# FAMILY INVOLVEMENT AND FIRM PERFORMANCE: A FAMILY EMBEDDEDNESS PERSPECTIVE

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**Abstract**

This paper uses family embeddedness (Cliff and Aldrich, 2003) and Work Family Interface (WFI) (Jennings and McDougald, 2007) to analyze the effect of gender and income on the relationship between family employment and firm performance in the context of micro and small family enterprises. Our results indicate that family employment contributed to increase sales but was negatively related to firm's profitability. Moreover, the results indicate that when the business is the main source of household income the family employee's positive impact on performance is reduced, and that the positive relationship between family employment and firm performance is stronger in woman run firms.

One of the most important decisions that an entrepreneur makes concerns whether or not to employ family members. Such a decision can have a tremendous impact on the entrepreneur, the business, and the family. While a few studies have examined family employment (Daily and Dollinger 1992; Kirchhoff and Kirchhoff 1987; Heck and Walker 1993), there is little theoretical discussion and empirical analysis in the fields of entrepreneurship and family business as to how the decision to hire relatives impacts firm performance. The neglect of the study of this relationship is rather surprising particularly in light of empirical findings that demonstrate the importance of family employment all over the world (Aldrich & Langton, 1998; Heck & Trent´s, 1999).

One might argue that employing family members can lead to advantages for the firm, since the existence of kin relationships are generally reputed to temper the self-interest and foster commitment of those inside the family business (Chrisman, Chua, and Litz 2004; Davis 1983; Gersick, Davis, Hampton, and Lansberg 1997; Taguiri and Davis 1996; Habberson and Astrachan 1997). However, recent studies also show that kinship ties may increase adverse selection and it may reduce both the possibility to attract the best non-family managers (Schulze, Lubatkin, Dino, and Buchholtz 2001), and "the CEO's ability to effectively monitor and discipline family agents" (Schulze, Lubatkin, and Dino 2003).

A significant problem with existing research is that it has considered family employment either as positive or negative for firm performance regardless of the situational context in which this relationship takes place. As evidenced by the prior paragraph, theory and research point out to both positive and negative aspects of family employment. The net impact of family employment on performance should depend on the magnitude of the benefits of employing family members compared to their costs. In turn, the magnitude of these costs and benefits will be contingent on the particular context in which they are measured. Thus the key question should be under which conditions is the employment of family members in ventures conducive to higher firm performance?

A recent stream of research, the *family embeddedness perspective* on entrepreneurship, proposed by Cliff and Aldrich (2003) and extended by Jennings and McDougald (2007) in their Work Family Interface (WFI) framework, calls for research into the interface of family and work as an important situational factor that can affect entrepreneurial decision making and outcomes. The interface between family and work is maximized when the owner decides to employ relatives in the firm. However, the consequences of this decision for firm performance have never been examined from a family embeddedness perspective.

This paper aims to build on this literature by analyzing the impact of family involvement on several indicators of firm performance. This effect will be tested in the case of microfirms, where we consider that the WFI should be particularly salient since the business and the family are so closely interrelated as to justify the use of the term "family economic unit" (Baines & Wheelock, 2000).

Two determinants of WFI, identified by Jennings and McDougald (2007), will be used in this study: First, and with respect to how individual differences affect owner's ability to cope with work family conflict, we argue that the influence of family involvement on firm performance differs according to owner's gender. Second, and turning to family-domain determinants, we contend that when the venture is the primary source of income for the owner's household coping mechanisms are more difficult to implement. This would provide more stress to the work family nexus and would have implications for firm performance.

Our work makes a number of important contributions to the current literature. First, we test and extend the family embeddedness perspective, providing empirical evidence to the influence of a particular aspect of work family interface on firm performance, that is, family involvement. This effect is tested in a particular context, microfirms and under two contingencies: gender and household income. In doing so we also contribute to the family firm literature by adopting contingency approach to the effect of family involvement on firm performance. As Chrisman et al.'s (Chrisman, Chua, and Litz 2003) suggest: "from a research perspective it is not sufficient to show whether or not family firms outperform their nonfamily counterparts. The contingencies and configurations wherein family provides a useful organizing context need to be identified, explained, and proven" (p. 238).

## Family Employment and Performance in Micro and Small Companies

Researchers that examine the relationship between work and family have argued that family and business, commonly treated as separate entities, should be examined together, given that they are "inextricably intertwined" (Aldrich and Cliff, 2003). Research from the family embededness perspective (Aldrich and Zimmer, 1986; Aldrich, 1999; Cliff and Aldrich, 2003; Jennings and McDougald, 2007), contends that family firm relations have impact on the firm, and that in order to understand the characteristics of new and small businesses, it is important to understand the impact of the family.

Aldrich and Cliff (2003 have argued that family embededdness impacts the process of new venture creation and ultimately new venture performance, because of the family's assistance with the resource mobilization process (p.574). While Aldrich and Cliff's arguments concentrate on the context of new ventures, the same arguments can be applied to small and micro enterprises, where the inability to attract talented workers from the labor market makes family members a critical human resource for the firm's survival (Chrisman et al., 2003; Schultze et al., 2001). The lower wages and lower opportunities for career advancement that characterizes these firms reduce the size, character and quality of the labor pool that serves them (Schulze et al. 2001). Their inability to offer prospective employees the same terms of employment than in larger firms implies that they are less able to attract talented workers. This reduced competition and the associated market inefficiencies derived from private ownership make it more costly for micro and small firms to guard against adverse selection when recruiting from outside the firms. Moreover, family employment can result in performance benefits for the micro firm by adding to the firm's base of financial, physical, and social ties (Aldrich and Waldinger, 1990; Steier and Greenwood, 2000; Brush et al, 2001).

Aldrich and Cliff also highlight the impact of family norms attitudes and values held by entrepreneurial family members on the firm's strategies, processes and structures (p.590). When family members working for the firm exhibit shared norms and values, the impact on firm performance should be positive as it brings consistency and unity of purpose (Kets de Vries 1993; Westhead et al. 2001).

