 1991). One typology scheme has been proposed for classifying family business systems (Handler & Kram, 1988). This typology scheme consists of three typologies: (a) systems interactions, (b) structured types, and (c) family paradigms (Handler & Kram, 1988). There is no consensus for a family business classification scheme to assist in comparative business empirical research.

Characteristics and Distinctions of Family Businesses

General systems theory is the theoretical basis for explaining why family influences a business and, therefore, makes the business unique. These unique businesses are called family businesses. The family is the who or the what that makes the business unique or different from other types of businesses. For family businesses to be different from other types of businesses, they should have certain characteristics or distinctions other types of businesses do not have; or have differing degrees or amounts of those characteristics.

Numerous researchers have studied and written about family businesses and the characteristics family businesses exhibit (Donckels & Fröhlich, 1991; Donnelly, 1964; Dreux, 1990; Litz, 1997; Porter, 1992; Ward, 1987, 1988; Westhead & Cowling, 1998). The characteristics and distinctions described by researchers are wide ranging and, sometimes, seem contradictory. Westhead and Cowling (1998) assert that many of the differences researchers find are attributable to demographic considerations and not real differences. Competitive behavior is an important characteristic of family businesses, especially when family businesses are compared to other business types. The family business field was created because of the belief that family influences business performance (Dyer & Sanchez, 1997).

Family businesses are thought to have a competitive advantage over other business types because of family virtues such as pride, loyalty, and trust (Benson, Crego, &

Drucker, 1990; Donnelly, 1964; Dyer & Handler, 1994; Harris, Martinez, & Ward, 1994; Ward, 1987). Perhaps this is true for functional family businesses. However, dysfunctional family businesses may be at a competitive disadvantage. Other advantages family businesses are thought to possess include their long-term outlook, patience, quality and reputation motivation, and quick response to small markets (Ward, 1987). On the other hand, family businesses are believed to be more conservative, inwardly directed, and secretive than other business types (Donckels & Fröhlich, 1991; Donckels & Lambrecht, 1999; Lansberg, 1985; Litz, 1997). Some researchers believe family businesses become more conservative as they age and transcend to another generation. Family businesses are also considered to be more future oriented and concerned with succession planning than other business types (Churchill & Hatten, 1987; Dreux, 1990; Porter, 1992; Singer & Donoho, 1992; Trostel & Nichols, 1982). Some of the family business competitive behaviors were determined by making comparisons with public companies rather than other types of privately held businesses. For example, Dreux (1990) compared family businesses to public corporations and one of Ward's (1987) studies compared family and closely held businesses to public companies.

The validity of characterizing family businesses by making comparisons to public corporations is questionable. Family business understanding is enhanced by making comparisons to all other types of privately held businesses. Ward's (1987) other two studies dealt with family and non-family private businesses.

From the strategy context perspective, family businesses are considered unique by some researchers. Ward (1987, 1988) contends that the strategic planning process and strategies chosen by family businesses are different from other types of businesses and that family income considerations drive those differences. The planning process is thought to be heavily controlled by the family (Harris, et al., 1994; Singer & Donoho, 1992) whereas, in non-family owned businesses, the family has only an indirect influence (Sharma, et al., 1997). Singer and Donoho (1992) believe that family businesses follow different strategies depending on whether the business is family centered versus business centered. Obviously, if this is true, family centered business strategies would differ from strategies developed and implemented by other business types. Studies by Ward (1987) indicate that family businesses may pursue strategies below their potential. These strategic attributes have a tendency to lower earnings and reduce equity growth (Sturdivant, Ginter, & Sawyer, 1985) and could help in comparative research efforts.

The characteristics and distinctions ascribed to family businesses do indicate that family influences do affect ways family businesses are structured and managed. However, those characteristics and distinctions are not limited to family businesses. Most privately held businesses would probably exhibit some or all of these characteristics to some extent. Consequently, the ambiguity of these characteristics is reflected in the difficulty of defining family businesses.

Definitions of Family Businesses

Most people understand the term "family business." However, there is no consensus on a common working definition of family business for research purposes. Even family business experts do not agree as to what are the most important criteria for identifying family businesses (Shanker & Astrachen, 1996). Chua, Chrisman and Sharma (1999), maintain that a theoretical definition based on vision, and encompassing all the operational components, is necessary before operational definitions are used. Ownership, control, influence, and intention are all criteria or concepts that must be considered, according to Shanker and Astrachen (1996). The emphasis on any one criterion or group of criteria may tighten or broaden the definition. In addition, only certain criteria may be relevant to understanding family business strategy and performance versus other types of businesses. Definitions based on family influences may be difficult to operationalize and not easily classified as a broad or tight definition. Broad or narrow definitions have a significant affect on the numbers of businesses that would be included under the definition used.

If we want to compare family businesses to other types of businesses, definition is a critical issue. Those businesses excluded from the family business type because of a narrow definition of family business would therefore, be included in some other business type. The converse is true of using a broad family business definition. The included or excluded family businesses would be non-potential or potential family businesses (Litz, 1995), exhibiting various characteristics depending on the tightness of the definition.

As noted by Wortman (1995), there are more than twenty definitions of family businesses in the literature, with little commonality among the various definitions (Wortman, 1994). The list of definitions continues to grow as researchers try to further their understanding of family businesses (Narva & Dreux, 1996; Tagiuri & Davis, 1996). Because of the variety of definitions used in the literature, several typologies of definitions have been proposed (Handler, 1989; Litz, 1995). Handler (1989), proposed a grouping of definitions based on the emphasis underlying the definitions. These groupings were ownership and management, independent subsystems (family involvement), generational transfers, and multiple criteria (Handler, 1989). Each of these family business types can take on various forms based on business structure, nature of family involvement, and business size (Handler, 1989).

Family businesses can range in size from small, informal shops to large, public corporations (Bork, 1986). If a family business definition does not take into account a range of sizes, and if the definition cannot be used to distinguish family businesses from other types of businesses, then the definition is inadequate for research purposes (Handler, 1989). Consequently, the unique characteristics of family businesses could be obscured within the small business area (Handler, 1989), or considered just a subset of privately held businesses

(Druex, 1990). The later contention forms the context for this study's research question.

The definition chosen for empirical research purposes must be one that can be operationalized. Family businesses, just like most other privately held businesses, are very reluctant to disclose inside or confidential information. These factors, and the nature of the research study, can affect what definition is used. As previously mentioned, the definition is considered broad or narrow depending upon the definition's emphasis. Narrow definitions (Barry, 1975; Daily & Dollinger, 1992; Dunn, 1996; Dyer, 1986; Sharma, et al., 1997; Winter & Morris, 1996) are generally structural related (Handler, 1989) and easier to operationalize. Broader definitions (Churchill & Hatten, 1987; Ward, 1987) are process, family involvement, and intentional related (Handler, 1989, 1992; Shanker & Astrachen, 1996), and are more difficult to operationalize. Shanker and Astrachen (1996) believe family involvement affects whether the definition is within the broad to narrow spectrum. They contend that little family involvement results in a broader definition, some involvement a mid-range definition, and a lot of involvement results in a narrower definition (Shanker & Astrachen, 1996). The broader definitions require greater disclosure of family information and are more difficult to obtain (Handler, 1989). The extent of family involvement, however, cannot be assumed equivalent to family influence on business strategy. Each of the definition types proposed by Handler (1989) can be scaled between broad and narrow based on the underlying criteria for inclusion in the type group.

Until there is a consensus on a family business definition, or typology of family businesses, limitations on empirical research will remain. Although family businesses intuitively are different from other business types, the nature and extent of those differences are not yet well known. The central issue in this proposed study is whether those family business differences matter when comparing family businesses to other types of privately held businesses in a competitive and strategy context.

Summary of Description and Definition Weaknesses

There is no consensus on a family business typology or a family business definition (Handler & Elman, 1988). Over twenty different family business definitions are used in the literature and there is no commonality among those definitions (Wortman, 1994, 1995). Many different family business characteristics and distinctions have been discussed in the literature in an attempt to separate family businesses from other types of businesses. However, most of the characteristics and distinctions made may be exhibited by other types of private businesses to some extent. The assertion that family businesses have a competitive advantage over, and chose different strategies from, other types of businesses (Ward, 1987) has important implications in the marketplace.

Private Business Classification Issues.

Rationale has been developed for classifying privately-held businesses into four types; family businesses, entrepreneurial firms, owner managed firms, and professionally managed firms (Carland, et al., 1984; Shumpeter, 1934). However, the theoretical and empirical distinctions between these ownership types plague researchers and, not surprisingly, researchers have not reached a consensus on the classification scheme (Handler, 1989).

This classification scheme for privately held businesses is problematic because of the varied and overlapping characteristics shared by the individual business types (Daily & Thompson, 1994). Two of the business types, family businesses and entrepreneurs, both established fields in their own right, are still evolving and both are plagued with definition ambiguity (Brockhaus, 1994; Shaver and Scott, 1991; Wortman, 1994). A brief description of owner-managed firms, entrepreneurial firms, and professionally managed firms is given in the following paragraphs.

