# THE CALCULATION OF BUSINESS LONGEVITY:

# A SURVEY ANALYSIS OF FAMILY FIRMS IN THE UNITED STATES

by

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Abstract

Longevity is an integral part of all types of businesses, especially in family businesses. Researchers have found that there are three important elements in businesses: organizational variables, corporate direction, and ownership characteristics. This study purports that these elements are critical in the longevity of family businesses. To prove this claim, representative samples of 500 family businesses were surveyed and the responding 408 family businesses created frequency distributions, correlations, and a regression equation for predicting longevity. The study disregarded the variables that were not highly correlated to longevity and focused upon those variables that have a significant impact on longevity of family businesses. The variables that were highly correlated were kept and the rest disregarded thus forming the desired equation to predict longevity.

Dedication

This work is dedicated to my parents, Tom and Deni Moore. Without them, I would never have been able to accomplish this goal in my life. They have shown me what it means to be “successful” both in your professional, educational, and personal life. Through their love and support, I have been able to live my dream and, hopefully, fulfill their dream for me. I am so proud to be the daughter of the self-made man and the Renaissance woman.

This is also dedicated to my grandparents, Chester and Sally Ann McDonald. Their lives have been an inspiration for the true meaning of family.

I also want to thank my family for their unconditional love and support; Chester “Duffy” McDonald, my uncle, for his strength and wisdom; Michael McDonald, my uncle, for being a warrior; Dari McDonald, my aunt, for showing me that life does not have to be conventional; Margaret Matuszak, my aunt, for showing me what it means to take charge of your life; Chester “Chip”, Patrick, Mackenzie, and Hayden McDonald, my cousins, for being the best “brothers” anyone could ask for!

And for those who went before me and I did not get the privilege of knowing but have been a significant force in my life, Al and Mae DeGroot, my great-grandparents, and Chester and Margaret McDonald who inspired this paper by starting our family businesses.

Last but not least, my best friend, John Flatley. Thank you for putting our life on hold so I could pursue my dream!

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# CHAPTER 1. INTRODUCTION

## Introduction to the Problem

Unfortunately, recent evidence shows that a mere 30% of family businesses survive past the first generation and that many intergenerational successions fail soon after the second generation takes control (Miller, Steier, & Breton-Miller, 2003). The forty year survival rate is discouraging for family businesses as compared to businesses in general whose survival rate is closer to 50% (Bonn, 2000). Even more concerning is that a meager 13% are likely to transition to the third generation (Reece, 2003).

## Background of the Study

Family businesses account for nearly 50 percent of the gross domestic product (GDP) and employ about half of the private sector workforce (Kuratko & Hodgetts, 1995). According to Kuratko and Hodgetts (1995), family-owned companies can succeed and grow in spite of complex challenges for a variety of reasons. First, the lack of demanding stockholders that wish to determine the operating strategy of the firm based upon their gain and not the corporation as a whole. Second, family members are in the game for the long-term gains and are willing to sacrifice short-term profits. Third, the corporate flexibility provides a security for the customers and employees in it for the long haul. Finally, studies have showed that family members are more productive than all other employees.

The success of these family run organizations is critical to the economy due to its 50 percent hold of the GDP and the employment of half the private sector workforce. Calculating the longevity of family firms utilizing the organizational variables of size and structure, the corporate direction encompassed in the mission statement, and the ownership characteristics (i.e. legal structure) is the primary focus of this research. The following equation will be used in the attempt to solve the quandary of family business longevity. The subsequent sections will explain each variable (element) in more detail.

LONGEVITY =
ORGANIZATIONAL VARIABLES (Size & Structure) +
CORPORATE DIRECTION (Mission Statement & Succession Planning) +
OWNERSHIP CHARACTERISTICS (Legal Structure)

The most widely used organizational structure in the world today is the basic hierarchical structure, which is subgrouped into the functional organization and the self-contained unit (divisional) organization. The majority of corporate America--has for years relied on the traditional organization structure: a pyramid of authority with workers along the bottom, executive management at the top, and usually a vast array of middle managers crowding the bulk of the structure (Rinehart, 1992). The “function” denotation comes from the breakdown of the organization into its functional units such as engineering, research, manufacturing, accounting, etc. and this structure responds best to price and quality. The economies of scale, of this design, are realized by centralizing functional activity and a greater degree of specialization and reinforcement of expertise by grouping people with other functional experts who add to the elements of the organization (Scholl, 2000). Letting each employee know where one stands in relation to everyone else, especially in terms of the authority and responsibility of each employee, can be beneficial to the corporation (Rinehart, 1992).

The other element of hierarchical structure is known as divisional, multidivisional, or self-contained unit form. All activities pertaining to a single product, set of products, or type of customer are grouped together in a division where a product or division manager directs each division or unit (Harris & Raviv, 2002). Self-contained unit (divisional) form responds best to time management elements due to the fact that a greater degree of coordination is achieved by grouping all those working on a single product or project. Having a common goal enhances service by pinpointing responsibility (Scholl, 2000).

Functional and self-contained unit (divisional) structures represent two pure structural types at opposite ends of the structural continuum. A given environment places demands or performance pressures on an organization, which it responds to by altering its structure, thus moving it along the continuum. Performance pressures of quality and cost push the structure towards the functional end of the continuum, while pressures of time and service push the structure toward the self-contained unit (divisional) end of the continuum (Scholl, 2000). Organization behavior literature has argued that the choice between divisional and functional structures is driven by the relative importance of coordination of functional activities within a product line and economies of scale from combining similar functions across product lines (Harris & Raviv, 2002).

By the mid 1950s, global competitive pressure was growing, along with military development pressure resulting from the cold war to move away from the traditional, functional hierarchy in organizations. A cross-functional, or matrix, form of organization developed in conjunction with project management, drawing specialized talent from different organizations into one body to work on a project. This matrix form was thus an outgrowth of companies utilizing projects for work delivery, allowing them to retain their functional groupings while meeting the needs of multiple projects (Dunn, 2001). The matrix organization is a complex organizational structure that group's individuals from different functional organizations together to accomplish a common purpose typically identified as a project (Dunn, 2001). This form was a result of practitioners focusing on maximizing the strengths and minimizing the weaknesses of both the functional and the self-contained unit structure. Such an organization has been defined as a vertical functional hierarchy overlain by lateral authority, influence, or communication making it a mixed organization (Rowlinson, 2001). Overly complex structures, such as matrix organizations, collapse because of lack of clarity about responsibilities (Goold & Campbell, 2002).

The second element of the equation is that of corporate direction or the mission statement for the family business. Mission statements note the overall view or direction that the management team wants the company to become. In some family businesses, the mission statement is a reaffirmation of the traditions, values, and norms of the family itself. Also, corporate direction holds succession planning under its title. The basic rule for family owned-businesses is this: The owner should develop a succession plan regardless of the emotional and psychological hurdles that they must cross (Kuratko & Hodgetts, 1995). It is a highly charged emotional issue that requires not only structural changes but cultural changes as well because the succession includes the transfer of ethics, values, and traditions along with the actual business itself (Kuratko & Hodgetts, 1995). The “family business” and the “business family” are two distinct components that must be dealt with and disentangled if progress toward succession is to be made (Kuratko & Hodgetts, 1995). The barriers are not insurmountable and as stated before, 30 % of family businesses create the succession plan in a workable fashion. There are key factors when considering succession to guarantee a successful transition.

The legal structure and/or ownership structure of the business is the third element of the equation. Proprietorships, partnerships, and corporations create an environment for family businesses to thrive or dive. In conjunction with the second variable of the equation, succession planning can play a decisive role with ownership characteristics. Today, the owner or owners of the enterprise determine the form of business they want to utilize based upon the following: the state and federal income tax laws, ease of formation, capital requirements, flexibility of management and control, extent of external liability, and the duties imposed by law upon management (Mann & Roberts, 1997). From the federal income tax point of view, there are six principal forms of business enterprises: sole proprietorship, partnership, Regular Corporation, subchapter S corporation, limited liability partnership, and Limited Liability Company. The selection of the form of business enterprise most advantageous for a particular business requires consideration of the may tax and non tax aspects of each form. Each form of business has traditional characteristics, which may or may not be advantageous in a particular situation (Fay, 1998). The laws have changed to meet the changing needs of business owners and entrepreneurs from their inception many years ago. The choice of structure can be derived by the owner or owners in an intelligent and logical way when they understand the characteristics of the form of the business legal structure.

Finally, the important part of the equation is that of longevity and how the previously discussed variables affect the ability of the family business to stay viable and flexible to changing times. Using the following equation, the research will hope to calculate longevity for family businesses.

LONGEVITY =
ORGANIZATIONAL VARIABLES (Size & Structure) +

CORPORATE DIRECTION (Mission Statement & Succession Planning) + OWNERSHIP CHARACTERISTICS (Legal Structure)

## Statement of the Problem

A large percentage of family businesses do not make it past the second generation. This research will explore the relationship between organizational variables (structure & size), corporate direction (mission & succession planning), ownership characteristics (independent variables), and longevity (dependent variable). The businesses investigated will be of moderate size and have their headquarters (main office building) in the United States of America.

## Purpose of the Study

The topic of this research study will be family business longevity and the subsequent creation of an equation to predict longevity. From this equation, management of family business can attempt to predict longevity or conversely, use the equation to assess the current state of affairs and determine what elements to amend to increase the potential longevity.

## Rationale

The study of family business longevity has been scantily researched but not under such constructs as this research proposes to conduct. The major authors of family business research lacked the critical initial steps necessary for future development of the field and many of the writings lacked systematic analysis and scientific rigor. This study will work from the major definitional work of the previous authors as well as research done in other fields such as organizational development, succession planning, or legal characteristics of business that are not directly related to the specific segment of family businesses. This information will be melded together with family business theory to create a survey that will glean information from multigenerational family firms. The collected data will further family business research along with overall business longevity.

## Research Questions

The proposed research questions:

(1) To what degree do organizational variables (structure & size), corporate direction (mission statement & succession planning), and ownership characteristics (legal structure) determine longevity of family business?

  A. How do organizational variables influence family business longevity?

  B. How does corporate direction influence family business longevity?

  C. How do ownership characteristics influence family business longevity?

  D. How do organizational variables, corporate direction, and ownership characteristics collectively influence family business longevity?

(2) Is there a correlation between family business longevity, organizational variables, corporate direction, and ownership characteristics? If there is a correlation, that implies an equation, theory or process for explaining the relationship.

## Significance of the Study

The purpose of the research will be to empower family businesses in the United States with the elements necessary to create a positive equation for longevity. It has been noted that family owned firms account for a large percentage of the economic activities in the United States and Canada. Estimates run from 40 to 60 percent of the US gross national product in addition to employment for up to six million Canadians (Chua, Chrisman, & Steier, 2003). Consequently, the creation of an equation to predict longevity will strengthen the family business, save jobs, and support the general economy. It will allow companies in trouble to assess whether or not their emphasis should be on other activities to ensure their survival. The equation can be used as a diagnostic tool to detect problems in the overall landscape of the corporation. The two important elements of the research are that the equation is applicable to all sizes of family business. It can also be utilized if the firm is in trouble or if the family firm wants to reassess its organizational variables, corporate direction, and ownership characteristics. The equation/research can be used by entrepreneurs that are thinking about starting a family business and want to see what other family businesses have done to ensure their survival. Overall, longevity of family firms not only guarantees the continuation of the organization along with all of the jobs and economic impact but more importantly it perpetuates the family legacy and supports the family members.

## Definition of Terms

Habbershon, Williams, and MacMillan (2003) described family businesses as interactive systems composed of individuals, a family, and a firm. Heck and Trent (1999) said family business is defined by criteria or combinations of criteria including family ownership, management by a family member, operational involvement of family members, and family member involvement across the generations. These are just two of the theorists. Figure 1 gives a summary of the definitions of other theorists.

Figure 1: Family Firm Definitions

| Author(s) | Family Business Definition |
|---|---|
| Church (1969) | The whole capital is privately held, practically all the important and administrative posts are filled by members of the family. |
| Channon (1971) | A family member was a chief executive officer, if there had been at least two generations of family control and a minimum of 5% of the voting stock was still held by the family or trust interests associated with it. |
| Churchill & Hatten (1987) | A useful start to researching family businesses is to identify the critical differences between family businesses and those that are owner-managed. The differences seem to be two: involvement of family business members in the business, and non-market based transfers of power between family members…There are two aspects of this transfer of ownership or control of property rights, and a transfer of management control of the business' operations and strategic direction. |
| Ward (1987) | A firm passed on form the family's next generation to manage and control. |
| Gasson et al. (1988) | A family business satisfies one or more of the following conditions: a) the principals are related by kinship or marriage, b) business ownership is usually combined with managerial control, and c) control is passed from one generation to another within the same family. |
| Handler (1989) | A family business is defined here as an organization whose major operating decisions and plans for leadership succession are influenced by family members serving in management or on the board…This definition indicates that current family involvement in the business, even though these family members may not necessarily b in the line for succession, would qualify the organization as a family business. |
| Donckels & Frolich (1991) | Family members in one family own 60% or more of the equity in the business. |
| Daily & Dollinger (1992) | Two or more individuals with the same last name were listed as officers in the business and/or the top/key managers were related to the owner working in the business. |
| Stoy Hayward (1992) | The family body has a considerable impact on the ongoing and future operations of the business and can also be considered where any one of the three following criteria are true: a) more than 50% of the voting shares are owned by a single family, b) a single family group is effectively controlling the firm, and c) a significant proportion of the firm's senior management is drawn from the same family. |
| Binder Hamlyn (1994) | It is perceived to be a family firm if the directors in the company had a family relationship. |
| Smyrnios & Romano (1994) | A family business satisfied one or more of the following conditions: a) more than 505 of the ownership is held by a single family, b) more than 50% of the ownership is held by more than one family, c) a single family group is effectively controlling the business, and d) a significant proportion of the senior management is drawn from the same family. |
| Carsrud (1994) | A firm's ownership and policy making are dominated by members of an 'emotional kinship group' whether members of that group recognize that fact or not. |
| Reynolds (1995) | Types of family businesses are identified: a) sole proprietorship, b) family businesses where more than 50% of the ownership is owned by a family or kin and |

| | |
|---|---|
| | 50% or more of the family or kin are on the management team. |

Businesses have been described as family firms when: a) a transfer to the next generation is intended, b) at least one generational transfer has occurred, c) a founder says that it is a family business, and d) family and businesses share assumptions and values. (Westhead & Cowling, 1998) With the plethora of definitions, Chua and Chrisman (1999) assessed over 250 family business articles and 21 definitions were compiled and categorized by the degree of family involvement in ownership and management. They found that defining family business is more difficult than one might assume but argue that the field of family business is worthy of differentiation from all other forms of business. The definitions have dissimilar degrees of differentiation based upon diverse attributes. Some base their denotation on the elements of controlling factors such as ownership which include: (a) an individual, (b) two persons, unrelated by blood or marriage, (c) two persons, related by blood or marriage, (d) a nuclear family, (e) more than one nuclear family, (f) an extended family, (g) more than one extended family, or (h) the public (Chua & Chrisman, 1999). While some researchers define family business based upon the blood/non blood relation of the corporation's members. Chua and Chrisman (1999) feel that the addition of family members to an organization makes the organization unique thus it is categorized by ownership or management. The results of their study and survey strengthen Chua and Chrisman's (1999) point that vision, intentions, and behavior are what should be used to distinguish family business from all others.

Family businesses are "the kind of small business started by one or a few individuals who had an idea, worked hard to develop it, and achieved, usually with limited capital, growth while maintaining ownership of the enterprise" yet, "the family body has a considerable impact on the ongoing and future operations of the business and can also be considered where any one of the three following criteria are true: a) more than 50% of the voting shares are owned by a single family, b) a single family group is effectively controlling the firm, and c) a significant proportion of the firm's senior management is drawn from the same family" (Stoy Hayward, 1992 & Babicky, 1987). The technical aspects of Stoy Hayward's (1992) definition make it easier to decipher what is and what is not family business whereas Babicky's (1987) definition focuses more upon the founding of a strong small business, usually family in nature. Where Babicky (1987) misses the family characterizes, Stoy Hayward (1992) picks up the technical family member element that is critical to the definition of family business.

## Assumptions and Limitations

### Delimitation (Focus)

The focus of the study is to create an equation that predicts family business longevity using organizational variables, corporate direction, and ownership characteristics.

### Limitations

The main limitation is the equation will only be useful for family businesses in the geographic region of the United States rather than being valid to all areas of the world.

## Nature of the Study, or Theoretical/Conceptual Framework

To address the above problem, the research will study the following relationship: how does organizational structure, corporate direction, and ownership characteristics impact corporate longevity in a family business within the geographical bounds of the United States? In regard to the independent variables, the following figure outlines the subunits of the three above mentioned elements, organizational variables, corporate direction, and ownership characteristics.

Figure 2: Independent Variables and Sub-Units

| Independent Variable | Subunits |
|---|---|
| Organizational Variables | Size (Bonn, 2000)<br>Structure: Functional, Divisional, & Matrix (Cummings & Worley, 2001) |
| Corporate Direction | Mission Statement (Bonn, 2000)<br>Succession Planning |
| Ownership Characteristics | Legal Structure: Proprietorships, Partnerships, & Corporations (Mann & Roberts, 1997) |

Thus, according to scholarly literature, the independent variables have an impact on the longevity of family business and the theoretical framework of this research is valid and applicable to longevity (Reece, 2003 & Miller, Steier, & LeBreton-Miller, 2003).

The research will uncover the implication of using organizational variables, corporate direction, and ownership characteristics as predictors of family business longevity.

## Organization of the Remainder of the Study

The remainder of this study will be broken down into literature review, methodology, data analysis, and discussion of data, recommendations, and conclusions. Chapter 2 will discuss the research literature that is pertinent to this study and delve into longevity, organizational elements, corporate direction, ownership characteristics, and family business. Chapter 3 will discuss the methodology used to extrapolate the data from the population set. Chapter 4 will discuss the data collected from the survey instrument and Chapter 5 will discuss the processed data. It will also cover general conclusions and recommendations for further study within family business longevity.

