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Entrepreneurial thinking as a key factor of family business success

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Abstract

Many entrepreneurs are really visionary game changers who believe both in their missions and values. These types of entrepreneurs use their mindsets and essential entrepreneurial thinking to build successful family businesses. The aim of this paper is to describe this special mindset, which manifests itself in entrepreneurial thinking, and offer a solution to help successors in family businesses to refresh and improve the core businesses given to them. Design thinking might be used as a method for helping successors to recognize new business opportunities and refresh the core business, creating new visions and values. This paper is divided into the following sections: introduction, the creation and definition of entrepreneur missions and values. A short description of the entrepreneurial thinking is in the third part. Part four focuses on the problem of succession in family businesses. In part five, the reason why the design thinking might be the right tool to help solve this problem is explained. Finally, a conclusion is offered.

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Keywords: entrepreneurship; family business; succession; entrepreneurial thinking; design thinking

1. Introduction

Family businesses are an engine of a healthy economy and hold a significant position in world trade. Across Europe, about 70 % - 80 % of enterprises are family businesses and they account for about 40 % - 50 % of employment (Mandl, 2008). In North America, they are contributing 80 % - 90 % of all business and are employing 64 % of U.S. labor (CBIA, 2012). Globally, family-owned businesses support some 50 % of the population, and four-fifths of all businesses are family owned (Malhotra, 2010).

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Family businesses are a traditional way of conducting business within the private sector and are active in all sectors of the economy (Mandl, 2008). Family businesses are extremely varied in terms of size, structure, and legal form. The importance of family business relies on the long-term stability it brings to the economy, the commitment to local communities, and also the responsibility of entrepreneurs. According to the Family Business Survey (PwC, 2012), family businesses are willing to invest for long term, and do not suffer from the constraints imposed on their listed competitors by the quarterly reporting cycle and the need for quick returns. Family businesses generally make the entrepreneurial community healthier and are also reliable business partners. According to Ernst & Young (2012), family businesses are typical, environmental, and they have economic and social responsibility, which are the result of the long-termist focus and sustainability outlook. The survey (PwC, 2012) says that 72 % of respondents believe that family businesses contribute to economic stability. 78 % of respondents consider that the family firm is notable for the strength of culture and values. Many family businesses believe that they win business because they are closer to their customers, and have a more personal relationship with them.

2. Entrepreneurs and value creation

The foundation stories of family firms are typical entrepreneur stories. Actions like seeking the market gap, deciding on the business branch, taking risks, and following innovations are roles all entrepreneurs undertake actively in the start-up step. This step is also the step in which family values start to form (quoted by Erdem, Başer 2010). Family businesses are driven by entrepreneurs who found them, set up the corporate culture, and transform visions into values. Nevertheless, the founder decides what the subject of the business will be, who the customers will be, and which products or services the business will provide (Keřovský and Vykypěl, 2002). The founders and their visions are essential for the future success of family businesses because each business needs a driving force, just as a ship needs a captain. These visions and missions should be clearly formulated and recorded to be easily understood and also should be available to all employees, customers, and other stakeholders (Keřovský and Vykypěl, 2002). The values of each family business are derived from the founders. Flamholtz and Randle (2011) present the example that if the founder is a perfectionist, then the performance standards for the company will be concerned with that perfection. If the founder has a sense of humor and wants have fun, than the corporate culture will reflect this. Flamholtz and Randle (2011) say that this culture will be transmitted by the personal, day-to-day interaction of people with the entrepreneur. As the entrepreneur makes decisions and takes actions, his or her values are communicated behaviorally.

Therefore, many companies, such as Southwest Airlines, are presenting their missions and visions on their websites to be accessible to a wide audience. When, in 1971, Southwest Airlines started operated between Dallas, Houston, and San Antonio, the airline's founders—Herb Kelleher and Rollin King—began with one simple notion: "If you get your passengers to their destinations when they want to get there, on time, at the lowest possible fares, and make darn sure they have a good time doing it, people will fly your airline" (quoted by Southwest Airlines, 2013a). Today, the mission of Southwest Airlines is: "Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit" (Southwest Airlines, 2013b). Some family businesses are aware of the connection between the founder and his or her corporate values. A very good example is Walmart, an American multinational retail corporation controlled by the Walton family. Their website features a direct reference to the founder: "Our business is the result of Sam Walton's visionary leadership, along with generations of associates focused on helping customers and communities save money and live better. This rich heritage defines who we are and what we do today" (quoted by Walmart, 2013). Despite the fact that Walmart is the world's third largest public corporation, and the biggest private employer in the world with over 2 million employees, it remains a family-owned business with the Walton Family (the richest family in the world) owning a 48 % share in Wal-Mart Stores, Inc. (Said, 2013).

