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FAMILY ENTREPRENEURSHIP IN THE SME SECTOR

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Abstract

Family businesses play an important role in social and economic life in Poland and in the world. This article characterizes the specificity of family enterprises, and presents the results of studies conducted in Poland on this group of companies.

Keywords: *family business, organizational culture, family entrepreneurship.*

JEL Classification: D13, D21, D23.

1. Introduction

Family businesses are an extremely popular form of property and business in the contemporary world. To a large extent these companies are a source of success and driving force of the developed economies. Due to the value brought to the economic and social life family firms should be as a valuable element of the business sector, whose development should be supported. Also in Poland family firms are one of the largest employers in Poland.

2. The specificity of the family business

Ways of defining family business found in the literature has evolved over the years, but usually it is stressed that the family business is an entity in any legal form in which the majority of ownership and management remain in the hands of one family (See. P.A. Frishkoff, Understanding

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Family Business: What is a Family Business?, Oregon State University, Austin Family Business Program, 15 April, 1995; J.H. Chua, J.J. Chrisman, P. Sharma, Defining the family business by behavior. Entrepreneurship Theory and Practice, 1999, Vol. 32 No. 4, s. 19-39; A. Lyman, Customer service: does family ownership make a difference? Family Business Review, 1991, Vol.4 No. 3, s. 303-324; K. Safin, Przedsiębiorstwa rodzinne. Istota i zachowania strategiczne, Wyd. AE we Wrocławiu, Wrocław 2007, s. 8-10)
It suggests that, although the debate on this topic is far from exhausted, there is general agreement that a definition of family business has to incorporate three essential elements: the family, the business and ownership. This was first illustrated by the '3-circle' model of family business developed by Tagiuri & Davis in 1982. The experts support the use of the 3-circle approach when studying the phenomenon of family businesses (Overview of family–business–relevant issues, 2009) (Figure 1).

The essence of the family business is the combination of two components - family and business. This sets the operation of the entity, determines the goals, affects the organizational culture and strategies for action. Family businesses have much in common, which shows their identity, specific values, advantages and problems (Manifest Stowarzyszenia Inicjatywa Firm Rodzinnych, 2008).

A European definition of a 'Family Business' is following: a firm, of any size, is a family business, if (Overview of family–business–relevant issues, 2009):

(1) the majority of decision-making rights is 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.

The literature emphasizes that family businesses because of their specificity are more likely to create wealth for future generations, often tend to invest long term and does not designate the goal of achieving short-term profits, which means that they play an important role in stabilizing the economy (P.D. Hall, 1998).

Moreover, the bargaining power of family businesses is the very high competence of its collaborators, as well as self-motivation and willingness to adhere to the unwritten norms and rules, full of trust and mutual loyalty (Zbiegiem-Maciąg L., 1999)

Family companies throughout the world operate under the same logic and are similar in terms of its constituent elements, processes occurring in them and the barriers and problems. According to this theory family firms show no clear national specificities, and the perceived differences in the way they operate is based upon the level of socioeconomic development of the country or a particular stage of enterprise development (A. Winnicka-Popczyk, W. Popczyk, 2004).

There are lots of typologies of family business. Sułkowski used the firms' objectives, cultural characteristics and management style to draw up the following typology of Polish family firms (Sułkowski Ł., (2004):

- family game: prevailing are family aims, partnership culture, manager's authority; the company is controlled by several family members but managed by persons from outside; 2.5 % of the enterprises;
- family possessions: family aims are prevailing, patriarchal culture, manager's authority; the company is controlled mainly by the most senior family member but managed by persons from outside; no such companies were identified;
- subdued by the family: family aims are prevailing, partnership culture, owner's authority; the company is managed by an informal family council, nepotism occurs; 15 % of the enterprises;
- possessions of the head of the family: family aims are prevailing, patriarchal culture, owner's authority; the company is owned and managed by the founder or his male descendants, many family members work in the company, authoritarianism and nepotism occurs; 45 % of the companies;

- family treasure: company aims are prevailing, partnership culture, manager's authority; the company is controlled by many family members and managed by persons from outside, development of the company is a priority; 2.5 % of the companies;
- economic base of the family: company aims are prevailing, patriarchal culture, manager's authority; the company is controlled by dominating family member(s) and managed by persons from outside, development of the company is a priority; no such companies were identified;
- family heritage: company aims are prevailing, partnership culture, owner's authority; the company is managed by the owner, company aims are a matter of priority; no such companies were identified;
- emanation of the owner: company aims are prevailing, patriarchal culture, owner's authority; authoritarian management and control by the owner or his descendants, development of the company is a priority; 35 % of the companies.

