

**The Nature and Effectiveness of Management Control
in Small Family Businesses**

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by

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(ABSTRACT)

The link between the setting of goals and the controls necessary to accomplish those goals is especially interesting in the area of small family businesses where multiple, conflicting goals are believed to interfere with business control. The actual nature of goal-setting and control in the small family firm are matters for debate because the area is not well researched.

This study is an interdisciplinary effort, drawing upon existing work in accounting and business management, as well as kinship relations and group process (social psychology). It views the small family business owner-manager as a resource allocator who makes decisions within the field of family and business. Because field theory was developed to explain an individual's behavior in the context of surrounding groups, it is an especially appropriate research tool for investigating the behavior of the owner-manager in the small family business. Existing theories, specifically systems and contingency theories, are analyzed for possible

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strengths and weaknesses as theoretical frameworks for studying the problems that small family business owners encounter.

Systems theory may be unsatisfactory as a research tool because it assumes that the business and family structures are separate and a control system can be fabricated in which the owner-manager will become a passive participant. This separation may be artificial for some small family business owners who feel a sense of responsibility to their families or to families that assist the business. Contingency theory may be unsatisfactory as a research tool because it merely explains the obvious: The outcomes of the business are dependent upon activities related to family processes.

The data were gathered by surveying approximately 900 members of the Blacksburg, Christiansburg, Radford, and Roanoke, Virginia, Chambers of Commerce. The evidence suggests that for a majority of firms field theory is the appropriate orientation because resources are flowing in noneconomic exchanges between the businesses and families that operate them.

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CHAPTER 1
INTRODUCTION

The goals of this dissertation study are:

1. To develop a conceptual framework based upon field theory for investigating the nature and effectiveness of management control in small family businesses.
2. To derive hypotheses within the theoretical framework.
3. To present the results of the study designed to test those hypotheses.
4. To describe the nature of management control in small family businesses.
5. To make prescriptions for the development of effective management control systems in small family businesses.

This first chapter describes the nature of the research problem, its significance to the U.S. economy, the state of existing research, and the organization of the remainder of this study.

NATURE OF THE RESEARCH PROBLEM

Management control is the process of ensuring that human, physical, and technological resources are allocated to achieve the overall goals of an organization.¹ Goals are long-range, desired results.

Management control includes:²

1. Determining economic characteristics of appropriate performance areas which are significant in terms of overall goals.
2. Aiding to motivate desirable individual performances through a realistic communication of performance information in relation to goals.
3. Highlighting performance measures indicating goal incongruity within identifiable performance and responsibility areas.

The link between goal-setting and control is especially interesting in the area of small family businesses where multiple, conflicting goals are hypothesized to interfere with business control.

¹ Maciariello, Joseph A., Management Control, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1984, p. 5

² Belkaoui, Ahmed, Conceptual Foundations of Management Accounting, Addison-Wesley Publishing Company, Reading, Massachusetts, 1980, p. 14

✓ Small family businesses exist on the boundaries of two qualitatively different social institutions--the family and the business. Each institution defines social relations in terms of a unique set of norms. These norms (depicted in Figure 1 on the next page) set the standards of conduct in their respective groups.³ The following paragraph describes some of the conflicts that arise because of the different standards of conduct.

The defined goal of a business is to operate at a profit and the prudent owner-manager is expected (the business norm) to hire only those employees who are most competent and to pay salaries and benefits in accordance with employee market worth and past performance. However, when the employee is an owner-manager's relative, the owner-manager may be expected (the family norm) to allocate firm resources in a noneconomic way by providing employment because the relative is in need and by paying a noneconomic wage because the relative/employee requires sustenance. Examples include granting a raise to a son or daughter because he or she was recently married or had a child. Also, if more than one child works in the firm, a parent may not wish to differentiate salaries due to performance as allocation based on appraisal does not follow family norms.

Like other small firms, small family businesses are usually owner-managed and thus the business' goals are closely associated with the owner's

³ Lansberg, Ivan, "Managing Human Resources in Family Firms: the Problem of Institutional Overlap," Organizational Dynamics, Summer 1983, p. 39

Family Norms:

v.

Business Norms:

Provide opportunities
to relatives in need

Hire only those who
are most competent

Allocate "allowances"
in accordance with
developmental needs

Allocate salaries and
benefits in accordance
with market worth and
past performance

Do not differentiate
between siblings during
appraisal

Differentiate between
employees to identify
high performers

Provide training
opportunities
to satisfy individual's
developmental needs

Provide learning
opportunities de-
signed to satisfy
organizational
needs

Figure 1. Institutional Overlap Between Family and Business as depicted by Lansberg (1983) *Op. Cit.*, p. 44

personal goals and objectives.⁴ Therefore, most small family businesses probably operate with a set of defined business goals and a set of undefined family goals.

According to Rosenblatt⁵ the fact that the goals of the business and family are in harmony is one reason there are family businesses. A person who loves togetherness and shared experience with spouse and children may welcome the opportunity to have spouse and children as co-workers and to share work goals with them. A person who wants to be as generous as possible to the family may well hope to transmit ownership of the family enterprise to a relative. Persons who want a rich understanding of what their spouses do each day may also find a family business a desirable arrangement.

From the point of view of what it takes to produce a viable enterprise, family involvement may also be desirable. Family members may, for exam-

⁴ Harper, Bruce J. and Neil C. Churchhill, "Serving Small Business: What CPA's Should Know," Journal of Accountancy, Special Issue, June 1987. Respondent No. 720 of this dissertation study reports:

The Company has been in business for over ten years. After the demise of the original owner in January 1987, the firm was placed in Probate Court. I assumed ownership through the lawyer in November 1987. Short-term goals are to reestablish the business. Long-term goals are to acquire advanced training in locksmithing and expansion of the Company.

This last statement provides evidence that this owner-manager's personal long-term goals are not divisible from his Company's.

⁵ Rosenblatt, Paul C., et al., The Family Business, Jossey-Bass Publishers, San Francisco, 1985, p. 125

ple, work longer hours for less pay, may be more dedicated than nonfamily, and may be more willing and able to be flexible about work conditions. Family members may, in short, give a business more for the wages paid than most nonfamily members would. Economic ends may be served for both the family and the enterprise by making the enterprise a family one or by making the family an enterprise-operating one.⁶

According to field theory, the groups of family and business surround an individual and are the bases for an individual's perceptions, feelings, and actions. In the case of small family businesses, the owner-managers are probably unable to situate themselves completely within one of the groups--family or business--and ignore the other when making business decisions.

The actual nature of business decisions, goal-setting, and control in the small family firm are matters for debate because the area is not well researched. However, because evaluation is unavoidable, Maciariello (1984)⁷ theorizes that all businesses (including small businesses) engage in processes directed toward the attainment of long-term goals of the organization, even if those processes are informal.⁸

⁶ Ibid.

⁷ Op. Cit., Maciariello, p. 243

⁸ An example of this approach was given by Respondent No. 884 in this survey:

Mostly short-term, but more recently attempting long-term planning. Planning is informal with comparisons at three to six month intervals.

The Role of Evaluation

Evaluation is inherent in the planning or operation of any program or regimen whether it is a space program, a business, or one's personal life. Both individuals and institutions constantly choose among alternative actions based on their assessment of the degree to which these actions meet their needs or assist in achieving their goals. This assessment may be based on either theoretical or empirical knowledge of the probable outcome of a given action. Objectively or subjectively, consciously or subconsciously, we must evaluate to operate.⁹

One of the most important questions philosophy can pose is what is valuable in a society. Most decisions, in the final analysis, require not only measurement and understanding of causal relationships between inputs and outputs, but also the development of a value structure that enables the comparison of outcomes, trade-offs between them, and the balancing of output value against input cost.¹⁰

In general and as depicted in Figure 2 on the following page, all decision makers must find a way to assess what demands the situation places upon those involved, what solutions would be personally desirable, and what

⁹ Evaluation and Experiment, Edited by Bennett, Carl A., et al., Academic Press, New York, 1975, p. 1

¹⁰ Ibid. p. 24

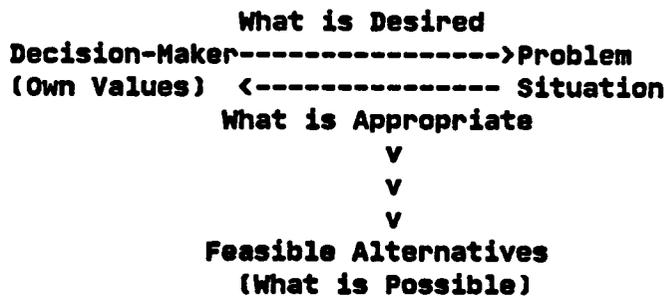


Figure 2. Context in Which the Owner-Manager Makes a Decision
(Cohen 1976)

the possible alternatives are which accommodate both the situation and the decision-maker.¹¹ Specifically, in the case of the small family business, allocation decisions are made by the owner-manager; it is his or her set of values that determine the choice of where and how to use resources. If, as field theory suggests, the context of an individual's situation at any one time includes all of the groups that surround the individual, it will be impossible for an individual to remove the decision from the context of both the family and the business. It is therefore important to understand the owner-manager's decision process as a basis for understanding goal-setting and control in the small family business.

If, in fact, the values, norms, and principles for the functioning of a family and a business are different and at odds with each other, the owner-manager experiences conflict when making an allocation decision in the business. Lansberg¹² suggests the key to developing effective procedures for managing these contradictions is the separation of management and ownership. Basically, this entails examining the relatives who work in the firm from two distinct perspectives: an "ownership" perspective and a "management" perspective. From an ownership perspective, relatives would be subject to all the norms and principles that regulate family relations; from a management perspective, relatives would be affected by

¹¹ Cohen, Allan R., et al., Effective Behavior in Organizations, Richard D. Irwin, Inc., Homewood, Illinois, 1976, p. 12

¹² Op. Cit., Lansberg.

the firm's principles. This "solution" presumes that the owner can make decisions in separate frameworks using a different value system.

Other business literature suggests that firms hire outside management.¹³ This suggestion is also impractical because most owners of small businesses derive satisfaction and value from the daily management of those firms. Additionally, many business owners use the business as an outlet for their special crafts or professional services. Hiring outside personnel to manage the firm would be costly in terms of compensation to the hirees as well as for the installation and maintenance of additional controls that may be required in the owner's absence from the day to day operations of the firm. If the absentee owner decided to retain a relative employee to be managed by the professional manager, the situation could become dysfunctional for all the individuals involved.

THE ECONOMIC SIGNIFICANCE OF THE SMALL FAMILY BUSINESS IN THE U.S.

Alcorn (1982)¹⁴ addresses the question: Why should we give special concern to the problem of the small family-owned business?

The reasons are deeply planted in American history and tradition. This type of business, defined for the moment as one in which a family survives and prospers economically by working for itself rather than for others, is widely seen as a form of socioeconomic organization that is good for the country.

¹³ Levinson, Harry, "Conflicts That Plague Family Businesses," Harvard Business Review, March-April 1971

¹⁴ Alcorn, Pat B., Success and Survival in the Family-Owned Business, McGraw-Hill, Inc., 1982, p. 18

Probably the strongest economic claim for small businesses are that they are an important source of new jobs. Two-thirds of all the new jobs created in the American economy between 1960 and 1976 were generated by companies with twenty or fewer employees.¹⁵

A U. S. Chamber of Commerce spokesman told a House of Representatives subcommittee in 1978:

Historically, small business has created the bulk of new jobs. If problems of unemployment are to be resolved, it is likely that we must depend on small business as a principal factor in the solution.¹⁶

According to the editors of the Family Business Review,¹⁷ a number of environmental changes now taking place have increased our collective awareness of and sensitivity to family business issues. There are more than 24 million Americans over sixty-five years of age, and this group of people constitutes the fastest growing sector of the United States population (U.S. Bureau of the Census, 1977). Succession imposes a wide variety of significant changes simultaneously on the family, ownership, and management structures of family firms. The cumulative effect of these transitions occurring in large numbers throughout society heightens our collective awareness of the interdependence of families and businesses.

¹⁵ "Small Business Blues," Newsweek, November 26, 1979, p. 84

¹⁶ Op. Cit., Alcorn, Speech entitled "Future of Small Business in America," delivered to U.S. House of Representatives, 1978, p. 8

¹⁷ Editors Notes, Volume I, Number I, Spring 1988

Another reason is the increasing number of women in the labor force. As women achieve higher status in the business world, it becomes more difficult for men and women to disregard the close interrelationship between work and family life, since both partners increasingly attend to both realms. In terms of family business, these changes have legitimized open discussion of topics that men have traditionally disregarded, such as the impact of family dynamics on business practices and vice versa, the consideration of daughters as successor candidates, and the validation of the roles that wives play in the success of male entrepreneurs.

In addition to such supportive roles, the number of females who adopt the role of entrepreneur for themselves is increasing. The Small Business Committee of the House of Representatives reports that twenty-eight percent of small businesses are owned by women. Fifteen years ago only five percent of small businesses were owned by women.¹⁸

According to Davis,¹⁹ we can only guess at the magnitude of the contribution made by family businesses to the U. S. economy. Being for the most part privately held entities and characteristically secretive about their affairs, family businesses have come to represent one of the largest and least well-documented segment of the modern economy.

¹⁸ Roanoke Times and World Report, July 4, 1988, Page A5

¹⁹ Davis, Peter, "Recognizing the Potential of the Family Business," Organizational Dynamics, Summer 1983, p. 47

Despite the prevalence of family businesses, we are seldom provided with a thoughtful analysis of their contributions and strengths. Media attention focuses primarily on dysfunctional occurrences in family firms. For example, Lansberg²⁰ discusses the problem of appraising from a business standpoint those individuals for whom as family members we are responsible to nurture and encourage. Kepner²¹ describes the problems that arise in father-son relationships because of the pressures of business succession. Rosenblatt, et al.²² describe personal problems that arise, such as the inclination for parental control of offspring, offspring resentment of parent, and poor division of labor. Only recently have authors begun to address some of the positive attributes of family ownership and management (Davis, 1983; Ward, 1986). As these authors suggest, family firms are often more notable for humane treatment of employees and strong community ties than are nonfamily firms.²³ In addition, a firm's commitment to high-quality products seems to increase when the name of the proprietary family is attached to the product because the owners tend to regard product quality as a reflection of the family's values and integrity. "Quality" is currently an important issue in American

²⁰ Op. Cit., Lansberg, p. 43

²¹ Kepner, Elaine, "The Family and the Firm: A Coevolutionary Perspective," Organizational Dynamics, Summer 1983, p. 58

²² Op. Cit., Rosenblatt, et al.

²³ Respondent No. 731 in this dissertation study reports:
Atmosphere fairly relaxed--give latitude to employees as far as lunch hours and taking time for extra-curricular activities.

industry.²⁴ Consumers have become more interested in quality products and less interested in national or brand products.²⁵ Family businesses fill this demand.²⁶

Family businesses over several generations may show a longer-term investment perspective than their publicly held counterparts. Ward²⁷ compares the strategies and results of firms that were closely held or family-controlled with the strategies and results of public firms not controlled by families. For this study, he subdivided the PIMS data base (Strategic Planning Institute, Cambridge, Massachusetts) into 300 business units of privately controlled firms and 1,500 units of publicly held firms not controlled by families and studied their strategic profiles to determine the extent to which private companies selected different strategies, competed in different environments, and obtained different end results. The insights gained from the study and from his personal experience suggest that:

to keep a family business moving forward requires a spirit of re-investment: a confident eagerness to commit funds for the sake of future family benefits. Motivating the family requires a compelling vision--a commitment to family dream--that everyone shares.

²⁴ "Facing Up to the Quality Issue," Purchasing, November 5, 1987

²⁵ Morse, Wayne J. and Harold P. Roth, "Why Quality Costs are Important," Management Accounting, November 1987

²⁶ Respondent No. 262 in this dissertation study reports:
Jobs are scheduled one to three weeks in advance. Since we put the needs of customers first, changes are made daily.

²⁷ Ward, John L., "The Special Role of Strategic Planning for Family Businesses," Family Business Review, Summer 1988, p. 105

When such a commitment has been made, the family can aggressively invest family funds in a business strategy.

Little is known about the nature and effectiveness of strategic planning and control for the outcomes of small family businesses, despite the significance of the outcomes of small family businesses to the United States economy. This study begins to fill that void by developing a conceptual framework for management control in the small family business and by gathering descriptive information on the nature of planning in these enterprises. Information is gathered on the time frame of plans (short or long), the nature of plans (formal or informal), and the field of planning (family and/or business).

STATE OF EXISTING RESEARCH

The problems of the family operating in the business environment have not been well researched. Two major textbooks on Management Control, one by Maciariello²⁸ and another by Anthony,²⁹ do not address the problem of control in the family-owned business despite the fact that it is estimated that more than 90 percent of all corporations (including 35 percent of the Fortune 500) are either owned or controlled by a family.³⁰ As a matter of fact, when family researchers began to sense the need to treat

²⁸ Op. Cit., Maciariello

²⁹ Anthony, et al., Management Control, Richard D. Irwin Press, Homewood, Illinois, 1984

³⁰ Op. Cit., Lansberg

the business as a contingency in family therapy, they were compelled to conduct their own research.³¹

Until very recently, neither organizational nor family theorists have paid much attention to family businesses. A computer search of the Social Science Citation Index reveals that 53 articles dealing with family firms have been published since 1977. This number stands in sharp contrast to publications on other business topics. A search of the same index indicates that 813 articles about entrepreneurship were published during the same period. It is also interesting to note that fewer than fifteen of the articles about family firms were based on empirical research.³² However, business researchers have recently recognized the significance of the problem as evidenced by the new publication (Spring 1988) Family Business Review.

