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## A Multi-Level Family Business Choice Model: A Dichotomous Approach

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### ABSTRACT

*The current paper develops a model to facilitate owners of family businesses in their decision-making. The model allows for priorities to be placed on family issues and business issues concurrently, in a dichotomous approach. The research is a complement to existing literature on family business interaction models and could provide a useful model for family business consultants to consider in their work with family-owned businesses.*

### INTRODUCTION

Family-owned businesses are relatively common; however, the problems that they incur due to the interactions of the family and business entities are unique. Consider Sigmund Freud's response when he was asked what he considered the secret to a full life. He gave a three-word answer: "*Lieben un arbeiten* [to love and to work]." Family-owned businesses combine love and work in a unique setting. The process of decision-making within that unique setting determines the outcome of the family and of the business.

Tagiuri and Davis (1982) developed a three-circle model to represent the interactions that occur within family businesses. The three-circle model describes the family business system as three independent but overlapping subsystems: business, ownership, and family. Any individual in a family business can be placed in one of the seven sectors that are formed by the overlapping circles of the subsystems. The forces of interpersonal conflicts, role dilemmas, priorities, and boundaries arising from different sectors will interact with each other when making family business decisions such as succession planning or dividend policy. In this model, these three perspectives of subsystems are taken into account to explain how individuals in family business make decisions or develop strategies that fulfil the goals of each subsystem and the whole family business. Although this model facilitates our understanding of the interactions that occur in a family-owned business, it does not provide an actual decision-making process.

Davis and Stern (1980) define a set of processes that determine the interaction between the business and family systems. They develop a central triangle concept in which family organizational behavior is governed by an intergenerational and interrelationship system. This system consists of a set of values, norms and principles that provide purpose and meaning to both family and task (business) systems. In order to avoid contradictions between family behavior and the task system, the family firm needs to establish a legitimizing structure of norms and values and interact with each other accordingly within the triangular model. On the other hand, as technology and market demands influence the family business outside the triangle, adjustments on organizational structure and behavior should be made in order to adapt to the technological and environmental demands. In this framework, not only is accommodating to the

task environment crucial, but adapting to the forces in the family system, such as emotional relationships and family succession, are also important to the survival and growth of the family business.

These models explain the interactions between the participants in the family business; however, the models do not establish how decisions could be made given these interactions. Decision-making within family-owned businesses can entail an entrepreneurial approach or a consensus approach. In the 1997 Massachusetts Mutual Life Insurance Co. survey of family businesses, it was found that 34% of family-owned businesses use the entrepreneurial approach. This approach entails that the founder or current owner/CEO is the final decision-maker. The survey found that 48% of family-owned businesses made decisions based on a consensus. Six percent said decisions were made in their business by first discussing the issue and then taking a vote. Although the 6% figure appears small, when you consider that 53% of this group had lasted for at least three generations, their method of decision-making may be indicative of a basis for their longitudinal success. The survey suggests the need to take a closer look at how family-owned businesses make decisions.

The current research proposes a decision-making model for a family-owned business that compliments the Tagiuri and Davis (1982) and Ward (1988) models of interaction. Family-owned businesses are businesses foremost. Business requires decisions being made and acted upon. Therefore, a model demonstrating this process is required.

## **MODEL**

The proposed family business decision-making model is provided in Figure One. The first level of the model requires the existence of a business opportunity requiring a decision. For example, the opportunity to expand the company's market to Mexico, the opportunity to extend a product line, or the consideration to dismiss an unproductive family employee are examples of possible situations requiring a decision.

All of the subsequent levels of the decision-making process model are dichotomous in nature. The second level consists of two prongs. The first prong is the current family situation. Members of the family business will assess whether the family situation is positive. If so, consideration of the business opportunity would continue to the next step. A positive family situation could be that the children are grown and the parents (the owners of the business) now have time to devote to the running of the business. Another aspect of a positive family situation would be the status of the marriage of the owner; in other words, is the owner happily married or not. If he/she is then this would be positive in terms of their ability to focus on the business. A positive family situation could also evolve around the personal financial standing of the family. That is, does the family have a lot of consumer debt? Their personal financial standing as a family could affect the amount of risk they consider prudent. If the current family situation was deemed negative then consideration would stop. A negative family situation could be due to the poor health of the founder, which makes expanding the firm at the current time unadvisable. The second prong of level two entails the current business situation. For example, if the business was currently facing cash flow problems, then expansion at the current time would be unadvisable. If the family and business situations are considered positive then the opportunity should be

considered further. The process proceeds to the next level of consideration. Realize that the opportunity could be deemed unadvisable by either a family issue or a business issue, and with this model, we are clear as to whether it was the family or the business issue that prevailed in the decision.

The third level consists of two prongs. The first prong of level three concerns the direction of the family and the second prong concerns the direction of the business. That is, we consider whether deciding in the affirmative on the opportunity coincides with the mission statements of the family and of the business. For example, if a family goal is to keep all family members within a limited geographic area of the Midwest, then expanding to Mexico does not coincide with this goal and the opportunity should not be pursued at this time. On the other hand, if the business mission statement emphasizes the goal to become a leader in the global economy, then expanding to Mexico does compliment the business objectives. If the objectives of the family and business are both being met then we would proceed to the fourth level of the decision making process.