A Spanish typology shows that the small, founder-dominated family businesses are of particular relevance and that the complexity of family-business relationships increases with the age of the company (Overview of Family Business Relevant Issues: 2008):

- Captain ("Capitán"): They represent 24 % of the existing family businesses in Spain. They are usually SMEs strongly controlled by the founder and have little complexity, both in terms of the family and the business. The average age is 28 years old;
- Emperor ("Emperador"): They represent 19 % of all cases. These enterprises have a large size and both the family and the enterprise are very complex, whereby the person of the founder is central. Their average age is 41 years old;
- Family Team ("Equipo Familiar"): They represent 22 % of all Spanish family businesses. The enterprise complexity is low, but the family complexity is high ("there is too much family for such a small enterprise"). Their average age is 45 years old;
- Structured ("Estructurado"): They represent 16 % of all cases. The enterprise complexity is high, but the family complexity is relatively low. The average age is of 37 years old;
- Corporation ("Corporación"): They represent 18 % of Spanish family businesses. Both the enterprise and the family are very

complex, so they are large enterprises run by a large and extended family. The average age of these enterprises is 61 years old.

The innovation of family businesses is absolutely correlated with commitment and openness to new challenges of their founders who usually built the enterprise from the very foundations. All the capital comes from their personal sources. The businesses engage all their time, eagerness, energy, knowledge, contacts and capabilities in the development and construction of their competitive advantage. The founders treat the business as if it were their own child, another family member whose appropriate formation shall guarantee its good functioning in the future. The business development, the appropriate design thereof will bring about the proper development of such firm. Consulting, common discussion of the issues, search for the best solutions by the family members also enables to look at some problems from various angles. Concentrated on building the firm, the families do not count on quick profits. When the profits eventually appear, they invest them in the business instead of using them for consumption purposes. They focus on studied, long-term actions.

3. Family entrepreneurship in the world

In 2006, the American Family Business Magazine carried out surveys about the largest family businesses in the world. It presented 250 most powerful family businesses from 28 countries of the world whose annual income amounted to a minimum 1.2 billion dollars. (Table 1).

A lot of them operate on their domestic markets, but most run parallel business activity in several countries. (J. Zukowska)

Enterprises from the United States occupy as many as 130 of all the 250 positions on the list of the largest family businesses. France comes right after them with 17 enterprises and Germany with 16. Among the leading 25 businesses, only 7 come from the USA. The case of Korea, where family businesses dominate also is interesting, because only three businesses appeared on the „Global 250 list. (The ranking of 250 most powerful family businesses in the world.)

The following figures constitute another proof of the power and significance of family businesses in the world (Zukowska):

- 75% European businesses are family businesses;

- 25% of the list of 100 largest European businesses are family businesses;
- 37% businesses of the Fortune 500 list are family businesses;
- 60% public companies in the USA are controlled by family businesses;
- family businesses produce on average 55% of GNP;
- in most European countries family businesses provide more jobs than other enterprises.

The majority of European SMEs - which constitute the backbone of the European economy - constitute family businesses, while also the majority of family businesses are SMEs. At the same time there exist large, internationally active family businesses. (Graph 3), (Overview of Family Business Relevant Issues: 2008)

From the other point of view, similar to the European economy in general, the family business sector is dominated by SMEs, and particularly by micro enterprises with less than 10 employees.

For Denmark, for example, research shows that all family businesses are SMEs, with about 80 % having less than 25 employees (which correspond to the total average for businesses in Denmark). A very similar result is found for Finland and Ireland where 98 % of family businesses employ less than 50 staff members and in the Netherlands where 97 % of family businesses are SMEs (and the majorities thereof are micro-enterprises with less than 10 employees). In Lithuania, more than 90 % of the family businesses employ up to 9 persons, and the remaining about 10 % constitute small firms with less than 50 employees. At the same time, other data indicates a share of micro-enterprises within the family business population of 2/3 and 6 % being medium-sized firms.