In this chapter, the statement of the problem and the background of family business and its issue with longevity has been addressed by defining the research. The definitions for the variables within the study, as well as, the research questions have been argued. The next chapter will look at the literature on family business, longevity, organizational variables, corporate direction, and ownership characteristics in depth to find out what research has been done on the subject.

# CHAPTER 2. LITERATURE REVIEW

## Introduction

Research has found that less than a third of family businesses will survive transition from the first to the second generation and only 13% are likely to transition to the third generation (Reece, 2003 & Miller, Steier, & LeBreton-Miller, 2003). However, the literature that supports the study of family business longevity is sparse and not thorough. The melding of all of the elements of the proposed equation is to form a statement of longevity that has utilized the literature to support the task.

## Family Business

Family businesses are the kind of small business started by one or a few individuals who had an idea, worked hard to develop it, and achieved, usually with limited capital, growth while maintaining ownership of the enterprise yet, the family body has a considerable impact on the ongoing and future operations of the business and can also be considered where any one of the three following criteria are true: a) more than 50% of the voting shares are owned by a single family, b) a single family group is effectively controlling the firm, and c) a significant proportion of the firm's senior management is drawn from the same family (Babicky, 1987, Stoy Hayward, 1992).

The three prong system of family, business, and equity is compared to a stool with three legs. If any of the legs are compromised, the stool will collapse. Brooks (2002) notes that a failed family business leaves an extraordinary trail of personal impacts beyond the loss of family wealth. Personal failure, reduced self-confidence, and self-respect, lower stature within the family and in the community, imposed changes for the quality of life, questions raised that have no easy answers, are all factors that must be addressed as part of a corporate and personal structuring that must occur as performance problems within the business begin to dominate the landscape. Finding the right fit with structure and management is vital to the life of the family business. Whether a change from a traditional hierarchical structure to a self-contained unit structure, or the bringing in of an outsider to resolve disputes, family business, like all other family business necessitate structure and format to solve problems (de Vries, 1993).

Family business tends to persevere during difficult periods since the family structure and strategy respond to long-term financial objectives rather than short term market-driven metrics (Brooks, 2002). The balance between family, individual, equity, and business systems can be a struggle but management can monitor the organization, both structure and management control, for changes that violate family values of loyalty, love, fairness, versus performance and selection (Brooks). The three prongs of family, business, and equity support the business values of the company which are a function of the corporate/organizational culture. That culture, based upon the family values, further supports the mission, objective, and strategy of the family empire (Brooks). Perpetuating these legacies require the venture to manage family succession, which necessitates the replacement of the founding entrepreneur, and often involves changes in strategy and structure (Chrisman, Chua, & Steier, 2003). The strength of the family business also comes from the sharing of resources, including social networks, between the family and business which has a major influence on the ability of each to thrive – that is, a ventures ability to thrive along with the family remaining viable (Rogoff, 2003).

Longevity

**LONGEVITY** =
ORGANIZATIONAL VARIABLES (Size & Structure) +
CORPORATE DIRECTION (Mission Statement & Succession Planning) +
OWNERSHIP CHARACTERISTICS (Legal Structure)

Corporate longevity can be defined by means of breaking down the terms. First, corporate means united, combined into one, and belonging to an incorporated body or acting as a body rather than a number of individuals while longevity is defined as a long life or an unusually long life (Webster, 1993). Melded together, corporate longevity means the existence of an incorporated body working as one unit for an exceptionally long life. Arie De Geus (1997) and Ingrid Bonn (2000) have explored the concept of corporate longevity from different perspectives. De Geus examines the concept from the corporate executive of Dutch/Shell perspective which is a company over 100 years old whereas Ingrid Bonn does empirical research on manufacturing companies in Australia from an academic perspective. From these two theorists, corporate longevity is broken down into its core elements and the key characteristics or attributes of long-lived corporations. The concluded elements and attributes are melded into family business theory as practical applications.

The average life expectancy of a multinational corporation or Fortune 500 company is between 40 and 50 years based upon surveys of corporate births and deaths (De Geus, 1997). A full one-third of the companies listed in the 1970 Fortune 500 had vanished by 1983 by being acquired, merged, or broken into pieces. While in a more recent study, firms in Japan and most of Europe have an average life expectancy of only 12.5 years (De Geus). The first thing learned is that the average life span of a corporation is much shorter than its potential life span (De Geus).

A study was conducted by Dutch/Shell and two business professors to study the longevity of corporations. As a determinate of longevity, the companies had to be older than Dutch/Shell and relatively the same size or larger. Only 40 corporations were found that met the criteria and 27 were studied extensively to find the key elements in corporate longevity (De Geus, 1997). After all work was completed, the following four elements were common threads in all the companies studied. De Geus (1997) stated:

*(1) Sensitive to the environment.* Whether they had built their fortunes on knowledge (such as DuPont's technological innovations) or on natural resources (such as Hudson Bay Company's access to the furs of the Canadian forests), they remained in harmony with the world around them. As wars, depressions, technologies, and political changes surged and ebbed around them, they always seemed to excel at keeping their feelers out, turned to whatever was going on around them. They did this despite the fact that in the past there was little data available, let alone the communication facilities to give them a global view of the business environment. Whether it was social issues or transportation issues, the companies stayed on track concurrent with their core competencies in accordance with the changing environment.

*(2) Cohesive with a strong sense of identity.* No matter how widely diversified they were, their employees and suppliers felt part of one entity. The sense of belonging to an organization and being able to have the accolades of its achievements has been linked to the essential elements for survival amid change. They succeeded through generations via a strong sense of community and family. Except during conditions of crisis, the management's only top priority and concern was the health of the institution as a whole.

(3) *Tolerant.* These companies were particularly tolerant of activities on the margin: outliers, experiments, and eccentricities within the boundaries of the cohesive firm, which kept stretching their understanding of possibilities. They recognized that new businesses may be entirely unrelated to existing businesses and that the act of starting a business need not be centrally controlled. W.R. Grace, from its very beginning, encouraged autonomous experimentation. The company was founded in 1854 by an Irish immigrant in Peru and traded in guano, a natural fertilizer, before it moved into sugar and tin. Eventually, the company established Pan American Airways. Today it is primarily a chemical company, although it is also the leading provider of kidney dialysis services in the United States.

(4) *Generally avoid exercising and centralized control over attempts to diversify the company while being conservative in financing measures.* Companies were frugal and did not risk their capital gratuitously and understood the meaning of money the old-fashioned way. They knew the usefulness of having spare cash in the kitty which gave them flexibility and independence of action. They could pursue opportunities that their competitors could not and grasp options without first having to convince third-party financiers of their attractiveness.

A study done in 2000 by Ingrid Bonn provided new evidence about the determinants of an organization's long-term success in the marketplace by empirically demonstrating that organizational survival is the result of a number of different variables operating simultaneously. The variables (characteristics) that proved to be significant in the long-term survival of an organization were: size, planning systems, corporate direction, and ownership characteristics.

(1) *Size.* The term size is considered to be understood in regards to the financial size not necessarily the physical or psychological size. Bonn (2000) found that companies with above average revenue were more likely to survive than those with below average revenue showing that large firms are more profitable than small firms. This is an assumption that the researchers make and outline in their papers. Companies that are large have advantages and disadvantages but in the case of long-term survival the advantages outweigh the disadvantages. Large organizations have benefits such as economies of scale, experience effects, brand name recognition, greater bargaining power with suppliers and distributors, and market power in general. While some disadvantages are "…greater structural complexity and bureaucracy which might result in complacency and inertia" that tends to slow down an organization to change with the changing environments. (Bonn, 2000) Of all the distinctively successful companies, the British giants have far outweighed that of American companies in regard to longevity as a function of size. Tracing back to the origins of the British giants of 1912, one notes the global mindedness of the large companies. (Hannah, 1998) The British practiced free trade before World War I, while the American 1912 giants existed behind a highly protective tariffs, and the German giants behind moderate ones. (Hannah, 1998) Moreover, in 1912 German and American giant firms typically had only 10-15 percent of their assets or employment abroad, but British giants already had more than 30 percent of theirs abroad on average and thus were less constrained by home market performance. (Hannah, 1998) Today's top 100 giant industrial firms, wherever they are headquartered, clearly more nearly resemble the British firms of 1912 than the German or American

ones. It is due to the size of the British companies that they could expand and thus create value and new markets for their goods. The expanded markets also brought about long-term success. An example is Dutch/Shell which is an Anglo-Dutch multinational.

*(2) Planning Systems.* It has been shown that companies who use formalized strategic planning systems were more likely to survive that those who existed without such a system. (Bonn, 2000) Formalized planning systems are explicit and systematic procedures which result in a written plan. (Bonn, 2000) The most significant advantage of a planning system was articulated by Greenley (1986) as:

> "…planning results in a viable match between the changing internal organizational conditions of the firm and its external environmental variables. The purpose of this match is to ensure that the plans continuously realign the firm's objectives and strategies to the changing conditions, to improve the long-run performance of the company." (p. 106)

In the 1930's, a series of "tools for foresight" were developed and lumped into a category deemed "planning." Planning was typically seen as the work of reducing uncertainty through prediction (De Geus, 1997). This function is usually located in the finance or accounting department and they set out to predict next year's budgets, balance sheets, and P&L accounts based on the estimates of next year's sales and operating costs (De Geus). Shortage or surplus for the company was predicted by this function. As the discipline of corporate planning evolved, it went from purely a financial/accounting perspective to a culmination of financial numbers taken from the heads of the departments or functional groups (De Geus). From these estimates, bonus and compensation systems were created.

Namely “forecasting” became the prominent feature in planning systems and was no longer limited to the intellectual realm but rather a vehicle for decision making for all employees. De Geus (1997) studied Dutch/Shell’s planning system and noted there were target-setting and performance control procedures administered up and down the hierarchy and applied inside each of the more than 100 countries in which Shell operated. The estimates and predictions were gradually percolated from local offices and around the globe into two central offices and the formation of a matrix organization for planning. A conference would finalize the planning system/forecast for Dutch/Shell. A similar planning system is discussed by Waddock, Bodwell, and Graves (2002) which is called total responsibility management. This system manages the responsibility derived from three main sources: primary stakeholders, such as owners, employees, customers, and suppliers; secondary stakeholders such as non-governmental organizations, activists, communities, and governments; and general societal trends and institutional forces (Waddock, Bodwell, & Graves, 2002). The total responsibility management approaches management and their responsibilities to the stakeholders and the natural environment. This planning system has been worked into a management framework that highlights the three main apparatus of the system which are: inspiration, integration, and improvement/innovation (Waddock, Bodwell, & Graves). These three elements demand that companies adopt a set of value-based operating principles, a code of conduct, or a set of standards which will lead to a strong, positive corporate direction. It is the responsibility as primary and secondary stakeholders to acquire a greater ability to mobilize their own resources against corporate practices they find objectionable. The determination to monitor and report to verifiable information will give the company a competitive advantage; thus, aiding long term success(Waddock, Bodwell, & Graves).

(3) *Corporate Direction.* Bonn (2000) defines corporate direction as the existence of an explicit mission statement. Assuming that a planning system and corporate direction were correlated, it could be debated that an important benefit for the strategic planning process was the provision of a long-term corporate direction. It could be contended that the strategic plan in survivors was completely integrated into the planning process, the organizational culture, and the structure (Bonn, 2000).

(4) *Ownership Characteristics.* The ownership characteristic that Bonn (2000) researched was that of foreign-owned versus domestically (Australia) owned subsidiaries; however, there are many that could be explored. Bonn's investigation leads to the conclusion that foreign owned subsidiaries have a higher survival rate than domestic companies. It is suggested that this results from a multinational corporation entering a foreign market in order to exploit proprietary assets such as: technological know-how, managerial and organizational skills, ownership of brand names and patents developed in their home countries. These assets are available to the multinational subsidiary by the parent corporation at little or no cost. Deviating from Bonn's study, Simpson and Gleason (1999) looked at the banking industry for characteristics that lead to the bank failures based up on the ownership characteristics and control factors. Their analysis examined the relationship between ownership and the structure of the board of directors and the internal control mechanisms that influence the survival of the firm (Simpson & Gleason, 1999). It was found that the probability of financial distress lowered (thus increasing

longevity) when one person is both the CEO and the chairman of the board (Simpson & Gleason, 1999).

Costa (1994) found that a family business should focus on a few items to ensure that it has a long life rather than an early demise. First, an overall strategic plan is essential when passing the company from one generation to another. The strategy and basic family values need to stay in place but a company must also change to stay competitive in a changing industry. Just because one thing worked well for one generation does not mean it will work for succeeding generations in regard to strategy. Economic cycles are a fact of life for family-owned businesses that have a very long past and anticipate an even longer future. Successful old family-owned businesses have found many ways to hold families together as owners. Private ownership serves as an incentive for families to stay with companies by allowing them to pursue diversification strategies that make it safe to keep most family wealth at home (Elstrodt, 1994). Second, regular family meetings provide good communication in a constructive format which allows problems to be resolved before they have a chance to fester and tear the family and business apart (Costa, 1994). A weekly or monthly time should be set so that everyone can attend and bring their problems, concerns, or suggestions to the table. Third, an outside board of directors can keep communication flowing and also advise the family on a company's long-term direction and objectives. Having outsiders as advisors can be beneficial for seeing a situation as it actually is and creating the right advice with emotions removed from the equation. Strong boards are particularly important in family-owned enterprises to complement the family's business skills with the fresh strategic perspectives of qualified outsiders (Elstrodt, 1994). One family business has a rule that half of the seats on the board should be occupied by outside CEOs who run businesses at least three times larger than the family business. Another private family business set up an independent institution solely to nominate and elect one-third of the board members. But in most of the companies, the family nominates and elects the outside board members (Elstrodt, 1994). Finally, succession planning has been found to be an important aspect of why family businesses fail. It is sometimes hard to hand over the proverbial reins but it must be done to ensure that the business will progress successfully to another generation. Similar to Bonn (2000), part of the succession plan should include the core family values passing down so that the previous generations' requirements for the corporate direction are achieved and feelings are not hurt in the process. The key to survival and success is strong governance in the broadest sense: a powerful commitment to values passed down through the generations and a keen awareness of what ownership means. The ownership characteristics, as also pointed out by Bonn (2000), are both a blessing and a curse, giving the family power to destroy the business as well as to shape it and enjoy its returns. Long-lived family businesses recognize the danger of ownership and establish a system of checks and balances for carrying out the family's roles in the three vital dimensions of governance: ownership, board supervision, and management (Elstrodt, 1994). In some family companies, family members who have proved their competence are welcome to serve as managers while some companies require family members to start work outside the family business. After they have had 10 to 15 years of highly successful experience, the board may invite them to hold top-management positions (Elstrodt, 1994).

All business strives for longevity but De Geus (1997) and Bonn (2000) outline the attributes and characteristics that companies need to achieve longevity. As seen in theoretical and practical, companies must create a strong sense of identity, be tolerant to change and be conscious of such need for change, and be sensitive to one's environment. (De Geus, 1997) The same rules apply to family owned businesses but there is an added characteristic of family values that play into the corporate direction in addition to the planning systems. Families have their own ownership characteristics (Bonn, 2000) with succession planning, family meetings, and the creation of a strong business for future generations.

## Organizational Variables

LONGEVITY =
**ORGANIZATIONAL VARIABLES (Size & Structure)** +
CORPORATE DIRECTION (Mission Statement & Succession Planning) +
OWNERSHIP CHARACTERISTICS (Legal Structure)

To best understand ownership structure and management of family businesses, one must recognize the three types of organizing modes of organizational structure. The organizing mode precipitates into the three types of organizational structure design, functional, self-contained-unit (divisional), and matrix. The questions of how to divide the overall work of the organization into its subunits, how to assign jobs, and how to coordinate these subunits for completion of overall work are answered by choosing the design of the organization (Cummings & Worley, 1993). Organizations can be organized to reflect common knowledge, function, outcomes, or projects. Control and coordination are the pivotal elements in the organizing mode as well as overall organization structure design.

The most widely used organizational structure in the world today is the basic hierarchical structure which is subgrouped into the functional organization and the self-contained unit (divisional) organization. The majority of corporate America--has for years relied on the traditional organization structure: a pyramid of authority with workers along the bottom, executive management at the top, and usually a vast array of middle managers crowding the bulk of the structure (Rinehart, 1992). The "function" denotation comes from the breakdown of the organization into its functional units such as engineering, research, manufacturing, accounting, etc. and this structure responds best to price and quality. Economies of scale, of this design, are realized by centralizing functional activity and a greater degree of specialization and reinforcement of expertise by grouping people with other functional experts who add to the elements of the organization (Scholl, 2000). It is advantageous to let each employee know where they stand in relation to everyone else, especially in terms of the authority of each employee (Rinehart, 1992).

The other element of hierarchical structure is known as divisional, multidivisional, or self-contained unit form. All activities pertaining to a single product, set of products, or type of customer are grouped together in a division and a product or division manager heads each division or unit (Harris & Raviv, 2002). Self-contained unit (divisional) form responds best to time because a greater degree of coordination is achieved by grouping all those working on a single product, project, and having a common goal while service is enhanced by being able to pinpoint responsibility (Scholl, 2000).

Functional and self-contained unit (divisional) structures represent two pure structural types at opposite ends of the structural continuum. A given environment places demands or performance pressures on an organization, which responds by altering its structure, thus moving it along the continuum. Performance pressures of quality and cost push the structure towards the functional end of the continuum, while pressures of time and service push the structure toward the self-contained unit (divisional) end of the continuum (Scholl, 2000). Organization behavior literature has argued that the choice between divisional and functional structures is driven by the relative importance of coordination of functional activities within a product line and economies of scale from combining similar functions across product lines (Harris & Raviv, 2002).