Owner managed firms appear to be like family businesses without the family (Churchill & Hatten, 1987). Therefore, this business type is a logical opposite in a family business non-family business dichotomy or, as Dreux (1990) posited, the set of privately held businesses of which family businesses are a subset. Owner managed firms do not have the characteristics of creativity and innovation as associated with entrepreneurs (Carland, et al., 1984; Shumpeter, 1934). However, Welsch and Young (1982) uses the terms entrepreneur and owner/manager interchangeably. An argument exists for the proposition that there are shades of entrepreneurial characteristics in both family businesses and owner managed firms, giving support to the dichotomy.

Schumpeter (1934), put forth the proposition that creativity, or innovation, is the primary characteristic of an entrepreneur. Although a much older field than family business, entrepreneurs are still not well defined

(Brockhaus, 1994; Shaver & Scott, 1991), and some researchers believe that there is no single or uniform profile that distinguishes entrepreneurs from the population as a whole (McCain & Smith, 1981). Interestingly, an analysis of the family business field yields the same conclusion. Dyer and Handler (1994) argue that there are various intersecting points where entrepreneurial firms and family businesses come together. As mentioned above, the same should be true of owner managed businesses. Lee and Rogoff (1996) contend that the only difference between family businesses and entrepreneurial firms is the emphasis placed on strategic goals of the firm. Those arguing for the uniqueness of entrepreneurial firms base their argument on the intentions of the founder (Bird & Jelinek, 1988). Also, their uniqueness stems from the notion that the firm initiates as an act of human volition (Baygrave & Hofer, 1991). A study by Stewart, Carland, and Carland (1996) suggests that boundaries between entrepreneurships and other businesses do exist and that entrepreneurships can be differentiated from family businesses.

The fourth business type is the professionally managed business. Professionally managed businesses are those managed by individuals who have little or no ownership interest in the business (Carland, et al., 1984). Professional managers, by virtue of their business training and their lack of ownership interest (agency theory), generally do not act and behave like a business owner (Daily & Dollinger, 1993; Schein, 1968). Consequently, professional managers are not as loyal as business owners (Alcorn, 1982) and will act more in their own interest than in the interest of the business (Daily & Dollinger, 1992). In the context of small businesses, professionally managed firms represent the least significant business type and can easily be excised from sample populations. By definition, family owned and managed businesses and owner managed businesses would exclude companies run by professional managers.

Researchers are not limited to the four business type classification scheme as described above. Some researchers, who are interested in the uniqueness of family businesses, have used the family businesses and non-family businesses dichotomy for classifying private businesses (Donckels & Fröhlich, 1991; Donckels & Lambrecht, 1999; Lee & Rogoff, 1996; Riordan & Riordan, 1993; Gudmundson, et al., 1999). Their approach has been to identify family businesses then classify all others as non-family businesses. The primary issue in using this approach is the family business definition used. The Riordan and Riordan (1993) study removed firms from the analysis that did not fit into the classifications because of size or other variables. This classification scheme appears to be the most valid if the issue at hand concerns strategic attributes of family businesses as compared to other business types.

Strategic Posture Typologies

Strategy

Strategy studies usually follow either a process approach or a content approach (Olson & Bokor, 1995). The distinction between strategic process, the formulation and implementation of strategy, and strategic content, the decisions regarding strategic direction, have been established by early strategy theoreticians (Ansoff, 1965; Chandler, 1962; Schendel & Hofer, 1979). Strategy content research is important because it seeks to classify strategies or types of strategic behavior for studying performance implications (Olson & Bokor, 1995).

Strategy is a pattern of decisions that guides business or organizational relationships, affects organizational structures and processes and affects organizational performance (Hambrick, 1980). Strategy can be good or bad (Hofer & Schendel, 1978), explicit or implicit, known or unknown (Hambrick, 1982). Although strategy is very important, there are no generally accepted approaches for measuring strategy content (Hambrick, 1980). According to Hambrick (1983c), strategy is studied as an art, in which there are no generalizations, or studied based upon the notion that there are strategic archetypes or postures. The later approach is conducive to theory building and empirical research and has been used extensively in strategy research (Hambrick, 1983c).

Business level strategy, as opposed to corporate level strategy (what business to be in) (Hofer & Schendel, 1978; Vancil, 1976), is primarily concerned with how a business competes (Hambrick, MacMillan & Day, 1982; Mintzberg & Quinn, 1991; White, 1986) within a given industry, and has typically been measured in terms of strategic types or postures (Galbraith & Schendel, 1983). The choice of a business level strategy has been determined to affect business performance (Olson & Bokor, 1995; Pearce & Robinson, 1985). Also, competitive and industry conditions affect the choice of business level strategy (Caves & Porter, 1977; Hofer, 1975). Consequently, strategic posture also represents a competitive position and will affect performance (Galbraith & Schendel, 1983; Uyterhoeven, Ackerman, & Rosenblum, 1977).

The operationalization of business strategy as a construct has followed four approaches (Hambrick, 1980). The first approach views strategy as an art and is best studied using the case method. Two other approaches are quantitative approaches involving either a few variables or the interaction of a broad set of variables. The fourth approach involves developing a typology of strategic types in which each type has its own distinctive characteristics.

Approaches to Strategy Classification

Strategy classification schemes are important for an orderly presentation of the many variables and dimensions of strategy that researchers must work with (Hambrick, 1984). Researchers have made distinctions between two approaches to strategy classification: one approach is the development of strategic taxonomies that are empirically derived. The other approach is the development of strategic typologies that are conceptually derived (Fahey & Christensen, 1986; Hambrick & Schecter, 1983; McKelvey, 1982; Miller & Friesen, 1977; Olson & Bokor, 1995; Sneath & Sokal, 1973). The widely known typologies of Miles and Snow (1978) and Porter (1980) are based on empirical observation. However, they are not quantitatively derived (Hambrick, 1984). Taxonomies, usually based on schemes more numerically derived, may more accurately reflect reality than typologies (Hambrick, 1984). Strategic typologies, especially Porter's (1980) and Miles and Snow's (1978), have been used extensively in strategy research.

Strategic Typologies

Strategic typologies are classification schemes that attempt to capture the complete and dynamic nature of strategy based on non-quantified observations (Ginsberg, 1984; Hambrick, 1984). Numerous authors have identified classification schemes based on non-quantified observations using a variety of characteristics (Ansoff, 1979; Hofer & Schendel, 1978; Pitts, 1977). As noted by Galbraith and Schendel (1983), the wide variation in characteristics of strategic types is based primarily on the authors' perceived objectives of organizations (Ginsburg, 1984). Regardless of the typology's characteristics, they enable the classification of organizations in a parsimonious framework for empirical research (Doty, Glick, & Haber, 1994; Pinder & Moore, 1979).

Each strategic typology contains sets or patterns of competitive intentions or strategic characteristics

(Namiki, 1989). The notion of classifying strategic characteristics suggests that there are a limited number of assumptions in generating typologies (Hofer & Schendel, 1978). The most popular typologies seem to be based on the assumptions regarding the attractiveness of the industry or competitive environment, and comparisons of competitors' capabilities (Miles & Snow, 1978; Porter, 1980; Utterback & Abernathy, 1975; White, 1986).

Typologies may also be grouped according to their fineness. Robinson and Pearce (1988) believe there are three broad groups of archetypes (typologies) ranging from the qualitative typologies of Miles and Snow (1978), Porter (1980), and Utterback and Abernathy (1975) to two groups of typologies based on numbers of measurement indicators. This grading of typologies seems to represent the distinction between taxonomies and typologies. The distinction between typologies and taxonomies sometimes is ambiguous when quantitative criteria are the basis for classification.

Strategic typologies do have limitations. According to White and Hamermesh (1981), typologies do not describe how businesses should compete, but rather indicate only the intended outcomes of the businesses. Outcomes reflect descriptive rather than explanatory or predictive characteristics of strategic typologies (Hambrick, 1984). Another potential limitation concerns issues of validity and usefulness (Hambrick, 1983a; Smith, Guthrie, & Chen, 1986). Typologies are parsimonious and thus may not account for significant variations across organizations thereby raising the issue of usefulness. Also, typologies are conceptually, rather than empirically, derived. Typologies are usually derived from researchers' case studies and experiences in a limited number of industries, bringing into question their validity (Hambrick, 1984a). Regardless, strategic typologies are widely used in strategy research.

Strategic Posture and Organizational Performance

The conceptual and empirical basis for linking strategy to performance is well established (Ansoff, 1965; Capon, et al., 1990; Chandler, 1962; Covin, 1991; Hambrick, 1980; Olson & Bokor, 1995; Pearce & Robinson, 1985; Smith, 1967). Empirical research has advanced because of the development of generic business strategies that enables researchers to operationalize the strategy construct (Galbraith & Schendel, 1983; Henderson, 1970; Miles & Snow, 1978; Porter, 1980). These generic business strategies, or strategic typologies, indicate how businesses choose to compete and, therefore, affect organizational performance (Galbraith & Schendel, 1983; Uyterhoeven, et al., 1977).

Two of the most popular strategic typologies are Miles and Snow's (1978) strategic postures and Porter's (1980) generic typology. Both of these typologies have been used extensively in empirical research to link strategy to organizational performance (Dess & Davis, 1984; Hatten, Schendel & Cooper, 1978; Snow & Hrebiniak, 1980). Although these are the two most popular typologies, there is no consensus as to which typologies are the appropriate measures of strategic performance (Cameron & Whetten, 1983).