The analyses in 33 European countries covered by the study on hand pinpointed some aspects that can be considered to be specific for family businesses or occur more often in family than in non-family businesses. These major characteristics have been structured and classified into the dimensions shown below (see Graph 4). (Overview of Family Business Relevant Issues: 2008)

The European Commission should continue to promote exchanges of information. Family businesses already benefit from existing EU policies. The European Commission should continue to mainstream familybusiness-relevant issues in all its actions, particularly in innovation policy, education and regional policies (highlighting the role family businesses play in stability and long-term growth of regions).

Moreover, there are lots of organisations in many countries (for example, the international Family Business Network, German Arbeitsgemeinschaft Selbständiger Unternehmer, the Spanish Instituto de la Empresa Familia ASMEP French or Italian Associazione Italiana delle azienda Familliari), whose aim is to promote the theme of family businesses

4. Family businesses in the SME sector in Poland - presentation of research results

In the structure of active companies operating in Poland, and thus actually performing the activity, dominate micro enterprises, or firms employing between 1 and 9 employees. In 2007 they accounted for 96% of active companies. Small firms (from 10 to 49 employees) are 2.5% of firms, while less than one percent is medium-sized companies (from 50 to 249 employees). A small part of the total number of firms (0.2%) are large enterprises (employing at least 250 employees (Przedsiębiorczość w Polsce 2009).

The dynamics of changes in the number of small businesses operating in the economy is strong. Survival rate of enterprises in 2008 amounted to 70%. This means that on average 30% of newly created operators leave the market in the short term, a five-year period survive only every third company (GUS data published 23rd July 2007).

Family businesses dominate among the SME sector. Depending on the definition, it is estimated that family businesses in the former Fifteen EU countries and the United States represent from one-third to more than 70% of all entities in the market, produce between 20% and 70% of GDP and employ between 27% to 70% of all workers. Most family businesses operate in the SME sector.

According to research conducted by the PARP family companies in Poland constitute 36% of the SME sector and produce at least 10.4% of Polish GDP. These are mostly micro enterprises (90%). Nearly one in ten (9%). Family-owned company is an entity employing from 10 to 49 employees and only 1 percent belongs to medium-sized companies. The average age of the family business is about 14 years.[1] Most family businesses operate in industries that do not require large financial outlays at the time of establishment. Family businesses dominate in retail (45%) and in industries such as transportation, manufacturing, hospitality.

Another important element in running battles with recession is the external support. Given the importance of family businesses for the economy and popularization of innovation in 2009, Polish Agency for Entrepreneurship Development has launched a project funded by the Operational Program Human Capital: "Family Firms", whose purpose is to develop and disseminate the most effective forms of support to family businesses (FR). The project was to cover at least 300 people from at least 50 family businesses.

During the analysis of the statistics of enterprises operating in Poland, the question was posed: what determines the fact that some companies are in the market and become successful, and other companies disappear? Are family businesses more sustainable and competitive in relation to non-family firms? Is it possible to identify specifics of family firms compared to non-family firms of similar size and business? These research problems were the subject of analysis in empirical research conducted among 103 companies in the sector of SMEs operating in the Podlaskie Voivodship[2] (Figure 4).

The study was conducted in 2009. Of all those surveyed companies, 65 firms identified their company as a family one. 50 family business owners indicated that they are the first generation leading the company, 13 respondents are engaged in a second generation company, a respondent is the third generation leading company, and one respondent represented the

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[1] The study assumes that a family business is every entity in the sector of micro, small or medium-sized enterprises, of any legal form, registered and operating in Poland, in which: at least two family members are working in this enterprise, at least one family member has a significant impact on the management, family members hold shares in the company, Firmy rodzinne w polskiej gospodarce – szanse i wyzwania, PARP, Warszawa grudzień 2009, s. 15

[2] Study results presented in this article are part of the research work done by the author, Dr. Krystyna Leszczewska in a team headed by prof. dr hab. Romana Sobieckiego within the statutory College of Business Administration of Warsaw School of Economics in 2009 r., " Family businesses - the state of knowledge and success factors of small firms'

fourth generation business owner. In determining the research group, we used the data from the Business Register, the Statistical Office of the Voivodeship and the Chamber of Industry and Commerce.

