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**Published by:****ERENET NETWORK**

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[www.erenet.org](http://www.erenet.org)

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ISSN 1789-624X

**CONTENT**

<b>WINTER MESSAGE</b>	2
<b>PAPERS</b>	
<b>Opening Statement at the WS on Family Businesses</b> Ambassador Traian Chebeliu	3
<b>Opening Statement at the WS on Family Businesses</b> Colin Dürkop	4
<b>Family Businesses in the European Union</b> Antal Szabó	5
<b>Significance of Family Businesses in Germany and their Innovation Activities</b> Daniel Mitrenga	17
<b>Family Businesses in Greece</b> Chrysa Agapitou	20
<b>Informal Governance and its Impact on Transnational Uncertainty of Transnational Companies - The Case of Social Relatedness</b> Kim-Leong Chung - Joerg Freiling - Sven M. Laudien	29
<b>Family Businesses - Focusing on Succession</b> Judit Csákné Filep	38
<b>NEWS</b>	
• Workshop (LER-WG - ECGC), Budapest	50
• Workshop on Family Businesses and SMEs, Istanbul	51
• Meeting of the BSEC Working Group on SMEs, Istanbul	56
• EU - South Caucasus Cooperation	57
• Declaration of the 2nd Eastern Partnership Business Forum, Vilnius	59
<b>INSTITUTIONAL PROFILE</b>	
• What is COSME?	61
• International Investment Center Moscow and Geneva	62
• Institute of Entrepreneurship Development in Larissa	63
• YES-Youth Employment: Fostering Entrepreneurial Skills	65
<b>NEW EVENTS – CALL FOR PAPERS</b>	
• GlobalConference on Managing in Recovering Markets, Gurgaon, India	66
• Business for Peace - Strategic for Hope. Annual Conference of the European SPEES Forum, Ypres, Belgium	67
• MEB 2014 - 12th International Conference on Management, Enterprises and Benchmarking, Budapest	68



## WINTER MESSAGE OF THE SCIENTIFIC DIRECTOR

### Distinguished Readers and Friends,

2013 is coming to the end. The hope of stabilising the European economy, overcome the economic crises, decrease the level of unemployment - especially among the young - has yet to be realised. According to Eurostat's October 2013 estimate, 26.654 million men and women in the EU-28, of whom 19.298 million were in the euro area (EA-17), were unemployed.

Compared with September 2013, the number of persons unemployed decreased by 75,000 in the EU-28 and by 61,000 in the EA17 euro area. Of serious concern however is that youth unemployment rates are much higher than the unemployment rate for all ages. This reflects the general difficulties faced by young people in finding jobs. As rule of thumb, one out of every five persons available for the labour force is unemployed and looking for work but the impact on youth particularly serious and this in certain parts of the European Union; Greece and Spain over 55%, Italy, Portugal and Slovakia 35%, Cyprus 31%, Ireland 29%, Bulgaria and Hungary over 28%. It is a situation despite the EU actions such as the "Youth Employment Initiative" and Working together for Europe's young people - A call to action on youth unemployment". It would appear these efforts have been dismissed as "Socialist Brigade Movement' slogans" a la Brussels.

Youth unemployment not only has a personal effect on each individual and their familie, it has an influence on public attitudes towards the structure of the EU itself. Since time immemorial migration has been the means to a better life. The principle of the free movement of peoples across the region is well established in the EU but there are serious economic inequalities among the constituent parts. Those countries, such as the UK, who have been able to develop welfare systems are wary of migrants coming from less generous countries in Eastern and Central Europe. The question being asked centres is on incentives for population movement Is it unemployment and housing benefits normally available to citizens and so originally paid for out of British taxation? Politicians, in particular those Eurosceptics who dislike inclusion in the EU, have been using this to mobilise public opinion in their interest. Inevitably, the UK prime minister has sought to counter the propaganda and limit benefits for those newly arriving in the United Kingdom. It is a situation raises many questions on the future direction of the European Union and the values on which it is based.

Pope Francis gave his first annual message, "Fraternity, the Foundation and Pathway to Peace". This had already been released by the Vatican in mid December in preparation for the World Day of Peace celebrated on 1 January 2014. Earlier, his predecessor Benedict XVI had pointed out, that "globalization makes us neighbours, but does not make us brothers. The many situations of inequality, poverty and injustice, are signs not only of profound lack of fraternity, but also of the absence of a culture of solidarity". This comment has much to say to the EU and its citizens. Solving current economic and financial crises and unemployment via the creation of a super power, the United European States is unlikely to be the solution but may well strengthen the current inequality, and deepen poverty. As suggested by Pope Francis in his first encyclical "Evangelii Gaudium", it is time to change our whole thinking His message criticises policies attached to the "Idolatry of money" and calls on policymakers and politicians to guarantee all citizens "dignified work, education and healthcare".

For ERENET the main event is the 2013 4thQ was the **Workshop on Family Businesses** and SMEs held in October in Istanbul. This event was organized within the framework of the Black Sea Economic Cooperation by the Turkish Representative of the Konrad Adenauer Foundation. ERENET was able to nominate speakers for the Workshop through its extensive international network. A book on the subject of Family Business is in preparation and will be published in the first half of 2014. Selected papers are presented in this Winter issue.



We must also share the news that Ágness Kiss finished her doctorate program at the Budapest Corvinus University and left ERENET. We welcome our new ERENET Secretary and Web-master Ms. Edina Szegedi-Ötvös.

For the coming holidays I wish you Merry Christmas and Happy New Year!

