Family and Business Success, an Initial Review

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There are two streams of work on which this paper is based. One is the research on the nature of home-based businesses and family businesses. The other is research on successful businesses. Based on the research on home-based businesses which indicates that personal or family management practices affect the revenue of the home-based businesses (Olson, 1995) and the literature on family businesses which establishes the threat to the business from family conflict (Ibrahim & Ellis, 1994) , it is the premise of this project that sustainable family owned businesses require both minimally functional families and successful businesses. In the first part of this section previous work on determinants of satisfaction for families dependent on income from home-based work is reviewed. In the second part, definitions of business success are reviewed. In the third part paradigms of business success are reviewed. In the fourth part the predictors of success are reviewed. Finally, a model for identifying indicators of a sustainable family business is put forward.

In the literature on home-based business the only measures of family functionality have been satisfaction measures. Gritzmacher (1993) reported that the majority of household managers were satisfied with their quality of life. How one's children were getting along had a significant effect on quality of life. Using a different analytical technique, Sung & Stafford (1995) also found that overall satisfaction with quality of life was determined primarily by how satisfied the respondents were with how well the children were doing. They reported that satisfaction with how well the children were doing was significantly affected by business resource management practices, the reallocation time management strategy, and the time management strategy of acquiring additional help.

Sung & Stafford (1995) reported that satisfaction with the adequacy of income and level of control did not have a significant effect on overall satisfaction, but in and of themselves, these components of satisfaction are considered by some to be measures of family functionality. In other words , it is possible that the three separate measures of satisfaction constitute a measure of functionality that is preferable to a measure of overall quality of life. For that reason the predictors of these aspects of satisfaction are briefly summarized. Gritzmacher (1995) found that satisfaction with the adequacy of income was associated with educational attainment and actual income earned. Sung & Stafford (1995) found that family resource management practices and time management practices had a significant effect on satisfaction with adequacy of income. Business management practices and time management practices had a significant effect on satisfaction with child's well being. Time management practices and family resource management practices had a significant effect on satisfaction with level of control (Sung & Stafford, 1995).

Success is an ambiguous term commonly used by both lay and professional people to describe the achievements of a firm or person. In the literature there are two broad constructs used to define and measure business success. One is financial success and the other is survival.

Many studies have examined the financial components of success. A Dutch study comparing the personal characteristics of successful entrepreneurs and managers measured business success as the change over time in total revenues, capital, and the sum of wages and profits (Konijn and Plantenga, 1988). Return on investment (ROI) was the measure of success in a study of 97 female business owners (Nelson, 1991). Lentz and Laband (1990) used the difference between personal take-out income and opportunity earnings, proxied by state median income, to measure success.

Another way to measure financial success that has been used is growth of a business. Mean sales growth was used in a study examining the relationship between entrepreneurship education and entrepreneurship success (Brown, Christy & Banowetz, 1987). Hills (1987) utilized average annual sales increase as the indicator of growth. Increase in the number of employees was yet another indicator for growth (Davidsson, 1991).

Defining survival as an indicator of success is more simplistic than the utilization of accounting-based data. Survival is the continued existence of the business surveyed. Survival gives no indication of the profitability of the business, but simply its continued existence. Few studies have analyzed both the financial and survival aspects of success. Kalleberg and Leicht (1991) did utilize both survival and growth of gross earnings, as measures of success for their three year longitudinal study of 411 small businesses.

Two fundamentally different paradigms have been used to examine the determinants of success. One paradigm is that of the firm in an economy. The other is that of an economically mobile entrepreneur. Leading examples of the former are Davidsson's (1991) model of "entrepreneurship growth" and Greenberger and Sexton's (1987) model of "venture success." The leading example of the latter is human capital theory (Becker, 1993; Portes and Zhou, 1992). Schumpeter's (1934) constraint theory and Knight's (1921) choice theory also fall in this latter category, as does assimilation theory (Jiobu, 1988). Not surprisingly, the paradigms propose different determinants of success, although there may be as much variability within paradigm type as between types.