This unity of purpose derived from contracts that involves family ties should be particularly salient in the context of micro and small firms. In this context, the firm's social dynamics are still highly organic, with all employees reporting directly to the founder/business manager. The family employee's social status is closely tied to his or her employer, and an enduring attachment means that self-concept and self-esteem are likely enhanced through long-term identification with the firm (Kets de Vries 1993; Westhead et al. 2001).

At the same time, the informal nature of familial relations in micro and small firms is likely to develop *kin networks* based on strong social ties and a common history between the manager and its subordinates (Sirmon and Hitt 2003). The presence of these family networks result in shared values and sentiments of fulfilling family obligations (Athanassiou, Crittenden, Kelly, and Marquez 2002). Moreover, the existence of networks based on direct blood ties tempers self-interest, fosters loyalty and commitment and results in the development of high trust between those involved in running the business (Taguiri and Davis 1996; Gersick et al. 1997; Davis 1983; Habberson and Astrachan 1997). In the context of micro and small firms, both trust and family control can become an effective monitoring system that will provide managers with disincentives to trade off stockholders welfare for their own without the need to incur in costly monitoring systems (Fama and Jensen 1983; Lansberg 1983; Ward 1987)

All the above arguments imply that in the specific context of micro and small firms, the positive effects of employing family members outweigh the costs. Thus we hypothesize the following:

> *H1: Family involvement is positively related to firm performance in micro and small firms*

**Women as managers and family employment: Effects on Firm Performance:**

Even though we argue a positive relation between family employment and firm performance, as stated in the intro, prior evidence has been inconsistent on the family/performance relationship. Based on the family-embeddedness perspective, we argue that theses inconsistencies can be explained by analyzing the specific effect of WFI determinants. In particular, Jennings and McDougald (2007) have argued that the influence of work and family and its effects on the firm does not affect male and female business owners in the same manner.

The authors contend that this is due to differences in the gendered work family interface experience of entrepreneurs and in particular to differences in terms of work schedule and autonomy, household time demands, and family responsibility levels. Females have indeed less work schedule autonomy and flexibility, more household time demands, and a higher family responsibility level. Furthermore they contend that male and female entrepreneurs tend to prioritize work and family responsibilities differently, with male entrepreneurs being able to more easily accommodate work demands and exhibiting less family role intensity in terms of time and attention. According to their arguments, women entrepreneurs are less likely to scale back their psychological and behavioral commitment to family roles.

We believe that given those arguments, family employment in the firm should benefit more female headed firms than male headed firms. There are several reasons why that should be the case: First, bringing other family members into the venture can provide a coping mechanism for the family work divide. Now the family is also in the firm. Having another family member in the firm, should also increase work flexibility as another member of the family is in the firm to take over responsibilities when the head is attending to family concerns. Further, having another family member in the firm can provide the family more evidence of the amount of commitment necessary to run the firm and alleviate family pressures on the manager. Thus the presence of a family member in the firm should help female manager's better accommodate work and family demands. Therefore, the benefits of family employment should result in relative better results for female than to male headed firms.

The second reason deals with Aldrich and Cliff´s arguments that family systems can affect firm objective performance by providing consistency and unity of purpose in the implementation of founding strategies, processes and structure (Aldrich and Cliff, 2003). If that is the case, then in female owned firms, those benefits should be stronger. Women play a prominent role in developing family identity. Since women's lives are organized around their family's needs (Gillis-Donovan and Moynihan-Bradt 1990), they will strive to make family members feel that they belong, making family employee's desire to identify with the business (Edlund 1992; Salagnicoff 1990). In the words of Poza and Messer's (2001) they ado*pt the role of "stewards of the family legacy […] instilling a sense of purpose, responsibility, and community which yields a spirit of cooperation and unconditional support," (Poza and Messer 2001).* Such attitudes would insure that both the concerns of the business and the concerns of family members are addressed, making it easier for everyone to feel a part of the group's purpose and to be committed to the family and to the business. Thus in this case the benefits of family employment should be stronger.

Lastly, women's restricted access to capital markets and financial resources makes it especially difficult for them to take on costs associated with hiring and training employees (Carter and Allen 1997). These difficulties might also be increased by women's embeddedness in social networks that are narro9wer and less diverse that those of men's (Buttner and Moore 1997), which puts them in a disadvantage for having access to an appropriate pool for recruitment. Based on these arguments we hypothesize that in the particular context of micro and small firms, the ability to generate collective team identification between family employees would be enhanced when there is a women managing the firm. Thus:

H2: *The positive effect of family involvement on micro and small firm performance would be higher for women led business.*

**Household Sources of Income and the Family Employment/Firm Performance Relationship**

Jennings and McDougald discuss the need for coping strategies to help alleviate work family conflict, in particular the need to accommodate work vs family demands. In the case of microfirms employing family members, and as stated previously, conflicts between family and work might occur at the workplace as the two spheres overlap. This conflict might happen when the family's main income comes from the business. In this case, the family will face the often contradictory objective of preserving their socio-emotional wealth (Gomez-Mejia et al 2007) derived from being employed at the firm and that of fostering the business's financial profitability.

The literature on family business is replete with anecdotes that attest to the importance of the non-economic utilities derived from contract that involves family ties. These include for instance the satisfaction of deep social/emotional needs for belonging (Kepner 1983), the satisfaction to contribute to the family business perpetuation (Handler 1990) or the fulfillment of identification needs (Gomez-Mejia, Haynes, Nuñez-Nickel, Jacobson, and Moyano-Fuentes 2007). In addition, family members employed in the firm might also face higher exit barriers because their human capital is likely to be more firm-specific (Gomez-Mejia, Nuñez-Nickel, and Gutierrez 2001; Haynes, Gomez-Mejia, Jacobson, Nuñez-Nickel, and Moyano 2004). Lastly, exiting the firm implies not only losing a secure job, but also reduced status (Casson 1999). This effect, although present in all type of firms, is likely to become more salient in micro and small firms, because the existence of alternative employment opportunities is lowered as a result of reduced dimension and lack of competitiveness.