The Family Business Review is published quarterly by the Family Business Institute. The Editor-in-Chief is Ivan Lansberg of Yale University. The Institute is "a national association that was founded by a group of practitioners whose common interest lies in helping the family firm to be optimally effective" and is intended to be a forum through which professionals, academics, and enterprise leaders can communicate and learn

³¹ See, for example, The Family Business, Rosenblatt, Paul C., et al., Jossey-Bass Publishers, San Francisco, 1985

³² Op. Cit., Family Business Review, Editors Notes, Spring 1988

from each other.³³ The Family Business Review is multidisciplinary in nature. It is designed to integrate and legitimate the growing body of knowledge about family firms and to provide a communication network for those active in the field.

The small body of literature that addresses management in the family business approaches the problem from the perspective of structural functionalism. According to the structural functionalist paradigm, the institutional differences between family and business stem primarily from the fact that each organization exists in society to service different functions. The family's primary social function is nurturance and, therefore, social relations in the family are usually structured to satisfy family member's developmental needs.³⁴ The fundamental reason for business, on the other hand, is the generation of goods and services through organized task behavior to produce a profit.

Applying Contingency Theory in Small Family Business Research

Over the last decade many researchers have applied contingency theory to the study of management accounting. A close relative of the contingency theory of organizational structure is the contingency theory of management accounting which is based on the assumption that there is no universal best managerial accounting system to be employed. The best system

³³ Ibid., p. 5

³⁴ Op. Cit., Lansberg, p. 39

will be contingent upon the operative environment. Otley³⁵ reviews the existing literature in this area and concludes that assessment of system effectiveness is an important, yet unfulfilled, research objective.

Beckhard and Dyer³⁶ have proposed the contingency framework for the family-owned business. They provide a perspective for thinking about family-owned businesses as complex systems that include subsystems of family and firm and the interactions between them. Among the goals of the founder are:

1. Keeping the family functioning as a unit.
2. Educating the family for the responsibility of ownership.
3. Maintaining the key nonfamily resources in the firms.

These goals are problems the owner-manager faces when planning for the overall larger system. This approach is also a systems approach. The firm is an entity with a life of its own; the family is an entity with a life of its own; and the founder typically heads both of the two systems.

³⁵ Otley, D. T., "The Contingency Theory of Management Accounting: Achievement and Prognosis," Accounting, Organizations and Society, Vol 5., No. 4, 1980

³⁶ Beckhard, Richard and W. Gibb Dyer, Jr., "Managing Continuity in the Family-Owned Business," Organizational Dynamics, Summer 1983, p. 5

The deficiencies of both theories--systems and contingency--as frameworks for conducting empirical investigations of the small family business are discussed in Chapter 3.

As previously described, the competition between family and business for resources and time is not the unique concern of business managers. Also adopting a systems perspective, current researchers in family therapy refer to the family business as a contingent variable in treating family members.³⁷ A view of the family firm as a total system has yet to be fully developed.³⁸ Yet, the interrelationship between the two subsystems, family and business, may be so strong that events in one system invariably produce an effect in the other system.

Researchers in management information systems have recognized the effect of interdependency in the formulation and maintenance of processing systems. Structured design is the process of designing computer programs that will be used in a system.³⁹ The program is broken down into logical modules that (1) are more easily maintained; (2) can be tested module by module; and (3) can be more easily understood. Coupling is a measure of the interdependence of modules.⁴⁰ The higher the coupling, the more

³⁷ Op. Cit., Rosenblatt, et al.

³⁸ Op. Cit., Kepner, p. 58

³⁹ Hicks, Jr., James O., Management Information Systems, West Publishing Co., 1984, p. 354

⁴⁰ Ibid., p. 363

likely that changes inside one module will affect the correct functioning of another module. When modules pass data from one to another, the ability to model the system into subunits capable of independent maintenance diminishes. Whereas the system analyst may be able to reduce the interdependence of modules by reprogramming, the family and business must recognize their mutual interdependence and for some firms the futility of modelling the business as a completely separate and independent system.

The theoretical model developed in this study develops a total perspective based upon field theory. It is, to my knowledge, the first time field theory has been applied as a framework for researching the small family business.

ORGANIZATION OF THIS STUDY

This first chapter has described the nature and importance of the research problem, the state of existing research, and the organization of this study. Chapter 2 reviews the various definitions of "management control" in the literature and discusses the rationale for the operative definition of "small family businesses" used in this study. Chapter 3 develops a conceptual framework based upon field theory by describing the inadequacies of existing frameworks and advocating the appropriateness of Lewin's field theory based upon an individual's interdependency with the groups in his or her life. Chapter 4 operationalizes the theorized interdependency of the owner-manager and his or her family and business by applying existing knowledge in kindred relations and group process. Chapter

4 also summarizes the testable hypotheses. Chapter 5 describes the research design, including sample selection methods; development and testing of the research questionnaire; variables measured; and methods of statistical analyses. Chapter 6 reports the results of data analysis, contributions of this research study, and areas for future research.

CHAPTER 2

TERMINOLOGY

An investigation into the nature and effectiveness of management control in small family businesses requires

1. An operational definition of "small family businesses."
2. A general understanding of the meaning of "management control" and "effectiveness."
3. A specific understanding of the application of management control in the small family business.

AN OPERATIONAL DEFINITION OF THE "SMALL FAMILY BUSINESS"

There are no national statistics on the number of small family businesses. Even if there were, the numbers would depend upon the definitions of small, family, and business.

Small

According to Alcorn,⁴¹ trying to define the word "small" when applied to businesses is like trying to agree on the meaning of "valuable" in the sports phrase "most valuable player." A search of the literature reveals

⁴¹ Op. Cit., Alcorn, p. 23

that about the only thing everyone agrees on is that small is not as large as big.

Some observers prefer to define small businesses in essentially qualitative terms. For example, a business can be considered small if the owner is involved directly in the work and is not merely a supervisor. More commonly, measures of smallness are stated in quantifiable terms such as annual gross sales, total assets, number of employees, and so on. However, a business may be "small" under one measure and "large" under another. There is simply no simple and fixed definition of small in the term "small business."

Adopting the perspective of the small business as a work group, smallness can be defined in terms of group process. Small groups offer closer relationships, a deeper knowledge of the members and a better sense of the whole picture at any given time.⁴² According to Mills,⁴³

To put it simply small groups are units composed of two or more persons who come into contact for a purpose and who consider the contact meaningful.

Definitions of this nature define small groups in terms of goals and motivation, a definitional perspective that is appropriate in this project.

⁴² Op. Cit., Cohen, p. 89

⁴³ Mills, T. M., "Power in Three-Person Groups," American Sociological Review, 1953, Vo. 18, pp. 351-357

Shaw⁴⁴ explains that although it is legitimate to ask just how small a small group is, there is no clear-cut dividing line between small and large groups. Many researchers in group dynamics, however, consider twenty as a conservative estimate of this upper limit. Business researchers have used this limit when gathering statistics on small business functions in the U.S. economy.⁴⁵ Because it is a reasonable delineation in view of existing research, this upper limit (20) will also be used in this study.

Family

Second, how do we define "family?"

According to Ridgeway⁴⁶ the most indispensable element of the family blueprint is the requirement that a group of people live together and maintain a deep and reasonably permanent commitment to one another. Most groups that meet these specifications function as families in the lives of their members.

The U. S. Department of Agriculture subscribes to an economic maintenance concept of defining the family when it determines program eligibility

⁴⁴ Shaw, M. E., Group Dynamics, McGraw-Hill, 1981, p. 3

⁴⁵ See, for example, Alcorn, Op. Cit., p. 21

⁴⁶ Ridgeway, R. L., The Dynamics of Small Groups, St. Martin's Press, New York, 1983

under a "household membership" rule (e.g., school lunch subsidy qualifications).⁴⁷ For purposes of this study this definition will be incorporated and a "family member" will be defined as "a spouse, child, parent, grandparent, brother or sister (including adopted members), nieces or nephews, uncles or aunts, whether or not such person currently lives with the proprietor, and any individual who currently shares a household with the proprietor."

Business

This study defines a business as "an entity organized to sell goods or to provide services and known to the public." Businesses are identified by the current directories of the local chambers of commerce. Professional firms are included in this study although they were not a part of the most significant prior study.⁴⁸ They were excluded in the previous study because of the requirement of a formal education and therefore the potential barrier to other family members joining in the business. This rationale does not take into consideration that members can serve professional firms in many capacities besides the actual profession. Therefore, professional firms are included in this dissertation study, and they comprise twenty-five percent of respondents.

⁴⁷ "Application for Free and Reduced Price Meals," Attachment C: 1987-1988, as published by the Radford City Schools, Radford, Virginia, in administering the Federal Lunch Subsidy Program

⁴⁸ Op. Cit., Rosenblatt, et al.

Family Business--How important is the definition?

Rosenblatt, et al.,⁴⁹ describe that how the researcher chooses to define "family business" has implications for understanding what is going on in a business and a family. They believe a case can be made for designating any business in which majority ownership or control lies in a single family as a "family business" whether or not other members are directly involved because family members inevitably have to pick up the slack at home when a family member spends long hours running a business. Perhaps following such a line of reasoning, Kirchhoff and Kirchhoff (1987)⁵⁰ define the "family business" as any taxpayer who files a tax return as a sole proprietor or partner. However, like Rosenblatt, this study chooses to define the family business in a less controversial, more restrictive way as "any business in which ownership or control lies within the family and in which business two or more family members are employed (counting the owner-manager as the first employee)."

Small Family Business

Our definition of "small family business" is therefore one that employs at least one family member in addition to the owner-manager, employs twenty or fewer individuals (including the owner-manager), and for the

⁴⁹ Ibid., p. 4

⁵⁰ Kirchhoff, Bruce and J. Kirchhoff, Journal of Small Business Management, "Family Contributions to Productivity and Profitability in Small Businesses," October 1987, p. 25

purpose of identifying businesses in this study, subscribes to the local chamber of commerce.

UNDERSTANDING THE TERMS "MANAGEMENT CONTROL" AND "EFFECTIVENESS"

Effective management control is an objective of accounting.⁵¹ The objectives of accounting are to provide information for the following purposes:

1. Making decisions concerning the use of limited resources, including the identification of crucial decision areas and determination of objectives and goals.
2. Effectively directing and controlling an organization's human and material resources.
3. Maintaining and reporting on the custodianship of resources.
4. Facilitating social functions and controls.

Use of the Term "Management Control" in Accounting Literature

Hofstede⁵² maintains that there are no universally accepted definitions of the words "management" and "control," but the connotation of "management control" is a pragmatic concern for results, obtained through people.

⁵¹ A Statement of Basic Accounting Theory, American Accounting Association, 1977, p. 4

⁵² Hofstede, Geert, "Management Control of Public and Not-For-Profit Activities," Accounting, Organizations and Society, 1981, Vol. 6, No. 3, p. 193

Flamholtz, Das, and Tsui⁵³ describe control as "the task of harnessing human efforts for the attainment of organizational objectives." Management control is one of the main tasks of most managers--a task in which they are usually assisted by some formal control systems such as budgeting and performance appraisal.

In the Western European and U.S. literature, it is customary to speak of "management control" primarily in the context of the private, or at least independently functioning, profit-oriented organization. In Eastern Europe, the equivalent concept is "applied cybernetics," and the applications are primarily sought in production organizations.⁵⁴

Cybernetics is derived from the Greek work kybernetes, which means "steersman." A steersman was a machine that by conglomeration of circuits could correct its own deviations from a planned course. Norbert Weiner formalized and extended the study of Cybernetics in his book Cybernetics published in 1947.⁵⁵ Weiner and his colleagues were originally concerned with the common processes of communication and control in people and machines that were used to attain desirable objectives..

⁵³ Flamholtz, Das and Tsui, "Toward an Integrative Framework of Organizational Control," Accounting, Organizations and Society, 1985, Vol. 10, No. 1, p. 35

⁵⁴ Op. Cit., Hofstede

⁵⁵ Op. Cit., Maciariello, pp. 6-7

Anthony⁵⁶ describes "control" as a broad concept applicable to people, things, situations, and organizations. In organizations, it includes both management control and other planning and controlling processes. "Management control" includes all methods, procedures, and devices, including management control systems, that management uses to assure compliance with organization policies and strategies. The "management control system" is a systematic process and structure that management uses in an organization to control operations. Essentially, the work of a management control system within an organization operates at three levels of the allocation process:

1. In forming expectations.
2. In making allocation decisions.
3. In monitoring outcomes of the organization.⁵⁷

Management Control and the Small Family Business

The following observations are made in connection with management control and the small family business.

Formulation of Expectations: Management Control is concerned with the formulation of expectations or goals upon which the resource allocation decisions are to be made. In the case of the small family business the

⁵⁶ Op. Cit., Anthony, et al., p. 5

⁵⁷ Op. Cit., Maciariello

expectations are usually those of the owner-manager because most businesses this size are owner-managed and thus closely associated with their owner's goals and objectives.⁵⁸

Allocation of Resources: Management control is concerned with the allocation of an organization's resources to ensure that goals and objectives are met. It is the manager who decides who will get what in his/her organization.⁵⁹ In making such allocation decisions, the small family business owner-manager sometimes faces the allocation dilemma of choosing between family goals and business goals depicted as "institutional overlap" in Chapter 1, Figure 1, Page 4. It is hypothesized that the stronger an individual's sense of family responsibility, the more likely that individual will use the business environment to achieve family goals.

Monitoring Outcomes: Management control systems are concerned with monitoring performance and taking corrective action to ensure that the organization remains on track in pursuit of its goals. Organizational goals are long-range desired results such as long-term profit and public welfare. In general, such high level goals provide little guide for action because it is difficult to measure and monitor the effects of concrete actions upon them.⁶⁰ Because long-term goals are not operative, the

⁵⁸ Op. Cit., Harper, et al.

⁵⁹ Mintzberg, Harvey, "A New Look at the Chief Executive's Job," Organizational Dynamics, Winter 1973

⁶⁰ Op. Cit., Maciariello, p. 62

factors that must be monitored in the organization are those factors that are believed to be causally related to goals and objectives.

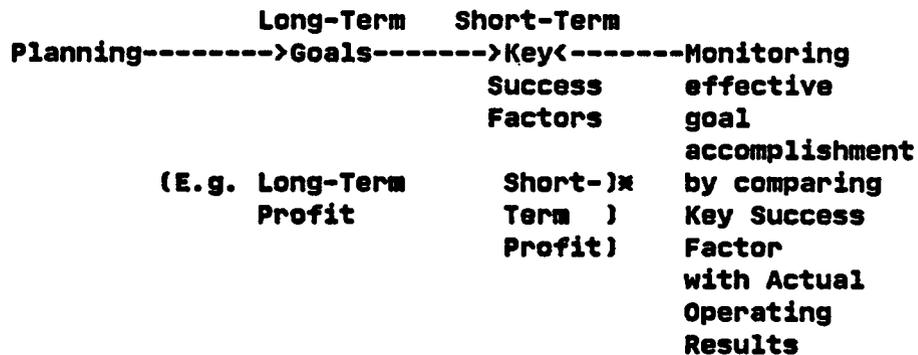
In general, key success factors represent the key elements that have been identified to monitor whether management is heading in the direction to accomplish its primary goals. As illustrated by Figure 3 on page 32, short-term profit is one key success factor to be monitored when pursuing the goal of long-term profitability. If the business and family operate as an economic unit, for example, by using business resources to achieve family non-profit goals, or by using family resources to maintain the viability of the business, the management control system should formulate key success factors within the context of the small family business. If the owner-manager does not consider his interrelationship with the multiple goals of the family and business, the key factor formulated for comparative purposes will be improperly specified.

Research Concerning the Concept of "Effectiveness"

What is an "effective" organization?

The term "effectiveness" is well-described in the literature. Keeley (1984)⁶¹ reviews the academic literature on the concept of organizational effectiveness. He describes how recent studies of organizational effec-

⁶¹ Keeley, M., "Impartiality and Participant-Interest Theories of Organizational Effectiveness," Administrative Science Quarterly, 1984, pp 1-25



*Short-term profit in the small family business will be affected by such operating factors as the hiring of family members at other than market rates of labor.

Figure 3. An Illustration of the Use of a Key Success Factor to Monitor Progress Towards a Long-Term Goal

tiveness have emphasized the subjectivity of this concept and have attempted to define effectiveness from the viewpoints of organizational participants or constituents.⁶² Keeley concludes, however, that goal-based definitions of effectiveness are still the norm in organizational theory.

According to Etzioni⁶³ effectiveness is the degree to which a social system achieves its goals. For example, a prison, which has a custodial goal, and which has a low escape rate among its inmates, would be considered an effective prison.

Effectiveness must be distinguished from efficiency. A business firm whose goal is profit as measured by rate of return on net assets may attain a high degree of efficiency due to productivity. This productivity might result from a labor force that generates output at less than standard costs. However, if this same firm cannot sell what is has efficiently produced due to a declining market, it will not achieve an effective outcome, i. e. , high rate of return on net assets.

