



Functional strategies and practices of small and medium-sized family businesses

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Abstract

Purpose – The aim of this study is to determine the context of short-, medium- and long-term functional strategies of small- and middle-sized family businesses carrying on activities in different sectors, as well as to discuss the findings from the point of view of the strategic orientations required by global competition.

Design/methodology/approach – The data of this research, having explorative characteristics, were gathered from the 36 owners-managers (from 111 people) who were leaders in constituting the strategies of their businesses. The survey used in the study consists of 32 items regarding management/human resource management, marketing, production, and finance functions. The data were evaluated with the descriptive and variance analyses.

Findings – The paper finds that the enterprises participating in this study apply or plan to apply, in the short term, institutionalism and customer-focused strategies. However, financial problems limit the attempts for developing and growing, which creates a risk for the life cycle of the businesses which cannot grow up to the right scale in the right time. Another major concern pointed out in this study is that the enterprises whose owners/managers are the members of any commercial and social organization respond to innovations and change more rapidly.

Research limitations/implications – One of the main limitations of the study is that the owner/manager perceptions were the only source of data. The lack of a measure of the efficiency level of functional strategies and practices or performance of enterprises is the second limitation. On the other hand, the small sample size does not allow generalizations to be made.

Originality/value – This study evaluates the potential of strategic management of small and medium-sized family businesses

Keywords Family firms, Functional strategies, Corporate strategy, Small to medium-sized enterprises

Paper type Research paper

Introduction

Small and medium-sized enterprises (SME) constitute a large portion of all businesses throughout the world. They heavily contribute to Turkey's economic development in terms of innovation, investment, employment, and creation of the added value. Particularly in developing countries, SMEs account for more than 90 percent of all jobs, sales, and added value (Prater and Ghosh, 2005, p. 155). SMEs in Turkey are responsible for 76.7 percent of total employment, 38 percent of total investments, and 26.5 percent of the added value (www.sanayi.gov.tr/webedit/gozlem.aspx?sayfaNo=1874). SMEs are critically important due to their help in reducing regional development gaps and creating employment opportunities in a country (Akyüz *et al.*, 2006, p. 5).

Different criteria, which vary by country, can be used to specify the size of a business. In Turkey, enterprises employing one to 49 employees are small enterprises,



those with 50-250 employees are medium enterprises, and large industrial enterprises are those with more than 250 employees (Akgemci, 2001). Based on this definition, SMEs in Turkey comprise 99 percent of the total business population.

Approximately, 95 percent of SMEs in Turkey are family businesses and this rate is similar in many countries as well. The oldest family businesses are managed by the fourth generation since the history of private entrepreneurship is not very old. Local/national studies have reported that the some general characteristics and problems of Turkish family enterprises are similar to those of other countries. Delayed institutionalism, lack of strategic management, and insisting on traditional decision-making approaches reduce the life of family businesses (Soyuer, 2004, p. 111). In fact, avoidance of formal strategic planning is a general problem of SME family business. This is linked to the inadequate knowledge of the processes involved and lack of sufficient managerial expertise (Gibbons and O'Connor, 2005).

In studies regarding family businesses, two-dimensions gain importance: the family and the business. McCann *et al.* (2001) define these dimensions to be family and business centered. The business dimension consists of the business strategy, which comes out when the functional strategies come together. It provides a direction for business decisions and practices. The strategies, the family business plans to use in the short, medium, or long term are important for understanding the strengths and weaknesses of the business. In spite of this, the business dimension is relatively less studied in the literature compared to the family dimension. This study attempts to determine functional strategies and practices espoused by family businesses and to discuss findings for Turkish family businesses in term of strategic management.

Family business and strategic management

The definition of the family businesses shows quite wide variety since different criteria are used. So, to give priority to some definitions according to whatever problematic is handled concerning family businesses can be a more suitable method. For example, Sharma *et al.* (1997) developed a definition with respect to strategic management perspective:

[...] family business as a business managed on a sustainable, potentially cross-generational basis to shape and perhaps pursue the formal or implicit vision of the business held by members of the same family or a small number of families.

