Chapter 12
Strategic Management of Family SMEs: Experience from Belgium

Wouter Broekaert
KU Leuven, Campus Brussels, Belgium

Jan Degadt
KU Leuven, Campus Brussels, Belgium

Johan Lambrecht
KU Leuven, Campus Brussels, Belgium

ABSTRACT

In spite of the vast literature on ‘strategy,’ there is no consensus on a common delineation of the term. Similarly, although the need for strategic flexibility is acknowledged by the literature, there is little research that analyses the nature and direction of strategic change, especially where family firms are concerned. This chapter proposes building blocks for the formulation and implementation of strategy. A clear definition of competitive strategy is distilled from various perspectives on strategy available in the literature. Finally, three categories of strategic change are defined, namely Restructuring, Expansion and Transformation. Case study research of five Flemish family firms shows that none of the strategic change scenarios is naturally preferable to the others, but that each scenario offers its own set of advantages and risks.

INTRODUCTION

Although there is no unique definition of a family firm, it is beyond discussion that it is a very common type of business. Numbers for Europe indicate that more than 60% of all firms can be considered family firms (European Commission, 2009). Astrachan and Shanker (2003) analyze the situation in the US by comparing different family firm definitions. With a broad definition, US family firms yield almost 90% of all 2000 business tax returns. With a more strict definition that percentage drops to 11% but that still comprises 54% of all firms with employees. Latin America,
Southeast Asia and Africa are even assumed to score relatively higher with regard to family firm importance (Nordqvist & Melin, 2010). Degadt (2010) points out that the disappearance of the family business has been predicted more than once but they continue to exist and thrive today in various sectors, dimensions and countries.

The European Commission (see Lambrecht & Naudts (2008); Mandl (2008); European Commission (2009)) proposes a definition referring to ownership as well as involvement in management, resulting in members of a family needing a majority of decision-making rights. More specifically it recognizes three essential elements that all have to be fulfilled:

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.

Furthermore ‘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.’

A family business, like any business, must be competitive in the market in order to survive. One of the main instruments for any company to remain competitive is a clear company strategy. Strategic management is not only relevant but essential for every business, including family businesses. Research shows that having a clear business strategy and implementing it in a coherent, consistent, disciplined and passionate way improves firms’ chances of achieving sustainable corporate success (Miller & Le Breton-Miller, 2005; Rosenzweig, 2007; De Waal, 2008). In a recent research project on the failure of small businesses (Lambrecht & To, 2009) in Belgium, lack of strategic management or making the wrong strategic choices is quoted as one of the main causes of failure. Examples of wrong strategic choices include delaying the introduction of new technologies or machines for too long, hanging on to products which were successful in the past but have become obsolete, focusing on a limited number of big customers and accepting large long-term projects without a sufficient financial (liquidity) base.

However, the literature shows little agreement on a common delineation of ‘strategy’ and it is therefore no wonder that many companies are deluded about their strategy. A survey of Flemish firms showed that only 54 percent of the contacted family firms believed they had a strategic mission statement. For non-family firms, that number even drops to 43 percent (Lambrecht & To, 2008). Similarly, although the need for strategic flexibility is acknowledged by the literature, there is little research that analyses the nature and direction of strategic change, especially where family firms are concerned. Adding to the confusion, the concepts of strategy and strategic change are often mixed up, which may lead firms to believe that they have a clear strategy while that is not the case.

This chapter aims to contribute to the existing literature first of all by proposing a clear definition of competitive strategy. We analyze different definitions suggested by the literature and conclude with a definition of our own, applicable both to family and non-family firms. We then use our concept of strategy to construct three broad categories of strategic change and indicate where the family background may impact the change process. We illustrate different strategic changes with family firm case studies and point out potential advantages and challenges associated with each category.