The list presented in Figure 4 on page 35 demonstrates the scope of applied research on the concept of effectiveness. The list illustrates

⁶² See, for example, Cummings, 1977; Kanter and Brikerhoff, 1981.

⁶³ Etzioni, Amitai, Modern Organizations, Prentice-Hall, Englewood Cliffs, New Jersey, 1964

the variety of units that have been analysed and the fact that the subject has been studied over a long period of time.

Profitability is the "Desired State of Affairs" in Business

Two successive surveys reported in Organizational Dynamics are among the many research projects which support defining an effective organization in terms of an organization's profitability. The first survey polled 163 top executives who were members of the Presidents Association, an affiliate of the American Management Association. Executives were asked to rank ten factors commonly cited in management literature as determining an organization's effectiveness.⁶⁴ In the repeated survey administered to 143 MBA students, the students agreed with corporate managers about the preeminence of profits in judging a firm's performance. Although some respondents questioned the primacy of profit, the factor received more than three times as many first place votes as the runner-ups. Existing research provides a basis for the use of the profit variable as one yardstick in assessing an organization's "effectiveness."

⁶⁴ Douglass, Merrill E., "How Do You Measure the Effectiveness of a Business?" Organizational Dynamics, Autumn 1972 and "How Do You Measure the Effectiveness of a Business? Students vs. Top Managers," Organizational Dynamics, Autumn 1973

<u>Researcher</u>	<u>Unit of Analysis</u>	
Andrews	Research Groups	1979
Argyris	Banks	1954
Georgopoulos	Hospital	1962
Hayes	Departments	1977
Luck	Federal Personnel	1955
Munday	College Students	1976
Smith & Gannon	Entrepreneurial vs. Profession- ally Managed Firms	1987
Wickert & McFarland	Executives	1967

Figure 4. Applied Research on the Concept of "Effectiveness"

SUMMARY

Chapter 2 reviews the literature to develop an understanding of the previous use of the terms "management control" and "effectiveness." A discussion is presented relating three general levels of management control to specific levels of control in the small family business. The chapter concludes with a rationale for the operational definition of "small family business" in this research project. Chapter 3 develops the research question by proposing that, due to the interdependency of the family and business which are linked by the business owner, field theory is the appropriate framework in which to conduct an empirical investigation into the nature and effectiveness of management control in small family businesses.

CHAPTER 3

DEVELOPING A MODEL BASED ON FIELD THEORY

In a scientific investigation, including this research project, the researcher formulates testable hypotheses derived from relationships the researcher perceives in the environment. The general relationship of facts to one another and assumptions about the environment form the general theory.

This chapter contains:

1. A discussion of the general purpose for conducting an empirical investigation within a theoretical framework.
2. A review of existing theoretical frameworks in management accounting.
3. A description of an alternate and preferable orientation known as "field theory" in conducting research in the small family business.

THE PURPOSE OF DEVELOPING A THEORETICAL FRAMEWORK

Shaw⁶⁵ describes the interrelationship between theory and empirical observations. Empirical studies gather evidence to support testable hypotheses derived from theory. Such scientific rigor increases the probability that the elements of the theory are valid. On the other hand,

⁶⁵ Op. Cit., Shaw, p. 12

a mass of unorganized and unrelated facts, no matter how correct those facts may be, is not likely to prove very useful in the understanding of any complex phenomenon. Theory provides the organization of data that is necessary for understanding their implications beyond the specific situations in which the data were obtained.

According to Argyris⁶⁶ the purpose of such theory is:

1. To help guide our thinking.
2. To make our results additive.
3. To provide us with a systematic interrelated set of constructs that enable us to ascertain the causal relationships and thus the order among the phenomena in our universe.

If we accept that it is necessary to interpret data within such theoretical frameworks, then we, as researchers, must identify the theories that adequately reflect our assumptions regarding human nature and the environment in which we are conducting our research.

EXISTING FRAMEWORKS

There has been much academic debate on the relationship between what is actually "real" in our environment and what social science researchers

⁶⁶ Argyris, Chris, "Organization of a Bank," Labor and Management Center, Yale University, 1954

assume to be real when they study how society functions.⁶⁷ Burrell and Morgan (1979)⁶⁸ review and group organizational research according to its principal theoretical and philosophical assumptions.

The Burrell and Morgan framework is constructed from dimensions based upon assumptions regarding the nature of institutions (ontology), knowledge (epistemology) and human nature.⁶⁹ Hopper and Powell⁷⁰ apply the Burrell and Morgan framework to the social and organizational aspects of accounting.

Ontology

Ontology concerns the nature of "reality." On the one hand, the social world and its structures can be regarded as having an empirical, concrete existence external to, independent of, and prior to the cognition of the individual. At the other extreme reality is depicted as existing only as a product of individual consciousness--the external social world consists simply of concepts and labels created by people to help them un-

⁶⁷ See, for example: Dahrendorf (1959), Runciman (1963), Dawe (1970), Mitroff (1973), Robertson (1974), Keat and Urry (1975), and Benton (1977).

⁶⁸ Burrell, G. and G. Morgan, Sociological Paradigms and Organizational Analysis, Heinemann, London, 1979

⁶⁹ Ibid.

⁷⁰ Hopper, Trevor and A. Powell, "Making Sense of Research and the Organizational and Social Aspects of Management Accounting: A Review of Its Underlying Assumptions," Journal of Management Studies, September 1985

derstand reality and negotiate a shared conception of its nature with others.

By way of illustration, is a social institution such as a church separate from the individual worshippers or is it merely the result of the collective consciousness of its congregation of worshippers? Researchers who believe the church is separate or "objective" would probably choose to study the hierarchy of the ministry while researchers who hold the latter "subjective" assumption would study the perceptions, beliefs, and interrelationships of individual members of the congregation.

Accounting researchers must wrestle with ontologic assumptions concerning the nature of corporate institutions. How "real," or separate, or objective is the corporation from the individuals who interact with it? Corporate organizations have been granted entity status by the legal system, but do they function as independent objects in society? Accounting researchers who do not explicitly address the nature of corporate organizations may unwittingly adopt the implicit assumptions of existing theoretical frameworks, including the nature of human beings and organizations or entities.

Many researchers have assumed the organization is "like a machine."⁷¹ These researchers assume organizations can be constructed according to a

⁷¹ Penner, Louis A., Social Psychology, Oxford University Press, 1978, p. 310

specified set of plans called the organizational chart. The relative parts can be set in motion to produce the desired product. According to modern systems theorists, the organization's well-being depends upon a smooth integration of these parts.

Lewin's psychological view of an organization, on the other hand, is not one of a machine, but rather one of a dynamic field composed of interrelationships. As the number of interactions among individuals decrease, the organization fades into its surroundings. He stresses that an individual relates to the groups of which he feels a part, not to a structure that binds the groups together.⁷²

Birnberg⁷³ has criticized organization theory in general as a theory of "entities" and not a theory of individual behavior. Birnberg believes that accounting research has not investigated the middle ground, the process by which individual behaviour is translated into organizational decisions and actions.

⁷² Marlowe, Leigh, Social Psychology. Holbrook Press, Inc., Boston, Massachusetts, 1971

⁷³ Birnberg, J. G. Comments on a paper by David Green, in Accounting Research 1960-1970: A Critical Evaluation. Dopuch, N. (Revsine, L., Ed., University of Illinois, 1973)

Human Nature

Assumptions about human nature refer to the relationship between human beings and their environment. People's behavior and experiences can be regarded as being completely determined and constrained by their external environment (regulated), or people can be viewed as being potentially autonomous, free-willed, and capable of creating their own environment. Management accounting researchers who adopt the former assumption would be more likely to view the firm in terms of a cybernetic system with passive employees while the latter assumption would require an investigation of the behavioral aspects of humans within the organization.

Much of conventional accounting research has taken place under systems theories⁷⁴ with the assumptions that the organization is a separate or objective entity and that the human beings within the organization are passive. Organizational goals are believed to be unitary, such as profit maximization. Organizational structure is perceived as real, and accounting systems seek to model that reality. As a general illustration, accounting information systems may be modelled on the basis of the lines of authority in an organizational chart.

As a specific illustration, in 1985, Flamholtz, Das, and Tsui,⁷⁵ proposed an integrative model for management control wherein a "core control sys-

⁷⁴ Op. Cit., Hopper, et al.

⁷⁵ Op. Cit., Flamholtz, et al.

tem" is completely surrounded by organizational structure and culture. According to the authors, the "core control system" is "grounded in the cybernetic process of goal and standard setting, measurement and comparison, and evaluation and feedback for corrective action." According to its developers, the model attempts to explain the control process at all levels of analysis by synthesizing literature from organizational sociology, administrative science, and administrative psychology. They believe it to offer a more comprehensive explanation of the control process in complex organizations than existing theories and approaches. This comprehensive, innovative approach is still an overlay of general systems theory on corporate structure. Additionally, most sociological approaches which investigate structural mechanisms of rules and hierarchy of authority⁷⁶ also assume the organization is a structure.

THE NEED FOR ALTERNATIVE THEORIES

Systems Theories

The following sections discuss:

1. Why systems theory is historically dominant.
2. Why we as accounting researchers need alternative models.
3. How field theory is the more appropriate perspective for analyzing organizational behavior in the small family business.

⁷⁶ See Arrow (1964) and Blau & Scott (1962).

Why Systems Theory Is Historically Dominant

Smircich⁷⁷ describes how we create knowledge about the world. Human beings relate aspects of a new phenomenon to the familiar aspects of known phenomena. We find what is familiar to us about a new phenomena and relate it to what we already know. For example, if a toddler who has knowledge of cars sees his first train, he will begin to understand the function of the train in terms of what he already knows about cars--trains, like cars, have wheels and move people from place to place.

Throughout the development of administrative theory and practice, organization theorists and managers have used a variety of metaphors to differentiate that category of experience referred to as an "organization." The metaphors of machine and organism have been used most frequently to facilitate understanding and communication about the complexities of an organization. To illustrate, mechanical imagery undergirds the view of an organization as (1) an instrument for task accomplishment, i. e., the functionalist orientation, and (2) an organism consisting of multiple parts to be designed and meshed into fine-tuned efficiency, the cybernetic orientation of general systems theory.

⁷⁷ Smircich, Linda, "Concepts of Culture and Organizational Analysis," Administrative Science Quarterly, Vol. 28, 1983

Hopper and Powell (1985)⁷⁸ describe the consequences of such orientations. First, organizations and environments tend to be taken as objective, even though experience in defining boundaries and key variables suggest otherwise, i. e. , organizations are subjective creations by the modeller (ontology). Secondly, when control systems are described as determined by the variety in the environment and organizational needs for survival, there is a deflection away from the influence of choice by key decision-makers. Third, by stressing the need for integration for survival of the whole, there is a presumption of a "functional unity" to organizations which may divert attention from issues of power and conflict resulting from human nature.

These assumptions concerning the nature of institutions and how human beings behave within them are inappropriate for the small family business. The boundary between family and business is a subjective one and the business subsystem lacks the unitary goal of profit in light of family conflicts.

More generally, Child (1972), Wood (1979), Schreyogg (1980) and Cooper (1981) all criticize the insufficient attention to the discretion possessed by key decision-makers and how values, beliefs, and ideologies may influence choices. Owner-managers of small family businesses, as key decision makers in their firms, have the discretion to make choices and override business control systems at all levels: strategic planning,

⁷⁸ Op. Cit., Hopper, et al., p. 439

management control, and task accomplishment. For firms of all sizes that emphasize the technological determinism of control systems, attention is deflected from control systems emerging as a product of social culture, ideology, and power struggles.⁷⁹

According to Anthony,⁸⁰ with due regard for the dangers of oversimplification, we may structure the relationships among strategic planning, management control, and task control as starting with strategic planning to establish goals and adopt strategies (policies and long-range programs) for reaching the goals. Management control to implement these strategies is then initiated by developing plans and means of assuring that they are carried out. Simultaneous with management control processes, task control implements the detailed work to achieve organization goals. Strategic plans and tasks plans do need to be coordinated for organizational control.

Mechanical imagery and systems theory may be appropriate at the operations level where tasks are performed by machines or where there are scheduled activities to be monitored according to a somewhat standard process. However, in planning the larger control system for the entire organization's goal achievement, the bounded system is naive to the problems of culture, ideology, and power, i. e., problems arising because of the

⁷⁹ Ibid.

⁸⁰ Op. Cit., Anthony, et al., p. 16

interaction of people. Contingency theory has been used to explain in part why control systems based on systems theory do not always work.

According to Hollander,⁸¹ it is premature to adopt systems theory as the paradigm for the emerging field of inquiry of the family firm. Systems constructs must be questioned, and their limitations noted. Basic research on the appropriate theoretical approach is still needed.⁸²

Contingency Theory

What is now commonly termed "contingency theory" (defined at page 17) developed from the work of Woodward (1965), Burns and Stalker (1961), and Lawrence and Lorsch (1967), and others. Contingency theory seeks to reconcile the conclusions emerging from a variety of organizational studies. The work of industrial psychologists and the human relations school is combined with open systems theory and that which empirically measures structural characteristics of organizations.⁸³ Its principal thesis is that different organizational principles are appropriate under different environmental circumstances and within different parts of the organization. Effective operation of enterprises is seen as dependent upon there being a suitable match between its internal organization and

⁸¹ Hollander, Elman, "An Emerging Field of Inquiry," Family Business Review, Vol. 1, No. 2, Summer 1988

⁸² Ibid., p. 162

⁸³ Op. Cit., Hopper, et al., p. 439

the nature of demands placed upon it by its tasks, size, environment, and member's wants. According to Hopper and Powell (1985)⁸⁴ this approach explains otherwise contradictory observations and is probably reinforced by pragmatic practitioners who express suspicion at universal pre-
scriptions.

Spicer and Ballew (1983)⁸⁵ describe the limitations of conducting re-
search in a contingency framework. Of particular concern are the fol-
lowing:

(1) The fact that most of the theory dealing with contingency models of organizations tends to be post hoc in nature, resulting from attempts to explain observed patterns among measures of environmental, technological, and structural attributes of organizations through the use of multivariate statistical techniques on large samples, diverse units, and cross-sectional data.

(2) The scant consideration this work gives to the effect of interrelationships among organizational subunits on (i) organiza-
tion structure, (ii) the nature of the control problem, (iii) the demands place on management information systems, and (iv) organiza-
tion effectiveness. Most studies focus on the organization as a whole with the result that the influence of important interre-
lationships among subunits and the behavior of individuals in the organization is given little attention.⁸⁶ In these circumstances, it is not surprising to find that reported results are often in conflict and that effective integration of the empirical findings has yet to take place.⁸⁷

⁸⁴ Ibid.

⁸⁵ Spicer, Barry H. and Van Ballew, "Management Accounting Systems and the Economics of Internal Organization," Accounting, Organizations and Society, Vol. 8, No. 1, pp. 73-96

⁸⁶ Gerwin, D., "The Comparative Analysis of Structure and Technology: a Critical Appraisal," Academy of Management Review, January 1979, pp. 41-51

⁸⁷ See Ford and Slocum, 1977, for a review of these findings.

(3) The inability of the essentially static method of empiricism employed in studies on contingency models of organization to gain insights into the dynamic processes underlying intertemporal shifts in organization boundaries and changes in structure and internal processes. The nature and operation of these dynamic processes underlying intertemporal shifts in organization boundaries and changes comprise an interesting and important aspect of organizational life.

A theory, such as contingency theory, that is believed to be deficient in studying individual behavior and shifting boundaries is probably not an appropriate orientation in which to investigate resource allocation and control by the individual owner-manager in a context with poorly defined boundaries between family and business.

The assumptions underlying BOTH systems and contingency theory are similar--the key relationship between an organization and its environment can be understood in terms of the organization's need to survive and functional imperatives for the various subsystems. Whereas the "need to survive" assumption is congruent with the small family business' goals to perpetuate the family and remain a going concern, the assumption of the distinct functional imperative of being in business to earn a profit is not always appropriate. In cases of conflict between the norms of family and business, some owner-managers will choose courses of action that achieve family objectives at the expense of the business. Neither systems nor contingency theories are entirely appropriate.

A classic investigation of organizational effectiveness applying a system/contingency theory perspective is the Argyris study of the effec-

tiveness of a bank conducted by the Yale Research Center.⁸⁸ Argyris gathered evidence in support of the hypotheses that an organization is interdependent with its environment and with its subparts and that its employees are dependent upon the organizational leader. This dissertation study proposes that because of these interrelationships, field theory may be the most appropriate conceptual framework for analyzing some organizations. Field theory is especially appropriate in the case of the small family business because field theory defines a situation in terms of an individual's interrelationship with his surrounding groups--in this case, the individual's family and business.