3. Entrepreneurs and entrepreneurial thinking

The main question is what sets apart ordinary entrepreneurs and founders of family businesses from visionary businessmen expanding boundaries and changing the rules of the business game? Many unique entrepreneurs were considered foolish in the beginning, but they always believed in their missions and values. These missions and values were created in their minds. It is very difficult for researches to penetrate entrepreneurs' minds and gain the relevant information. Many entrepreneurs are natural leaders and work intuitively, which causes them not to consider their behaviors or their ways of thinking as interesting subjects of academic research. Entrepreneurs do not follow theoretical guides or concepts. They might have extraordinary ways of thinking. This could be called entrepreneurial thinking or entrepreneurial mindset. There are several different perspectives from which to view entrepreneurship (Bill, Bjerke, Johansson, 2010). Fairbrothers and Winter (2011) claim that when people start to talk about entrepreneurship, they start with the definition of entrepreneurs and their enterprises. When those people broaden their definitions, they might describe an entrepreneur as a person driven to achieve with a high tolerance for risk and a huge desire to be successful. Remarkable business leaders have the ability to combine imitation and creativity to come up with innovation. Acting with creativity allows leading entrepreneurs to adapt to new circumstances and gives them confidence to try new ways of doing things and keep them vital. Effective leaders continually rethink the means by which goals are archived; they keep a results-driven focus while providing maximum flexibility (Friedman, 2008). According to Friedman (2008), these leaders have the courage to experiment with new arrangements and communication tools to better meet the expectations of people. Other examined competences are self-motivation, flexibility, adaptability, growth-orientation, and seeking new opportunities. Fairbrothers and Winter (2011) talk about "entrepreneurial" as an adjective and come up with a list of synonyms describing the term "entrepreneurial". The list starts with innovative and creative, self-motivated, flexible and adaptable, and continues with assertive, growth-oriented, opportunity driven, and active, and ends with driven to create value, people and team-focused. In this paper, entrepreneurial thinking is understood as a collection of innovation, creativity, ability to be self-motivated, flexible and adaptable, opportunity driven, and focused on creating values while considering their people and team.

4. Succession problem of family business

Worldwide statistics indicate that approximately 70 % of family-owned businesses do not survive into the 2nd generation and 90 % are no longer controlled by the 3rd generation of the family (Leach, 2011). Ward (2011) provides many reasons why family business fail: (1) markets and technology change, (2) competitors quickly copy successful strategies, (3) overtaking with outside buyer willing to pay more to acquire the company than it is worth and owners are unable to resist the premium to sell out, (4) lack of financial capabilities, and (5) lack of staff skills. But beyond these typical family business pitfalls, Ward (2011) believes that the main reasons for failures are mistakes in succession planning. Succession should be well planned and prepared in advance because it is not a one-time event but a long process that cannot start too early. The entire process needs to be carefully managed. Succession includes not only transition of leadership and ownership, but also brings transition of values and mission of the entire family business. In the beginning, the most powerful determination of family business values is the founders, but those founders can be affected in time by other members of the family and other groups in the family business (Erdem, Başer, 2010). Especially the second generation is developing the family business the most. During the succession process, the vision and values must be transferred as well and the new family business leader must be able to add a new value to the family business. Grout and Fisher et al. (2007) say that many leaders were born into extraordinary families, in the sense that they were surrounded with either a strong work ethic or were instilled with the belief that they could do whatever they wanted. The entrepreneurial spirit is just as prevalent in their families and entrepreneurial thinking is natural for them. For those future leaders, it is easier to absorb and understand the entrepreneurial spirit and also entrepreneurial thinking. However, we can also find self-made leaders who are successful thanks to their inner power and great personality. Erdem and Başer (2010) believe that the personality, values, and beliefs of the founder are generally essential determinants for the formation of the firm culture, and values of the founder closely affect family and job socialization of the second generation. Especially for the second and third entrepreneurial generation, the influence of the founder is significant. The founder is in direct interaction with his successor and is introducing him or her to the business and training him or her for future leadership. Because of this influence, successors might feel strong connections with the family business and values. Developing this connection and carrying the values forward are very important, especially during the succession planning and generational transition. Nevertheless, due to technological improvements and market change, these predecessor's visions and missions must be refreshed by new stimulus. New leaders of the family business naturally bring their own ideas; they have a passion to contribute and are more willing to challenge traditional assumptions than are their elders (Ward, 2011). One of the perspectives for how to help the next generation to improve their way of thinking and inner power is a concept called design thinking which could be used as methodology for opportunity recognition.

