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Determinants of building competitive positions of family enterprises – case study

Abstract: The paper presents theoretical and practical aspects of the issue of a family enterprise and building a competitive advantage. The aim of the paper was to attempt to determine the elements building a competitive position of an enterprise and to identify the factors that have contributed to the success, with a case study of a family production company.
Key words: family firms, competitiveness, determinants of competitiveness, small and medium enterprises, success factors, comparative advantage.

Introduction

Enterprises operating on today's market, regardless of their size or character, must deal with a huge dynamism of their environment. In order to function on the market, they must find out how to gain a stable position, which requires a company to simultaneously compete in such areas as: costs, quality, capability of fulfilling contractual obligations, flexibility – ability to quickly adapt to changing market requirements - and pre- and post-sale service. Modern economic entities, on the one hand, see this situation as a chance for their development, but on the other hand, encounter a range of obstacles and difficulties arising not only from the business they conduct but also from a turbulent environment.

The above-mentioned problems connected with enterprises' operation are especially relevant in the sector of small and medium-sized enterprises which constitute

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an important group of entities in the Polish economy. In 2012, enterprises of this size constituted 99.89% of all firms registered in Poland, according to the National Business Registry (Polish: REGON) system [Central Statistical Office, Bank of local data]. Among Polish small and medium-sized enterprises, we can distinguish family firms whose structure is comparable to that of the whole SME sector. Family firms, due to their specific social and economic characteristics, play a special role on the market, as they significantly contribute to the generation of domestic product and job creation.

The aim of this paper is to show the multi-dimensional aspect of the issue of a family firm and to present selected elements of competitive advantage used by small and medium-sized family enterprises. Further, the paper includes results of the author's own survey, whose aim was to determine the factors that are relevant in building a competitive position of a family enterprise engaged in the business of baby carriage and children's car seat production. The survey also allowed to determine the success factors for the enterprise analyzed.

Specificity of family firms – selected aspects

1. In the literature of the subject, family firms are not perceived in a uniform manner, which may result, on the one hand, from numerous attempts to define the term family firm, and, on the other hand, from the multidimensional aspect of this type of economic entities. Difficulty in defining a family enterprise may, according to K. Safin [2007, pp.17-18], be caused by a few reasons which include, among other things: lack of one-dimensionality of this term, as today's family enterprises constitute a very diverse group, with varied ownership structure, various scale of operation, management methods or model of governance.
2. linking two disparate terms: enterprise and family, which are disparate, because an enterprise has objectives connected with satisfying external needs, risk-taking and economic independence, whereas a family is a social institution whose aim is procreation, running a joint household, organizing the life of family members and securing own internal needs.

A family is a special environment for the development of entrepreneurial characteristics and behaviour. According to G. Thorton [2004, p.17], the specificity of a family firm is caused by mutual influence of two systems on each other, i.e. enterprise and family, which follow different logics. Characteristics of a family system include: concentration on own problems, behaviour based on emotions, unconditional acceptance, reluctance to changes, sharing or life-long independence. An enterprise system, on the other hand, is characterized by: acceptance of changes, membership dependent on the results and rewards for these results, orientation towards achievement of goals, lack of emotional behaviour and reaction to the external environment. Thus, the main characteristic of a family enterprise is interdependence between an enterprise (business) and family.

Entrepreneurs running a family business look at it in a little different way, as such entrepreneurs are fully devoted to achieving results. This is their fundamental approach and way of life. The owner of an enterprise of this type must maintain the company on the market, as the future of his/her family depends on it. It is connected with constant uncertainty, highest degree of risk, continuous work, self-discipline, responsibility for people and the capital borrowed, and a long list of sacrifices. In family firms, more often than in other types of companies, we can notice complete involvement and devotion on the part of the managers, which are at the same time family members. Family is connected with the firm at a more emotional level. Dynamism, energy and optimism are the basic characteristics of entrepreneurs running family businesses [Kałuża 2009, pp.69-41].

In family firms, we can see a stronger identification with the values of the enterprise or inner belief in the mission pursued by the firm, compared to non-family firms. This may result from the sense of community, belonging and generational identity shown by family members working in the firm. Thus, one of the components of a family firm's success may be a source of a worker's motivation, because the manager of a family company approaches his/her activities with more passion compared to other managers [Skrojny 2006, pp.7-9].

Elements of enterprises' competitive advantage

Literature of the subject provides numerous, overlapping definitions of competition and competitiveness. These terms refer, among other things, to economies, sectors, strategies or enterprises. However, literature of the subject stresses that we cannot define competitiveness in the same way with reference to economies, regions or enterprises. This is mainly due to the fact that they pursue different goals.

