Strategic Entrepreneurship in Family Business – Experience from Belgium

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Summary

Strategic management is relevant for every business, including family businesses. Family businesses may have some 'natural strategic advantages' such as the continuity when management is transferred to a new generation, financial autonomy and lower indebtedness, and the possibility to develop a long term vision. However these advantages may become disadvantages as well. Not only the family business but as well the business family need to develop and implement a strategy.

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Introduction

A family business, like any business, must be competitive in the market. A strategy is a necessary instrument for the business to keep and increase its competitiveness. In the first and second paragraph of this paper we discuss briefly what we understand as a 'strategy' and why it is so relevant. Then we have a paragraph on family business and a paragraph on family business in Belgium. Finally we focus on the relevance of strategy for family business management.

1. Definition. What is 'Strategy'?

Multiple definitions of 'strategy' for an entrepreneurial firm have been tried out. Nevertheless most definitions are convergent. Let us start with some textbooks. Zimmerer and Scarborough (2008, p. 107) define strategy as "*a road map of the actions an entrepreneur draws up to achieve a company's mission, goals and objectives*." Wickham (2006, p. 349) define the strategy as "*the actions an organization takes to pursue its business objectives*".

Managing a strategy is not only a matter of designing the strategy but also of planning and implementing it. There is a component of 'thinking' but a component of 'action' as well. It will take several steps to define and implement the strategy. "(…) *the mission, goals, and objectives spell out the ends, and the strategy defines the means for reaching them. A strategy is a master plan that covers all of the major parts of the organization and ties them together into a unified whole. The plan must be action oriented; it should breathe life into the entire planning process. (...)*" (Zimmerer and Scarborough, pag. 107). Wickham (p. 349) makes a basic distinction "*among the content of a business strategy, the strategy process that the business adopts to maintain that strategy, and the environmental context in which the strategy must be made to work*."

The literature on strategy and its typology is very extended. Michael Porter, who inspired a large part of this literature, takes into account the size of the market as well as the internal strength of the market. Following his analysis, as discussed by Zimmerer and Scarborough (2008, p. 107) a firm has three basic strategic options:

- Cost leadership "*a strategy in which a company strives to be the lowest-cost producer relative to its competitors in the industry*".
- Differentiation "*a strategy in which a company seeks to build customer loyalty by positioning its goods or services in a unique or different fashion*".
- Focus "*a strategy in which a company selects one or more market segments, identifies customers' special needs, wants, and interests, and approaches them with a good or service designed to excel in meeting those needs, wants, and interests*".

The literature on strategy has been greatly extended and refined recently. One very important argument is that any individual firm will have to make strategic choices It must avoid such pitfalls as getting 'stuck-in-the-middle', which means it has no more unique position in the market.

We will not go on with a full discussion of the strategy issue but from now on we point our attention at entrepreneurial firms and family businesses.

2. Relevance of Strategy for the Competitiveness and Survival of Business

Wickham (2006) identifies three components in what he calls the strategy content. "*Strategy content relates to three things: the final product range, the customers it serves and the advantage it seeks in the marketplace*" (Wickham (2006) p. 349). This coincides whit what Lambrecht (2008) calls the 'three W's' of a strategy: for who, what, why.

The question 'for who' is about the customers. It is about the market scope and market segment. The 'what' question is about the products and the product range. The two questions are clearly interlinked. *"(...) it may be better for the entrepreneur to regard themselves as facing a single set of decisions about the combined product-market domain of the firm*" (Wickham (2009, p. 350).

The why questions include questions about the ambitions, goals and objectives of the firm but as well a question such as 'why we'. What is our competitive edge? The entrepreneur has to ask: 'Why should customers come to us, not to our competitors?'

Evidently a strategy or strategic content has to be consistent with the vision and mission of the entrepreneur and the business and also with the external market environment.

Lambrecht and Broekaert (2008) emphasizes that a distinction must be made between strategy and operational excellence. Strategy is inspired by the market, operational excellence is inspired by the actions f competitors. A firm has a strategic advantage if it is different from its competitors. A firm has an operational advantage if it is doing the same as its competitors but it is doing it a little better or more efficient. The strategic choices are inspired by what the market wants or by what the market may want if the firm has the ambition to develop new markets. Operational actions are inspired by what the competitors are doing.

Lambrecht and Baetens (2005) quote the example of a family firm in Wallonia. At the entrance hall a large picture shows a field with red flowers and one yellow flower at the middle. The inscription is: "*Pour se faire remarquer, il faut se distinguer*" (If you want to be seen, you need to be different). It is not a matter to be the best, the first or the largest. It is a matter to be different.

