
Location Preferences of Family Firms: Strategic Decision Making or “Home Sweet Home”?

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Selecting a business location is among the most important strategic decisions for family firms. Yet the separate demands of the family and the business often prove difficult to balance. A comparison of location preferences in family and nonfamily firms provides insight into the family influence on strategic decision making.

Why do firms locate where they do? This question has puzzled researchers in economic geography, strategic planning, regional economics, and organizational behavior for over fifty years. Economists generally invoke least-cost concepts to explain location, reasoning that firms seek facilities with the lowest operating costs. Organizational theorists, by comparison, invoke structural contingency theory, reasoning that firm location depends on the interaction of the firm's characteristics and the context. Few, if any, of these studies give much weight to the effect of family ownership in strategic site location decisions.

Consider the implications of this omission. If anything should affect location preferences, family status should. Families as well as businesses have their own belief systems, and the interaction of the two systems should affect the choice of the business location (Miller and Rice, 1967). Proximity to family residence or ancestral home, security of the family network, and availability of familiar recreational and cultural activities may be valued highly by the family, possibly overriding more economic concerns of the firm such as proximity to markets, wage rates, and business taxes in influencing the location decision. For example, Henry Ford's decision to move Ford world headquarters to Dearborn, Michigan, site of the Ford family farm,

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illustrates the relevance of connecting business location with family status. Today, despite Ford's dispersed markets and worldwide manufacturing facilities, Ford Motor Company still maintains over thirty separate locations in the Dearborn area (Ford Motor Company, 1983).

This article compares the location preferences of 435 family and 555 nonfamily firms in Southeastern Michigan. Its premise is that location is one of the most basic concerns in a family, just as it is in a business organization. Few strategic decisions are as fundamental as site location, essentially the selection of a "home" for the firm, and few influences as strong as the family's in a family-operated business. If the imprint of the family system is to be detected anywhere, it should be found in the site location decision. Comparative studies allow us to test some of the hypotheses about the effect of the family system on strategic decision making (Upton, 1991). This line of research should provide family firm researchers, practitioners, and professionals serving family businesses with significant insights into the strategic decision-making process in family firms and should help those who study, advise, or operate family firms to generate policies and procedures that encourage successful family business development.

Firm Location in Perspective

The reason firms locate where they do has been a topic of investigation for more than six decades (Chapman and Walker, 1987; Blair and Premus, 1987). At issue is the level of influence various factors have in the location decision process. Two extremes dominate the literature to date: least-cost factors versus area infrastructure (or quality-of-life) issues. Classic location theory suggests firms choose a location to minimize costs, either real or perceived. The *friction-of-distance* or *least-cost* variables, as these factors are known, measure the costs of moving materials, products, people, or ideas across space, measured in miles, money, or time (Grieson, 1977; Bartik, 1984). For heavy manufacturing industries, such factors would be expected to dominate location decisions, while noneconomic factors would be of little importance (Due, 1961; Carlton, 1983). It should be reasonable to expect low margin-to-weight manufacturers to locate closer to resources and markets.

A second set of location criteria is concerned not with proximity, but with the attributes of a given area (Premus, 1982). Included here are economic variables such as labor availability or organization, physical issues such as infrastructure, power, and water, and less concrete issues such as quality of life (Harding, 1988). These characteristics comprise the area infrastructure dimension. Strong evidence gathered over the last fifteen years from several regions of the United States suggests that in some industry sectors, least-cost location criteria may now have given way to quality-of-life considerations in industrial location preferences (Blair and Premus, 1987;

Jarboe, 1986; Galbraith, 1985). Indeed, as the human (skill) factor has become a more important variable in the past two decades and as telecommunications and transportation have improved, it seems distance to suppliers/markets and state and local taxes have become less critical in choosing new industrial locations. Similarly, access to good airports has become more valuable for such firms than access to raw materials or proximity to large population centers.

Most of this location research suffers from a lack of attention given to various definitions of the "firm." Although few studies have explicitly linked location preferences to characteristics of the firm, three studies have offered empirical evidence in this direction. First, McDermott and Taylor (1976) investigated the location preferences of New Zealand manufacturing firms with respect to five considerations of organizational form: (1) age, (2) management type, (3) plant status, (4) location, and (5) employment size. No striking statistical variations were evident, but managers did discriminate among some individual elements of their local environment, especially in relation to the location, management characteristics, and structure of their firms. Elements of the local environment included land availability, access to national markets, transportation, and several other items, and for these, *location* emerged as the major filter influencing the firm's perception of its environment. On other dimensions, notably factors of production and local government support, attitudes deteriorated markedly as the size of the organization increased, showing that larger firms' reactions to local land and labor supply tend to be more adverse than those of smaller enterprises (McDermott and Taylor, 1976, p. 336). Attitudes toward local infrastructure were shown to be completely unrelated to size; less favorable attitudes toward local infrastructure were held by the oldest firms (pre-1945), while these firms held the most favorable view of the market access characteristics of their locations.

