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Innovation:
A Recipe for Success Among Family-Owned Firms in West Michigan?

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Introduction

West Michigan has a wealth of family-owned businesses that have been instrumental in helping create the quality of life, economically and socially, that we enjoy. But, are they well prepared for the challenges that lie ahead? What are West Michigan family businesses really like? How similar or dissimilar are they? How innovative are they?

In June 2001, the Family Owned Business Institute (FOBI) at Grand Valley State University conducted a study to profile and better understand the nature of family-owned businesses within the Kent, Ottawa, Muskegon, and Allegan counties (KOMA). A major purpose was to collect information pertaining to the business strategies and practices among family firms, including their willingness to adopt new technologies such as the Internet. A six-page self-administered questionnaire was mailed to 7,476 businesses within this geographic area as identified by Dun & Bradstreet[1]. The sampling frame included firms that had been in operation for five or more years and had five or more employees. In all, 421 organizations responded (5.6 percent) with 375 (88.8 percent) identifying themselves as family-owned businesses.[1]

Firm Characteristics

The majority of family firms are organized as regular corporations (54.5 percent); 28.4% as Sub-S corporations, 0.6% as Employee Stock Ownership Plans, 2.2% as partnerships, 5.5% as limited liability companies, and 8.8% as sole proprietorships. Approximately half the firms began their operations in 1978 or more recently with a mean age of 22 years. Previous studies have shown that the average life span of a family firm is approximately twenty-four years (e.g., Dyer, 1986); thus, the Grand Rapids MSA seems to include family-owned firms that are slightly younger than the U.S. population of family firms. Annual revenues for the most recently completed fiscal year (2000) among family-owned firms are shown in Table 1.

Table 1 Annual Revenues (2000)

Annual Revenues	Frequency	Percent
Under $100,000	9	2.4
$100,000 - $499,999	73	19.8
$500,000 - $999,999	79	21.5
$1 million - $9.9 million	155	42.1
$10 million - $24.9 million	25	6.8
$25 million - $49.9 million	10	2.7
$50 million - $99.9 million	6	1.6
$100 million +	11	3.0

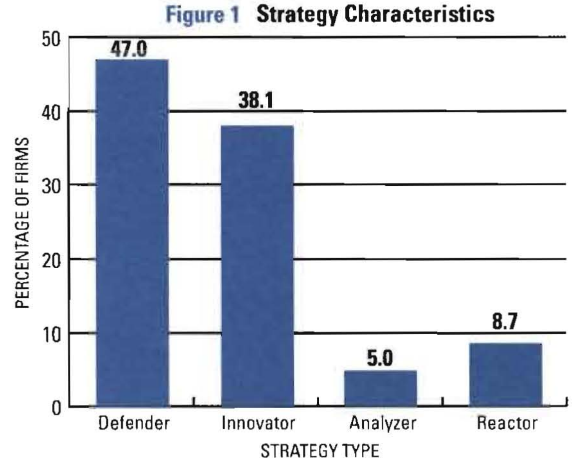
Business Strategy

In 1978, Robert E. Miles and Charles C. Snow developed a classification system for business strategies based on the intended rate of product-market development (new product development, penetration of new markets, and so on). They categorized firms into four strategic types: Innovators/Prospectors, Defenders, Analyzers, and Reactors. Innovators/Prospectors grow by developing new products and markets and they are usually strong in and devote substantial resources to two broad areas of competence: (1) new product management, including use of new technologies; and (2) marketing. Defender businesses focus on maintaining their positions in established product-markets while devoting less attention to new product development. Analyzer businesses follow industry leaders closely while Reactors generally have to be forced by the market to make a change.

We measured how local firms characterized their own competitive business strategies by asking them to indicate which of the following statements best described their philosophy:

- "We are innovators and are willing to take the necessary risks of providing new products and services" (Innovator Strategy).
- "We stick to what we know how to do and do it as well or better than anyone else" (Defender Strategy).
- "We do not want to be first in our industry to offer a new product or service, but we try to be close behind with a similar product or service that is competitive" (Analyzer Strategy).
- "We do not follow a specific program or plan for making us more competitive, although when we are faced with strong threats, we definitely make changes" (Reactor Strategy).

Figure 1 Strategy Characteristics



Our findings, shown in Figure 1, parallel those in other communities that the vast majority of firms contained in the study identify themselves as either Defenders (47.6 percent) or Innovators (38.1 percent).

While slightly over one-third of West Michigan family businesses identified their business strategy as being innovative, in relation to another study conducted among family firms in the State of Washington, this represents a smaller proportion of "innovative" firms. In order to understand what the implications may be for West Michigan, we further looked at the differential nature of Innovators versus all other groups (Defenders, Analyzers, and Reactors). What we found is startling.

As summarized in Table 2, the results strongly suggest that Innovator family firms follow what, in general, are considered critical business practices in increasingly competitive markets. For example, we found that those firms pursuing Innovator strategies were more likely to have a board of directors and have outsiders sit on the board. They are more likely to use planning processes as necessary tools leading to formal written business policies and strategies. They tend to be the most customer focused firms and are willing to adapt to their customers' changing needs/wants by creating new products and markets. They also tend to adopt new technology sooner. They tend more often to have a Web site and to fully utilize the Internet as a business tool. They perceive beneficial results from their use of the Internet, most notably with respect to increased sales, reduced administrative expenses, and increased net profit. These groups did not differ in their size of revenue, the number of family employees, or when the current CEO intends to retire.

Innovator/Prospector strategies are prevalent in industries where new applications and customer acceptance of existing technologies are still developing (Walker, Boyd & Larréché, 1999). Several Technology SmartZone initiatives are under way in West Michigan to attract and support high-tech businesses in the region. The results of this study suggest that it may be time for more West Michigan firms to ramp up the innovation side of their business strategies if an important goal is thriving—not just surviving—in new competitive environments.

Table 2 General Characteristics of Innovative Family Firms in West Michigan

General Information: Innovators are more likely to ...

- Be a first generation family business
- Be organized as a Sub-S corporation

Family Business Information: Innovators are more likely to ...

- Have a Board of Directors, and have outsiders on the Board of Directors
- See estate planning, shareholder agreements, organizational plans, and family member compensation policies as important issues

Business Practices: Innovators are more likely to ...

- Promote the firm as a family-owned business
- Feel that showing commitment to customers by understanding their needs and creating valued products/services is extremely important
- Have customer satisfaction as a major objective and measure it
- Target opportunities for competitive advantage, discuss competitors' strategies, and respond rapidly to competitors' actions
- Adopt long-term term perspective on profits and payback of new products/services
- Be satisfied with return on capital and overall profit margin of various units

Business Practices: Innovators are also less likely to ...

- Measure profit performance for each unit/department
- Require all units/departments to be profitable
- Have top managers emphasize improved performance

Use of Technology: Innovators are more likely to ...

- Have a Web site
- Use the Internet to find new information about competitors, new markets, new sources of supply, and to communicate with customers
- Place greater importance on tactical use of e-mail to communicate with customers (current and prospective ones) and employees, for customer service, and to provide support for channel partners

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[1] A comprehensive listing of family-owned businesses for the area did not exist; therefore, the mailing was sent to all businesses that met the mentioned criteria.