

Strengthening Competitiveness of Family Business

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I. Introduction

During the last two decades, Korea has achieved a rapid economic growth at the average rate of 8.4% per annum and various changes in political, social, and economic aspects have been occurred while many a new problems have been emerged. In the process, the development of small and medium business becomes one of the many problems which need urgent national attention in Korea. Especially, it is well known fact that Korean economic development has been led by large Korean conglomerates of about 100 companies with the guidance of the Korean government. There has been support of major financial resources to these conglomerates and important business undertakings were assigned to those large companies.

However, as the economic growth reaches to the point where the Korean government becomes to realize that large companies alone can not sustain the economic growth and we need an economic infrastructure consisting of small business. Thus, beginning from the early 80's, new governmental policies for the development of small business have been programmed and implemented.⁽¹⁾ In addition, the Small and Medium Business Basic Law has been enacted to

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(1) The Korean government initiated "10-year development plan for small and medium business" from 1982.

support those programs. At the beginning, the law defined small and medium business as those companies employing less than 300 people except few specific industries such as automobile parts. But the law was revised in 1982 to distinguish between small and medium business. In the law, the small business are those companies employing less than 20 people and medium business are those employing between 20 and 300 people.

Lately, family business has emerged as one of important small business areas that need special attention. Family business had been simply regarded as a part of small business and its economic importance had been recognized at the minimum.

When the Small and Medium Business Basic Law was revised to make distinction between small business and medium business, the concept of family business was dealt in the law as a part of small business. But family business has never been separately dealt with by the government programs for small and medium business and no specific programs and promotional system have been devised except as a part of small business.

In this paper, it is discussed that the very difference in size and ownership requires different approaches to develop family business in the economy. More specifically, family business has different characteristics and, thus, requires not only good understanding of managerial factors contributing to success or failure of them but also need separate development and support plan for the survival as well as the prosperity of family business.

II. An Overview of Family Business in Korea

There is no legal definition of family business in Korea. In manufacturing section companies employing less than 300 people are defined as small and medium business and those companies employing less than 20 people are specifically defined as small business. In this connection, we may preliminary define family business in conjunction with the definition of small and medium

Table 1. Composition of Business by Size

	number of business		number of employees	
	number	%	number	%
small business	1,512,039	90.3	3,209,425	46.6
medium business	139,319	8.3	2,644,292	38.5
large business	23,578	1.4	1,023,314	14.9
total	1,674,936	100.0	6,877,425	100.0

* Source: Korean Statistics Yearbook, 1988, Economic Planning Board, Seoul, Korea.

Table 2. Production and Value-Added by Size

	production		value-added	
	100 million won	%	100 million won	%
small business	245,124	15.2	29,861	6.6
medium business	520,377	32.2	151,247	33.2
large business	849,076	52.6	274,151	60.2
total	1,614,575	100.0	455,260	100.0

* Source: Small and Medium Business Survey, 1988, Korea Federation of Small Business.

business, that is, companies which are employing less than 300 people and owned by a family. In a similar definition, the Citizen's National Bank, which exclusively deals with small scale business owned by private citizens, defines their target customers as those companies employing less than 100 people and owned by private citizens.

Table 1 shows the current status of small, medium, and large business in Korea. Table 2 shows production and value-added by size of companies in Korea.

According to the two tables, there are 1.5 million small business units which is equivalent to 90.3% of all business, while their value-added by small business account for only 6.6% the total value-added.

Table 3 shows business area of small business by industry. According to this table, more than half of all small business are engaged in wholesale, retail, food, and lodging business, which are typical small scale service business in Korea. In contrast, manufacturing among small business account

Table 3. Small business by industry

	number of business		number of employees	
	number	%	number	%
total	1,512,039	100.0	3,209,425	100.0
mining	2,090	0.1	14,399	0.4
manufacturing	195,377	12.9	754,510	23.5
construction	21,192	1.4	91,806	2.9
transportation and warehouse	18,508	1.2	79,491	2.5
wholesale, retail, food and lodging	930,559	61.5	1,681,710	52.4
banking, insurance, real estate	58,721	3.9	104,877	3.3
other social service	85,592	18.9	482,632	15.0

* Source: Same as the Table 2.

for 12.9% out of all the small business. In terms of number of employees, there are about 3.2 million people employed by small business and, again, more than half of the total people employed by small business are employed in wholesale, retail, food, and lodging business.