According to OECD, competitiveness is „the ability of companies, industries (sectors), regions, nations or supranational regions to generate high income and employment levels on a sustainable basis" [Globalisation and competitiveness: relevant indicators, organisation for economic co-operation and development]. However, the term competitiveness is most often used at an microeconomic level. It is then defined as „capability of facing up to the competition and achieving success in the conditions of competitiveness (…) capability of selling products that meet the requirements of the demand (price, quality, quantity) and at the same time ensure profits that allow a company to grow" [Latruffe 2011, p.5].

Traditional factors of competitiveness include price, properties of the products and services offered, production costs, quality and brand [Kasiewicz 2006, p. 50-52]. In the case of enterprises operating in sectors connected with high technology, there are also intangible factors of competitiveness. One of them is knowledge and its potential is now growing at an increasing pace [Drucker 1995, p.54]. So, there is a growing need for a skilful management of internal and external knowledge re-

sources, use of tools for remembering the knowledge gathered and ability to share it [Kwasek 2011, p. 51-63]. In addition, the family relationships and ties may be the subject to the appropriate management in order to generate competitive advantages, exclusively characteristic of the companies of a family nature [Tomski 2013, pp. 121-130].

However, the factors which influence competitiveness of individual entities are usually divided into internal and external ones. Internal factors are mainly connected with a company's activity and effectiveness, in particular implementation of its strategy [Kochański, Kurek 2003, p. 112]. In the case of small or medium-sized entities, basic internal factors which may consolidate their competitive positions include:

– transparency of organizational structure,
– orientation towards innovation and
– determined activity manifested in the person of the entrepreneur.
– Internal determinants which weaken competitive positions of entities of this scale in relation to their competitors include, among other things: limited resources, structural limitations and the way of managing an organization and lack of officially defined plans of action [Nogalski, Karpacz, Wójcik-Karpacz 2004, pp. 32-35].

Internal resources possessed by enterprises are not the only factors that affect their competitiveness. The environment in which they operate matters as well. The character of external determinants is largely historically or geographically shaped. Based on M.E. Porter's model of 5 forces, it is necessary for entrepreneurs to correctly identify the sector in which they operate and choose the best „position" for themselves from which they will be able to effectively respond to the forces dominating in their environment [Porter 2001, p. 23; STRATEGOR 2001, p. 36]. They are especially important for the competitiveness of small entities often make their activities conditional on their environment [More: Sipa 2009, pp.232-241].

For an enterprise to achieve high effectiveness of activity on a long-term basis, it must gain a permanent competitive advantage which is often defined by three dimensions: kind, size and stability [Skawińska 2002, p.15]. The competitive advantage gained by a company is „ …a characteristic of a given market" and its value depends on the force of a company's distinguishing capabilities, size of the market and general profitability of a given sector. [Skawińska 2002, p.32]

When building a competitive advantage, entrepreneurs must remember that a better position on the market can change into a competitive advantage only when it allows an enterprise to increase the outcomes of its operation and decrease the volume of expenditures with the same outcomes [Matejuk 2003, p. 13]. In order for entrepreneurs to build a competitive advantage, they must be capable of appropriate management at various planes to identify a source of their advantage over the

competitors (relations with stakeholders, appropriate innovative solutions, imitation, capability of cooperation with market environment, etc.). J.Key distinguished three basic sources of competitive advantage: innovations, architecture and reputation. Table 1 presents a short description of these sources.

Table 1. Characterisation of sources of competitive advantage according to J.Key

Source of advantage	Characterisation
Innovations	Permanent competitive advantage is ensured by few innovations which are effectively protected by patents and additionally supported by appropriate strategies, as introducing innovations is accompanied by risk of failure. Effectiveness of this source of competitive advantage largely depends on an enterprise's innovative maturity which allows it to early notice changes occurring in the organization's environment.
Architecture	A system of relations within a company, between a company and its suppliers and/or customers and within a group of companies engaged in associated business (networks). A properly developed and functioning architecture allows a company to quickly and effectively respond to the conditions on the market, and by that to gain a competitive advantage. We can distinguish internal, external and network architecture.
Reputation	Objective opinion of the environment about a given economic entity. It is, in a sense, a kind of architecture and meets the conditions of sustainability. It comprises high level and quality of an enterprise's performance. Companies often shape their way to gaining a competitive advantage by going from distinguishing capabilities based on innovations or architecture to a more sustainable competitive advantage arising from reputation.

Source: own work based on: J. Kay, *Podstawy sukcesu firmy,* PWE, Warszawa 1996, pp. 29, 33, 99-102, 114-118, 126, 144; I. Bielski, *Przebieg i uwarunkowania procesów innowacyjnych*, OPO, Bydgoszcz, 2000, p. 178; A. Kwiecień, *Reputacja jako źródło przewagi konkurencyjnej,* [in:] *W poszukiwaniu strategicznych przewag konkurencyjnych*, part I., Czarnota J.L., Moszkowicz M. (Ed.), Wydawnictwo Wydziału Zarządzania Politechniki Częstochowskiej, Częstochowa 2003, p. 116.