Strategic management can be handled as a three-dimensional structure (Kely *et al.*, 2000): processes, content, and implementation. Strategy processes systematize the businesses to assess their mission, external environment, resources, and commitment to a strategic vision. Strategy content include the firm's strategic orientation and decisions made about specific actions in business and functional context. Implementation is about how decisions will be carried out in life. Strategic content varies according to the scale of the enterprise. Kotey and Harker (1998) declare that: Three strategy levels identified for large firms are corporate, business and functional levels. In contrary to this, in small enterprises, strategy has two levels: business and functional. Business strategy is how resources are allocated to improve or maintain competitive advantage and it shapes strategies which will be followed by departments of the enterprise (Allio and Allio, 2005, pp. 88 and 111). Functional strategies should be consistent with each other, and when integrated, should combine into a complete business strategy. Key functional areas are marketing, finance, human resources management, product, research and development (Kotey and Harker, 1998).

In small family businesses, the business and functional level is nested. This is because small firms specialize narrow scope products and owners are first responsible for the development of functions. And the founders or owners are critical decision takers in the firm's taking the competitive position. Because he/she is a link between the environment and his firm and competition strategies are determined according to the founders' perceptions (Gimenez *et al.*, 2000). They are also responsible for translating business strategies into functional strategies. Therefore, in the first step, the founder is responsible for the formulation and establishing of strategies in both business and functional level.

In spite of these assessments, in the literature it is difficult to say that there is a rich research accumulation about strategic tendencies and applications of the family businesses. Kotey and Harker (1998) state that there is a typology lack in small enterprises, this determination is also valid for family businesses. The authors also suggest that the present less numbers of researches generally focus only on the management-orientations in certain functional areas and also lack rigorous empirical base. So, well understanding strategic tendencies and applications in family businesses will contribute to understand the succession problematic as well.

Methodology

A large number of businesses in Antalya (in the south region of Turkey) are SMEs and operate in the trade and tourism sectors, with family business being the common business type. This study is a descriptive study which aims to explore the short, medium, and long-term functional strategies and practices of small and medium-sized family businesses operating in Antalya. In the study, the data were gathered from the owners/managers of family businesses who were members of both ANSIAD (Antalya Manufacturers and Businessmen Foundation) and ATSO (Antalya Chamber of Commerce) in 2006.

The survey used in the study consists of 32 items regarding management/human resource management (HRM), marketing, production, and finance functions. A five-point scale was used to specify in which time interval these strategies and practices are valid (currently applied, will be applied in two years, will be applied in three to five years, will be applied in five to ten years, or never thought about these strategies and practices).

The strategies and practices in the management area of the survey were based on the external environment of the business (reputation activities, membership in social and commercial organizations), succession planning, and total quality management (TQM) practices. Furthermore, seven items based on HRM strategies and practices (performance system, rewarding, education/training, job description, wage system, personnel recruitment) were used. Eight items were used for customer, competitor, and product/service strategies (new marketing approaches, advertising, customer satisfaction, branding), which were examined in the context of marketing strategies. Moreover, expansion strategy and its financing were also explored in terms of the production (five items) and finance (six items) functional strategies. Lastly, one item was about the probability of merging with other enterprises.

Results

Sampling features

Questionnaires were sent to 111 members to the above-mentioned chambers, and only family business owners were asked to respond. A total of 36 questionnaires were returned. These businesses operate in different sectors: 13 in trade, four in construction,

four in food, four in agriculture, three in printing, two in chemical, two in tourism, two in production, one in transport, and one in furniture. Examining the founding years of the businesses, 17 enterprises have been in operation for between 11 and 20 years, while seven enterprises have existed for more than 21 years, and seven enterprises have existed for less than ten years. The founding year information could not be found for five enterprises.

Of the participating enterprises, 64 percent had less than 50 employees, with less than nine people in four of the enterprises, ten to 49 people in 19 enterprises, 50-99 people in 11 enterprises, and more than 100 people in two enterprises. Of the enterprises, 23 are small and 13 are medium sized.