By the mid -1950's, global competitive pressure was growing, along with military development pressure resulting from the cold war to move away from the traditional, functional hierarchy in organizations. A cross-functional, or matrix, form of organization developed in conjunction with project management, drawing specialized talent from different organizations into one body to work on a project. This matrix form was thus an outgrowth of companies utilizing projects for work delivery, allowing them to retain their functional groupings while meeting the needs of multiple projects (Dunn, 2001). The matrix organization is a complex organizational structure that group individuals from different functional organizations together to accomplish a common purpose typically identified as a project (Dunn, 2001). This form was a result of practitioners focusing on maximizing the strengths and minimizing the weaknesses of both the functional and the self-contained unit structure. Such an organization has been defined as a vertical functional hierarchy overlain by lateral authority, influence, or communication, and is a mixed organization (Rowlinson, 2001). Overly complex structures, such as matrix organizations, collapse because of lack of clarity about responsibilities (Goold & Campbell, 2002).

Functional, self-contained units, and matrix organizational structures are important because family business ownership structure deals with the characteristics and interrelationships of the ownership, the business, and the family systems (Brooks, 2002). Conflict surfaces because the metrics within each system differ and are unable, when they overlap, to meet the needs simultaneously of the participants in each system of the enterprise (Brooks, 2002). For example:

(1) Shareholders (ownership system), family and non-family, oversee management, create policy and influence strategy through a board of directors. Decision models are financially driven.

(2) Business systems composed of employees, customers, and creditors demand productivity, expect continuous improvement in performance, and are task based. Focus is external.

(3) Family systems, which contain members of the immediate family and relations dependent upon the business, are based upon emotions, and are designed to support the needs for security, growth, and love. Focus is inward.

Brooks (2002) says that an individual may be a member of any or all systems and the complexity arises when a decision will result in conflicting metrics. Where a person sits, affects personal relationships because there is competition for the resources and value of each system.

## Corporate Direction

LONGEVITY =
ORGANIZATIONAL VARIABLES (Size & Structure) +
**CORPORATE DIRECTION (Mission Statement & Succession Planning)** +
OWNERSHIP CHARACTERISTICS (Legal Structure)

As for many family firms, succession planning can play a critical role in the success, failure, and ultimate longevity of the organization. As family businesses are a primary contributor to the economic and social well-being of all capitalist societies, their general lack of longevity is cause for concern (Venter, Boshoff, & Maas, 2003, Sharma, Chrisman, Pablo, & Chua, 2001). The bleak estimate of 30% of family businesses survive past the second generation and then the percentage drops to thirteen point to the crisis of succession planning (Venter, Boshoff, & Maas, 2003, Reece, 2003, Miller, Steier, & LeBreton-Miller, 2003). According to research results, the main reason of the high failure rate among first- and second- generation family business is their inability to manage the complex and highly emotive process of ownership and management succession from one generation to the next (Venter, Boshoff, & Maas, 2003, Sharma, Chrisman, Pablo, & Chua, 2001).

The basic rule for family owned-businesses is this: The owner should develop a succession plan regardless of the emotional and psychological hurtles that they must cross (Kuratko & Hodgetts, 1995). It is a highly charged emotional issue that requires not only structural changes but cultural changes as well because the succession includes the transfer of ethics, values, and traditions along with the actual business itself (Kuratko & Hodgetts). The "family business" and the "business family" are two distinct components the must be dealt with and disentangled if progress toward succession is to be made (Kuratko & Hodgetts). The barriers are not insurmountable and as stated before, 30 % of family businesses create the succession plan in a workable fashion. There are key factors when considering succession to guarantee a successful transition.

Miller, Steier, and Breton-Miller (2003) found that at the core of problematic succession lies an inappropriate relationship between an organization's past and it's present. There is either too strong an attachment to the past on the part of the past successor, too wholesale a rejection of it, or an incongruous blending of past and present. The patterns are called conservative, rebellious, and wavering, respectively. While patterns of ownership dispersion vary, ranging from primogeniture (in which leadership and control of the voting stock passes to the firstborn) to coparcenary (in which offspring receive relatively equal shares), the tendency in the United States is to grant the most share to the chief executive, and more share to offspring who are employed by the firm than by those who are not (Schulze, Lubatkin, & Dino, 2003).

Family business succession planning can fall into a variety of categories and one of which is the creation of an advisory board or a board of directors (Horan, 2003). An advisory board can be created with just a couple of outside members such as an accountant, an attorney, a financial advisor, or an insurance agent that could provide a perspective on management issues from a "non-family" perspective (Horan).

Of the three types of succession patterns conservative, wavering, and rebellious types of successors have different types of outcomes. When choosing a successor or succession plan, the current owner must understand the implications of his/her actions based upon the desired outcome. The conservative successors/pattern tends to keep things status quo and the transition of leadership is rather smooth due to the similarity in management styles. The wavering successor osculates between making a mark of their own and staying close to the traditional corporation. Finally, the rebellious successor pattern throws out the entire history and starts with a new attitude, values, and expectations which results in a rocky transition of power. When choosing the final successor, it has been found that families tend to choose unqualified offspring more often than appointing a qualified agent from the outside (Lee, Lim, & Lim, 2003). This may account for the high failure rate of the transition from first to second generation.

The most important aspect of beginning the succession planning process is for the current owner to listen to the opinions of every stakeholder in order to ensure that everyone will be heard. Regardless, it is the owner who has to make the final decision (Dascher & Jens, 1999).

Reece (2003) discusses three main ingredients for the successful mixing of blood and business: (1) regular, planned family meetings, (2) a strategic business plan, and (3) and outside board of directors. Family businesses are notorious for talking about business anytime they get together – over the dinner table, at Thanksgiving, at Christmas. Those informal meetings of the family often turn out to be conflicting because business conversation is being mixed with family time, and there is no agenda. Thus, the first important point by Reece (2003) is to have regular, planned family meetings with a program to discuss the business. Second, a strategic business plan should be in place contingent on the input of all family members involved. Finally, the third ingredient is bringing in an outside board of directors. Granted, outsiders are not welcomed into a family business because of the "keeping it in the family" mentality but outsiders bring objectivity, knowledge, and experience. The facts show that having an outside board of directors increases the chances of survival for the family business (Reece, 2003).

Kuratko and Hodgetts (1995) derived four steps for developing a succession strategy: (1) understand the contextual aspects, (2) identifying successor qualities, (3) understanding influencing forces, and (4) carrying out the succession plan. The contextual aspects are time, type of venture, capabilities of managers, entrepreneur's vision, and environmental factors. The earlier succession planning begins, the better because the owner will have more time to assess the plan and selection of future successors. The type of venture is important due to the fact that the successor must understand the organization and all its elements along with the entrepreneur's vision of what he/she wants for the future of the business. Finally, the environmental factors are all the outside elements that affect the business. The new successor must understand and adapt to the changing environment. The second step is to identify the successor qualities that one would want in the context of the business vision and environment. The third step is to understand the influencing forces as noted (Kuratko & Hodgetts, 1995, Davis & Harveston, 1998):

Family and Business culture issues:

1. Business environment
2. Stage of the firm's development
3. Business's traditions and norms
4. Family culture, strength, and influence
5. Owner's personal motivations and values

Owner's concerns:

1. Relinquishing power and leadership
2. Keeping the family as a functioning unit
3. Defining family members future roles in the business
4. Assuring competent future leadership of the firm
5. Educating family and non family members about key roles
6. Keeping non family resources in the firm

Family member concerns:

1. Gaining and losing control of family assets
2. Having control over decision make by business leadership
3. Protecting interests when ownership is dispersed among family members
4. How to get money out of the business, if necessary
5. Assurance that business will continue

These forces can prepare the owner to establish management continuity strategy or policy. A written policy can be established in one of the following strategies outlined by Kuratko and Hodgetts (1995):

(1) The owner controls the management continuity strategy entirely. This very common but legal advice may be necessary.

(2) The owner consults with selected family members. Here the legal advisor helps establish a liaison between family and owner in the constructing of the succession mechanism.

(3) The owner works with professional advisors. This is an actual board of advisors from various professional disciples and industries that works with the owner to establish the mechanism for succession.

(4) The owner works with family involvement. This alternative allows the core family (blood members) to actively participate in and influence the decisions regarding the succession.

(5) Formulate buy-sell agreements at the very onset of the company, or soon thereafter, and wherever a major change occurs. This is also the time to consider appropriate insurance policies on key individuals that would provide the cash needed to acquire the equity of the deceased.

(6) Consider employee stock ownership plans (ESOP). If the owner has no immediate successor in mind and respect the loyalty and competence of his/her employees, then an appropriate ESOP might be the best solution for passing control of the enterprise. After the owner's death, the employees could decide on the management hierarchy.

(7) Sell or liquidate the business when the owner loses enthusiasm for it but is still physically able to go on. This could provide the capital to launch another business. Whatever the owner's plans, the firm could be sold before it fails due to disinterest.

(8) Sell or liquidate when the owner discover a terminal illness but still has time for the orderly transfer of management or ownership.

The final step, researched by Kuratko and Hodgetts (1995), is carrying out the succession plan via identifying the successor, agreeing on a plan, and then implementation of the plan.

## Ownership Characteristics

LONGEVITY =
ORGANIZATIONAL VARIABLES (Size & Structure) +
CORPORATE DIRECTION (Mission Statement & Succession Planning) +
**OWNERSHIP CHARACTERISTICS (Legal Structure)**

The owner or owners of the enterprise determine the form of business they want to utilize based upon the following: the state and federal income tax laws, ease of formation, capital requirements, flexibility of management and control, extent of external liability, and the duties imposed by law upon management (Mann & Roberts, 1997). From the federal income tax point of view, there are six principal forms of business enterprises: sole proprietorship, partnership, Regular Corporation, subchapter S corporation, limited liability partnership, and Limited Liability Company. The selection of the form of business enterprise most advantageous for a particular business requires consideration of the tax and non tax aspects of each form. Each form of business has traditional characteristics, which may or may not be advantageous in a particular situation (Fay, 1998). The laws have changed to meet the changing needs of business owners and entrepreneurs from their inception many years ago. The choices of structure can be made in the most intelligent and logical way if the owner or owners understand the characteristics of each of the form of business legal structure.

The oldest of all legal forms of business structure is the proprietorship or sole proprietorship in which it is owned by a single individual who has total control of and responsibility for his or her business. They receive all profits and can make decisions quickly and conversely are responsible for all taxes and liabilities of the business. It is the easiest type of business to form because the individual who forms the organization runs it without any separation from his or her personal wealth or that of the firm.

The advantageous sole proprietorship avoids the double taxation because the money earned by the firm flows through the individual's tax returns. In large part, the popularity of the sole proprietorship results from its simplicity and flexibility. A sole proprietorship can be established, modified, bought, sold, or terminated very quickly. No business planning or organizational arrangements (bylaws, organizational charter, etc.) are required when a sole proprietorship is established; an approach that often works to the proprietor's detriment. Other than routine permits and licenses required for your business activities, neither public notification or legal assistance is required to start, terminate, redirect, or modify the business. The proprietor can decide to start a business and almost immediately can say, "I'm open for business and I'm my own boss" (Gessaman, 2003). The customer also benefits because of the personal liability of the firm therefore persuading the proprietor to work harder and have a better quality product (Fay, 1998). As for the negative aspect of personal asset exposure to risk, there is adequate insurance available to cover tort liability exposure (Karl, 1999). The lack of red tape and attorney's fees as well as simpler government regulations denotes the more advantageous aspects of sole proprietorships. The size or complexity of the business unit can be changed as the proprietor desires whenever there is financial capacity to do so. Children can be involved in both business and family activities as determined by their age, interests, abilities, and parents' wishes. Depending on personalities and interests, the involvement of family members in the business is relatively unrestricted (Gessaman, 2003). The most apparent advantage of sole proprietorship is having sole control over the business, its organization, and operations.

As for every positive there are always an equal amount of negatives and that is the reality of sole proprietorships. The unlimited liability that places personal assets at risk is a drawback in an attempt to promote the health of the business. A downturn in business or a slow return on investment could prove to be financially devastating to the owner's business as well as his or her personal finances (Fay, 1998). The resource base of the business unit may be so limited that credit availability and capacity to respond to business opportunities is moderately to severely restricted (Gessaman, 2003). Other inherent disadvantages of the sole proprietorship are the inability to split income among family members with respect to business' unearned income; however, a child employed by the parent's proprietorship does generate FICA and savings if under 18 years of age (Karl, 1999). Also, sole proprietorships are susceptible to the unavailability of certain estate planning techniques such as freezing because of the indivisibility of the ownership of a proprietorship (Karl, 1999). The sole proprietorship ends with the death of the proprietor and consequently a new business must be established by the survivors if the business activity is to continue. In the event that succession is not carefully planned, each generation must purchase or inherit the business assets necessitating the payment of applicable taxes and costs (Gessaman, 2003). Unless done very carefully, sale of part or all of the proprietor's ownership interests is likely to generate relatively large tax liabilities (Gessaman, 2003).

The partnership form of business structure can be traced to ancient Babylonia, classical Greece, and the Roman Empire. It was also used in Europe and England during the Middle Ages. Eventually, the English common law recognized partnerships. Partnerships are important in that they allow individuals with different expertise, backgrounds, resources, and interests to form a more competitive enterprise by combining their various skills (Mann & Roberts, 1997).

In 1914, the National Conference of Commissioners on Uniform State Laws promulgated the Uniform Partnership Act (UPA). Since then it has been adopted by all states, excluding Louisiana, as well as by the District of Columbia, the Virgin Islands, and Guam (Mann & Roberts, 1997). Though it is a comprehensive act, it does not cover all issues concerning partnership thus in August of 1986 the UPA Revision Subcommittee of the Committee on Partnership and Unincorporated Business Organization of he American Bar Association’s Section of Corporation, Banking and Business Law and the National Conference of Commissioners on Uniform State Laws decided to undertake a complete revision of the UPA (Mann & Roberts, 1997). The revision was approved in August 1992 and was amended in 1993 and 1994.

To establish a clear understanding of the elements of a partnership, the partners are advised to enter into and submit the article of partnership. This type of document is somewhat akin to a business plan that one would submit to the bank for required financing. The elements required are similar and may have been created based on the draft of the business plan. They include according to Mann and Roberts (1997):

(1) The firm name and the identity of the partners

(2) The nature and scope of the partnership business

(3) The duration of the partnership

(4) The capital contributions of each partner

(5) The division of profits and sharing of losses

(6) The managerial duties of each partner

(7) A provision for salaries

(8) Restrictions upon the authority of particular partners to bind the firm

(9) The right of a partner to withdraw from the firm, and the terms, conditions, and notice required for such withdrawal

(10) A provision by which the remaining partners may continue the business in the event of a partner's death or other dissolution, and a statement of the method or formula for appraising and paying interest of the deceased or former partners

The UPA defines partnership as an association of two or more persons to carry on as co-owners of a business for profit (Mann & Roberts, 1997). Sawyer (1997) defines partnership as an association of two or more people acting as co-owners of a for-profit business which is created by an oral or written agreement. This definition fits the general partnership term while limited partnership and limited liability partnership are more precisely distinct. Partners can be classified as either general or limited. A partner may also be silent (who elects to take no part in the partnership business), secret (whose membership in the firm is not disclosed to the public), or dormant (who is both a silent and secret partner) and non partners may by considered ostensible partners( who has consented to be held out as a partner whether he/she is a real partner or not) or sub partners (who is not a partner at all but rather has a contractual arrangement with a partner which entitles him/her to a share of that partner's profits) (Mann & Roberts, 1997).

The general partnership requires tests of existence which are core elements of the formation of a general partnership. Mann and Roberts (1997) legal definition of the above mentioned elements are association (two or more persons with legal capacity who agree to become partners), business for profit, co-ownership (includes sharing of profits, losses, and control of the business), assign ability (a partner may sell or assign his/her interest in the partnership; the new owner becomes entitled to the assigning partner's share of profits and surplus but does not become a partner), and creditor's rights (a partner's interest in subject to the claims of creditors, who may obtain a charging order against the partner's interest). The members of a partnership have three duties afforded to each other. The first is a fiduciary duty which is a duty of utmost loyalty, fairness, and good faith owed by partners to each other and to the partnership. The second is the duty of obedience which is a duty to act in accordance with the partnership agreement and any business decisions properly made by other partners. Finally, the duty of care is the last duty that is present in a general partnership which is the duty owed by partners to manage the partnership affairs without culpable negligence (Mann & Roberts, 1997).

Lowndes and Skelcher (1998) examined the use of partnerships by public service agencies based upon the issues of dependency. The impact of continued constraint on public resources in the mid 1970's has stimulated governmental bodies to search out new sources of finance and to examine whether the creation of multi-agency partnerships involving public, private, voluntary, and community organizations could offer ways of delivering more with less. Partnerships have the potential to increase resource efficiency, making better use of existing resources by reducing duplication, and sharing overheads. They can add value by bringing together complementary services and fostering innovation and synergy. Finally, partnerships enable the levering-in of new resources—either by enabling access to grant regime requiring financial and in-kind contributions from private and voluntary/community sectors or using private sector partners to overcome public sector constraints on access to capital markets.

The liability of a general partnership falls into two categories: personal and joint. The personal liability of a partnership is based upon the legal binding of each partner of which each partner has joint, unlimited personal liability. Joint liability means that a creditor must sue all partners as a group (Mann & Roberts, 1997). The liability arises from the authority to bind a partnership because the partner who has actual authority (express or implied) or apparent authority may bind the partnership (Mann & Roberts, 1997). The liability issue causes the division of a partnership into a limited partnership and a limited liability partnership.

A limited partnership is an organization formed by two or more individuals with one individual designated as general partner and the others as limited partners (Denning & Shastri, 1993). A general partner is a partner of either a general or limited partnership whose liability for partnership indebtedness is unlimited, who has full management powers, and who shares in the profits. In contrast, a special or limited partner is the one who, as a member of a limited partnership, is liable for firm indebtedness only to the extent of the capital he or she has contributed or has agreed to contribute (Mann & Roberts, 1997). Furthermore, limited partners are somewhat similar to preferred shareholders in a corporation in that they stand behind the creditors, but ahead of the general partners in dissolution (Denning & Shastri, 1993). Only the general partner of a limited partnership can participate in management making possible the limitation of liability for the limited partners (Gessaman, 2003).