Literature of the subject usually presents the division of competitive advantages proposed by M.E. Porter. He distinguished the following advantages:

– „minority" advantages connected with lower costs (basis of cost leadership strategy) and
– „majority and sustainable" advantages which ensure greater differentiation compared to the competitors from the same sector (basis of the differentiation strategy) [Porter 2001, p. 10; STRATEGOR 2001, p. 197].

The greater and more sustainable is the advantage on the market, the longer an enterprise is independent from its competitors [Jasiński, Kamiński 2003, p. 19]. According to G. Hamel and C. K. Prahalad [1999, pp. 14, 163-166], a company may

gain a sustainable competitive advantage only when it obtains key (main, core) competences in the field in which it operates.

In the conditions of a very strong competition, the competitive strategy adopted and implemented by an enterprise has growing impact on achievement of market success. Thus, a competitive strategy should be based on:

– deepened analyses of the factors constituting key sources of competitive advantage,
– deepened analyses of current and future as well as direct and indirect competitors
– coordinated competitive operations on various markets using resources of various countries as well as resources and skills of other enterprises – strategic mergers and acquisitions [Pierścionek 2007, p. 160].

Family enterprises, although classified to the group of small and medium-sized entities, are characterized by specific features which give them advantage over other, non-family enterprises from the same industry. Family companies should build competitive advantages based on internal family bonds which make them more resistant to crises [Jabłowski 2014, p. 10]. Family members usually have a deep sense of ownership of the company, show great motivation, are exceptionally loyal and often work above a standard. The strengths of such companies include: respect of and attachment to tradition, work security, responsibility, focus on quality, long-term goals, and large margin of independence in thinking and acting [Winnicka-Popczyk 2013, pp. 13-14]. Their competitive advantage may be tradition and values passed from generation to generation [Jabłowski 2014, pp. 9-10].

Fast decision-making allows family firms to more often implement risky projects, change dynamically and better adapt to new market needs; they are characterized by direct and meaty communication thanks to continuous mutual interactions between management members [Winnicka-Popczyk 2013, pp. 13-14].

Building of competitive advantage by family enterprises – results of own survey

Presentation of the family company WÓZKI

The company WÓZKI[1] was set up in 1970. It specializes in production of multi purpose trolleys and pushchairs. Its offer also includes children's car seats and various types of accessories. The company tries to catch up with the changes on the market, by adjusting to customer expectations, introducing innovative solutions both in terms of manufacturing technology and colours. In 2000, the company WÓZKI decided to significantly extend its offer, which resulted in the introduction of new brands under the main one.

The survey conducted shows that the company operates based on established organisational structure, but there is no organisational framework that would clear-

[1] At the request of the owner, the enterprise examined is called WÓZKI in this paper

ly show work relations and reporting lines.

Over the years, the number of people employed in the enterprise examined has changed. At first, the company WÓZKI was classified as an micro enterprise. With its growth, the number of employees also grew, and at the end of 2013 it had 39 employees in full time equivalent units.

The enterprise WÓZKI is a family company which has been passing its experience and traditions from generation to generation. It was set up by its current owner. As of end of 2013, there are 3 family members working in this company (first grade blood relation) and holding managerial posts. However, observation and an interview shows that the persons who manage and lead the company do not have any knowledge on the issue of "a family company", and are not aware that their company is included in this group. At the same time, they think that being a family company doesn't make it easier or more difficult for them to function on the market. During day-to-day operations of the company, both the fact that the company employs family members and that family relations exist are ignored.

The survey revealed that the company sells its products through wholesale customers. This may be due to the fact that it delivers large production orders. Retail sales would have been connected with additional costs and could have disrupted the delivery of orders to main customers. The company sells its products mostly abroad, declaring that the export to the European and Asian markets amounts to 55% of its total sales, whereas the domestic sales is 45%.

To consolidate their positions on the market, enterprises often resort to other elements, such as post-sale service. The company "WÓZKI" also uses this element and guarantees its customers a fast and reliable service

Factors of building a market position of the family company WÓZKI

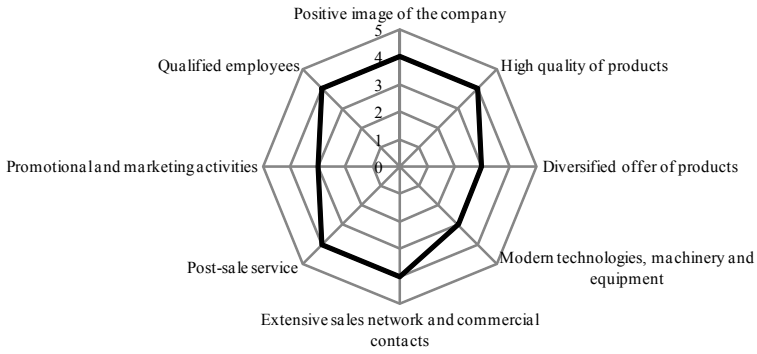
Building a competitive position on the market requires continuous observation of the near and external environments. By determining its market position, an organization is able to appropriately define its goals and adopt an appropriate market strategy.