FIELD THEORY--THE APPROPRIATE ORIENTATION

The flow of activity within situations and the acts of choice are the subject matter of studies of Kurt Lewin and his students at the University of Berlin in the 1920's. The conceptualization of behavior that Lewin formulated with his students eventually became known as "field theory."⁸⁹ Basically, field theory is an attempt to describe the essential here-and-now situation (field) in which a person participates. It assumes that if one fully understood a person's "situation" (in the broadest meaning of this term), one would fully understand the behavior. Hence the goal of field theory is to describe fields with systematic concepts

⁸⁸ Op. Cit., Argyris

⁸⁹ De Rivera, Joseph, Field Theory as Human Science, Gardner Press, 1976, p. 3

in such a precise way that a given person's behavior follows logically from the relationship between the person and the dynamics and structure of the concrete situation. In the case of the small family business, the owner-manager's behavior is the behavior under investigation and the dynamics of family and business compose the field situation.

The unifying theme of Lewin's work is unmistakable: the groups to which an individual belongs are the ground for his perceptions, his feelings, and his actions.⁹⁰ According to Allport,⁹¹ just as the bed of a stream determines the flow of water in a stream, the group determines the current of an individual's life. This interdependence of the ground and the figured flow is inescapable, intimate, and dynamic. This view represents a "subjective" (vs. objective or real) ontology, i.e. social structure emerges from the interrelationship of individuals.

Lewin built a system of individual psychology, which he then applied to groups.⁹² At any given time, individuals locate themselves within their personal life space, i.e., surrounded by the groups with which they relate. An individual sets personal goals and directs behavior towards those goals. The goals have a positive attraction or valence for the individual and create a force towards which the individual directs his

⁹⁰ Allport, Gordon W., in Foreward to Resolving Social Conflicts, Selected Papers on Group Dynamics, Kurt Lewin, Harper & Brothers, New York, 1945, p. vi

⁹¹ Ibid.

⁹² Op. Cit., Penner

or her behavior. Figure 5 on page 53 assumes both family and business goals have positive valence and create forces in the owner-manager's life space.

Concepts in Field Theory

Lewin's explanatory concepts derive from topology, a branch of geometry that treats spacial relationships without regard to quantitative measurement. Examples are space of free movement, life space, and region. Lewin's second class of concepts is anchored in the dynamic psychology of the individual, for example, in needs, aspirations, and satiation. These latter concepts for the most part refer to a system of tension within the individual himself. Whenever Lewin feels it necessary to speak simultaneously both of these tension systems within the individual and the pressures emanating from the surrounding field he introduces a third type of concept: force, barriers, and locomotion.⁹³

The Spacial Relationship--the "Life Space"

In a monograph (1940) entitled "The Background of Conflict in Marriage," Lewin depicts the "life space" of an individual. His depiction includes regions of family and occupation and a discussion of tension between family and occupation. According to Lewin,

⁹³ Op. Cit., Lewin, "The Background of Conflict in Marriage," 1940, in collection of works dated 1945 and edited by G. Lewin

Business (+)<-----Owner----->Family (+)

APPROACH

APPROACH

Figure 5. Forces in the Life Space of the Owner/Manager

Marriage is a group situation, and, as such, shows the general characteristics of group life. The problems of a partner in marriage should therefore be viewed as arising from the relation between an individual and his group.

I. The group and its relation to other groups

a. A group might be a part of a more inclusive group. The married (M) are generally a part of a larger family, and the larger family (Fa) itself might be a part of a community (C) and a nation (as depicted in Figure 6 on page 55).

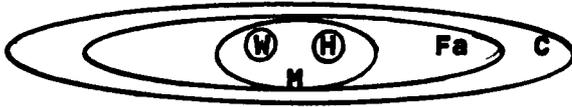
b. The individual is usually a member of many more or less overlapping groups. He might be a member of a professional group (Pr), a political party (Po), a luncheon club (L) (as depicted in Figure 7 on page 56). The potency of any of these groups, that is, the degree to which a person's behavior is influenced by his membership in them, may be different for the different groups he belongs to. For one person, business may be more important than politics; for another, the political party may have the higher potency. The potency of the different groups to which a person belongs varies. Marriage has a high potency within the world of an individual, or as one may say, his life space.

The concepts of individual needs and force are operationalized in Chapter 4 as the individual's "familism" or sense of family responsibility and common goals and "entitativity" or sense of common fate with the business.

The Mathematical Representation of Lewin's Theory

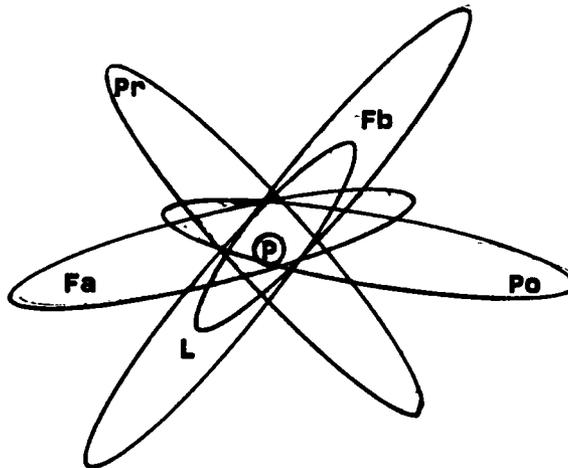
According to Lewin⁸⁴ in order to settle the question of whether the facts that exist psychologically, i. e. , those which have psychological effects, show spacial relationships one has to go back to the mathematical concept

⁸⁴ Lewin, Kurt, Principles of Topological Psychology, McGraw-Hill, New York, 1936, p. 52



W, Wife
H, Husband
M, Marriage Group
Fa, Larger Family
C, Community

Figure 6. The Marriage Group as Part of More Inclusive Groups as Depicted by Lewin



P, Person
Fa, Family
Pr, Professional Group
L, Luncheon Club
Po, Political Party
Fb, Family Business (Supplied)

Figure 7. Lewin's Depiction of The Person as a Member of Several Overlapping Groups

of space. The person who is not a mathematician as a rule thinks of space as physical space. He pictures mathematical space as a geometrical structure extending in every direction without limits, a structure which can be visualized to a certain degree and within which one can determine direction and distance exactly by measurement.

Mathematics has developed a concept of space which is in no way limited to physical space or to space which can be visualized. It has progressed from the investigation of three-dimensional to that of n-dimensional space, from Euclidean space to curved space, from metrical to non-metrical space. It does not matter whether one thinks of objects, temperatures, numbers, colors, events, or anything else. Only relationships and the possibility of certain operations define space.

From a social psychological perspective, social structures are not physical objects. Social structures emerge from the interrelationship of individuals. Relationships or interactions between people define groups, such as families, congregations, and corporate organizations. These groups of people who surround an individual and with whom the individual interacts define the individual's personal environment or life space.

As far as mathematics is concerned, there is no fundamental objection to applying the mathematical concept of space to the space of psychological facts or relationships. More specifically, there is a branch of mathematics dealing with the concept of connectedness, separatedness, the relationship of part sets in different regions, and boundaries. Such

topological relationships are all important in depicting the person and his environment. ³⁵

SUMMARY

Chapter 3 describes the need for theory in general and the inappropriateness of systems and contingency theories. Field theory is advanced as the appropriate research orientation for the investigation of small family businesses because it reflects the nature of the owner-manager, i. e., that he is simultaneously situated in a family and a business. Chapter 4 continues the application of field theory to the problems of the small family business by identifying the link between the business and family as the owner's sense of "familism", i. e. sense of common goals, property, and responsibility for family welfare, and the principle of entitativity or common fate. Reference to existing work in kinship relations and group process, respectively, provide the tools to operationalize the interdependency of the family and business discussed in Chapter 3.

³⁵ See Chapter 10 of Lewin's Principles of Topological Psychology. McGraw-Hill, 1936, for the full mathematical discussion.

CHAPTER 4

OPERATIONALIZING THE THEORETICAL LINKS

Chapter 4 discusses the various dimensions of kinship relations, i.e., kinship structure, kinship norms, and kinship solidarity. The latter is described in greatest detail because it is proposed that the owner's sense of familial solidarity is the family's link to business resources. The various instruments available to measure this variable are reviewed.

This chapter also discusses the concept of entitativity, where togetherness is defined in terms of the extent to which units, objects or individuals, experience a "common fate." This concept of common fate links an owner to his or her business. Lastly, the theory and propositions are merged. Four hypotheses and a general model are formulated and presented.

KINSHIP RELATIONS

The study of kinship relations is "the investigation into the nature and organization of the relationships of individuals to their socially defined relatives."⁹⁶ The discipline has a fairly long history in American sociology and an even longer one in anthropology. Researchers in both

⁹⁶ Social Roles and Social Participation, Mangen, David J. and Warren A. Peterson, Eds., University of Minnesota Press, Minneapolis, 1982, p. 187

family sociology and social gerontology have been concerned with the nature of relationships between parents and children. This interest has given rise to studies of visiting patterns and support systems that exist among various kin members that attempt to demonstrate the existence and persistence of kinship systems. Instruments have been developed and tested by social scientists to measure the strength of kindred relationship as well as amount of mutual monetary and non-monetary exchange.

THE PLACE OF KINSHIP IN THE LIVES OF AMERICANS

Sparked by the work of Marvin Sussman,⁹⁷ an abundance of evidence has recently been assembled to show that kinship remains a factor in the lives of most American families at all socioeconomic levels and that relations have more than token significance. The idea of an isolated nuclear family is not defensible.⁹⁸ Relations of sentiment, obligation, and support with the larger circle of kin cannot be overlooked as factors shaping interaction within the conjugal unit.

Investigations of different populations in different parts of the United States have shown with amazing consistency that most people maintain some active contacts with their kin and that these relationships are not limited to parent and child. For example, Litwak generalizes from inde-

⁹⁷ Sussman, Marvin, "Help Patterns in the Middle Class Family," American Sociological Review, Vol. 18, February 1953, pp. 22-28

⁹⁸ Turner, Ralph, Family Interaction, John Wiley & Sons, 1970, p. 420

pendent studies in Buffalo, Detroit, and Los Angeles that in large urban centers "almost 50 percent of the middle class individuals saw relatives once a week or more."⁹⁹ That these relationships are not necessarily superficial or expedient is documented by Bell and Boat's San Francisco finding that approximately 90 percent of their sample named a kinsman as one of their closest friends.¹⁰⁰ Studies in New Haven, Detroit, and Cleveland indicate that the majority of families receive and give substantial assistance, both financial and in service, with kinsmen.¹⁰¹ Although the greatest proportion of assistance involves parent-child relations, the amount of help among other relatives is substantial, and the possibility of help is even greater.¹⁰²

THREE BROAD AREAS OF RESEARCH OF KINSHIP RELATIONS

In reviews of the literature in the area of kinship relations, it is possible to divide the field into three broad areas. First is the area that is called kinship structure. Within the broad category of structure are numbers of studies that have estimated how many kin an individual has,

⁹⁹ Litwak, Eugene, "The Use of Extended Family Groups in the Achievement of Social Goals: Some Policy Implications," Social Problems, Winter 1960, p. 179

¹⁰⁰ Bell, Wendell and Marion D. Boat, "Urban Neighborhoods and Informal Social Relations," American Journal of Sociology, January 1957, p. 396

¹⁰¹ Op. Cit., Turner, p. 421

¹⁰² Sussman, Marvin B. and Lee G. Burchinal, "Parental Aide to Married Children: Implications for Family Functioning," Marriage and Family Living, November 1961, Vol. 24, pp. 320-332.

how often the individual is in contact with those kin, and/or how geographically close those kin are to the individual. This area is a crucial one for analyzing the nature of the family relations in a society. A second area of investigation are kinship norms and relations among older persons and their families (gerontology).

In addition to studying potential conflict and the number of kin an individual has available, there has been research interest in the level of integration or the nature of ties that are maintained with relatives. For example, Bardis¹⁰³ (1959) defined familism as incorporating strong in-group feelings, an emphasis on family goals, common property, and a desire to perpetuate the family. Unlike measures developed to account for kinship structure, such measures of kinship solidarity and extended familism have most often been attitudinal in design.¹⁰⁴

Using the sociological concept of solidarity within the framework of field theory is logically correct. Lewin¹⁰⁵ maintains that the spacial structure of the life space depends on psychological dynamic concepts. These are concepts such as tendency, force and solidity. (Emphasis supplied.)

¹⁰³ Op. Cit., Mangen, et al. (Eds.)

¹⁰⁴ Ibid., p. 188

¹⁰⁵ Op. Cit., Lewin, 1936, p. 63

Kinship Solidarity

The concept of social cohesion, or group solidarity, has been a concern of sociologists since the beginning of formal social analysis. Comte, Durkheim, Marx, and Weber developed theories of social organization based on both the division of labor and the development of cohesiveness among subunits.¹⁰⁶ Social psychologists such as Back (1951), Deutsch and Krauss (1965) and Festinger (1967) have discussed forces that act on members of a group to induce them to remain in the group. Cleland (1955) viewed solidarity as evidenced in "the extent of shared activities" in a group, and Cartwright and Zander (1960) and Brown (1965) emphasized solidarity as residing in the sharing of common needs and goals among group members. Thibaut and Kelley (1967) defined solidarity in terms of members' attraction to a group. These are but a few of the many definitions of solidarity as it is seen in small groups.

Solidarity and cohesiveness have also been frequently discussed by those interested specifically in the family as a small group. It is common for solidarity to be considered in horizontal role relations (for example, the husband-wife dyad), with outcomes labelled "adjustment," "happiness," or "satisfaction."¹⁰⁷

¹⁰⁶ "Parent-Child Relations," In Mangen, David J. and Warren A. Peterson, (Eds.), Social Roles and Social Participation, Benston, Vern L. and Sandi S. Shrader, University of Minnesota Press, Minneapolis, 1982, Chapter 4, p. 117

¹⁰⁷ Ibid.

Many characteristics of kinship relations also reflect the construct of solidarity, though it is not explicitly named as such. Adams (1968) provided a good example in his differentiation between the objective and the subjective aspects of kinship. He defined the objective aspects of kinship as the occasions of actual interpersonal interaction: home visits, work together, ritualistic activities, and aid given and received. The subjective elements include affectional closeness, value consensus, identification, and obligation.¹⁰⁰

Nye and Rushing (1966) noted the multidimensional character of cohesiveness and solidarity and identified six dimensions that have frequently been considered at least implicitly in family research.

1. **Associational integration:** the frequency with which group members are in contact with one another and interact in common activities,
2. **Affectional integration:** the mutual positive sentiment among group members and their expressions of love, appreciation, respect and recognition of one another,
3. **Consensual integration:** the degree of consensus among group members on beliefs and values,

¹⁰⁰ Ibid.

4. **Functional integration:** the exchange of services among group members,
5. **Normative integration:** the group's control over individual members, as evidenced in conformity mechanisms, and
6. **Goal integration:** the extent to which individual members subordinate their interests or goals to those of the group as a whole.

Measures of Kinship Solidarity

Nine research instruments listed in Figure 8 on page 66 have been developed to measure solidarity. They are all attitudinal in nature, i. e., they all attempt to tap certain feelings about the importance of family and kin in an individual's life. Seven of the instruments are either scales or are scale-like in construction. One instrument is a single-item measure, and one is a battery of attitudinal items used in the accumulation of a kinship inventory. Of the nine scales, the Bardis Scale is deemed to be the most reliable and valid.¹⁰⁹ The scale has been used to measure such contemporary issues as teenage pregnancy and the willingness of families to nurse sick members.¹¹⁰

¹⁰⁹ Op. Cit., Mangen, et al., (Eds.) Chapter 5, Mindel, C., p. 190

¹¹⁰ See, for example, "Premarital Sex Attitudes: A Scale and Some Validity Findings," Larsen, K. S., Social Psychology, Vol. 20, 1973, pp. 339-340; and "Familistic Orientation and Inclination toward Adopting the Sick Role," Geersten, H. R., and R. M. Gray, Journal of Marriage and the Family, Vol. 32, 1970, pp. 638-646.

Kinship Orientation	Farber (1971)
Kinship Orientation	Rogers & Sebald (1962)
Familism Index	Mapstone (1970)
Familism Scale	Bardis (1959) — <i>most reliable used</i>
Preferred Location of Kin	Reiss (1962)
Extended Family Orientation	Litwak (1960)
Participation in Extended Family	Key (1961)
Mutual Aid and Affection Index	Kerckhoff (1965)
Mutual Support Index	Kerckhoff (1965)

Figure 8. Measures of Kinship Solidarity and Extended Familism

Mindel¹¹¹ has reviewed and evaluated the instruments presently available to measure family solidarity. In Mindel's opinion,¹¹² the most adequate scales in terms of tested reliability and validity are the Familism scale by Bardis (1959), the Kinship Orientation scale by Rogers and Sebald (1955; 1962), and to a lesser extent the Extended Family Orientation scale developed by Litwak (1960) and used subsequently by Stuckert (1963).

Farber (1971) developed an attitudinal instrument consisting of twelve items that tapped the relationships of individuals with their relatives. A factor analysis indicated that these twelve items formed a general factor probably best identified by the single item concerning how close a relation feels to a particular relative. Farber himself chose to use that single item in his analysis rather than all twelve items. The factor of "closeness to a relative" is not as appropriate an attitude for measurement in this project as are Bardis' factors of "in-group feelings, common goals, and desire to perpetuate the family." These factors are appropriate to the orientation of this project, i. e. defining the family and family business as groups and measuring goal achievement.