Analysis of findings

Management and HRM strategies and practices. As seen in Table I, a significant part of the management and HRM strategies already exist in the participating enterprises (empowerment of professionals, wage systems based on performance, job descriptions written). Practices such as TQM, increasing the number of professionals, teamwork, education, and a reward/punishment system are planned to be used in the short term (two years). The priority of these strategies and practices can be explained by institutionalism endeavors, because the necessity of institutionalism has often been emphasized by both scholars and practitioners in recent years. Family businesses have been seriously warned by them about this issue. In particular, formal management and HRM practices are seen to be critical since they represent the business-centered dimension of family businesses (McCann *et al.*, 2001, p. 51).

On the other hand, succession planning, which is an important issue for a family business, is in place in only ten enterprises. There are eight enterprises with a succession plan for the short term, and eight enterprises with such a plan for the medium term. Three enterprises stated that they had never considered preparing a succession plan. This may be related to the age of entrepreneurs, as these three enterprises' owners/managers are young or middle aged. The thing supporting this argument is that the relationship between the age of entrepreneurs and succession planning is found to be statistically significant when using ANOVA ($p = 0.004$). In addition, it is known that SMEs family businesses in Turkey focus on current changes rather than succession planning. However, lack of long-term planning of Turkish family businesses (Özgener, 2003; Gümüştekin, 2005; Serinkan and Cabar, 2008) may shorten the course of life and this problem also may explain why the average life of the Turkish firms is 12 years (www.atonet.org.tr/turkce/bulten/bulten.php3?sira=389). Probably, the chronically economical and political ambiguities in the country diminish individuals' and institutions' beliefs regarding long-term planning. The studies indicate that cultural values and beliefs have important influences managers' strategic thought and actions (Ayoum and Moreo, 2008). And the researchers claims that different cultures respond to strategic issues differently and short-/long-term orientation to activities (Schneider, 1989; Schneider and Meyer, 1991; Moussetis *et al.*, 2005).

Marketing strategies and practices. Most of the marketing strategies and practices are in the current agenda of family businesses, which seem to apply modern marketing approaches such as reviewing customer complaints, specifying demand variety, monitoring competitors' marketing strategies, creating a brand name, and being sensitive to customer-focused strategies. This finding is congruent with the customer

Table I.
The frequencies of
responses given to
strategies and practices

| Functional strategies and practices (<i>n</i> = 36 owner-manager) | Currently applied | Will be applied in two years | Will be applied in three to five years | Will be applied in five to ten years | Never be thought |
|---|----------------------|---------------------------------|---|---|------------------|
| <i>Management/HRM</i> | | | | | |
| Succession planning | 10 | 8 | 8 | 7 | 3 |
| Empowerment of professionals | 24 | 8 | 2 | - | 1 |
| Activities to improve prestige | 28 | 4 | 3 | - | 1 |
| Practicing TQM | 10 | 19 | 4 | 1 | 2 |
| Involvement in social and commercial | 26 | 6 | 1 | - | 2 |
| Increasing the number of professional managers | 8 | 16 | 7 | - | 5 |
| Wage systems based on performance | 22 | 10 | - | 1 | - |
| Job descriptions written | 24 | 10 | 1 | 1 | - |
| Teamworking | 15 | 16 | 2 | 1 | - |
| Education | 18 | 14 | 3 | - | 1 |
| Reward/punishment system | 12 | 13 | 1 | 1 | 9 |
| <i>Marketing</i> | | | | | |
| Using new marketing approaches | 19 | 12 | 1 | 1 | 2 |
| Spending more budget to advertising | 16 | 8 | 3 | 3 | 5 |
| Using low price strategy | 14 | 1 | - | 1 | 19 |
| Reviewing customer complaints periodically | 32 | 3 | - | - | - |
| Specifying demand variety | 27 | 6 | - | - | 1 |
| Benchmarking | 32 | 1 | - | 1 | 1 |
| E-trade | 4 | 17 | 4 | - | 19 |
| Creating a brand | 25 | 4 | 3 | 2 | 2 |
| <i>Production</i> | | | | | |
| Taking quality certification | 10 | 10 | 10 | 3 | 3 |
| Developing new product or service approaches | 16 | 13 | 2 | - | 4 |
| Capacity increase | 15 | 14 | 4 | - | 2 |
| New investments | 16 | 16 | 1 | - | 2 |
| Entering different sectors | 5 | 10 | 6 | 4 | 8 |
| <i>Finance</i> | | | | | |
| Utilizing investment incentives | 9 | 11 | 5 | - | 8 |
| Leasing engagement | 16 | 7 | - | - | 11 |
| Longterm-investment credits | 3 | 10 | 5 | 3 | 9 |
| SMEs credit | 2 | 13 | 3 | 1 | 13 |
| <i>Merging for provide of finance resources</i> | | | | | |
| Low cost | 27 | 7 | 2 | - | 2 |
| High profitability | 21 | 9 | 2 | - | 2 |

