



DEVELOPMENTAL CYCLES OF A FAMILY BUSINESS IN THE CATERING INDUSTRY: CASE STUDY

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ABSTRACT

Small and medium-sized enterprises became relevant actors of the economy due not only to their role in the employment but also in producing GDP and export products. Within the sector, family enterprises constitute $\frac{3}{4}$ of the enterprises in Europe, their significance is therefore decisive. In our publication, we present the career path of SoReCa Ltd., family enterprise acting in the catering industry.

Having operated for 10 years, the company's portfolio covers child nutrition, company canteens as well as event catering. In our research, we used the corporate lifecycle model of Adizes which was supplemented by corporate medical records, as a useful practical tool. By these medical records, we may explore SoReCa lifecycle stages, their main features, and the signs of crisis, evolution or revolution. These analyses may help the management in the decision process and may form successful management tools in establishing new strategy if needed. We show that among management roles - integrator role - is the key role of organizations in Prime ages.

Keywords: SMEs, family business, lifecycle models, catering industry

1. INTRODUCTION

While private business ownership existed in the initial years of transition in Hungary also, many important aspects of productive entrepreneurship – like innovation, strategy creation, customer orientation, or risk taking – could not evolve. The situation changed in the 2000s, by that time the main transformational changes of setting up market economy institutions were finished, economies were mostly liberalized. [1]

Nowadays, family businesses constitute 70-80% of the enterprises in Europe, meanwhile their role in the employment reach 40-50%, their significance is therefore decisive, they have become relevant actors of the economy by today. [2]

However several researchers deal with the sector, still there is no clear and generally accepted definition for family businesses. [3][4][5]

Wimmer et al [6] defined family businesses as enterprises where a family or an association of families has decisive influence on the development of the enterprise.

According to the definition approved and proposed for use by the European Commission family businesses are:

1. “The majority of decision-making rights are 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.
4. 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.” [7]

The basis of operation of family businesses is the emotional attachment, as the family gives its own name for the company and for their products. They might become more successful and competitive, since it is not only a workplace but a life goal for the founder(s), meanwhile the owners coming from the same family cooperate in constant cohesion. [8] In family businesses the work-life balance of the family members will play an important role. [9]



In family business, the growth ambitions are determined by the family size and the profit motives usually depend on the family needs. [10]

2. MATERIAL AND METHOD

The focus of our examination is on corporative lifecycle models. Several Hungarian and foreign researchers examined the lifecycle of enterprises, presenting the development stages from different aspects. Timmons [11] investigated the running-up path of the enterprises, meanwhile Hisrich – Peters [12] studied the steps prior to the market entry. Management cycles are linked to Greiner [13], while Adizes [14] compared the organization to living organisms and believes that growth and aging manifest in the interaction of flexibility and manageability. The model's most important feature is that it gives the most serious problems and threats, which may endanger the enterprise of that age. The Adizes model emphasizes that company leaders shall be able to recognize the difference between the conventional problems of a given life cycle phase of the organisation and those unconventional and harmful problems which may lead to a crises or the total fall of the company. According to Adizes, conventional problems may be solved by the internal resources of the organization if these problems may be foreseen, while the solution of unconventional problems or dysfunctions need an external help in every cases. Without this extra help, the organizations may face with irreversible situation. The special character of the model of Adizes is that it also refers to the possible death of the enterprises. [15] The length and success of different lifecycle stages are strongly depending on the attitudes and behaviour of managers. [16] Adizes proposes that the fundamental role of management for family business, company, etc. can be defined by four functions. If an enterprise could develop these roles then it will be successful which means short term and long term effectiveness and efficiency. [17]

The four roles of Management – PAEI are the followings:

- Produce: quality production – to satisfy the needs of the customer
- Administer: focusing on how to do things right in processes, procedures and systems
- Entrepreneur: successfully adaptation of change, innovation, risk, new visions
- Integrate: long term efficient organization based on a good team.