The distinction is not always clear and sharp. For example a strategy of cost leadership as defined by Porter implies technical mastery of the production process and operational efficiency to minimize the costs as well. In Belgium a well-known example is the family business Colruyt, which has a chain of supermarkets. Their identity is: '*To shop fast and efficiently at the lowest prices*'. Their explicit strategy is Cost Leadership (in the sense of Porter) but evidently they need the operational competence to implement it.

There is also another distinction. As we stated earlier, strategy is inspired by the market. A business may want to take action on focus, growth and diversification as well. Sometimes these are called strategies (with names like 'focus strategy', 'growth strategy' and 'diversification strategy') but Lambrecht and Broekaert (2008) point out that they are not real strategies because they usually are not driven by the market or the customers but by the internal organization of the firm.

A so-called focus strategy means that the business will concentrate on niche markets: a geographic area or some specific group of customers. In practice this policy must always be combined with a 'real' strategy such as Cost Leadership or Differentiation. Focus in itself does not provide the customer a reason to opt for the business. For this reason it is not a strategy.

Also growth and diversification are not strategies. There is a large literature that shows that size matters. Managing an SME is different from managing a large enterprise. This discussion is very rele-

vant for the business owners and the stakeholders but the business size in itself does not create any added value for the customer. Growth is not always proof that the business conducted a successful strategy in the past. Growth even can be proof that there has been a lack of strategy. When the business almost is a clone of its competitor because there has been not enough differentiation then the only option to limit competition may be to take over the competitor. The same holds for diversification. Diversification can be very useful for the business to spread its risk but this is not relevant for the customer. A customer will never buy the products of a business simply because the business is small or because it is diversified.

There is a clear economic rationality behind the differentiation strategy. This strategy is the most popular because it enables the firm to gain a (degree of) price makership and to increase its profit margin.

In a recent survey of 460 Belgian independent retailers of electronic appliances (Lambrecht and Broekaert (2010)), of which 419 delivered a valid response, the respondents were asked for their three main strategic assets. A large majority of 84 % considered service and after-sale service as one of these three main strategic assets. Cost leadership (to sell at the lowest price) is quoted by only 7 % as the main strategy, while 5 % quote diversification (to offer the widest range of products).

In a recent research project on the failure of small businesses (Lambrecht and Wing Ting To, 2009)) in Belgium, strategic management (or the lack of strategic management or making the wrong strategic choices) is quoted as one of the main causes of failure. Examples of wrong choices were: to delay too long the introduction of new technologies or machines, to cling to products which were successful in the past but have become obsolete, to focus on a limited number of big customers, to accept large long term projects without sufficient liquidity base so the business had to prefinance with borrowed money…

Problems related to the personality or the personal situation of the entrepreneur also can be the cause of failure. Examples were related to stubbornness, lack of leadership, lack of competence. Evidently also the family can be the cause of problems. Examples of family conflicts were related to divorce or inheritance and long legal disputes. This will bring us to the discussion of family businesses.

3. Family Business

There is no unique definition of family business but it is beyond discussion that the family business is a very common type of business. Family businesses have existed in all the periods of economic history. The disappearance of family business has been predicted more than once but they continue to exist today in all sectors and all dimensions in all the market economies.

"*A family-owned business is one that includes two or more members of a family with financial control of the company. Family businesses are an integral part of our economy. Of the 25 million enterprises in the United States, 90 percent are family-owned and managed. These companies account for 60 percent of total U.S. employment and 78 percent of all new jobs, pay 65 percent of all wages, and generate 50 percent of the nation's GDP. Not all of them are small; 37 percent of the Fortune 500 companies are family businesses*." (Zimmerer and Scarborough, page 23)

There is no unique definition of family business. For a European discussion see the European Commission, Mandl (2008), Lambrecht and Naudt (200). The European Commission proposes a definition with several components:

"*A firm, of any size, is a family business, if:*
(1) The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.
(2) The majority of decision-making rights are indirect or direct.
(3) At least one representative of the family or kin is formally involved in the governance of the firm.
(4) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital".