To the extent that the family employee recognize these benefits and costs as high, he or she would pursue to protect the family social capital derived from the employment contract as a primary goal. The problem is that this goal could conflict with more traditional financial goals of the organization. For instance, a higher emphasis on performance targets imply strategies directed toward generating revenues and profits, while preserving socioemotional wealth implies a policy towards supporting and developing family members (Gersick et al., 1997; Davis and Harberston, 2001). The conflict between these two different set of goals is likely to be greater when the owner household's primary source of income comes from the firm. Under these circumstances, pressure to solve family financial concerns reduces the flexibility needed to implement WFI coping mechanism.

Thus, even though we content that employing family members affect positively micro and small firm performance (as per Hypothesis 1), this effect would be reduced when the owner household´s primary income is derived from the firm, as the conflict of goals between protecting family social capital versus pursuing performance target is enhanced in this case. Formally stated:

*H3: The positive effect of family involvement on micro and small firm performance is lower when the owner's household primary income comes from the firm.*

As per Hypothesis 3, we stated that in the context of micro firm, the employment of family members implies the conflict between two set of goals, the preservation of family social capital and financial performance, that are based on different, and often incompatible, values and drivers. Consequently, the firm's success under these conditions will be contingent on the owner's ability to integrate both objectives in an efficient way. In this sense, we contend that women business owner have an advantage over their male colleagues in facing in a productive manner this kind of situation. Indeed, women's traditional role of caretakers of family concerns and nurtures (Gilligan 1982; Belenky, Clinchy, Goldberger, and Tarule 1986) gives them a greater ability to establish coping strategies that deal with the work-family interface (Hollander and Bukowitz 1990). Morevoer, Ruderman et al (2002) demonstrated that multiple role commitment can improve women managerial skills. Men, traditionally educated in a logic that considers these two domains as incompatible would have more difficulties in balancing both sets of conflicting goals (Levinson 1986). The above-mentioned tendency of men business owners to focus on professional goals and neglect emotional ones in the workplace might find itself heightened under the pressure of economic necessity which, in turn, would reinforce family employee's perception of conflict and discomfort with work environment.

Additionally, in the context of microentreprises operating in developing countries, women might be especially well-equipped to deal with the simultaneous goals of family preservations and economic welfare (Blumberg 1998). As stated by Espinal and Gusmuack (Espinal and Grasmuck 1997): " Policy makers concerned with increasing resources to the poor have sometimes noted the importance of directing economic outlays (either as transfers or wage-earning opportunities) to female rather than male heads of households, since there is some evidence that women are more "efficient" utilizers of resources to improve the well-being of their children". In fact, mounting evidence in this sense have fostered the multiplication of initiatives directed mainly towards women micro-entrepreneurs such as the Grameen bank (Pitt and Khandker, 1998).

Based on these arguments and evidence, we expect that women's greater ability to cope with family-work conflict would reduce the negative impact of family employee's continuance commitment on micro firm performance. As a result of this we hypothesized the following:

*H4: The negative effect of having owner's household primary income coming from the firm on firm performance would be reduced for women led micro and small firms.*

## SAMPLE AND METHODOLOGY

Data for our study is drawn from a national survey on micro and small enterprises conducted through personal interviews in Dominican Republic, and conducted by an independent think tank interested in issues of micro-enterprise development. The survey, based on personal interviews, tracked firms from March 1998 through March 2000 and requested a broad array of information related to business characteristics, owners' demographics, as well as the evolution of business sales during these years.

For the study, the country was divided in representative areas, and from a selection of these areas, census of all exiting firms were undertaken every year. For the following years, interviews were done of all interviewed the previous year that still existed. The data used for this study represent urban areas and are categorized into three geographic units: Santo Domingo (the capital), other major cities, and the rest of the country.

Because of the high exit rate of the micro and small business population, only 875 firms were included for this study out of the 1450 registered firms initially interviewed in 1998. Out of these firms, we ended up with a sample of 537 firms because of missing data and coding errors. Although this means that our study is not based on a total coverage of the population, it should not affect the generalizability of our results to similar contexts. Indeed, the contribution of our paper lies in understanding how situational factors affect the relationship between family involvement and business performance, rather than estimating population parameters.

**Variables**

Dependent variables:

Following the entrepreneurship literature, data on firm performance were based on the most frequently used operationalizations: sale's growth and profitability (Brush and Vanderwerf 1992), which were asked for in the survey. Although not ideal, several studies have found evidence that supports the reliability of founder-reported performance measures (Anna, Chandler, Jansen, and Mero 2000). In particular, we measure sales' growth as an ordinal variable comprised of 10 categories that measures the percentage of increase in sales between 1998 and 2000. As previously mentioned, growth is a variable commonly used in the literature on small business and performance (Wiklund 1998). Moreover, it has been demonstrated that firm's size (measured in terms of sales) is the single greatest predictor of income among small capitalists (Aldrich and Weiss 1981). In order to assess firm profitability, our study used two complementary measures: profits and ROA. The first, a continuous variable expressed in logarithms, was computed as the average of the monthly profits declared by the owners during the three consecutives years of the survey. As such, our data presents the advantage of avoiding biases due to exceptional results achieved in a specific year. Following Watson and Robinson's (Watson and Robinson 2003) recommendations regarding the importance of assessing firm profits in relation to the risk taken by the business owner, we used the Return on Assets as a second measure of profitability. This variable, also continuous, was computed as the ratio of profits on assets.

Independent variables:

Family involvement: this indicator was captured as a dichotomous variable with 1 indicating the presence of family members among employees and 0 otherwise.

Gender: Gender was measured with a dichotomous variable, taking the value 1 for female and 0 for male business owners.

Income: In order to capture the importance of the business in the overall economic survival of the family, the owner was asked about the origin of the household's main regular income. The resulting variable took the value of 1 when the answer was the firm, and 0 in the other cases.

Control Variables:

In the explanation of firm performance, and following existing research, we controlled for several owners and business characteristics:

Owner age: this continuous variable measured in years, was included since older business owners have been generally associated with more successful firms (Cooper, Dunkelberg, and Woo 1988).

Owner education: the same applies for this variable, which was measured as a dichotomous variable with 0= no university education, 1= at least some university education.