Adizes model is described in ten phases, and each phase has its unique PAEI needs. The following figure illustrates the ten stages and their needs. (Fig. 1)

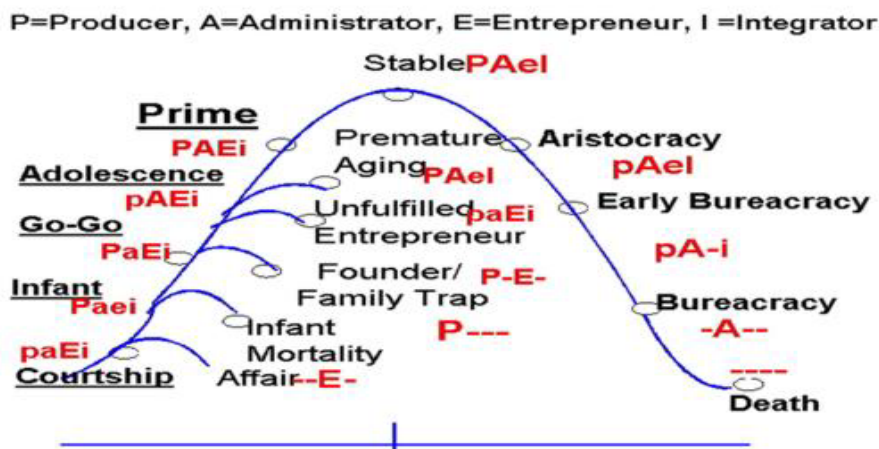


Figure 1. The four roles of management in the Adizes model [17]



Illés, Dunay and Tatár [15] explored the different signs of evolution and revolution processes in the different lifecycle stages. They suggested to analyse the state of health of the enterprise and to identify the possible symptoms in the form of a “corporate medical record”. (Tab. 1) We used this model in our survey. In our opinion, this model may be considered as most detailed, because it gives the possible problems, their solution and manager roles which are extremely important and determine corporate efficiency in family businesses as well.

Table 1: Structure of a “Corporate Medical Record” [15]

NAME:	Name of the company	
AGE:	Name of the stage	
<u>Personal data:</u> The usual attributes of the different stages	<u>Symptoms, complaints:</u> Revolution symptoms	
<u>Immune system:</u> Dominant evolution characters	<u>Missing symptoms:</u> Symptoms which appears in Adizes model, but not typical in the examined company’s life	
<u>Temperature:</u> Symbolical indication to the general status of the company	<u>Therapy:</u> Suggestion how to solve the problems	

Prototypical Management Styles (PAEI)

In our research, we examined the lifecycle of SoReCa Ltd. – family enterprise having acted in the catering industry for 10 years.

During our research, we took into consideration the unique specificities and features of the stages and based on that we attempted to identify the lifecycles.

3. RESULTS

In the examination of the efficiency of enterprises in our sample, we analysed features of SoReCa Ltd. and used “corporate medical record” prototypical management styles.

Courtship stage of the examined company has started as a forced path: at the beginning of 2005 resulted by the death of a former company. Father and his son – where the father had enough experiences and commitments, his son had economical qualification for the future work – founded a new company. The specific features of the examined company are shown in the medical record of Tab. 2.

Table 2: “Courtship” stage of SoReCa Ltd.

Name: SoReCa Ltd.	Age: Courtship (initial year – year zero)	
<u>Personal data:</u> - high commitment of father and his son of the company - Entrepreneurs	<u>Symptoms, complaints:</u> -	
<u>Immune system:</u> - willingness towards risk management	<u>Missing symptoms:</u> -----	
<u>Temperature:</u> - high fever (commitment)	<u>Therapy:</u> - additional risk taking - company foundation	



The risk-taking level of the founders was equal and adequate for starting a new business. Entrepreneurs are typical manager role of this period. They are energized by exciting opportunities, new possibilities and future achievements. The two founders were creative - they decided to reform the school/college cuisine system with its transparency and sustainability, known the market; therefore the company was born and entered into the infancy stage.

The founders were owners and managers in one person, they were very dynamic in their work, because of their former experiences and working morale as well as their very good connections. Producer typecast owners/managers are high energy, active people. As they are managing family business, they are responsible for driving many organizational achievements. As they are father and son the values are the same, so the little patience for brainstorming, etc. characterizing this management type – are not problems in managing business. The only problem was the lack of capital, so almost all the expenditures were financed by profit-sharing loan. Lack of working capital was permanent and the strategic thinking was not typical in the company at that time. Tab. 3 illustrates the medical record of this stage.

Table 3: "Infancy" stage of SoReCa Ltd.