Although the formation of a general partnership calls for no specific procedures, the formation of a limited partnership requires substantial compliance with the limited partnership statute. Mann and Roberts (1997) state that two or more persons desiring to form a limited partnership shall file in the office of the Secretary of State of the state in which the limited partnership is to have its principal office, a signed certificate of limited partnership. The certificate must include the following information:

(1) The name of the limited partnership

(2) The address of the office and the name and address of the agent for service process

(3) The name and the business address of each general partner

(4) The latest date upon which the limited partnership is to dissolve

(5) Any other matters the general partners decide to include in the certificate

The formation of a limited partnership brings with it rights such as control, voting rights, choice of association, profit and loss sharing, taxes, and distributions. With very limited exceptions, a partnership is not an income tax paying entity. All profits and losses pass through to the partners' individual tax returns in proportion to their respective ownership interests. Unless continuity of the partnership is provided for in the partnership agreement, a partnership is dissolved upon the death or withdrawal of one of the partners. Unless the partnership debt to asset ratio is very low, borrowing usually requires loan documentation signed by all partners and their respective spouses (if any) (Gessaman, 2003).

The final type of partnership is the limited liability partnership which is a general partnership that, by making the statutorily required filing, limits the liability of its partners for some or all of the partnership's obligations (Mann & Roberts, 1997). The designation LLP must be provided with all elements that include the name of the partnership. Some statutes limit liability only for negligent acts while others limit liability to any partnership tort or contract obligation that arises from negligence, malpractice, wrongful acts, or misconduct committed by any partner, employee, or agent of the partnership (Mann & Roberts, 1997). A smaller designation of the LLP is the limited liability limited partnership (LLLP) which limits the liability of the general partner to that of the limited partners.

All partnership designations have advantages and disadvantages. Sumutka, (1997) perceives few limitations for partnerships except in the instance of a limited partnership, only the general partner(s) can exercise management authority; however, this leaves the limited partners vulnerable to liability and potential loss. Fay (1998) sees the unlimited personal liability, similar to a sole proprietorship, as a flaw in the organizational structure. Each general partner can be held personally liable for the debts incurred in the firm's name by any other partner as each general partner has personal joined and several liability issues for the debts of the partnership. Under the doctrine of delectus personae, a partner's rights are generally not transferable without the consent of all partners which could lead to succession planning issues. Unless succession is carefully planned, each generation must purchase or inherit the interests of each partner – subject to associated estate and inheritance tax costs (Gessaman, 2003). A carefully drafted partnership agreement can reduce or avoid many of these limitations; however, a partnership agreement cannot alter the financial responsibilities that accompany being a general partner or a limited partner as they are defined by statutes and court decisions (Gessaman, 2003).

In the opinion of the Supreme Court in *Dartmouth College v. Woodward* 17 U.S., Chief Justice Marshall stated (Mann & Roberts, 1997):

> A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence. These are such as are supposed best calculated to effect eh object for which it was created. Among the most important are immortality, and, if the expression may be allowed, individuality; properties by which a perpetual succession of many persons are considered as the same, so that they may act as a single individual. A corporation manages its own affairs, and holds property without the hazardous and endless necessity of perpetual conveyances for the purpose of transmitting it from hand to hand.(p. 204)

Chief Justice Marshall stated the exact lawful definition of a corporation making it easily definable by practitioners in the field. Denis and Sarin (2002) define a corporation as it exists separate from its owners or shareholders; thus, it is a legal entity in its own right. Being a separate entity, it has its own rights, privileges, and liabilities apart form the individuals who formed it. Shareholders invest money in a business which makes them owners of the entity. At the annual shareholders meeting, they elect the board of directors who make the decisions for the company and they select the management for the day to day activities. The owners are not proprietors nor partners but rather shareholders who own part of an entity.

The principal attributes of a corporation, as discussed by Mann and Roberts (1997), are as follows: (1) it is a legal entity, (2) it owes its existence to a State which also regulates it, (3) it provides limited liability to its shareholders, (4) its shares of stock are freely transferable, (5) its existence may be perpetual, (6) its management is centralized and considered for some purposes (7) a person and (8) a citizen. It is regarded as a legal entity because it can be sued and it is a legal entity separate from its shareholders with rights and liabilities entirely distinct from them. The property of the corporation is owned and regulated by the corporation as a whole not any individual shareholder. Corporations are incorporated by the state and have to adhere to the rules, regulations, and statutes that the state deems necessary. As for liability, the corporation has liability for its assets and debts but the shareholders have limited liability implicating that shareholder liability does not extend past the amount of their investment (Mann & Roberts, 1997).

A corporation has three main classifications: public or private, profit or nonprofit, and foreign or domestic (Mann & Roberts, 1997). A public corporation is created by specific legislation which determines the corporation's purpose and powers while private corporations are founded by and composed of private persons for private purposes and has no governmental duties. The difference between corporations operating for profit or not for profit is based upon the organization's desire to incur a profit to pay dividends to its shareholder or to retain and not make a disbursement. Lastly, the differentiation involving domestic versus foreign is the jurisdiction state wherein the corporation was incorporated. In the home state, it is considered domestic, in every other state and jurisdiction it is considered foreign.

A further designation of a corporation is whether it is closely held or publicly held. The former denotes that a corporations' outstanding shares of stock are held by a small number of persons who are often family, relatives, or friends (Mann & Roberts, 1997). The management of such corporations holds numerous shares so as not to allow for outside investors to have an influence in the management of the corporation. As for publicly held corporations, their outstanding shares are held by a vast number of people and are freely transferable shares. The Federal Securities and Exchange Act of 1934 calls for all publicly held companies to register with the commission. They are governed by the Federal securities laws and must conform to the stock trading laws.

The key element in starting a corporation is outlining the formalities of incorporation as described by Mann and Roberts (1997). One must first start by choosing a name that will symbolize the corporation and it must be distinguishable from the name of any domestic corporation or foreign corporation authorized to do business within the given state. The collection of incorporators who will sign the articles of incorporation is next. These incorporators have an imperative but short-lived function in the incorporation of a business because their useful life is extinguished at the first organizational meeting. The articles of incorporation are also called a charter which includes the name of the corporation, the number of authorized shares, the street address of the registered office and the name of the registered agent, and the name and address of each incorporator. After the articles of incorporation are drawn up they must be submitted to the Secretary of State for authorization (Zahn, 2001). Finally, the first organizational meeting is the last step in the incorporation process. In this first meeting, the bylaws (rules and regulations that govern the internal management) are created, the officers are appointed, and all other business elements are discussed. Authorization of stock, selection of a bank, and approval of corporate seal and the form of stock certificates are discussed and agreed upon (Mann & Roberts, 1997).

S corporations and C corporations were created to cover the tax implications of each such corporation for the betterment of the corporation. Subchapter S of the Internal Revenue Code permits a corporation meeting the specified requirements to elect to be taxed essentially as though it were a partnership. Under Subchapter S, a corporation's income is taxed only once at the individual shareholder level (Mann & Roberts, 1997). Thus, S corporations are sometimes noted as "pass through" forms because all tax issues pass through the corporation and fall upon the shoulders of the shareholder. S corporation status was created by Congress in 1958 as part of a program to offer tax incentives for small business growth. Prior to 1996, S corporations were limited to a maximum number of 35 shareholders, could have only one class of common stock, and could have no foreign or corporate shareholders (Denis & Sarin, 2002). Beginning in 1996, the maximum number of shareholders was increased to 75 and the set of eligible shareholders was expanded to include some trusts, some tax-exempt organizations, and some banks (Denis & Sarin, 2002). As a separate legal entity, the corporation finances and records are established and maintained completely separate and distinct from the finances and records of the stockholders. Through a resolution adopted at a stockholders meeting held in accordance with the bylaws of the corporation, one or more officers or employees of the corporation are authorized to conduct business on behalf of the corporation. The resolution typically includes an authorization with specified limits to borrow and repay funds as needed for business operations. Credit arrangements are made in the name of the corporation with loan documents signed by the authorized person or persons after the lender has received a certified copy of the authorizing resolution (Gessaman, 2003).

As a tax-paying entity, the C Corporation must pay taxes on its taxable income prior to making dividend distributions to stockholders. It is allowed to issue more than one type of stock and can have any number of stockholders (Gessaman, 2003). The disadvantage of the C Corporation is the element of double taxation because the income is taxed before it is distributed to the shareholders and again at the personal level. As for the major advantage, Gessaman (2003) cites the creation of the corporate shield that, in the absence of personal guarantees, limits the liability of stockholders to their capital investment in the corporation and the usefulness for estate planning purposes of the corporate form of business organization.

The final specific corporate form is the limited liability company (LLC) which is sometimes seen grouped with partnerships and sometimes grouped with corporations. An LLC is an unincorporated business entity composed of two or more “members” and it permits its members to enjoy the limitations on personal liability applicable to shareholders of a corporation while avoiding taxation on the entity level (Dowell, 2002). A LLC has some characteristics similar to those of a limited partnership, some corporation-like characteristics, and still other characteristics unique to the LLC form of business organization (Gessaman, 2003). LLC’s are also “pass through” organizations similar to S corporations. Profits are distributed pursuant to the LLC agreement and are taxed to the members at their own tax rates whether or not distributed. Profits are passed through to members and taxed when earned, not received (Dowell, 2002).

Advantages include the pass through tax treatment, limited liability, and governance flexibility. Another disadvantage of LLC does include the lack of a developed body of case law for the resolution of disputes (Dowell, 2002). Currently, LLC members are debating whether or not to require a reduction in the long-term capital gain rates yet this would diminish the relative advantage of LLC's over S corporations (Malone, 1998).

The legal organizational structures affect family businesses similarly to all other types of businesses. The two key elements of the legal organizational structure are taxation and succession when applied to family businesses. The tax laws that are concurrent with some structures are more beneficial for certain family businesses while some structures are advantageous for proper succession planning. Both taxes and improper succession planning lead to a downfall of generational goals and work if not chosen and executed appropriately.

Proprietorships, partnerships, and corporations are the key legal organizational structures and they play a vital role in the success or failure of organizations. Whether family owned, employee owned, or shareholder owned, the legal ramifications, both positive and negative, can aid businesses toward their organizational goals. There is no formula or rule that can be used to decide which form should be utilized but each business type must be given individual attention, and the decision should be made after giving extensive consideration to the circumstance surrounding the particular business and its owners (Fay, 1998).

In this chapter, the literature surrounding the research questions was addressed and broken down into the individual variables. It was found that longevity is linked to organizational variables, corporate direction, and ownership characteristics under the umbrella of family business literature. Chapter 3 will discuss the methodology for gleaning the answers to the research questions from the survey instrument and the analysis of the compiled data.

# CHAPTER 3. METHODOLOGY

## Overview

Family business longevity is a complex topic with many possible contributing variables. After review of the relevant research literature, the variables that were tested by this study are organizational variables, corporate direction, and ownership characteristics. The quantitative study gathered data via a survey instrument that posed the questions on the above mentioned variables. From the collected data, the statistical software program, SPSS, was used to manipulate the data. Basic demographic data was extrapolated as well as tests for soundness of data. Finally, the data was maneuvered to find the equation using multiple regression and analyzed.

## Methodology and Design

The dissertation is a melding of exploratory and formal in that it discovered openings for future research, as an exploratory study would, as well as answering the research question, in a formal study (Cooper & Schindler, 2003). Yet, the basis for the research is the creation of an equation that family businesses can use to aid in their overall longevity as an organization thus pointing toward a formal study with a precise procedure and data source specifications.

Due to the quantitative nature of the study, the interrogation/communication method of data collection was used by impersonal means; thus, the questions were a result of the self-reported instruments sent through the mail. The study was ex post facto in design because the variables were not controlled rather the factors were held constant by scrupulous selection of the subjects, strict sampling, and statistical manipulation of the findings (Cooper & Schindler, 2003).

The purpose of the dissertation is descriptive in nature because it is concerned with how organizational variables, corporate direction, and ownership characteristics produce changes in family business longevity. The time constraint denoted the cross-sectional element of the study because the surveys were sent out once thus representing a snapshot at one point in time. Being a statistical study, the hypothesis having been tested quantitatively and it attempted to capture family businesses characteristics from the sample. The surveys were sent out to the sample gleaned from the entire population and the research environment had a field setting. The subject's perceptions of the study did not affect the outcome of the study due to their lack of self gain.

The following equation was used to attempt to solve the quandary of family business longevity.

LONGEVITY =
ORGANIZTAIONAL VARIABLES (Size & Structure) +
CORPORATE DIRECTION (Mission Statement & Succession Planning) +
OWNERSHIP CHARACTERISTICS (Legal Structure)

## Population and Sampling

Due to the limited access to regional data sources for family business, the population had the geographic bounds of the United States of America and the sample was randomly selected from the entire list of Family Firms Institute members.

Probability sampling is based on the concept of random selection which is a controlled procedure that assures that each population element is given a known nonzero chance of selection while non probability sampling is arbitrary and subjective because each member does not have a known nonzero chance of being included (Cooper & Schindler, 2003).

The simplest of all forms of sampling is the simple random sample which is housed within the name of probability sampling. A sample of n measurements is selected from a finite population of N measurements. If the sampling is conducted in such a way that every possible sample of size n has an equal probability of being selected, the sampling is said to be random and the result is said to be a simple random sample (Mendenhall, Reinmuth, & Beaver, 1993). It is best described via example using a computer aided package, such as Excel, that creates random numbers. Assign each element within the sampling frame a unique number and let a pencil drop on the computer created random number bank. That is the place to start and continue along a pattern given by the computer. Each element then has an equal and known chance of being chosen. When using family business longevity, a database of 1000 family businesses in the United States of America from the Family Firm Institute (FFI) was the finite population. FFI is the only partner in the research database. A sample size of 500 participants was randomly selected from the 1000 membership names on the FFI list based on a 95% confidence level with a 4 confidence interval. Each entry on the database was given a number and then Excel generated a random number bank which was then used to choose the numbers that correspond to the numbers given to the names in the database. A random number bank of 500 numbers was used and selected out of the entire database of family businesses population. A simple random sample is easy to implement with automatic dialing and with a computerized voice response system; however, the major disadvantages are that it requires a listing of population elements, it takes more time to implement, it uses larger sample sizes, and it produces larger errors (Cooper & Schindler, 2003). The larger sample size, 500 names, was utilized to offset the errors that simple random sample can produce.

## Instruments

A survey instrument was used to collect the data from the population, being that the study is quantitative in nature. (See Appendix B) Surveys as an instrument fall into the category of the communication approach which uses a survey to amass data and then analyze the data. The great strength of the survey as a primary data collecting approach is its versatility and its ability to draw out abstract information such as opinions, attitudes, intentions, and expectations (Cooper & Schindler, 2003). The drawback of surveys is the willingness of the participants to cooperate in the data collection via completing the survey and returning it within the designated time frame. The first step in forming and utilizing a survey instrument is the construction of the sample population that fits the criteria required to answer the research question accurately, which was the population of family business firms in the United States of America that are members of the Family Firm Institute. The main objective of a sampling design, the method of collecting the sample, is to provide guidelines for selecting a sample that is representative of its underlying population, thus providing a specified amount of information about the population at a minimum cost (Mendenhall, Reinmuth, & Beaver, 1993). The Family Firm Institute makes its mailing list available for academics that are doing research for the betterment of their constituents. Being that a nationwide sample was used, the increase in the representative nature of the sample selected.

The establishment of reliability and validity of survey instruments was a significant element in the acquisition of accurate data and ultimately, the acceptance or rejection of research hypotheses. Reliability is reputable by administering the same survey twice to the same group of individuals while validity is the process that explores how to test information collected

(Hartenian & Johnson, 1991). The survey was formed and distributed to the sample population prior the data being collected and prepped for editing, description, and analysis. The completed surveys were scrutinized for errors or omissions via the editing process. The editor must guarantee that the data is accurate, uniformly entered, and complete (Cooper & Schindler, 2003). Next, the surveys were coded by assigning numbers or other symbols to answers in order that the responses can be grouped into a limited number of classes or categories (Cooper & Schindler, 2003). After the surveys were coded, the data was entered into a SPSS for manipulation and the generation of summations.

The actual instrument design process begins with a comprehensive list of investigative questions drawn from the management-research question hierarchy (Cooper & Schindler, 2003):

(1) Management Question

(2) Research Questions

(3) Investigative Questions

(4) Measurement Questions

The first phase involves answering the management-research question hierarchy to hone the actual questions that need answers or according to Grover, Lee, and Durand (1993) the determination of the unit of analysis. Selection of the data type (nominal, ordinal, interval, or ratio), communication approach (personal, phone, electronic, or mail), and process structure (structured vs. non structured vs. combination; disguised vs. undisguised) lead to the construction of the preliminary analysis plan (Cooper & Schindler, 2003).

The second phase was constructing and refining the measurement questions to facilitate the administrative question, the target questions, and the classification questions (Cooper &

Schindler, 2003). Deciding whether or not to ask a question, the correct wording for the questions, the best order of the questions, deciding whether or not the question gave the researcher the required data for further analysis are all integral parts of phase two.

Besides question ordering, actual questions must be monitored for precision, double-barreled questions, presumed knowledge of the participant (counteracted by a filter question), and bias. For question wording, the question must have a shared vocabulary between the researcher and participant, the vocabulary must have a single meaning, the question should not hold assumptions, and the wording must not be biased to sway the participant's response (Cooper & Schindler, 2003). On the other end of the question construction is the response strategy where the researcher must choose whether he/she necessitates an unstructured (open ended) or structured response. Cooper and Schindler (2003) notes that the researcher must take into consideration the objectives of the study, the participant's level of information about the topic, etc. when deciding between an unstructured versus a structured response. A multitude of response strategies exist for the appropriate questions such as ranking, rating, free response, checklist, and most widely used, multiple choice.

