



University of Navarra

Working Paper

WP No 571
September, 2004

EFFORT, LOYALTY AND IDEALISM

Miguel A. Gallo*
Kristin Cappuyns**

Published by the Chair of Family Business

* Professor, General Management, IESE

** Research Associate, IESE

IESE Business School – Universidad de Navarra

Avda. Pearson, 21 – 08034 Barcelona. Tel.: (+34) 93 253 42 00 Fax: (+34) 93 253 43 43

Camino del Cerro del Águila, 3 (Ctra. de Castilla, km. 5,180 – 28023 Madrid. Tel.: (+34) 91 357 08 09 Fax: (+34) 91 357 29 13

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EFFORT, LOYALTY AND IDEALISM

Abstract

The purpose of this pioneering study in the field of family business is to measure the degree of commitment to the family business among family members who do not actually work in the firm. After analyzing the characteristics of these people, we identify four very different groups. The existence of these four groups suggests that there is a “natural evolution” in relations between families and their businesses. Based on the behavior of the people in each of the four groups, we aim to identify the factors that can significantly affect the degree of commitment of family members.

Keywords: family business, non-active members, family commitment, unity, ELISA values.

EFFORT, LOYALTY AND IDEALISM

Introduction

Successful long-term survival of all types of companies, understood as how to stay in business while meeting corporate social responsibilities (not “at any price”), is one of the main concerns of scholars of Strategic Management and Business Ethics (Gallo, 1980; Gallo & Melé, 1998; Gallo, Ariño, Mañez & Cappuyns, 2002). Failure to achieve such continuity entails not only economic losses that affect many people and institutions in society, but also a loss of jobs and learning opportunities, as well as opportunities for companies to help reverse the erosion of the common good.

Surviving in the long term is particularly important for Family Businesses (FBs), for two widely documented reasons. The first is that FBs account for the majority of companies in all so-called “developed” countries (Gallo & García Pont, 1993), and the second is that FBs have higher mortality and a shorter life expectancy than Non-Family Businesses (NFBs) (Gallo & García Pont, 1993).

Based on the research carried out to date (Gallo, Corbetta, Dyer, Tomaselli, Montemerlo & Cappuyns, 2001), we can say that UNITY among family members, and between family members and the business, is the basic strength of FBs. As such, unity is one of the main underlying reasons for FBs’ ability to continue to do business in the long term. Conversely, disunity is the prime weakness of FBs and the most common cause of stunted development and eventual demise.

Analysis of what creates “unity” leads us to conclude that it is impossible to create, preserve and strengthen “unity” without an ongoing input of energy by family members. That “energy” comes from their COMMITMENT to make the best decisions for the growth of their FB, while taking care to avoid the well-known traps (Gallo, 1998) to which relations between family and business are vulnerable.

Any discussion of the long-term survival of FBs, besides considering everything one would consider in relation to any other kind of business enterprise, also means considering an “ideal” that, at the most basic level, comprises more than just economic dimensions, as tends to be the case in NFBs, but also includes moral, emotional and family dimensions, etc. It is an ideal that must be shared by family members and the most important non-family managers. In other words, it means considering a “dream” (Lansberg, 1999) that is shared by a whole group of people, a dream that, at the same time, represents a competitive strategic situation that will be viable for the company in the medium and long term; a dream, moreover, that represents a real strategic future that is sought after on account of the various situations, preferences, needs, etc. that are likely to emerge in the life of the family members (Carlock & Ward, 2001).

Research into “unity” and “commitment” in FBs has flourished in recent years. In some cases, the emphasis has been on their foundations, such as the “trust” that some family members must have in the abilities and the actions of those who have most influence over the running of the business, or the “love” that all family members must have for their business (Gallo, Corbetta, Dyer, Tomaselli, Montemerlo & Cappuyns, 2001). In other cases, researchers have developed concepts such as “familiness” (Habbershon & Williams, 2000), which encompasses a set of qualities that have not yet been fully defined, but that circumscribe the idea that the family is harmoniously interrelated and determined to achieve certain “common” goals. Lastly, there is the concept of “belongingness” (Karlsson Stider, 2001), as a strong sense of belonging to a particular family, rooted in an awareness of family members’ achievements, in shared values that over the years have become part of the family’s life, and in houses and places that have become icons for people linked by blood ties.

We still have a long way to go, however, to fully understand how family members influence “unity” and “commitment,” as their influence depends to a large extent on the roles they play inside and outside the firm. It is easy to appreciate that different people, with different degrees of blood relationship, different ages, different educational backgrounds, different levels of knowledge of the company, etc. are bound to have different degrees and types of influence. "And there are so many other factors that may significantly influence people’s level of commitment, as it is closely related to the ties people have with the business: whether or not they have a seat on the Board of Directors, whether they are shareholders, whether they work for the company at whatever level, or whether they have no formal relationship whatsoever with the family business."

The study reported in this paper aims to advance in the direction signaled above, exploring the relationship that different people –of different ages, different gender, different knowledge and qualifications, etc., all being members of the family by birth or by marriage but none of them actually working in the family firm– have with their family’s FB. Our analysis is also intended to throw light on the conditions that must obtain in those relationships in order to raise the levels of “unity” and “commitment.”

The main findings of our study can be summed up as follows:

1. We have identified eight factors that clearly measure the levels of Effort, Loyalty and Idealism among family members.
2. We distinguish four groups of people based on their levels of Effort, Loyalty and Idealism.
3. Relations between each groups and the FB are quite different, and are subject to a tendency towards the erosion of unity, leading eventually to the disappearance of the FB as such.

Structure of the research

The study has been designed to test the following hypotheses:

- Hypothesis 1 -The “unity” and “commitment” to the FB of the family members (by birth and by marriage) who do not work in the FB is related to the level of commitment they have reached, which is measured through the three dimensions of “Effort,” “Loyalty” and “Idealism.”
- Hypothesis 2 -It is possible to define a set of factors to approximately measure the levels people have reached in each of these three dimensions

- Hypothesis 3 -People's levels of Effort, Loyalty and Idealism depend on a wide range of variables, some of which are qualities specific to the individual, others specific to the FB, others to the family, while others consist of value judgments the person makes about what the company and the family are like and how they behave.
- Hypothesis 4 -In a large enough universe of this kind of people, and of FBs and families, we can expect to find clearly differentiated groups of people in terms of levels of Effort, Loyalty and Idealism.
- Hypothesis 5 -As a consequence of the preceding points, it is possible to find courses of action that help to raise levels in all three dimensions and, through effective implementation, assist the long-term survival of FBs.

