

Family Businesses and the Strategic Opportunities

Ágnes Bogáth

Óbuda University, Keleti Faculty of Business and Management, Hungary
bogath.agnes@kgk.uni-obuda.hu

Abstract: The family business isn't just an ordinary business. The family and business life are intertwined. Accordingly, it is important to establish the strategy of both simultaneously, side by side. I am seeking answers to the question of how corporate and family goals can be connected, examining the situation of family businesses in Hungary. My research method was to review the Hungarian and international literature.

Keywords: family business, strategy, planning, generational change, succession, parallel planning

1 Definition of family business

There are different approaches to determine what a family business is. In essence, it is regarded as an organization in which the family directly affects the development and functioning of the enterprise (Wimmer et al, 2004).

The family businesses are usually micro or small enterprises, but in many cases, dynamically evolving and can become a large company. However, the family values are usually maintained, for instance in such companies as Wal-Mart, Amway, Ford Motor or Levi Strauss (Vecsenyi, 2009). and Hungarian example the Zwack, Béres or Szamos.

A research team commissioned by the European Union (2009) 2007-2009, involving 33 countries developed a recommendation, which is generally recommended to implement in the member countries. The family business is defined as follows: The decision-making power is concentrated in the hands of the company founders and their relatives

- Direct or indirect ways to exercise their decision-making power.
- A family member or relative is involved in a formal management of the firm
- A company registered in the stock market can only be regarded as family business if 25% of the stocks are owned by the founder or his family member(s) as well as exercises executive power in same proportion

At least two persons of the same family - either owner and / or management member and / or operations staff should play an important role (Kadocsa, 2012). Furthermore, it is essential that the family has the majority ownership of the firm. Often the entire family is company employee (Nagy, Roóz 2005), in which case the family life is conducted in full cooperation with the company. International literature defines family business based on four main criterias: family-owned businesses, family decision-making power, the cooperation of different generations, and the family holding company. It should be simplified in Hungary, based on the Hungarian economic relations the most family business are "husband-wife" type of company. These companies usually have no successor. (Csákné, 2012a) International research in the European Union shows that the 70-80% of the companies are family businesses. These companies provide 40-50% of the jobs. Typically, most of them small enterprise. (Csákné basis Mandl, 2012b). Overall, it can be stated that the family businesses have dominant economic power.

2 The importance of strategic approach

The development of corporate strategy is required for all businesses. The most effective long-term objectives are written down. Micro and small enterprises often plan only in the head. In companies of the SME sector, strategies randomly happen, rather than being developed consciously. (Salamonné,2000.) The leader's personality affects the development of corporate strategy. An overall strategic approach is essential, because the leader observes the corporate and market events through it. Every leader and family has a vision of the company. This vision must be clear and well expressed in order to clarify the goal. The vision is based on the leader's conscious thinking and experience. The corporate mission is based on the demands of both the family and the firm. The mission is to determine the identity, and identify the profile of the company, its markets, its customers, its market position and core values. The mission of the company is entitled to show how to achieve the vision. (Vecsenyi, 2009)

3 Strategic opportunities for family businesses

The preparation of the strategy is always preceded by a situation assessment. As the best known and most popular method is SWOT analysis. Alternatively, the STEPP-analysis. The analysis should carefully examine the internal features and external business environment. The company's strategic potential is determined on this basis. Then strategic alternatives can be developed that are available to the decision maker. This process is shown in Figure 1

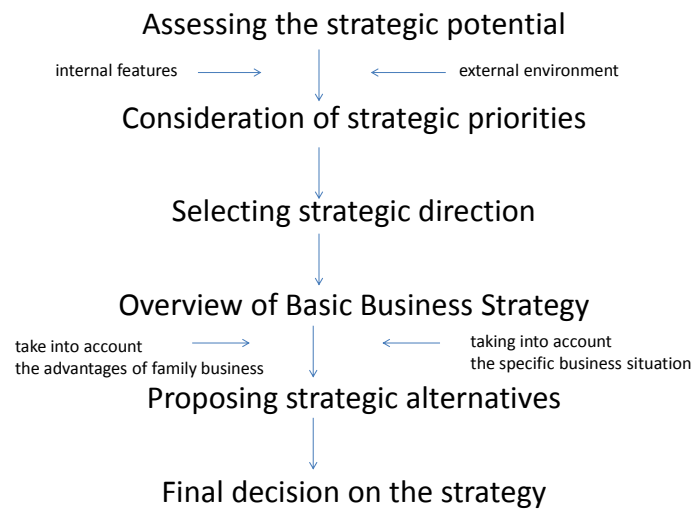


Figure 1
Strategy selection process
source: Carlock, Ward, 2006, 208. o.