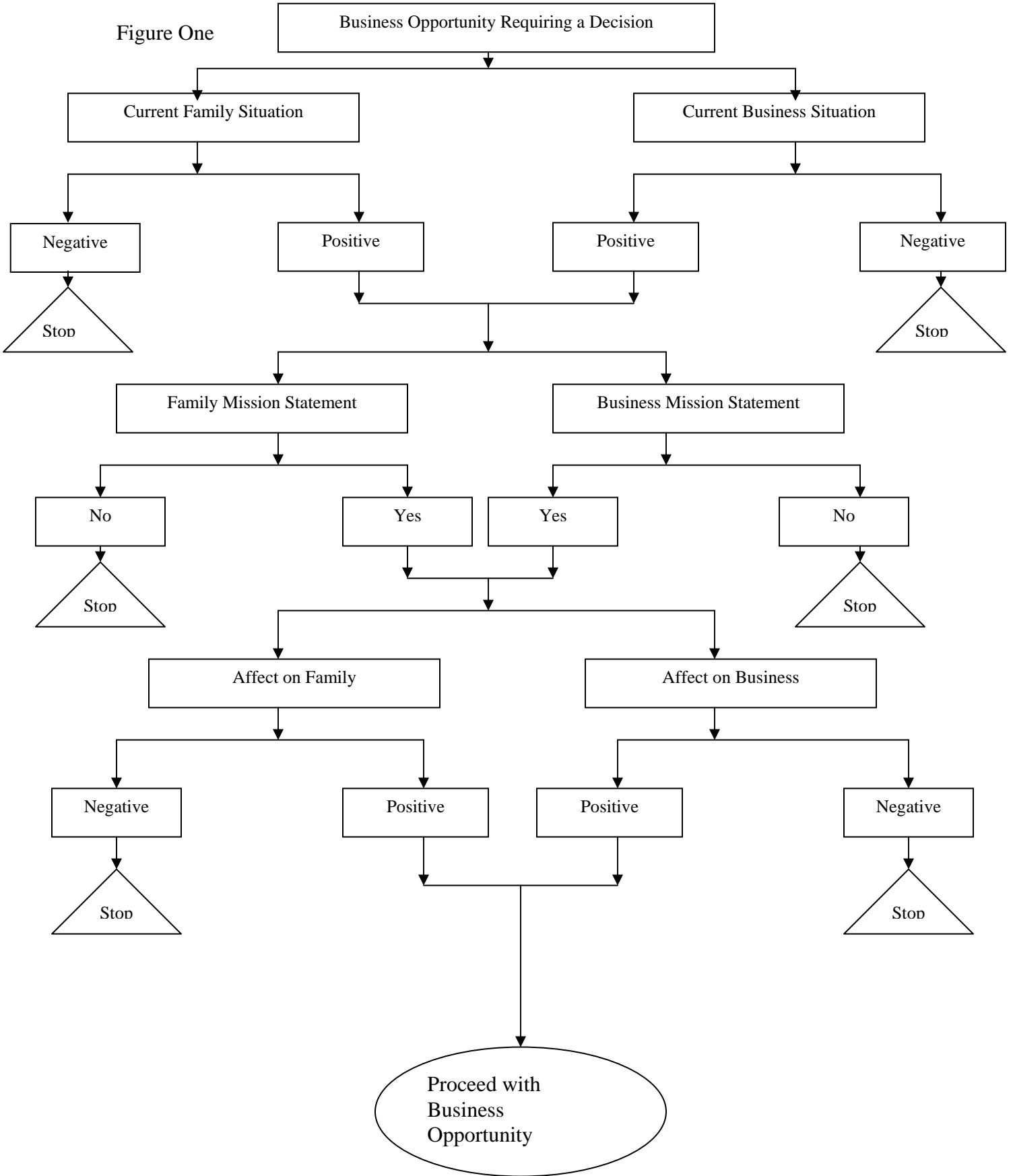
The fourth level entails analyzing the effect that deciding in the affirmative would have on the family and on the business. That is, continuing our example, would expanding to Mexican markets positively affect the family and the business as separate entities? A possible positive family effect could be an increase in the number of offices that exist, allowing for additional family members to assume management positions. A possible positive business effect would be an increase in sales. If both the family and the business are positively affected then the business opportunity should be pursued.

This model has several layers to the actual decision-making process. The order of these layers is important. Oftentimes, in business, we think of the decision hinging on the effect on profits of the business. However, in this model, this is actually not considered until the last step of the process as we consider the final affect on the business. Even considering only the business side of the decision, profits are not considered until after the current business situation and the business mission statement have been evaluated.

## CONCLUSION

The model presented is intended to complement the existing literature on the interactive roles that exist within a family-owned business and to provide guidance in family business decision-making. If the decision-makers within a family business can objectively analyze the current status of the family and of the business, interpret their family and business mission statements, and understand the outcome of the decision, then a good decision can be made. Koenig (1999) emphasized the need to place the family and the business as a priority. This model allows for this due to the dual emphasis in the decision-making model presented.

Figure One



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Dr. Tammy Parker is an Associate Professor of Economics at the University of Louisiana at Monroe, and is the Alumni Endowed Professor of Entrepreneurship holder.