The linkage between strategic types and organizational performance may be limited in its usefulness. Some researchers challenge the ability to generalize findings beyond their industry context (Abernathy & Wayne, 1974; Harrigan, 1984; Hofer, 1975). Consequently, empirical research has typically concerned itself with studies in specific industry settings.

Research Concerning the Behavioral and Performance Differences Between Family Businesses and Other Private Business Types.

Numerous studies have been conducted comparing family businesses with non-family businesses and other business types. Many of the studies have made comparisons based on behaviors that would help distinguish family businesses from other types of businesses. For example, Upton and Seaman (1991), comparing family to non-family businesses, tested the emotionality of family influence on new product adoption decisions and did not find a relationship. Lyman (1991) examined small and medium sized businesses to determine if family businesses had more positive customer service interactions than non-family businesses and found a positive relationship. In another study, Kahn and Henderson (1992) examined businesses of all sizes to determine if family businesses, as compared to non-family businesses, had preferences in locating their business based on family influences. Their study indicated that there are preferences in locating businesses based on family factors. These studies reflect that family behaviors can affect businesses but no behavioral patterns have been established.

A few studies have concentrated on performance and strategy issues of family businesses versus other business types. Three studies by Ward (1987), support the proposition that family businesses are more cautious and conservative in choosing business strategies. However, only one of these studies was an empirical, comparative study, and in that study family businesses were compared to publicly held companies. The findings from that study may not be generalizeable to other types of privately held businesses. A study by Donckels and Fröhlich (1991), involving a sample of 1,132 small and medium-sized businesses in eight European countries, seems to support Ward's (1987; 1988) assertions. Donckels and Fröhlich (1991), using complex structured interviews, examined numerous values, attributes, objectives, and behaviors. Their study found patterns that support the assertion that family businesses, as compared to non-family businesses, are more inwardly directed and conservative. Donckels and Lambrecht (1999) report that family businesses are less growth oriented than non-family businesses. Lee and Rogoff (1996), comparing family businesses to non-family businesses, found that family businesses experienced higher levels of family-business conflict but that the conflict was well managed and did not affect business goals of family businesses. They also found no differences in business goals of family businesses as compared to those of non-family businesses. This study supports the notion that family businesses internalize family influences and do not affect the outward competitive nature of the business. In a recent study by Wall (1998), comparing family businesses to non-family businesses, productivity was examined. The authors found that family businesses tend to be older and smaller in sales and production. They also noted that family businesses' performance may differ by industry and by region. These studies indicate that there is some support for the proposition that family businesses are more conservative than other business types. However, conservatism per se is not a prototypical strategic type and, therefore, is of limited usefulness in studying strategy and performance attributes of family businesses. Moreover, there is some support that family businesses internalize their family influenced differences and competitive position is unaffected.

Daily and Dollinger (1992), using the Miles and Snow (1978) strategic typology, compared family businesses to professionally managed businesses to determine if there were differences in strategic orientation and performance. The authors found that family businesses pursued different strategies than professionally managed businesses, attributing the differences to agency theory (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). Agency theory is used to explain that professional managers have different goals and objectives than family and owner-managed firms. This study found that family businesses were more concentrated in active growth oriented strategies than professionally managed firms and that family businesses achieved performance advantages over professionally managed businesses. This study's findings contradict another study by Daily and Dalton (1992) which found no differences in performance when comparing founder managed businesses to professionally managed businesses. Founder managed businesses would include family and non-family businesses. In both studies, the authors were attempting to show that agency theory could be used to distinguish professionally managed firms from other business types.

The importance of making the family business and non-family business distinction was the subject of another research project by Daily and Dollinger (1993). The authors, based on the proposition that family businesses versus non-family businesses can be identified based on firm age, size, and strategic orientation, conducted a study of 486 small Indiana manufacturing firms. Using a survey questionnaire to determine firm characteristics, including Miles and Snow (1978) strategic types, the authors found support for structural, process, and strategic differences between the business types. An important issue in this study was how family businesses differed from non-family businesses. The authors used a multiple set of questions to arrive at the final dichotomy. However, the business type "non-family businesses" was the same business type "professionally managed businesses" that was used in the two previous studies (Daily & Dalton, 1992; Daily & Dollinger, 1992). The rationale for including owner/entrepreneur managed businesses within the family business classification was based on the assertion that owner/entrepreneur managed businesses may someday become family owned and managed businesses (Ward & Handy, 1988). This assertion is dubious and avoids the proposition that family businesses are truly different from non-family businesses.

Family businesses were compared to professionally managed businesses, entrepreneurships, and owner managed businesses in a study by Daily and Thompson (1994). This study attempted to determine if there were differences in the business types when using the variables strategic posture and firm growth. The authors used survey questionnaires to gather information from heating and air conditioning wholesalers in multiple regions. The authors used Dsouza's (1990) strategic typology (postures) for strategic orientation. Unlike the results of some of the previous studies (Daily & Dollinger, 1992, 1993), the authors did not find any differences in strategic orientation or performance between these business types. It is interesting that the professionally managed business type did not differentiate itself in light of Daily and Dollinger (1992, 1993).

A recent study by Gudmundson, et al. (1999) compared family businesses to non-family businesses in an effort to determine if the two groups possessed different strategic orientations. The researchers, using extensive interviewing and questionnaire techniques, classified 86 small mid-western companies (from a sample population of 1,000 companies) into family businesses and non-family businesses and into manufacturing and service categories. This classification system resulted in a 2x2 matrix for the independent variables.

The researchers, again using extensive interviewing and questionnaire techniques, used the Miles and Snow (1978) typology to determine strategic orientation. Unlike most other studies, the researchers questioned numerous employees, designated by the owners/CEOs, to help establish strategic orientation. Because of criticism (Conant, et al., 1990) of the Miles and Snow (1978) four-paragraph measurement scale, the researchers found two strategic labels. Using factor analysis on twelve initial factors, the researchers determined a strong correlation for the two factors labeled prospecting and industry leadership.

Data analysis using ANOVAS were performed to test the affects of market, product, and family. While the study did find some differences in how family businesses compete at certain levels, the hypothesis that family businesses have different strategic orientations from non-family businesses was not supported.

These strategy and performance studies have resulted in inconsistent findings that may be attributable to the classification schemes used. Additional research may help in establishing finer distinctions between family businesses and other business types. Also, additional research may show that, in respect to strategy and performance, family businesses are not different from non-family businesses, or other business types.

Summary and Purpose of This Study

A review of the family business literature reveals a young evolving field that has yet to establish a conceptual framework and has little empirical research supporting the field's theoretical foundations. However, there is consensus that family businesses are different from other business types. Studies have shown family behavior can affect business (Kahn & Henderson, 1992; Lyman, 1991; Upton & Seaman, 1991) but no patterns have been established. These ambiguities belie the lack of a common definition of family businesses or a set of characteristics that make family businesses unique. Not surprisingly, there are myriad definitions with little commonality among them (Wortman, 1994, 1995). The behavioral characteristics and distinctions used to describe family businesses are not unique to family businesses and may be relevant only to the extent of the family influences on business.

Some of the characteristics of family businesses are believed to create a competitive advantage and those characteristics are thought to result in certain strategic orientations. These assertions have important implications in the marketplace. Therefore, it is important to develop definitions of family businesses that can be used to distinguish family businesses from other types of businesses in comparative studies. Although some studies have separated privately held businesses into various types (family businesses, owner-managed businesses, professionally managed businesses, and entrepreneurs), there is no consensus for the most appropriate typology. One typology often used is the family business and non-family business dichotomy. This typology seems the most appropriate assuming there are entrepreneurial elements associated with family businesses and owner managed businesses. The professionally managed business type generally is not a significant component in a small business context and, by definition, family owned and managed businesses and owner managed businesses would exclude businesses managed solely by professional managers. Churchill and Hatten (1987) contend that the family business, owner managed dichotomy is logical since owner managed businesses are family businesses without the family.

A few empirical studies comparing family businesses with other types of businesses, in the context of strategy and performance, have been made (Daily & Dollinger, 1992, 1993; Daily & Thompson, 1994; Donckels & Frölich, 1991; Gudmundson, et al., 1999). Those studies have yielded inconsistent results that probably are attributable to classification issues. Only two studies have compared family businesses to nonfamily businesses in the context of strategic orientation (Donckels & Frölich, 1991; Gudmundson, et al., 1999), and those studies generally reached opposite conclusions.

Given that ownership and management are believed to have significant influence on business strategy and performance, the family business versus non-family business dichotomy is an essential variable in organizational research (Daily & Dollinger, 1993). We still do not know if family businesses follow different business strategies from non-family businesses in the same industry (Sharma, et al., 1997). Based on the distinctions between business types, we would logically expect different methods of competition and different performance outcomes (Daily & Thompson, 1994). The central issue is whether family businesses differ from non-family businesses in the context of strategic posture and performance. Consequently, this study was conducted to determine if there is a relationship between strategic postures and performance based on the family business and non-family business dichotomy of small privately held businesses.

The research question of this study is this. How do family business strategic types and performance differ from strategic types and performance of non-family businesses? These constructs were operationalized by the two independent variables, family business and non-family business, and the two dependent variables, strategic type (posture) and firm performance (sales growth).

