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Environmental Uncertainty and Strategic Behavior in Belgian Family Firms

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Despite the prevalence and economic importance of family businesses both in Europe and the US, relatively little research has been performed on how these types of firms remain competitive in today's dynamic environment. The aim of this research project—conducted among a representative sample of family businesses in Belgium—is to analyze a manager's perception of environmental uncertainty and to link it to the family firm's strategic behavior. Results indicate that family firm managers do not perceive their environment as a very hostile one. To attain a competitive advantage, most of them opt for a competitive strategy that combines a cost leadership and differentiation perspective. However, a large group of family firms occupies a 'stuck-in-the-middle-position'. The selection of a strategy is linked to family firm goals and the CEO's uncertainty perception of some specific issues in the family firm's environment.

Keywords: Family firm, Environmental uncertainty, Goal formulation, Strategic behavior, SME

Introduction

Both in Europe and the US, family firms are the predominant form of business (Kirchhoff and Kirchoff, 1987; Donckels and Frölich, 1991; Olson *et al.*, 2003). They occupy an important economic position within these nations as they provide extensive contributions to gross national products, job generation and wealth creation (Astrachan and Shanker, 1996; Beckhard and Dyer, 1983; Kelly *et al.*, 2000). Most of these family firms are small or medium-sized. (Donckels and Frölich, 1991; Corbetta and Montemerlo, 1999).

Although before 1975 some limited research was conducted on the subject of family firms, authors nowadays agree that families and business are interlocking systems that affect each other (Harris *et al.*, 1994; Aldrich and Cliff, 2003; Habbershon *et al.*, 2003). As a result, family firms are likely to be managed differently from non-family businesses (Westhead and Cowling, 1999). The family objective can be more important than the business orientation (Hunt and Handler, 1999; Leenders and Waarts, 2003). Moreover, family firms are described as being more risk-averse and less growth-oriented. They focus less on technology, creativity and innovation (Donckels and Frölich, 1991). However, most of the family firm managers believe that they are operating in a hostile external environment (Westhead, 1997).

So far, little research has been done on how family firm managers perceive today's dynamic environment. Moreover, little is known about the strategic behavior of family firms in reaction to environmental dynamics (Harris *et al.*, 1994; Upton *et al.*, 2001; Dyer, 1994, 2003). The goal of this research project is to provide a contemporary perspective on the family firms' management perception of environmental uncertainty. Furthermore, this article adds to the literature (1) by analyzing the strategic goals and strategy content family firms select in order to maintain or improve their competitive position, and (2) by linking the strategic behavior of those firms to their goals and the CEO's perception of the uncertainty in the family firm's environment.

The paper is structured as follows. First, a literature review on environmental uncertainty and strategic behavior in family firms is undertaken. Afterwards, the research methodology and sample of this study are described. As no consensus exists on the definition of a family firm, we discuss the definition used for this project in the research design section. Next, the results are presented. The paper ends with a discussion on the research findings and implications for theory and practice.

Environmental Uncertainty in Family Firms

Characteristics, values, experiences and perceptions of top management executives inherently influence strategic choices made within a firm (Finckelstein and Hamrick, 1996). One of the important factors in this context is a manager's perception of the environment of the firm. This perception appears to have a particularly important impact on strategic choices made within smaller more entrepreneurial oriented independent firms (Weaver *et al.*, 2002).

Although environmental uncertainty has been conceptualized in many ways within scientific literature, the concept as introduced by Milliken (1987) is now widely accepted. He defines environmental uncertainty as 'the perceived inability of an organization's key manager or managers assess to accurately the external environment of the organization or the future changes that might occur in that environment'. Based on previous research, Dickson and Weaver (1997) developed a five dimensional scale to measure this concept. We elaborate on this in the research design section.

In relation to family firms, little information is available on how they scan their environment (Sharma *et al.*, 1997) or how their managers perceive environmental uncertainty (Blake and Saleh, 1995). To the knowledge of the authors, Westhead (1997) is the only researcher who examined managers' perception of environmental dynamism in European family businesses. All respondents perceived their external environments to be munificent and rich in investment and growth opportunities. However, a major limitation in this research design is that all environmental items measured were product/market related. Little or no information was gathered about the general environment, technological dynamics or the demand for internationalization.

The limited availability of data on environmental issues in family firms can possibly be explained by the fact that some researchers (Harris *et al.*, 1994) claim family-owned firms have a more inward orientation—toward efficiency—than an outward orientation—that is towards new markets. However, if a family firm wishes to build, sustain or improve its competitive position, it must have the ability to cope with uncertainty in its environment. Selecting an appropriate strategy is mandated in this context. This research project therefore studies family firm managers' perception of environmental uncertainty and links it to the strategic behavior of these firms.

Strategic Behavior of Family Firms

The classic strategy literature suggests that strategy is formulated by relating a firm's industry situation with its strengths and weaknesses (Andrews, 1987). Other strategy researchers stress the importance of a firm's competencies, indicating that firms have to stretch their resources and develop new market positions (Hamel and Phrahalad, 1989). This research project is rooted in the first perspective. The main goal stipulated within this school of strategic management is to look for a fit between environment and strategy, in order to realize a competitive advantage.

Within the strategic management process of family businesses, this paper discusses two elements: (1) family firms' goals and (2) their strategy content.

Family Firm Goals

Most of the research projects studying goals in family firms compare the goals of these types of firms to those of non-family firms in order to detect significant differences. Results in relation to this subject are mixed. In family firms, goals related to family roles tend to be far more important than the traditional firm-value maximization goal (Sharma *et al.*, 1997; Kelly *et al.*, 2000). Among those important family roles are survival, financial independence, family harmony and family employment (Trostel and Nichols, 1982; Donckels and Frölich, 1991; Westhead, 1997). However, Westhead (1997)—in a matched survey of UK family and non-family companies—only discovered one statistically significant difference. Family firms were more likely to provide employment for family members of the management team. All other goals investigated were as important for family as for non-family firms.

Other authors emphasize that goals can also vary within the family-business population. According to Birley and Sorensen (1995), family firms are not a homogeneous group with the same set of concerns, but a relatively heterogeneous group in which different firms with different concerns co-exist. Chua *et al.* (1999) stress that a further distinction within the