The researchers began by specifying the meaning and content of each of the three dimensions, so as to be able, on that basis, to construct a questionnaire that would include questions about the "person," the person's "family business," the "family," the person's "value judgments about the way the business and the family acted," and lastly, the person's "relationship with the family business."

The content initially given to the three dimensions was based on the following definitions, commonly accepted in traditional philosophy (Honderich, 1995):

- "Effort": Vigorous application of understanding and will to obtain an end. Determination and courage.
- "Loyalty": Faithful performance of commitments. Constancy and exactitude.
- "Idealism": Desire founded on hope and trust.

General characteristics of the sample

The sample consists of 200 people who returned valid questionnaires. None of these people worked in their family business at the time they responded to the questionnaire.

In February 2002, letters were sent to a population of 600 FBs that have had regular contact with the Chair of Family Business at IESE, requesting that four people fill out the questionnaire. Two months later, only eight replies had been received.

Given this poor response, a variety of procedures were followed, such as contacting "FB Associations" in different parts of Spain, asking various FB professors to seek responses from people participating in their programs, addressing requests to "friendly" firms, etc., until a total of 200 responses had been obtained.

The questionnaires were received between February and July 2002 and provide data from people belonging to 98 FBs and families. In 79 of the companies (67%), questionnaires were received from just one person; in 14 companies (12%), from two people; in 10 companies (8%), from three people; in 14 companies (11%), from 4 people; in one company, from 5 people; and in one company, from 6 people.

Obtaining responses and, in particular, processing the responses proved notably more difficult than the experience of earlier surveys had led us to expect. And that was despite the precautions taken by the team of researchers, who had first tested the questionnaire with a sample of 12 people belonging to three companies, and had revised it

several times until it was demonstrably easy to understand and could be filled out in under 10 minutes on the average.

From conversations with the people who helped to gather together the final sample, it is worth mentioning some of the remarks that illustrate what turned out to be the chief barriers to getting people to collaborate:

1. "In some cases, the founder of the FB refused to distribute the questionnaires, without giving a reason."
2. "Most of the companies that were in economic difficulties or undergoing management crises, strikes, etc. refused to collaborate."
3. "In cases where the person who received the questionnaire said that his/her family was having problems, or that they were in the process of splitting up, etc., he/she made no promise to fill out any questionnaires."
4. "In quite a few cases, the men flatly refused to distribute the questionnaire to the women of the family."
5. "In many small companies, as most of the family members were working in the company, they pointed out that there was nobody suitable to fill out the questionnaire."
6. "By contrast, in some large companies with large families, there was clear resistance to the attempt to distribute, explain and gather in the questionnaires."

The above comments suggest a certain bias in the sample, which may consist of a majority of people whose attitude toward their FB is more favorable than the average.

Personal data

- The *average age* of the people who responded to the questionnaire is 39; 57% are men and 47%, women.
- *Educational attainment:*

Educational attainment	%
Primary school	3.5
Secondary school	15.5
Non-university diploma	23.5
Bachelor's degree	34.5
Graduate degree	23.0
TOTAL	100.0

Only a very small group had no education beyond primary school, while 15.5% had completed secondary school, 81% had completed higher education, divided more or less equally between non-university diplomas, bachelor's degrees and graduate degrees.

The relatively "mature" average age of the people in the sample, the high level of educational attainment, and the fact that this question was left unanswered in only nine questionnaires inspires confidence in the truthfulness and quality of the responses, particularly when they consist of opinions and value judgments.

On the other hand, the following characteristics of the sample, which are inevitably a reflection of very different personal situations, highlight the considerable variety that is to be expected in the responses given in the questionnaires:

- The distribution of the sample *by generations* is as follows:

Generation of the family	%
1	15.5
2	44.5
3	28.5
4+	5.5
No response	6
TOTAL	100.0

- Of the 200 people in the sample, only 56% have children; and 25% are under the age of 30.
- 67% are blood relations, while a notable 33% are family members by marriage.
- 74% *have never worked* in the FB. The main reasons given are:
 - 69% work in a different profession or company,
 - 20% does not want to "mix" business and family, and
 - 11% does not meet the requirements to join the FB.
- 26% *worked in the FB* for a period averaging more than 14 years.
 - Of these people, who *left* the FB:
 - 55% left to take up a different occupation,
 - 17% left due to retirement, and
 - 28% left for "other reasons".
- There are 32 people in the sample (16%) who would like to work in the FB in the future.
- 39% *are shareholders* of the FB.

Level of ownership (%)	Number of shareholders
0-5	46
5-50	44
>50	10
TOTAL	100

- In 17% of cases *ownership is a result of* being the company founder; in 74%, of having been given shares, or having inherited them; and in 8%, of having purchased shares.
 - Of the 61% of the sample who *are not shareholders* of the FB, 36% considered it very unlikely that they would ever become shareholders; 9% considered it quite likely; and 55% were confident or convinced that they would become shareholders in the future.
- 28% of the people in the sample are members of the *Board of Directors* of the FB.
- The respondents ranked the *sources of knowledge* about the FB in the following order of frequency:

Knowledge of FB acquired from:	% of importance
Talking to parents	84
Informal conversations	83
Having visited the FB	82
Family gatherings	73
Reading information	57
Having worked in the FB	34
Having been a member of the BD	34

Company data

Overall, the data on the companies in the sample indicate that, as a group, they are relatively large FBs compared with the universe of FBs in Spain, both in size and position within their industry, and in their governance systems and shareholder relations (Gallo & García Pont, 1993; Gallo & Estapé, 1992).

- The average age of the firms is 51 years.
- The latest generation to have joined the firm is:

Latest generation active in the FB	%
1	14.5
2	44
3	28
4+	7.5
No response	6
TOTAL	100

- The average turnover is 30 million euros (more details in table below).