Dr. Antal Szabó, Scientific Director of ERENET

**Ambassador Traian Chebeliu**

Deputy Secretary General

Permanent International Secretariat (PERMIS)

Organization of the Black Sea Economic Cooperation (BSEC), Istanbul, Turkey

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**Distinguished Participants,**

It is a privilege to welcome you today at the headquarters of the Organization of the Black Sea Economic Cooperation (BSEC) on behalf of the Permanent International Secretariat of this Organization. <sup>1</sup>

Let me start by expressing thanks and appreciation to the Konrad Adenauer Stiftung (KAS) for its long-standing support to and cooperation with BSEC, which has resulted in the organization of a series of Workshops and Seminars - over 40 Workshops and Seminars since 1997 - aimed at promoting the SMEs in the BSEC Region.

I take this opportunity to thank in particular Dr. Antal Szabó, Scientific Director of ERENET, who has attended most of these events and contributed with his outstanding professional knowledge to the success of the exchanges that have taken place, through identifying the conclusions and recommendations adopted by the participants.

Today's Workshop is dedicated to a specific topic - Family Businesses and SMEs. Focusing on such a topic is quite natural bearing in mind that family business represents an important and stable element of the economies of our member States, with a significant potential to contribute to their economic growth and social development.

A study undertaken some years ago under the aegis of the European Union, highlighted that, across Europe, including most of the BSEC Member States, about 70-80% of enterprises are family businesses and they account for about 40-50% of employment. It also indicated that family businesses are active in all sectors of the economy. Roughly I believe similar percentages are to be found in the economies of all the BSEC Member States.

The very existence of the BSEC Working group on SMEs is an acknowledgement by the BSEC Member States of the significant role the SMEs play in their economic, social and political development. This awareness, through the joint work conducted in the framework of BSEC, is translated into effective policies and concrete measures to support the development of the SME sector in our region.

Support for the sustainable development of the SME sector is one of the goals of the "BSEC Economic Agenda: Towards an Enhanced BSEC Partnership", adopted by the Council of Ministers of Foreign Affairs and endorsed by the BSEC 20th Anniversary Summit in 2012, which is a strategic document to guide the activities of our Organization in the years to come.

In the area of SMEs, BSEC has been focusing on high technology, innovation, entrepreneurship and sustainable development, technology parks and incubators with the objective to encourage innovative ideas, products, services and procedures. Our Organization also endeavors to bring together and link business, academies, business incubators and financial and state institutions from the BSEC Member States also supports the collaboration of SMEs with large companies, promoting measures to improve production efficiency.

The development of the SMEs is essential for the economic growth of our Member States. Therefore, our main objective is to contribute, through our activities in the BSEC framework, to stimulating the SMEs from the BSEC Region, in particular family businesses, to improve their quality performance in order to allow them to reach the level of excellence of the advanced European enterprises.

I am confident that the outcome of our Workshop will also contribute to the efforts of our Working group on SMEs, which will convene right after our Workshop, on 10 - 11 October 2013.

Thanking all of you for being here today, I wish all of us fruitful discussions and exchange.

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<sup>1</sup> This Statement was made at the Workshop on Family Businesses and SMEs held in October 2013 in Istanbul.

**Dr. Colin Dürkop**

Head of Office of the Konrad-Adenauer-Stiftung (KAS) in Turkey  
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**Distinguished Participants,**

A very good morning to all of you and it is with great pleasure and honor alike to welcome you all, on behalf of the Konrad Adenauer Stiftung, to the Workshop on Family Businesses in the Black Sea Region. Thank you all for coming together for this event here in the beautiful headquarters of BSEC in Istanbul where our successful cooperation between BSEC and KAS was inaugurated some 20 years ago.<sup>2</sup>

Ever since, this type of international workshops on SMEs are organized once or twice a year jointly by the Konrad Adenauer Stiftung and the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation with close cooperation of ERENET which is led by Dr. Antal Szabó as its Scientific Director. Over the past two decades more than 40 such workshops were realized which all aim at providing a dialogue forum between the stakeholders and decision-makers for SME-policies in the different BSEC countries, the exchange of experiences and information between the SMEs and other NGOs themselves thereby contributing to a better understanding among these players.

As usual, at the end of the workshop findings, conclusions and recommendations are generated and submitted to the BSEC Working group on SMEs where it will be considered during its next session on 10 October 2013.

For 2013, we have chosen Istanbul as the venue of this KAS-BSEC event, especially because Turkey provides very good examples for family businesses.

As Dr. Szabó had outlined in his concept paper for this event, in the coming two days we will examine closely the issue of family businesses, discuss the situation of the family businesses in the BSEC area, their problems and in particular the issues arising with regards to the transfer (or transition) of family business and future possibilities. We should also elaborate on possible suggestions to Government authorities to deal with these issues seriously with a view to incorporating them eventually into national SME and employment policies.

Dr. Szabó further points out: according to the estimation of the European Commission approximately one third of the European enterprises will need to be transferred to the next generation in the coming ten years. This means that an average of 600,000 small and medium-sized enterprises will be changing hands each year, potentially affecting two and half million jobs. The European Commission prepared a comprehensive report and already started collecting practices to this effect. Special measures seem to be available to help in the transfer of these businesses.

Without going into much detail at this stage and to conclude, I would like to extend my thanks to Dr. Antal Szabó and his ERENET for his intellectual input in conceptualizing this workshop and to nominate speakers through its wide international network, and I would like to thank our long-term partner, the PERMIS of the BSEC and its distinguished Deputy Secretary General, Ambassador Traian Chebeleu, in particular, and to Melem Hanim for the close and successful cooperation.

Without further ado, let me wish all the participants an interesting and fruitful Workshop session.

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<sup>2</sup> This Statement was made at the Workshop on Family Businesses and SMEs held in October 2013 in Istanbul.