Prior entrepreneurial experience: this dummy variable (1= yes, 0= no) also encloses information regarding the owner's human capital and is considered as having a positive influence on the firm's outcome (Brüderl, Preisendorfer, and Ziegler 1992).

Firm age: continuous variable measured in months and in logarithms.

Firm size: continuous variable measured in number of employees.

Homebased business (HBB): this dichotomous variable indicates whether the business was operated from home or not (dichotomous variables). Stanger (Stanger 2000) suggested that the flexibility offered by HBB may be gained at the expense of reduced sales. In fact, the difficulty in separating work and personal life (Good and Levy 1992) might significantly reduce the number of hours dedicated to the business by owner, which should influence negatively economic success. Moreover, this variable was introduced in order to control for the greater reliance of women on this kind of venture (Mirchandani 1999), and especially in contexts such as the Dominican Republic (Espinal and Grasmuck 1997).

Industry: following previous literature (Gimeno, Folta, Cooper, and Woo 1997) industry was classified in five dummy variables in order to capture the influence of the industry environment on firm performance. These categories were Manufacture and Construction[1], Retail and wholesale trade, Restaurants and hotels, Skilled services (business and professional services; finance, insurance, real stat) and Personal services.

Firm geographic location: due to the difficulties in collecting comprehensive information about the competitive environment of an organization in survey, and as a complement to the information offered by the industry, we took into account the regional location of the business (Brüderl et al. 1992) by differentiating between those located in main urban areas from those outside them. Competition is indeed much heavier in the capital and main cities than in other urban areas. The result is a dichotomous variable that takes the value of 1 for main urban areas and 0 for the rest.

## RESULTS

Table 1 shows business characteristics of the firms analyzed in this study as well as the demographic and personal characteristics of their owners. Consistent with studies on microentreprises (Chell and Baines 1998) and, in particular, those located in Dominican Republic (Espinal and Grasmuck 1997), firms in our study are managed in general by adults in their forties and with low formal education. The economic importance of the microentreprise sector is confirmed by the fact that, despite their small size (almost 3 employees on average) they provide the owner and his family with his main source of living in more than 60% of the cases. In terms of industry affiliation, these firms concentrate mainly in the wholesale and retail sector, followed by the manufacturing industry, and remain underrepresented in other sectors of higher value added, such as skilled services.

Insert Table 1 about here

[1] Since our sample is composed of micro and small businesses, only 2 cases pertaining to the construction industry were identified, and included into the category of manufacture.

Table 2 shows the bivariate correlations between the main variables of the study. Means and standard deviations are also presented. In general, intercorrelations are consistent with our expectations. Correlation coefficients are overall significant, but the magnitude of these correlations are modest with the highest being 0, 50. Hence no problem of multicollinearity has been detected.

Insert Table 2 about here

Hypotheses were tested using hierarchical regression analysis. As customary, control variables were entered first, followed by main effects. Multiplicative terms were added later to examine the hypothesized interactions. Results are showed in Table 3, with measures of firm growth, profits and ROA as the dependent variables.

Insert Table 3 about here

Model 1 is the base model that includes only control variables. This model shows that overall, the control variables have a opposite effect on growth and profits on the one hand and on ROA on the other hand. This result points out to the importance of differentiating between indicators of growth and income and those of economic efficiency. Of all the controls, the size of the business and whether it is operated from home are the two indicators that affect all indicators of performance. However, while business size is positively related to firm growth and profits, it seems to affect negatively indicators of financial efficiency such as the ROA. Similarly, businesses that are homebased grow less and generate lower profits than those operated outside home but seem instead to make a more efficient use of their assets, with a positive effect on ROA. While having no apparent effect on growth, industry is related to profits and ROA through its manufacturing and skilled services sectors, which influence negatively the former and positively the latter. In other words, microentreprises operating in these sectors might generate lower profits but make a more efficient use of their assets. Consistent with previous research, (Bates, 2002; Cliff Langton and Aldrich, 2005).

Our results show the existence of performance differential female and male headed firms. Finally, and regarding demographic characteristics, owner's age influences positively ROA although surprisingly, these same indicators are affected negatively by university education.

Model 2 introduces the effect of family involvement. As expected, this variable had a significant impact on the three indicators of performance firm performance, bringing about the largest increment in $R^2$ with respect to the base model in the case of sale's growth and ROA. However, this result provides only partial support for hypothesis 1 as the effect is positive for firm growth (and profits) but it is of opposite sign when it comes to the ROA. This suggests that overall, family employee's contribution to the business is not cost effective, and the relative increase in profit it might generate is offset by an increase in the corresponding needs in terms of resources.

Models 3 and 4 include respectively the interaction of gender and income with family involvement. In support of our expectations, women seem to know better than men how to make the most of family implication the business. Scatterplot nº1 offers additional support to hypothesis 2, showing that while women-owned businesses owned with no family employees underperform male-owned ones, the involvement of family employees incurs in gains in sales that are much more considerable for the former than for the latter (see graph 1). In the same vain, the drop in ROA produced by family involvement is smoothed when this participation is managed by a women. Instead, it is much steeper when the owner is a male, resulting in a ROA indicator that is inferior to that of women (see graph 2). These results are significant for both indicators of firm performance, although the $R^2$ change is far more significant for growth and profits than it is for ROA.

Insert Graph 1 and Graph 2
about here

The negative significant coefficient for the interaction term between income and family involvement gives support for hypothesis 3. As predicted, the motive that induces a family member to work in the family firm is a factor that makes a difference in terms of the impact of his involvement on firm performance. Results indicate that the dependence on the business as the main source of household income offsets family employee's positive impact on the firm's economic indicators (see graphs 3 and 4). This situation is clearer when we assess business outcomes in terms of growth and profits than using the ROA. Indeed, while the $R^2$ change brought about the interaction is significant for the formers, this is not the case for the latter.

Insert Graph 3 and Graph 4
about here

Finally, and contrary to our expectations, results lent no support to hypothesis 4. Indeed, the inclusion of the three-way interaction between family involvement, income and gender, had no significant impact on any indicator of performance.