Turnover (in millions of euros)	%
< 6	27.0
6 - 30	30.9
30 - 60	18.5
60 - 300	14.3
> 300	9.3
TOTAL	100.0

- 70% of the companies in the sample are among the top 10 in their industry.
- 69% of the companies in the sample have a Board of Directors, with an average of 7 members, more or less equally divided between “family members who are managers of the FB”, “non-executive family members”, “non-family executives”, and “independent outside directors”.
- In 65% of the companies, there are regular dividend distributions. However, a sizeable 26% of the sample did not respond to this question, though it is questionable whether that was because they did not know the answer.
- 19% of the companies in the sample have a system for providing liquidity to shareholders. However, as many as 47% of the respondents did not answer this question, though it seems unlikely that they would be uninformed on such an important issue.

The above data suggest that some of the people who responded to the questionnaire have objective reasons to show themselves to be proud of their FB, and satisfied with their own personal situation in relation to the company.

The above is partly confirmed by the following table, which shows the ELISA values¹. The table reflects the information submitted by the respondents in the questionnaires about which of these five values are most prevalent in their companies (average score assigned to each value, out of a maximum of 5 and a minimum of 0).

¹ ELISA values: Excellence, Labor ethic, Initiative, Simplicity, Austerity (Research paper #542, IESE).

ELISA Values	Average
<u>E</u>xcellence	4.4
<u>L</u>abor ethic	4.3
<u>I</u>nitiative	4.2
<u>S</u>implicity	4
<u>A</u>usterity	3.8

At the same time, the fact that a large number of people seem to be uninformed about such important matters as their possible future ownership of shares in the company, whether or not dividends are distributed, and whether or not a system exists to provide liquidity to shareholders, suggests that some of the people who answered the questionnaire are “distanced” from their FB and quite likely unhappy with their situation.

Data on the families

The main data on the families are as follows:

- The average number of family members in the owning families is 11. In 21% of cases, the family has fewer than 6 members. In 54%, the figure lies between 6 and 14.
- In 62% of the families, regular meetings are held, in addition to the General Meeting of shareholders, to discuss company matters. The average frequency of these family meetings is, in roughly equal shares, once, twice or three times per year.
- 42% of the companies and families have a family protocol. The fact that 48% of the people who say that their FB has a family protocol also say that they themselves have not read it suggests that the protocols in question are very likely what might be termed “legalistic” protocols, the kind that “set out rules governing relations between the family and the firm”, rather than being explicitly designed to foster unity and commitment among the family members, so that they put all their effort into making a success of their “shared family undertaking”.

The following table shows the type of information the respondents receive about the FB:

Type of information rec’vd on a regular basis	% of responses
Company’s plans for the future	73
Economic and financial information	64
New product brochures	46
Dossier of press and TV appearances	34
Company magazine or newsletter	32

Respondents' relationship with the FB

Although part of the data reviewed so far already contains information about relations between the respondents and their FBs, here we shall set out the data relating most directly to opinions or value judgments about critical points in those relations.

1. For 25% of the respondents, the success of their FB in recent years has been average; for 65%, better than the average; and for only 10%, below expectations. (This question was answered by 94% of the people.)
2. 26% of respondents consider that the Board of Directors of their FB has performed its role adequately; 52% think it has performed to full satisfaction; and 22% feel that it has not done well at all. (This question was answered by 98% of respondents whose FB has a Board of Directors.)
3. A very high percentage of respondents (92%) believe that the periodic meetings to discuss company matters and the relationship between the family and the business foster unity among family members. Of that group, 68% rate the meetings as highly effective in that respect, and 25%, as moderately effective.
4. A similar percentage (95%) consider that these meetings provide more information about the business. And 95% of them consider the meetings highly informative.
5. 73% of the respondents who attend such meetings claim to "participate", and 80% believe that the success of the meetings is due to a key individual.

The above findings suggest that a large proportion of respondents is satisfied with the FB's economic activities, and values the meetings very highly as a source of information, and the quality of the person who leads the meetings.

The last part of the questionnaire presented 20 variables, with the aim of finding out about the respondent's relationship with his/her FB and measuring his/her levels of Effort, Loyalty and Idealism. Table 1 below shows the average scores (out of a maximum of 5 and a minimum of 0) for the 200 questionnaires.

Table 1

Ranking	Variable no.	Content	Average	Oriented to:
1	20	I am proud to be able to participate in the family business, directly or indirectly, actively or passively	4.15	Idealism
2	14	As a member of the owning family, I avoid demanding preferential treatment	4.05	Loyalty
3	11	Whether it distributes dividends or not, the family business has important advantages for me	3.91	Loyalty
4	12	My personal lifestyle is in accord with the values of the company	3.9	Loyalty
5	15	I agree with the company's goals and policies for the future	3.84	Idealism
6	13	I identify with the company and its philosophy	3.77	Idealism
6	18	I am hopeful that we will be able to maintain unity among the family members	3.77	Idealism
7	19	I am hopeful that we will be able to maintain the commitment of family members to the company	3.72	Idealism
8	10	Whenever the company has been through hard times, I have tried to be patient and trust in it	3.64	Loyalty
9	16	I have a clear and definite idea of what I want the company to be	3.58	Idealism
10	17	I agree with the way relations between the family and the firm are conducted	3.43	Idealism
11	2	I try to keep myself informed about the company	3.42	Effort
12	9	I try to say what I think about the way the company is run, even if my comments are not well received	3.28	Loyalty
13	7	I am willing to take financial or personal risks in the interests of the business	3.11	Effort
14	8	I contribute solutions to resolve the problems facing the company, even though they are not always taken into account	2.76	Loyalty
15	6	I place resources such as my personal or professional contacts, or material means, at the company's disposal	2.46	Effort
16	3	I make an effort to study and learn about family business (seminars, books, seeking advice from others...)	2.39	Effort
17	5	I encourage other family members to devote more time to learning about the business	2.18	Effort
18	4	I spend time organizing activities to help family members get to know the company better	1.85	Effort
19	1	Number of hours per month I devote to the company	1.67	Effort

In light of the data set out in Table 1 we can say that:

1. A large majority of the people in our sample “are very proud of their family business” (variable 20).

2. A significant number of them “identify with the company” (dimensions 12, 11, 15, 16, 17, 2 and 9) (variables 11, 12, 13, 15, 16, 17, 2 and 9).
3. At the same time, however, a large majority “is unwilling to contribute resources or provide solutions to problems” (dimensions 8, 6, 3 and 5).