Although recognition of family business as a field of research is relatively recent it can provide valuable insights. Stefan Borheim (2006) used the Interstratos data to develop a theoretical framework for family businesses. He recognizes that the family business is a specific type of business with a long term perspective, which is also very useful for research. "*While the form of family business is distinguishable from other organizational forms, a natural advantage of family businesses is its long-time perspective, allowing researchers to study evolution without much of the 'noise' that accompanies many other organizational forms".*

4. Family Business in Belgium

Lambrecht and Naudts (2008)) discuss several definitions which can be used for Belgium. They refer to the so-called Code Buysse which is often used in discussions about corporate governance. The code is very common in Belgium but it does not provide an operational definition. "*The Belgian corporate governance code for non-listed companies, the so-called Code Buysse, defines family businesses as businesses where, amongst others, the shares are held by several family members or several branches of the family or businesses where, within a single branch, several generations are involved in various roles in the company. The fact that the code explicitly states amongst others indicates that this is a non-exhaustive, open definition of family businesses*."

Other definitions also exist. I is even possible that there is a divergence between the entrepreneurs' own interpretation of the family character of the enterprise and the objective criteria used to qualify an enterprise as a family business. Lambrecht and Naudts conclude that "*Belgian research sometimes considers sole proprietors and one-person enterprises as family businesses. In addition, it is very widely accepted by Belgian scholars that also listed companies and non-SME's can be family businesses."*

It is important to note that family businesses are not necessarily just stable or stationary. Family businesses also are strongly represented among fast-growing businesses. "*Among fast growing companies in Flanders (referred to as gazelles) more than half are pure family businesses. In the Walloon region, family businesses account for about 40% of the gazelles*".

5. Relevance of Strategy for a Family Business

What is the relevance of strategy for a family business? Many family businesses are aloof to map out a strategy and to put it on paper. Lambrecht and Broekaert (2008) quote a survey by the American

Family Business Survey in 2003 where only 37 % of 1100 surveyed U.S. family businesses had a written strategic plan. A similar survey among 154 Belgian family businesses yielded 45 percent positive answers against 67 % for non-family businesses.

The management often is reticent to put a strategic plan on paper because they fear it can be used against them by their employees, customers and suppliers.

Very often, entrepreneurs consider concepts like strategy, mission and measuring as *'blabla and theory'* (just to quote a respondent in a survey). The reasoning behind this attitude is that the competences, the experience and the assets of the business family provide a natural competitive edge to the business. Very often a good reputation of the business and the family will add to this feeling.

Evidently things may be more complicated in real life. In the first place, family businesses are businesses who operate in a market economy. They need to be competitive an so they are subject to the same rules of the game as other businesses.

If it is relevant for any business to make strategic choices, it is relevant for a family business as well. So what is then 'typical' for a family business? We discuss three categories of arguments: the relation between the generations, the want of financial autonomy and the possibility to develop a long term vision. These three categories are not strategies themselves but they can offer great help to the family business to develop and successfully implement a strategy.

5.1. The Relation Between the Generations

When a new generation takes over the management of a family business, they will be motivated not to disappoint the family. As pointed out by Lambrecht and Broekaert (2008) on the basis of case studies the new managers may want to sustain the 'group feeling' in the business family and to continue the existing strategy in the family business. Especially when the family business has built up a good reputation, this strategy will generate continuity and consistency in the long run. However there can be a problem: when there is a change in the economic or market conditions, the new management may lack the flexibility and authority to adapt to these new conditions and to implement the necessary changes.

A new generation will not always try to please the family. Sometimes the young generation may have the ambition to take a high profile. The new manager may want to prove that he/she owes his/her position to competence and not only to his/her family descent. They may want to prove that they are not just an 'appendix' to the former generation. This attitude can be an opportunity for the business and give it a new entrepreneurial impulse. But there is a danger that the 'profiling' of the new generation will take the firm away from its proven strengths and competitive advantages. If several new members of the new generation take over the management simultaneously, there is also a danger that they will neglect to behave as a team and that each family member in a management position will start up his/her own projects, without consistency with the rest of the business.

Changes happen not only in the business environment of the firm but also in the structure of the family. Most business families not only involve first-generation parents and their children or maybe second-generation brothers and sisters who were educated by the same parents in the same household. From the third generation on the business family involves a more 'extended' family with cousins, uncles, aunts and nephews and further on. They may have more different backgrounds than parents and children or brothers and sisters. This type of family structure can be an asset for the family business. If

there is confidence between the members of the family, the speed of the decision making process can be increased, which is an important advantage. But this complicated family structure also can be at the origin of problems. If there are conflicts within the family, these can have repercussions for the business.