## DISCUSSION

This study uses a *family embeddedness* perspective and heeds Jennings and MacDougald´s (2007) recommendation of extending the WFI model by testing the direct impact of work family conflict on business performance (page 19). Our results indicate that in the context of micro and small enterprises, the presence of employment contracts involving family ties contribute to increase sales. Family employment, however, does not increase profitability. In fact, the results show the opposite: the presence of family members is negatively related to firm's profitability as measured by ROA.

These findings might help to explain contradictory previous findings regarding the net effect of family employment, since they indicate the importance of distinguishing between growth and profitability measures to capture firm performance. These results suggests that the owner's intention to provide family members not only with secure employment, but also with perquisites and privileges that they would not otherwise received (Ward 1987), while helping increase firm sales, is going to negatively affect firm's profitability. This is to say, the owner's intention to divert resources to pursue non economic goals diminishes firm profitability, even in the absence of agency cost because managers conform to these issues. The benefits obtained from increasing affective commitment with employment of family members do not offset the costs associated with the inefficient use of firm resources when examining firm profitability, but they do with respect to increases in sales.

Furthermore, these costs are likely to be greater for micro firm since agency costs traditionally associated with privately held and owner managed firms (i.e adverse selection problems associated with the inefficiencies of the labour markets or hold up problems derived from owner's opportunism) could be also more severe.

Thus, our results are in line with Meyer and Zucker's assertion that micro and small family firms live in a state of "permanent failure," which they define as "a condition characterized by sustained low performance and high persistence" (Meyer and Zucker 1989)(p. 68). Perhaps family firms may be able to do this because they have access to what some refer to as "patient capital" or "survivability capital" (Sirmon and Hitt 2003) that other firms may be unable to access. Given this argument it would be important to explore the persistence of underperforming firm in the context of family and micro enterprises. Research (Gimeno et al. 1997) has examined why underperforming firms stay in markets. It is possible that for the reasons argued previously, family and micro enterprises are more likely to persist while underperforming than other enterprises.

The data also support the notion that the "business dualism" (Kepner 1983) that characterizes firms that involves employment contract with family ties ultimately influences the decision making process in family firms and distinguish it from that of non-family firms. In particular, our results confirm that the benefits of family employment are reduced when the owner's household primary income comes from the firm. In this situation, the conflict of goals between protecting socioemotional endowment and targeting performance goals is enhanced. Wealth concentration in a single business, deep emotional attachment to that business, and limited employment opportunities outside that business means that organizational failure would be seen as truly catastrophic. This is likely to place the firm manager and his employees under a great deal of stress. Our results confirm that whatever the contingencies, family involvement in the business for negative reasons (such as an economic necessity or lack of alternatives) has an adverse impact on performance.

Data also support the notion that the woman family managers may understand better than their male counterparts how to manage family employee's commitment and use it to the firm´s advantage. As Frishkoff and Brown (1993) state: " She may convince others that considerate caring relationships in family business contribute to effective management"" (p. 69). This advantage implies that when the firm is lead by a woman, family involvement's positive impact on growth and profits is higher and its negative influence on ROA is relatively tempered. This point is critical for understanding the importance of fostering women's implication in decision-making of their family businesses, and not just as a sidekick (Folker, 2003). As Aronoff (Aronoff 1998), suggested, of the megatrends in family business is the expansion of women's roles from the widow, supportive wife, and "chief emotional officer" to a wider range of roles including sibling ownership and ownership teams.

A caveat of course is that ours is but one study that examines the family performance relationship from a family embededness perspective. Further research is needed to confirm these results and to examine which other contingencies inform the family-performance relationship. In the context of micro enterprises we contend that those effects should be magnified. It would be interesting to examine the persistence of effects in contexts such as large family enterprises, and to see whether those effects persist. As the firm grows and the division of labor deepens, its structure becomes more formalized and professionalized (Blau 1970; Blau and Scott 1962; Hellman and Puri 2002). Roles become more defined, coordination becomes more formal, and controls are instituted to facilitate organizational activities. At the same time, adverse selection problems and hold up issues diminish. What would be the net effect of family involvement on performance in these companies? Given the predominance of family employment all over the world, more research efforts should be devoted to investigate these issues.

Our study also has limitations of data and method. For example, we relied on self-report data to assess firm performance. Objective performance measures would have been desirable, but because the family firms in our sample were not publicly traded that data was not available. However, our performance measure has often been employed in the literature (Dess and Robinson 1984).

In conclusion, our study contributes to the current literature by expanding the family embeddedness perspective by exploring the extent to which family involvement in the business makes a difference on firm performance, both in terms of sales and in terms of profitability, for established firms. Also important, we provide empirical evidence of Jennings and McDougald´s (2007) work family interface on firm performance framework , and in particular provide evidence of the role that gender, and family primary sources of income play in the family employment, firm performance relationship.

**Table 1: Descriptives for Business and Owner**

| Variable | Descriptive (mean or percentage) |
|---|---|
| **Owner age** (years) | 42,7 |
| **Owner's university education** (%) | |
| - Yes | 15,5 |
| - No | 84.5 |
| **Gender** (%) | |
| - Male | 51,8 |
| - Female | 48,2 |
| **Previous entrepreneurial experience** (%) | |
| - Yes | 25,4 |
| - No | 74,6 |
| **Business is main income** (%) | |
| - Yes | 60,2 |
| - No | 39.8 |
| **Business age** | 4,2 |
| **Business size** (average number of employees) | 2,45 |
| **Family involvement** (%) | |
| - Yes | 43,4 |
| - No | 56,6 |
| **Homebased business** (%) | |
| - Yes | 58,5 |
| - No | 41,5 |
| **Industry** (%) | |
| - Manufacture | 25,5 |
| - Wholesale and retail | 50,3 |
| - Hotels and restaurants | 6 |
| - Skilled services | 5,4 |
| - Personal services | 12,8 |
| **Business located in main cities (%)** | |
| - Yes | 67,1 |
| - No | 32,9 |
| **N** | 573 |