## Data Collection Procedures

The data collection began with a pre-notification postcard sent to the 500 participants and the postcard, and all forthcoming documents were printed on yellow paper for attention grabbers. This also increased response rates. The instrument was sent to the family businesses a week after the postcard was sent and the follow up post card was sent two weeks following. The instrument was clearly articulated, along with the sponsors, in the introduction as well as the cover letter. (See Appendix A)

Reliability, the estimate of the degree to which a measurement is free of random and unstable error, and validity, the extent to which differences found with a measuring tool reflect true differences among respondents being tested, were proved in several diverse ways (Cooper & Schindler, 2003). To address validity and reliability, a pilot test was conducted prior to sending the surveys to the participants. The use of the stability (pilot test) secured consistent results with repeated measures to the same group with the same instrument (Cooper & Schindler, 2003). The pilot test was conducted at a local small family business consisting of twenty management level members chosen because it is a representative sample of the participant pool. These members were small family business owners and employees of a small family business. The survey was distributed to the group on a set date and monitored by the researcher. The test pilot group was asked to take the survey using hypothetical information and asked the following questions after taking the survey:

(1) What is your background?

(2) How are you affiliated with the family business?

(3) Do you have any market research experience?

(4) Do you often submit to participating in surveys?

(5) Are the questions understandable? If no, which questions?

(6) Are there any questions that should have been added?

(7) Do you feel any questions are repetitive?

(8) Is the wording of any of the questions confusing? If so, which questions?

(9) Do the cover letter and the directions to the survey make sense?

(10) Do you, as a participant, understand what the survey results will be used for?

(11) Do you find any of the questions leading or offensive?

The pilot test addressed content validity by finding that the content of the instrument adequately represented the universe of all relevant items in the study (Cooper & Schindler, 2003). Mendelson (2000) did an analogous study on organizational architectures of the information technology (IT) industry and used the same type of reliability and validity enhancement.

After collecting the preceding information from the pilot study participants, the survey instrument was revised based on a combination of their suggestions and the researcher's opinions. After the survey instrument was revised, 500 surveys were sent out to the members on the Family Firm Institute list and 408 responded thus an 81.6% response rate.

## Data Analysis

The data analysis entailed the use of SPSS and Excel to break down the data into its components and a thorough analysis of the collection. Based upon the research, most family businesses will fail after the transition to the second generation (Miller, Steier, & Breton-Miller, 2003) given that a generation is roughly twenty years; all responses that were forty years or less were thrown out. The data was run through SPSS for distribution, correlation, and finally, the multiple regression equation that predicted the longevity of family businesses based upon organizational variables, corporate direction, and ownership characteristics. As the correlation numbers presented themselves, the highly correlated variables were kept as part of the longevity regression and the low correlation variables were thrown out. The pared down variables were then entered into regression analysis.

## Human Participants in Research

Gaining the consent of the participants was twofold within the study. First, the initial information card that is sent out notified the participant that a survey was coming in the mail regarding their family business. Second, when the survey came, there was an opening page that described the survey's purpose, academic use of the survey, and provided my email address in the event they would want a summary of the report. The most important element of the survey that certified consent was the completion of the survey itself.

In conclusion of this chapter, the survey instrument was created for the gathering of data to answer the questions regarding family business longevity. The importance of reliability and validity has been established along with data collection and analysis. The next chapter addresses the implementation of the methodology and the outcome of the research.

# CHAPTER 4. DATA COLLECTION AND ANALYSIS

The purpose of this dissertation is to examine the family business longevity and the creation of an equation to predict longevity.

LONGEVITY =
ORGANIZATIONAL VARIABLES (Size & Structure) +
CORPORATE DIRECTION (Mission Statement & Succession Planning) +
OWNERSHIP CHARACTERISTICS (Legal Structure)

From this equation, management of family business can attempt to predict longevity or conversely, use the equation to assess the current state of affairs and determine what elements to amend to increase the potential longevity. The introductory and literature review chapters addressed conceptual theory formulation in developing the research model to be tested and formulated the two research questions:

(1) To what degree do organizational variables (structure & size), corporate direction (mission statement & succession planning), and ownership characteristics (legal structure) determine longevity of family business?

A. How do organizational variables influence family business longevity?

B. How does corporate direction influence family business longevity?

C. How do ownership characteristics influence family business longevity?

D. How do organizational variables, corporate direction, and ownership characteristics collectively influence family business longevity?

(2) Is there a correlation between family business longevity, organizational variables, corporate direction, and ownership characteristics? If there is a correlation, that implies an equation, theory or process for explaining the relationship.

## Data Collection

The data collection began with the previously discussed pilot study followed by a resubmission of the same survey instrument obtaining the same results. This fortified the validity and reliability of the instrument. A sample of 500 members of the FFI organization were chosen and mailed the survey instrument on January 1, 2006. A cover letter was attached explaining the research. (SEE APPENDIX A) The requested return date was January 27, 2006 and responses continued to pour in until the middle of February 2006. All responses were considered in the study. The next step was to input the data into SPSS and perform the calculations and complete the data analysis.

## Data Analysis: General Data

### Organizational Variables

Table 1 presents the descriptive statistics on questions 1 through 3, denoted as Q1 through Q3. The mean length of operations for this data set was 144.04 years and the mean number of employees was 7264.82 showing that the companies were generally large in size. The interesting element was that the largest number of employees that were relation to the founding family in the company was only 15.

**Table 1: Descriptive Statistics - Organizational Elements**

| | **Number** | **Minimum** | **Maximum** | **Mean** |
|---|---|---|---|---|
| Q1: Length of Operation | 408 | 17 | 383 | 144.04 |
| Q2: Number of Employees | 408 | 3 | 800000 | 7264.82 |
| Q3: Employees that are Relation | 408 | 0 | 15 | 3.69 |

Table 2 presents the frequency statistics on questions 4 through 6, denoted as Q4 through Q6. The companies did not have an overwhelming placement in any certain business type but did have a significant representation in manufacturing (16.7%) and services (15.7%). All of the companies had to be headquartered in the US; fortunately none of the responses came back with an "other" response because they would have been weeded out because the research is US based. The state headquarters were not consistent but the two largest were Pennsylvania and Wisconsin.

**Table 2a: Frequency Statistics - Organizational Elements**

| | | Frequency | Percent |
|---|---|---|---|
| Q4: Nature of Business | | | |
| | Agriculture/Forestry | 32 | 7.8 |
| | Financial Services | 24 | 5.9 |
| | Services | 64 | 15.7 |
| | Telecommunications | 19 | 4.7 |
| | Manufacturing | 68 | 16.7 |
| | Real Estate | 48 | 11.8 |
| | Transportation | 7 | 1.7 |
| | Construction | 22 | 5.4 |
| | Hi-Tech or Bio-Tech | 38 | 9.3 |
| | Wholesale/Distributors | 24 | 5.9 |
| | Mining/Oil and Gas | 4 | 1 |
| | Retail | 47 | 11.5 |
| | Other | 10 | 2.5 |
| Q5: Country of Headquarters | | | |
| | USA | 408 | 100 |
| | Other | 0 | 0 |
| Q6: State Headquarters | | | |
| | Alabama | 6 | 1.47% |
| | Alaska | 4 | 0.98% |
| | Arizona | 3 | 0.74% |
| | Arkansas | 7 | 1.72% |
| | California | 18 | 4.41% |
| | Colorado | 12 | 2.94% |
| | Connecticut | 4 | 0.98% |
| | Delaware | 4 | 0.98% |
| | Florida | 6 | 1.47% |
| | Georgia | 3 | 0.74% |
| | Idaho | 4 | 0.98% |
| | Illinois | 16 | 3.92% |
| | Indiana | 4 | 0.98% |
| | Iowa | 7 | 1.72% |
| | Kansas | 4 | 0.98% |
| | Louisiana | 5 | 1.23% |
| | Maine | 11 | 2.70% |
| | Maryland | 10 | 2.45% |
| | Massachusetts | 15 | 3.68% |

| Table 2b: Frequency Statistics - Organizational Elements | | Frequency | Percent |
|---|---|---|---|
| | Michigan | 19 | 4.66% |
| | Minnesota | 3 | 0.74% |
| | Mississippi | 2 | 0.49% |
| | Missouri | 11 | 2.70% |
| | Montana | 21 | 5.15% |
| | Nebraska | 4 | 0.98% |
| | Nevada | 7 | 1.72% |
| | New Hampshire | 11 | 2.70% |
| | New Jersey | 3 | 0.74% |
| | New Mexico | 1 | 0.25% |
| | New York | 6 | 1.47% |
| | North Carolina | 5 | 1.23% |
| | North Dakota | 2 | 0.49% |
| | Ohio | 14 | 3.43% |
| | Oklahoma | 5 | 1.23% |
| | Oregon | 2 | 0.49% |
| | Pennsylvania | 33 | 8.09% |
| | Rhode Island | 8 | 1.96% |
| | South Carolina | 7 | 1.72% |
| | South Dakota | 2 | 0.49% |
| | Tennessee | 4 | 0.98% |
| | Texas | 11 | 2.70% |
| | Utah | 9 | 2.21% |
| | Vermont | 5 | 1.23% |
| | Virginia | 15 | 3.68% |
| | Washington | 10 | 2.45% |
| | West Virginia | 7 | 1.72% |
| | Wisconsin | 35 | 8.58% |
| | Wyoming | 3 | 0.74% |

Table 3 presents the statistics on questions 7 through 16, denoted as Q7 through Q 16. They are answering the questions on the Likert scale regarding position in the organizational structure.

**Table 3: Frequency Statistics - Organizational Elements**

| | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|---|---|---|---|---|---|
| Q7: Pyramid of Authority | | | | | |
| Frequency | 40 | 160 | 40 | 104 | 56 |
| Percent | 9.8 | 39.2 | 9.8 | 25.5 | 13.7 |
| Q8: Functional Units | | | | | |
| Frequency | 48 | 120 | 96 | 80 | 48 |
| Percent | 11.8 | 29.4 | 23.5 | 19.6 | 11.8 |
| Q9: Functional Departments | | | | | |
| Frequency | 16 | 80 | 88 | 112 | 88 |
| Percent | 3.9 | 19.6 | 21.6 | 27.5 | 21.6 |
| Q10: Division Managers | | | | | |
| Frequency | 80 | 160 | 32 | 48 | 80 |
| Percent | 20 | 40 | 8 | 12 | 20 |
| Q11: Division Units | | | | | |
| Frequency | 48 | 128 | 72 | 96 | 48 |
| Percent | 11.8 | 31.4 | 17.6 | 23.5 | 11.8 |
| Q12: Cross-Functional Teams | | | | | |
| Frequency | 72 | 216 | 48 | 32 | 24 |
| Percent | 17.6 | 52.9 | 11.8 | 7.8 | 5.9 |
| Q13: Project Based | | | | | |
| Frequency | 56 | 200 | 40 | 56 | 24 |
| Percent | 13.7 | 49 | 9.8 | 13.7 | 5.9 |
| Q14: Shareholder Impact | | | | | |
| Frequency | 120 | 128 | 32 | 40 | 72 |
| Percent | 29.4 | 31.4 | 7.8 | 9.8 | 17.6 |
| Q15: Employee Impact | | | | | |
| Frequency | 112 | 208 | 48 | 16 | 8 |
| Percent | 27.5 | 51 | 11.8 | 3.9 | 2 |
| Q16: Family Impact | | | | | |
| Frequency | 168 | 136 | 32 | 40 | 16 |
| Percent | 41.2 | 33.3 | 7.8 | 9.8 | 3.9 |

## Corporate Direction

Table 4 presents the frequency statistics for questions 17 through 34, denoted as Q17 through Q34. It illustrates the elements of the sample population that have mission statements, strategic plans, succession plans, and future direction. Of the 408 surveys, 64.7% said they have a mission statement, 74.5% have strategic plans, and only 35% have an out side board of directors. In regard to a succession plan, 47.1% say that their succession plan is a melding of the past and the present.

**Table 4a: Frequency Distributions - Corporate Direction**

| | | Frequency | Percent |
|---|---|---|---|
| Q17: Mission Statement | | | |
| | Yes | 264 | 64.7 |
| | No | 384 | 29.4 |
| Q18: Attitudes of Founding Family | | | |
| | Yes | 264 | 26.7 |
| | No | 16 | 3.9 |
| Q19:Focus Upon Mission Statement for Decisions | | | |
| | Yes | 296 | 72.5 |
| | No | 72 | 17.6 |
| Q20: Change of Mission Statement | | | |
| | Yes | 120 | 29.4 |
| | No | 104 | 25.5 |
| Q21: Family Members Dictate Changes | | | |
| | Yes | 160 | 39.2 |
| | No | 88 | 21.6 |
| Q22:Family Control in 5 Years | | | |
| | Yes | 376 | 92.2 |
| | No | 24 | 5.9 |
| Q23: Next Owners | | | |
| | Non-Family Employees | 32 | 7.8 |
| | Outsiders | 48 | 11.8 |
| | Family Members | 288 | 70.6 |
| | Public Market | 16 | 3.9 |
| Q24: Strategic Plan | | | |
| | Yes | 304 | 74.5 |
| | No | 96 | 23.5 |
| Q25: Known Strategic Plan | | | |
| | Very Well | 224 | 54.9 |
| | Somewhat | 80 | 19.6 |
| | Not At All | 0 | 0 |
| Q26: Outside Board of Directors | | | |
| | Yes | 144 | 35.3 |
| | No | 264 | 64.7 |
| Q27: Change in # of Employees in Next Year | | | |
| | Decrease more than 5% | 8 | 2 |
| | Decrease up to 5% | 8 | 2 |
| | Increase up to 5% | 152 | 37.3 |

| Table 4b: Frequency Distributions - Corporate Direction | | | Frequency | Percent |
|---|---|---|---|---|
| | Increase more than 5% | | 40 | 9.8 |
| | Remain the Same | | 200 | 49 |
| Q28: Change in Sales Revenue in Next Year | | | | |
| | Decrease | | 8 | 2 |
| | Increase 1-5% | | 136 | 33.3 |
| | Increase 6-10% | | 200 | 49 |
| | Increase 11-20% | | 16 | 3.9 |
| | Increase more than 20% | | 8 | 2 |
| | No Change | | 40 | 9.8 |
| Q29: Unified Views in Ownership Group | | | | |
| | Extremely | | 96 | 23.5 |
| | Very | | 280 | 68.6 |
| | Some | | 16 | 3.9 |
| | Not At All | | 16 | 3.9 |
| Q30: Senior Generation Want to Stay in Business | | | | |
| | Very Much SO | | 312 | 76.5 |
| | For the Most Part | | 64 | 15.7 |
| | Slightly | | 8 | 2 |
| | Somewhat | | 16 | 3.9 |
| | Not At All | | 8 | 2 |
| Q31: LT Ownership of Next Generation | | | | |
| | Very Much SO | | 192 | 47.1 |
| | For the Most Part | | 160 | 39.2 |
| | Slightly | | 8 | 2 |
| | Somewhat | | 16 | 3.9 |
| | Not At All | | 24 | 5.9 |
| Q32: Female Family Members in Top Management | | | | |
| | | 0 | 224 | |
| | | 1 | 128 | |
| | | 2 | 40 | |
| | | 3 | 8 | |
| | | 4 | 8 | |
| Q32: Male Family Members in Top Management | | | | |
| | | 0 | 48 | 11.8 |
| | | 1 | 80 | 19.6 |
| | | 2 | 144 | 35.3 |
| | | 3 | 80 | 19.6 |
| | | 4 | 32 | 7.8 |
| | | 5 | 24 | 5.9 |
| Q34: Description of Succession Plan | | | | |
| | Strong Attachment to the past | | 144 | 35.3 |
| | Rejection of the Past | | 8 | 2 |
| | Blending of Past and Present | | 192 | 47.1 |
| | Other | | 56 | 13.7 |

Ownership Characteristics

Table 5 presents the frequency statistics for questions 35 through 43, denoted as Q35 through Q43. This data demonstrates how family businesses are owned in regard to structure and 80.4% of them are either C or S corporations. As for family meetings, only 19.6% of the respondents said that they meet once per year and 41.2% said that they did not meet at all. Questions 40 through 43 are broken into a Likert scale and show that sensitivity to the environment, cohesiveness, tolerant to new business, and centralized control are present in the majority of family business respondents. These are the key elements in DeGeus (1997) study of longevity of businesses.