Three different “groups” of people

Factorial analysis of the 20 “Relationship with the FB” variables (part IV of the questionnaire) reveals 8 factors that explain high percentages of the variance (see Tables 2, 3, 4, 5, 6 and 7).

It should be stressed that, within these 8 factors, the initial orientation given to Effort, Loyalty and Idealism in Table 1 is maintained unchanged, which reflects the fact that people clearly distinguish their relationship with the FB in terms of Effort, Loyalty and Idealism.

The first three factors, as can be seen in Table 2, correspond to the dimension of EFFORT. As Table 3 shows, they explain 78.156% of the variance. They are expressed as follows:

- a. **EFFORT:** “*Application of understanding and will*”, because I devote time to helping the family to get to know the business (4), because I encourage them to find out more about it (5), and because I make an effort to educate myself about FB (3). Also, “*vigorous application*”, because I take risks in the interest of the company (7) and make resources resources available to it. And doing so “*costs me time*” (1).
- b.

Table 2A: Factor analysis

Variable No.	Content	Factor 6	Factor 7	Factor 8
4	I spend time organizing activities to help family members get to know the company better	0.868		
5	I encourage other family members to devote more time to learning about the business	0.834		
3	I make an effort to study and learn about family business (seminars, books, seeking advice from others...)	0.712		
7	I am willing to take financial or personal risks in the interests of the business		0.924	
6	I place resources such as my personal or professional contacts, or material means, at the company's disposal		0.576	
1	Number of hours per month I devote to the company			0.915

*(Extraction method: Principal Axis Factoring. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in three iterations)

Table 2B: Cluster analysis

Factor	Variable No.	Content	Cluster 1	Cluster 1	Cluster 1
6 53.91	4	I spend time organizing activities to help family members get to know the company better	1.23	-1.578	0.672
	5	I encourage other family members to devote more time to learn about the business			
	3	I make an effort to study and learn about family business (seminars, books, seeking advice from others...)			
7 12.75	7	I am willing to take financial or personal risks in the interests of the business	2.828	-0.952	-1.741
	6	I place resources such as my personal or professional contacts, or material means, at the company's disposal			
8 11.49	1	Number of hours per month I devote to the company	2.268	0.516	-0.852
Σ= 78.16					

Table 3: Percent of variance

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Total	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.774	53.912	53.912	3.774	53.912	53.912
2	0.893	12.751	66.663	0.893	12.751	66.663
3	0.805	11.493	78.156*			
4	0.495	7.074	85.23			
5	0.411	5.865	91.095			
6	0.366	5.223	96.318			
7	0.258	3.682	100			

* Three factors explain 78.2% of the variance.

The following three factors, as can be seen in Table 4, correspond to the dimension of LOYALTY. As Table 5 shows, they explain 75.277% of the variance. They are expressed as follows:

- c. **LOYALTY:** “*Sincere constancy*”, because I say what I must about the future of my family’s business, even if they do not like what I tell them (8), I offer solutions, even if they are not accepted (8), and I am patient in hard times (10). Also, “*faithful constancy*”, because my family’s business has advantages for me even if it does not distribute dividends (11), and I espouse its values in my own life (12). It also gives rise to my “*exactitude in fulfilling commitments*”, as I make a point of not demanding preferential treatment.

Table 4A: Factor analysis

Variable No.	Content	Factor 3	Factor 4	Factor 5
9	I try to say what I think about the way the company is run, even if my comments are not well received	0.839		
8	I contribute solutions to resolve the problems facing the company, even though they are not always taken into account	0.821		
10	Whenever the company has been through hard times, I have tried to be patient and trust in it	0.74		
11	Whether it distributes dividends or not, the family business has important advantages for me		0.837	
12	My personal lifestyle is in accord with the values of the company		0.769	
14	As a member of the owning family, I avoid demanding preferential treatment			0.92

*(Extraction method: Principal Axis Factoring. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in three iterations)

Table 4B: Cluster analysis

Factor	Variable No.	Content	Cluster 1	Cluster 1	Cluster 1
3 43.41	9	I try to say what I think about the way the company is run, even if my comments are not well received	0.223	-3.032	1.285
	8	I contribute solutions to resolve the problems facing the company, even though they are not always taken into account			
	10	Whenever the company has been through hard times, I have tried to be patient and trust in it			
4 18.89	11	Whether it distributes dividends or not, the family business has important advantages for me	0.417	-1.788	0.425
	12	My personal lifestyle is in accord with the values of the company			
5 12.98	14	As a member of the owning family, I avoid demanding preferential treatment	-1.803	-0.658	0.261
$\Sigma = 75.28$					

Table 5: Percent of variance

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.604	43.406	43.406	2.604	43.406	43.406
2	1.133	18.889	62.294	1.133	18.889	62.294
3	0.779	12.983	75.277*			
4	0.638	10.638	85.915			
5	0.547	9.119	95.034			
6	0.298	4.966	100			

* Three factors explain 75.3% of the variance.

The following two factors, as can be seen in Table 6, correspond to the dimension of IDEALISM. As Table 7 shows, they explain 76.609% of the variance. They are expressed as follows:

- d. **IDEALISM:** “*Trusting desire*”, because I know what I want for my family’s company (16), that is what is being done (15), and so I identify with the company (13) and am proud of it (20). It is “*hopeful desire*” because I believe that we will be able to maintain unity within the family (18), and our commitment to the company (19).

Table 6A: Factor analysis

Variable No.	Content	Factor 1	Factor 2
13	I identify with the company and its philosophy	0.75	
20	I am proud to be able to participate in the family business, directly or indirectly, actively or passively	0.737	
16	I have a clear and definite idea of what I want the company to be	0.714	
15	I agree with the company's goals and policies for the future	0.668	
18	I am hopeful that we will be able to maintain unity among the family members		0.906
19	I am hopeful that we will be able to maintain the commitment of family members to the company		0.798
17	I agree with the way relations between the family and the firm are conducted		0.558

*(Extraction method: Principal Axis Factoring. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in three iterations).