**Table 2: Descriptives and Bivariate correlations**

| | | **Mean** | **S. D.** | **1** | **2** | **3 4** | | **5** | **6** | **7** | **8 9** | | **10** | **11** | **12** | **13** | **14** | **15** | **16** | **17** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Business Age** | 4,2 | 0,9 | 1 | | | | | | | | | | | | | | | | |
| **2** | **Business size** | 2,4 | 2,4 | ,09* | 1 | | | | | | | | | | | | | | | |
| **3** | **Business location** | 0,7 | 0,5 | ,02 | ,12** | 1 | | | | | | | | | | | | | | |
| **4** | **Homebased business** | 0,6 | 0,5 | -,14** | -,27** | -,15** | 1 | | | | | | | | | | | | | |
| **5** | **Industry_ Manufactu** | 0,3 | 0,4 | ,04 | ,02 | -,01 | ,15** | 1 | | | | | | | | | | | | |
| **6** | **Ind_ hotel and rest.** | 0,1 | 0,2 | -,04 | ,08 | -,01 | -,09* | -,14** | 1 | | | | | | | | | | | |
| **7** | **Ind_ skilled services** | 0,1 | 0,2 | ,03 | ,01 | ,00 | ,05 | -,14** | -,06 | 1 | | | | | | | | | | |
| **8** | **Ind_ persona service** | 0,1 | 0,3 | ,01 | ,01 | ,13** | -,09* | -,22** | -,09* | -,09* | 1 | | | | | | | | | |
| **9** | **Owner's age** | 42,7 | 13 | ,23** | -,05 | -,07 | ,07 | ,00 | ,03 | ,01 | -,21** | 1 | | | | | | | | |
| **10** | **Owner's univer. edu.** | 0,2 | 0,4 | ,03 | ,34** | ,22** | -,26** | -,04 | -,04 | ,05 | ,19** | -,16** | 1 | | | | | | | |
| **11** | **Prior entr. experience** | 0,2 | 0,4 | ,04 | ,02 | ,01 | -,03 | -,07 | -,01 | -,05 | -,08* | ,05 | -,08 | 1 | | | | | | |
| **12** | **Family involvement** | 0,4 | 0,5 | ,05 | ,19** | -,02 | -,12** | -,06 | ,10* | -,13** | -,09* | ,01 | ,03 | ,01 | 1 | | | | | |
| **13** | **Gender** | 0,5 | 0,5 | -,11* | -,19** | -,08 | ,33** | ,10* | ,01 | ,04 | ,16** | ,01 | -,09* | -,06 | -,17** | 1 | | | | |
| **14** | **Main income** | 0,6 | 0,5 | ,22** | ,21** | ,12** | -,22** | -,01 | -,01 | -,07 | -,05 | -,01 | ,17** | ,02 | ,14** | -,37** | 1 | | | |
| **15** | **Sale's growth** | 3,2 | 1,5 | ,01 | ,15** | ,08 | -,15** | ,04 | -,038 | -,03 | ,01 | -,07 | ,12** | ,05 | ,36** | -,08 | ,10* | 1 | | |
| **16** | **Profits (log)** | 8,2 | 1,5 | ,22** | ,41** | ,32** | -,45** | -,09* | ,029 | -,05 | ,04 | -,19** | ,36** | ,06 | ,24** | -,48** | ,50** | ,23** | 1 | |
| **17** | **ROA (Log)** | 5,6 | 2,4 | -,01 | -,17** | -,08 | ,26** | ,13** | -,034 | ,12** | -,08 | ,13** | -,19** | -,01 | -,18** | ,09* | -,06 | -,13** | -,14** | 1 |

N = 537

+ p ≤ .10 ; * p ≤ .05 ; ** p≤ .01

**Table 3: Hypothesized effects**

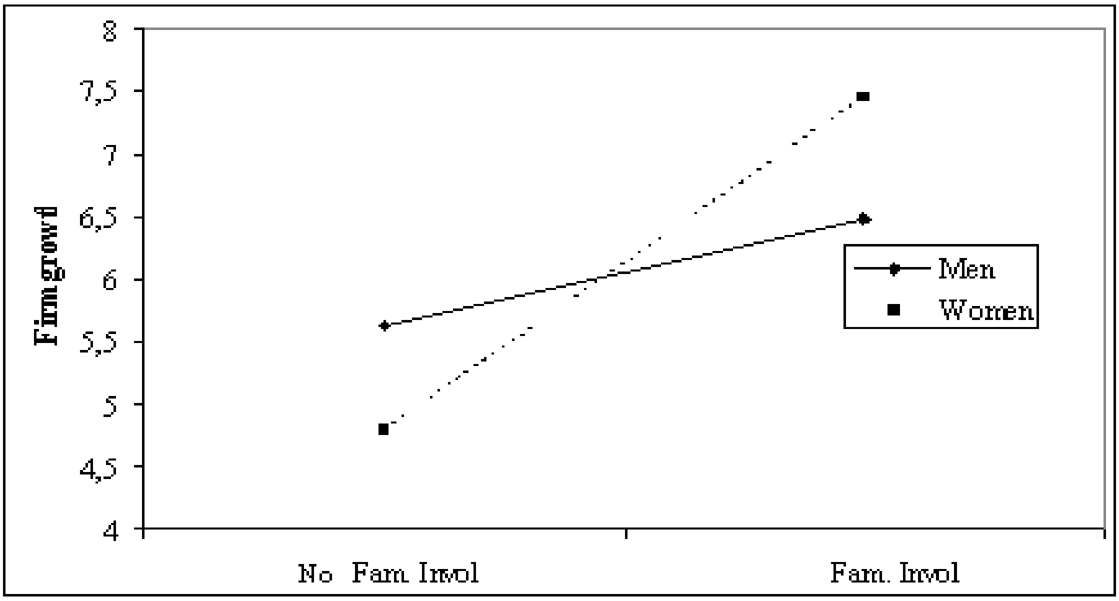
| | Dependent variable: Sale's growth | | | | | Dependent variable: Profits (log) | | | | | Dependent variable: ROA (log) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Model** | **1** | **2** | **3[2]** | **4[2]** | **5[2]** | **1** | **2** | **3** | **4** | **5** | **1** | **2** | **3** | **4 5** | |
| Business age (log) | -,013 | -,027 | -,021 | -,029 | -,027 | ,190** | ,185** | ,167** | ,127** | ,122*** | -,017 | -,013 | -,013 | -,018 | -,017 |
| Business size | ,106* | ,042 | ,050 | ,040 | ,059 | ,236** | ,211** | ,184** | ,172** | ,161** | -,090* | -,067 | -,066 | -,069 | -,068 |
| Business location | ,034 | ,046 | ,044 | ,049 | ,055 | ,212** | ,216** | ,201** | ,196** | ,193** | -,019 | -,024 | -,027 | -,022 | -,023 |
| Homebased business | -,116* | -,094* | -,095* | -,089* | -,095* | -,272** | -,263** | -,176** | -,218** | -,165** | ,183** | ,175** | ,185** | ,181** | ,184** |
| Industry_manufacture | ,047 | ,083+ | ,103* | ,091* | ,112* | -,087* | -,073* | -,025 | -,053+ | -,026 | ,128** | ,116** | ,130** | ,122** | ,127** |
| Industry_hotel and restaur. | -,048 | -,063 | -,068+ | -,058 | -,067+ | -,018 | -,024 | -,004 | -,001 | ,014 | ,007 | ,013 | ,014 | ,018 | ,015 |
| Industry_skilled services | -,001 | ,047 | ,067 | ,055 | ,068+ | -,085* | -,066* | -,039 | -,057+ | -,015 | ,130** | ,116** | ,124** | ,122** | ,127** |
| Industry_personal services | -,016 | ,031 | ,022 | ,032 | ,018 | -,107* | -,088* | -,019* | -,030 | -,021 | ,022 | ,006 | ,010 | ,009 | ,006 |
| Owner's age | -,045 | -,043 | -,055 | -,046 | -,056 | -,189** | -,188** | -,181** | -,179** | -,174** | ,107* | ,107* | ,104* | ,106* | ,100* |
| Owner's university educat. | ,061 | ,063 | ,058 | ,056 | ,048 | ,149** | ,150** | ,149** | ,134** | ,135** | -,110* | -,110* | -,112* | -,117* | -,117* |
| Prior entrepren. | ,050 | ,056 | ,060 | ,065 | ,062 | ,045 | ,047 | ,046 | ,063* | ,058* | ,003 | ,001 | ,002 | ,008 | - |