Among the study sample 52.4% of operators are active in cities with population over 50 thousand residents, 34% in urban areas with less than 50 thousand residents, while 13.6% of businesses are located in the countryside. Among the surveyed firms dominate service (68%) and commercial (45.6%) companies. Only 15.5% of the surveyed companies are of manufacturing profile.

Organizational and legal form of companies surveyed reveals the dominance of the typical for region individual business (64.1% of respondents). Of the companies surveyed 15.5% were partnerships, general partnerships 8.7%, 8.7% limited liability companies. The study population accounted for 25.2% of sole proprietorships, 53.8% - microenterprises. The fewest in the sample were medium-sized enterprises employing 50 - 249 people, they accounted for only 4.9% of the surveyed companies.

Companies covered by the survey operate mostly in the local market (the area of the municipality or county in which the headquarters is located). 32.0% of companies operate in the Podlaskie region, 17.5% of companies are nationwide companies, only 5.8% are companies operating in the international market. The entities operate in the market for a relatively long time - 34.9% of respondents operate more than 10 years, 31.6% of companies operate from 6 to 10 years. Long time operation of the entities in the market suggests that respondents' opinions expressed in the survey are based on long-term experience in doing business.

Family Firms in the study in the vast majority (93.8% response rate) intend to continue business in the next 5 years. Among non-family firms the same declare 86.8% of respondents. Only a small percentage of respondents plan to cease in the near term economic activity (3.1% of those families and 2.6% non-family entities).

Few respondents are not resolved, about future decisions. 41.5% of family businesses and 47.4% of non-family companies plan to increase the scale of operations in the near term. 23.1% of family businesses and 5.3% of non-family firms has no such intentions. Other respondents to the question about plans to expand business replied "I do not know."

Estimated willingness to continue the business does not bind itself specifically to the planning of development, expansion, merger with another, stronger entity. These points to the recessive nature of the business, or the fear of increased risk associated with conducting business on a larger scale. The vast majority of businesses surveyed (86.2% of family businesses and 78.9% of non-family firms) did not plan to change the organizational and legal forms of business. Only 2.6% of non-family companies surveyed planning to merge with another small body.

None of the family companies participating in the study did not express such intent. 7.9% of the respondents representing the non-family companies and 1.5% of the respondents representing the family ones wish to join a large company operating in the industry. Declaration of accession to the cluster which brings together producers of the industry has made only 2.6% of respondents from non-family firms. Family businesses do not plan such activities.

Searching for answers to the question: "what determines the strength of the company and its survival in the market and allows it to be successful" leads to the direction of finding the relationship between business strategy and its condition. The respondents were posed the question whether the company has a strategy for action and draw up strategic plans?

Strategic vision defines the direction of the company, specifies owners' ideas about its future and helps cope with rapid changes and uncertain economic environment. Research conducted several years ago in the United States showed that over two thirds of the owners of family businesses (69.4%) did not have a definite strategic plan. Only 18.5% of surveyed family businesses and 13.2% of non-family firms responded that the company has set out a strategy for action in the form of a document.

Much more often, respondents said that the company does not have a formal strategy, but it is in the "mind" of the leader of the company (49.2% of family businesses, and 44.7% of non-family firms). Every third respondent said that the company has no strategy; it works according to the intuitive intentions of its owners. The distribution of responses confirms data from other studies and literature that small businesses are generally driven by short-term perspective in action, a big role in their decisions plays the owner's intuition and observation of the current environment

Entrepreneurs asked about the reason for the lack of strategic action plans, mostly answered that they think a small company does not need a strategic plan. This view was expressed by a larger group of non-family business owners (39.5% indications) than family (29.2% indications). Both the owners of family businesses and non-family stressed that the strategy and strategic plan does not protect against the risk (26.2% and 26.3% response rate).