**Dr. Antal Szabó**

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**FAMILY BUSINESSES IN THE EUROPEAN UNION <sup>3</sup>****ABSTRACT**

The paper provides a short history in the family business word. It summarized the characteristics of the sector in the European Union and the United States. It provides the definition what the family business means in the EU. Special attention is paid to business transfer. Finally the author makes suggestions for successful succession.

**Keywords:** History of family businesses, Definition of family business, characteristics and model of family businesses, business transfer, business succession planning

**JEL Classification:** L25, L26, M10, M13, M21, N10

**Motto:**

"If the family is in good shape, then the company picks up. If the company is in good shape, then the family picks up. So it's like two wheels going together."  
 William O'Hara

"If a family business works well, it is better to any other company, if it works wrong, it is worst for everyone."  
 Tamás Kürti

**FOREWORD**

"Family firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the specific commitment they show to local communities, the responsibility they feel as owners and the values they stand for. These are precious factors against the backdrop of the current financial crisis."

European Family Businesses

**HISTORY IN NUTSHELL**

"Before the multinational corporation, there was family business," writes *William O'Hara* in *Centuries of Success*. "Before the Industrial Revolution, there was family business. Before the enlightenment of Greece and the empire of Rome, there was family business." In case you're wondering, The oldest currently functioning, continuously family-owned firm is Osaka Japan's Kongo Gumi, founded in 578 A.D. and now in its 40th generation! [1]

The case is about the Osaka, Japan-based construction company **Kongo Gumi Co.** (Kongo Gumi), which was regarded as the world's oldest continuously operating family-owned business till the end of 2005. In January 2006, the company was liquidated and became a wholly-owned subsidiary of Takamatsu Construction Group Co Ltd. Kongo Gumi, which was run by the Kongo family and was believed to have been operating continuously since 578, had been engaged in the construction of Buddhist temples since its inception. In more recent times, it had diversified into general construction works as well. As of early 2009, Kongo Gumi operated as a wholly-owned subsidiary of Takamatsu and the new management had brought it back into profits. The company had reported a profit of ¥20 million in its first year of operation under the new management. [2]

<sup>3</sup> This Paper was presented at the Workshop on Family Businesses and SMEs held in October 2013 in Istanbul.

**Hoshi Ryokan** is the oldest hot water spring and hotel according to the Guinness record. It was founded in 718 and today it is managed by the 46th generation. [3] According to legend, the god of Mount Hakusan visited *Taicho Daishi*, a Buddhist priest, telling him to uncover an underground hot spring in a nearby Awazu village. The hot spring was found, and the priest requested that his disciple, a woodcutter's son named *Garyo Saskiri*, build and run a spa on the site. His family, known as Hoshi, have run a hotel in Komatsu ever since; the current structure houses 450 people in 100 rooms. Zengoro Hoshi is the current patriarch.

According to a recent survey more than 70% of Asian firms are family owned businesses. In Asia the family loyalty is intrinsic to culture and the *Confucian* values are deep-rooted. Negotiations and business developments are usually carried out with a view toward the win-win situation, and this could lead to benefit for both family owners and non-family employees.

In Europe among the many hundred reputable firms I would like to mention two companies:

*First*, Barovier Family on Murano Island near Venice, a glass production company founded in 1295, which has been specialized in crystalline glass and mother-of-pearls glass and gold-free cornelian read glass, especially for drinking glasses, chandeliers and wall lamps. (see <http://www.barovier.com>). In 1936, the Barovier Family merged with Toso family, an other glassmaking factory also from Murano.

*The second one* is the **Antinori family**, wine-makers based in Tuscany and Umbria who stand out from the countless Italian wine-makers for two reasons. [4]

First, the family has been making great Chianti and Orvieto wines for 26 generations, dating back to 1385. Second, for the first time in the company's history, the people who are poised to take over the family business are women. Since the current owner: *Marchese Piero Antinori*, had no sons, his three daughters took over this incredible family business. [5]

In 1790, the first **Zwack**, Royal Physicial offered to *Joseph II*, the Habsburg emperor a dark brown bittersweet liquor distilled by nearly 40 different herb. "**Das is ein Unikum!**" shouted the emperor according to family legend, giving its name to one of the most popular drink in Hungary synonymous to the Barack Pálinka - eau-de-vie of apricot from countryside of Kecskemét. That was one of the best marketing tricks in the world, when an emperor gave a name to a products. In 1840, *József Zwack*, the descendent of the royal physician in his age of 20 years established the first factory in the Morocco playground in Pest named Zwack J. and Partner. The first trademark call "My Treasure liqueur" was registered in 1881. The name Unicum was registered in 1883 and that time it has a characteristic globe with red cross on white basis. [6]

Probably the most famous advertisement for the Unicum, is the poster of a wet haired man swimming in deep water who cheers up by the sight of the floating traditional ball-shaped bottle. By 1890 the territory of the factory became too small and it moved to the Danube-side of the Ferencváros called Soroksári road, which are the Zwack premises up to now. In 1894, in the heat of preparation for the Millennium comes the tragic news on the death of voluntary hermit, *Lajos Kossuth* from Turin. The factory from this moment switches over to the dark green globe bottle. In 1915, Jozsef's son, Lajos, took over the factory and left it to his two sons, Béla and János, upon his death. In this year, Sándor Bortnyik has created one of the most famous and popular poster for Zwack Unicum: a shipwrecked guy happy to find a bottle of Zwack Unicum in the stormy sea. Lajos was a leading capitalist in the years of Hungary's Belle Époque, a real philanthropist. During the WW II the factory was hit by a bomb, however the distillery equipment remained intact, those the production could continued following the war. In 1946, the new democratic Government introduced the new Hungarian currency called Forint, and in the popular satirical journal *Ludas Matyi* the wet haired man splashed in the water holding the coin of the new Forint in his hand. However, in 1948, the newly instated Communist Government confiscated the factory possessed with no compensation and the Zwack family was forced to escape to foreign parts. *János Zwack* fled to Vienna sitting on his shooting stick under an upturned barrel with the Unicum recipe in this breast pocket, having bribed a Russian driver to take him across the border. *Péter Zwack* took a train to the Yugoslav border. *Béla Zwack* decided to remain in Hungary, however, he was deported, together with thousand of other "class enemies", to follow the Hungarian nightmare on the Great Hungarian Plain. [7]