**Table 5a: Frequency Statistics - Ownership Characteristics**

| | | **Frequency** | **Percent** |
|---|---|---|---|
| Q35: Legal Structure | | 216 | 52.9 |
| | C Corporation | 216 | 52.9 |
| | S Corporation | 112 | 27.5 |
| | Limited Partnership | 8 | 2 |
| | Limited Liability Company | 24 | 5.9 |
| | Limited Liability Partnership | 0 | 0 |
| | General Partnership | 0 | 0 |
| | Proprietorship | 0 | 0 |
| | Other | 0 | 0 |
| Q36: Public v. Private | | | |
| | Public | 40 | 9.8 |
| | Private | 360 | 88.2 |
| Q37: Profit v. Non for Profit | | | |
| | Profit | 392 | 96.1 |
| | Non-Profit | 8 | 2 |
| Q38:Foreign v. Domestic | | | |
| | Foreign | 16 | 3.9 |
| | Domestic | 384 | 94.1 |
| Q39: Family Meetings | | | |
| | Yes-meets once per year | 80 | 19.6 |
| | Yes-meets twice per year | 32 | 7.8 |
| | Yes-meets 3 or 4 times | 48 | 11.8 |
| | Yes-meets 5 times per year | 64 | 15.7 |
| | No | 168 | 41.2 |

| Table 5b: Frequency Statistics - Ownership Characteristics | | Frequency | Percent |
|---|---|---|---|
| Q40: Sensitive to Environment | | | |
| | Strongly Agree | 120 | 29.4 |
| | Agree | 216 | 52.9 |
| | Neutral | 56 | 13.7 |
| | Disagree | 0 | 0 |
| | Strongly Disagree | 0 | 0 |
| Q41: Cohesive Company | | | |
| | Strongly Agree | 208 | 51 |
| | Agree | 168 | 41.2 |
| | Neutral | 8 | 2 |
| | Disagree | 0 | 0 |
| | Strongly Disagree | 8 | 2 |
| Q42: Tolerant to New Business | | | |
| | Strongly Agree | 80 | 19.6 |
| | Agree | 192 | 47.1 |
| | Neutral | 88 | 21.6 |
| | Disagree | 16 | 3.9 |
| | Strongly Disagree | 8 | 2 |
| Q43: Centralized Control | | | |
| | Strongly Agree | 32 | 7.8 |
| | Agree | 184 | 45.1 |
| | Neutral | 120 | 29.4 |
| | Disagree | 24 | 5.9 |
| | Strongly Disagree | 8 | 2 |

## Data Analysis: Research Questions

### Organizational Variables

The research question to be answered by this section of the survey is question 1 part A which reads "How do organizational variables influence family business longevity?" Utilizing Spearman's Rho (ρ), which correlates ranks between two ordered variables, Table 6 presents the results for questions 7 through 16 as correlated to the variable longevity (Cooper & Schindler, 2003). The significance level of 0.05 is used as the indicator if that variable has any correlation to the variable of longevity; all variables that have a significance level below 0.05 are not considered. Spearman's Rho is a non parametric correlation. The data was taken from the distributed survey instrument. The results indicate that there is a high correlation between longevity and the variables pyramid of authority, division managers, division units, cross-functional teams, project-based, and family impact. It shows that companies have both elements of the traditional hierarchical structure, division teams, and cross-functional teams.

| Table 6: Organizational Variables Correlation - Longevity | | |
|---|---|---|
| | **Correlation Coefficient** | **Significant** |
| Q7: Pyramid of Authority | 0.109 | Yes |
| Q8: Functional Units | -0.74 | No |
| Q9: Functional Departments | 0.001 | No |
| Q10: Division Managers | 0.173 | Yes |
| Q11: Division Units | 0.276 | Yes |
| Q12: Cross-Functional Teams | -0.125 | Yes |
| Q13: Project Based | -0.153 | Yes |
| Q14: Shareholder Impact | 0.021 | No |
| Q15: Employee Impact | 0.062 | No |
| Q16: Family Impact | 0.103 | Yes |

The variables Q8, Q9, Q14, and Q15 are not significant for the prediction of longevity in family businesses therefore; they are eliminated from dissertation.

## Corporate Direction

The research question to be answered by this section of the survey is question 1 part B which reads “How does corporate direction influence family business longevity?” A Chi-Square based, two-tailed measure of Pearson’s, symbolized as r and ranges from -1, through 0, to +1, is best used for nominal data in questions 17 through 34 when assessing correlation. Coefficients close to +1 and -1 indicate a strong linear relationship, whereas coefficients close to 0 indicated weak linear relationships. Table 7 presents the correlation coefficients for Q17 through Q34. The data results designate that a strategic plan is significantly correlated to longevity as well as an outside board of directors. Companies that have these elements have proven to be longer lived.

**Table 7: Corporate Direction Correlation - Longevity**

| | Correlation | Significant |
|---|---|---|
| Q17: Mission Statement | -0.54 | No |
| Q18: Attitudes of Founding Family | 0.211 | Yes |
| Q19:Focus Upon Mission Statement for Decisions | 0.092 | No |
| Q20: Change of Mission Statement | 0.0242 | Yes |
| Q21: Family Members Dictate Changes | -0.322 | Yes |
| Q22:Family Control in 5 Years | 0.065 | No |
| Q23: Next Owners | 0.001 | No |
| Q24: Strategic Plan | 0.376 | Yes |
| Q25: Known Strategic Plan | 0.377 | Yes |
| Q26: Outside Board of Directors | 0.176 | Yes |
| Q27: Change in # of Employees in Next Year | 0.017 | No |
| Q28: Change in Sales Revenue in Next Year | 0.101 | Yes |
| Q29: Unified Views in Ownership Group | 0.054 | No |
| Q30: Senior Generation Want to Stay in Business | -0.054 | No |
| Q31: LT Ownership of Next Generation | 0.13 | Yes |
| Q32: Female Family Members in Top Management | 0.218 | Yes |
| Q32: Male Family Members in Top Management | -0.266 | Yes |
| Q34: Description of Succession Plan | 0.067 | No |

The variables Q17, Q19, Q22, Q23, Q27, Q29, Q30, and Q34 are not significant and therefore are eliminated from the dissertation.

## Ownership Characteristics

The research question to be answered by this section of the survey is question 1 part C which reads “How does ownership characteristics influence family business longevity?” Table 8 uses Spearman’s Rho to determine the correlation coefficient at a 0.05 level of significance for questions 40 through 43. Family businesses that feel they are sensitive to the environment and tolerant of new business are associated with longevity.

| Table 8: Ownership Characteristics Correlation - Longevity | | |
|---|---|---|
| | **Correlation Coefficient** | **Significant** |
| Q40: Sensitive to Environment | 0.149 | Yes |
| Q41: Cohesive Company | -0.45 | No |
| Q42: Tolerant to New Business | 0.105 | Yes |
| Q43: Centralized Control | -0.05 | No |

The variables Q41 and Q43 are not significantly correlated to longevity therefore are eliminated from the dissertation. Table 9 uses Pearson's correlation to determine the correlation of questions 35 through 39 to longevity. The data results signify that the companies' longevity is strongly associated with its legal structure. It is also significant that the companies that were profit and domestic impacted longevity.

| Table 9: Ownership Characteristics Correlation - Longevity | | |
|---|---|---|
| | **Correlation** | **Significant** |
| Q35: Legal Structure | 0.25 | Yes |
| Q36: Public v. Private | 0.094 | No |
| Q37: Profit v. Non for Profit | 0.268 | Yes |
| Q38:Foreign v. Domestic | -0.124 | Yes |
| Q39: Family Meetings | 0.039 | No |

The variables Q36 and Q29 are not significant and therefore are eliminated from the dissertation.

The research question 1 part C is answered by the culmination of all three sections: organizational variables, corporate direction, and ownership characteristics. The correlation statistics presented the variables that were significantly correlated to the variable of longevity. The organizational variables pyramid of authority, division managers, division units, cross-functional teams, project-based, employee impact, and family impact have a significance level of 0.05 or better and consequently are considered influential to family business longevity. Corporate direction influential variables consist of attitudes of founding family, change of mission statement, family members dictate change, strategic plan, known strategic plan, outside board of directors, sales revenue change in next year, and long-term ownership of next generation. Question 17(Q17) is not highly correlated to regression questions 18, 20, and 21 (Q18, 20, & 21), they are taken out of the equation since they were a subset based on questions 17. Finally, the ownership characteristics that are apparently influential to the longevity of family firms are sensitivity to the environment, tolerance for new business, and legal structure.

The question "Is there a correlation between family business longevity, organizational variables, corporate direction, and ownership characteristics? If there is a correlation that implies an equation, theory or process for explaining the relationship" is answered by using the highly correlated independent variables that predict the dependant variable, longevity. Multiple linear regression estimates the coefficients of the linear equation, involving one or more independent variables, which best predict the value of the dependent variable. The linear regression model assumes that there is a linear, or "straight line," relationship between the dependent variable and each predictor. The variable Strategic Plan was deleted from analysis by SPSS because the variables are constants. SPSS created the following results:

**Table 10: Model Summary - Multiple Regression**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.607 | 0.368 | 0.336 | 39.862 |

The model summary begins by showing that R, the multiple correlation coefficients, is the linear correlation between the observed and model-predicted values of longevity. Its large value, 0.607 indicates a strong relationship. R Square, the coefficient of determination, is the squared value of the multiple correlation coefficients. It shows that about 40% of the variation in longevity is explained by the model.

| Table 11: ANOVA - Multiple Regression | | | | | |
|---|---|---|---|---|---|
| **Model** | **Sum of Squares** | **df** | **Mean Square** | **F** | **Sig** |
| Regression | 217687.53 | 12 | 18140.628 | 11.417 | 0.00 |
| Residual | 373407.3 | 235 | 1588.967 | | |
| Total | 597094.83 | 247 | | | |

The regression line explains the variation in longevity accounted for by the model and the residual line explicates the variation not accounted for by the model. The sum of squares of the regression versus the residual is roughly equal thus about half of longevity is explained by the model. The F and Sig line together show that 0.000 is less than 0.05 thus the model is not due to chance.

| Table 12: Coefficients of Multiple Regression | | | | | |
|---|---|---|---|---|---|
| **Model** | **B** | **Std. Error** | **Beta** | **t** | **Sig.** |
| Constant | -18.27 | 26.793 | | -0.682 | 0.496 |
| Legal Structure | 17.5 | 3.572 | 0.325 | 4.899 | 0.000 |
| Sensitive to Environment | 8.963 | 5.563 | 0.111 | 1.611 | 0.109 |
| Tolerant to New Business | -18.546 | 5.286 | -0.262 | -3.508 | 0.001 |
| Pyramid of Authority | 5.73 | 3.357 | 0.143 | 1.707 | 0.089 |
| Division Managers | -3.729 | 3.42 | -0.112 | -1.09 | 0.277 |
| Division Units | 3.165 | 2.584 | 0.078 | 1.225 | 0.222 |
| Cross-Functional Teams | -4.614 | 2.906 | -0.101 | -1.588 | 0.114 |
| Project Based | 5.649 | 3.703 | 0.124 | 1.525 | 0.129 |
| Employee Impact | 10.795 | 4.339 | 0.198 | 2.488 | 0.014 |
| Family Impact | 10.625 | 2.637 | 0.25 | 4.03 | 0.000 |
| Known Strategic Plan | 60.556 | 6.842 | 0.563 | 8.851 | 0.000 |
| Board of Directors | 6.037 | 6.773 | 0.06 | 0.891 | 0.374 |

The B coefficients create the following equation for family business longevity:

Longevity = 17.50 Legal Structure +8.963 Sensitive to Environment -18.546 Tolerant to New Business + 5.730 Pyramid of Authority – 3.729 Division Mangers + 3.165 Division Units –

4.614 Cross-Functional Teams + 5.649 Project-Based + 10.795 Employee Impact + 10.625 Family Impact + (60.556 Known Strategic Plan- removed because of subset of Strategic Plan) + 6.037 Board of Directors -18.270

In conclusion, Chapter 4 has laid out the data found from the implementation of the survey instrument, by mail, to the research participants. This data was manipulated using SPSS and the output was generated in the table form for ease of viewing. The frequency, correlation, and regression were calculated in response to the research questions. In the next chapter, the results will be discussed.

# CHAPTER 5. RESULTS, CONCLUSIONS, AND RECOMMENDATIONS

## Summary and Discussion of Results

The problem presented with family businesses is that evidence shows that a mere 30% of family businesses survive past the first generation and that many intergenerational successions fail soon after the second generation takes control (Miller, Steier, & Breton-Miller, 2003). Even more concerning is that a meager 13% are likely to transition to the third generation (Reece, 2003). How might a family business work against those odds? The research conducted through problem assessment, literature review, research question creation, survey instrument distribution, and data analysis created some viable answers to the question.

## Summary and Discussion: Organizational Variables

The oldest company that responded was 383 years old with the mean age being 144.04 years old and number of employees varied from 800,000 to 3 with a mean of 7200. Surprisingly, the company with the largest number of employees that are direct relation to the founding family was only 15 people of those family members; 45.1% had female family members in top management whereas 88.2% had male family members in top management. The nature of the family business varied considerably with General Services and Manufacturing being at the top of the list, Real Estate and Retail came in a close second. Wisconsin and Pennsylvania had the highest percentages, 8.6 and 8.1 respectively; of state headquarter for the family businesses. All of the survey respondents' headquarters were within the United States of America and considered domestic firms.

As discussed in the literature review, to best understand ownership structure and management of family businesses, one must recognize the three types of organizing modes of organizational structure. The organizing mode precipitates into the three types of organizational structure design, functional, self-contained-unit (divisional), and matrix. The questions of how to divide the overall work of the organization into its subunits, how to assign jobs, and how to coordinate these subunits for completion of overall work are answered by choosing the design of the organization (Cummings & Worley, 1993). Organizations can be organized to reflect common knowledge, function, outcomes, or projects. Control and coordination are the pivotal elements in the organizing mode as well as overall organization structure design. The majority of corporate America--has for years relied on the traditional organization structure: a pyramid of authority with workers along the bottom, executive management at the top, and usually a vast array of middle managers crowding the bulk of the structure (Rinehart, 1992).

The survey instrument addressed this functional element in questions 7 through 9 (Q7 through Q9) and found that the traditional pyramid of authority is apparent in 50% of the organizations. Breaking down the organization into its functional groups (i.e. accounting, human resources, engineering, etc.) is one key element in the basic hierarchical structure and was found in 42.9% of those surveyed but only 25% said that those functional groups only contained those functional members. The results point to the fact that still about 50% of the family firms work on an hierarchical structure but the 25% of members within the functional groups points to the fact that they are trying to meld out of that position.

The other element of hierarchical structure is known as divisional, multidivisional, or self-contained unit form. All activities pertaining to a single product, set of products, or type of customer are grouped together in a division and a product or division manager heads each division or unit (Harris & Raviv, 2002). Questions 10 through 13 (Q10 through Q13) addressed that element and found that 60% of the respondents had division or product managers and 44.9% of the companies are broken up into divisional units. Of those 408 companies, an amazing 73.5% of them utilize cross-functional teams and 68.1% are solely project-based.

The matrix organization is a complex organizational structure that group individuals from different functional organizations together to accomplish a common purpose typically identified as a project (Dunn, 2001). It is addressed by questions 12 and 13 (Q12 and Q13), and it found that 73.5% utilize cross-functional teams and 68.1% are project-based thus showing an organizational element of a matrix organization.

Of those 408 surveyed, 50% have a traditional hierarchical structure and 73.5% of the same respondents say that they utilize cross-functional teams which seem like a discrepancy because the overall summation of data suggests that companies are in a constant flux and may be loosely based in a traditional structure but break out to work on projects or to attack problems. The impact of the shareholders, employees, and family members is significant to the policy creation in the firm. Almost sixty-four percent agree that the shareholders have a significant impact on policy creation, 81.6% agree that employees have a significant impact on policy creation, and 77.6% agree that family has an impact on policy creation.

## Summary and Discussion: Corporate Direction

Corporate direction spoke to two different items, mission statement and succession planning. The survey produced the results of 64.7% of the companies had mission statements and of those all agreed that the mission statement encompasses the attitudes of the founding family. Mission statements note the overall view or direction that the management team wants the company to become. In some family businesses, the mission statement is a reaffirmation of the traditions, values, and norms of the family itself. When making decisions 72.5% stated that the company continues to focus upon the mission statement of the founding family when making decisions about the future of the company. Only 29.4% said that the mission statement has changed over the years and of that 29.4%, 39.2% said that the changes were dictated by family members who work within the organization.

As for many family firms, succession planning can play a critical role in the success, failure, and ultimate longevity of the organization. As family businesses are a primary contributor to the economic and social well-being of all capitalist societies, their general lack of longevity is cause for concern (Venter, Boshoff, & Maas, 2003, Sharma, Chrisman, Pablo, & Chua, 2001). Reece (2003) discusses three main ingredients for the successful mixing of blood and business: (1) regular, planned family meetings, (2) a strategic business plan, and (3) and outside board of directors. Questions 22 through 34 (Q22 through Q34) address the family firm ideas on succession planning. Family meetings are not a priority in the firms that were surveyed because 41.2% of the firms do not have family meetings at all and only 19.6% meet once per year. Ninety-two percent of the firms surveyed said that they believe that the firm would be controlled by the same family in five years and when asked about who the next owners might be 70.6% said that it will remain family members; only 11.8% thought it would be owned by outsiders. That is interesting considering that the largest number of family members working in an organization is fifteen. Seventy-four percent of the companies had a strategic plan and of those who had a plan 100% said that the plan was known somewhat or very well. Only 35.3% of family firms surveyed have an outside board of directors, again, keeping with the thought that the organization is a family. As for growth within the existing family firms, 37.3% of firms said that their number of employees will increase up to 5% and 49% of firms will increase revenue 6-10% in the next year. The ownership group's views on business strategy, management, etc. is said to be extremely to very unified in 92.2% of all family businesses. When dealing with succession, it is noted that the basic rule for family owned-businesses is this: The owner should develop a succession plan regardless of the emotional and psychological hurtles that they must cross (Kuratko & Hodgetts, 1995). It is a highly charged emotional issue that requires not only structural changes but cultural changes as well because the succession includes the transfer of ethics, values, and traditions along with the actual business itself (Kuratko & Hodgetts, 1995). This is exemplified in the survey data because 98% of family firms surveyed said that the senior generation wants to stay in the business with 76.5% saying that they want to stay in the business "very much so." Another question that arises is the willingness of the next generation's desire to take over the business. According to the data analysis, 88% of the companies said that the next generation is strongly committed to the long term ownership of the organization. The percentage of the voting shares of stock owned by the founding family for 67.3% of the companies is wholly (100%) owned by the founding family members or their descendents. Finally, the succession plan itself was seen as a blending of the past and present by 47% of the firms.

## Summary and Discussion: Ownership Characteristics

From the federal income tax point of view, there are six principal forms of business enterprises: sole proprietorship, partnership, Regular Corporation, subchapter S corporation, limited liability partnership, and Limited Liability Company. Of the 408 companies, 52.9% are C Corporations, 27.5% are S Corporations and 5.9% are L.L.C.'s. Eighty-eight percent of the companies are privately held, 96.1% are for profit organizations, and 100 % are domestic in main headquarters.

## Summary and Discussion: Longevity

As discussed in the literature review, a study was conducted by Dutch/Shell and two business professors to study the longevity of corporations. As a determinate of longevity, the companies had to be older than Dutch/Shell and relatively the same size or larger. Only 40 corporations were found that met the criteria and 27 were studied extensively to find the key elements in corporate longevity (De Geus, 1997). After all work was completed, the following four elements were common threads in all the companies studied De Geus (1997) stated that all companies were: sensitive to the environment, cohesive with a strong sense of identity, tolerant to new business, and generally avoid exercising and centralized control over attempts to diversify the company while being conservative in financing measures. The survey conducted for family businesses in the United State responded that 85.7% would agree that their company is sensitive to the environment, 95.9% would say that they are cohesive with a strong sense of identity, 70.8% would agree that they are tolerant to new business ventures, and 58.7% would agree that the company generally avoids exercising centralized control.