Table 6B: Factor analysis

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.574	65.336	65.336	4.273	61.038	61.038	2.627	37.53	37.53
2	0.789	11.273	76.609*	0.55	7.863	68.901	2.196	31.371	68.901
3	0.523	7.474	84.083						
4	0.378	5.4	89.483						
5	0.322	4.602	94.085						
6	0.283	4.039	98.124						
7	0.131	1.876	100						

* Two factors explain 76.6% of the variance.

Table 7: Percent of variance

Factor	Variable No.	Content	Cluster 1	Cluster 2	Cluster 3
1	13	I identify with the company and its philosophy	0.698	-2.169	1.286
65.34	20	I am proud to be able to participate in the family business, directly or indirectly, actively or passively			
	16	I have a clear and definite idea of what I want the company to be			
	15	I agree with the company's goals and policies for the future			
2	18	I am hopeful that we will be able to maintain unity among the family members	0.912	-1.678	-1.944
11.27	19	I am hopeful that we will be able to maintain the commitment of family members to the company			
	17	I agree with the way relations between the family and the firm are conducted			
$\Sigma = 76.61$					

Based on these 8 factors, using cluster analysis, we divide the 200 people in our sample into three groups, as shown in Table 8 below. These three groups have statistically different patterns of behavior. In what follows we shall analyze the main differences with respect to effort, loyalty and idealism.

Table 8

	Cluster 1	Cluster 2	Cluster 3
Factor 1	0.69756	-2.16866	1.28635
Factor 2	0.91195	-1.67762	-1.94431
Factor 3	0.22257	-3.03213	1.28547
Factor 4	0.417	-1.7876	0.42538
Factor 5	-1.80352	-0.65805	0.26097
Factor 6	1.2296	-1.57793	0.6715
Factor 7	2.82771	-0.95162	-1.74066
Factor 8	2.26841	0.51625	-0.85235

Cluster I

- In relation to the dimension of “Effort”, they are willing to make:
 - a. Vigorous use of their resources (2.8)
 - b. A major investment of time (2.3)
 - c. A serious effort of understanding and will (1.2).

- In relation to the dimension of “Loyalty”, they declare:
 - a. Moderate loyalty (0.4)
 - b. Almost neutral sincerity (0.2)
 - c. A strong desire for preferential treatment (-1.8).

- In relation to the dimension of “Idealism”, they have:
 - a. High hopes (0.9) that family unity and commitment will be maintained
 - b. A degree of trust (0.7) that the company will be as they would like it to be.

These are people who believe in the family business and are willing to make an effort by contributing resources, but who are not very loyal and who expect preferential treatment in return. Their attitude could be summed up as:

“WE ARE WILLING TO PUT IN EFFORT AND IDEALISM, BUT WE EXPECT A REWARD.”

Cluster II

- In relation to the dimension of “Effort”, these people have no intention of:
 - a. Using their powers of will or understanding (-1.58)
 - b. Or contributing their financial resources (-0.95)
 - c. But they do intend to devote time to the company (0.5).

- In relation to the dimension of “Loyalty”, they declare themselves to be:
 - a. Extraordinarily negative (-3) with respect to sincerity
 - b. Very negative (-1.8) about fidelity
 - c. Demanding of preferential treatment (-0.7).

- In relation to the dimension of “Idealism”, they have:
 - a. Almost zero confidence (-2.7) that the company will be as they would like it to be
 - b. Very little hope (-1.6) that family unity and commitment will be maintained.

These are people who have lost their faith in the family business, who do not want to contribute resources, who feel no duty of loyalty towards the company, but who nevertheless expect preferential treatment. Their attitude could be summed up as:

“THE COMPANY OWES US A REWARD, BUT WE OURSELVES OWE IT NOTHING.”

Cluster III

- In relation to the dimension of “Effort”, these people declare a willingness to:
 - a. Make moderate use (0.7) of their powers of understanding and will
 - b. Contribute no resources whatsoever (-1.7)
 - c. Devote no time at all to the company (-0.9).

- In relation to the dimension of “Loyalty”, they declare:
 - a. Deep sincerity (1.3)
 - b. Scant fidelity (0.4)
 - c. They do not demand preferential treatment (0.3).

- In relation to the dimension of “Idealism”, they have:
 - a. Great confidence (1.3) that the company will be as they would like it to be
 - b. Very little hope (-1.9) that family unity and commitment will be maintained.

These are people who, though satisfied with their family’s business, do not expect it to “last long”; for that reason, they are willing to put in understanding and will, but no other resources, while acting with sincerity. Their attitude could be summed up as:

“WHILE THE COMPANY LASTS, WE MUST HELP IT, WITHOUT GETTING TOO INVOLVED.”

The people, the families and the companies in each “cluster”

Having identified these three clusters of people with clearly distinct levels of Effort, Loyalty and Idealism, we must now analyze whether the individuals, families and companies in each group have any distinguishing features. At the same time, we must examine the qualities of the fourth group, made up of the 53 people who did not fit into any of the three groups described above.

Table 9 shows the data, in percent or as averages, for the people; Table 10, the data for the companies; and Table 11, the data for the families.

First group: *“People who are willing to put in effort and idealism, but expect rewards”.*

In light of the data in Tables 9, 10 and 11, and comparing this group with the other two, we note that:

- This group has a higher proportion (37%) of “founders” who are still shareholders.
- Almost all (97%) the people in this group have children.

- A large percentage (63%) expect to become shareholders of the FB in the future.
- Of those who have stopped working in the FB, a large percentage (45%) did not leave to change job or retire, but for other reasons.
- A large percentage (69%) consider that their FB is successful, and that its Board of Directors performs its responsibilities satisfactorily (39%).
- People in this group (34%) emphasize the value of “austerity” in the culture of their FB, giving it a higher average score (4.33).
- A relatively large percentage consider that the meetings held to discuss matters relating to the FB and family-business relations do indeed foster unity (73%) and leave people better informed (77%). The same is true of those who consider that the success of such meetings is due to the presence of a key person (80%). The proportion of people in this group who attend such meetings is higher (76%), as also is the percentage who were not involved in drafting the family protocol (50%).
- The companies in this group have the highest average length of service (42 years), but are the least advanced in terms of active generations (1.8 generations, on the average).
- This group has the highest percentage (69%) of companies situated in the lowest turnover brackets.
- The group also has the highest percentage (47%) of companies that do not distribute dividends.
- The families in this group are the ones that receive economic and financial information, and information of the company’s plans for the future, least frequently (2.8 and 2.9, respectively, on the average).
- Family members in this group are the ones that give greatest importance to learning about the family business, through what they have heard from their parents (85%) and through visiting the company (98%).
- This group has the largest percentage of long-standing family protocols (54% with protocols dating back more than 5 years).