In the era of socialism the production of the Zwack Unicum was launched based on a false recipe. In 1970, *Péter Zwack* returned to Europe. By this time the Unicum was already successfully marketed and



distributed in Italy. Due to the change of political situation in Eastern-Europe, Péter started to receive overtures from Hungary inviting him to return and take over the running of his old family factory. In 1987 - two years prior the collapse of the Soviet block - he took the risk and returned home together with his family. At beginning he entered a Joint Venture with the Hungarian State. In 1991, within the framework of the Hungarian privatization program the Péter Zwack & Consorten AG purchased the Budapest Liqueur State-owned property incorporating thirteen factories 1,300 employees. In 1992, the company transformed into a shareholding one and he became up to now its President. [8]

In 2008, Péter Zwack transferred the baton to his son: Sándor appointing him as President of the Board of Directors. Péter remains as eternal honorable President. Zwack died in 2012 at the age of 85. The family business continues on led by his two youngest children, Sándor and Izabella as the sixth generation in doing business.

## **FAMILY BUSINESSES IN THE UNITED STATES**

In 1991, the **Small Business Administration** published a report prepared by *Prof. Nancy Bowman-Upton*, Director of the Institute for Family Business at the Hankamer School of Business. In this report there is a very strong statement, that 90% of all American businesses are family-owned ones. According to the Family Enterprise USA (FEUSA) there are 5.5 million family businesses in the US. Family-owned businesses generate 57% of the GDP and employ 63% of our nation's workforce. [9]

According to the Laid Norton Tryee [10] "family business in the heart and soul of the American Dream". Their **Family Business Survey 2007** is a unique challenges presenting the role of the family businesses paid in the whole US economy. Nearly 800 senior leaders of familyowned businesses throughout the country provided views about the current state of their businesses, the unique challenges created by owning a family enterprise, and their outlook for the future. Family-owned businesses generate approximately 64% of America's GNP. Nearly 60% of majority shareowners in family businesses are 55 or older. Nearly 30% are 65 or older. Succession of leadership will be a pivotal point in these companies' futures, yet less than 30% of our respondents have succession plans, and fewer than 40% have a successor in line and preparing for the transition. [11]

Nearly 60% of family businesses believe that their ethical standards are more stringent than those of competing firms. More than one third (37%) have written ethics codes, and discussions about ethics with employees, customers, and partners are frequent. Almost a third (30.5%) of family business owners have no plans to retire, ever; and nearly another third (29.2%) report that retirement is more than 11 years away. Since the median age of the current leaders is 51, this means that many owners plan to live out their years in office. This poses unique challenges to the succeeding generation. Further exacerbating this risk is the fact that nearly a third (31.4%) of FOBs have no estate plan beyond a will (2007). This is worse than the 2002 survey, in which only 19% had no estate plan beyond a will (Mass Mutual 2007 American Family Business Survey).

## **FAMILY BUSINESSES IN THE EUROPEAN UNION**

Family Businesses constitute a substantial part of the existing European companies and have a significant role to play in the strength and dynamism of the European economy. The Small Business Act already highlighted the role of family business and the need to exploit their full potential.

The research field of family businesses in Europe is fairly young – compared to other entrepreneurship research areas – and it is absolutely missing in the CIS countries. Family enterprises have become subject of socio-economic research only in the last 20-25 years, but in some European countries even later. Available research works often focus in general characteristics of family business comparing those with nonfamily enterprises, or highlight some specific features like the business transfer.

The Directorate General for Enterprise and Industry of the European Commission has carried out specific activities on the family business sector. In 2007 an Expert Group on Family Business was created based on experts nominated by the Member States as well as some experts working in this field. The Expert Group on Family Business between 2007 and 2009 carried out a research on this issue. A study was conducted

under the supervision of the Austrian Institute for SME Research (KMU Forschung Austria) in cooperation with the Turku School of Economics (Finland) and SVO Brussels. A study "Overview of family business relevant issues" was completed in 2008 and used as an input into the work of the group. The aims of the study were the following [12]:

- review the national definitions of “family business” used in the 33 countries covered (i.e., EU-27, EEA countries: Iceland, Norway, Liechtenstein, candidate countries: Turkey, Croatia and the Former Yugoslav Republic of Macedonia) and identify common elements in order to propose ideas for a European definition;
- provide an overview of the specific characteristics and the current situation of family businesses (particularly in comparison to SMEs);
- identify existing national networks and institutional players as well as policy activities to support and promote family businesses; and
- analyse the need for and the shape of possible future policy initiatives in favour of family businesses

There is now a general understanding that more than 60% of all European companies are family businesses, and they account for about 40-50% of employment, encompassing a vast range of firms of different sizes and from different sectors. However, there is still a lack of robust data, which usually leads to inaccurate assumptions (such as equating all family businesses with SMEs). The European business statistics are very much focus on company size, number of employees and turnover. The available data are characteristics of European Union’s SME definition, and for the family businesses. This is why the current statistical interpretation is rather inaccurate and incomplete. Most SMEs (especially micro and small enterprises) are family businesses and a large majority of family companies are SMEs. If we would take into consideration „the owner perspective” instead of the „company size”, this paradigm change would help improve understanding the family business as phenomenon.