Rogers and Sebald's (1962) scale relies on the assumption that familism can be divided into two orthogonal concepts: family integration and

¹¹¹ Op. Cit., Mangen, et al., p. 190

¹¹² Ibid.

kinship orientation. This statistical assumption reflects their personal views.¹¹³

Reiss (1962) developed a single-item measure ("If you had it within your power to have your relatives reside where you wanted, which would you set up as the most ideal arrangement?") This question is followed by a set of choices of different geographical distances ranging from living in a distant city to living in the same neighborhood. This measure is included with the familism measures primarily because of its attitudinal nature, which is unlike the primarily demographic nature of the measures in the group of research instruments investigating kinship structure. Though inter-item reliability is not relevant for this measure, it certainly should be asked whether or not using a single item concerning residence of relatives is the most reliable and valid measure of examining the nature of familism. The Key (1961) and Mapstone (1970) instruments are not appropriate to this dissertation study because they are administered in an interview situation.

Kerckhoff (1965) attempted to examine the relationships among normative aspects of extended family relationships by using the Mutual Aid and Affection Index and the behavioral aspects of extended family relationships by using the Mutual Support Index. No formal tests of reliability and validity have been presented by Kerckhoff.

¹¹³ Ibid.

Of the nine available instruments, the Bardis scale is chosen for the following three reasons:

1. No scale is more reliable or valid.
2. No factor measured by the other instruments is as appropriate to the orientation of this project, i. e. defining the family as a group and measuring the achievement of goals.
3. The instrument is preferably administered by survey questionnaire, allowing the researcher to gather more observations than in the interview situation.

CONCEPT OF ENTITATIVITY

The identification of an aggregate of several units as an entity is basically a process of separating the units belonging to the entity from other units that are not a part of the entity. Thus, through the use of principles of organization, Campbell¹¹⁴ sought to determine the circumstances under which such cohesion will be perceived by others. He believed that an analysis of this type would be equally applicable to physical objects, e. g. , stones and chairs, and to social phenomena, e. g. , social groups. According to Campbell, common fate seems to be most important in establishing boundaries.¹¹⁵

¹¹⁴ Campbell, D. T. "Common Fate, Similarity, and Other Indices of the Status of Aggregates of Persons as Social Entities," Behavioral Science, Volume 3, 1958, pp. 14-25

¹¹⁵ Op. Cit., Shaw, p. 10

In attempting to show how common fate may be used to establish entitativity, Campbell suggested that it might be possible to compute a measure of common fate which would reflect the degree to which two or more units have been in the same general place at the same time. For example, if a stone is multicolored, it may not be immediately obvious that the differently colored parts constitute a single entity. However, if the stone is moved about, it can be seen that the various parts generally move together; that is, the parts maintain their same relative position regardless of the location of the stone in space. The various parts thus experience a common fate, and this is a clue to their connectedness. In the same way, we may observe the extent to which a collection of individuals experience a common fate. If we note that a man and a woman are walking down the street side by side, we may be uncertain about their relationship. If they both turn the corner in the same direction, get into the same automobile, then we perceive that they are together, that is, that they constitute a group. The essence of common fate, then, is that all components of the unit experience similar outcomes. To the extent that the business owner and his business experience a common fate or outcomes in the form of goal achievement, they are connected.

TESTING THE LINKS BETWEEN FAMILY AND BUSINESS

To briefly summarize the research question, this study investigates whether field theory is an appropriate theoretical framework in which to conduct an empirical investigation of the owner-manager's control process within the small family business. Systems theory may be unsatisfactory

because it assumes the business and family structures are separate and that a control system can be fabricated in which the owner-manager becomes a passive participant. Contingency theory is unsatisfactory because it merely explains the obvious, that the outcomes of the business are dependent upon activities related to family process. Field theory is logically correct because it analyzes the behavior of the owner-manager in the context of his or her surrounding groups, the family and the business. The groups simultaneously form the owner's "life space," the context in which decisions are made. In pursuing the research question of whether field theory is an appropriate orientation, the following premises and hypotheses are formed (stated in the null form).

First, to test the link between the owner and his business,

H1. The extent to which a small business owner achieves personal goals in the business is not associated with the extent to which the business achieves its goals.

Secondly, to gather evidence to support the proposition that a theoretical orientation involving groups is appropriate in the study of small family business,

H2. Group process is not associated with goal achievement in the small family business.

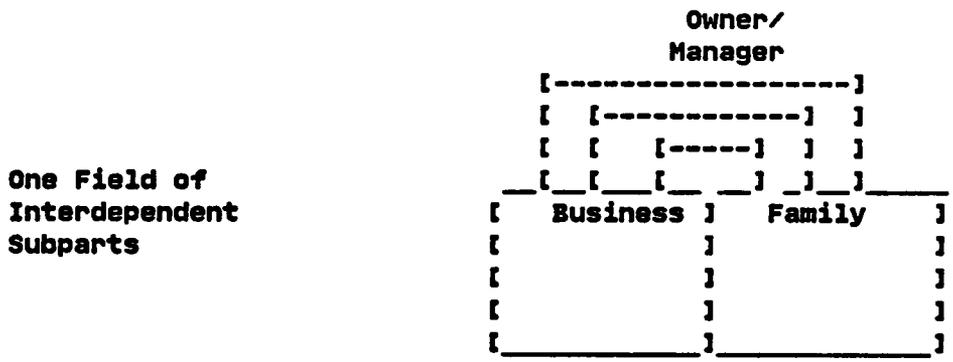
Third, to gain an understanding of an individual's behavior within the situation of the small family business,

H3. A small family business owner's sense of family responsibility is not associated with his or her use of the business environment to achieve family objectives.

Fourth, to apply the theory,

H4. The key success factor profit in the small family business should not be formulated within the field of family and business.

The following figure is a graphical representation of the theorized model.



----- The greater the familism of owner/manager as measured on the Bardis Scale (1959) the greater the use of business resources to achieve family goals.

THESIS: The small business owner's personal goals are associated with the goals of the firm. Because of the links of owner-managers with their families and businesses, control systems in small family businesses should be formulated from a field theory perspective. Firms that include family goals and resources during business planning will be more effective in achieving predicted profit.

Figure 9. The Theoretical Behavioral Model

CHAPTER 5

TESTING THE HYPOTHESES

Chapter 5 describes how the empirical data were gathered, measured, and analysed. The first section enumerates the steps applied in identifying the members of the local Chambers or Commerce who would most likely meet the operational definition of the small family business. Section two recounts the pilot testing and development of the questionnaire, including content and mailing procedures. The last section reviews the nature of the variables measured and states the methods used to analyze the four hypotheses.

SAMPLE SELECTION

As operationalized in Chapter 2, a "small family business" is one that employs at least one family member in addition to the owner-manager, employs twenty or fewer individuals (including the owner-manager) and subscribes to the local chamber of commerce. The following steps were taken in selecting the sample. First, the latest directories of the Greater Roanoke, Christiansburg, Greater Blacksburg, and Radford, Virginia, Chambers of Commerce were obtained:

1. Greater Roanoke Chamber of Commerce, 1986-1987.
2. Christiansburg Chamber of Commerce, 1988.
3. Greater Blacksburg, 1987-1988.

4. Radford Chamber of Commerce, 1987-1988.

The listings in these directories were then (to the extent possible) pared to those businesses having twenty or fewer employees. In the case of Christiansburg, Blacksburg, and Radford, this paring was accomplished with the cooperation of the respective executive directors. These three organizations bill on the basis of the number of individuals a member employs. Because the Roanoke Chamber does not keep such records, Dun & Bradstreet's series of reference books¹¹⁶ were used to begin paring the Roanoke membership. Additionally, telephone calls were made to those firms whose size could not be determined using Dun & Bradstreet. In this way the original total membership of the four Chambers (approximately 2,250 members) was pared to 902 members with a high probability of employing fewer than 21 employees. The process is not exact, of course, due to fluctuation in employment, especially in restaurants and construction firms, telephone response error and director error resulting from a firm actually being a branch of a larger organization.

THE QUESTIONNAIRE

The survey questionnaire was used to collect information primarily for two reasons: more observations could be collected and respondents could choose the best time to interrupt their often full schedules to complete the instrument.

¹¹⁶ January 1988

Pilot Testing

The questionnaire was pilot tested in Radford, Virginia. Mrs. Rosemary Middleton, Director of the Radford Chamber of Commerce, supplied a list of names of potential pilot subjects. Participating subjects included the Director of Economic Development for the City of Radford, the Executive Director of the Chamber of Commerce, a real estate broker who is active in the ownership and management of rental properties, a dairy farmer, a lawyer, and a print shop operator. The revised instrument was mailed on April 15, 1988, to the 902 individuals defined as the sample. April 15 was chosen as the first mailing date because by this date most individuals and firms have filed their income tax returns and have computed after tax profits.

To increase the response rate, the original contact letter stated an endorsement by the Roanoke Chamber of Commerce and described how valuable the respondent's answer is to the understanding of the issues. Additionally, participants were promised a copy of the research results. The results of the survey are believed to be a reward to the respondent because the questionnaire collects valuable descriptive information which has not been previously collected on small firms in Southwest Virginia. For example, the Roanoke firms have not yet been classified according to size.

Potential respondents whose response had not been received by May 9, 1988, were sent a follow-up letter and a duplicate questionnaire. The

endorsement by the Roanoke Chamber of Commerce, the first and second cover letters, as well as the survey itself are included in Appendices B, C, D, and E, respectively.

Development of the Questionnaire

The survey questionnaire includes the Bardis Scale, as well as two instruments specifically designed to measure work patterns and group process.

The Bardis Familism Scale

The Bardis Scale,¹¹⁷ its preference over other instruments in the measurement of familism, and its latest applications are discussed in Chapter 4. The sixteen-item scale has a theoretical range of scores from 0 to 64, the higher end of the range representing extremely familistic attitudes. The scale was validated by comparing the scale scores of a number of familistic samples. Test-retest and split-half techniques indicated good reliability.¹¹⁸ Bardis based his scale, in part, upon the Burgess and Locke ideal-type of familism, which contains five apparently related dimensions: strong in-group feelings, emphasis on family goals, common property, mutual support, and the desire to pursue the perpetuation of

¹¹⁷ Op. Cit., Mangen, et al., Eds., p. 223

¹¹⁸ Blair, Mansell, J., "An Evaluation of the Bardis Familism Scale," Journal of Marriage and the Family, May 1972, pp. 265-268

the family. The Bardis scale is included in the survey without modification as follows:

Below is a list of issues concerning the family IN GENERAL, NOT YOUR OWN. Please read all statements very carefully and respond to all of them WITHOUT CHANGING THEM IN ANY WAY on the basis of your OWN beliefs using the following code:

0	Strongly disagree
1	Disagree
2	Undecided
3	Agree
4	Strongly Agree

- ____A person should always support family members if they are in need.
- ____Children below 18 years of age should give almost all of their earnings to their parents.
- ____Children below 18 years of age should obey older brothers and sisters.
- ____A person should always be expected to defend his/her family against an outsider even at the expense of his personal safety.
- ____The family should consult close relatives concerning its important decisions.
- ____A person should always consider the needs of his family as a whole more important

than his/her own.

- ___A person should always support his/her parents-in-law if they are in need.
- ___The family should have the right to control the behavior of family members completely.
- ___A person should always avoid every action of which his/her family disapproves.
- ___A person should always share his/her home with relatives if they are in need.
- ___A person should always be loyal to his/her family.
- ___The members of a family should be expected to hold the same political, ethical, and religious beliefs.
- ___Children below the age of 18 should always obey their parents.
- ___A person should always help support younger siblings.

Work Patterns Profile

The original profile included fourteen descriptions of leadership functions that have been found within leadership jobs. These include inspection of the organization; investigation and research; planning; preparation of procedures and methods; coordination; evaluation; interpretation of plans and procedures; supervision of technical operations;

personnel activities; public relations; professional consultation; negotiations; scheduling, routing and dispatching; and technical and professional operations. This instrument was originally developed through the cooperation of the Ohio State University Board of Research and the Department of the Navy.¹¹⁹ The reliability of the instrument was tested by the original developers by retesting thirty-four naval officers after thirty days. Test-retest coefficients are shown for the fourteen major responsibilities:

Inspection	.51
Research	.59
Planning	.49
Preparing procedures	.55
Coordination	.60
Evaluation	.58
Interpretation	.18
Supervision	.03
Personnel functions	.46
Professional consultation	.61
Public relations	.83
Negotiations	.83
Scheduling	.38
Technical and professional duties	.59

The instrument's validity was tested by comparing reported scores to logs maintained by the officers. The results suggest that there is a fairly high degree of correspondence between logged time and estimated time for objectively observable performances.

The instrument makes it possible to compare patterns of performance. The activities are plotted as a percent of time spent in activities; there

¹¹⁹ Methods of the Study of Administrative Leadership, Ohio State University Bureau of Business Research, 1955, pp. 44-53.

are no standard scores for the original fourteen activities. Based on the suggestions of subjects in the pilot study, the work patterns profile included in this study has been collapsed into seven succinctly worded descriptions of business activity, including planning for future activities and coordination, as follows:

The purpose of this analysis is to determine the relative proportion of your time devoted to major administrative and operative responsibilities. Please consider your entire range of responsibilities from day to day. Before each item below, please write the approximate percentage of time spent in the responsibility described.

1. _____% **Technical and Professional Operations,**
such as practicing your profession, waiting
on customers in your store, running machines
in your factory, etc.
2. _____% **Selecting, supervising, and schedul-**
ing personnel
3. _____% **Personal inspection of the operations to keep**
informed
4. _____% **Planning for future activities**
(Including thinking, reflection, and
reading, as well as consultations and
conferences with persons relative to short-
term and long-range planning)

5. _____% **Coordination**--efforts to achieve
overall efficiency, economy, and control of
operations
6. _____% **Public Relations**--Acts designed to
inform outside persons or create a favorable
attitude toward the organization
7. _____% Some act we have not described. Please
describe:

PLEASE CHECK TO MAKE SURE YOU HAVE ACCOUNTED FOR 100% OF YOUR TIME.

Taylor and Bowers Measure of Group Process

This scale is part of the Survey of Organizations questionnaire, a standardized instrument developed at the Institute for Social Research at the University of Michigan.¹²⁰ It provides a standard set of measures usable without modification across differing samples.

A formal definition of group process is, of course, not available. Rather the concept is described in the literature in terms of level of cooperation, competence, and task motivation of group members. The original scale measuring these characteristics comprises seven items, each with five response alternatives, scored from 1 to 5. Various researchers have

¹²⁰ Cook, John D., et al., The Experience of Work, A Compendium and Review of 249 Measures and Their Use, Academic Press, New York, 1981

described alternative analyses of the data although the most common use is to average the individual score and then average group member scores for each group.

A hierarchical cluster analysis based on data from 754 work groups support the use of the seven items as a single index with an alpha coefficient of 0.96. The test-retest correlation (time interval unspecified) based on 284 work groups is .38.

For the best measure of group process in this study, respondents were asked to use a seven-response scale to accommodate the response of those owners who may engage in no planning or control activities. Only one group member, the owner-manager, is the subject of this research project so there is no need to average group member scores. Similar to the Taylor & Bowers group process instrument, the following series of questions posed to owner-managers of small businesses collects information on the levels of competence, coordination and communication in their firms. Item No. 2 is included to record the achievement of the owner-manager's personal goals in the business.

Please answer the following questions using the following scale:

1. Not at all
2. To a very small extent
3. To a small extent
4. To some extent
5. To a great extent
6. To a very great extent
7. At all times or completely

1. ___To what extent did your business plan and coordinate its efforts last year?
2. ___To what extent did you realize your personal goals in the business last year?
3. ___To what extent did the business achieve its goals last year?
4. ___To what extent do the people in your firm have the ability to make good decisions?
5. ___To what extent do the people in your firm have the ability to solve problems well?
6. ___To what extent do the persons who work in your firm know what their jobs are?
7. ___To what extent do the persons who work in your firm do their jobs well?
8. ___To what extent is your firm able to respond to unusual work demands placed upon it?
9. ___To what extent do persons in your firm share information about important events?
10. ___To what extent do you have confidence and trust in the persons in your firm?
11. ___To what extent do members of the firm want to achieve the goals of the business?

How the three instruments--the Bardis Familism Scale, the work patterns profile, and the measure of group process --are used to measure the variables in the four hypotheses in this study is explained in the last section of this chapter entitled "Variables and Methods of Analysis."

Exploring the Nature of Small Firms Through the Questionnaire

In addition to the previously described three instruments, demographic and descriptive information are collected to explore:

1. The nature of "profit" in the small family business.
2. The nature of planning in the small family business (such as whether or not the firm uses the larger field of the firm and family).
3. The reasons why small family business operators choose to be self-employed.

The following series of questions were included to gather such information.

Gathering Information on the Nature of "Profit" in Small Family Firms:
Respondents are asked to identify (by circling "yes" or "no") which of the following elements are included in their personal definition of "profit": cash available for withdrawal for personal use; fringe benefits provided to the respondent by the business; cash available for withdrawal or compensation and/or personal use of other family members; fringe benefits provided to other family members; the increase/decrease in the market value of the business (whether or not there was an intent to sell); taxable income of the business; personal taxable income; cash available for reinvestment in the business; accrual-based accounting income; or some other measure which the respondent was free to specify.

Gaining an Understanding of the Field of Planning: Respondents are asked to answer the following series of questions in order to gain an understanding of the flow of resources within the field of family and business.