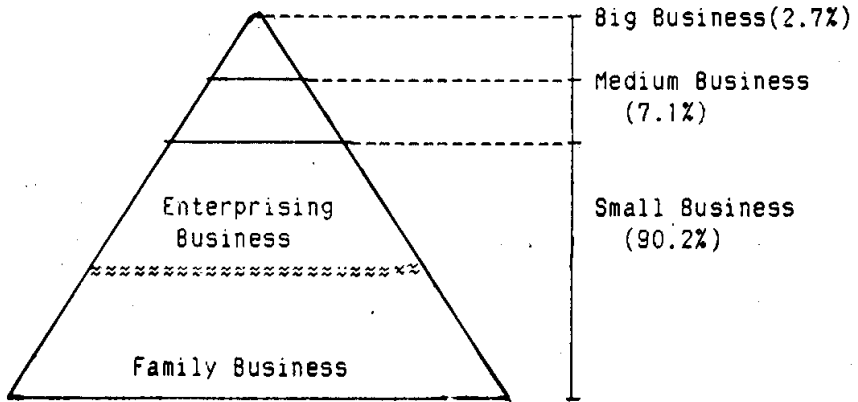
Table 4 shows the type of ownership among small and medium business in Korea. According to this table, 87.4% of all small business is typical family business owned by individual citizenship, while 73% of all small and medium business in Korea is not incorporated and is owned by individual citizens. As

Table 4. Type of Ownership in Manufacturing Sector

Type of ownership	Incorporated	Other legal entity	Individual
Number of employee			
Small Business	11.5	1.1	87.4
Employing 5~9 people	11.7	0.4	87.9
Employing 10~19 people	11.2	1.9	86.9
Medium Business	44.7	2.5	52.8
Employing 20~49 people	29.2	1.9	68.9
Employing 50~99 people	60.1	3.1	36.8
Employing 100~199 people	75.1	3.7	21.2
Employing 200~299 people	87.6	3.6	8.8
Small and Medium Business	26.3	1.7	73.0

* Source: Survey of Small and Medium Business, 1987, Ministry of Trade and Industry, Seoul, Korea.

Figure 1. Family Business vs. Enterprising Business



* Source: Mining und Industry Census, 1982, Economic Planning Board.

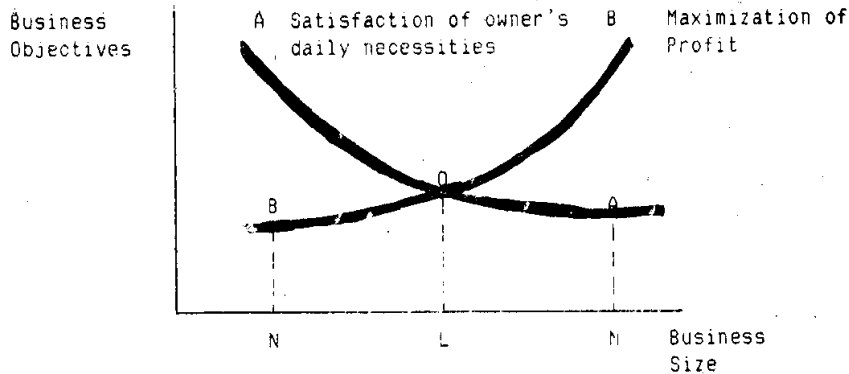
one can expect, the proportion of incorporation steadily increases as the size of firms gets bigger.

On the basis of Mining and Industry Census, 1982, Figure 1 was drawn by Economic Planning Board, Republic of Korea.

In the previous Table 4, it is shown that 26.3% of all small and medium business are incorporated and these may be called enterprising business and the rest of them may be called family business. In some respect, the objective of enterprising business is to maximize profit and the objective of family business is to satisfy the necessity of daily life for the owners. Thus, the following Figure 2 can be drawn to make further distinction between the enterprising business and family business among the small business owned by private citizens.

In the Figure 2, X-axis represents business size, Y-axis represent business objective, AA curve represents owner's satisfaction of daily necessities, and BB curve represents desire of profit maximization. As shown here, it can be noticed that as business size gets larger, the owner satisfaction of daily necessities gets less importance while his desire for profit maximization increases and vice versa. Here, the intersection of the two curves occur at OL point, which make distinction between enterprising business and family business. In

Figure 2.



other words, any small business which lies between N and L may be called family business and those between L and M may be called enterprising business.