From the above data, we may infer that the “willingness to put in effort” and to “be idealistic”, while at the same time “expecting rewards from the business”, is characteristic of FBs...

In which the founder is still alive, or which are less advanced in the succession of generations; with families that have more children; and with family members who are already shareholders or know that they will be in the future. These are successful companies that are well governed by their Boards of Directors, and in which the emphasis is on austerity, without any great importance being given to the size of the company.

Second group: “The company owes them rewards, although they themselves owe the company nothing”.

In light of the data in Tables 9, 10 and 11, and comparing this group with the other two, we note that:

- It has the highest percentage (74%) of family members by birth.
- Most of the people in this group belong to the 2nd (38%) or 3rd (32%) generation.

- Most of the shareholders in this group (84%) received their shares from the preceding generation.
- A larger percentage of the people (33%) have worked in the FB, while almost all (96%) of those who have never worked in the FB say that it has been because they were not interested in doing so, or because they did not want to mix business and family.
- The FBs in this group are the youngest (with an average age of 33 years), although the group also contains the highest percentage (36%) of 2nd and 3rd generation family members.
- The people in this group rank “simplicity” (3.85 points on the average) and “austerity” (3.65 points) low, as values of the FB’s culture.
- This group has the highest percentage (31%) of people who rate the company’s success as merely fair, and the performance of the Board of Directors as insufficient (26%).
- The families in this group have the lowest average number of members (40).
- These families have the highest percentage (22%) of people with a very low opinion of the effectiveness of the meetings held to discuss business matters and family-business relations as a means of fostering unity (22%).
- This group has the highest percentage of long-standing family protocols (54% over 5 years old), but with a low level of participation in the drafting of them (39%).

From the above data, we may infer that the sense of “owing the company nothing” but “having a right to receive a lot from it” is characteristic of FBs...

In which most shareholders have received their shares from the previous generation, probably without having to put in much effort of their own, large companies with young shareholders who nevertheless are not satisfied with the situation. People who do not work in the family business because they have left it, or because they were not interested, and who give no particular emphasis to the values of unity, simplicity and austerity.

Third group: *So long as the company keeps going, we must do what we can for it, without committing ourselves.*

In light of the data in Tables 9, 10 and 11, and comparing this group with the other two, we note that:

- This group has the highest proportion of women (60%).
- The people in this group have the highest average level of educational attainment (3.75 points).
- A majority of the people in this group are of the 2nd generation (60%).
- Most of the members of this group (67%) are not shareholders of the FB, while a fairly large percentage (17%) own shares as a result of having purchased them.
- The people in this group who have worked in the FB are the ones who have done so for the shortest length of time (9.8 years), and a large majority (77%) currently do not work in the FB because they preferred to work elsewhere.

- The people in this group give a low score to “simplicity” (3.84 points on the average) and “austerity” (3.61 points) as values of their FB’s culture.
- This is the group with the lowest percentage (25%) of people who are satisfied with the performance of the Board of Directors.
- It is the group that rates most highly (3.8 points on the average) the family meetings held to learn about the company.
- The companies in this group are the furthest advanced in the change of generations (2.36 generations on the average).
- This is the group with the largest percentage (96%) of companies in which the dividend distribution is a variable amount.
- This group has the smallest percentage (73%) of companies that have systems to provide liquidity to shareholders.
- The family protocols of the FBs in this group are, on the average, the most recently drawn up (72% are less than 3 years old), but the level of participation in the drafting was low (39%).

From the above data, we may infer that the attitude of “doing what one can to help while the company keeps going” but “without getting committed” is characteristic of FBs...

Belonging to families with 2nd generation members who have high levels of educational attainment, many of them being women, who are not shareholders, or have bought rather than inherited shares, and who have no difficulty in finding jobs outside the FB.

Fourth group: “*Are we a family business?*”

In light of the data in Tables 9, 10 and 11, and compared with the previous three groups, we note that there is a fourth group with the following characteristics:

- It is the group with the oldest companies (49 years, on the average).
- It is the group with the oldest people (42 years, on the average).
- It contains the companies with the highest average turnover, and the highest percentage of companies with a turnover of more than 60 million euros.
- It is the group with the highest percentage of companies that have Boards of Directors (75%).
- The families in this group, in percentage terms, have fewest meetings (22% have no family meetings at all), held least frequently (76% only once or twice per year), and the largest percentage of people who do not consider such meetings a useful source of information (31%), although many of them (86%) consider that the success of the meetings depends on the presence of a key individual.
- The people in this group are, overall, the ones who receive most information about the company and most frequently.
- A smaller percentage of people (30%) claim to have learned about the family business through sitting on the Board of Directors, which they rate more highly as a source of information (3.7 points on the average). However, this is the group that gives least importance to reading the information they receive about the company (2.9 points on the average) and informal conversations (2.9 points on the average).

From the above information we may infer that this “fourth group” is made up of:

Large, long-established firms in which relations between family members may be becoming more distant, firms which in many respects behave like non-family businesses, and that could quite easily cease to be family businesses if the right opportunity were to present itself.

Final remarks

Analysis of the characteristics of the people and companies that make up the four groups identified in this study leads to the conclusion that there is a “natural evolution” in relations between families and FBs.

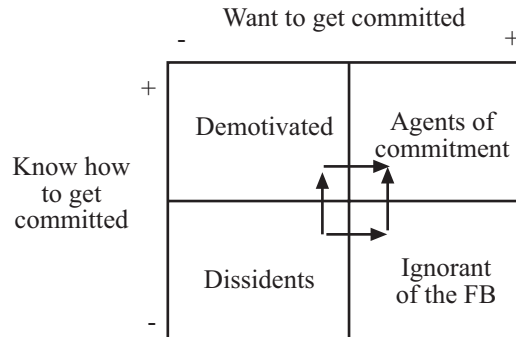
From being a group of people who are “willing to put in effort and idealism, but expect rewards” (Group I), sometimes the company evolves into a group that believes “the company owes them rewards, although they themselves owe the company nothing” (Group II), and from there to a group whose attitude is that “we must help the company out so long as it keeps going, but without getting committed” (Group III), only to end up as a group who start to wonder, “Are we in fact a family business?”

