

Family Business Contributions to Sustainable & Entrepreneurial Rural Communities Over Time:

NC 1030
Family Business
Research Group

Strategic and Entrepreneurial Responses to the 2007 to 2009 Recession

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Unique Aspects of Rural Entrepreneurship

- Small populations, changing/aging populations, geographic isolation, and proximity to a natural resource base.
- For rural businesses, these factors impact the size and type of customer markets, labor force, technology access, and assistance with innovative business practices and competitive strategies.
- Rural areas are also characterized by higher poverty rates, lower educational attainment rates, less wealth, fewer government, health, and social services.
- The types of entrepreneurs found in rural areas do not readily conform to the traditional notion of business operators solely focused on profits.

Rural Family-Owned Businesses

- **Family businesses are major contributors to the economy and employment in the U.S.**
 - In rural areas of the U.S., family-owned businesses are especially vital to local economies.
 - Rural family-owned businesses not only provide household income, but also employ workers in the community, which ultimately creates wealth in rural counties (Rupasingha & Goetz, 2013).
- **Family and business success and sustainability are inherently related.**
 - For a business to become sustainable, both family and business contributions of human, social, and financial capital are needed.
 - Business sustainability and survival are influenced by family decisions, life events and owner resiliency (Winter, Danes, Koh, Fredericks, and Paul, 2004).

Purpose of Study and Research Questions

PURPOSE: To examine strategic and entrepreneurial responses to the 2007 to 2009 recession among rural family-owned businesses.

- RQ1: What are the demographic characteristics of small family owned businesses who survived the recession of 2007-2009?
- RQ 2: If a business had closed since 2007, what was the reason for closure?
- RQ 3: How did the recession of 2007-2009 influence financial performance for small family-owned firms?



Purpose and Research Questions

- RQ 4: How did the use of entrepreneurial business strategies and practices by small rural family-owned firms influence their ability to cope with challenges posed by the recession?
- RQ 5: Was there a difference in business revenue for small family-owned businesses who utilized entrepreneurial on-line/digital strategies versus those who did not use such practices?
- RQ 6: What entrepreneurial online/digital strategies were most utilized by small family-owned rural businesses to be more competitive?



Theoretical Frameworks

The Sustainable Family Business Theory (SFBT) was used in this study to examine how the family and business re-allocate resources when a disruption occurs, such as a recession (Winter & Morris, 1998).



Methods

Sampling Frame and Research Design

- This study was based on a fourth wave of panel data from the National Family Business Panel (NFBP 1997, 2000, 2007, 2016).
- The fourth wave utilized a mixed-methods design to assess change over time on previously measured survey business performance, demographics, and management variables.
- To assess change over time, business owners were also asked a series of open-ended interview questions.



Methods

Data Collection

- **Survey Instrument:** developed by the researchers, included quantitative performance items and qualitative questions concerning recessionary business behavior.
- **Semi-structured telephone survey/interviews:** conducted with a sample of family business owners/managers in the U.S., using a longitudinal sample of 200 family business owners/managers who were interviewed in 2007.
- **Final sample:** consisted of 71 surviving rural family owned businesses and 41 closed businesses.



Results

Of the 71 surviving businesses (RQ1)

- A majority of owners (73%) were between 50-69 years old
- Male (65%)
- Over half (55%) had earned bachelor's degree
- The majority had three or fewer employees (52%)
- 38% were sole proprietorships.



Characteristics of Non-Survivor Rural Family Owned Businesses

Characteristics of 41 closed family businesses: (RQ 2)
women owned businesses, younger owners, less educated owners.

- We may draw from the literature on the managerial adjustment strategies used by minority owned businesses to help understand these findings to increase success.
 - e.g. Female minority owned business owners used 3 strategies more frequently than males (reallocating family resources, intertwining family & business tasks & using volunteer help)
- Because of the unique characteristics of rural entrepreneurship, it may be even more difficult for these groups to sustain their businesses, and there are likely unique barriers to serving them through education and outreach.



Reasons for Business Closure

3 Key Reasons for Business Closure (RQ2):

- Financial challenges
 - Retirement
 - Health issues
- Although we often think of business finances and success as key influences on the decision to close, family needs and circumstances are also persuasive.
- Family dynamics and decision-making, life events and owner resilience will influence whether or not a business closes.
- Reflects similar findings from an earlier panel (Winter et al., 2004) highlighting the importance of family decisions on business continuity.