The strategic priority is the broader interpretation of the strategy which can be of three types:

1. Keeping: strong companies with a strong market competition.
2. Development: mid-strong companies with a mid-strong market competition.
3. Restarting: weak companies with a weak market competition.

After that, the strategic priority is determine according to the appropriate strategic direction. The strategic directions group the business strategies, as shown in Figure 2.

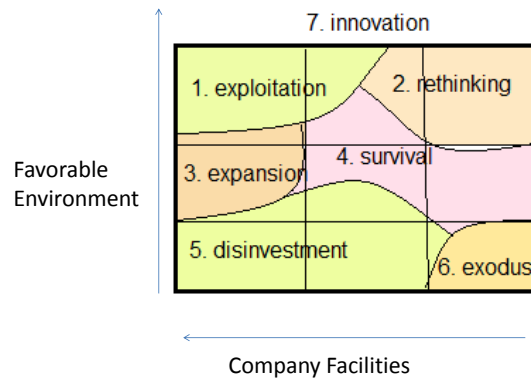


Figure 2
The strategic potential and the strategic direction
Source: Carlock, Ward, 2006, p 211.

The management choose from the remaining alternatives. The owners eventually decide. This process in a family businesses is often informal, and being discussed during family "cap councils," or family meals.

4 The necessity of synchronization of family and business strategies

The family and the business are fundamentally different organizations. The key differences are summarized in Chart 1.

| Family | Standpoint | Enterprise |
|--------------------------------|--------------|------------------------------------|
| consumer | unit | production |
| just free | dinner | no free |
| love | main value | profit |
| based on birth | hierarchy | organizational |
| morality | culture | organizational |
| partner-focused | role | consumerism |
| privilege based on birth | succession | professionalism and contract based |
| trust | relationship | contractual |
| among family members relations | focus | task |

Table 1.

The family and the firm's core values contradictions.

Source: Tóth-Bodásné based on Szirmai-Mihalkov-Szakács, 2014

These conflicts should be aligned in a family enterprise. In order for the company to function well and for the family not see this damage, it is necessary to consider both areas collectively. The leader has to pay attention on both's needs, values, and purposes. A possible solution for above might be the implementation of parallel planning process. (Ward; 2011)

5 Parallel planning process (PPP)

The PPP define the family plans and business plans together. The development of a corporate strategy is carried out in accordance with the vision of the family. The mutual plans are based on family values. These standards shall be incorporated into the company's business philosophy. It is important to develop the strategic thinking of the family and the leadership. The determination of short-term and long-term goals are important in both areas. As seen in Figure 3.

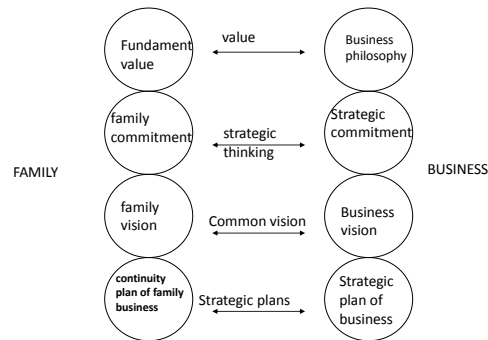


Figure 3

Family and business plan

Source: Carlock, Ward, 2006, 33. p.

Lindow (2010) asked 171 German family businesses in his empirical research. He found that strategic planning is influenced by the family. The planning process must be carried out from both points of view; the family and the business.

5.1 Planning from the point of view of the family

Strategic planning of family business has key components regarding the family such as (Carlock, Ward; 2006) commitment of the family members, family values, business philosophy, and family vision.