and quality-focused behavior, which is one of the typical characteristics of family businesses (Montgomery and Sinclair, 2000), and supports the view that this type of enterprise exhibits an innovative attitude against the changing conditions of the market. Also, the priority of enterprises is to follow and benchmark the competitors' strategies (32 enterprises), which can spread customer-focused strategic behavior.

On the other hand, four enterprises currently engage in e-trade, while 17 enterprises plan to do so in two years. Nine enterprises have not considered participating in e-trade. The sectors of these enterprises are commerce (eight enterprises), construction (three enterprises), and food products (three enterprises). E-trade cannot be an effective strategy for all enterprises in different sectors and with different sizes. However, it is a generally known problem that Turkish enterprises delay using e-trade. This can be explained by insufficient technological hardware, distrust of virtual reality, and a lack of legal regulations for internet usage. In 2005, KOSGEB conducted a field research in Antalya. According to this research, although 72 percent of the 601 manufacturing enterprises have an internet connection, only 7 percent of enterprises engage in e-trade (www.kosgeb.gov.tr/Ekler/Dosyalar/Yayin/175/antalya%20saha%20arastirma.PDF).

A last major concern in this section is that 52.8 percent of the enterprises never think of applying a low price strategy. Owing to the scale, productivity, and cost control problems, it may be difficult for SMEs to apply a strategy which creates a price advantage for them.

Production strategies and practices. About 44 percent of enterprises reported that they are currently trying to apply new production and service methods and 36 percent of the remaining enterprises plan to do so in the future. A similar finding is valid for the capacity increase and new investment tendencies. This shows the openness of the businesses to innovative behavior. However, since the responses regarding investments in different industries are not homogeneous, it can be said that enterprises prefer to apply innovative understanding to their existing industries, but not in different and new ones. About 6 percent of the SMEs involved in KOSGEB's field research in Antalya in 2005, reported that they do not consider investing in new industries.

On the other hand, the findings show that ten enterprises have quality certification, ten enterprises plan to have such certification in the short term, and ten plan to have quality certification in the medium term. A statistically significant relationship was found between quality certification activities and TQM practices, which means that these two practices are done together ($p = 0.00 > 0.01$). However, different studies have emphasized that most of the Turkish companies' attitudes toward quality certification are only mimetic behavior. In spite of this view, some studies indicate that in some SMEs establishing a quality assurance system, modern management understanding improves (Tanyel, 2001). Likewise, Upton *et al.* (2001) pointed out that the identification of a family name with the companies' products and services is an important motivation for quality improvement efforts.

The most interesting result of this section is the responses given regarding the merger probability. Most entrepreneurs do not espouse merging as an expansion strategy. In Turkey, it is not very common to have mergers due to a distrust of non-family partners among SMEs. However, this is, paradoxically, one of the main reasons why these SMEs cannot grow.

Financing strategies and practices. The most frequently applied financing strategies are reducing costs and increasing profitability (21 enterprises). However, the enterprises

wanting to utilize outsourcing resources (incentives, investment credits) are not homogeneous. For example, while 13 enterprises plan to use SME credit, an equivalent number of enterprises do not plan to use any credit. Likewise, the number of enterprises wanting to use long-term credit and the number never thinking of such a strategy are the same. This fact is congruent with the statistics, from different researches which show that SMEs in Turkey utilize incentives insufficiently and financial problems come first.