Second, using a survey of 136 manufacturing firms in the Southeast United States, Malizia (1985) examined location in relation to several organizational characteristics: (1) location (North Carolina, South Carolina, or Virginia); (2) type of firm (independent or branch); (3) size of firm; (4) industry (two-digit SIC); (5) site (rural or urban); (6) growth rate; and (7) level of technology. Scores for executives from the thirty-nine (large) establishments were much higher for land availability/cost, infrastructure availability, livability/education system, and local transportation than for small establishments (p. 179). Scores for twenty-one declining manufacturers were striking in that market access/proximity, labor skill/productivity, and land availability/costs were much more important than average, while all other factors were considered much less important compared to all establishments. For high-technology firms (defined using ten 2-digit SIC codes), the livability/education factor was the most important, followed by local transportation and infrastructure availability. The least important

considerations for high-technology firms were land availability/cost, unskilled labor supply, and business taxes/financial considerations (p. 184).

A third study that brought organizational context to the location decision was Hart, Denison, and Henderson (1989), which added industrial sector and level of technology to the discussion. Using a large sample of firms of all types, these investigators found significant differences with respect to quality of life, housing, state taxes, and input availability. Business service firms emphasized housing availability, while for manufacturing firms, the most important location criteria related to input availability. The authors concluded that a contingency theory of firm location was necessary to capture the complexity of different types of business firms (p. 617).

Location and the Family Firm

The connection between family status and firm location has received little attention in the location literature, but the impact of family status on organizational effectiveness has been more fully documented (Hollander and Elman, 1988). Most of the research paints an unfavorable picture of the family influence on organizational decision making. For example, the bulk of early research on family firms reflected a high degree of frustration with the lack of clear boundaries between the family and the firm (Calder, 1961; Donnelly, 1964; Miller and Rice, 1967; Levinson, 1971; Cohn and Lindberg, 1974). In these studies, researchers were generally consultants to family firms concerned with the high rate of failure of family-operated business, and they often advocated a "rational" approach where the family and the firm were separate entities. The working assumption in much of this research was that decisions in family firms were frequently made to benefit the family to the detriment of the firm. Most often recommended was clarifying boundaries between the two entities (Calder, 1961; Donnelly, 1964; Miller and Rice, 1967; Levinson, 1971). Some researchers even suggested that the family be excised from the organization to save the firm (Hollander and Elman, 1988). Donnelly (1964) found that family belief systems were often confused with the firm's belief systems, and in the resulting confusion, company requirements lost out to family obligations.

The firm and the family were often viewed in opposition and conflict with one another. Levinson (1971, p. 98) advised family businesses "to move to professional management as quickly as possible." Calder (1961, p. 101) noted that "sentiment rather than logic" dictates the decision of owners. Miller and Rice (1967) conceptualized the family business manager as occupying several nonsupportive roles simultaneously, ultimately with the family-manager responding to the family's desires or risking expulsion from the family group. Others pointed to the confusion of the family's interests with those of the firm; an example was Donnelly (1964, p. 95), who concluded that "in the resulting confusion of values, company requirements may lose out to family obligations."

Family desires, it was believed, often took precedence over the organization's administrative needs (Cohn and Lindberg, 1974). The existence of two parallel systems in the family firm was thus the conclusion of previous research: the "nonrational" or family component, and the "rational/economic" business component. When the two systems clash, Hollander and Elman (1988) suggest, rationality often falls victim to the power of the family.

Some research casts doubt on the assumptions of family system and business system conflict. For example, Upton and Seaman (1991) conducted a comparative study of new-product adoption in family and nonfamily firms to test the effect of emotionality due to family relationships on the decision-making process. They found no significant differences in decision making between the firms.