Discussion and Summary: Research Questions

The research questions presented and attempted to answer are:

*1. To what degree do organizational variables (structure & size), corporate direction (mission statement & succession planning), and ownership characteristics (legal structure) determine longevity of family business?*

*A. How do organizational variables influence family business longevity?* To answer this question, a nonparametric correlation, Spearman's rho, was used because of the ordinal values. Table 6 presented the correlation coefficients for questions 7 through 16 (Q7 through Q16) and concluded that seven of the factors influenced, was correlated to, longevity. The variables that had a high correlation were pyramid of authority, division managers, division units, cross-functional teams, project-based, employee impact, and family impact. The first five of the previously stated variables influence longevity since the oldest firms use a melding of traditional structure (pyramid of authority) as well as matrix structure (cross-functional teams and matrix). It shows that the longer the firm is in existence the more flexible they must become in structure to weather changes in environment.

*B. How does corporate direction influence family business longevity?* To answer this question, a parametric correlation, Pearson's correlation was used because of the nominal values. Table 7 presents the correlation coefficients for questions 17 through 34 (Q17 through Q34) and concluded that ten factors of corporate direction were correlated to longevity. When looking over the survey, attitudes of founding family, changes in mission statement, and family members dictate changes must be restricted from the final regression equation because the mission statement itself is not correlated to longevity thus its subset of factors cannot. The change in sales revenue factor is also just an indicator of overall potential growth within family businesses and does not influence longevity. Finally, the long term ownership of the next generation, female family members in top management, and male family members in top management were variables used to gain insight on the organization of the business. That leaves Strategic plan, known strategic plan, and outside board of directors that can accurately influence family business longevity.

*C. How do ownership characteristics influence family business longevity?* To answer this research question, Spearman's rho correlation as well as Pearson's correlation dependant on the type of data. Questions 35 through 43 (Q35 through Q43) bring to light the correlation of the variables of legal structure, profit versus not for profit, sensitive to the environment, and tolerant to new business to longevity. The variable foreign versus domestic was taken out of the equation even though it was correlated because it was already established by question 5 (Q5) that all of the companies had headquarters in the United States thus being domestic. Tables 8 and 9 depict the data of the four main variables that influence (are correlated to) longevity and they are: legal structure, profit versus not for profit, sensitive to the environment, and tolerant of new business.

*D. How do organizational variables, corporate direction, and ownership characteristics collectively influence family business longevity?* Collectively, they influence family business longevity to create an equation to predict longevity. The eleven variables of legal structure, sensitive to environment, tolerant of new business, pyramid of authority, division managers, division units, cross-functional teams, project-based, employee impact, family impact, and board of directors influence (are highly correlated to) longevity of family firms.

*2. Is there a correlation between family business longevity, organizational variables, corporate direction, and ownership characteristics?*

If there is a correlation, that implies an equation, theory or process for explaining the relationship. Longevity = 17.50 Legal Structure +8.963 Sensitive to Environment -18.546 Tolerant to New Business + 5.730 Pyramid of Authority – 3.729 Division Mangers + 3.165 Division Units – 4.614 Cross-Functional Teams + 5.649 Project-Based + 10.795 Employee Impact + 10.625 Family Impact + 6.037 Board of Directors -18.270

## Conclusions

The mass knowledge acquired through this survey instrument on family business is almost equal in impact to the longevity equation. Not all of the information acquired was relevant nor had correlation to family business longevity regardless; the information proves the important furthering of family business literature and possible research. Based on the outcome of rigorous, statistical analysis of data, this research concludes that organizational structure, corporate direction, and ownership characteristics do have a significant impact on the longevity of family firms.

## Recommendations

Based on these findings, discussion, and conclusions, the following are recommendations for future research:

1. The population that was sampled could have been expanded worldwide or utilized in a smaller setting.

2. Due to the lack of previous academic research on family business, the survey instrument contained numerous non correlated questions. They did not predict longevity but rather gave more demographic information that can be utilized for future research. The survey could be culled to a smaller, more succinct instrument.
3. A researcher could utilize male dominated versus female dominated family businesses when finding longevity.
4. This study could be done as a longitudinal study rather than a cross-sectional to track how family businesses perform over time.
5. The same premise could be taken to those companies who failed and find the reasons why they did not make it past a certain generation.

The study came up with a few unforeseen items that would be better understood before furthering this research:

1. With all the safety precautions taken for keeping the respondents anonymous, most included their business card as well as a company brochure. This explains an interest in the academics of the family business field and their interest in the results of the study. It also implies that these companies are open to providing more information for future research opportunities.
2. Some missed the 2nd pages of the survey (the backs). To overcome this situation, page numbers could be added to the top of the page rather than the bottom, "over" could be written at the bottom, or a note in the directions could note "a four page survey." Baring an increase in postage, printing the survey instrument on one side only would eliminate this problem.

Summary

This research began to as a desire to solve the problem of why many family firms fail and are unable to be passed down to the next generation. Through this quantitative study, the research hoped to prove that organizational variables, corporate direction, and ownership characteristics were the root of longevity gleaned from the past research.

After the execution of the instrument and analysis of results, the research proved that organizational variables, corporate direction, and ownership characteristics were, in fact, correlated and were predictors of longevity. Not every variable used for the three predictors were important to the calculation of longevity. As for the organization, those who were flexible in structure and utilized employee and family resources were longer lived. Firms that are a corporation, sensitive to their environment, and tolerant of new ventures, along with having a board of directors, proved to aid in successful longevity.

Optimistically, this research has contributed to family firms around the United States of America both academically and practically. In the academic application, this research will spark the interest of some up and coming researchers for the benefit of the family business. In the practical application, this research can contribute to a bank of knowledge that I hope to transfer from academic jargon to everyday language for the benefit of struggling family firms.

On a personal note, it has been an extraordinary journey for me. It began as a struggle to find the best possible topic and it was staring me right in the face. "Do what you know" someone told me, so the next day I put together my thoughts and sat down at my desk in the office that my great-grandparents built. I am the fourth generation in our family business, McDonald Lumber Company, Inc. I realized the importance of the business being strong to pass from my mother's generation down to my own. Also, I saw how our family worked together in the office all day and then went home and had Thanksgiving dinner together. It is a well oiled machine that has been working well since 1909. I chose this topic and wrote this dissertation for the addition to the severely lacking academic research on family businesses as well as guide for my own family business.

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APPENDIX: A

**Cover Letter For Survey**

January 1, 2006

Senior Family Business Manager:

My name is Angela Moore and I am doctoral student at Capella University in Minneapolis, MN. I am writing my dissertation titled, "The Calculation of Business Longevity: Family Firms in the United States" and I am looking to compile information on successful family firms. Your name and address was obtained from the Family Firm Institute who graciously allowed me to contact its members. The survey that is attached is an instrument to collect the information considered necessary to generate an equation to predict family business longevity. With the acquisition of this data, I can better understand the rationale that some family businesses stay vital from generation to generation while others perish. This information will be accessible to you for your own use after my research is complete and a report is created via a written correspondence to the address below or email. All information will be kept confidential and the surveys are unmarked.

Please take a ten minute break from your hectic day to complete this survey that will, in turn, be beneficial to your family firm. Return the survey in the prepaid envelope by January 27,2006. Thank you for your contribution to academic knowledge!

Sincerely,

Angela M. Moore, MBA, ABD

6431 Sturgeon Bay Road

Luxemburg, WI 54217

Meskiier@aol.com

APPENDIX: B

**Survey**

# A Survey of Family Businesses

The purpose of this survey is to utilize your experience of family business longevity and to mold it into a concise theory of what elements impact businesses in such a way that they survive and become multigenerational.

## Organizational Elements

1. What year was the company founded? ________________________________________

2. How many employees does the company currently employ? _____________________

3. How many of these employees are relation of the founding family?_______________

4. Which best describes the nature of the primary business: (Choose One)
   a. Agriculture/Forestry
   b. Financial Services
   c. Services
   d. Telecommunications
   e. Manufacturing
   f. Real Estate
   g. Transportation
   h. Construction
   i. Hi-Tech or Bio-Tech
   j. Wholesales/Distributors
   k. Mining/Oil and Gas
   l. Retail
   m. Other _______________________________________________________

5. What country is the primary business headquartered? ___________________________

6. If in the U.S., in which state is the primary business headquartered? ________________

Please indicate whether you strongly agree, agree, neutral, disagree, or strongly disagree with the statement as it relates to the organizational variables of your family firm.

| Item | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|---|---|---|---|---|---|
| 7. The company is a pyramid of authority with workers on the bottom and executive management | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|---|---|---|---|---|---|
| on top. | | | | | |
| 8. The firm is broken up into functional units such as research, engineering, marketing, etc. | 1 | 2 | 3 | 4 | 5 |
| 9.Each department only has those functional members. | 1 | 2 | 3 | 4 | 5 |
| 10. The firm has division managers or product managers. | 1 | 2 | 3 | 4 | 5 |
| 11. The firm is broken up into divisional units focused upon a specific product or project. | 1 | 2 | 3 | 4 | 5 |
| 12. The firm has cross-functional teams that are made up of members of each functional unit of the company. (i.e. marketing, engineering, etc.) | 1 | 2 | 3 | 4 | 5 |
| 13. The firm's structure is based on groups of individuals from different functional organizations whom together accomplish a specified purpose, namely projects. | 1 | 2 | 3 | 4 | 5 |
| 14. Shareholders have a significant impact on the management and policy creation of the firm. | 1 | 2 | 3 | 4 | 5 |
| 15. Employees have a significant impact on the management and the policy creation of the firm. | 1 | 2 | 3 | 4 | 5 |
| 16. Family members have a significant impact on the management and the policy creation in the firm. | 1 | 2 | 3 | 4 | 5 |

## Corporate Direction

17. Does your family firm have a stated mission statement?
    a. Yes (Skip to #18)
    b. No (Skip to #19)

18. If yes, does the mission statement encompass the attitudes and beliefs of the founding family?
    a. Yes
    b. No

19. Does the firm continue to focus upon the mission statement of the founding family when making decisions about the future of the firm?
    a. Yes
    b. No

20. If no, has the mission statement changed over the years, if it existed at all?
    a. Yes (Skip to #21)
    b. No

21. If yes, have the current members of the family that work within the organization dictated the changes?
    a. Yes
    b. No

22. Do you believe that your business will be controlled by the same family in five years?
    a. Yes
    b. No

23. Who do you anticipate will be the next owners? (Check all that apply)
    a. Non-Family employee(s)
    b. Outsider(s)
    c. Family Member(s)
    d. Public Market

24. Does your company have a strategic plan?
    a. Yes
    b. No (If no, skip to question #26)

25. If yes, how well is it known by company management?
    a. Very Well
    b. Somewhat
    c. Not at all
    d. Other, please explain:____________________________________________

26. Does the firm have an outside board of directors?
    a. Yes
    b. No

27. What changes do you anticipate in the number of full time equivalent employees in the next year?
    a. Decrease more than 5%
    b. Decrease up to 5%
    c. Increase up to 5%
    d. Increase more than 5%
    e. Remain the same

28. What changes in the sales revenue do you anticipate in the next year?
    a. Decrease
    b. Increase 1% - 5%
    c. Increase 6% - 10%
    d. Increase 11% - 20%
    e. Increase more than 20%
    f. No Change

29. In general, how unified is the ownership group in their views about the business (strategy, ownership issues, management, etc.)?
    a. Extremely/completely
    b. Very
    c. Some
    d. A Little
    e. Not at All

30. How strongly does the senior generation want the business to stay in the family?
    a. Very Much So
    b. For the Most Part
    c. Slightly
    d. Somewhat
    e. Not at All

31. How strongly is the next generation committed to the long-term ownership of the business?
    a. Very Much So
    b. For the Most Part
    c. Slightly
    d. Somewhat
    e. Not at All

32. How many family members are on the top management team?
    __________Female      _____________Male

33. What percentage of the voting shares of stock is owned by the family? __________%

34. How would you describe the succession plan?
    a. Strong attachment to the past or past successor
    b. A wholesale rejection of the past
    c. A incongruous blending of the past and present
    d. Other, explain:____________________________________________________

## Ownership Characteristics

35. What is the legal structure of the company? (Choose One)
    a. C Corporation
    b. S Corporation
    c. Limited Partnership
    d. Limited Liability Company
    e. Limited Liability Partnership
    f. General Partnership
    g. Proprietorship
    h. Other________________

36. Is the company public or private?
    a. Public
    b. Private

37. Is the company profit or non profit?
    a. Profit
    b. Non Profit

38. Is the company foreign or domestic?
    a. Foreign
    b. Domestic

39. Does your family have a family council or other group that represents the family and meets on a regular basis? (Choose One)
    a. Yes-meets once per year
    b. Yes-meets twice per year
    c. Yes-meets 3 or 4 times per year
    d. Yes-meets 5 or more times per y ear
    e. No

Please indicate your company's general demeanor in regard to the following subjects:

| Item | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|---|---|---|---|---|---|
| 40. The company is sensitive to the environment and remains in harmony with the world around them. | 1 | 2 | 3 | 4 | 5 |
| 41. The company is cohesive with a strong sense of identity. | 1 | 2 | 3 | 4 | 5 |
| 42. The company is tolerant of starting new business ventures and is open to forging work relationships with others. | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|---|---|---|---|---|---|
| 43. The company generally avoids exercising and centralized control over attempts to diversify the company while being conservative in financing measures. | 1 | 2 | 3 | 4 | 5 |

APPENDIX C

IRB

**CAPELLA UNIVERSITY**
**Institutional Review Board**
**225 South 6th Street, 9th Floor**
**Minneapolis, Minnesota 55402**

# Institutional Review Board Application

**(When this IRB application is completed, it is to be submitted with the research proposal for the next stage of review. The Provost, or designee, gives final approval. See the checklists at the end of this form to verify that you have completed all of the information for this application.)**

Name (e.g., Learner, Faculty Employee, Consultant, Directed Employee/Agent, Independent Contractor, Adjunct Faculty) _Angela M. Moore_______________
Date_August 10, 2005___________________________________________
Address_6431 Sturgeon Bay Road________________________________
________Luxemburg, WI 54217____________________________________
Phone (Work) 920-465-3230____ (Home) 920-866-3305_____________
Email Address(es) _Meskiier@aol.com______________________________

Field of Study _Business_________________ Degree Program _Ph.D._____

Supervisor Name _Dr. Garry McDaniel_______________
Supervisor Title (e.g., Mentor, Instructor, Practicum Supervisor, Internship Supervisor, Staff Position, etc.) _Mentor/Committee Chair_________
Address_11506 Charred Oak Drive_______________________________
________Austin, TX 78759_______________________________________
Phone (Work) 512-799-4090________ (Home) _________________________
Email Address(es) _GarryMcDaniel@aol.com___________________________

Provost ____________________________________________________________

__1/10/05_______Fill in date you successfully completed the online IRB Training required modules and optional modules appropriate to research topic

1. **Project Title**: (Use same title as Final Proposal)

____"The Calculation of Business Longevity: Family Firms in the United States"

2. **Inclusive dates of project**: _June 2004 **through** __December 2005_____

3. **Abstract**
Describe your research, including research questions and methods to be used (research question, hypothesis, and methodology). Describe the purpose of the research and explain what the research subjects/participants will be asked to do. Please use language that can be understood by a person unfamiliar with the area of research. Avoid area-specific jargon as much as possible. If you must use area-specific jargon, also include an explanation of its meaning. If using existing data or records, describe the sources of the data and your means of access to the data. If you are not using human participants, clearly indicate the nature of data collection.

SEE APPENDIX A.

4. **Participant/Subject Population (or Final Sample to be selected)**

a. Number: Male _____ Female ______ Total _500__

b. Age Range: ___ to ___ N/A

c. Location of Participants:
(Check all that apply)

__X_ business

____elementary / secondary school

____outpatient

____hospital / clinic

____university / college

____other special institution / agency: specify__________________________________

d. Special Characteristics:
(Check all that apply)

___adults with no special characteristics

___Capella University learner, faculty, and/or staff

___inpatients

___outpatients

___prisoners

___students

_X  other special characteristics:
specify   Family Businesses________________

If research is conducted through organizations or agencies, written documentation of approval / cooperation from each agency (e.g., business, school, hospital, clinic) must accompany this application.

e. Recruitment of Participants/Subjects
Describe how participants/subjects will be identified and selected for recruitment.

Participants will be randomly selected (via simple random sample) from a list provided by the Family Firm Institute of 500 names. An excel spreadsheet will provide random numbers assigned to the name for the order of choice.

SEE APPENDIX B

f. Approval for Use of Records
If participants/subjects are chosen from records (e.g., email address list, postal address list, telephone number list, patient charts, student grades), indicate who approved use of the records. If records consist of medical, student, or other private records, provide the protocol for securing consent of the participants/subjects in the records and approval from the custodian of the records. If appropriate, specify how Standards for Privacy of Individually Identifiable Health Information (the Privacy Rule) under the Health Insurance Portability and Accountability Act of 1996 (HIPAA) have been observed.
See website found at http://privacyruleandresearch.nih.gov/
SEE APPENDIX A.

g. Initial Contact with Participants/Subjects
Who will make the initial contact with participants/subjects? Describe how contact will be made.

The initial contact with the participants will be made via postcard notifying them that a survey will be coming in the mail.

h. Inducements or Rewards to Participants/Subjects
Will participants/subjects receive inducements before, or rewards after the study? Include this information in your assent/consent documents. See checklist at the end of this form to verify that you have completed the informed assent/consent documents or the cover to an anonymous questionnaire.
SEE APPENDIX B

i. Activity for Control Group
If some of the participants/subjects are in a control group, describe in detail the activity planned for that group. (This information must be included in the consent/assent forms.)
NO CONTROL GROUP WILL BE USED.