[2] Changes in R2 are with respect to Model 2

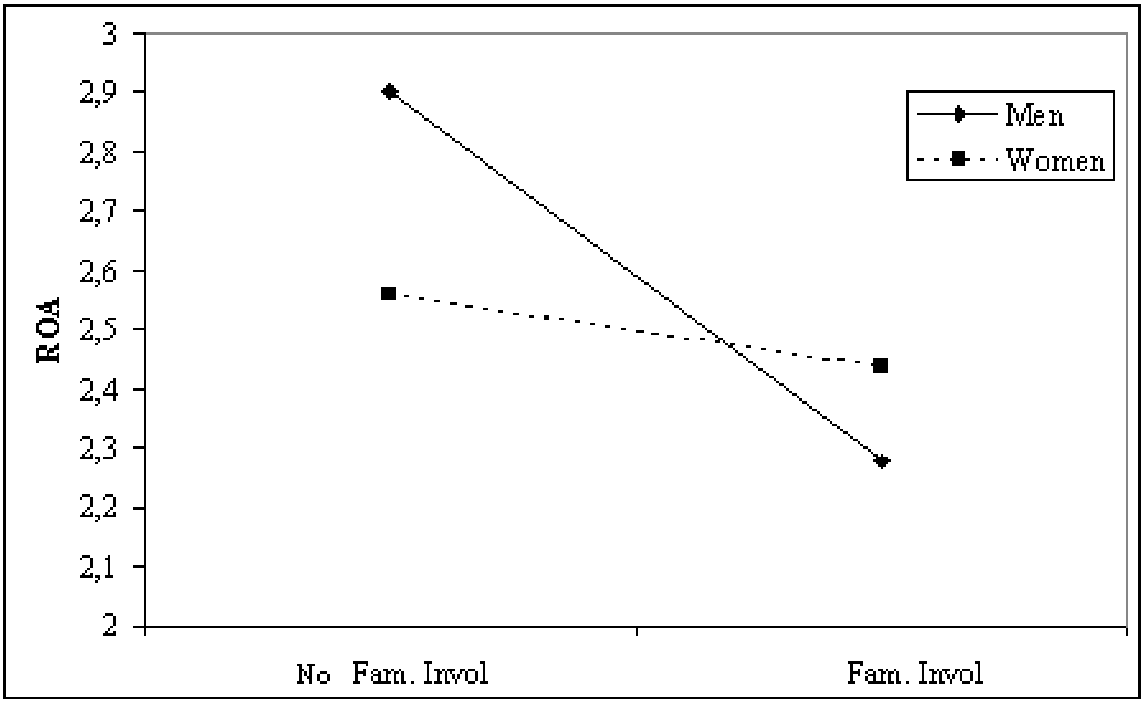
| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| experience | | | | | | | | | | | | | | | ,226+ |
| Family involvement | | ,356** | ,184** | ,461** | ,278* | | ,140** | ,045 | ,268** | ,191* | | -,132** | -,211** | -,042 | ,006 |
| Gender | | | -,158** | | -,196* | | | -,370** | | -,276** | | | -,106+ | | -,157 |
| Main income | | | | ,093+ | -,020 | | | | ,422** | ,300** | | | | ,093+ | -,017 |
| Family involvem. x Gender | | | ,290** | | ,191+ | | | ,110* | | ,035 | | | ,128* | | ,201+ |
| Family inv. x Main income | | | | -,158* | -,116 | | | | -,225** | -,164+ | | | | -,135+ | ,018 |
| Main income x Gender | | | | | ,066 | | | | | ,054 | | | | | ,101 |
| Family involvement x Main income x Gender | | | | | ,102 | | | | | -,014 | | | | | -,122 |
| | | | | | | | | | | | | | | | |
| Adjusted R squared | ,034 | ,152 | ,184 | ,156 | ,186 | ,412 | ,430 | ,511 | ,535 | ,569 | ,114 | ,129 | ,133 | ,132 | ,131 |
| R squared Change | .054** | .116** | .035** | ,007+ | ,042** | ,425** | ,018** | ,081** | ,104** | ,141** | ,133** | ,016** | ,008+ | ,006 | ,012 |
| F | 2,724** | 8,927** | 9,592** | 8,008** | 7,740** | 34,943** | 34,406** | 40,662** | 44,670 | 39,963** | 7,072** | 7,386** | 6,687** | 6,596** | 5,334** |