CHAPTER III

METHODOLOGY

Introduction

This study utilized a cross-sectional survey design to assess the differences in strategic postures and performances of family versus non-family small businesses. This chapter describes the methodology with the following components:

1. Research questions and hypotheses
2. Sampling frame
3. Measures used
4. Data collection and procedures
5. Data analysis method

Research Questions and Hypotheses

Family businesses are believed to follow different strategies and possess performance advantages over other business types. The purpose of this study was to answer the following research question. How do family business strategic types and performance differ from strategic types and performance of non-family businesses?

The following are the null hypotheses and hypotheses:

Null Hypothesis H(O)1:

There are no significant differences in the proportions of strategic posture types reported by small family businesses and small non-family businesses.

Hypothesis H(A)1:

There are significant differences in the proportions of strategic posture types reported by small family businesses and small non-family businesses.

Null Hypothesis H(O)2:

There is no significant difference in performance (contract revenue growth) reported by small family businesses and small non-family businesses.

Hypothesis H(A)2:

There is a significant difference in performance (contract revenue growth) reported by small family businesses and small non-family businesses.

Sampling Frame

A systematic random sample was drawn from a population as determined using the Dun and Bradstreet Million Dollar

Database. The sampling frame was defined by using database parameters for industry sector, company size, geographic location, private versus public status, and subsidiary status. The industry sector selected was nonresidential general construction contractors represented by the Standard Industrial Class (SIC) 1542. All companies in the population will have annual revenues of at least $1 million, which is a built-in requirement of the Dun and Bradstreet Million Dollar Database. Only companies with less than 500 employees were included in the population. The geographic location was limited to the State of Georgia. Finally, only private companies were included in the population. Subsidiaries and divisions of larger companies were excluded.

The sampling frame consisted of 471 privately held Georgia nonresidential general construction contractors. The original random sample consisted of 235 companies or 50% of the population. A systematic random sample was obtained by selecting the first company on the list and every other company thereafter. Replacement sampling was used to compensate for surveys returned by the United States Postal Service as undeliverable. This large sample size has a 95% confidence level (Zemki & Kramligner, 1982, p. 167) and is considered highly reliable.

This study was limited to one industry sector because industry effect is considered a confound for strategy and performance (Porter, 1980). The control for industry is well established in empirical research (Baysinger & Zardkoohi, 1986; Daily & Thompson, 1994; Murray, 1989; Wall, 1998). Operationalization of the industry construct by using the Standard Industrial Class (SIC) system has also been established (Porter, 1980). One of the primary factors of industry effect is capital intensity (Daily & Dollinger, 1992; Kotey & Meredith, 1997). Limiting the sample population to companies by size also helps control for capital intensity (Kotey & Meredith, 1997).

This study was intended to find relationships involving small businesses. Although the definition of small business is difficult and controversial, this study concerns only the operationalization of the small business construct. Regardless of the definition, the construct of small business is generally operationalized using criteria such as value of assets, annual sales, and number of employees (d'Amboise & Muldowney, 1988). Annual sales and numbers of employees are the most common criteria used (d'Amboise & Muldowney, 1988). This study used only the number of employees for operationalizing the small business construct. Singh (1986) found that the three criteria most commonly used, net assets, sales volume, and number of employees, all correlated at the .85 level or higher, and therefore argues that only one of these measures is sufficient to capture firm size. Full time employees is highly correlated (r .98, $p < .001$) with sales volume, so only one of these measures is sufficient (Singh, 1986). Also, Daily and Dollinger (1992) believe that using the number of employees is less likely to confound financial performance as compared to using sales volume. By excluding companies with annual sales volumes under $1 million, the study controls for the confounds resulting from weaker capital structures and less sophisticated planning and strategy environments.

Public corporations and subsidiaries of larger companies are not included in the population in order to eliminate the size and capital structure confound and to adhere to the study's purpose of finding relationships among types of privately-held small companies.

This study used the State of Georgia as its location parameter for several reasons. The first reason was to obtain a large enough population of companies from which to draw a reliable sample while controlling survey costs. The second reason was that Georgia is the researcher's home state and the researcher has extensive practical experience working with Georgia small businesses. The third and last reason was to control for confounds due to multiple operating environments. Kotey and Meredith (1997) contend that government regulations, operating policies, and demographics can be factors affecting research results.

Measures Used

This section describes the operationalization of the study's variables and provides supporting citations for the measures used. The independent variable is business type as represented by the attributes family businesses and non-family businesses. Business type is a categorical, non-metric measure. The dependent variables are strategic posture and firm performance. These variables were operationalized as described in the following paragraphs.

Independent Variable: Business Type

The two attributes of business type were determined by asking the respondents an identifier question that determines whether the business is classified as a family business or a non-family business. The identifier question will read, "Do you consider your company a family business?" (Wall, 1998). Therefore, the independent variable is categorical; it is either a family business or a non-family business. This operationalization by self-typing has been used by researchers in various family business versus non-family comparative studies (Kahn & Henderson, 1992; Wall, 1998). The reliability of self-typing can be affected by respondents misunderstanding the question or leaving the question unanswered. Also, some family businesses may not consider themselves family businesses when they are, and vice versa (Chua, et al., 1999).

A pre-test of the questionnaire was completed to determine the appropriateness of responses to the family business classification question. The questionnaire was sent to seven Georgia small businesses the researcher knows. The pre-test results show that respondents understood the question and answered it correctly.

A control question was asked to determine the consistency of answers to the identifier question. This step adds to the reliability of the measure even though the pre-test indicates understanding and correctness in answers. The control question reads, "How many family members are serving in an ownership, executive, and/or management capacity in your company?" (Wall, 1998). The Kahn and Henderson (1992) study, and the Wall (1998) study, found high levels of consistency between the self-typing of the company and reviewing other indicators or answers to a control question(s). The most likely source of bias will come from failures to answer the identifier question. Measurement error can result when using the percentage of family businesses as an estimator of the proportion of family businesses overall. Some measurement error is inevitable in all survey data. This researcher believes any measurement error will be small because of the pre-tested questions given to known companies, the control question, and an expected small number of no answers to the identifier question.

Dependent Variable: Strategic Posture

The Miles and Snow (1978) typology of strategic archetypes or postures was used in this study. This typology is one of the earliest typologies developed to classify business level strategies into parsimonious types (Namiki, 1989). The theoretical foundation for the typology has been traced to Child's (1972) conceptualization of strategic choice (Conant, et al., 1990). In addition to indicating overall strategic orientation, the typology specifies the major organizational and managerial requirements to support a firm's strategy (Miles & Snow, 1986).

A key dimension of the Miles and Snow (1978) typology is the rate a firm changes its products or markets (Hambrick, 1983b). Per the theoretical proposition, over time, firms following a particular strategy will develop certain internal consistencies and will tend to perpetuate that particular strategy (Hambrick, 1983b). Zahra and Pearce (1990) state that successful firms develop a systematic identifiable approach to environmental adaptation.

A second theoretical proposition is that there are four generic strategic archetypes labeled as prospector, defender, analyzer, and reactor (Hambrick, 1983b). This proposition is the foundation for testing the archetypes.

The third proposition is that each of the strategic types, prospector, defender, and analyzer, can be observed

in any industry. Also, if strategy is properly implemented, these three strategic types, in any industry, can perform equally well (Hambrick, 1983b). The following table gives a description of each of the strategic archetypes:

TABLE 1 Miles and Snow Strategic Archetypes

PROSPECTORS: Organizations which almost continually search for market opportunities, and they regularly experiment with potential responses to emerging environmental trends. Thus, these organizations often are the creators of change and uncertainty to which their competitors must respond; however, because of their strong concern for product and market innovation, these organizations usually are not completely efficient.

ANALYZERS: Organizations which operate in two types of product-market domains, one relatively stable, the other changing. In their stable areas, these organizations operate routinely and efficiently through use of formalized structures and processes. In their more turbulent areas, top managers watch their competitors closely for new ideas, and then rapidly adopt those which appear to be the most promising.

DEFENDERS: Organizations which have narrow product-market domains. Top managers in this type of organization are highly expert in their organization's limited area of operation but do not tend to search outside of their domain for new opportunities. As a result of this narrow focus, these organizations seldom need to make major adjustments in their technology, structure, or methods of operation. Instead, they devote primary attention to improving the efficiency of their existing operations.

REACTORS: Organizations in which top managers frequently perceive change and uncertainty occurring in their organizational environments but are unable to respond effectively. Because this type of organization lacks a consistent strategy-structure relationship, it seldom makes adjustment of any sort until forced to do so by environmental pressure.

Source: Miles and Snow (1978, p. 29)

The typology is regarded as a broad and comprehensive model (Namiki, 1989) and has been used extensively by strategy researchers. McDaniel and Kolari (1987) described the typology as unique because it views the firm as a complete and integrated system in dynamic interaction with its environment. Although several business level strategic typologies have been developed, the Miles and Snow (1978) typology is considered the most comprehensive (Rajagopalan, 1996). Researchers also consider the typology to be richly descriptive of strategy, structure, and process, with theoretically grounded measurable characteristics (Thomas and Ramaswamy, 1996).

Some researchers contend the Miles and Snow (1978) typology has limited usefulness because they believe it is an incomplete view of strategy because the typology ignores industry and environmental peculiarities (Hambrick, 1983a). Some researchers also believe the Miles and Snow (1978) typology runs counter to the traditional view that choice of strategy should be a function of environmental requirements and performance objectives (Hambrick, 1983a; Namiki, 1989). Also, Venkatraman and Grant (1986) believe the typology's scales are too limited in their power to discriminate between strategies used.