Name: SoReCa Ltd.	Age: Infancy (2006 - 2007)
<u>Personal data:</u> <ul style="list-style-type: none">- commitment level- no hierarchy, owners worked as well- no system working- staff: total staff change- Producers	<u>Symptoms, complaints:</u> <ul style="list-style-type: none">- lack of capital- lack of strategic thinking- lack of supports- problems of delegation- crisis management because of lack of payment disciplines
<u>Immune system:</u> <ul style="list-style-type: none">- quick decision making- parental love- solve the problem of the lack of working capital	<u>Missing symptoms:</u> <ul style="list-style-type: none">- founders did not become numb
<u>Temperature:</u> <ul style="list-style-type: none">- high fever (commitment)	<u>Therapy:</u> <ul style="list-style-type: none">- stabilization of financial background- stability on production and services- stability of suppliers

Hard work, consciousness and the cooperation with authorities, business partners, leasing companies, temporary work agencies and good condition contracts with them resulted the financial stabilization of the company, thus it could step further into the go-go stage in 2008. In 2008, the company's situation was well developed and stable in the market. The growth of their orders meant good negotiating and payment position and they got huge allowances. They tripled the number of their events. In 2009 as a result of the global financial crisis the reorganization of the operation became necessary. In these ages high energy, activity, result orientation is necessary, but parallel with this flexibility and dreaming appears. Tab. 4 summarizes the features of Go-go stage.



Table 4: "Go-go" stage of SoReCa Ltd.

Name: SoReCa Ltd.	Age: Go-go (2008 – 2013)
<u>Personal data:</u> - realizing the opportunities - delegating authorities - many priorities - Producers; Entrepreneurs	<u>Symptoms, complaints:</u> - overconfidence - lack of strategic thinking - crisis management
<u>Immune system:</u> - stable financial background - well-operating organization - good market recognition	<u>Missing symptoms:</u> - many mistakes
<u>Temperature:</u> - high fever	<u>Therapy:</u> - determined growth - formulation of operation networks - planning - improving professionalism

According to Adizes [14], Prime stage is the most successful and favourable phase of the corporate lifecycle, when an organization is in its equilibrium position both in self-control and flexibility. In prime stage, organizational vitality is at its maximum.

Table 5: "Prime" stage of SoReCa Ltd.

Name: SoReCa Ltd.	Age: Prime (2013 -)
<u>Personal data:</u> - (control/flexibility) equilibrium status - functional systems - successful performance - planning - growing business - Producers; Entrepreneurs; Administrators	<u>Symptoms, complaints:</u> - centralized decision-making - self-complacency
<u>Immune system:</u> - permanent growing - excellent performance	<u>Missing symptoms:</u> -----
<u>Temperature:</u> - dynamic operation	<u>Therapy:</u> - rules and for encouraging activities - decentralization - encouraging entrepreneurship

The examined family business is in the Prime stage now. As the players of the catering industry are responsible for the food safety in every steps of their processes [18] and a very important tool in this process is the improvement of the knowledge level of the kitchen staff [19], the management shall be conscious about their performance. In the past few years the company focused on the conscious improvement of their services and built cooperation with different scientific organizations, in order to strengthen the food quality and food safety. [20][21] An administration system was introduced, quality management certificates were obtained during this stage. As a result of the professional knowledge, experiences and motivation of the leaders, the company could successfully react the changes of the market,



thus both their revenue and market share increased. The power and responsibility became well balanced. The number of employees increased to 20 persons, which was essential for the realization of the investments projects they applied successfully in those times.

The company had got different new technological innovations e.g. “Sous Vide” and “Cook and Chill” in addition environmental awareness could improve the competitiveness of the company.

The internal decisions also stimulated the growing process. The leadership style was conscious; the brainstorming and ad-hoc decisions were not typical. The former management types completed with the administrators quite and cautious behaviour. The procedure planning and careful decision making is essential features of this stage. The medical record of this stage is shown by Tab. 5.

4. CONCLUSIONS

In this paper – through the example of the examined family business – we identified the evolution and revolution stages of its corporate lifecycle and the management types. The results of our examinations showed that the different development stages could not be separated sharply – especially after the global crisis, because a transition period may be observed in every case, as some of the features of the former stage will survive as a residuum in the new stage. Furthermore, they step over certain stages. The structure and functions of the organization could only be established gradually. In the given case the control functions, like the importance of food safety, the administrative systems, the education of the employees in using these systems, the development of the knowledge are in focus in the Prime stage. The product development, the creativity, and the good harmony of flexibility and control helps companies manage a successful future.

As it was mentioned earlier, it is very complex problem to recognize the particular lifecycle stage of an enterprise, as the differences between stages in most cases are not separated by sharp lines. Thus, the management of family businesses shall pay attention for the warning signs of the expected changes. The “corporate medical record” and the management types we introduced in our paper, may be a useful tool for determining the most important and most specific features of the different lifecycle stages, as the key characteristics, processes and threats may be recognized by this method, as well as the possible therapies, which may give a solution for the problems.

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