5.2. Financial Autonomy

Most business families want to keep the strategic decision-making in their own hands. Autonomy is a key motive. A successful cooperation between a business family and an external capital provider is possible but it is the exception rather than the rule. Most business families dislike this type of cooperation with external capital providers. The desire to keep their independence and to keep the main decision making processes within the family is an important inspiration in defining their strategy.

A growing business needs appropriate financial resources. A business family which does not want to borrow has three options to provide money to the family business: (1) to keep profits in the business and to reinvest them; (2) to bring in additional financial resources from the business family; (3) to call in an external financial partner. Most family businesses want to finance their growth with internal resources of the business or the family and without external financial partner. This can be an advantage for the business and the family if this means that growth will remain organic and under control. An alternative may be to borrow money from a bank but most family businesses also want to keep their indebtedness under control. In most family businesses the financial management will be conservative.

This desire to keep external financial capital out of the family business as much as possible, either as capital providers either as lenders also puts a limit on the financial resources available to the management of the family firm. This reduction also reduces the options available to pursue a strategy. For instance it may induce the business to postpone investments in internationalization or in the expansion of the production capacity. An opportunity to realize external economies of scale may be lost.

Although the family business may lose opportunities to grow due to this ‘conservative’ financial policy, there are positive aspects as well. Especially in periods of economic recession and financial instability, independent firms with a low indebtedness are more stable and less vulnerable. Other companies, especially if they are public, are much more vulnerable to pressure of shareholders who want better results in the short run. Family businesses which had the opportunity to build up financial reserves in good times can use them for acquisitions in times of crisis.

5.3. Long Term Vision

Lambrecht and Broekaert (2008), on the basis of case studies, point out that the average family firm has more opportunities to develop a long term vision. This issue even goes beyond the issue of financial autonomy, which we discussed in the previous point. Family businesses do not need to report on a quarterly basis to their shareholders. They also can afford to start up a big investment project and be involved accept financial commitments even if it will take several years before any financial return will materialize. The time scope of most family entrepreneurs is not the next quarter but the expected transfer to the next generation. They want the business to be healthy and profitable by then.

"*When it works right, nothing succeeds like a family firm. The roots run deep, embedded in family values. The flash of the fast buck is replaced with long-term plans. Tradition counts*" (quotation in Zimmerer and Scarborough (2008), page 23).
On the average family businesses are less capital intensive, so most will devote more energy and attention to their human resources management. The turnover of employees is less than average.

The interaction between the business family and family business can be at the origin of a great strategic advantage but it can lead to disaster as well. Problems within the family may trickle down to the firm. "*Only 30 percent of family businesses survive to the second generation, just 12 percent make it to the third generation, and only 3 percent survive into the fourth generation and beyond. Business periodicals are full of stories describing bitter disputes among family members that have crippled or destroyed once-thriving businesses*" (Zimmerer and Scarborough (2008), page 24).

Lambrecht and Broekaert (2008) recommend that not only the family business develops a strategy but the business family as well. They need to give an answer to such questions as why they want to keep the control of the business in the hands of the family and what will be the involvement of the family in the future.
"*While the offspring of entrepreneurs often show great business acumen and leadership ability, there is no reason why they must do so. Entrepreneurship is learnt, not inherited*" (Wickham (2006), p. 312).

Conclusions

Formulating a strategy for a family business means that three questions must be answered: what, for who and why. What: what is the product? For whom: who are the customers, which market segment. Why: where is the difference between the business and its competitors?

It is important to be aware what a strategy is and what it is not. So-called focus strategy, growth strategy and diversification strategy are not strategies because they do not differentiate the business from its competitors in the eyes of their customers.
A strategy must be formulated such that it is clear for all the 'stakeholders' of the business including the business family, management, staff, customers, suppliers. It must provide an answer to the three questions 'what, for whom and why'. The formulation must be short, without being reduced to a sales slogan.

When a business has formulated its strategy, it must stick to it for a while. If too frequent changes occur, this may be interpreted as proof of insufficient strategic insight. Good strategic management will give the family business an opportunity to build up reserves. Evidently a strategy must not be kept for eternity. A family business has a 'natural' advantage' to behave like this. The business family must keep its checks and balances between opportunism and stubbornness.

When a change of strategy is necessary, it must be implemented gradually. Unless exceptional circumstances occur, evolution is better than revolution. When a change is implemented in an impulsive way, the outside world may have the perception that the business is in problems and that the management lost control.

Not only a strategy but also changes in strategy must take account of the specific situation of the family business.

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