

## **Aligning program offerings and academic research with business needs for closely held business**

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### **Abstract**

Family owned or closely held businesses provide most of the employment and make up the majority of business enterprises in the United States. Universities undertake initiatives to serve these important organizations because they recognize the impact of such enterprises on society. One popular approach is to establish a 'Family Business Institute' or 'Center for Closely Held Business'. However the concerns and seminar delivery preferences of business owners and managers are not always anticipated and met by the efforts of university community. In order to close this gap, the authors surveyed the family and closely held business community to determine the topics and delivery methods they preferred. As anticipated, the study showed closely held business owners and executives were interested in succession planning and advisory boards, however they were even more interested in attending events dealing with employee issues (i.e. recruitment, retention, motivation, evaluation) and marketing concerns (i.e. advertising, media strategies, selling techniques, customer relationship management). Participants preferred events with invited experts and real life case studies over small group exercises and one-on-one exercises. In this paper the authors present and examine the survey results and develop complementary agendas for practitioner development and academic research.

Keywords: Closely held business, family business, small business

## **INTRODUCTION**

The study of family and closely held businesses is an emerging academic field (Craig, Moores, Howarth & Poutziouris, 2009; Heck, Hoy, Poutziouris, & Steier, 2008; Moores, 2009), although in practice such businesses are firmly established. Universities frequently are involved with family and closely held businesses through various types of outreach efforts (McCann, DeMoss, Dascher, & Barnett, 2003). Universities with family or closely held business centers need to align the needs and approaches of the university community with those of business owners and managers (McCann, Hammond, Keyt, Schrank, & Fujiuchi, 2004)... In order to help universities close this gap, the authors reviewed the activities of successful centers and surveyed the closely held business community to determine the topics and delivery methods they preferred.

In this paper the impact of family and closely held businesses and the efforts of the government and universities to support them will be briefly addressed. Next will be a concise review the emerging literature. This will be followed by the main contribution of the paper, an empirical investigation of the interests of family and closely held business owners in collaborating with universities. The paper concludes with suggestions for designing coordinated academic research and practitioner program agendas for family and closely held business centers.

## **CLOSELY HELD, FAMILY AND SMALL BUSINESS**

Family or closely held businesses make up the majority of business enterprises and provide most of the employment in the United States. Definitions of exactly what qualifies a business as family and/or closely held vary by who is doing the categorization and why (Sharma, 2004), however by any available definition these businesses have a great impact on society. In 2000, businesses where the family defines the strategic direction and the family participates in the business made up 24.2 million businesses employing 62% of the US workforce (82 million individuals). These family businesses filed 89% of the business tax returns and accounted for 64% of the GDP (\$5.9 trillion) (Astrachan & Shanker, 2003).

Universities and governmental agencies have many initiatives that serve the special concerns of small, entrepreneurial, family and closely held businesses. These categories are separate, but not mutually exclusive, therefore difficulties arise regarding the specific constituency or population being served. The current trend is for the government and universities with government support concentrating on small business. Small Business Administration initiatives and university run Small Business Development Centers are examples of such efforts. These programs frequently target urban areas (such as 'urban enterprise zones') and reach out to minority and women owned businesses. The services provided deal with basic practical business issues like writing a business plans and obtaining financing. Although the businesses served are frequently entrepreneurial in nature and family owned or closely held, the salient feature is that they are small.

Another set of university run programs have concentrated on entrepreneurial efforts and/or family business. One trend is to move away from the notion of family business and use a somewhat broader concept of closely held businesses, forming Centers for Closely Held

Business. This change reflects the reality of the form and control of the businesses. Many 'family' businesses are in reality or transition into being closely held businesses. Family and closely held businesses have the same concerns, therefore it makes sense that universities have shifted towards the broader definition. In the rest of this paper the term 'closely held' business will be used to represent both family and closely held businesses.

In the last half of the 20th century, closely held business was a rational model in the US (Leitner, 2006). Over the last 10-15 years of the last century the small business sector of the economy had become of increasing importance all over the world (Henning, 2001). Significant legal reforms have allowed closely held business to flourish in South Africa (Henning, 2001). The interest in and potential impact of closely held businesses in Europe is spurring legal reform to facilitate it (McCahery, Vermeulen, 2001). Scholars have already concluded that most businesses worldwide have a significant 'family' component to them (Sharma, 2004). With such prevalence, interest and reforms, closely held businesses may become the dominant business form worldwide in the 21<sup>st</sup> century.