III. General Characteristics of Family Business

Once small business is divided into two categories, it is necessary to find the general characteristics of family business in contrast to enterprising business.

First, the family business is oriented toward the owner, which means that the business revenue and family account are not separated. Thus, the primary business objective is to satisfy the daily necessities of the owner. On the other hand, the profit maximization and business expansion become secondary objectives. The style of management is such that there is no formal management system and those companies are run with small amount of capital in business area where there is no entry barrier. Consequently, there tend to be fierce competition among family business and are short supply of high quality manpower. Table 5 shows the seven characteristics of family business.

In contrast, the small-scale enterprising business is separated from the family account and has some professional managers under formal management system.

A study on Korean family business specifically listed the following

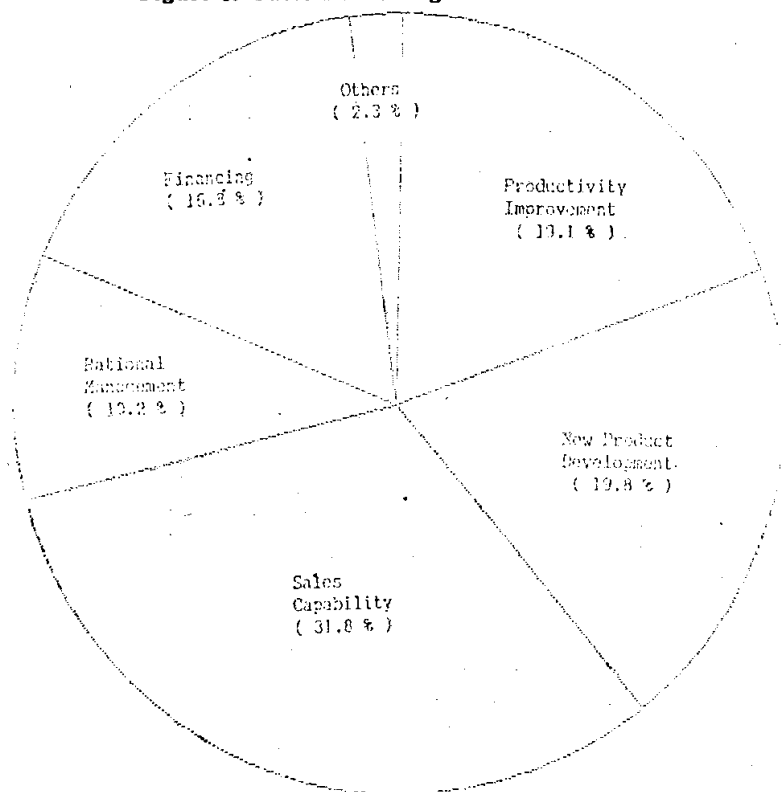
Table 5. Seven Characteristics of Family Business

Shared Value	Satisfaction of owner's daily necessities, Survival for the family
Strategy	Maximum exploitation of business opportunities which were found by the owner
Structure	One-man management, Informal organization
Style	Individualistic, Authoritative
Staff	Relationship with the owner, Solving daily problems
Skill	Production or technical skill
System(control)	Subjective criteria, Simple accounting system, Daily observation

characteristics. ⁽²⁾

- 1) Due to the small amount of capital, family business remains as a smallsize business

Figure 3. Factors Affecting Success and Failure



* Source: "Small Scale Business in Korea 1985", The Citizens National Bank, Seoul, Korea.

(2) The Citizen's National Bank, "Small-scale Business in Korea," 1985, Seoul, Korea.