The validity of the Miles and Snow (1978) typology has been questioned by some researchers. Some researches contend that the typology has not been subjected to a comprehensive validity investigation (Hambrick, 1983a; Namiki, 1989; Zahra & Pearce, 1990). They also contend that early research on the typology by Snow and Hrebiniak (1980), and others using the typology, was flawed (Hambrick, 1983a; Namiki, 1989; Zahra & Pearce, 1990). The typology's equivalent validity was rejected by Hornaday and Wheatley (1986).

More recent research on Miles and Snow (1978) typology's reliability and validity generally support the typology's usefulness in strategy research. A study by James and Hatten (1994) finds support for the equivalent validity of the typology. Shortell and Zajac (1990) concluded the typology is reliable and valid and can be used with confidence in future research on organizations and their strategies. Shortell and Zajac (1990) specifically tested the typology to determine its reliability in self-typing studies. Prior studies by Snow and Hambrick (1980) and Hambrick (1981) found reliability to range from .49 to .76. Boeker (1989) found reliability to range from .57 to .82. The Shortell and Zajac (1990) study found a reliability range of .30 to .76 for strategic orientation using the self-typing approach. These studies indicate the typology is moderately reliable in classifying strategic posture. Two additional studies found the typology reliable and valid (Parnell & Wright, 1993; Thomas & Ramaswamy, 1996).

The Miles and Snow (1978) typology was used in this study by having respondents self-type their strategy archetypes. The survey questionnaire contains unlabelled paragraphs for the four strategic archetypes and ask the respondent to select the one most appropriate for his/her firm. The unlabelled four paragraph version used by James and Hatten (1994) was used in this study. This measurement instrument results in an ordinal scale of strategic archetypes. The four unlabelled paragraphs read as follows:

> We've attempted to locate and maintain a secure niche in a relatively stable product or service area. We've tried to offer a more limited range of products or services than our competitors and we've tried to protect our domain by offering higher quality and superior service. We may not be at the fore-front of developments in the industry but have attempted to concentrate instead on doing the best job possible in our market.
>
> We've tried to operate within a broad product-market domain that undergoes periodic redefinition. We've wanted to be "first in" with new products and market areas even if not all of these efforts have proven to be highly profitable. We've tried to respond rapidly to early signals concerning areas of opportunity, and these responses have often led us to

a new round of competitive actions.

> We've attempted to maintain a stable, limited line of products or services, while at the same time have tried to move out quickly to follow a carefully selected set of the more promising new developments in the industry. We are seldom "first in" with new products or services but by carefully monitoring the actions of major competitors in areas compatible with our stable product-market base we try to be "second in" with a more cost-efficient product or service.

> We've not been able to have a consistent product-market orientation. We have not been able to be as aggressive in maintaining established products and markets as have our competitors and we have not been able to take as many risks as they have. We have been forced to respond to environmental pressures.

Studies by Shortell and Zajac (1990), Conant, et al., (1990) and James and Hatten (1994) confirm the validity of the Miles and Snow (1978) self-typing approach. As noted previously, the Shortell and Zajac (1990) study found a reliability range of .30 to .76 indicating moderate reliability. James and Hatten (1995) add that the measurement approach is logically appealing and effective because respondents' (managers') perceptions basically determine strategy. In this study, respondents were owner/managers of the businesses increasing the effectiveness of the measurement instrument. The small business owner/manager is in a control function involving greater comprehension and should be the best perceiver of firm strategy. The self-typing measurement instrument was designed to directly address the control issue of the Miles and Snow (1978) theory whether or not the firm is a prospector, analyzer, defender, or a reactor (James & Hatten, 1994).

Interestingly, one of the main criticisms of using the self-typing approach is that key informants will probably bias measurement results (Ginsburg, 1984). Key informants may not be capable of accurately assessing large organizations. However, small firms, especially family owned and managed businesses, are more likely to have a single person (the owner) who can accurately assess firm processes (Alcorn, 1982). Therefore, the self-typing approach is believed to be a valid procedure in this study.

The Miles and Snow (1978) instrument has been used in studies involving settings and populations similar to the one used in this study. Daily and Dollinger (1992; 1993) used the instrument to study small businesses in a manufacturing industry. Snow and Hrebiniak (1980) used the instrument to study businesses of various sizes including a small business section. The strategy self-typing approach was used to study small furniture manufacturing firms in Australia using the Slevin and Covin (1987) typology (Kotey & Meredith, 1997). Self-typing validity studies were made in various industry contexts involving various sized companies (James & Hatten, 1994; Conant, et al., 1990; Shortell & Zajac, 1990; Parnell & Wright, 1993).

Dependent Variable: Organizational Performance

The literature reveals there are many measures and combination of measures of organizational performance and no consensus as to the most appropriate measures. Although financial performance is the most commonly used measure of firm success (Sturdivant, et al., 1983), there is little consistency among the definitions of financial performance (Keats & Bracker, 1988) and no consensus on the appropriate measures of financial performance (Cochran & Wood, 1984). Consequently, no single indicator has been found as the optimal measure of financial performance (Begley & Boyd, 1986).

Two of the most popular financial measures found in the literature are return on assets and growth in sales (Dess & Robinson, 1984). These measures are closely related to Cochran and Wood's (1984) investor returns and accounting measures. Some researchers believe that multiple measures going beyond return on assets and sales growth are required to capture financial performance (Capon, et al., 1988; Cochran & Wood, 1984; Maupin, 1987; Shortell & Zajac, 1988).

The issue of multiple measures is particularly important when studying small businesses. Privately held businesses, which include small businesses, are very sensitive to information disclosure and generally restrict outside access to financial information (Dess & Robinson, 1984). Because of the unavailability of outside financial information on small businesses, self-reporting of such information is the usual approach in studying small business performance. There are less risks of reporting errors if the measures used are not too complicated (Dess & Robinson, 1984; Begley & Boyd, 1986). Self-reporting of sales growth has been validated (Dess & Robinson, 1984) and considered most appropriate when reported by the owner (Riordan & Riordan, 1993). Consequently, self-reporting sales growth were used in this study. This study used contract revenue growth in lieu of sales growth as its measure of financial performance. The term contract revenue is specific to the industry and should not be misunderstood by respondents

The use of sales growth as a financial performance measure in the study of small and family owned businesses is well established (Chaston & Mangles, 1997; Daily & Thompson, 1994; Donckels & Lambrecht, 1999; Olson & Bokor, 1995; Smyrnios, Tanewski, & Romano, 1998). Sales growth is considered by many businesses as the path to higher earnings (Rue & Ibrahim, 1996) and equivalent to financial performance (Berman, Gordon, & Sussman, 1997).

This study asked the business owner respondent to provide a contract revenue growth or decline percentage for its most recent three fiscal year period. Multiple years' sales growth or decline minimizes unreliable measure associated with reporting only one year (Capon, Hulbert, Farley, & Martin, 1988). The respondents were asked to use the example provided in the instructions to calculate the percentage. The example states for the three-year period 1996 to 1998: 1998 contract revenues less 1996 contract revenues divided by 1996 contract revenues equals percentage growth. If revenue declined, 1996 contract revenue less 1998 contract revenue divided by 1998 contract revenue.

Data Collection and Procedures

This study utilized a pre-tested mailed questionnaire, accompanied by an introduction letter and instructions, for data collection from those companies in the population sample. All of the initial survey packages were mailed at the same time using first class postage stamps totaling $.55 for each envelope. Replacement survey packages were mailed when any original survey packages were returned by the U.S. Post Office as undeliverable. The business size envelopes were addressed by type to the owner or president of the companies as determined from the Dun and Bradstreet Million Dollar Database.

Various efforts were made to increase the likeliness the envelopes were opened, letter read, and questionnaire completed and returned. Each envelope contained the introduction letter with instructions and a coded questionnaire. The questionnaire was printed on 70 lb., two fold stock with the return address and first class postage on the outside fold. The envelope also contained an incentive to help increase response rates. The purpose of the incentive was to obtain a high enough response rate to avoid sending a follow up letter to non-respondents. The letter explained the purpose of the research project and emphasized the importance of a response. The letter also stated that all information is strictly confidential and only summary information would be reported. The respondent was informed that the questionnaire would only take approximately five minutes to complete and that in return for the respondent's time and effort, the enclosed uncirculated Kennedy (silver) U.S. half dollar (retail value approximately $7.00) was theirs for their time and effort in responding to the survey. It was expected that the additional weight and substance of the envelope would entice the respondents to open the envelope.

Careful attention was given to paper quality, paper color, type style, and spacing to increase reader interest and ease of reading the letter and questionnaire. Business quality stationary was used for the letter and questionnaire, and letter was professionally typeset and printed. The letter itself was addressed to the intended respondent so that it did not look like a form letter. The questionnaire was printed on colored paper with black print that is easy to read.

As explained in previous sections, all of the data collected comes from the questionnaires which rely on self-typing and self-reporting by the respondents. The questionnaire was relatively short and contained on one page. Two of the questions were closed-ended and arranged in an easy to read format. One question was an open-ended, simple calculation. The questions format help facilitate data recording from the returned questionnaires.

Survey packages returned because they were non-deliverable were repackaged and sent to other companies as determined using the replacement procedure determined in the sampling phase. A second replacement mailing was not used for undeliverable returns from the first replacement mailing. The response rate was expected to exceed the normal rates for mail surveys with two or three follow-up mailings. This study used one mailing with a response cutoff period of 5 weeks from the original mailing date.