5. **Confidentiality of Data**

a. Describe what provisions will be made to establish and maintain confidentiality of data and who will have access to data. If anonymous surveys are distributed, provide all the information that would have been given in an informed consent form as a cover to the survey (see the checklist at the end of this form to verify that you have completed the cover to the survey).
SEE APPENDIX D.

b. Where will the data be stored and for how long? Whatever media (e.g., audiotape, paper, digital recording, videotape) are used to record the data, explain who will have access and how long the media will be retained. It is required that data be stored for a minimum of seven years after publication of results (such as a dissertation). If data will be destroyed, describe the secure method for destroying the materials that will maintain confidentiality.
SEE APPENDIX D

*All documents relating to ethical treatment of human participants/subjects which will be used in the course of the research must be attached to this form. These documents include consent forms, cover letters and other relevant material.*

See checklist at the end of this document to verify that the application form has been completed.

Submit completed checked checklists with this application form to your school's designated IRB reviewer.

**Signature of Researcher**

As a Researcher (e.g., Learner, Faculty Employee, Consultant, Directed Employee/Agent, Independent Contractor, Adjunct Faculty) you certify that:

- The information provided in this application form is correct and complete.
- You will seek and obtain prior written approval from the Committee for any substantive modification in the proposal.
- You will report promptly to your Supervisor any unexpected or otherwise significant adverse events in the course of this study.
- You will report to the Supervisor and to the participants/subjects, in writing, any significant new findings which develop during the course of this study which may affect the risks and benefits to participation in this study.
- You will not begin the research until final written approval is granted.
- You understand that this research, once approved, is subject to continuing review and approval by your Supervisor. You will maintain records of this research according to Supervisor guidelines. Substantive change requires submitting an addendum to a previously approved application. An addendum is a totally new application form with attachments. The cover letter with the addendum describes the changes that were made from the originally approved application.

If these conditions are not met, approval of this research could be suspended.

***Signature of the Researcher:***

____________________________________________ Date____________

**Signature of Supervisor**

As a Supervisor (e.g., Mentor, Instructor, Practicum Supervisor, Internship Supervisor, Staff Supervisor) you certify that:

- The information provided in this application form is correct and complete.
- You will review and provide prior written approval to your Supervisee for any substantive modification in the proposal. You will inform the committee members appointed to oversee the research and its results.
- You will receive reports from your Supervisee about any unexpected or otherwise significant adverse events in the course of this study. You will inform the committee members appointed to oversee the research and its results.
- You will review research records maintained by your Supervisee until the final written document is produced and approved by you and the oversight committee.
- You will inform the oversight committee about the progress of your Supervisee from the time of developing research questions, through the proposal, IRB application, collection of data, writing results, and completing the documentation of the research.
- You will contact the Lead Subject Matter Expert (e.g., Chair of the Specialization, Faculty Director) if additional review is needed.
- You will make sure that this application has been completed by your Supervisee including all accompanying attachments before signing your name for approval.
- You assume responsibility for ensuring that the research complies with University regulations regarding the use of human participants/subjects in research.

If these conditions are not met, approval of this research could be suspended.

***Signature of the Supervisor:***

Name ____________________________________________ Date_____________

Title _________________________________________________

---

**Signature of Provost or Designee**
As Provost, or designee, I acknowledge that this research is in keeping with the standards set by the university and assure that the researcher has met all requirements for review and approval of this research.

***Signature of Provost or Designee***

Name _____________________________________________ Date_____________

---

**Completed forms should be sent as email attachments. Scan signature pages and attach as files. Send email messages with attachments to the designated IRB reviewers in one of the following schools representing your specialization affiliation:**

Harold Abel School of Psychology
School of Business
School of Education
School of Human Services
School of Technology

## *Checklist: Form Completed*

**Use this form to verify that an application has all the necessary information completed in the Institutional Review Board (IRB) Application**

1. __X_ all items answered (use NA where item is Not Applicable)
 ___X_ demographics of learner and supervisor
 ___X_ #1. Project Title
 ___X_ #2. Dates of Project
 ____X #3. Abstract (see checklist)
 ____X #4. Population
  ___X_ #4.a. number
  ___N/A_ #4.b. age range
  ___X_ #4.c. location of participants/subjects
  ____X #4.d. special characteristics of participants/subjects
  __X__ #4.e. recruitment of participants/subjects
  ___X_ #4.f. approval for use of records
  ___X_ #4.g. initial contact with participants/subjects
  ___N/A_ #4.h. inducements or rewards to participants/subjects
  ___N/A_ #4.i. activity for non-participants/non-subjects (e.g., control group)
 _X___ #5. Confidentiality of data
  _X__ #5.a. establish, maintain confidentiality, access to data
  _X #5.b. storage/destruction of data
 ____ signatures
  ____ researcher
  ____ supervisor
2. __X_ application attachments (use NA where item is Not Applicable)
 _N/A approval from institution housing participants
 _N/A approval from institution housing records
 _N/A assent form for minor participants (see checklist)
 _N/A checklist for extracting information from files or records
  _N/A consent form for parent/guardian/adult participant (see checklist)
 _N/Acover letter for mailed consent form
 __X_ cover letter for mailed questionnaire
 __X cover information for questionnaire (see checklist)
  __X__ instrument(s) to elicit responses from participants

__N/Aquestions to be asked during interviews
_N/A script/letter/email message to recruit participants
____ other ______________________________________________
3. ____ IRB Application complete
action: forward to School designee to review for approval
date of action ____________________________________

## *Checklist: Abstract*

**Use this form to verify that item #3 has been completed on the Institutional Review Board (IRB) Application**

1. The application is for
   a. use of human participants in research (including record review) – answer items below and submit to Capella School IRB reviewer
   b. use of animal subjects in research (including record review) – contact Capella University IRB Committee before completing application
   c. other type of research (specify ____________________) – contact Capella University IRB Committee before completing application

2. Describe what the proposed research is about, and the research design to be used.
(state, in one or two sentences, the research question to be answered, and any hypotheses to be tested)
(research design choices include: historical, descriptive, developmental, case/field study, correlational, causal-comparative, experimental/quasi-experimental, action)

3. State the research topic; describe what research has previously been done related to this topic; and restate the research question in terms of the implications from the results that are expected to be found.

4. Describe how the data will be collected through one or more of the following:
a. using standardized tests with human participants,
b. interviewing human participants,
c. asking human participants to complete questionnaires,
d. reviewing files containing information about human participants, or
e. some other procedure ____________________________________).
(NOTE: attach the tests, interview questions, questionnaire, checklist for record review, or summary of other procedures)
(NOTE: attach documentation from officials who give authorization to access participants, files, or other sources that will provide the data)

5. (Omit for record review)
Describe how the participants will be recruited, and the characteristics of the population that is represented.

6. (Omit for research using human participants)
Specify the characteristics of the records that will be selected.

7. Describe how the sample will be selected.
(specify the type of sampling, such as convenience, periodic, random, snowball, or systematic),
(explain how the process will be conducted),
(specify the number of participants or records in the sample), and
(specify the characteristics of the sample, such as sex, age, and other variables to be studied).

8. (Omit for record review)
Describe how participants will be contacted for recruitment as a participant.
(describe how participants will be identified),
(describe how participants will be approached), and
(describe how participants will be recruited).
(NOTE: attach advertisement, bulleting board notices, recruitment letters, script for telephone call, script for announcement at gatherings, or other documentation supporting the descriptions and explain any inducements to be offered to participants)

9. (Omit for record review or mailed questionnaires)
Describe how informed consent will be provided.
(specify the process of obtaining consent from adults, assent from minors, and/or consent from guardians of minors).
(NOTE: attach the form(s) that will be used to obtain consent and/or assent)
(NOTE: attach the cover letter if mailing the request for the form(s) that will be used to obtain consent and/or assent)

10. (Omit for record review or when informed consent is required)
Describe how the participant will participate.
(specify how participants will have the following information: what they are expected to do, how long their participation will take, who is conducting the research, the topic of the research, the reason for conducting the research, why they were selected, how anonymity will be protected, how data are kept confidential, and how to contact those who will have answers to any questions about the research, i.e., the researcher, the faculty mentor, and Capella University).
(NOTE: attach the cover letter that will accompany the questionnaire)

11. Describe how the data will be analyzed.
(specify the type of quantitative analysis or qualitative analysis, and include a variable code sheet where appropriate).

12. Describe how the data will be stored, for what length of time, who will have access to the data, how it will be available to others, how the data will be destroyed, and how the confidentiality of the data will be maintained.

13. Describe how the results will be interpreted in terms of answering the research questions.

## *Checklist: Informed Consent/Assent Form*
## *for Participants to Sign*

**Use this form to verify that a consent form has all the necessary information, if a consent form is to be attached to the Institutional Review Board (IRB) Application.**
**If the participant/subject is a minor, both an assent form for the participant/subject and a parent/guardian consent form are required.**

____ 1. name of researcher
____ 2. title of researcher
____ 3. location of researcher
____ 4. reason for conducting research
____ 5. title of research project
____ 6. reason person was selected to participate
____ 7. explanation of how person was selected to participate
____ 8. description of what participant is to do
____ 9. length of time participation will take
____ 10. how anonymity of participant will be protected
____ 11. how data collected will be kept confidential
____ 12. benefits to the participant, including any rewards
____ 13. risks to the participant, including protections from those risks
____ 14. assurance of voluntary participation
____ 15. assurance that withdrawing from the research has no consequences
____ 16. request that participant print name
____ 17. request that participant sign name and date signature
____ 18. make provision that participant will receive a copy of the form

  ____ 19. provide the name of the researcher and contact information for questions or concerns

  ____ 20. provide the name of the supervisor and contact information for questions or concerns

  ____ 21. provide the name of Capella University as a contact for questions or concerns using the designated IRB reviewer's contact information

____ 22. print the form on letterhead of the organization authorizing the research, or use the header of Capella University, 225 South 6th Street, 9th Floor, Minneapolis, MN 55402

____ 23. refer to the person as “participant” rather than “subject”

### *Checklist: Cover for Questionnaire Used by Participants*

**Use this form to verify that a cover for a questionnaire has all the necessary information if a questionnaire is to be attached to the Institutional Review Board (IRB) Application**

__X_ 1. name of researcher

__X_ 2. title of researcher

__X_ 3. location of researcher

__X_ 4. reason for conducting research

__X_ 5. title of research project

__X_ 6. reason person was selected to participate

__X_ 7. explanation of how person was selected to participate

__X_ 8. description of what participant is to do

__X_ 9. length of time participation will take

__X_ 10. how anonymity of participant will be protected

__X_ 11. how data collected will be kept confidential

__X_ 12. benefits to the participant, including any rewards

__X_ 13. risks to the participant, including protections from those risks

__X_ 14. assurance of voluntary participation

__X_ 15. assurance that withdrawing from the research has no consequences

__X_ 16. provide the name of the researcher and contact information for questions or concerns

__X_ 17. provide the name of the supervisor and contact information for questions or concerns

__X_ 18. provide the name of Capella University as a contact for questions or concerns

__X_ 19. provide the name of Capella University as a contact for questions or concerns using the designated IRB reviewer’s contact information

__X_ 20. print the form on letterhead of the organization authorizing the research, or use the header of Capella University, 225 South 6th Street, 9th Floor, Minneapolis, MN 55402

__X_ 21. refer to the person as "participant" rather than "subject

APPENDIX A

ABSTRACT FOR IRB – ANGELA M. MOORE

TOPIC

The topic of this research study will be family business longevity and the subsequent creation of an equation to predict longevity.

PROBLEM STATEMENT

A large percentage of family businesses do not make it past the second generation and this research will try to explore the relationship between organizational variables (structure & size), corporate direction (mission & succession planning), ownership characteristics (independent variables), and longevity (dependent variable). The businesses will be of moderate size and have the headquarters (main office building) in the United States of America.

CONCEPTUAL FRAMEWORK

To address the above problem, the research will study the following relationship: how does organizational structure, corporate direction, and ownership characteristics impact corporate longevity in a family business within the geographical bounds of the United States of America?

In regard to the independent variables, the following table outlines the subunits of the three above mentioned elements, organizational variables, corporate direction, and ownership characteristics.

| **Independent Variable** | **Subunits** |
|---|---|
| Organizational Variables | Size (Bonn, 2000)<br>Structure: Functional, Divisional, & Matrix (Cummings & Worley, 2001) |
| Corporate Direction | Mission Statement (Bonn, 2000)<br>Succession Planning |
| Ownership Characteristics | Legal Structure: Proprietorships, Partnerships, & Corporations (Mann & Roberts, 1997) |

Thus, according to scholarly literature the independent variables have an impact on the longevity of family business and the theoretical framework of this research is valid and applicable to longevity.

The research will uncover the implication of using organizational variables, corporate direction, and ownership characteristics as predictors of family business longevity.

SIGNIFICANCE OF THE STUDY

The purpose of the research will be to better arm family businesses with the elements necessary to create a positive equation for longevity. It has been noted that family owned firms account for a large percentage of the economic activities in the United States and Canada. Estimate run from 40 to 60 percent of the US gross national produce in addition to employment for up to six million Canadians. (Chua, Chrisman, & Steier, 2003) Consequently, the creation of an equation to predict longevity will strengthen the family business, save jobs, and support the general economy. It will allow companies in trouble or otherwise to assess whether or not their emphasis should be on other activities to ensure their survival.

## RESEARCH QUESTIONS

The proposed research questions:

B. To what varying degree does organizational variables (structure & size), corporate direction (mission statement & succession planning), and ownership characteristics (legal structure) determine longevity of family business?

a. How do organizational variables influence family business longevity?

b. How does corporate direction influence family business longevity?

c. How do ownership characteristics influence family business longevity?

d. How do organizational variables, corporate direction, and ownership characteristics collectively influence family business longevity?

C. What is the equation that accurately predicts family business longevity from organizational variables (structure & size), corporate direction (mission statement & succession planning), and ownership characteristics (legal structure)?

## Data Collection Procedures

The data collection will begin with a pre-notification postcard sent to the 500 participants and the postcard, and all forthcoming documents will be printed on yellow paper for attention grabbers. This will also increase response rates from the participants that were selected via a simple random sample. The instrument will be sent to the family businesses a week after the postcard is sent and the follow up post card will be sent two weeks following. The instrument will be clearly articulated, along with the sponsors, in the introduction as well as the cover letter.

To better enhance validity and reliability, each question will be pre tested before being added to the instrument. After all questions are covered, the instrument will be pilot tested by market research university students. The same instrument will be given to several market research classes to predict reliability.

## Data analysis Plans

The data analysis will entail the use of SPSS and Excel to break down the data into its components and do a through analysis of the collection. After the data is imputed into SPSS and Excel, it will be graphed to find outliers that would skew the distribution and falsify the conclusions. Based upon the research, most family businesses will fail after the transition to the second generation (Miller, Steier, & Breton-Miller, 2003) given that a generation is roughly twenty years, all responses that are forty years or less will be thrown out. The data will be run through for distribution, correlation, and finally, the multiple regression equation that will predict the longevity of family businesses based upon organizational variables, corporate direction, and ownership characteristics.

Family business longevity is a complex topic with many possible contributing variables. After review of the relevant research literature, the variables that will be tested by this study are organizational variables, corporate direction, and ownership characteristics. The quantitative study will gather data via a survey instrument that poses the questions on the above mentioned variables. From the collected data, the statistical software program, SPSS, will be used to manipulate the data. Basic demographic data will be extrapolated as well as tests for soundness of data. Finally, the data will be maneuvered to find the equation using multiple regression.

The following equation will be used to attempt to solve the quandary of family business longevity.

LONGEVITY = ORGANIZAIONAL VARIABLES (Size & Structure) +
CORPORATE DIRECTION (Mission Statement & Succession Planning) +
OWNERSHIP CHARACTERISTICS (Legal Structure)

Human Participants in Research

Gaining the consent of the participants will be twofold within the study. First, the initial information card that is sent out will notify the participant that a survey is coming in the mail regarding their family business. Second, when the survey comes, there will be an opening page that will describe the survey's purpose, academic use of the survey, and will provide my email address in the event they would want a summary of the report. The most important element of the survey that will certify consent is the completion of the survey itself. The data will be exported to CD's and kept for seven years in personal possession of the researcher.

## APPENDIX B

Capella University
225 South 6th Street
9th Floor
Minneapolis, MN 55402

September 15, 2005

Senior Family Business Manager:

My name is Angela Moore and I am doctoral student at Capella University in Minneapolis, MN. I am writing my dissertation titled, “The Calculation of Business Longevity: Family Firms in the United States” and I am looking to compile information on successful family firms. Your name and address was obtained from the Family Firm Institute who graciously allowed me to contact its members. The survey that is attached is an instrument to collect the information considered necessary to generate an equation to predict family business longevity. With the acquisition of this data, I can better understand the rationale that some family businesses stay vital from generation to generation while others parish. This information will be accessible to you for your own use after my research is complete and a report is created via a written correspondence to the address below or email. All information will be kept confidential and the surveys are unmarked.

Please take a ten minute break from your hectic day to complete this survey that will, in turn, be beneficial to your family firm. Return the survey in the prepaid envelope by October 15, 2005. Thank you for your contribution to academic knowledge!

Sincerely,

Angela M. Moore, MBA, ABD
6431 Sturgeon Bay Road
Luxemburg, WI 54217
Meskiier@aol.com

APPENDIX C

# A Survey of Family Businesses

See separate Attachement.

# APPENDIX D

Gaining the consent of the participants will be twofold within the study. First, the initial information card that is sent out will notify the participant that a survey is coming in the mail regarding their family business. Second, when the survey comes, there will be an opening page that will describe the survey's purpose, academic use of the survey, and will provide my email address in the event they would want a summary of the report. The most important element of the survey that will certify consent is the completion of the survey itself. The data will be exported to CD's and kept for seven years in personal possession of the researcher. After the seven year period, they will be destroyed.