## **CLOSELY HELD AND FAMILY BUSINESS RESEARCH**

There is increasing research in the field of closely held business (Craig, Moores, Howarth, & Poutziouris, 2009; Heck, Hoy, Poutziouris, & Steier, 2008; Sharma, 2004; Zahra, Sharma, 2004), however it is fragmented, and not based on empirical research (Astrachan & Shankar, 2003). Some researchers have looked at practical problems faced by the businesses. Building the value of the firm (Leitner, 2006), determining the value of the firm (Burkett, 2003; Sheeler, 2004) and determining the value of human capital (Barber & Manger, 1997), transitions and generational change (Bigliardi & Dormio, 2009; Lambrecht, 2005; McCann, 2005), spousal commitment (Van Auker & Werbel, 2006), ESOP and estate planning (Bilderback, 2006), succession planning (Bowen & Charles, 2003; Brockhaus, 2004; Duh, Tominc, & Rebernik, 2009; Venter, Boshoff & Maas, 2005; Vera & Dean, 2005; Wright, 1997) are of interest to practitioners and have received some research attention. Other issues of interest to practitioners that have been addressed are the changing roles of boards of directors and planning boards (Blumentritt, 2006; Teksten, Moser & Elbert, 2005), professional management (Hall & Nordqvist, 2008), dependence on a single decision maker (Feltham, Feltham, & Barnett, 2005), team building (Cantzler, & Leijon, 2005) and using the balanced scorecard approach (Craig & Moores, 2005).

Some research concentrated on specific types of businesses, for example family farms (Taylor, McClintock, Baines, & Newell, 2004), family hotel businesses (Peters & Buhalis, 2004), and restaurants (Parsa, Self, Njite & King, 2005). Others addressed specific issues such as social responsibility (Jones, 1999), and gender issues and female ownership (Cantzler & Leijon, 2005; Vera & Dean, 2005). Still others looked to examine family business through established theoretical lenses such as agency theory (Bartholomuesz & Tanewski, 2006; Duh, 2010; Miller & Lebreton-Miller, 2006; Schulze, Lubatkin, Dino & Buchholz, 2001), institutional theory (Leaptrott, 2005), career theory (de Bruin & Lewis, 2004), evolutionary psychology (Nicholson, 2008), individual differences (Gromala & Gage, 2002; Lumpkin, Martin & Vaughn, 2008), resource based view (Duh, 2010) and a transaction cost perspective (Bjuggren & Sund, 2002). There has also been some interest in family firms outside of the US, in the Scottish Highlands and Islands (Cromie, Dunn, Sproull & Chalmers, 2001), Denmark and Canada (Getz & Petersen), Italy (Bigliardi & Dormio, 2009), Slovenia (Duh, Tominc, & Rebernik, 2009), New

Zealand (Taylor, McClintock, Baines, & Newell, 2004), the UK (Watson & Wilson, 2005), South Africa (Henning, 2001) across Europe (McCahery, Vermeulen, 2001) and integrating family and international business research (Ding, 2008).

Several scholars have pointed out specific areas of research that can be of use to practitioners but have not been sufficiently researched. For example Brockhaus (2004) thought succession planning still needs development and he suggested a research agenda. Similarly Cooper, Upton & Seaman (2005) pointed out that there has been little research into CRM and family businesses. Sonfield & Lussier (2004) noted that there has been limited research into generational differences among family businesses. Nordqvist, Hall and Melin (2009) suggest that the insights into family business that can be derived from the literature are limited due to the quantitative nature of the research, and they suggest quantitative approaches to complement existing methods.

Reviews of the academic closely held business literature have concentrated on development of theory within the academic field. Those that propose a development of theory generally advocate a thoughtful direction of the field based on incorporation of theory from outside the area and exporting of theories and findings to other areas (Sharma, 2004; Zahra, Sharma, 2004). This approach, while it may eventually be of practical value to practitioner, lacks the immediate impact that such research can and should provide. Closely held businesses are frequently on the cutting edge of societal forces and the proposed approach might leave practitioners with advice that is always behind the current trends.

Commentary on university centers concentrate on alignment of centers with the university mission. Of primary concern are why should the university have the center, where should it be located and who should head the program (McCann, 2003). Although these are important considerations, they still miss a very important element – the alignment of center and university research activities with the practitioner needs and interests. The rest of this paper describes an effort to achieve such an alignment.

## **DESIGNING A JOINT AGENDA - CONCERNS AND PREFERENCES OF PRACTITIONERS**

In order to ascertain the interests and preferences of closely held business owners, the authors conducted a developed and distributed a survey. Of particular interest were topics that the closely held business leaders wanted addressed and what types of presentation formats they preferred. The survey was distributed to owners and high ranking executives of closely held businesses at three events held at a university sponsored Center for Closely Held Business (CCHB) over a 10 month period and collected a total of 99 completed surveys. The businesses ranged from between \$100,000 to \$500,000 (2.5%) to over \$50 million (8.6%) in sales, with most split between \$2.5 to \$10 million (29%) and \$10 to \$50 million (28%). 75% of the companies had below 50 employees, while only 12.5% had over 100. The respondents represented a very wide varied of businesses - professional services, retail, manufacturing, distribution, and so on.

The executives were asked how interested they were in 21 topics gathered from the literature and research into what program topics were being offered by other closely held, family owned and/or small business initiatives. A factor analysis was conducted on these questions (principal components extraction, vari-max rotation). The analysis resulted in 8 orthogonal factors. The alpha reliabilities for all but one scale derived from the factors were acceptable

(Cronbach, 1951). The two components of the unreliable factor are presented as separate topics. The results are shown in Table 1. The executives were also asked their preferences regarding program format. The preferred program formats are found in Table 2.