1. During the last year, did you use business resources to fulfill family goals, such as, BUT NOT LIMITED TO, training of family members, hiring them at a higher wage than they might earn elsewhere, providing relatives "busy" work for pay or use of business property without charge?
Yes____ No____

- 2: If you answered yes, did you consider the economic effect of these additional expenses during overall business planning? Yes____
No____

3. During the last year, did you use family resources to keep the business going, such as, BUT NOT LIMITED TO, family members working without pay or at reduced pay or family members contributing cash and other assets during "hard" times? Yes____ No____

4. If you answered yes, did you consider the effect of these contributions during overall business planning? Yes____ No____

5. If you answered "yes" to BOTH Questions No. 1 and 3, which, in your opinion, is a stronger influence on the business? 1__ or 3__

Gathering Information Concerning the Choice of Self-Employment: Business owners are asked to rate the importance of various reasons for choosing to be self-employed. The list is gleaned from existing research, especially the Rosenblatt study¹²¹ which conducted interviews in 59 family businesses in the Twin Cities area in the early 1980's. The Rosenblatt study is the most comprehensive investigation of family businesses to date, and the reported reasons for self-employment meshed with other studies conducted in the United States, as well as Great Britain and France. Interviewers presented open-ended questions which queried individual reasons for the choice of operating a small business. The dimensions are similar to those ranked in the Cicco & Associates (1987) study of 198 small business owners.¹²²

¹²¹ Op. Cit., Rosenblatt, et al.

¹²² Galante, Steven P., Small Business Section of The Wall Street Journal, January 12, 1988.

Previous researchers have explored the reasons why small businessmen and women choose to work for themselves. The following statements reflect some of those reasons for running your own business. Please rate their importance to your choice of being self-employed using the following scale.

5	Extremely Important
4	Very Important
3	Important
2	Somewhat Important
1	Not Important

1. ____The opportunity to be my own boss
2. ____The opportunity to spend more time with family
3. ____The opportunity to set my own hours
4. ____To create the opportunity to work in this
community
5. ____To enjoy the prestige of being self-employed
6. ____To have the opportunity to try out new ideas
7. ____To earn more money
8. ____To be able to employ family members should
they need a job
9. ____To provide a special service to the community
10. ____To work on a day to day basis with other
members of my family
11. ____To provide an outlet for my special crafts
12. ____Should the opportunity arise, to provide an
environment in which to train other members

of my family for careers

13. ____To provide the opportunity to create and build
an organization
14. ____To practice a profession
15. ____To carry on the family business left to me
16. ____To make our family name known in the community

Identifying the Questionnaire

All questionnaires and return envelopes were coded with identifying numbers to avoid the inconvenience of a second mailing to firms answering the first request, to avoid including duplicate questionnaires from the same firms after the second mailing, and to identify those firms entitled to a copy of the research results as a reward for participating. Each potential respondent was assured anonymity and received a postage-paid business reply envelope to use when returning the questionnaire. As each questionnaire was returned, the date of receipt was logged.

VARIABLES AND METHODS OF ANALYSES

The following section is organized by hypothesis. Each of the four sections describes the nature and measurement of the variables contained in each hypothesis, the manner in which these variable are related, and how the relationship was analyzed and tested. The results of the tests are reported in Chapter 6.

Null Hypothesis Number 1

The extent to which a small business owner achieves personal goals in the business is not associated with the extent to which the business achieves its goals.

The premise that small firms are often owner-managed and therefore closely associated with their owners' personal goals is often articulated in the literature.¹²³ This proposition is tested for validity in the following way. First, respondents are asked if they are, in fact, both the owner and manager of the firm for which they are responding. Secondly, Item Nos. 2 and 3 in the Group Process Instrument for those respondents who are both manager and owner of a single enterprise (293 out of 351 or 83.4% of respondents) were tested for association using Pearson's measure of correlation.

To what extent did you realize your personal goals in the business last year?

To what extent did the business achieve its goals last year?

The range of possible responses consisted of a seven point scale as follows: (1) not at all (2) to a very small extent (3) to a small extent (4) to some extent (5) to a great extent (6) to a very great extent (7) at all times or completely.

¹²³ See, for example, Harper, et al., Op. Cit.

Null Hypothesis Number 2

Group process is not associated with goal achievement in the small family business.

Group function is defined as the sum of Items 1, 4, 5, 6, 7, 8, 9, 10 and 11 in the Group Process Instrument described at Page 83. Business outcome is again measured as the response to Item No. 3, the extent to which the firm achieved its goals last year. The variables are measured for association using Pearson's measure of correlation.

Null Hypothesis Number 3

A small family business owner's sense of family responsibility is not associated with his or her use of the business environment to achieve family goals.

An individual's sense of family is measured using the sum of the standard Bardis Scale (described at Page 77). The individual's use of the business environment to achieve family goals is measured by summing the rated importance of six family-oriented reasons for self-employment. The range of possible answers is a five-point scale: (1) not important (2) somewhat important (3) important (4) very important and (5) extremely important.

1. _____The opportunity to spend more time with family
2. _____To be able to employ family members should
they need a job
3. _____To work on a day to day basis with other
members of my family

4. ____ Should the opportunity arise, to provide an environment in which to train other members of my family for careers
5. ____ To carry on the family business left to me
6. ____ To make our family name known in the community

These questions were included randomly among ten other "nonfamily" reasons for being self-employed as previously described. The word "family" is not highlighted in the survey questionnaire. The variables sense of family responsibility and use of business environment to achieve family goals are tested for association using Pearson's measure of correlation.

Hypotheses Number 4

The key success factor profit in the small family business should not be formulated for the field of family and business.

The following variables were included in a general linear model:

$$\text{PROFIT}\% = \text{PLAN}\% + \text{CONTROL}\% + \text{TYPE}(0,1) + \text{FIELD PLAN}(0,1)$$

PROFIT is the dependent variable and is measured by the respondent's answer to the following question:

The firm achieved ____% of projected profit last year.

PLAN and CONTROL are respectively the relative proportion of time spent in each of those functions as reported in Items Nos. 4 and 5 of the Work Patterns Profile. Type of firm is coded as a categorical dummy variable. A priori, professional firms and manufacturing firms, for example, will require different amounts of planning and control to achieve effective outcomes. FIELD PLANNING is the critical variable and represents whether or not the respondent reports planning for both the business and the family simultaneously. It is the tested significance of the field planning variable that provides evidence that such planning is important in predicting achieved profit.

SUMMARY

Chapter 5 describes the procedures used to select the sample, the development and mailing of the questionnaire, the nature of the variables to be measured, and the methods of analysis. Chapter 6 reports the response rate, demographic and descriptive statistics, and the results of hypothesis testing.

CHAPTER 6

THE DATA AND ITS IMPORT

Chapter 6 reports the results of data analysis and presents a discussion of the implications of the findings in this study. Specifically, the chapter reports survey response, descriptive data, results of testing the four hypotheses, various implications of the results, and possible limitations of the applicability of the findings.

SURVEY RESPONSE

Number in the Sample and Response Rate (Table 1)

As reported in Table 1 on page 95, this project experienced a 41 percent response rate. Of the 863 surveys delivered (by first-class mail), a total of 351 individuals responded. This study's population was anticipated as a difficult one from which to elicit a response because the respondents are mostly male (they historically respond at a lower rate), extremely busy (as they are involved in the daily operations of their firms) and, as suggested by the literature, characteristically secretive about their affairs.^{12*} Thirty-nine of the 902 surveys mailed to the small

^{12*} See Miller, Delbert C., Handbook of Research Design and Social Measurement, Longman, Inc., New York, 1983, p. 114, and Davis, Op. Cit.

Table 1. Number in the Sample and Response Rates

	<u>FIRST MAILING 4/15/88</u>	<u>SECOND MAILING 5/9/88</u>	<u>TOTAL RESPONSE</u>
SAMPLE			
Initial sample, as described in Chapter 5	902	648	902
Less Nondeliverable surveys	33	6	39
FINAL SAMPLE			863
RESPONSE			
From first mailing (Percent response)	221 26%		
From second mailing (Percent response)	--- ---	130 20%	--- ---
OVERALL RESPONSE RATE	---	---	41.0%

businesses were returned as "undeliverable." This rate is consistent with the Rosenblatt study¹²⁵ where 6 out of 114 randomly selected small businesses in the The Yellow Pages of the Twin Cities area were no longer in operation.

DESCRIPTIVE DATA

Personal Characteristics of Firm Owner/Managers (Table 2)

Table 2 on page 97 reports (a) the gender of respondents, (b) where the owner-manager "grew up", and (c) the nature of the services provided by the firm on which the owner is reporting.

Gender and Hometown

Males outnumbered female respondents by approximately 4 to 1, supporting the long-standing statistic that men outnumber women in the ownership of small businesses. Although females represent 28 percent of small business owners nationally,¹²⁶ they head only 18 percent of responding firms. The majority of owners were raised in Southwest Virginia, and it is therefore most probable that these individuals have strong community ties.

¹²⁵ Op. Cit., p. 236

¹²⁶ Op. Cit., Roanoke Times, July 4, 1988

Table 2. Personal Characteristics of Owner/Managers

GENDER	Frequency	Percent
Male	239	81.6
Female	54	18.4

WHERE THE OWNER GREW UP	Frequency	Percent
(MODE: Southwest Va.)		
Southwest Virginia	156	53.2
Northern Virginia	14	04.8
Other	120	41.0
Did Not Respond	3	1.0

TYPE OF SERVICE PROVIDED	Frequency	Percent
Automotive	14	04.8
Construction	28	09.6
Manufacturing	10	03.4
Professional	70	23.9
Real Estate	14	04.8
Retail/Wholesale	66	22.5
Service, hotels & restaurants	44	15.0
Other	47	16.0

Nature of Services Provided by the Responding Firm

Professionals and retail/wholesale establishments comprised nearly one-half of responding firms. Whether or not this is representative of the population is unknown because all four chambers do not classify their businesses into groups.

Personnel Characteristics of Responding Firms (Table 3)

Table 3 on page 100 reports (a) total number of employees, (b) number of employees who are family members, and (c) the number of hours per week the owner works in the firm.

Number of Employees

As defined in Chapter 2, a "small" business is one that employs twenty or fewer employees, counting the owner-manager as the first employee. Eighty-six percent of the firms meet the operational definition of smallness in this project. Nearly one-half of the firms are very small and totalled five or fewer full-time employees. Specifically, 46 percent of the firms have five or fewer employees. Twenty percent employ six to ten individuals, and 19 percent employ eleven to twenty individuals. The process to screen firms with more than twenty employees as described in Chapter 5 was very effective. Approximately 46 percent of the firms employed another family member in addition to the owner.

Number of Hours Worked Per Week

The statistics support the U.S. Chamber of Commerce's stereotype of the small family business owner, that is, someone with strong community ties who spends "unheard of" manhours in the firm. Seventeen percent work 60 or more hours per week. Eighty-two percent work more than 40 hours per week in their firms. This compares with an average work week in Virginia of non-farm personnel of 41.1 hours per week,¹²⁷ and is consistent with the findings in the Rosenblatt¹²⁸ study in Minnesota in 1984/85.

¹²⁷ Business Section, Roanoke Times & World News, May 26, 1988, as part of Southeast Business Index compiled by First Wachovia Corp. of Winston-Salem, North Carolina.

¹²⁸ Op. Cit., Rosenblatt, et al.

Table 3. Personnel Characteristics of Responding Firms

No. Employees, Family Members and Hours Worked:

Number of Employees	Frequency	Percent
1 to 5	135	46.1
6 to 10	59	20.1
11 to 20	58	19.8
More than 20	41	14.0

Number of Family in Firm	Frequency	Percent
One (the owner)	157	53.6
Two (one in addition to owner)	83	28.3
Three	30	10.2
Four or more	23	7.8

Hrs/Week Owner Works	Frequency	Percent
LESS than 20 hours	10	03.4
20-39 hours	27	09.2
40 hours	14	04.8
41-50 hours	99	33.8
51-60 hours	90	30.7
MORE than 60 hours	49	16.7
Did Not Respond	04	01.4

Characteristics of the Firm (Table 4)

Table 4 on page 102 describes the characteristics of the firm, such as (a) how long the firm has been in business, (b) the legal organization of that firm at the present time, and (c) the type of professional services received by the firm.

Longevity

While some firms probably failed and therefore did not respond, most of the firms responding to the questionnaire are surprisingly long-lived, only 14 percent having been in business for three or fewer years. Twenty-five percent of responding firms represent professionals, and the professionals, of course, have equated the life of their business with the length of their practice. The result is 56 percent of the firms report being in business for ten or more years.

Type of Legal Organization

Most respondents are organized as corporations, either Chapter C, S, or professional. Only 23.5 percent of respondents reported as sole proprietors; approximately 5 percent are partners. This outcome is also attributable to the high rate of responding professional firms who are incorporated as professional organizations.

Table 4. Characteristics of the Firm

LONGEVITY	Frequency	Percent
Less than 1 year	5	1.7
1 to 3 years	36	12.3
4-6 years	54	18.4
7-10 years	33	11.5
MORE than 10 years	164	56.0
Did Not Respond	1	00.3

LEGAL ORGANIZATION	Frequency	Percent
Sole Proprietorship	69	23.5
Partnership	13	04.4
Subchapter "S"	79	27.0
Other corporate form	124	42.3

PROFESSIONAL ASSISTANCE *	Frequency	Percent
An accountant	92	86.0
A lawyer	71	66.0
A lawyer specializing in tax	11	10.0
A tax specialist other than a lawyer or accountant	12	11.0
Professional bookkeeping services	43	40.0

*Respondents asked to choose all that applied.

THE NATURE OF PLANNING IN SMALL FAMILY BUSINESSES

One of the major contributions of this study is its description of the planning techniques used in small family businesses. The project queried respondents on the nature of their planning approaches, including time horizons, physical characteristics, and whether or not the plans are used to monitor subsequent performance. The following open-ended question was posed.

Please describe the nature and formality of your business planning.

For example, is it short-term or long-term?

Is it formal (written) or informal?

Do you compare plans to outcomes periodically?

Monthly?

Please feel free to describe any business or family process that you sense will be helpful to this research project.

The answers to these questions were analysed by assigning a value of zero or one to the possible answers connected by "or," a value of two to those responses indicating use of both alternatives, and a value of three to

the responses that did not indicate using any method. The coding of the first question will be discussed as an illustration. The first question is, "Is it (planning) short-term or long-term?" "Short-term" answers are assigned a value of zero when not accompanied by a response of "long-term." Long-term responses that do not indicate planning over the short-term are assigned a value of one. Respondents who indicate both short-term and long-term planning techniques in operation are assigned a value of two. A response that does not describe any planning is coded as a three.

Twenty-eight percent report only short-term planning techniques; 21 percent referred to only longer-term techniques.¹²⁹ Twenty-three percent indicated the use of both short-term and long-term planning techniques. Twenty-eight percent did not discuss any planning techniques at all.

Forty-five percent of the respondents report periodic comparison of predicted to actual outcomes. However, only 20 percent have formal or written plans in place. The other firms use informal planning techniques, such as mental benchmarks.

Appendix A reports in detail the responses to the open-ended question.

¹²⁹ "Long-term" is operationalized as a planning perspective of two years or longer.

How Owners of Small Family Firms Define "Profit"

The term "profit," of course, can mean different things to different people in the absence of established criteria. Consequently, respondents were asked to choose all of the elements that they employed in their personal definition of "profit." Table 5 on page 106 summarizes the results of this portion of the survey.

The most frequently chosen element of "profit" as defined by the small family business owners in this study is "cash for reinvestment in the business" (74%). Business taxable income is second in popularity (70%). In light of the debate suggesting small firms favor the cash basis of accounting, it is interesting to observe that more owners define profit in terms of accrual based measures (50%) vs. cash based (36%). These results may be confounded by the description of cash profit as cash that is available for withdrawal. Many small business owners are, by the selection of "cash for reinvestment in the firm," indicating a preference for maintaining cash for use in operating the business. The fact that one-half of the respondents include accrual-based accounting measurements of profit in their personal definitions of profit, however, is congruent with the fact that 86 percent have the assistance of an accountant and 40 percent employ bookkeepers or bookkeeping services. Additionally, 66 percent have the advice of a lawyer; only 10 percent consult an attorney specializing in tax.

Table 5. Elements of "Profit"

I/we define profit as:	Frequency	Percent*
Cash available for withdrawal for my personal use	39	36
Fringe benefits provided to me by the business	47	44
Cash available for withdrawal for compensation and /or personal use of other family	29	27
Fringe benefits to other family members	31	29
The increase/decrease in market value of the firm	49	46
Taxable income of the business	74	70
Personal taxable income	40	37
Cash available for reinvestment in the business	79	74
Accrual-based accounting income	53	50
Some other measure	12	11

*Respondents (N=108 less one non-response. Respondents asked to choose all definitions that apply.)

Why Respondents Choose to Be Self-Employed (Table 6)

Table 6 reports how individuals responded to various proposed reasons for self-employment. Respondents were asked to report the level of importance for each of sixteen reasons (ten nonfamily oriented and six family-oriented) on the importance of their choice for being self-employed. The scale is a five-point scale ranging as follows: (1) not important (2) somewhat important (3) important (4) very important and (5) extremely important.