In the second stage of assessing findings, the means of each sub-function were taken, and functional strategies and practices were periodically compared (Table II). In this respect, most of the management/HRM strategies and practices were currently applied or planned to be applied in the short term. A similar situation exists for marketing strategies as well. While production strategies spread out between the short and medium term, financing strategies are planned to be applied in the medium or long term compared to other strategies. However, the general picture shows that enterprises prefer to spread major functional strategies they plan to realize in the short or medium term. The ratio of long-term strategies seems to be very low.

In the third stage of evaluation, correlation analysis was done to examine the relationships between different functional strategies and practices. According to this analysis, statistically significant relationships were found between management/HRM and marketing strategies ($p < 0.002$), between management/HRM and production strategies ($p < 0.016$), and between marketing and production strategies ($p < 0.001$). These findings are meaningful since they mark the harmony between the functional strategies of the enterprises, which means that a business strategy exists in the enterprises. There was no significant relationship between finance strategies and the others. This finding supports the explanations that were mentioned in the section on financing strategies and practices.

In this section, a final analysis (ANOVA test) was done to examine the relationship between the features of enterprises, such as age or number of employees, and strategies and practices. A statistically significant relationship was not found between the age of an enterprise and functional strategies. However, statistically significant relationships were found between the number of employees and management strategies ($p < 0.010$), as well as between the number of employees and production strategies ($p < 0.012$). According to the Bonferonni test, the group of enterprises employing 50-99 employees creates this difference. This may be related to small enterprises' innovative and institutionalization efforts toward becoming medium sized.

Discussion

In this research, to determine functional strategies which are still applied in family businesses and predicted to be applied in the short, medium or long term, views of owners/managers were referred to. It is supposed that major actors or strategists are owner/managers in family business, because the owners/managers have a central role and

| Functional strategies | Mean ($n = 36$) | SD |
|-----------------------|-------------------|------|
| Management/HRM | 1.81 | 0.55 |
| Marketing | 1.85 | 0.52 |
| Production | 2.11 | 0.80 |
| Finance | 2.27 | 0.94 |

Table II.
Means of functional strategies

effect on major strategic decisions and practices in family business literature (Kotey and Meredith, 1997; Morrison *et al.*, 2003; Poutziouris, 2003). Louise *et al.* (2000) suggest that the founder and founder's legacy will be central to the strategy setting and decision making, which he calls "founder centrality". There are also studies that support this fact empirically. For example, Gadenne (1998) found that there is a significant relationship between owners' goals and working capital management and employees' relations. These findings could be based on the view of the entrepreneurship school. According to this view, the future of the enterprise is created as a vision by the leader/entrepreneur, where vision represents a mental representation of the strategy (Sarvan *et al.*, 2003). Thus, it is a common practice for finance or marketing and sale departments to be managed directly by the owner in a large number of family businesses owned and managed SMEs.

Functional strategies and practices discussed in the literature are critically important for enterprises to develop, grow, and survive within the severely competitive conditions. In the literature, regardless of size, formalization/institutionalism is strongly advised for improving internal effectiveness. A large number of studies on family enterprises that could not survive include tragic stories of not institutionalizing. In particular, HRM practices are typical indicators of formalization. Other than these practices, a number of strategic behaviors, such as a customer focus, legitimation of quality (certification), information intelligence, and processing, are applied. On the other hand, the recent importances of activities that create prestige in the external environment have been fortified. Even formalization itself is perceived as an action that can improve the prestige and image of the business in its environment.

The enterprises participating in this study give priority to management and HRM strategies and practices, which exemplifies their effort to become an institutionalized business. The owners/managers of the participating enterprises are the members of ATSO and ANSIAD, as mentioned above in the methodology section. The findings may be related to this membership since these organizations have a leadership role through providing continuous education and consultation support to their members. The enterprises which benefit from these supporting facilities are seen as role models for other enterprises, and in this respect, their prestige increases. However, to test the validity of this comment, there is a need for comparative studies of different business groups.

In the context of marketing strategies and practices, enterprises' sensitivity to the customer focused understanding is another important fact. This may be related to the type of business. The vast majority of SMEs are trade and service enterprises. However, no statistical relationship could be tested due to the small sample. In another study on the strategic orientations of member entrepreneurs of ANSIAD, no statistical relationship could be found between strategic orientation and industry type (Durmus and Baser, 2005). Since local businesses have closer and longer lasting relationships with their customers, it is not surprising that a customer focused-orientation is not limited to any industry type.