Table 1 Presentation Topics of Interest to Closely Held Business Executives

Topic	Mean*
HR Issues	2.98
Marketing	2.84
Managing Cash Flow/Finding Sources Of Financing	2.68
Interpersonal Issues	2.67
Equity/Planning/Conflict	2.58
Taxes/Benefits	2.50
Boards And Councils	2.49
Government Services	2.40
Globalization	1.94

\*1 Not Interested, 2 Somewhat Interested, 3 Very Interested, 4 Extremely Interested

Table 2 Program Formats Preferred by Closely Held Business Executives

Which program formats or activities would you prefer?	Mean*
Lecture by expert	3.13
Real-world case study discussion	2.91
Networking events with family & closely held businesses	2.86
Benchmarking Best Practices with local businesses	2.81
Hands-on workshop for skill development	2.80
Facilitated peer discussion group	2.69
Tours of successful businesses	2.55
Receiving one-on-one mentoring	2.44
Giving one-on-one mentoring	2.18

\* 1 Will Not Participate, 2 May Participate, 3 Probably Participate, 4 Definitely Participate

The two topic areas that the executives were most interested in having addressed can broadly be described as HR Issues and Marketing. Under HR Issues, they were concerned with employee motivation, productivity and evaluation and well as recruiting, interviewing, hiring and retaining highly qualified employees. Among the marketing issues of interest were customer relationship management, advertising and media strategies, selling techniques and using the internet/websites for business development and e-commerce. These topic areas are not unique or particular to closely held businesses; however the specific issues and contingencies within these topics areas make them of great interest. They also are not likely to be the core competency of the firm and likely have become increasingly important as the firm has grown. As such it is understandable that the executives wish to address these topics.

Managing cash flow and finding sources of funding were also of interest to the business owners. This is understandable because it is unlikely that they are large enough to have an expert on staff that can adequately address the changes in banking and finance that have happened recently and continue to happen. Interpersonal issues, specifically communication and

rivalries between family members were also seen as important. These issues are somewhat unique to closely held businesses and can be the source of considerable tension. The owners and executives look to outside experts that might shed some light on how to handle these issues.

There was moderate interest in topics like succession planning, advisory boards and taxes. Interestingly, manufacturing overseas, how to sell your products internationally and ISO certification did not generate much interest. This is of note because the conventional wisdom is that globalization is necessary and the wave of the future. The executives that were surveyed, despite being located in an area with major transportation links and located near a major port, were not concerned with operating internationally. The use of consultants was of some interest to the respondents but was primarily associated with globalization and ISO certification.

Lecture by experts followed by real life case studies were the most preferred program format alternatives. These formats stress the practical orientation of the participants. Some have proposed that program formats can vary from 'passive' to 'applied' (McCann, Hammond, Keyt, Schrank, & Fujiuchi, 2004), however they seem to be better considered two separate continuums. 'Passive' seems more aptly paired with 'active' than with 'applied'. Although the respondents first choice, lecture by expert, is considered a 'passive' as opposed to 'applied', in practice the lectures observed by the researchers were quite active. The experts often facilitated exercises and there was always significant interaction in the form of question and answer session and open discussions. One-on-one mentoring and plant tours and other 'applied' formats did not generate much interest. Participants in center events found the interaction with other executives to be very valuable, therefore it is not surprising that they did not desire plant tours or one-on-one formats.

## CONCLUSIONS

Family owned and closely held businesses are an integral part of our economic landscape and university centers are ways that owners and operators of such businesses can address issues critical to their business success. The key to the success of these centers is aligning the university's outreach and academic efforts with the specific interests of the closely held business community that is being served.

In this paper the interests, concerns and preferences of practitioners in order to help universities align their efforts with the business community were investigated. The alignment effort has two critical objectives, (1) to provide programs of interest to and in a form preferred by the closely held business community and (2) to direct and conduct research that can be used by closely held business community.

There were many issues of interest to the executives that answered the survey, with human resource and marketing topping the list. Among the HR issues were employee motivation, productivity and evaluation and well as recruiting, interviewing, hiring and retaining highly qualified employees. The marketing topics of interest were customer relationship management, advertising and media strategies, selling techniques and using the internet/websites for business development and e-commerce. Besides HR and marketing, the executives showed interest in cash flow management, funding and interpersonal issues - all areas where closely held businesses have specific concerns.

The respondents wanted programs that were practical, but not individualized. Participants in center events found the interaction with other executives to be very valuable. The

most preferred program format alternatives were lecture by experts followed by real life case studies.

The advisory board, executive committee and constituents of university based initiatives should work with the faculty coordinator, utilizing the analysis and results of the survey to plan practitioner programs and academic research agendas.

The research faculty will support the programs by lecturing in their areas of expertise, developing case studies and identifying best practices in the areas of interest to the closely held and family business community. They can establish strategic long term topics to differentiate the center and expand the base of knowledge in newly emerging areas. For example, research could be conducted on disruptive technologies and its impacts on closely held or family businesses. With carefully chosen new topic areas and programs and research agendas designed to meet the interests of the business, it is certain that centers for closely held businesses and family business institutes will be able to meet the needs of the practitioner community.

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