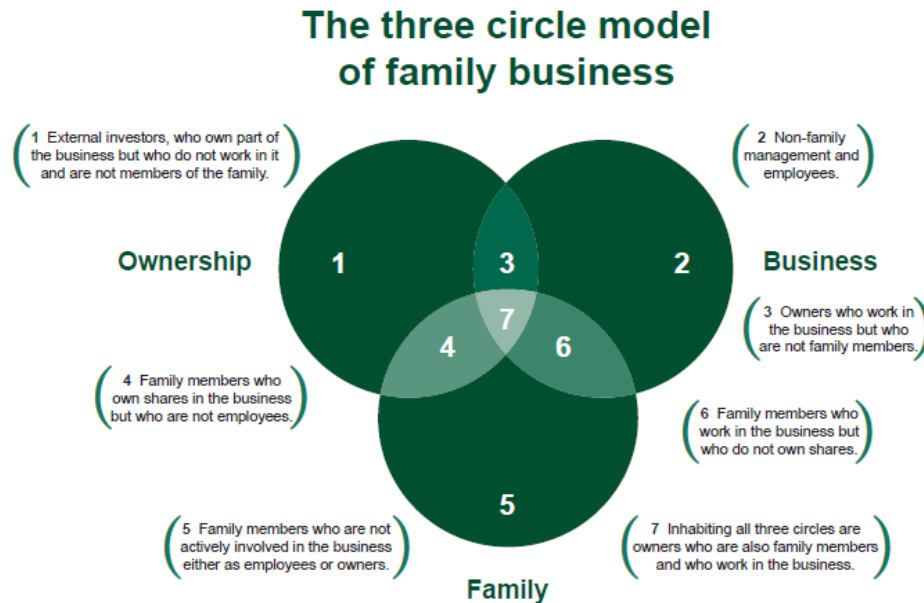
According to **European Family Businesses- GEEF**- family businesses in Europe represent:

- Over 1 trillion euros in aggregated turnover
- 9% of the European Union’s GDP and
- More than 5 million jobs. [13]





If we compare this number with the 130 million people employed by the SME-sector in the EU-27, that this number is externally low. However, the European Commission states, that 20-60% of all European companies are considered as family businesses.



The debate on family businesses is far from exhausted. The **Three-Circle Model of family businesses** was developed by R. *Tagiuri* and *John A. Davis* in 1982, which presents how people fit into family business. [14] The tripod of the business model based on three main elements: Family, Ownership and Business. The three circles representing these elements overlap, defining seven categories of people who may want different things. The EC Expert Group decided to use this model while studying the phenomenon on family businesses.

Among these three elements the Ownership is the key to the business life of the firm. It enables to make a clear distinction between family and non-family businesses. If we consider the „ownership perspective” rather than the „company size” perspective it can help improve the understanding of the phenomenon.

It is also important to notice, that family owners rather focus on the quality of assets in their balance sheets, i.e. family business financial management focuses on the balance sheet instead of the profit and loss account.

Family business in Europe covers a vast range of firms in different sectors and of different sizes. The European Commission study identified more than 90 definitions, which shows that even within the same country several different definitions can be used. Specialised literature clearly shows that "there is not a single definition of "family business" which is exclusively applied to every conceivable area, such as to public and policy discussions, to legal regulations, as an eligibility criterion for support services, and to the provision of statistical data and academic research” [15]

Experts believe that a definition of a “family business” needs to be adopted and introduced at the European level in order to facilitate collection of data and development of policies related to the specific characteristics and needs of this type of enterprises. There is general agreement on taking into consideration three essential elements: the family, the business, and ownership. The definition accepted by the Expert Group was proposed by the Finnish Working Group on Family Entrepreneurship set by the Ministry of Trade and Industry in 2006. The expert group proposes the following definition: [12]

**A firm, of any size, is a family business, if:**

- 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 management 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 percent of the decision-making rights mandated by their share capital.**

In addition to this definition there is an other points which is as much important as the previous four:

- 5) **More than one generation should become involved into the business.**

The group recommends to explore opportunities to introduce this definition at national level. National Governments should consider to adopt measures to create a more favourable environment for family businesses, including the ease the taxation, simplification the company law and improve the education system. It is advisable to establish a specific family business contact point in national administration.

The Expert Group on Family Business established that the European legislative framework used in different countries is rather imperfect and deficient. Hardly any consideration of family businesses can be found across Europe. In some of the countries, the term "family business" is mentioned in different regulations - however, without providing a clarification of what is to be understood by a family business. „Nevertheless, a few examples of legal regulations exist in which family businesses are not only referred to but also a definition of the respective target group is given [15]:

- In Austria, a regional law on shop opening hours explicitly mentions family businesses and defines them as enterprises in which merely the business owner and two more family members (husband or wife of the business owner, other people who are relatives to the business owner in a direct family line) work.
- In an Austrian regional agricultural legislation a family business is defined as any autonomous economic entity regularly and sustainably providing for the farming family's income.
- In Hungary, legal reference on agricultural family businesses is made in conjunction with the provision of subsidies for family farms. Family farms are to comprise active agricultural production on less than 300 hectares agricultural land ownership, lease or usage whereby (next to the farmer) at least one family member is full-time employed. Other family members also can contribute to family farm's operation.
- The Italian Civil Code describes family businesses as enterprises in which members of the family unit (husband, wife, high degree of kinship) work and have the ownership.
- The Lithuanian Supreme Court (decision of 4th June 2007) stated that if an enterprise was established during the marriage period, it is by its nature a family business (i.e., the joint property of the spouses is used for the business establishment and development, as well as the physical and intellectual work of the spouses, and business revenues are used for the needs of the family) unless regulated otherwise.
- In the Bulgarian and Slovakian family co-ownership of spouses is presumed in the case of self-employment or sole proprietorship unless there are contractual agreements determining otherwise or otherwise proved in litigation.
- The Romanian law defines family businesses as enterprises established at the initiative of an

individual and comprising his/her family members (husband, wife, children over 16 years as well as their relatives, including relatives four times removed).