N = 537. Standardized regression coefficients are shown in the table ; + p ≤ .10 ; * p ≤ .05 ; ** p≤ .01 ;

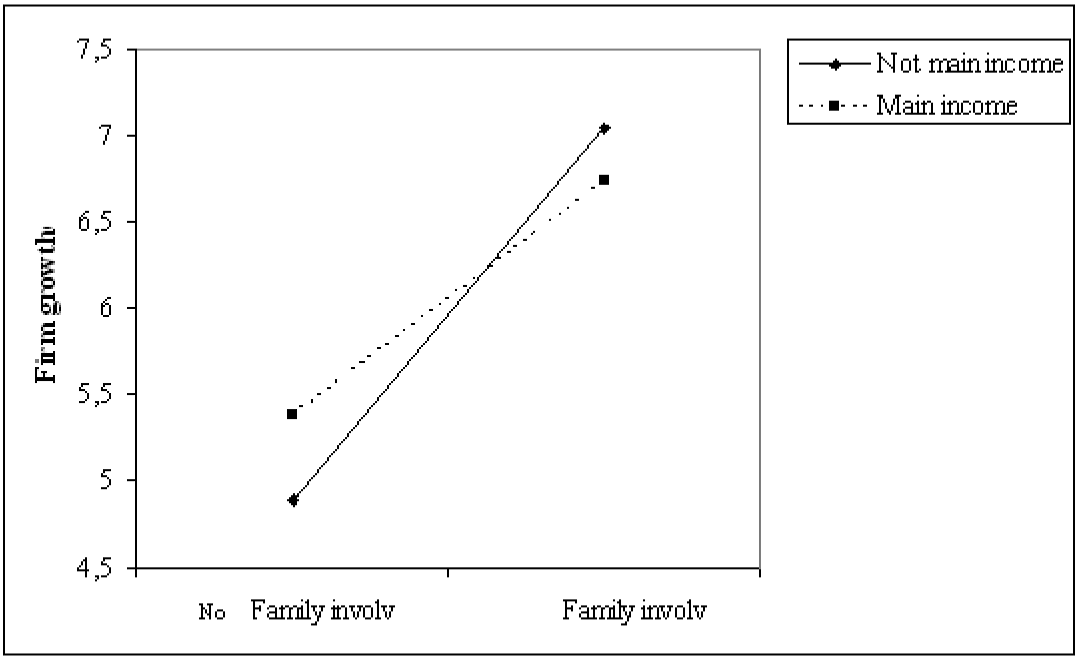
**Graph 1: T he moderating effect of gender on the relationship between family involvement and firm growth**



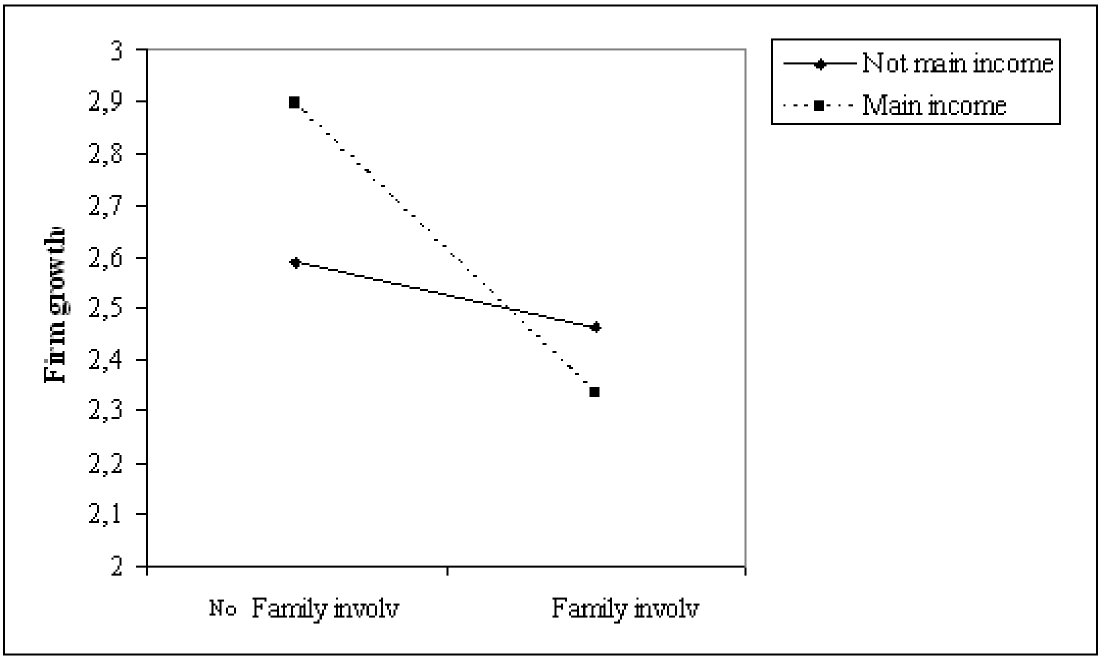

**Graph 2: T he moderating effect of gender on the relationship between family involvement and firm growth**



**Graph 3: T he moderating effect of income on the relationship between family involvement and firm growth**




**Graph 4: T he moderating effect of income on the relationship between family involvement and ROA**


Firm growth
3
2,9
2,8
2,7
2,6
2,5
2,4
2,3
2,2
2,1
2
No Family involv
Family involv
Not main income
Main income

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# NOTAS

NOTAS

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