5. Design thinking as a tool of improving entrepreneurial thinking

Design thinking can be defined as a creative concept to generate innovative competitive strategies. Creative thinking is used by designers to stimulate out-of-the-box thinking and contribute to innovation in an organization (Wattanasupachoke, 2012). Design thinking is the form of thought that enables one to gain a nearly inexhaustible, long-term business advantage, but without committed leadership, no business can realize the structural, process, and cultural adjustments needed to become a design thinking organization (Roger, 2009). Design thinking cannot help to manage enterprises but, when combined with other entrepreneurial competencies, provides a framework for creating new visions and ideas (Wattanasupachoke, 2012). Looking for new business opportunities and turning visions into the reality are exactly what successful entrepreneurs are doing and the concept of design thinking might improve their skills and help them to find the suitable ideas for them.

The process of design thinking has five steps, which can be repeated and can also occur simultaneously. This process starts with empathy with the audience and the definition of their problems. As the majority of family businesses are classified as small and medium, they have close relations with their customers and the market. Thanks to those relations, they have better insight and they understand customer needs deeply. Some entrepreneurs and visionaries are even able to predict future customer needs and have the ability to create new needs for potential customers. Touchable smart phones and smart glasses and watches, which were recently launched into the market, are perfect examples of those visionary ideas. In addition, design thinking could be used as a tool to understand customer perceptions of a company and their expectations for a company's products. Based on all this information, entrepreneurs can improve their company values and enrich the messages they want to deliver to their customers. In the next step, after understanding customer needs, entrepreneurs must come up with some creative solutions. These solutions come from brainstorming, where none of the ideas should be judged or eliminated. Based on all these creative ideas, entrepreneurs should develop one or more creative ideas and present them to their customers. The final step of the design thinking process is testing those developed ideas and seeking feedback from an audience and customers. In this last step, the objectives should be reviewed to determine if the offered solutions meet customer goals. Design thinking is a process that should be continuously repeated and reviewed with the aim of coming up with fresh ideas.

Design thinking is a technique that is usually used as a tool for solving problems. For family businesses, this technique could also be used to help successors to create new value and to bring fresh ideas into their businesses. Therefore, design thinking could be used as a methodology for opportunity recognition, which is demanded with practices, so technique of design thinking must be trained. Successors could use the concept of design thinking as a tool to determine new visions and missions for their family businesses to help them to grow and be successful in the future. Design thinking is just a tool helping entrepreneurs to organize and improve their thoughts. Each entrepreneur has some kind of mindset taking shape in entrepreneurial thinking. The approach to the family business is based on his or her way of thinking and has influence on creating visions of his or her business. Entrepreneurs are leaders of their family businesses and make crucial contributions to family business success. These contributions are especially visible for founders of the family businesses, but are also very important for second and third generations of family entrepreneurs. They must refresh the core business and add some value and to be able take control of family business. Without improving the core business, family businesses will not be able to deal with market changes and compete with strong competition on the market. Family businesses are very sensitive and assailable during the generational transition and change of leader's position. It often also means the change of visions and redefines the values of family business.

6. Conclusion

Family businesses are essential cells of national economic bodies. Family businesses, from their very nature, tend to be sensitive for the generational exchange and deal with problems of succession. Unfortunately, not all of them are able to handle a succession process and so they fail. There are many reasons for the failure but the significant problem is that founders are the creators of businesses and visions of the businesses and have a crucial influence on future business success. When they leave the business, they are unintentionally taking with them their knowledge and business approaches. That is because their businesses are reflections of their entrepreneurial thinking based on a unique mindset. Entrepreneurs differentiate from the hired managers because they start a new business with a special mindset consisting of innovation and creativity, self-motivation, flexibility, adaptability, assertiveness, growth-orientation, value creation, and people orientation. They are not afraid to take a business risk and they turn their visions into reality.

Researchers and academics play an important role in understanding entrepreneurial thinking and helping family businesses to grow. They should extract the key elements of entrepreneurial thinking, provide theoretical tools, and deliver this knowledge as a practical solution to other entrepreneurs in and help them to develop their family businesses. For the second and third generation of entrepreneurs, the help is needed as well because so many family businesses fail facing the succession problem.

One of the tools helping successors to recognize a business opportunity, create visions, and move on their family business is design thinking. Design thinking itself cannot help entrepreneurs to manage their enterprises but combined with other entrepreneurial competencies provides a framework for new product or vision development as a technique of developing a thorough understanding of customer needs and combining customer knowledge with employees' creative ideas.

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