- In Finland and Spain, the challenge of defining family businesses has been considered at ministerial level. The Finnish Ministry of Trade and Industry has set up a working group on Family Entrepreneurship that, among others, was to define the Finnish concept of family business. In similar case the Spanish Ministry of Economy, through its dependant body, the DGPYME (Directorate General for SME Policy), elaborated a definition of family business.”
- In Greece, According to Company Law (Law 2941/2001) there is no definition about family business. However, most of them are small family businesses and very often the terms SME and family business are used interchangeably, thus considered to be the same thing. [16]

It is important to know that the self-employed/one-person enterprises are considered family businesses in approximately one third of the countries surveyed. Sole proprietors (i.e. companies with one owner but that may employ other family and/or non family members) are considered to be family firms in most countries.

It is important to distinguish that family businesses differ from non-family enterprises. The UK Institute for Family Business highlights, that **Business objectives and rules vs. family priorities and emotions** are the major distinguishing factors. „This is a culture clash and it leads to long-term tensions, friction and values conflicts. Successful families learn to understand what’s going on, and they devise strategies to keep the sometimes contradictory forces under control. This helps them make the most of the unique advantages enjoyed by family companies.” [17]

The table below compares the main characteristics of the family businesses with non-family ones based on the research in the Netherlands by *Thomassen (2007)* [18]

<b>Family businesses</b>	<b>Non-family Businesses</b>
The purpose is continuity	The purpose is maximizing near-term share price
The goal is to preserv the assets and reputation of the firm	The goal is to meet institutional investor expectation
The fundamental belief is that the first priority is to protect downside risk	The fundamental belief is that more risk promises more return
The strategic orientation is adaptation	The strategic orientation is constant growth
The most important stakeholders are customers and employees	The most important stakeholders are shareholders and management
The management focus is continuous incremental improvement	The management focus is innovation
The business is seen as a social institution	The business is seen as a disposable asset
Leadership is stewardship	Leadership is personal charisma

## CHALLENGES FOR FAMILY BUSINESSES

The European Commission highlights that family businesses facing challenges the the following fields [12]:

- Challenges that arise from **the environment** in which companies operate:
  - Unawareness of policy makers of the specificities of family businesses, and their economic and social contribution;
  - Financial issues (e.g. inheritance tax, access to finance without losing control of the firm, favourable tax treatment of reinvested profits).

- Challenges that develop as a consequence of the **family firm's internal matters**:
  - Unawareness by family firms of the importance of planning business transfers early;
  - Balance between the family, ownership and business aspects within the enterprise;
  - Difficulties in attracting and retaining a skilled workforce.
- Challenges related to **educational aspects**, which have an impact on both the business environment and on family firms' internal matters:
  - Lack of entrepreneurship education and family-business-specific management training and research into family-business-specific topics, plus effective coordination with education systems to ensure proper follow-up.

The lack of awareness of the family business sector is limited not only to the policy makers. The general public is in the process of understanding what is the family business. However, there is a lack of research and common understanding what is the value of the family for the society and what is the human face beyond their businesses. It would be important to nominate „family business focal point” both at the European Commission as well at the national Government levels.

## THE IMPORTANCE OF PREPARING BUSINESS TRANSFER

The European Commission estimates that during the next decade every third company owner will retreat from his business. According to the report "Markets for Business Transfers" of the EU (May 2006), more than 700,000 SMEs providing more than 3 million jobs will have to be transferred to a new owner every year. Thousands of enterprises are at stake if the Commission do not prepare these transition with the right approach. This is why the Commission should consider as an important issue the legal framework of the succession, the simplification of the inheritance tax, introduction of tax allowances and support measures for the new owners. SMEs are not in a position to cope alone with all problems of inheritance and difficulties in connection with these.

Much attention has been given to encouraging the creation of new businesses, but it is also important to ensure the continuation and growth of existing viable enterprises. Policy makers often forget that starting a new firm is not the only way to secure jobs.

A business transfer is understood as a transfer of ownership of an enterprise to another person or enterprise that assures the continuous existence and commercial activity of the enterprise. This can take place within the family, through management buy-outs (sales to non-family management/employees) and sales to outside persons or existing companies, including takeovers and mergers. As one of the major reasons for failure of a business transfer constitutes a lack of planning (European Commission, 2002), instruments raising the awareness about the importance of a substantial and timely planning as well as measures facilitating this process are advantageous for the family business sector.

The **Business Transfers** are part of succession planning, which involves transferring ownership and control of a business to new management. In a family business, this is often due to the exit, retirement, or death of the owner. The three main options are:

- transferring ownership to a family member
- transferring ownership to a non-family member
- voluntary liquidation.

And with an estimated **450,000 businesses, providing 2 million jobs, being transferred in the EU every year**, Europe needs to make it easier to transfer businesses and develop more effective support services. **In relation to transfers of business, the study concludes that Europe is losing approximately 150,000 firms representing 600,000 jobs a year due exclusively to inefficiencies in business transfers.**

[19]

2011 Commission study on "Business Dynamics": measuring the impact of non-efficient

**transfer of businesses on job creation and business births in Europe** aims to identify the main problems faced by entrepreneurs along key instances of the business life of a company: start-up/licensing procedures, transfer of business, bankruptcy and second chance. Moreover, the study explores potential solutions and proposes policies that may be recommended to increase the ease of doing business and eventually the number of entrepreneurs in Europe. The study covers the current national practices in 33 European countries affecting key moments of a company's life cycle: licensing, transfer, insolvency and re-birth with the final goal of analysing what are the key problems in each of these areas and their impact in terms of companies, jobs or GDP loss.