Almost one fifth of the respondents indicated that they lack time to draw up a strategic plan. Every tenth family entrepreneur believes that he lacks the skills to draw up strategic plans, or that a formalized strategy restricts the freedom to respond to changes that occurred in the business environment. Interestingly seem respondents representing companies who produce formal documents defining the vision and direction of future operations. Family businesses often suggested that the strategy enables more efficient use of available resources (13.8% indications) or let better understand customer needs and improve relations with them (13.8% indications).

Maintaining the company's long term needs to adapt to the changing external environment and identify the strategic directions of activities. The ongoing technological and market changes eliminate many existing products and services. Changes noticed too late cause a decline in revenues and profits. This situation is called a strategic surprise. Entrepreneurs, who declared that they plan to expand their business, were asked the question: which business strategies they will implement.

The most common option, indicated by the family business owners is to search for new markets (40.0% response rate) and sales growth in existing markets (32.3% response rate). Fewer surveyed companies declare to improve existing products and technologies (26.2%) and diversification of activities (9.2% response rate) in the near future. Every tenth family business owner participating in the study intends to focus on the reduction of unit costs or on a specific segment of the market. Distribution of answers given by non-family businesses owners is different from the responses of family businesses owners.

Non-family companies plan to expand sales more often in markets in which they will have worked up to that moment (42.1% indications against 32.3% for non-family firms). It is worth mentioning that far fewer non-family companies than family ones plan to improve products and production technology and reduce in unit costs.

Surveyed entrepreneurs were asked whether their business strategy plans they would describe as risky or conservative (Table 2). Family businesses, where family members identify their way of life with the development and prosperity of the company, are in favour of consistency and continuation of the project and keeping the family tradition. It determines the conservative nature of strategic behaviour, risk aversion that guarantees the longevity of these entities.

As many as 40.0% of respondents from family enterprises identified the nature of pursued strategy as conservative. In the group of non-family firms such answer was given by 26.3% of respondents. This confirms the observation that non-family companies more frequently guided by the theme of short-term financial gain are willing to accept higher risks in the projects undertaken. Only about 8% of family and non-family businesses assessed the nature of their strategic plans as risky. Many entrepreneurs are not able to give an unequivocal answer to this question.

5. Summary

There is a growing awareness of the importance of family businesses in the economy and social life in Poland an in the world. Many European countries developed systems to support such enterprises.

The analysis shows that the functioning of family businesses shows some specific features compared to non-family firms. Small family businesses can be considered more durable than non-family firms of similar size - the vast majority (93.8% response rate) they intend to continue to operate a business within the next 5 years.

The willingness to continue the business does not bind itself specifically to the planning of development, expansion, merger to increase market share or a stronger entity. Family-owned companies usually build strategies for action for a longer period and are based on networks of personal relationships of the entrepreneur. For small businesses, these relations allow to build the target group of customers, suppliers and subcontractors.

Family businesses, where family members identify their way of life with the development and prosperity of the company, are in favour of consistency and continuation of the project and keeping the family tradition. Strategic vision defines the direction of the company, specifies owners' ideas about its future and helps to cope with rapid changes and uncertainty of the economic environment. Owners of small family businesses, more often than owners of non-family ones, declared that the company has set out a strategy for action in the form of a document or pursuits an informal strategy created by the leader of the company.

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Table 1: The ranking of 50 most powerful family businesses in the world

1. Wal-Mart Stores 2. Ford Motor Co. 3. Samsung 4. LG Group 5. Carrefour Group 6. Fiat Group 7. Ifi Istituto Finanziario Industriale S.p.A. 8. PSA Peugeot Citroën S.A. 9. Cargill Inc. 10. BMW (Bayerische Motoren Werke AG)	11. Hyundai Motor 12. Koch Industries 13. Robert Bosch GmbH 14. SCH (Banco Santander Central Hispano S.A.) 15. ALDI Group 16. Auchan Group 17. Pinault-Printemps Redoute 18. Ito-Yokado 19. Tengelmann Group 20. J Sainsbury	21. Motorola 22. Viacom 23. Novartis Group 24. Tyson Foods 25. Bouygues 26. Roche Group 27. Bertelsmann 28. Weyerhaeuser Co. 29. Loew's 30. News Corp.	31. Karstadt Quelle 32. Michelin 33. Publix Super Markets 34. Bombardier 35. Mars 36. L'Oréal 37. Lagardère 38. Gap 39. LVMH Moët Hennessy Louis Vuitton 40. Groupe Danone	41. General Dynamics 42. Anheuser-Busch Cos. 43. Cathay Life Insurance 44. Magna International 45. Otto Group 46. Comcast 47. Sodexho Alliance 48. Winn-Dixie Stores 49. Power Corporation of Canada 50. Ikea