The most highly rated reason for self-employment in this study is the opportunity to be one's own boss; this result is consistent with the highest rated "freedom" dimensions in previous studies. The opportunity to be his or her own boss is followed in importance by the opportunities to earn more money, to practice a craft or a profession, and to build an organization. The last reason is quite consistent with the previously reported finding that cash for reinvestment in the firm is the most commonly cited element of profit. The opportunity to earn money is, of course, consistent with the fact that the businesses under investigation are profit-seeking enterprises. The opportunity to practice a profession is also consistent with the nature of respondents, i. e. , 24 percent professionals. The firm is the outlet for their services in the community.

Table 6. Reasons for Self-Employment

THE OPPORTUNITY TO:

BE MY OWN BOSS	Frequency	Percent
Not Important	04	03.7
Somewhat Important	06	05.6
Important	26	24.3
Very Important	26	24.3
Extremely Important	45	42.1

SPEND MORE TIME WITH FAMILY	Frequency	Percent
Not Important	18	16.8
Somewhat Important	14	13.1
Important	35	32.7
Very Important	22	20.6
Extremely Important	12	11.2
Did Not Respond	06	05.6

SET MY OWN HOURS	Frequency	Percent
Not Important	19	17.8
Somewhat Important	12	11.2
Important	32	29.9
Very Important	26	24.3
Extremely Important	16	15.0
Did Not Respond	02	01.9

WORK IN THIS COMMUNITY	Frequency	Percent
Not Important	16	15.0
Somewhat Important	19	17.8
Important	37	34.6
Very Important	20	18.7
Extremely Important	12	11.2
Did Not Respond	03	02.8

Table 6. Continuation of Reasons for Self-Employment

THE OPPORTUNITY TO:

ENJOY PRESTIGE	Frequency	Percent
Not Important	37	34.6
Somewhat Important	22	20.6
Important	17	15.9
Very Important	17	15.9
Extremely Important	14	13.1

TRY OUT NEW IDEAS	Frequency	Percent
Not Important	13	12.1
Somewhat Important	17	15.9
Important	30	28.0
Very Important	26	24.3
Extremely Important	21	19.6

EARN MORE MONEY	Frequency	Percent
Not Important	09	08.4
Somewhat Important	20	18.7
Important	28	26.2
Very Important	26	24.3
Extremely Important	23	21.5
Did Not Respond	01	00.9

EMPLOY FAMILY MEMBERS	Frequency	Percent
Not Important	57	53.3
Somewhat Important	24	22.4
Important	19	17.8
Very Important	03	02.8
Extremely Important	04	03.7

Table 6. Continuation of Reasons for Self-Employment

THE OPPORTUNITY TO:

SERVE COMMUNITY	Frequency	Percent
Not Important	28	26.2
Somewhat Important	13	12.1
Important	28	26.2
Very Important	15	14.0
Extremely Important	23	21.5

WORK WITH FAMILY	Frequency	Percent
Not Important	50	46.7
Somewhat Important	21	19.6
Important	24	22.4
Very Important	07	06.5
Extremely Important	04	03.7
Did Not Respond	01	00.9

PERFORM SPECIAL CRAFT	Frequency	Percent
Not Important	34	31.8
Somewhat Important	16	15.0
Important	20	18.7
Very Important	18	16.8
Extremely Important	19	17.8

TRAIN FAMILY MEMBERS	Frequency	Percent
Not Important	35	32.7
Somewhat Important	22	20.6
Important	38	35.5
Very Important	08	07.5
Extremely Important	03	02.8
Did Not Respond	01	00.9

Table 6. Continuation of Reasons for Self-Employment

THE OPPORTUNITY TO:

BUILD ORGANIZATION	Frequency	Percent
Not Important	18	16.8
Somewhat Important	10	09.3
Important	28	26.2
Very Important	25	23.4
Extremely Important	24	22.4
Did Not Respond	02	01.9
PRACTICE PROFESSION		
	Frequency	Percent
Not Important	18	16.8
Somewhat Important	14	13.1
Important	21	19.6
Very Important	21	19.6
Extremely Important	32	29.9
Did Not Respond	01	00.9
CARRY ON FAMILY BUSINESS		
	Frequency	Percent
Not Important	73	68.2
Somewhat Important	03	02.8
Important	06	05.6
Very Important	06	05.6
Extremely Important	08	07.5
Did Not Respond	11	10.3
MAKE KNOWN FAMILY NAME		
	Frequency	Percent
Not Important	52	48.6
Somewhat Important	22	20.6
Important	12	11.2
Very Important	07	06.5
Extremely Important	11	10.3
Did Not Respond	03	02.8

N=108 less one improperly scaled response.

The first part of this chapter has reported the various demographic and descriptive characteristics of the sample. The next section reports the results of statistical analyses of the four hypotheses presented in Chapters 4 and 5.

RESULTS OF STATISTICAL ANALYSES

As described in Table 7 on page 113, 293 of the 351 respondents were included in the test of Null Hypothesis No. 1. It is deemed appropriate, of course, to leave out hired managers who responded and respondents who reported that their firms were not small businesses but actually operating units of a larger organization.

Null Hypothesis No. 1 and the demographic information were tested and analyzed, respectively, using all 293 subjects. Null Hypotheses No. 2 and 3, Hypothesis No. 4, and the remainder of the analyses with the exception of the general linear model incorporate the smaller sample of 108 respondents who meet the criteria of "small family business." These 108 respondents are (1) owned and managed by the responding individual, (2) employ twenty or fewer employees of which at least one in addition to the owner is a family member, and (3) are members of their local chambers of commerce.

Table 7. Number of Questionnaires Analyzed

Questionnaires Returned	351
Less: Firms not Owned AND Managed by Respondent	(29)
Firms That Are Part of Multiple Organizations	(15)
Not Filled in Properly	(9)
Professionals who notified they are now retired	(5)
Total Analyzed	293

RESULTS OF TESTING NULL HYPOTHESIS NO. 1

The first null hypothesis is that the extent to which the small business owner achieves personal goals in the business is not associated with the extent to which the business achieves its goals. As described in Chapter 5, goal achievement for the owner and the business are each measured on a seven point scale as follows: (1) not at all (2) to a very small extent (3) to a small extent (4) to some extent (5) to a great extent (6) to a very great extent and (7) at all times or completely. This hypothesis is rejected ($p=.0001$), the data providing evidence that there is a positive .77 correlation between the small business owner's achievement of personal goals in the business and the achievement of business goals. In terms of the criterion of common fate,¹³⁰ the owner and the business share the outcomes of the business and are therefore connected or linked.

RESULTS OF TESTING NULL HYPOTHESIS NO. 2

Null Hypothesis No. 2 tested the premise that group process is not associated with the small family business achieving its goals. The measurement of group process is described in Chapter 5 and the extent of business goal achievement is measured by the seven point scale described above. This null hypothesis is also rejected, and there is a positive .46 correlation ($p=.0001$) between group process and the self-reported achievement of business goals. The results of this test lend support to the

¹³⁰ Op. Cit., Campbell

rationale of using group process in defining the size of the small family business and in the general orientation of field theory which is based on the interaction of an individual and his surrounding groups.

RESULTS OF TESTING NULL HYPOTHESIS NO. 3

Null Hypothesis No. 3 is that there is no association between a small family business owner's sense of family and his or her use of the business environment to achieve family goals. This hypothesis is also rejected, but with a lower (.34) correlation and a corresponding lower probability ($p=.0004$). Specifically, sense of family responsibility as measured by the Bardis Scale is positively associated with the use of the family business to achieve the following six family objectives: the opportunities (1) to spend more time with family, (2) to be able to employ family members should they need a job, (3) to work on a day to day basis with other members of the family, (4) to provide an environment in which to train other family members for careers, (5) to carry on the family business, and (6) to make the family name known in the community.

RESULTS OF TESTING HYPOTHESIS NO. 4

Hypothesis No. 4 is tested with observations gathered from those firms reporting resources flowing to the business from the family. This analysis tests the prescription that owners should plan for the field of the family and the business when planning and controlling the outcomes of small family businesses. Of the 108 firms who meet the criteria of "small

family business," 11 firms report business resources supporting the family in noneconomic ways while 46 firms report the family supporting the business with noneconomic transfers of goods or services or outright rescue. Of these latter 46, five were unable to project profit for their firms and one respondent failed to indicate whether or not he planned for the field of the business and family. Consequently, to test Hypothesis No. 4, the subsample of forty small family businesses who reported using the family to support the business were analyzed. First, the regression was modelled exactly as described in the research proposal that preceded this study.

$$\text{Profit} = \text{Plan} + \text{Control} + \text{Type of Business} + \text{Field Planning}$$

Where PROFIT is the respondent's self-reported level of achieved profit for the last year. PLAN and CONTROL are, respectively, the relative proportion of time spent in each of those functions as reported in the Work Patterns Profile. TYPE OF BUSINESS is coded as seven categories self-reported by the respondents in the survey instrument: automotive, construction, manufacturing, professional, real estate, retail/wholesale, service, including hotels and restaurants, and other. Automotive is not included in the first regression analysis because none of the forty respondents of this subsample were in this category. FIELD PLANNING is the critical variable and represents whether or not the respondent reports planning for both the business and the family simultaneously. It is the tested significance of the field planning variable that provides evidence that such planning is important in predicting achieved profit.

Table 8. Results of Exploratory Analysis

VARIABLES	MEAN	S.D.	BETA	t VALUE
1. PLAN	12.55	10.18	1.47	2.38*
2. CONTROL	9.80	8.99	-.09	-0.14
TYPE OF BUSINESS				
3. Construction	.08	.27	33.34	1.37
4. Manufacturing	.05	.22	-29.72	-0.97
5. Professional	.30	.46	45.05	2.45*
6. Real Estate	.05	.22	8.47	0.30
7. Retail/Whole	.27	.45	14.41	0.83
8. Service	.10	.30	34.79	1.50
9. FIELD PLAN	.68	.47	20.72	1.65**
INTERCEPT			9.77	.51

Average Profit = 63.725
R-Square = .40
Adj. R-Square = .22
F-Value = 2.23

*** p <=.05**
**** p <=.10**

Table 9. Correlation Matrix for Variables In Exploratory Analysis

CORRELATION MATRIX

	PLAN	CONTR	PR	FAMPL	CO	MA	RE	RW	SE	PROF
PLAN	1.00	.35**	-.12	.03	.02	.34**	.06	-.00	.16	.33**
CONTROL	.35**	1.00	-.22	.07	.22	.00	-.06	-.09	.38*	.15
PR	-.11	-.22	1.00	-.36	-.18	-.15	-.15	-.40*	-.21	.27
FAMPLN	.03	.07	-.36**	1.00	-.01	-.09	-.09	.19	.05	.13
CO	.02	.22	-.18	-.01	1.00	-.06	-.06	-.17	-.09	.09
MA	.34	.01	-.15	-.08	-.06	1.00	-.05	-.14	-.07	-.21
RE	.06	-.05	-.15	-.08	-.06	-.05	1.00	-.14	-.07	-.09
RW	-.00	-.08	-.40*	.19	-.17	-.14	-.14	1.00	-.20	-.09
SE	.17	.38*	-.21	.05	-.09	-.07	-.07	-.21	1.00	.18
PROFIT	.33**	.15	.27***	.13	.09	-.21	-.09	-.09	.18	1.00

* p <= .01
 ** p <= .05
 *** p <= .10

The percentage of time of an owner-manager's work day spent in planning functions as measured by the Work Patterns Profile is a predictor of the degree to which an owner will meet his profit goals ($t \geq 2$). In this model 22 percent of the variation in achieved profit (Adj. R-Square = .22) can be explained by the percentage of time spent planning, controlling for the nature of the organization, and the nature of planning. Control, as measured by the Work Patterns Profile, is not significant. It is not possible to identify whether statistical insignificance is due to the inadequacy of the Work Patterns Profile for measuring the variable control, the lack of a relationship between control and profit, the lack of a sufficient sample size, or some other factor.

Due to the limited sample size, an analysis was performed to choose the four variables of the original ten variables that explained the most variation in profit. The model and the results under these conditions are:

$$\text{Profit (X)} = \text{Plan (X)} + \text{Type of Business (0,1)} + \text{Fampln (0,1)}$$

WHERE TYPE OF BUSINESS is coded as manufacturing, professional, or other (3 groups rather than 7) and the variable CONTROL is not included.

As presented in Table 10 on page 120 this model explains 26 percent of the variation in predicting achieved profit ($F=4.447$; $P>F=.0052$) and Plan and Type of Business/Professional continue to have the greatest t values.

Table 10. Results of Analysis Adjusted for Sample Size

VAR	MEAN	S.D.	BETA	t VALUE	CORRELATION MATRIX				
					1	2	3	4	5
1	12.55	10.22	1.72	3.16*	1.00	.34	-.12	.03	.33**
2	.05	.22	-50.37	-2.00**	.34**	1.00	-.15	-.09	-.21
3	.30	.46	28.48	2.35**	-.12	-.15	1.00	-.36**	.27***
4	.68	.47	17.12	1.46	.03	-.09	-.36**	1.00	.13
5	.64				.33**	-.21	.27	.13	1.00
INTERCEPT			24.60	1.89***					

Average Profit = 63.725
R-Square = .34
Adj. R-Square = .26
F Value = 4.45

* p <=.01
** p <=.05
*** p <=.10

1=Plan 2=Manufacturing 3=Professional 4=Field Plan 5=Profit

IMPLICATIONS

The goals of this dissertation study were:

1. To develop a conceptual framework based upon field theory for investigating the nature and effectiveness of management control in small family businesses.
2. To derive hypotheses within the theoretical framework.
3. To present the results of the study designed to test those hypotheses.
4. To describe the nature of management control in small family businesses.
5. To make prescriptions for the development of effective management control systems in small family businesses.

According to Choudhury,¹³¹ the function of management accounting practice, as part of the management control system, is to increase organization effectiveness¹³² by providing useful information for management planning and control decisions. Based on the foregoing, the expectations of management accounting research is that it should improve management accounting practice by giving it direction and consistency with other activities in the organization. Practitioners consider academics to be divorced from real life practice and isolated in a world of theory. This

¹³¹ Choudhury, Nandan, "In Search of Relevance in Management Accounting Research," Accounting and Business Research, Winter 1985

¹³² See Flamholtz et al, 1985, Op. Cit., p. 36

stereotyping is not one-sided: anecdotal evidence indicates that academics believe that managers and accountants who serve them have a technical orientation, are anti-intellectual and unresponsive to new ideas. One implication of this dissertation study, which investigated both theory and practice, is that it is possible to connect both academic and practical aspects of a research question within a single research project. The results of this study support the application of field theory in researching and understanding the behavior of the owner-manager in the small family business and in suggesting prescriptions for planning in the small family firm. Most firms (57 out of 108) report the family supporting the business and the business supporting the family in noneconomic exchanges of resources.

Specifically, the results support the premise that there is an element of common fate between the owner and the business, that is, there is an association between the owner's achievement of personal goals in the business and the achievement of business goals. Furthermore, the achievement of business goals in the small family business is associated with group process. The results therefore support the basic assumptions underlying a field theory approach: The owner is connected with the business and the small family business functions as a group in the owner's life space. Additionally, the results imply that it may be appropriate to apply the existing body of group process research to the successful operation of the small business in general. Social psychologists have already tested many practical relationships, such as the effect of seating arrangements among group members, the effect of multiple connections when

smaller groups operate within a larger group, etc. Perhaps many of the general findings can be used to improve the group functioning of the small family business.

The results of testing the third null hypothesis suggest that sense of family responsibility is associated with the use of business resources to achieve family goals. This finding operationalizes a link between the business and family. For the researcher, empirical data has been gathered to support the theorized link between family and business. From a practical viewpoint, the results imply that the owner-manager might ask the following series of questions during business planning:

1. Am I the type of individual who feels a strong sense of responsibility for other members of my family?
2. Are there currently members of my family for whom the business could act as a resource?
3. Will I use business resources to meet family objectives during the current period?
4. Will these applications affect any key success factor, such as profit?

Key success factors can then be appropriately formulated.

Evidence is provided that for small family businesses in this study, family resources were flowing to the business from the family in 46 of the 108 small family firms. Family labor and capital support the operation of the business in noneconomic ways. The implications here are that, for these owners, it is the family's sense of responsibility which will support the business. Even for these individuals who would seemingly be at the mercy of their kin, the results suggest that the need for family resources should also be anticipated and not reactionary. The exploratory regression analysis found the use of field planning for such firms to be a factor in predicting achieved profit.

Because 51 of the 108 small family firms did not report sharing of resources by the family and business, field theory may not be appropriate for all small family businesses. For these firms, system theories may be quite appropriate and it is for this reason perhaps that the search for alternative theories was delayed. There are simply some small family businesses that are functioning at least economically as a system separate from the family.

The results of this survey are also descriptive of the small businesses operating in this area. Female owners represented 18 percent of the owners of small businesses compared to 28 percent female small business ownership nationwide. Perhaps Southwest Virginia can use these statistics to attract funds from the Small Business Administration.

Sometimes the survey respondents confirmed what we already know, i.e., small business owners work many hours in their businesses. Eight-six percent report working overtime; 17 percent work more than 60 hours per week. Small business ownership implies a longer work week than the average employee (41.1 hours in Virginia).¹³³ Similar to the outcome of the Rosenblatt study,¹³⁴ the most important reason for self-employment is the opportunity to be one's own boss.