As we have also seen above, the levels of Effort, Loyalty and Idealism in the family members greatly influence which group they belong to.

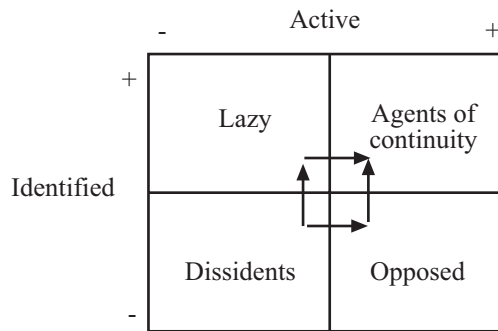
That is why it is so important, for the long-term survival of the FB, to find and put into effect practical measures that increase the number of family members who want to be “agents of commitment”, “agents of continuity”, and “agents of idealism”. Their support will be vital in boosting the levels of Effort, Loyalty and Idealism.

Figure 1

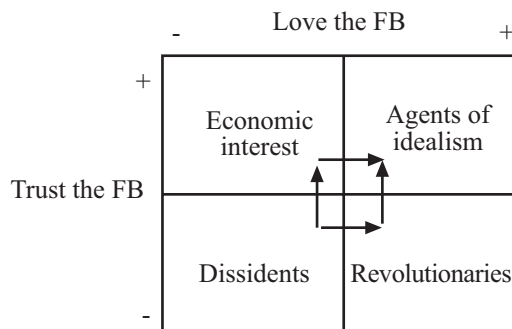
MATRIX OF EFFORT



MATRIX OF LOYALTY



MATRIX OF IDEALISM



Lastly, it is very important to realize that the “dissidents” can be a cancer for the unity of the FB, and resolve to do whatever has to be done to stop them, even if it means ejecting them from the FB or seeing to it that they remain small in number and influence, and so remove the cancer, either splitting the family’s assets or keeping them under control.

Figure 2

	-	+
+		Agents
-	Dissidents Cancer under control	

In the second part of this study we shall analyze the steps that can be taken by the family to eject the dissidents and encourage more people to become actively committed to the long-term future of the FB.

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Exhibit 1

	GROUPS			
	1	2	3	4
Personal data				
Number of people per group	55	40	52	53
1- Age	38	39	37	742
2- Gender	♂ 62% ♀38%	♂ 65% ♀35%	♂ 40% ♀60%	♂ 49% ♀51%
3- Children Yes/No	Yes : 97% No 3%	Yes : 55% No: 45%	Yes: 52% No: 48%	Yes 62% No:38%
4- Education	3.55	3.44	3.75	3.57
5- Family				
5.1 Blood relation/intermarried	C: 67% P: 33%	C: 74% P: 26%	C: 70% P: 30%	C: 67% P: 33%
6- Generation				
1st	57%	22%	13%	16%
2nd	34%	38%	60%	44%
3rd	9%	32%	26%	36%
4th	0%	8%	2%	4%
7- Shareholders: Yes/No	Yes : 40% No: 60%	Yes : 42% No: 58%	Yes : 33% No: 67%	Yes : 42% No: 58%
7.1 %shares: Average	11.1	16.89	22.53	23.48
7.2 Breakdown in % of shares				
0%-5 %	6	5	4	7
6 %--49%	11	6	6	6
50%	0	1	0	0
51 %-99 %	0	1	1	4
100%	0	0	1	1
7.3 How did you acquire the shares?				
Founder	33%	8%	9%	27%
Inheritance	67%	38%	48%	27%
Transfer	0%	46%	22%	33%
Sales	0%	0%	17%	11%
Other	0%	8%	4%	7%
7.4 Will you be a shareholder in the future?				
no / low probability	37%	29%	33%	42%
Possible	0%	13%	12%	10%
medium/ high propability	63%	58%	54%	48%
8. Have you worked in FB? Yes / No	Yes: 23% No: 77%	Yes : 33% No: 67%	Yes : 29% No: 71%	Yes: 23% No: 77%
8.1 Years worked (average)	14.11	12.6	9.8	12.43
8.2 Reason for not working anymore:				
Change job	36%	56%	77%	50%
Retirement	21%	18%	15%	17%
Other	45%	27%	8%	33%
8.3 I have never worked in the FB: Reasons				
Work in different company	50%	70%	68%	72%
No vacancy	3%	0%	0%	3%
Did not fulfill requirements	18%	4%	7%	3%
Keep family & business separate	29%	26%	25%	23%
8.4 Wish to work in near future?	Yes : 38% No: 62%	Yes: 50 % No: 50 %	Yes: 38% No: 62%	Yes : 29% No: 71%