The survey conducted shows that the company WÓZKI assesses its position on the market as good, as it chose the answer "4" from a five point scale. A range of factors impacted the competitive position gained by the company. The most important determinants, as indicated by the person managing the company (the owner), included: high quality of the offered products, positive image of the company, a large number of qualified employees, extensive sales network and commercial contacts, as well as a post-sale service. According to the owner, the above mentioned factors have a significant impact on the company's competitive position on the market. A little less important are such factors as: modern technologies, machinery and equipment, diverse product offer, and promotional and marketing

activities (figure 1). The responses given in the survey show that the owner sees the superiority of human resources in an organization over material resources in the form of technologies, machinery and equipment. He also thinks that quality is more important than diversity of the offered products in building their competitive position on the market.

A competitive position on the market is closely connected with the concept of an enterprise's success. Literature of the subject shows a great diversity in definitions of this term. Success is a positive outcome of some undertaking, achieving the objective set, or – with reference to an enterprise – a positive result of a company's activity in various areas of the business conducted or simply its triumph on the market [Overview of definitions. See more in: Lemańska-Majdzik, Tomski 2103, pp. 203-214].

Figure 1. Determinants of a family company's competitive position*



* scale of points, answers: 1 – no importance; 2 – very little importance; 3- medium importance; 4- big importance; 5 – very big importance

Source: Own work based on own survey

Moreover, in organizations of this type, an enterprise's success is perceived as a personal success of the company's owner. This can be also seen in the enterprise WÓZKI examined. The survey conducted shows that the enterprise WÓZKI achieved market success. The owner of the enterprise examined defines success as:

– recognizable brand on the market,
– extensive coverage of the company's operation
– investment processes as part of the company's development.

In the above attempt to define success, we can see relation between the perception of success by the company's owner and its functioning on the market. According to the owner, the enterprise WÓZKI sells its products both throughout the country and abroad, which makes the company's brand recognizable on the

market. Moreover, the enterprise is continuously investing in new technologies and in infrastructure. An example of such activities is extension of the plant, completed in 2011, as a result of which new office, production and storage facilities were built. Such a large investment was necessary in order to increase production and storage capacity.

According to the owner, success of an enterprise depends on numerous factors which can directly and indirectly impact the company. It is the outcome of many factors occurring simultaneously. Also in the case of the company examined, the success it achieved is the result of many variables (table 2).

Table 2. Factors determining a family company's success

IMPACT	SUCCESS FACTORS
THE GREATEST	Approach of the company's owner Family members' managerial skills Company employees
MEDIUM	Taking advantage of market opportunities Many years of market experience Employing family members Adopting an appropriate strategy of action
THE LEAST	Cooperation with other enterprises from the same industry

Source: own work based on own survey

The survey shows that the factors which had the greatest impact on the company's success were: approach of the company's owner and family members' managerial skills. The entrepreneur also appreciates his employees' contributions to the market success achieved by the company. The least important in achieving the success was cooperation with other enterprises from the same industry. Such a situation may result from the fact that Polish entrepreneurs are afraid of establishing cooperation with other entities, who are perceived as direct competitors rather than potential partners.

Summary

Changeable conditions in which enterprises function today lead to greater uncertainty connected with growing competition in the environment, and consequently bigger problems with achieving and maintaining an appropriate level of competitiveness. A competitive position, or advantage over the competitors, gained by an enterprise, is not something that is permanent. Enterprises that do not consolidate their competitive positions on the market condemn themselves to "withdrawal" from the market, because they do not maintain advantage over other entities from the same industry.

The survey has showed that the persons running and managing the enterprise do not perceive their company as a family company, although the company employs

family members and all of them have managerial positions. The reason for that may be, on the one hand, lack of knowledge on family companies and the scope of assistance provided to entities of this type, and on the other hand, no need for identification with this group of enterprises.

The enterprise examined perceives its competitive position on the market as good and it thinks that it achieved success. The most important factors which had impact on the competitive position achieved include: high quality of the offered products, positive image of the company, large number of qualified employees, extensive sales network and commercial contacts and post-sales service. We can also notice a relation between the perception of success by the company's owner and its functioning on the market. The owner of the entity examined defines success as: recognizable brand on the market, extensive coverage of the company's operation and investment processes as part of the company's development. The factors that had the biggest impact on the success achieved by the company include: approach of the company's owner, family members' managerial skills and appropriately selected team of qualified employees.

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