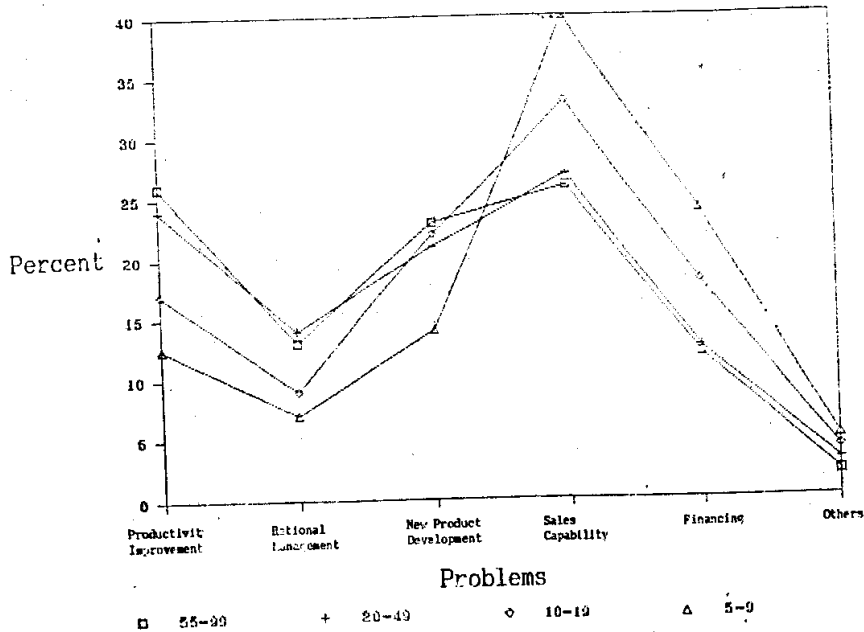
- 2) Family business is run by members of the owner family and does not have any staff and depends on the capability of the owner
- 3) Family business tend to focus on small segment of the market
- 4) Family business is so weak that some changes in business environment endanger its survival
- 5) Family business is under low productivity due to obsolete machineries
- 6) Family business is more flexible than the larger ones

The study included Figure 3, which shows typical factors affecting the success and failure of Korean family business. Figure 4 also shows major problems facing small business by size.

From the above analysis, the competitive position of family business in comparison with the medium and large companies can be shown by the following Figure 5.

Figure 5 shows that family business generally neither has competitive advantages in differentiation nor competitive edge in cost.

Figure 4. Major Problems Facing Small Business



* Source: Same as the Figure 3.

Figure 5. Competitive Positions of Family, Medium, and Large Business

Relative meaningful differentiation	High	FB/MB	MB/LB	
		FB	FB/MB/LB	MB/LB
	Low		FB	FB/MB
		High		Low
		Relative cost		

* Note: FB-family business
 MB-medium business
 LB-large business

IV. Strengthening Competitiveness of Family Business

There are various schemes of support for small business in Korea. These supports range from financial helps to tax incentives. Most common programs for small business include

- 1) financial support
- 2) information service
- 3) support for sales increase
- 4) assistance to small business start
- 5) tax incentives
- 6) cooperative activities

The above programs stems from the general conclusion with regard to the characteristics of family business in Korea.

- 1) Family business needs substantial improvement and assistance in sales and productivity areas.
- 2) Family business faces financial obstacles

But these programs are designed on the basis of problems facing small business. These programs will help small business in one way or another but there will be no ways to solve the entire problems of small business. For this reason, it is not effective if the support scheme is designed on the basis of problem.

Instead, a new approach to strengthen the competitiveness of small business is proposed in this paper. The new support scheme for family business takes the approach based on the competitive position of family business. In Figure 5, it is shown that family business is inferior to medium or large business in terms of cost and differentiation. Then it is necessary to find ways to strengthen the competitiveness in the family business. As an example, if it is necessary for a family business to strengthen the cost aspect of competition, the support measures which will lower the cost should be designed and implemented in order to achieve cost leadership. A family business will be able to attain the cost leadership when the business improves productivity through adding new or automatic production machineries or advancing the technology employed by the firm.

If a family business find its weakness in differentiation, the business must seek ways in improving customer service, product customization, information service, or technology, whatever relevant to the particular weakness, to strengthen the small family owned business.

Thus, the new approach to the family business is different from the past approach which emphasize the solution of various problems in family business. It is perfectly clear that those problems facing family business are inherent and there are no ways to solve all of them at once. But the new approach to family business places focus on strengthening competitiveness of family business. As long as the competitiveness of a family business is strengthened, there will be better chance and opportunity for survival of the family business.

Moreover, one can observe that family business in a particular industry usually have similar weakness in competitive position, In this case, it is more effective and efficient to design support schemes for family business by industry on the basis of enhancing competitive edges such as attaining least cost position or meaningful differentiation. When the new approach is applied to the design of support measure for family business, it will be more effective in helping survival and success of family business.