Source: The ranking of 250 most powerful family businesses in the world. Family Business Magazine, 2/2006, Family Business Publishing Company, Philadelphia

Table 2 The planned business strategies*

Specification	Total Enterprises	Family businesses	Non-family enterprises
Sales growth in existing markets	35,9	32,3	42,1
Searching for new markets	38,8	40,0	36,8
Upgrading existing products and technologies	21,4	26,2	13,2
Diversification of activities	9,7	9,2	10,5
Focusing on a specific segment of the market	7,8	10,8	2,6
Focusing on the reduction of unit costs	7,8	10,8	2,6

Source: own research
* Respondents could indicate more than one strategy

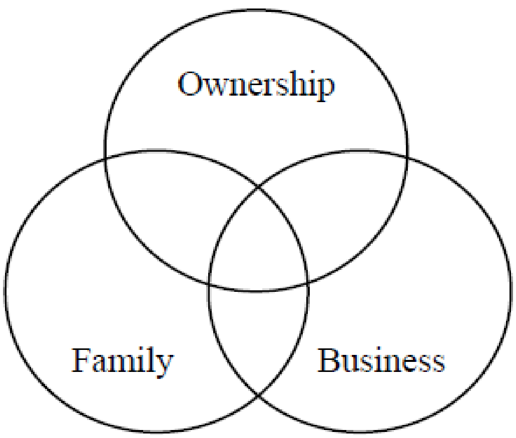

Figure 1:"Circle" model of family business

Source: Overview of family–business–relevant issues: research, networks, policy measures and existing studies, European Commission enterprise and industry directorate-general, November 2009.

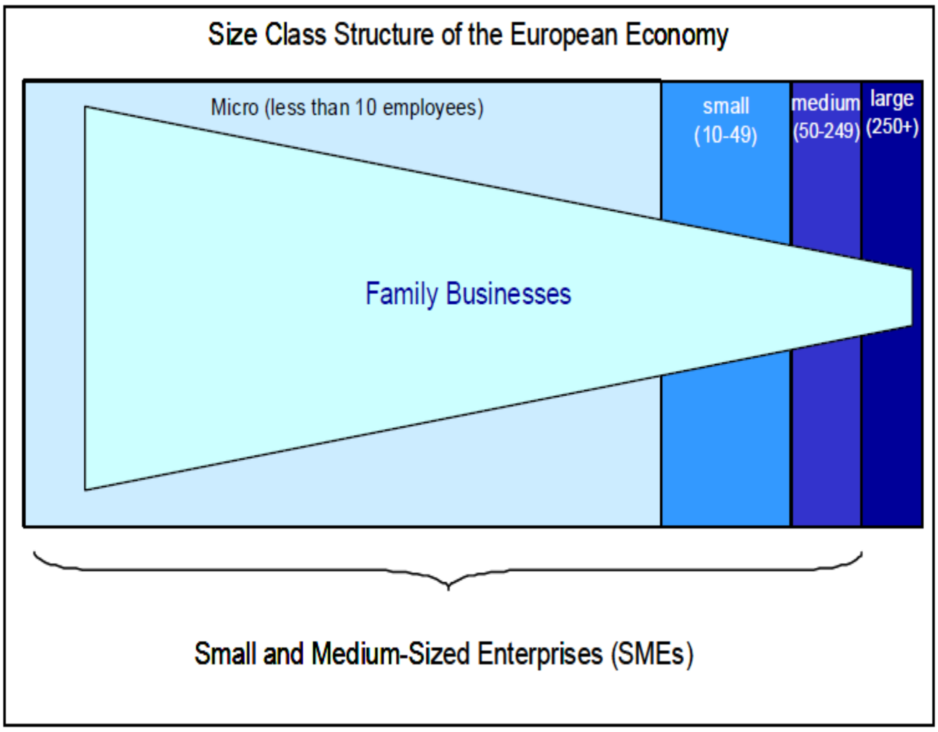

Figure 2: Size Class Considerations of the European Economy and the European Family Business Sector

Source: Overview of family–business–relevant issues: research, networks, policy measures and existing studies, European Commission enterprise and industry directorate-general, November 2009.