Another theme in the family business research is the notion of parallel, overlapping belief systems. Here, researchers suggest a dynamic tension exists between the two systems, giving the family firm its distinct character (Hollander and Elman, 1988). For instance, the family system ensures firm attention to the family's needs and the survival of the firm at a level adequate to provide the required emoluments to the family. The business's rational system ensures the firm will attempt to maximize profits and grow. The effect of the family system in the location decision then should be to push the family firm toward placing more importance on the quality-of-life factors and away from the more "rational" least-cost factors. Unaffected by the family system, nonfamily firms are expected to place more importance on strictly rational, least-cost concerns. Overlaying family status on the location decision should, therefore, clarify the problem and reveal distinct family-imprint patterns in understanding firm location decisions.

Based on these ideas, family firms should be expected to emphasize the family's needs over those of the business and to prefer locations that enhance the family members' quality of life. They should place a higher value on secure locations with access to cultural and entertainment attractions, quality health care, and recreational opportunities. Family firms will tend to prefer locations near the family members' places of residence and in areas that have access to better quality housing. Thus, family firms will emphasize life-style factors over least-cost factors in their selection of a location. The family system hypotheses are the following:

HYPOTHESIS 1. Relative to nonfamily firms, family firms are expected to prefer locations that provide a better quality of life for family members.

HYPOTHESIS 1A. Relative to nonfamily firms, family firms are expected to prefer locations that provide secure locations with access to cultural and entertainment attractions, quality health care, and recreational opportunities.

HYPOTHESIS 1B. Relative to nonfamily firms, family firms are expected to prefer locations that provide closer proximity to owners' residences.

HYPOTHESIS 1C. *Relative to nonfamily firms, family firms are expected to prefer locations that provide better access to quality housing.*

Conversely, absent the family influence, nonfamily firms are expected to be more dependent on least-cost factors in location selection. It is expected that nonfamily firms will tend to prefer locations that offer lower labor costs and lower facilities costs. The available pool of skilled labor is also expected to be more important to these firms, as are the technical infrastructure factors, including access to government and private laboratories and proximity to research universities. The second set of hypotheses, the least-cost hypotheses, are the following:

HYPOTHESIS 2. *Relative to family firms, nonfamily firms are expected to prefer locations that minimize their costs.*

HYPOTHESIS 2A. *Relative to family firms, nonfamily firms are expected to prefer locations that offer lower labor costs.*

HYPOTHESIS 2B. *Relative to family firms, nonfamily firms are expected to prefer locations that minimize their facilities costs.*

HYPOTHESIS 2C. *Relative to family firms, nonfamily firms are expected to prefer locations that offer an available pool of skilled labor.*

HYPOTHESIS 2D. *Relative to family firms, nonfamily firms are expected to prefer locations that offer a superior technical infrastructure.*

Methods and Measures

Data used to test these hypotheses were drawn from the Oakland County Business Survey, a five-year longitudinal study of firms in Southeastern Michigan (Denison and Hart, 1987). The area is known as "automation alley" for its high-growth technology corridor interspersed with traditional manufacturing establishments. In June 1986, a questionnaire covering a wide range of issues was mailed to the CEO or firm president (by name) of the 2,248 firms in the sample. Following two mail prompts, a second mailing of the questionnaire, and extensive follow-up, 990 completed surveys were received for an overall response rate of 44 percent. Nonresponse bias was analyzed with regard to both SIC code and employment size. Response rates were quite similar across categories, although larger firms were slightly more likely to respond than smaller firms.

Sample. The sample was selected from the population of all businesses operating from a location in the county as defined by the fourth quarter 1984 ES-202 record of the State of Michigan Employment Security Commission (MESC). Organizations of virtually every type and size were included in the population, excluding only farms, railroads, and government operations. Firms were selected with a probability proportional to employment size. This design was used to select a broadly

representative sample of 2,248 firms; CEO names and addresses were verified through telephone contact and other sources. Four-digit SIC information from the data base was used to create two separate strata in the sample: (1) manufacturing and business service firms were oversampled, while (2) the retail sector, personal services, and a number of other SIC codes were undersampled. High-growth firms (based on employment) and corporate headquarters establishments were also sampled with certainty to maximize their number for analytical purposes.

CEOs were asked to indicate whether the firm was family owned or operated. While the use of self-typing to assess family status has some pitfalls, the sample was also compared on a number of descriptive measures to validate the family/nonfamily distinction. In particular, length of tenure of CEOs and methods of finance were analyzed for significant differences, suggesting support for the family/nonfamily distinction. Table 1 contains the descriptive measure comparisons.