Sometimes the respondents provided new information, such as the rate at which local firms consulted professionals. Eighty-six percent consult an accountant regularly; 66 percent have the regular assistance of a lawyer. Forty percent employ professional bookkeeping services. Interesting in light of the current literature which advocates the cash basis of accounting to simplify accounting for very small firms, small family business owner-managers include the definition of accrual-based accounting measures in their personal definition of profit 50 percent of the time.

Limitations

I am fully aware that the sample is a limited one. The four local Chambers of Commerce in Southwest Virginia in 1988 may provide a sample that is unusual in economic situation and in other ways. That the sample in the

¹³³ Op. Cit., Roanoke Times, May 26, 1988

¹³⁴ Op. Cit., Rosenblatt, et al.

present study is not totally unrepresentative of families in business is indicated at the many points in which the findings (reasons for self-employment, hours worked in the firm, and rate of business closings) meshed with the Rosenblatt study¹³⁵ in the Twin Cities area which had in turn meshed with previous studies. The generalizability of the findings in this research project will be tested by conducting further research of a similar nature in other areas of the United States. In any event, because descriptive and demographic information about local small firms had not been compiled, such information gathered about the population is itself very valuable to those of us who live in Southwest Virginia. Because a uniform classification of chamber membership does not exist, the researcher is prevented from determining whether the high number of responses from professionals and merchandising operations is representative of the population of the four Chambers of Commerce.

Additional areas for future research include the application of field theory to other small family business problems, such as succession and tax planning, as well as to individual behavior of family members in larger organizations.

¹³⁵ Op. Cit.

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APPENDIX A

EXCERPTS FROM RESPONSES TO OPEN-ENDED QUESTION

Respondent code is the number assigned to the individual questionnaire which was used in logging procedures.

Respondent Code:

Answer:

- Q 10 "XXXX is a very small, informal operation.
Both owner/operators are employed at full-time jobs. The only planning involved is deciding when it is convenient to have guests and then buying and preparing breakfasts."
- Q 78 "Plan six months to a year ahead. Informal, except for large booking orders. Compare this year to last, by months. Husband and wife work together to run the business. Their small children can come out with mom to work, or mom can do the paperwork at home with kids. Kids get to see Dad at work."
- Q 87 "Monthly computerized comparison from C.P.A."
- Q 152 "Long-term planning. It is written and outcome measured weekly. Food cost and labor cost are computed weekly."
- Q 161 "We budget monthly on a short-term weekly basis to fit into an overall monthly scheme. (Bills such as telephone, electric, bank loans are paid on a monthly cycle.)

These include semi-predictable seasonal influxes and customer flow of money. Most customers get paid approximately first and fifteenth of the month. The last week of the month is usually the slowest except during holidays such as Christmas. Therefore, we have more money to spend the first week of the month, etc."

Q 184 "Have spending schedule for next twelve months. Projected cash flow and debt retirement plan are written. Salary raises are not formulated, but are liberal when extra cash flow seems to be present."

Q 188 "MBO -- Management by objectives; both short-term and long-term, personal mixed with business."

Q 205 "Both short- and long-term planning has been formulated in writing and is reviewed quarterly with personnel to measure results and review future plans. It is very important for any business to establish goals and have your employees participate and be aware of goals and planning."

- Q 262 "Planning is both short- and long-term. Jobs are scheduled one to three weeks in advance. Since we put the needs of customers first, changes are made daily. Equipment purchases are planned one to two years in advance."
- Q 278 "Short-term planning is formal and reviewed quarterly. Long-term planning is a part of my personal goals, which are written down but not reviewed on a regular basis. With my goals in mind, I gravitate toward my long-term plans."
- Q 313 "I compare year-to-date with prior year-to-date."
- Q 352 "I look at last year's business and plan from that."
- Q 445 "Feel the questions in this report pretty well cover all areas of need."
- Q 461 "Overall long-term plan for profitability and growth. Short-term sales goals compared with monthly reports."

Q 579 "I have been in this business for three and one-half years. Our time has been somewhat of a learning experience. So far our planning has been informal and short-term. I do receive monthly and year to date financials for comparison."

Q 602 "We project sales and expansion but don't really have formal business planning. We planned to train a new manager and coordinate all activities better with our staff in 1987 concerning sales, policies, etc."

Q 649 "Staff meetings of all employees. Ideas are discussed and recorded. Implementation discussed at later meetings for evaluation. My husband and I are partners and do short- and long-term planning 'CONSTANTLY' --both formally and informally. Accounting was computerized in 1987 so comparison of outcome is easier."

Q 669 "Long-range planning for new services, trends, etc. Short-term planning in near capacity

utilization of equipment, personnel."

Q 704 "Informal--both short- and long-term. Not really enough is done. Rarely do we compare."

Q 720 "The Company has been in business for over ten years. After the demise of the original owner in January 1987, the firm was placed in Probate Court. I assumed ownership through the lawyer in November 1987. Short-term goals are to reestablish the business. Long-term goals are to acquire advanced training in locksmithing and expansion of the Company."

Q 731 "Fairly informal--no regimented family meetings or store meetings. Atmosphere fairly relaxed --give latitude to employees as far as lunch hours and taking time for extra-curricular activities. My father and I monitor daily work activity and stress gemological studies to enhance professionalism and value to our store. We send out memos or have private talks with personal (sic) if necessary."

Q 735 "I'm working for long-term growth. Basically operated informally with some formal plans on

paper dealing with specific projects from
time to time."

Q 854 "Reactionary"

Q 876 "A way of life--love affair--to make a living
and work closely with people."

Q 880 "Planning is totally informal (i. e. , not
written down and compared to outcomes);
however, it is a vital part of my personal
function. Both short-term and long-term
planning is written only in my memory."

Q 884 "Mostly short-term, but more recently
attempting long-term planning. Planning is
informal with comparisons at 3 to 6 month
intervals."

Q 901 "I want my debt to asset ratio to decrease
before any new expansion."

APPENDIX B

THE LETTER OF ENDORSEMENT FROM THE ROANOKE CHAMBER OF COMMERCE

Roanoke Valley Chamber of Commerce
14 West Kirk Avenue
Roanoke, Virginia 24011

JACK C. SMITH
EXECUTIVE VICE-PRESIDENT

September 22, 1987

Dear Ms.

In reply to your request of September 16, enclosed is a directory of members of the Roanoke Valley Chamber of Commerce. We do not have available labels or a mailing list for businesses which employ twenty or fewer employees.

While we have not had time to review your project in great detail, we will endorse the project conceptually.

Concerning item 4, while we cannot presently suggest two business owners who would be willing to complete the survey, when you are ready to proceed, if you will again contact us, we will attempt to identify two such businesses.

Sincerely,

EXECUTIVE VICE PRESIDENT

APPENDIX C

THE FIRST CONTACT LETTER

April 15, 1988

Dear Owner/Manager:

Small businesses, including professional practices, are the most prevalent form of business organization in this country; yet little is known about their management and operations. To learn more about these issues, I am conducting a research project on small businesses in Southwest Virginia. The concept of this study has been endorsed by the Roanoke Chamber of Commerce, and I have received technical assistance from the Radford Chamber of Commerce. Because you have owned and operated a small business, you have a good understanding of the management and operations of such organizations. For this reason I am asking for your participation in this study.

To insure that the results are representative of small business, it is important that each questionnaire be completed and returned. You may be assured of complete confidentiality. The questionnaire has an identification number for mailing purposes only. This is done to allow us to check your name off of the mailing list and to avoid the inconvenience of a second mailing to you. The results of this study will be published in aggregate form only. Each respondent will receive a copy of the results.

The enclosed questionnaire can be answered in about twenty minutes and should be returned in the envelope provided. I understand the great demands on your time, but your responses will be of significant value in understanding the issue.

I would be happy to answer any questions you might have. My number is 639-2053. Please write or call.

Thank you for your assistance.

Sincerely,

Diane A. Riordan, CPA

APPENDIX D

THE FOLLOW-UP LETTER

May 9, 1988

Dear Owner/Manager:

About three weeks ago I wrote to you asking for your help in contributing information that would help us to understand various issues in managing small businesses in Southwest Virginia. If you have already answered our questionnaire, please accept my thanks. If you have not yet had an opportunity to return your answers, please complete the enclosed questionnaire and return it at your earliest convenience.

In order for the results of the study to be representative of all small businesses, it is important that you return your questionnaire. We understand that you, the operator of your own business, are among the busiest people. However, the issues are important and only people like you can contribute the information we need to understand them.

Remember, if you fill out and return your questionnaire, I will mail you the results of the aggregate study. (Your responses are completely confidential.) The results should be interesting!

Hoping to receive your response, I remain

Sincerely yours,

Diane A. Riordan, CPA

APPENDIX E

THE SURVEY QUESTIONNAIRE

**A STUDY OF SMALL BUSINESSES
IN SOUTHWEST VIRGINIA**

Diane A. Riordan, CPA
Doctoral Candidate
Accounting Department
Virginia Tech

NOTE: For purposes of this survey, a family member is "a spouse, child, parent, grandparent, brother or sister (including 'step' and adopted members), niece or nephew, aunt or uncle, whether or not such person currently lives with the you and any individual who currently shares a household with you."

1. This package is addressed to the "Owner/Manager."
Are you, in fact, both an owner and a manager of
this firm? (Please circle the correct answer.)

A. Yes
B. No
If you answered "NO," what is your position? _____
2. What is your gender?

A. Male
B. Female
3. Your business is best described as:

A. Automotive
B. Construction
C. Manufacturing
D. Professional
E. Real Estate
F. Retail/Wholesale
G. Service, including hotels and restaurants
H. Other Please specify: _____
4. How many full and part-time persons are employed by
the firm at any one time? (Count yourself as one
employee. Count two part-timers as one full-time
employee.)

A. 1 to 5
B. 6 to 10
C. 11 to 20
D. More than 20
5. How many of the employees in No. 4 above are
members of your "family" as defined by this survey?
(Count yourself as one family member. Please see the
cover sheet for the definition of "family.")

6. How long has the firm been in business?

A. Less than 1 year
B. 1-3 years
C. 4-6 years
D. 7-10 years
E. More than 10 years

7. How many hours do you (personally) normally work in this firm per week?

- A. Less than 20 hours
- B. 20-39 hours
- C. 40 hours
- D. 41-50 hours
- E. 51-60 hours
- F. More than 60 hours

8. Where did you grow up?

- A. Southwest Virginia
- B. Northern Virginia
- C. Tidewater area
- D. Mid-Atlantic
- E. Northeast
- F. Other Please specify:

9. The firm operates as a:

- A. Sole proprietorship
- B. Partnership
- C. Subchapter "S" Corporation
- D. Corporation (not Subchapter "S")
- E. Other Please explain:

If you answered partnership or corporation, are all partners or stockholders members of your family as defined on the cover sheet?

- A. Yes
- B. No

10. Please describe the nature and formality of your business planning.

For example, is it short-term or long-term?

Is it formal (written) or informal?

Do you compare plans to outcome periodically?

Monthly?

Please feel free to describe any business or family process that you sense will be helpful to this research project.

PART I

WORK PATTERNS PROFILE

The purpose of this analysis is to determine the relative proportion of your time devoted to major administrative and operative responsibilities. Please consider your entire range of responsibilities from day to day. Before each item below, please write the approximate percentage of time spent in the responsibility described.

1. _____% **Technical and Professional Operations,**
such as practicing your profession, waiting
on customers in your store, running machines
in your factory, etc.
2. _____% **Selecting, supervising and scheduling
personnel**
3. _____% **Personal inspection of the operations
to keep informed**
4. _____% **Planning for future activities**
(Including thinking, reflection, and
reading, as well as consultations and
conferences with persons relative to
short-term and long-range planning)
5. _____% **Coordination--efforts to achieve
overall efficiency, economy and control
of operations**
6. _____% **Public Relations--Acts designed to
inform outside persons or create a
favorable attitude toward the
organization**
7. _____% **Some act we have not described. Please
describe:**

PLEASE CHECK TO MAKE SURE YOU HAVE ACCOUNTED FOR 100% OF YOUR TIME.

PART II

Please answer the following questions using the following scale:

1. Not at all
2. To a very small extent
3. To a small extent
4. To some extent
5. To a great extent
6. To a very great extent
7. At all times or completely

1. ___To what extent did your business plan and coordinate its efforts last year?
2. ___To what extent did you realize your personal goals in the business last year?
3. ___To what extent did the business achieve its goals last year?
4. ___To what extent do the people in your firm have the ability to make good decisions?
5. ___To what extent do the people in your firm have the ability to solve problems well?
6. ___To what extent do the persons who work in your firm know what their jobs are?
7. ___To what extent do the persons who work in your firm do their jobs well?
8. ___To what extent is your firm able to respond to unusual work demands placed upon it?
9. ___To what extent do persons in your firm share information about important events?
10. ___To what extent do you have confidence and trust in the persons in your firm?
11. ___To what extent do members of the firm want to achieve the goals of the business?

PART III

Below is a list of issues concerning the family IN GENERAL, NOT YOUR OWN. Please read all statements very carefully and respond to all of them WITHOUT CHANGING THEM IN ANY WAY on the basis of your OWN beliefs using the following code:

0	Strongly disagree
1	Disagree
2	Undecided
3	Agree
4	Strongly Agree

- ___ A person should always support family members if they are in need.
- ___ Children below 18 years of age should give almost all of their earnings to their parents.
- ___ Children below 18 years of age should obey older brothers and sisters.
- ___ A person should always be expected to defend his/her family against an outsider even at the expense of his personal safety.
- ___ The family should consult close relatives concerning its important decisions.
- ___ A person should always consider the needs of his family as a whole more important than his/her own.

- ___A person should always support his/her parents-in-law if they are in need.
- ___The family should have the right to control the behavior of family members completely.
- ___A person should always avoid every action of which his/her family disapproves.
- ___A person should always share his/her home with relatives if they are in need.
- ___A person should always be loyal to his/her family.
- ___The members of a family should be expected to hold the same political, ethical, and religious beliefs.
- ___Children below the age of 18 should always obey their parents.
- ___A person should always help support younger siblings.

PART IV

A. Please complete the following sentence:

The firm achieved _____ % of projected profit last year.

I/we define profit as: (Please circle the correct responses:)

1. Cash available for withdrawal for my personal use.....Yes No
2. Fringe benefits provided to me by the business.....Yes No
3. Cash available for withdrawal for compensation and/or personal use of other family members.....Yes No
4. Fringe benefits provided to other family members.....Yes No
5. The increase/decrease in the market value of the business (whether or not you intend to sell).....Yes No
6. Taxable income of the business.....Yes No
7. Personal taxable income.....Yes No
8. Cash available for reinvestment in the business.....Yes No
9. Accrual-based accounting income.....Yes No
10. Some other measure.....Yes No
Please Specify: _____

B. The firm has the assistance of (include yourself if you are an accountant, a lawyer or other tax specialist):

1. An accountant.....Yes No
2. A lawyer.....Yes No
3. A lawyer specializing in tax.....Yes No
4. A tax specialist other than a lawyer or accountant....Yes No
5. Professional bookkeeping services.....Yes No

PART IV (CONTINUED)

C. Please place a checkmark beside the correct answers:

1. During the last year, did you use business resources to fulfill family goals, such as, BUT NOT LIMITED TO, training of family members, hiring them at a higher wage than they might earn elsewhere, providing relatives "busy" work for pay or use of business property without charge? Yes___ No___

2. If you answered yes, did you consider the economic effect of these additional expenses during overall business planning? Yes___ No___

3. During the last year, did you use family resources to keep the business going, such as, BUT NOT LIMITED TO, family members working without pay or at reduced pay or family members contributing cash and other assets during "hard" times? Yes___ No___

4. If you answered yes, did you consider the effect of these contributions during overall business planning? Yes___ No___

5. If you answered "yes" to BOTH Questions No. 1 and 3, which, in your opinion, is a stronger influence on the business? 1__ or 3__
6. Looking forward to next year, which of the following best describes your present opinion. (Please circle the appropriate answer.)
- a. The firm will be more profitable next year.
 - b. The firm will be less profitable next year.
 - c. The firm's earnings will remain about the same.
 - d. I am not able to forecast profitability.

PART V

Previous researchers have explored the reasons why small businessmen and women choose to work for themselves. The following statements reflect some of those reasons for running your own business. Please rate their importance to your choice of being self-employed using the following scale.

5	Extremely Important
4	Very Important
3	Important
2	Somewhat Important
1	Not Important

1. ____The opportunity to be my own boss
2. ____The opportunity to spend more time with family
3. ____The opportunity to set my own hours
4. ____To create the opportunity to work in this
community
5. ____To enjoy the prestige of being self-employed
6. ____To have the opportunity to try out new ideas
7. ____To earn more money
8. ____To be able to employ family members should
they need a job
9. ____To provide a special service to the community
10. ____To work on a day to day basis with other members
of my family

11. ____To provide an outlet for my special crafts
12. ____Should the opportunity arise, to provide an
environment in which to train other members of
my family for careers
13. ____To provide the opportunity to create and build an
organization
14. ____To practice a profession
15. ____To carry on the family business left to me
16. ____To make our family name known in the community

THANK YOU FOR YOUR COOPERATION.

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