In December 1994 the Commission published concrete recommendation on how to improve framework conditions in the EU member states for the transfer of businesses. The recommendation addressed questions from numerous areas affecting business transfers such as taxation, reform of a company's legal statute, awareness raising measures and access to finance. [20]

In 2004, the Dutch Ministry of Economic Affairs in co-operation with three employers' organisations developed the toolkit for business transfer ("Overdrachtspakket", transfer package). All entrepreneurs of the age of 55 receive a letter informing them on the importance of a timely transfer planning and the availability of this toolkit. Next to awareness raising, there exist instruments in the field of advice or consultancy (for free or financial support) or "self-planning tools". The Finnish Employment and Economic Development Centres (TE-keskus) launched the ViestinVaihto (Passing the Baton) programme consisting of three consulting days (experienced management consultants on a confidential firm-to-firm basis) to discuss different options and solutions for business succession.

**StudioCentroVeneto (SCV)** is an Italian consultant company founded by Toni Brunello and working with micro and SMEs since 1968, today on the top of Europe in Business Transfer issue. Brunello is a member of the ERENET Network. During the last 20 years SCV has more and more implemented a system of tools aimed to face business transfer as a "territory matter", so addressing its work to single micro and SMEs and to the whole territory at the same time; at Regional, National and European levels. This system of tool is now known as **Kit.Brunello.System - KBS**, officially recognised in 2009 as European Good Practice in business transfer by the European Commission, to be hopefully spread towards all the Member Countries. Actually, the Norwegian Business Confederation NHO has already acquired it, and some other Countries (Turkey, Bulgaria and Austria) are now involved with SCV in a European Project aimed to spread this practice within their territories. [21]

Despite some progress, **Member States have not yet implemented the 1994 Commission recommendations**: out of the 33 European countries considered in the "Business Dynamics" study only 5 had implemented more than 75% of those recommendations. Some of the obstacles still to be addressed include the complexity of the business transfer process and the potential lack of experience - and knowledge of support available - of the new owner. This is compounded by legislation and regulation which frighten many would-be entrepreneurs who could take over existing businesses. This affects mostly small companies as bigger companies can usually rely on the advice of internal legal staff or external experts familiar with the relevant legislation and challenges ahead. Owners of small and medium-sized enterprises are less aware of business transfer issues. [22]

Fiscal issues related to family businesses are of key importance to both family businesses. The major importance of family businesses in terms of fostering, preserving and creating new jobs, giving rise to tax revenues, as well as to contributing to sustainable development is the issue of the inheritance tax.

The Pan-European umbrella federation of national family business association: European Family Businesses – GEEF – states that the **taxation of family businesses** has three dimensions: business, current owners and future owners. „Currently, in most European countries income from equity is subject to at least partial or even full double taxation: firstly, profit generated in the business is taxed at the applicable business tax rate. Secondly, the profit distributed by the business to its owners is taxed at owner level. Thirdly, when passed from one generation to another the business assets are often further taxed. In many cases this two-fold or even three-fold taxation causes the total tax burden of family businesses and their owners to be higher than the total tax burden of businesses held by other types of owners.” [23]

The Copenhagen Economics as of 2010 summarized the EU Member States with inheritance or estate taxes. The survey has revealed that 18 of the 27 Member States of the European Union have an inheritance or estate tax on the domestic tax rules. [24] Most Member States have inheritance taxes, and few have estate taxes. Denmark has as the only Member State an estate tax as well as an inheritance tax.

- Inheritance taxes in the 27 Member States are in Bulgaria, Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, the Netherlands, Poland, Slovenia and Spain.
- Estate taxes are in Belgium, Denmark, France, United Kingdom.

The German Government stresses the importance of SMEs for economic growth and employment in the country. The appraisal of tax privileges in favour of business property provided by the German Inheritance Tax Act (Erbschaft- und Schenkungsteuergesetz, ErbStG) 2009. The German Inheritance Tax Act applies to transfers of property and with it transfers of businesses regardless if transfers result from heritage or donation.

The European Commission prepared a Guidebook on business transfer issues based on the information gathered in a number of projects and studies executed in this field [25].

The Entrepreneurship 2020 Action Plan is a blueprint for decisive action to unleash Europe's entrepreneurial potential, to remove existing obstacles and to revolutionise the culture of entrepreneurship in Europe. Investments in changing the public perception of entrepreneurs, in entrepreneurship education and to support groups that are underrepresented among entrepreneurs are indispensable if we want to create enduring change. According to this Action Plan the Member States are invited to:

- *Improve legal, administrative, and tax provisions for transfers of business taking into account the 2006 Commission Communication on transfers of businesses and the 2011 Commission Communication on tackling cross-border inheritance tax obstacles within the EU;*
- *Use existing European funds according to their applicable rules and priorities to support transfers of small and medium-sized businesses to entrepreneurs intending to continue running the business;*
- *Improve information and advice services for business transfer.*
- *Effectively publicise business transfer platforms and marketplaces and launch campaigns to raise awareness among potential sellers and buyers of viable businesses.*
- *Consider reviewing tax regulation with respect to its impacts on the liquidity of a small or medium-sized family business in case of a succession of ownership without impacting revenue negatively.* [26]

## SUGGESTIONS FOR SUCCESSION

Carefully look at the situation of the company including its perspective in the long-run, the up-to-dateness of the produced products or offered services compared with the competitors, analyze the technological capabilities and financial circumstances and strenght.