The most interesting finding of the current research is that the enterprises are not very willing to use investment incentives and credit opportunities in Turkey. This can be explained by the conditions and practices peculiar to country. The recent SME incentives give priority to industrial businesses in Turkey, which is disadvantageous for trading and service businesses. Moreover, bureaucratic problems encountered during the incentive taking process are dissuasive for most entrepreneurs. On the other hand,

high credit costs caused by high real interest rates took place among the important financial problems. These reasons make financial outsourcing risky for enterprises and cause them use other financing (www.kosgeb.gov.tr/Ekler/Dosyalar/Yayin/108/KOBIBANKACILIK.PDF). Another study conducted in the north region of Turkey found that such businesses prefer to use internal financial resources due to high capital costs (Akyuz, 2004). Also in some studies concerning the family businesses, there are findings that these enterprises have adopted conservative financial strategies. Kreiser *et al.* (2006) states that this situation is related to the protection of the limited financial sources. According to Upton *et al.* (2001), this is not surprising, given previous research suggesting that the primary focus of family firms is on “maintaining family control and avoiding debt” and that family firms often maintain a long-term strategic perspective (cited in Kreiser *et al.*, 2006).

Limitations

One of the main limitations of the study is that owner/manager perceptions were the only source of data. The lack of a measure of the efficiency level of functional strategies and practices or performance of enterprises is the second limitation. On the other hand, the small sample size does not allow generalizations to be made. However, there are a limited number of studies about the functional strategies and practices applied by family businesses in the literature. For this reason, this study would be helpful to give insights regarding short, medium, and long-term strategic behaviors. Also, limiting the current study is the difficulties of conducting research in family businesses. Owners/managers particularly perceive any kind of information to be a family secret. This perception may be one of the reasons for the low response rate. However, a quantitative study alone is not sufficient for determining owner/manager perceptions. To gather detailed data, in-depth interviews are also required. Additionally, the sample size of research is not large enough to represent all Turkish family businesses SMEs in a statistical sense. However, the data and results give some insights and shed some light upon the functional strategies and practices applied in these types of enterprises.

Conclusion

Family businesses constitute the vast majority of SMEs throughout the world. Family business studies often state that family businesses experience problems in behaving according to the strategy and practices in accordance with contemporary business understanding. Thus, the lack of a strategic perspective and problems of activity and productivity are often observed in family businesses. However, this fact should not mean that they are insensitive to strategic actions required by global competition or that they do not try. In fact, as is widely known, SMEs can exhibit innovative and sensitive attitudes toward the changing conditions of the market. Yet, to have effective results, enterprises need to develop and apply mutually congruent functional strategies and practices. Thus, strategy development and planning processes are increasingly identified as a primary source of adaptation and learning in organizations (Gibbons and O'Connor, 2005, p. 172).

The enterprises participating in this study apply or plan to apply, in the short term, institutionalism and customer-focused strategies. Furthermore, harmony exists between functional strategies. However, the performance of the enterprises should be reviewed in order to discuss the efficiency and competency of these practices. On the

other hand, financial problems, which are among the main problems of Turkish businesses, limit the attempts for developing and growing, which creates a risk for the life cycle of the businesses which cannot grow up to the right scale in the right time.

Another major concern pointed out in this study is that the enterprises whose owners/managers are the members of any commercial and social organization respond to innovations and change more rapidly. They exhibit learning organization and isomorphism tendencies. For this reason, it is our advice that these types of organizations should develop systematic programs and projects directly toward family businesses, and they should provide professional support to family businesses experiencing difficulties against global competition.

Finally, family business studies are needed for detailed and extensive explorations of family businesses. Different behaviors can be seen in both business and family dimensions. The relationship between these two dimensions is unique to these enterprises and should be examined very carefully. An increase in the number of studies regarding the strategic behaviors of family businesses could provide a base for developing an effective strategic management for such businesses. However, as Sharma *et al.* (1997) has warned, it must be remembered that in these types of studies the family businesses are not a homogenous group and so what types of families, businesses, and business environments are being studied must be brought to light.

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