The survey design accomplished its objective of obtaining an acceptable response rate with just one mailing. Table 2 below reconciles the initial survey mailing to the usable responses. Usable response rates for each of the two hypotheses are discussed in the analysis sections of chapter 4.

Table 2 Surveys Mailed and Questionnaires Analyzed

Initial surveys mailed	235
Undeliverable replacement surveys	2
Adjusted sample size	233
Total responses-questionnaires returned	119
Questionnaires with business type omitted	5
Questionnaires analyzed	114

The overall response rate of 51.1% compares very favorably with response rates from other small business mail surveys. A study of entrepreneur mail survey response rates by Alpar and Spitzer (1989) found the median response rate was 33%. Lower response rates for small business mail surveys are typical. From a sample of 430, Daily and Thompson (1994) obtained a usable response rate of 22.5%. The usable response rate in this study was 48.9%.

The original mailing of 235 surveys had to be adjusted for those returned by the U.S. Post Office as undeliverable. The survey design was to use replacement sampling for the 16 (6.8%) returned. There were 2 undeliverable surveys in the replacement sample. The survey design did not include a second replacement sample. The number of surveys returned as undeliverable are indicative of mailing lists and data bases that are a little dated.

One method of estimating non-response bias is to compare responses of a second mailing (as a surrogate of non-responses) with responses to the first mailing. This study did not include a second mailing for such a purpose. Other objective methods of estimating non-response bias are not available for small business surveys. According to Wall (1998), there probably is some bias in family business versus non-family business studies because family businesses may tend to respond more. Wall (1998) believes, as well as this researcher, that some bias in these types of studies is acceptable.

Data Analysis Method

The first hypothesis tested compares a nominal independent variable (family business or non-family business) with a nominal dependent variable (Miles and Snow strategic types). This hypothesis addresses the issue of a business's strategic type being affected by whether the business is a family business or a non-family business. Because both variables are categorical, contingency table analysis was used to find any cause and effect relationship. The appropriate statistic for this test is the Chi-square statistic. The initial contingency table analysis results in a two by four matrix because the independent variable consists of two categories (family business, non-family business) and the dependent variable consists of four categories (Miles and Snow four strategic types). An adjusted contingency table analysis resulted from low expected frequencies for two of the strategic types, thereby creating a two by two matrix. The level of significance for this hypothesis was determined to be .01 for a confidence level of 99%. A computed statistical value with a probably smaller than 1% would cause a rejection of the null hypothesis. The .01 level of significance reduces the likeliness of falsely rejecting the null hypothesis (a type I error).

The second hypothesis tested compares the nominal independent variable (family business or non-family business) with the metric dependent variable contract revenue growth. This hypothesis addresses the issue of whether a business being a family business or a non-family influences performance (contract revenue growth). Because there are only two distributions of a metric dependent variable, the appropriate technique will be a statistical t-test (ANOVA). The level of significance for this hypothesis was also determined to be .01 for a confidence level of 99%.

Failure to reject the null hypotheses supports the contention that there are no significance differences when comparing family businesses with non-family businesses in the context of strategic types and performance. Findings of significant differences between the two business types would warrant additional analyses using multiple regression to explore relationships between business type, strategic posture, and revenue growth. Accordingly, the initial hypotheses would not be supported. Any additional relationship analyses would not be within the scope of this study.

Summary

Data for this study was obtained by a mail survey questionnaire sent to a sample of Georgia general construction contractors. The business owners were asked to type themselves as family businesses or non-family businesses and to check one of four paragraphs describing the strategic type best representative of their company. They were also asked to provide their contract revenue growth rate for 1996 to 1998. Two statistical tests were run of the data collected. A cross-tabulation and Chi-square for the business type and strategic posture relationship and a t test for the business type and performance relationship.

CHAPTER IV

ANALYSIS AND PRESENTATION OF FINDINGS

Introduction

This research study was conducted to determine if strategic types and performance reported by small family businesses differ from the strategic types and performance reported by small non-family businesses. Two independent hypotheses were formulated to address the two dependent variables, resulting in two separate and independent analyses. This study did not extend to testing relationships between the three variables.

Strategic types and performance are the two dependent variables and are analyzed using separate and different statistical tests. Both analyses were performed based on answers provided by questionnaires received from the one sample survey. The questionnaire was designed to provide two categorical independent variables by requesting the respondent to answer a business identifier question.

The sample consisted of 119 questionnaires returned from a mail survey (235 mailed) of small Georgia general construction contractors. Only 114 questionnaires were usable for analysis purposes because 5 respondents failed to answer the business type identifier question.

This chapter describes the analyses and findings of this study in the following sections:

1. Respondent self classification of business type
2. Follow-up procedures for inconsistencies and reclassifications
3. Family businesses and non-family businesses and strategic types
4. Family businesses and non-family businesses and performance

Respondent Self Classification of Business Type

Table 3 presents a summary of the number and the percentage of survey respondents who classified themselves as family businesses or non-family businesses.

Table 3 Sample of Georgia Small General Construction Contractors-Self Classification As Family Businesses Or Non-Family Businesses

	f	%
Family Businesses	67	58.8
Non-Family Businesses	47	41.2
Totals	114[a]	100.0

a. Five respondents did not provide business type

The data in this table were compiled from survey respondents' answers to the business type identifier question on the questionnaire. The question was "Do you consider your business a family business?" Those checking yes were included in the family business total and those checking no were included in the non-family business total.

Follow-up Procedures For Inconsistencies and Reclassifications

The questionnaire included a control question to the business type identifier question. Respondents were asked "How many family members are serving in an ownership, executive, and/or management capacity in your Company?" This question was used to determine the consistency of answers to the business type identifier question. Respondents classifying themselves as non-family businesses would be expected to enter zero for the control question. Respondents classifying themselves as family businesses would be expected to enter one or more for the control question. Of the 114 usable responses, 31 (27.2%) had inconsistent answers to the control question. Thirty of the 31 inconsistent answers were for respondents classifying themselves as non-family businesses. Only 1 respondent classifying their company as a family business gave an inconsistent answer to the control question.

A similar study by Wall (1998) using the same identifier and control questions had an 8.7% overall inconsistency (506 total responses) between the identifier and control questions. Wall (1998) listed several possible reasons for the inconsistencies. Wall (1998) accepted the inconsistencies as one of a number of possible measurement errors inevitable in obtaining data from surveys.

The inconsistency rate obtained in this study was too high to accept without additional analysis. Twentysix of the 31 inconsistent responses (83.9%) were followed-up by telephoning the respondents. The other five respondents could not be reached and were unchanged. The follow-up questioning revealed several reasons for the apparent inconsistencies and resulted in reclassifying 8 non-family businesses to family businesses. Several reasons were found for the apparent inconsistencies and are discussed in chapter 5.

Table 4 presents a revised summary of the number and percentages of respondents classified as family businesses or non-family businesses.

Table 4 Sample of Georgia Small General Construction Contractors- Revised Self Classification As Family Businesses or Non-Family Businesses

	f	%
Family Businesses	75	65.8
Non-Family Businesses	39	34.2
Totals	114[a]	100.0

a. Five respondents did not provide business type

The revised percentages of family businesses versus non-family businesses are very close to the percentages reported in Wall's (1998) study. In that study, also a self-reporting study, Wall (1998) found that 67% of the sample considered themselves family businesses and 33% of the sample considered themselves non-family businesses. Another study (Donckels & Fröhlich, 1991) reported that 66% of their sample consisted of family businesses. That study used independent methods to determine business type.

Family Businesses and Non-Family Businesses and Strategic Types

Table 5 is a contingency table, obtained from data input into SPSS 6.1 for Windows, that summarizes the strategic types reported by the sample of Georgia small general construction contractors. This table provides the data used in the statistical test for determining if there is a significant difference in the proportions of strategic types reported by those classified as family businesses and those classified as non-family businesses (first hypothesis). The statistical test used was a cross-tabulation table and resulted in the calculation of the Chi-square test statistic. The calculated Chi-square statistic was compared to the critical values for the given degrees of freedom and level of confidence. These values determine if a significant statistical relationship exists between business type and strategic postures. If there is no significant statistical relationship, the null hypothesis is not rejected supporting the proposition that there are no significant differences in proportions of strategic postures when family businesses and non-family businesses are compared.

Table 5 Contingency Table For Business Type and Strategic Type

Strategic Type	Family Business		Non-Family Business		Totals
	f	*%*	*f*	*%*	*f*
Prospector	54	74.0	31	79.5	85
Analyzer	2	2.7	1	2.6	3
Defender	12	16.4	6	15.3	18
Reactor	5	6.9	1	2.6	6
Totals	73	100.0	39	100.0	112[a]

a. Two respondents did not provide strategic type

Two (1.7%) of the 114 total questionnaires analyzed did not provide their strategic type. This small percentage of missing cases is not believed to significantly bias the results of the cross-tabulation test.

Table 6 presents the cross-tabulation table for strategic types and business types as obtained from running the data on SPSS 6.1 for Windows. Since two strategic types, the analyzer and the reactor, did not have the minimum expected cell frequencies (5) required for a valid analysis, the table was run only for the prospector and defender strategic types. The total count for the analyzers and reactors was 9, leaving 103 for the analysis. Combining the analyzers and reactors into a separate "other" strategic type still did not provide the required minimum cell frequency for a valid analysis. This researcher believes using the prospector and defender types (92% of the total) in the analysis, and omitting the analyzers and reactors, is valid and does not bias the results.