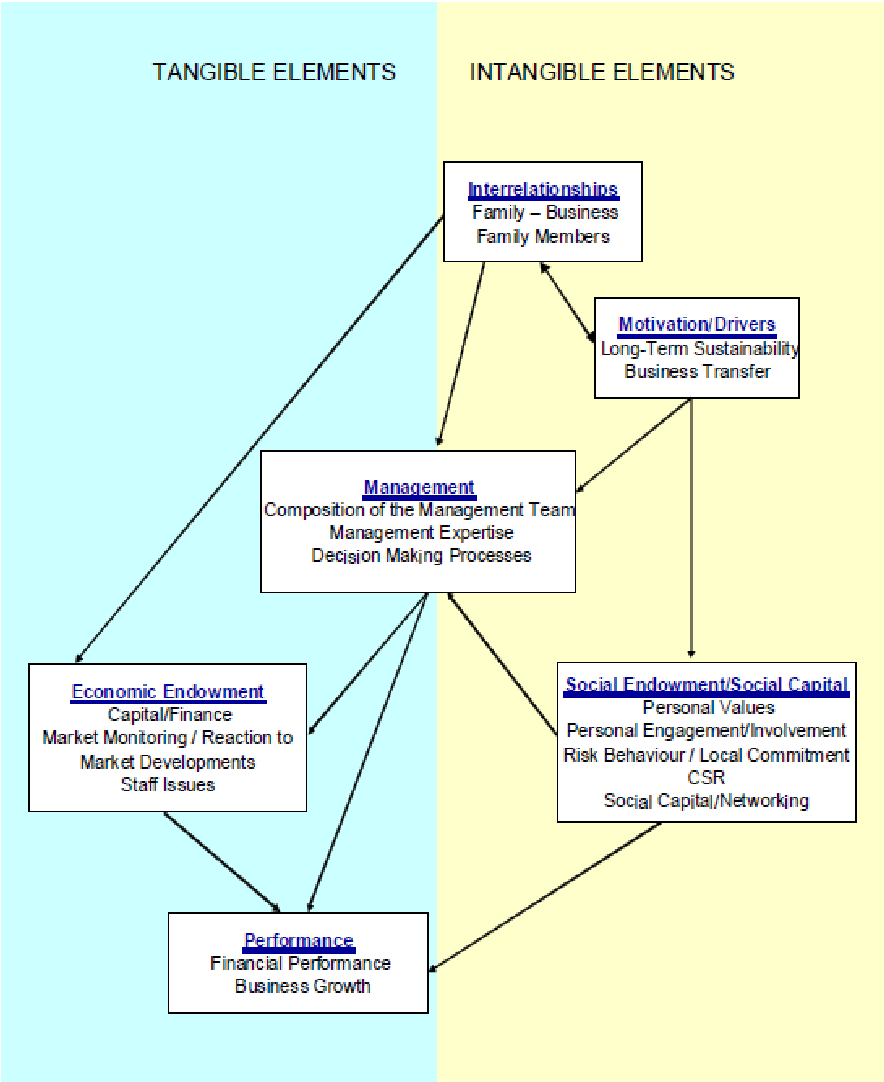

Figure 3 Main Specific Characteristics of Family Businesses

Source: Overview of family–business–relevant issues: research, networks, policy measures and existing studies, European Commission enterprise and industry directorate-general, November 2009.

Voivodships

- dolnośląskie
- kujawsko-pomorskie
- lubelskie
- lubuskie
- łódzkie
- małopolskie
- mazowieckie
- opolskie
- podkarpackie
- podlaskie
- pomorskie
- śląskie
- świętokrzyskie
- warmińsko-mazurskie
- wielkopolskie
- zachodniopomorskie

Figure 4: Voivodship in Poland

Source: Central Statistical Office of Poland, Warsaw, http://www.stat.gov.pl/gus/5840_5961_PLK_HTML.htm