Davidsson's (1991) model analyzed the determinants of small business financial growth over time as an indicator of continued entrepreneurship utilizing three major determinants: ability, need, and opportunity. In Davidsson's model, education and entrepreneurship experience were positively associated with ability. Manager's age/firm's age and firm size were both negatively associated with need. Rate of innovation, market growth rate, customer structure, and county characteristics were positively associated with opportunity, while industry structure, geographic dispersion and community characteristics were negatively associated with opportunity. Ability, need, and opportunity explained 25% of the variance in actual growth of the small businesses studied.

Greenberger and Sexton's (1987) model of venture success focused on the role of the entrepreneur and how his/her behavior changes as a company grows or succeeds. The model included components that were important in new venture initiation (vision, personality, control desired, salience of events, self-perceptions, social support and control possessed) and also included two additional components, organization vision and empowerment of subordinates, to complete the model of venture success.

These models determine success by considering macro level determinants such as county/community characteristics and industry structure (Davidsson, 1991) or micro level individual endowments of the entrepreneur (Greenberger and Sexton, 1987) with little consideration to the owner's management capabilities and the impact these capabilities can have on success.

Models of economic mobility and entrepreneurship, on the other hand, nominally focus on the individual, but they, too, place the emphasis on either community characteristics and industry structure or the individual endowments of the entrepreneur. Portes and Zhou (1992) and Borjas and Bronars (1989) describe human capital theory as the leading school of thought among scholars taking this approach. While returns to education and investment in education have been the focus of much of human capital theory, human capital is not synonymous with education. The literature on economic mobility and entrepreneurship usually include other human capital as well as formal education.

Nevertheless, Knight's (1921) choice theory and Schumpeter's (1934) constraint theory remain in current use (Carr, 1996). Carr (1996), for example, describes two paths to self employment, the career path based on Knight's (1921) choice theory and the default path based on Schumpeter's (1934) constraint theory.

Sociologists have proposed cultural and disadvantage theories (Light, 1979) , assimilation theory (Jiobu, 1988) and enclave theory (Portes and Zhou, 1992). These theories place more emphasis on community characteristics than human capital theory does. Cultural theory posits that both the cultural and psychological characteristics of groups predispose members to select business ownership as a means of achievement. Disadvantage theory states that those who are at a disadvantage in the labor market turn to self employment to avoid low wages and unemployment. This theory has much in common with constraint theory, with an ethnic twist. Assimilation refers to the process by which groups adopt and are absorbed into the dominant culture. As groups become more assimilated their members are less disadvantaged in the labor market and become more upwardly mobile. Ethnic enclaves allow their members to compensate for their disadvantages in the labor market by trading with people like themselves and relying on informal group enforcement of informal contracts. Measures of assimilation and enclave membership can be viewed as human capital because while the theories are stated in terms of groups the measures are individual measures. The measures are also consistent with the "productive" feature of human capital.

Predictors of success can be categorized into four groups: owner characteristics, business characteristics, community characteristics, and owner management practices.

The demographic factors which relate to the financial measures of success are fairly consistent in their impact on financial success in the different studies. Rowe and Arbuthnot (1993), whose study analyzed 414 rural family households who ran home-based businesses, found that more education correlated with higher incomes. The unique aspect of the rural population exhibited itself in their study, where education studied alone was not significantly related to the amount of income earned. This implies that even those with a large amount of education are at a disadvantage economically when they live in the rural area. Two surveys studying successful minority entrepreneurs (Bates, 1985; Roberson-Bennett, 1990) showed additional years of education to be a contributor to their increased business earnings. Age consistently showed up to be inversely related to financial success (Kalleberg & Leicht, 1991; Konijn & Plantenga, 1988; Nelson, 1991).

There were conflicting results when analyzing the literature for gender differences. In the study of rural home-based businesses (Rowe & Arbuthnot, 1993) male home-based workers made approximately twice as much as female home-based workers. Miskin and Rose (1990) in their study of male and female entrepreneurs found gender to be significant, with males also being more profitable, while Kalleberg and Leicht (1991) found no gender difference in the success of the small businesses they surveyed.

The impact of the parent's occupation on the financial success of entrepreneurs was shown through the following two studies. In a comparative study of successful black and white

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