Exhibit 2

	GROUPS			
The company: data	1	2	3	4
Number of people per group	55	40	52	53
1. Age of company	42	<u>33</u>	36	49
2. Turnover:				
> 6M €	<u>21%</u>	34%	33%	27%
6M €- 30M€	<u>48%</u>	25%	35%	24%
30M €- 60M€	0%	<u>19%</u>	<u>14%</u>	20%
60M €- 300M€	18%	<u>16%</u>	<u>16%</u>	11%
> 300M€	12%	6%	2%	18%
3. Position in its industry				
>50	<u>14%</u>	<u>15%</u>	6%	7%
50--11	<u>14%</u>	<u>20%</u>	23%	23%
10--1	72%	65%	70%	70%
4. Generation active in FB	1.8	2.15	2.36	2.04
5. Opinion of FB's financial success	3.4	3.83	3.65	3.89
Unsuccessful	0%	3%	4%	6%
Not very successful	10%	6%	6%	6%
Sufficiently successful	<u>21%</u>	31%	29%	<u>20%</u>
Successful	48%	26%	39%	43%
Very successful	21%	34%	20%	25%
6. Board of Directors: Yes/No	Yes : 66% No: 34 %	Yes : 67 % No: 33%	Yes : 69% No: 31%	Yes : 75% No: 25%
6.1 Average No. of Board members	7	7	7	8
No. of family executives on Board (*)	3 (2.7)	3 (3.15)	4(3.6)	3 (2.88)
No. non-executive family members	2(2.4)	2 (2,2)	2 (1,6)	3 (2.78)
No. non-family executives	1(0.76)	1 (0,52)	1(0.9)	1 (0.73)
No. of independents on Board	1 (1.14)	1(1,05)	1 (0.8)	1 (1.06)
(*) Exact value				
6.2 To what extent does the Board of Directors carry out its function				
Not at all	6%	13%	16%	6%
A little	0%	13%	16%	17%
Sufficiently	<u>39%</u>	21%	25%	20%
Very well	19%	17%	19%	26%
Fully	36%	38%	<u>25%</u>	31%
6.3 Are you a Board member? Yes/No	Yes : 42% No: 58 %	Yes : 37 % No: 63%	Yes : 20% No: 80%	Yes : 26% No: 74%
Distribute dividends	Yes : 53% No: 47 %	Yes : 68 % No: 32%	Yes : 68% No: 32%	Yes : 70% No: 30%
Fixed quantity	11%	17%	<u>4%</u>	4%
Variable quantity	89%	83%	<u>96%</u>	96%
8. System of offering liquidity	Yes : 45% No: 55 %	Yes : 41 % No: 59%	Yes : 27% No: 73%	Yes : 30% No: 70%

Exhibit 3

Family data	GROUPS			
	1	2	3	4
Number of people per group	55	<u>40</u>	52	53
1. No. of family members (average)	15	14	15	13
2. Family meetings: Yes/No	Yes: 90% No: 10%	Yes: 87% No: 13%	Yes: 87% No: 13%	Yes: 78% No: 22%
2.1 Frequency: Meetings/Year				
1	39%	44%	37%	44%
2	22%	19%	17%	32%
3	39%	37%	<u>46%</u>	<u>28%</u>
2.2 Total	61%	63%	54%	<u>76%</u>
2.3 Main objective of these meetings:				
2.3.1 Encourage UNITY				
Low	6%	22%	10%	4%
Medium	21%	13%	27%	28%
High	<u>73%</u>	65%	63%	68%
2.3.2. Increase INFORMATION				
Low	18%	27%	24%	31%
Medium	5%	20%	13%	8%
High	<u>77%</u>	<u>53%</u>	74%	61%
2.4 There is a key person in the FB's success	Yes: 80% No: 20%	Yes: 77% No: 23%	Yes: 78% No: 22%	Yes: 86% No: 14%
2.5 You participate in meetings	Yes: 76% No: <u>24%</u>	Yes: 70% No: 30%	Yes: 70% No: 30%	Yes: 73% No: 27%
3. Family Protocol	Yes: 38% No: 62%	Yes: 38% No: 62%	Yes: 39% No: 61%	Yes: 42% No: 58%
3.1 Age of protocol:				
< 3 years	57%	38%	<u>72%</u>	37%
3-5 years	21%	8%	6%	19%
>5 years	22%	<u>54%</u>	22%	44%
3.2 You participated in developing the protocol: Yes/No	Yes: 50% No: 50%	Yes: 61% No: 39%	Yes: 61% No: 39%	Yes: 57% No: 43%
4. Information received frequently				
4.1 Economic and financial	Yes: 67% No: 33%	Yes: 64% No: 36%	Yes: 66% No: 34%	Yes: 62% No: 38%
Average frequency	<u>2.8</u>	3.4	3.2	3.4
4.2 Future plans	Yes: 73% No: 27%	Yes: <u>79%</u> No: 21%	Yes: 74% No: 26%	Yes: <u>81%</u> No: 19%
Average frequency	<u>2.9</u>	3.2	3.3	3.4
4.3 Magazine	Yes: 29% No: 71%	Yes: 26% No: 74%	Yes: 32% No: 68%	Yes: 40% No: 60%
Average frequency	0.9	<u>0.85</u>	0.94	0.96
4.4 New products	Yes: 41% No: 59%	Yes: 44% No: 56%	Yes: 48% No: 52%	Yes: <u>57%</u> No: 43%
Average frequency	3.08	3.05	2.78	<u>3.2</u>
4.5 Press information, TV, ...	Yes: 33% No: 67%	Yes: 35% No: 65%	Yes: 36% No: 64%	Yes: <u>40%</u> No: 60%
Average frequency	0.61	1.05	0.96	<u>1.19</u>
5. Knowledge of FB acquired from:				
5.1 Board of Directors	Yes: 40% No: 60%	Yes: 40% No: 60%	Yes: 33% No: 67%	Yes: <u>30%</u> No: 70%
Level of importance	2.75	3.2	3.1	<u>3.7</u>
5.2 Having worked in the FB	Yes: 38% No: 62%	Yes: 49% No: <u>51%</u>	Yes: 35% No: 65%	Yes: 31% No: 69%
Level of importance	3.5	3.4	3.6	3.9
5.3 Reading information	Yes: 66% No: 34%	Yes: 59% No: 41%	Yes: 57% No: 43%	Yes: 66% No: 34%
Level of importance	3.09	3.36	3.5	<u>2.9</u>
5.4 Talking with parents	Yes: <u>76%</u> No: 24%	Yes: 66% No: 34%	Yes: 67% No: 33%	Yes: <u>73%</u> No: 27%
Level of importance	<u>4.3</u>	3.95	3.8	3.6
5.5 Family meetings	Yes: <u>85%</u> No: 15%	Yes: 83% No: 17%	Yes: <u>85%</u> No: 15%	Yes: 81% No: 19%
Level of importance	3.2	3.5	<u>3.8</u>	3
5.6 Company visits	Yes: 98% No: 2%	Yes: 84% No: 16%	Yes: 83% No: 17%	Yes: 91% No: 9%
Level of importance	3.6	3.78	3.56	3.3
5.7 Informal conversations	Yes: 79% No: 21%	Yes: 80% No: 20%	Yes: 83% No: 17%	Yes: <u>90%</u> No: 10%
Level of importance	3.39	3.3	3.35	<u>2.9</u>