The commitment of family members show what how attitude of the members is related to the business.

Commitment stands of the following components:

- Faith and identification with the company's goals
- Active support of the company,
- Desired relationship with the company

The competitive advantage of family business is that the participants are committed to their mutual venture. Their work is carried out perfectly, because they work for themselves and their family. If the commitment is strong, then the goals can be easily achieved.

The phrasing of the family values helps to strengthen the commitment. The development of family values is essentially the responsibility of parents. The kids take over and carry on with the standards. The values related to family business may be: mutual help, support, cooperation, social intercourse, career, prestige, material well-being, taking responsibility. All this should be extended to the firm. If necessary, specific standards may be set dealing with corporate matters.

There are three family philosophies, which are as follows:

1. Business comes first
2. Family comes first
3. Balance of Family and Business

Setting up a family vision gives meaning to a commitment to the family business, and helps the family to work together as a team.. Members are aware of the goals built on family values and the members can explore how can they contribute to the success of the others. The family's vision shows the family see themselves within 5 - 10 years from now, what kind of role the company will play in their lives. Family planning is also important. It is necessary to point out that having children in the family should happen when the time is right and is in tone with the business.

Interaction of the above components shown in Figure 4.

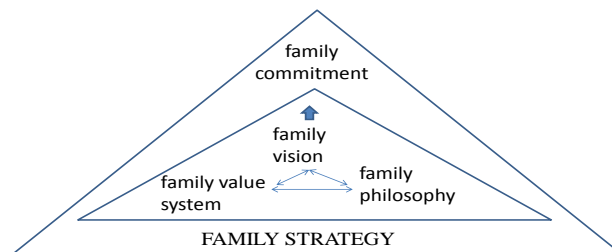


Figure 4

Family Strategy

Source: own editing based on Carlock, Ward, 2006

5.1.1 Succession planning

The issue of generational change is a key problem in many family businesses. The change of political system provided a great opportunity to launch an enterprise in Hungary. Family businesses founded in these years reach the age of 20-30 years, when the time is appropriate for the change in leadership. (Laczkó, 1997)

The succession of business requires thoughtful planning. The successor shall be included in the company's life as soon as possible. The main venue of socialization is the family, where children learn the attitude towards the world. If they see that the family has an integral part in the business, then it will be perfectly natural part of their environment.

The smooth change of generations is the interest of both the family and the business. 53,2% of surveyed family entrepreneurs had succession plan in according to the research of Csákné (2012.a). Foresight is very important here, because one of the competitive advantages of a family businesses is the attitude with towards keeping it in the family's hands. This attitude creates an intimate, familiar ambient, and helps to build trust with the customers (Nagy, Roóz, 2005)

5.2 Enterprise planning

The following elements should be considered during the strategic planning of an enterprise (Carlock, Ward; 2006): management's strategic commitment, management philosophy, vision, goals and opportunities.

Leaders should be committed towards both the company and the family. The leader must be fully devoted to the business. The strategic commitment is influenced by many things including the organization's life cycle, the organization itself, and family development.

First and foremost, the leader's job is to form the management philosophy. Fundamental questions must be answered on the level of risk management, what is the amount of sacrifice the management is willing to make for the company, and on what way will it be connected to the family. The latter issue is pivotal because if it is not inconsistent with the family's expectations, the common future becomes questionable. The vision should calculate on the involvement of family members in the business.

The business vision should clarify the construction of short and long-term plans. It is worth considering the prospects for growth, industry development trends, market expansion opportunities. All of these shall be in accordance with the family vision.

The "goals and options" mean to realise the business vision. The long-term goals give us a picture of the future operation of the organization. They help to develop family commitment, facilitate the assessment of the management.

Effects on the mentioned components have on each other, shown in Figure 5:



Figure 5.

Company Strategy

Source: own editing based on Carlock, Ward, 2006

6 Conclusion

I would like to present the PPP of family business with a simple diagram (Figure 6).