Table 6 Cross-Tabulation Table For Prospector and Defender Strategic Types and Business Type

Business Type	Prospector	Defender	Totals
Family Business	54	12	66
	54.5	11.5	
	81.8%	18.2%	64.1%
	.5	.5	
Non-Family Business	31	6	37
	30.5	6.5	
	83.7%	16.3%	35.9%
	-.5	-.5	
Totals	85	18	103
	82.5%	17.5%	100.0%

Chi-square .0728 df=1
Minimum Expected Frequency=6.5
p less than .01

The cross-tabulation results in a very small Chi-square value of .0728. This Chi-square value reflects a confidence level that exceeds 99.9%. Since the confidence level established for the hypothesis was set at 99%, the test fails to reject the null hypothesis. Thus, the cross-tabulation failed to find a significant statistical relationship between the two variables. The study's proposition that there is no significant difference in proportions of strategic postures reported by small family businesses and small non-family businesses has statistical support.

Family Businesses and Non-Family Businesses and Performance

Table 7 presents the breakdown table of contract revenue growth means and standard deviations for family and non-family businesses as determined using SPSS 6.1 for Windows.

Table 7 Means and Standard Deviations For Contract Revenue Growth Rates For Family Businesses and Non-Family Businesses

	Count	(%) Mean	Standard Deviation
Family Business	72	37.2	67.3
Non-Family Business	37	43.1	50.3
Total	109[a]	39.2	

a. Five respondents did not provide this data

The t value calculated from the table data was -.5116. The critical t values were determined based on 107 degrees of freedom and a .01 level of significance (99% confidence level). On a two-tailed test, the critical t values were -2.365 and 2.365. Because the computed t value falls within the range of t critical values, the t test fails to provide support for rejecting the null hypothesis. The failure to reject the null hypothesis indicates there is no statistical relationship between the two variables. The study's proposition that there is no significant difference in contract revenue growth reported by small family businesses and small non-family businesses has statistical support.

Consideration was given to the possibility that outliers may have significantly skewed the means of the two groups. Both groups had several high growth rates well beyond the median and several small negative decreases of varying amounts. Review of the data and procedures did not present any compelling reason to exclude the outliers from calculation of the means. The possibility that some respondents provided high and inaccurate numbers intentionally exists. However, without some indication that was the case, there is no basis for omitting certain outliers.

Summary

The first hypothesis that there are no significant differences in the proportions of strategic posture types reported by small family businesses and small non-family businesses was supported by cross-tabulation of the data and calculation of the Chi-square statistic. The Chi-square statistic is very small indicating substantially no relationship between the variables.

The second hypothesis that there is no significant difference in performance reported by small family businesses and non-family businesses was also supported by the t-test. The t value falls within the t-critical range indicating no relationship between the variables.

CHAPTER V

SUMMARY AND CONCLUSIONS

Introduction

This chapter presents the discussion of the results of the analyses and findings and the conclusions thereof. The study's limitations, implications and recommendations are also discussed. This chapter is organized into the following sections:

1. Conclusions drawn about the findings
2. Alternative explanations
3. Implications for research and practice
4. Limitations of the study
5. Recommendations for future research
6. Summary

Conclusions Drawn About the Findings

The first hypothesis addressed by this study was that there are no significant differences in the proportions of strategic posture types reported by small family businesses and small non-family businesses. The results of the cross-tabulation test (Chi-square of .0728) found that the difference in the number of prospector and defender strategic types between family and non-family businesses was insignificant at the .01 level. A Chi-square statistic of .0728 indicates there is practically no relationship between the two variables. Based on this finding, the conclusion is there is support for the proposition that there is no difference in the proportions of strategic types reported by family businesses and non-family businesses. This conclusion agrees with the conclusions reached by Daily and Thompson (1994), Lee and Rogoff (1996), and Gudmundson, et al. (1999) in similar studies. However, Gudmundson, et al. (1999) did find differences when markets were stratified. The implications of such differences are discussed in a following section.

Other studies have compared family businesses to other types of businesses and have found support for strategic type differences. Some of those studies include Donckels and Frõlich (1991), Wall (1998), and Donckels and Lambrecht (1999). Continuing research efforts addressing the possible causes of different results will be required before there is consensus on the relationship between business types and strategic types.

The second hypothesis addressed by this study was that there is no significant difference in performance reported by small family businesses and small non-family businesses. The mean of the contract revenue growth rates for the years 1996 to 1998 for small Georgia general construction contractors categorized as family businesses was 37.2%. Whereas, the mean growth rate for those categorized as non-family businesses was 43.1%. The t-test resulted in a t value of -.5116 and indicates a weak relationship between the two variables at the specified .01 level of significance. Although there is a weak statistical relationship, the test supports the proposition that there is no significant difference in performance between small family businesses and small non-family businesses. Based upon this finding, the conclusion is that there no significant relationship between the two variables. This conclusion agrees with that of Daily and Thompson (1994), who found no significant statistical relationship between business type and sales growth in their study of small businesses.

Much of the family business literature is directed towards differences between family businesses and other types of businesses. This is an important issue because it substantially defines the family business field. While family businesses are obviously different from other business types in that they have some manner of family involvement, that difference may be confined to the internal workings and structure of the business. Those differences certainly support the belief that family businesses are unique and are worthy of research. However, some researchers support the proposition that family businesses are different from other types of businesses in external ways. Competitive issues, strategic posture, strategies and outcomes are believed by some researchers to be influenced by family involvement in unique ways. The empirical evidence supporting that belief is far from being settled. This research study, and others, does not find support for viewing family businesses differently from other types of small businesses in the realm of strategy and competition. Addition research and knowledge is necessary before family businesses become an important part of management and strategy research.

Alternative Explanations

Since this study was confined to small businesses, the results could be attributed to other explanations. Regardless of the strategic typology used, the industry, or type of privately owned business studied, all small businesses may, in actuality, represent the strategic posture type "reactors". One of the propositions in this study was that small businesses are represented by various strategic posture types, but that the proportions of each type represented in the categories family businesses and non-family businesses would be the same or near the same. The issue concerns the nature of small businesses.

According to d'Amboise and Muldowney (1988), small businesses, in general, are highly vulnerable to the environment because of their limited resources. Consequently, small businesses are reactors to their environment with little or no ability to predict or control their strategy or their environment. As reactors, small businesses may respond to their environment the same regardless of their ownership or structure. The definition of reactor here is very similar to the Miles and Snow (1978) strategic posture type "reactor" used in this study.

In this study only 6 respondents out of 112 classified themselves as reactors. It would appear that the other 106 respondents do not agree with d'Amboise and Muldowney (1988). They classified themselves as prospectors, defenders and analyzers. Those 106 respondents could have intended to compete differently, but were unable to because of limited resources and environmental pressures. As a result, their actual strategic types may differ. The issue of intended strategy versus actual strategy is discussed in the following sections.

Implications For Research and Practice

The question of what constitutes a family business is a crucial issue in studies comparing family businesses to other types of businesses. Empirical studies must operationalize the family business construct to find relationships between family businesses and other variables. The lack of consensus of what constitutes a family business is highlighted by the answers to this study's family business identifier and control questions.

Thirty of the respondents identifying their company as non-family businesses stated that one or more family members were involved in the business as defined by the control question. This inconsistency resulted in a follow-up procedure to resolve the inconsistent answers. Some of the respondents listed themselves, in error, as a family member. The intended response would be the number of family members excluding the respondent/owner. These respondents had correctly answered the identifier question, but incorrectly answered the control question. Some of the other respondents stated that they did not like the idea of being classified as a "mom and pop" business and incorrectly classified themselves as non-family businesses. Other respondents did not think that having a family member in an officer position qualified the business as a family business. They listed a family member because that member was an officer. The control question did not specify titled persons to be included in the meaning of family involvement.

The follow-up procedure resulted in 8 businesses being reclassified as family businesses. It is interesting that only 1 family business had an inconsistent answer to the control question. These results seem to imply that family businesses are more accurate and honest in classifying themselves. Those respondents identifying themselves as family members and listing 1 or more family members in the business could have erred, however. All family business respondents, except one, listed 2 or more family members in the business. Some of those family members may have been listed because they were officers but not really involved in the business. A result just the opposite of the non-family business response relating to officers. Many small businesses are incorporated and list a spouse or other family member as an officer for legal purposes. The control question asked for family members who are in an ownership, executive or management position. An officer would seem to technically qualify as a family business member even if not really involved in the planning and management of the business.

A better instrument is needed to help capture the accurate self-reporting of family businesses and non-family businesses types. A better control question may help eliminate or reduce answers inconsistent with the identifier question. Another approach might be asking one identifier question that is more descriptive and eliminating the control question. A better instrument would help in gathering data in family and small business research.

Although family businesses may be different from other types of businesses in internal ways, this study questions whether there are external differences in a strategy and competition context. Strategy and strategic posture are important because they concern how a business positions itself to compete in the marketplace. Therefore, if different types of small businesses can be classified by the their strategic types and strategies, understanding would be greatly enhanced.