Family firms accounted for 43 percent of the total respondents. Significantly more of the family firms in the sample were privately held, while more of the nonfamily firms in the sample issued publicly traded stock. Short-term bank loans were the favored methods of financing for both family and nonfamily firms; however, 155 of the family firms, or approximately one-third, required no external financing. Although on average the family firm in the sample is only two years younger than its nonfamily counterpart, family firms displayed a significantly greater stability in leadership tenure, employing 1.75 CEOs since their founding versus 2.61 CEOs, since founding, in nonfamily firms.

In sales, assets employed, and profits, there was wide disparity between the firms. The average family firm's annual sales were one-tenth the size of their average nonfamily counterparts. The results disclosed a similar ratio for net profit before taxation. On assets employed, the average nonfamily firm was seventeen times larger than the average family firm. Family firms had

Table 1. Descriptive Statistics by Family and Nonfamily Firms for Oakland County, Michigan

<i>Firm Characteristics</i>	<i>Family (n = 435)</i>	<i>Nonfamily (n = 555)</i>
Year founded	1963	1961
Age	24.28	25.70
Number of CEOs since founding	1.75	2.61 ^b
Ownership public/private ^a	1.98	1.79 ^b
Use of bank loans	1.22	1.23
Total employment	59.26	159.55 ^b
1987 sales receipts	\$12,076.14	\$160,158.62 ^b
1987 net profit	\$135.26	\$12,898.48 ^b
1987 assets	\$7,596.86	\$170,860.60 ^b

^aWhere 1 = publicly held and 2 = private ownership.

^b $p < .01$.

considerably fewer total employees but still accounted for 30 percent of the total employment in the county.

While some concern remains because the family/nonfamily distinction so closely parallels the large-firm/small-firm distinction, there is strong evidence that CEOs were accurate in the self-typing. The firms in the family sample displayed significant differences from the firms in the nonfamily sample on characteristics that are generally associated with family ownership. They were significantly more closely held, and their CEOs tended to remain in place for longer periods.

Measures and Analysis. Dependent variables for this study consist of a broad range of location criteria. CEOs were asked to rate, on a 1-to-5 Likert scale, the importance of thirty-four influences drawn from the location literature. The rating scale measured the degree to which each item was perceived as an incentive or disincentive to locating in Oakland County, with 5 representing a “strong incentive” and 1 a “strong disincentive”; a rating of 3 indicated that the respondent felt that the item was neutral—that it has no real impact on location decision making in the county.

For purposes of data reduction and index construction of actual responses, exploratory factor analysis—using a varimax rotation—revealed eight factors, with three factors having only one item. Proximity to market did not load on any factor but was retained as a single item index because of its theoretical relevance for least-cost explanations of location. Quality of housing and proximity of residence also did not load on any factor but were retained as single-item indexes because of their theoretical relevance for quality-of-life explanations of location. Indexes were computed by averaging the items that represented each factor. Table 2 contains the factors along with their associated items from the instrument, mean values, and chronbach alphas. Except for a “rural component,” these factors closely paralleled those derived by Malizia (1984). The data were then analyzed first through univariate analysis of the location factor items for family firms, and then by calculating the Student’s *t* and testing the significance of the differences between the means of the family firms and nonfamily firms using the eleven location indexes.

Empirical Results

Table 3 presents the means and significance values for the family and nonfamily firms for the eleven location preference indexes. Overall, the results suggest mixed support for the life-style hypotheses. The results for the quality of life (hypothesis 1) and overall quality of the location (hypothesis 1a) fail to support the first two life-style hypotheses, with the quality-of-life and the overall quality-of-location indexes nearly identical for both types of firms. However, the data strongly support the proximity-to-residence hypothesis (hypothesis 1b). Family firms indicated a significantly

Table 2. Location Preference Indexes for Family Firms, Sample Size, Mean, Chronbach Alpha, and Items Description

<i>Dimension/Index</i>	<i>N</i>	<i>Mean</i>	<i>Alpha</i>	<i>Items Included</i>
Technical infrastructure	430	2.89	0.85	Government/private labs; access to universities; corporate labs
Quality of life	427	2.97	0.72	Quality of health care; recreational activities; cultural opportunities
Employment costs	424	2.49	0.85	Unemployment compensation; business taxes; workers' compensation insurance; wage rates
Overall quality location	431	3.51	0.65	Quality of the locality; security of location; overall quality of life
Utility costs	429	2.96	0.85	Gas and electric costs
Skilled labor availability	429	3.36	0.71	Availability of qualified production, technical, scientific, managerial employees
Facility costs	434	3.29	0.67	Cost of space; availability of space; zoning; property taxes
Housing ^a	435	3.21		Quality of housing
Transportation	431	3.36	0.65	Ground transportation; quality of roads; traffic
Proximity to markets ^a	414	4.28		Proximity to markets/customers
Proximity to residence ^a	424	3.80		Proximity to owners' residences

^a Single-item index.

higher preference for locations near their residences than nonfamily firms. The quality-housing hypothesis (hypothesis 1c) received marginal support.