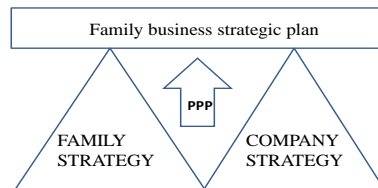


Figure 6

PPP of family business

Source: own editing

The coordinated planning of both the family and the company is very important to the majority of family businesses. The risk is higher in a family firm, as they don't only invest material goods in the company, but family relationships as well, which may lead to high conflict situations, and enormous emotional impacts. The PPP is essential because of the additional risk of jeopardizing family relationships. The extra yield comes with additional risks. This is typical for a family firm. If you manage to establish the right balance between the company and the family, the result will be an efficient organization where everyone is fully committed. Typically, external employees become symbolic family members in a well-established family businesses, ensuring his full commitment. (Vecsenyi, 2009)

One should pay special attention on succession planning, which can ensure the continuity of the business. Among the SME family business, IT support planning and the development of a controlling approach are very important, which can help the company to prosper and grow.

References

- [1] Csákné Filep J. (2012.a): Családi vállalkozások – Fókuszban az utódlás, Budapesti Corvinus Egyetem, Ph.D dissertation 248 p. (http://phd.lib.uni-corvinus.hu/660/1/Csakne_Filep_Judit_dhu.pdf download:2014.10.20)
- [2] Csákné Filep J.(2012.b):Családi vállalkozások pénzügyi sajátosságai, Vezetéstudomány Vol.: XLIII. pp. 15-24

- [3] Francsovcics A., Kadocsa Gy.(2005): Vállalati gazdaságtan, Amicus Kiadó Budapest 165 p.
- [4] Kadocsa Gy. (2012): A kis és közepes vállalkozások versenyképessége a XXI.sz. első évtizedében, Dr. Medve András dékán Óbudai Egyetem Keleti Károly Gazdasági Kar, Budapest 76 p.
- [5] Laczkó Zsuzsanna(1997): Családi vállalkozás – konfliktus és kooperáció, CIPE, SEED Alapítvány, Budapest 121-140.
- [6] Lindow, C. M.,Stubner, S.,Wulf, T. (2010): Strategic fit within family firms: The role of family influence and the effect on performance, Journal of Family Business Strategy 43-67
- [7] Nagy P., Roóz J. (2005): Vállalkozástan, Perfekt Kiadó, Budapest 342 p.
- [8] Petheő, A. [2006]: The emergence of social enterprises in the hungarian non-profit sector, ERENET Profile, vol. 1, no. 4., 56-63. (http://kfk.unicorvinus.hu/fileadmin/user_upload/hu/tanszekek/gazdalkodas_tudomanyi/t_kisvall/files/publikaciok/erenet_profile_1_4cikk.pdf download:2014.10.20)
- [9] R. S. Carlock – J. L. Ward (2001): A családi vállalkozás stratégiai tervezése A család és a vállalkozás egyesítésének párhuzamos tervezése, Helikon Kiadó, Budapest 306 p
- [10] Salamonné H.A. (2000) Jövőkép – és stratégiaalkotás. Kossuth Kiadó, Budapest. 208 p
- [11] Tóth-Bordásné Dr. Marosi I.:(2014) Családi vállalkozások elmélete és gyakorlata ÓE-KGK ISBN 978-615-5460-22-7, Budapest, 95 p
- [12] Varga Z. (2013): A VÁLLALKOZÁSVEZETÉS ÉS A STRATÉGIA PROBLÉMÁI A KKV SZEKTORBAN /MINTAVÉTEL ALAPJÁN/, Tudományos próbapálya konferencia kiadvány, 302-309
- [13] Vecsényi János (2009): Kisvállalkozások indítása és működtetése, Perfekt Kiadó, Budapest
- [14] Wimmer, R. – Groth, T. – Simon, F. (2004): Erfolgsmuster von Mehrgenerationen-Familienunternehmen. Wittener Diskussionspapiere. Sonderheft, Nr 5.
- [15] Ward, J.L. (2011). HowFamilyValues and Vision Drive Business Strategy and ContinuityUniversia Business ReviewCuartoTrimestre 2011, 26-38.

Management, Enterprise and Benchmarking in the 21st Century
Budapest, 2015