This study did not find any significant differences in how small family businesses and small non-family businesses strategically position themselves. Family involvement in a business may be internalized in such ways that it does not influence the external aspects of the business and the way it competes. That was an important point in developing the research question this study in based on.

Various attributes of family characteristics affect the family business. Some of those attributes probably alter the structure and behavior of family businesses. Even so, small family businesses still appear to compete and perform about the same as other small businesses.

Dysfunctional family businesses appear outwardly to be the same as functional family businesses.

However, other factors need to be considered. One possibility is that the strategy instrument used may not capture the data at the most significant level. The strategic differences at the small business level may require finer gradations than a four-type model. Over 92% of the businesses in this study were classified in only two strategic types, prospectors and defenders. This result is not surprising for testing businesses in general. However, had the typology consisted of a greater number of possible types, significant differences between family businesses and non-family businesses may result.

Different strategic posture results may have been obtained if there was a control for actual versus intended strategy. The self-typing strategic typology may have captured actual strategic posture rather than intended strategic posture. Intended strategic posture may more accurately reflect family influence than actual strategic posture. Another study using the same sample and capturing intended strategy may result in differences between family businesses and non-family businesses. Such a result would advance the notion that environmental influences may impact small businesses significant ways. Intended strategies may transform into actual strategies such that actual strategies are the same for all small businesses. Thus, all small businesses may be "reactors" or some other combination of strategic types. This issue is another area for possible future research.

The finding that revenue growth was not significantly different between family businesses and non-family businesses may mean that revenue growth transcends business type. Other, more comprehensive, measures may result in significant differences. Many performance researchers believe multiple measures are necessary to capture performance outcomes. While there is much support for the multiple measures position, applying that position in small business research is problematic.

One of the major problems in studying small businesses is the difficulty of obtaining financial data. Small businesses are very reluctant to supply financial information and the data is usually not available from other sources. For this reason, sales growth, data that is publicly available for many small businesses, is used by many researchers and is considered a good proxy for small business performance. Better small business performance measures would advance the study of small business and their differences from other businesses. Methods should be developed and refined to help collect more financial data from small businesses.

Consultants, accountants and other professionals who specialize in family businesses should bear in mind that family businesses may not be unique in the context of strategy and competition. Although family involvement may influence business goals, those goals may be no different from goals of other small businesses. Family influences on owners and managers of small non-family businesses may correspond to those of small family businesses. Consequently, strategy and competition may differ between the two business types based on family influences and involvement.

The family business field originated from the interest and involvement of family therapists and psychologists in the interaction of families and their businesses. Other professionals' involvement followed to include management consultants, accountants, lawyers, insurance agents and investment advisors. Certain unique aspects of family businesses do require special consideration by most professional advisors in their particular area. However, where external strategic, competitive and related issues are concerned, the uniqueness of small family businesses may not warrant special considerations. Generally, strategic issues are confined to the domains of researchers and management consultants.

Limitations of the Study

This study's findings must be interpreted in the context of one industry, general construction contractors. Therefore, the findings can not be generalized to businesses in other industries. Business type and strategy research is commonly restricted to one industry to control for industry confounds. A single industry was selected for this study to control for possible industry confounds such as capital intensity, industry competitive environment, regulations and other factors. These factors or confounds could influence strategy and performance differences if not controlled. By restricting the study to general construction contractors, any possible industry factors influencing strategic posture and revenue growth rates should be controlled.

The findings also have to be interpreted in a geographical context. The sample was restricted to businesses located only in the State of Georgia and probably should not be generalized to similar businesses in other states or regions. One state was selected for the study to help control for market environment, multiple operating environments and different state regulations. Those geographical factors may be confounds that influence the results of strategy and performance research.

The results of this study should also be interpreted in the context of small businesses only. Therefore, the findings may not be generalized to medium and large businesses. This study was limited to small businesses because those were the businesses of interest. Family businesses are much more common among small businesses than large businesses and public corporations. Restricting the sample to small businesses also helped control for confounds such as capital structure and planning and strategic sophistication.

Finally, the findings in this study should be interpreted in the context of privately held businesses only. Therefore, the findings may not be generalized to public companies. This study was limited to private businesses because small businesses are generally private businesses. The intent of this study was to study strategic postures and performance of private enterprises as represented by two broad types of private enterprises, family businesses and non-family businesses. The inclusion of public companies in a study such as this could present confounds such capital structure and regulations. Similar confounds controlled for by restricting the study to small businesses. Strategic postures and revenue growth rates of public companies could also vary significantly from those of private businesses.

Recommendations For Future Research

Better data gathering instruments and better measures of constructs would provide researchers with the tools to gain more knowledge about small businesses. Historically, small businesses have been ignored somewhat by researchers in favor of larger organizations for which data in easier to obtain. However, the importance of small businesses warrants more attention of researchers.

Since data on small businesses is usually unavailable, the self-reporting techniques should be refined to provide more and more accurate information. Business type identifier and control questions should be redesigned and expanded to capture more accurate information without resorting to follow-up procedures. Maybe a second control question could be devised that would explain most of the inconsistencies the between the identifier and first control question.

More use of various types of incentives could provide researchers with more and better information on small businesses. This study obtained a gross response rate of over 50% with one mailing by using a small financial incentive. A second and third follow-up mailing (without another incentive) may have increased the rate to over 60%. Researchers should explore the effectiveness of using various types of incentives to obtain small business cooperation and possibly more financial information. Obviously, the cost involved must be weighed against the value of any increase response quality. Smaller sample sizes may be possible to help offset the additional cost for the incentives. The time saved by reducing the number of mailings could justify the additional cost for many projects.

Numerous strategic typologies are available and are used primarily for industry related research. These typologies may not be the most useful for helping to differentiate small business types. There appears a need for finer gradations in types to capture the differences in small businesses. A new strategic typology, or modified old strategic typology, is needed for small business research. Such a typology may incorporate elements of family involvement that would help differentiate family businesses from other small business types. A new strategic typology geared to the needs of small businesses could significantly advance understanding of small business differences and how small businesses compete.

Summary

The findings in this study support the proposition that the strategic postures and performance of family businesses are not significantly different from other small businesses. These results are the similar to several similar studies and contrary to several other studies. Consequently, there is no consensus. This study did add to the body of knowledge by addressing the question in a different manner than any of the other studies.

Research regarding small business types and strategy has resulted in varying findings indicating the need for additional research using more advanced tools and techniques. Until these are available, there is unlikely to be a consensus about the differences in small businesses.

APPENDIX A

SURVEY LETTER

KENNETH E. BOTTS
2331 Plainview Road
Maysville, Georgia 30558

November, 1999

Mr.
ABC Construction Company, Inc.
123 Anywhere Street
Atlanta, GA 30303

Dear Mr.

I am a doctoral business student and I need your assistance with a research study regarding how small businesses compete. You were randomly selected from a database of Georgia general construction contractors and it's very important that I get your cooperation.

The enclosed questionnaire has been designed so that you can complete it quickly and easily. The questionnaire will take about five minutes to complete and does not need postage or an envelope. Just staple or tape it closed and mail it.

You can be absolutely sure that your answers are strictly confidential and that no individual company will be identified. Statistical information will be derived from the combined answers of all respondents.

As a token of my appreciation, enclosed is an uncirculated silver Kennedy half dollar with a retail value of about $7.00. I appreciate your thoughtful answers to the questions.

Please complete and return the questionnaire as soon as possible.

Thank you for your help.

Sincerely,

Kenneth E. Botts

Enclosures

APPENDIX B

QUESTIONNAIRE

1. Do you consider yourself a family business?

   Please answer (put x on line) yes or no: _______ yes _______ no

2. How many family members are serving in an ownership, executive, and/or management capacity in your Company?

   Please enter total here: _______

3. The four paragraphs below describe approaches to business strategy. Please read each paragraph and indicate with an x the strategy that best describes your Company for the past three years or so.

   _____ We've attempted to locate and maintain a secure niche in a relatively stable product or service area. We've tried to offer a more limited range of products or services than our competitors and we've tried to protect our domain by offering higher quality and superior service. We may not be at the forefront of developments in the industry but have attempted to concentrate instead on doing the best job possible in our market.

   _____ We're tried to operate within a broad product-market domain that undergoes periodic redefinition. We've wanted to be "first in" with new products and market areas even if not all of these efforts have proven to be highly profitable. We've tried to respond rapidly to early signals concerning areas of opportunity, and these responses have often led us to a new round of competitive actions.

   _____ We've attempted to maintain a stable, limited line of products or services, while at the same time have tried to move out quickly to follow a carefully selected set of the more promising new developments in the industry. We are seldom "first in" with new products or services but by carefully monitoring the actions of major competitors in areas compatible with our stable product-market base we try to be "second in" with a more cost-efficient product or service.

   _____ We've not been able to have a consistent product-market orientation. We have not been able to be as aggressive in maintaining established products and markets as have our competitors and we have not been able to take as many risks as they have. We have been forced to respond to environmental pressures.

4. Please indicate below your Company's percentage growth or decrease in contract revenue for the last three fiscal years 1996 through 1998.

   _______________%

   Growth example: $\dfrac{\text{1998 revenue} - \text{1996 revenue}}{\text{1996 revenue}}$ = _________%

   Decrease example: $\dfrac{\text{1996 revenue} - \text{1998 revenue}}{\text{1998 revenue}}$ = -_________%

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