Impact of the Recession on Rural Family Business Performance (RQ 3)

- This study examined the influence of the recession on the financial performance of rural family-owned businesses.
- Cross-tab analysis showed a **significant association** [chi-square = 13.071, df = 4, p < .05] between **perceived difficulties with the recession and cash flow problems for the family business.**
- If a business had performance difficulties during the recession, it was more likely to also have cash-flow problems in post-recession (2015).



Rural FOBs Less-Affected by the 2007-2009 Recession

Not all rural family businesses experienced negative impacts from the 2007-2009 recession (Question BPS2):

Some reported having:

- 1) steady customer demand (e.g. repairs, essential needs, services)
- 2) Strong market (e.g. agriculture not affected)
- 3) Decreased number of competitors



Characteristics of Recession Surviving FOBs

- The majority of the surviving rural family businesses were very small and sole proprietorships (52% < 3 employees; 38% sole proprietors).
- While the overall NFBP sample has been dominated by microbusinesses, there is likely something "there" in their ability to be adaptable and transfer resources as needed due to size.



Rural Family Business Performance: Strategies and Practices Used

RQ4: Would businesses with performance difficulties and those with no difficulties differ significantly in terms of business and entrepreneurial strategies and practices used

- A) during the 2007 to 2009 recession,
- B) since the recession from 2010 to 2015?

- Most of the businesses with performance difficulties during the recession changed at least one business practice during 2007 to 2009.
- About half of the businesses with difficulties during the recession made no entrepreneurial strategy/practice change since 2010.



Rural Family Business Performance: Strategies and Practices Used (RQ 4)

Significant changes in business strategies and practices during the 2007-2009 recession:

- Relative help without pay
- Number of full-time employees
- Number of part-time employees
- Number of seasonal employees
- Number of family member employees
- Number of relatives/no-pay employees

Significant changes in business strategies and practices since 2010 (Post recession):

- New or changed products or services
- Staff changes
- Improved efficiencies
- Increased online presence
- Space or location changes
- Changes in wages or hours



Business Revenue and Use of Digital Strategies (RQ 5, RQ 6)

• Cross-tab analyses also indicated a significant difference [chi-square = 15.918, df = 8, p < .05] in business revenue between entrepreneurs who used online/digital strategies and those who did not (RQ5).

- Higher business revenue was only associated with the following strategies:

dedicated staff that managed websites/social media sites, focus on a single or limited set of online options, and outsourcing or having a contract for online functions.

- The most frequently used strategies included (RQ6): Using a website (n=18) or social media (n=12), selling products online (n=7), and tracking online customer and market information (n=7)



The Community Effect

• It would be interesting to examine whether and how communities "rally" around locally owned businesses during difficult economic times.

• Further application of the SFBT is needed: How families work/function to maintain these businesses and the impact of various forms of community support and social capital.

• Family and community resources—time, labor, money, networks—whatever it takes, will likely be drawn on to support rural family owned businesses.



Future Research Questions— Next Steps

- Is this a full or part time business and if full time does the family business owner engage in more innovative and entrepreneurial business strategies?
- Research is also needed regarding gender differences in strategies adopted and their success to better inform/educate rural entrepreneurs.
- Additional research could examine the managerial adjustment strategies used by rural businesses that survived and did not survive.



Rural Family Business Snapshot



Rural Family Business Snapshot



Conclusions & Implications

This study extends the understanding of how rural family-owned businesses respond to economic change from the perspective of both the business and the family.

Findings of this study are particularly important to rural communities that depend on the success and sustainability of family businesses for access to goods and services, for employment, and as drivers of the local economy.



Conclusions & Implications

- Identifying the types of entrepreneurial strategies and practices that enabled family-owned businesses to succeed and sustain the 2007 to 2009 recession provides important implications for business owners/managers, business consultants, and policy makers.



Future Research and Outreach Efforts

- Can we design additional educational efforts, for example, delivered through extension, to help owners become more adaptable and implement successful and innovative strategies to weather economic cycles?
- How do we create community environments that support the more vulnerable entrepreneurs and help them thrive (young owners, women, those with less education)?
- How do we reach less-educated business owners in ways that are supportive and encouraging of additional learning?
- What local or state regulations support or hinder rural entrepreneurship?
- How do we engage stakeholder groups to support local businesses?



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