The results suggest strong support for the least-cost hypothesis. The labor-cost hypothesis (hypothesis 2a) received strong support. The facility-cost hypothesis (hypothesis 2b) received marginal support. Nonfamily firms viewed facility costs as a stronger location incentive than family firms. Both the skilled labor pool hypothesis (hypothesis 2c) and the technical infrastructure hypothesis (hypothesis 2d) were strongly supported by the results. The data suggested that relative to family firms, nonfamily firms had a significantly higher preference for the availability of a skilled labor pool and technical infrastructure.

Table 3. Location Preference Index Means for Family and Nonfamily Firms in Oakland County, Michigan

<i>Location Preference Index</i>	<i>Family (n = 393)</i>	<i>Nonfamily (n = 457)^a</i>	<i>Significance</i>
Technical infrastructure	2.84	2.94	.01
Quality of life	2.96	2.99	.47
Employment costs	2.41	2.55	.01
Overall quality of location	3.54	3.48	.22
Utility costs	2.96	2.97	.89
Skilled labor availability	3.31	3.39	.05
Facility costs	3.24	3.33	.07
Housing	3.32	3.14	.06
Transportation	3.38	3.32	.23
Proximity to markets	4.23	4.30	.31
Proximity to residence	3.90	3.74	.01

^a Missing data cause slight variations.

Preferences regarding availability and cost of transportation were quite similar between firms, as were utility-cost preferences. Proximity to markets had the highest mean value for both family and nonfamily firms. However, there was no significant difference between the two groups on this index.

Implications

The premise of this article is that the site location decision is among the most important strategic decisions of the firm and that it is similar to a family's selection of a home. Overall, the pattern of location preferences provides mixed support for the notion that family firms would seek locations that improve the family's quality of life and strong support for the notion that nonfamily firms tend to seek locations providing the lowest cost of operation. Family firms are more concerned than nonfamily firms with proximity to residence, but not with other quality-of-life items. Nonfamily firms prefer locations that minimize facilities and employment cost while providing access to skilled labor and access to public and private research facilities, but no heightened concern for the quality of transportation surfaced in the data. While the family is most concerned with proximity to residence, the firm requires locations offering least-cost alternatives. Family-ownership characteristics seem to affect firm location decisions; whether this influence is adverse, as Hollander and Elman (1988) suggest, or beneficial, as Upton and Seaman (1991) suggest, will require further investigation.

Both family firms and nonfamily firms rank proximity to customers and markets as their highest preference, suggesting that business success is the primary concern regardless of ownership form. In family firms, the strategic decision-making process accommodates both the family's perspective and the firm's perspective. The notion of separate, but not competing, systems for

the family and the firm (Upton and Seaman, 1991) seems more plausible given these results.

Empirical evidence of separate, but not competing, systems in the firm location decision provided by this study has implications for researchers, service professionals, and owners of family businesses. There has been an evolution in thinking about the interaction of family concerns with business issues in family firms. Contemporary writers (for example, Hollander and Elman, 1988; Whiteside and Herz Brown, 1991; see also Flemons and Cole, this issue) have begun to dispel the myths attributing the ills of family-owned and family-managed firms to the destructive characteristics of the family system–business system interaction. However, little empirical evidence has been offered to substantiate this perspective. More comparative studies of the family system's effect on decision making, strategy, structure, and corporate culture are required.

In the case of site location decisions, multiple considerations must be brought to bear. The findings of this study reinforce the notion that, in helping families make location—or other strategic—decisions, consultants and advisers must be able to help balance the needs of the family and the firm. For example, the firm's proximity to the owner's residence must be legitimized as an important concern in any location decision, along with economic considerations central to business needs.

Site location is one instance of a complex strategic decision where both family and business are closely intertwined. In thinking through such decisions, family business owners and managers must acknowledge family concerns as well as business issues. At a minimum, these individuals should make written lists of the pros and cons, for both the family and the firm, of any strategic decision. These sets of concerns should be carefully considered as separate and equally valid in the decision-making process. This seems a more useful solution to the inherent tension in family firms than ignoring or excising either of the perspectives in the strategic decision-making process.

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