Write up the possible potencial candidates for succession, look at their capabilities and their track records.

Start conversations with possible candidates, get acquainted with their ideas for the future.

Discuss the outline of the succession with the family members.

If someone of our childrens are picked up for running the business in the future, and the person is motivated in this, we should planning organizing the schooling in domestic and foreign institution including the possibility for obtaining practical skills too.

It is advisable to bring the possible candidate into the business to learn the the company operation and the employees, to get acquainted with the company set of values and later to get a managerial task in the part or filial of the family business.



If necessary, involve an external expert to assist in designing the circumstances and the transfer of the succession.

Think about what you want to do after the transfer of the relay stick in order to avoid the problems within the family.

Prepare the agenda for our own retirement.

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## SIGNIFICANCE OF FAMILY BUSINESSES IN GERMANY AND THEIR INNOVATION ACTIVITIES <sup>4</sup>

### ABSTRACT

The German business model is heavily linked to the importance of family businesses. The article claims that the significance of family businesses is not a matter of size but has to do with a specific way of doing business. Being reliant and personally responsible for their decisions makes family entrepreneurs more cautious. The danger of becoming risk-averse in a sense that a business falls behind in terms of innovation exists. The lack of innovative power is probably one of the major reasons for failed family businesses. Nevertheless the author argues that the basic setup of family businesses does not hinder innovation at all. In contrast it might be an advantage to redesign and modernise business activities.

**Keywords:** Family businesses, decision making in family business, innovation policy in family businesses, policy advice for family businesses, Germany

**JEL Classification:** L25, L26, M10, M13, M21, O20

### 1. SIGNIFICANCE AND SPECIFIC CHARACTERISTICS

Looking at the German economy, it is quite obvious that quantitatively the role of family businesses is predominant. More than 90 % out of the total number of about 3.5 m businesses are owned by families. Many of those are also run by at least one of the family members. Besides the diverging concepts of defining family and their influence in a company, it is clear that family businesses are the backbone of German economy. This also holds true if one looks at the share of employees who work for family businesses. 55% work for a family owned company while 38% work for non-family owned companies. The family businesses generate almost half (47%) of German turn over. This impressive position of German family businesses has many historical causes which cannot be discussed in detail here. On the one hand, it seems to be that German industry never went down the road to deindustrialisation completely. On the other hand, companies recognised the need for specification in order to be internationally competitive.

#### *Not a matter of size*

If one takes a closer look at the roughly 3.2 m German family businesses, it becomes apparent that 65% are single-member companies. Even though they make a measurable contribution to the overall German business outcome, I will focus on the remaining 35% which are bigger. Precisely I will concentrate on family businesses which have at least EUR 1 m turnover and 10 employees. These limits reflect the minimum criteria of the organisation “Die Familienunternehmer – ASU e.V.”, the main interest group of German family businesses founded in 1949.

Especially because I will focus on a defined group of family businesses it has to be emphasised that being a family business is not a matter of size. Family businesses may not be put on a level with small and medium sized enterprises (SME), even though many family businesses are medium-sized businesses. Family businesses in Germany span over all sectors and cover a wide spectrum of business sizes. You will easily find a craftsman enterprise with 15 employees and Miele with EUR 3.2 bn turnover and more than 17,000 employees worldwide both considering their companies rightly as family businesses. The concept of family businesses is deeply connected with a special mindset which is dominated by the principle of liability. Family entrepreneurs act differently compared to managers mainly because they are liable for all of their entrepreneurial decisions. Basically they have a long-term perspective which is not driven by quarterly optimised figures.

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<sup>4</sup> This Paper was presented at the Workshop on Family Businesses and SMEs held in October 2013 in Istanbul.

*Regional roots*

Coming to the specific characteristics of German family businesses, one recognizes that especially the older companies are very deep-rooted in regional and local structures which often have evolved over generations. The interconnectivity between a family run company and the local society, the local sports club and other stakeholders is tremendously high. The qualitative role of family businesses becomes clear when looking at the vocational training market. Family businesses offer 80% of the German apprenticeship training positions. With this investment in upcoming skilled workers, they prepare their companies and the whole economy for future challenges.

*Many hidden champions*

The flip side of this historically developed regional network is that not few family businesses still have their companies at the same location where they were founded generations before. From a modern perspective of logistics, these locations might not be considered optimal at all. However even this distinctive feature is part of another success story. According to an academic concept of Prof. Hermann Simon, at least 1,200 German family businesses belong to a special group which he named 'hidden champions'. By definition, these companies belong to the world market leaders of their industry and are mostly unknown to the general public. With regard to innovation, mostly all of them are highly inventive. Hidden champions often manage to bring some product or production process to perfection. This gives them a unique position in a globalized market which is not very vulnerable as long as they are open to innovation.

*Importance of financial independence*

Another special feature of German family businesses as a whole is their urge to be financial independent. Their higher-than-average equity ratio gives them the freedom to react quickly and independently to market developments. Not surprisingly German family businesses proved to be pretty robust during the European crisis, especially when its peak hit Germany in 2009. Having a reasonable strong equity position helped them a lot when orders decreased up to 70 %. Even if most family businesses have good relations to their banks they tend to avoid bank financing more than non-family owned companies.

The cautious attitude about financing is also reflected in the investment behavior of family businesses. The equity-ratio of investments undertaken by family businesses is outstanding high. In an internal survey we found out that 42% of the members of DIE FAMILIENUNTERNEHMER have an average equity share of 0% to 40% in their investments. Impressively, 58% answered that they have an average equity share between 41% and 100%. This strategy might not be the most profitable but reflects very well the impact of liability. The investment rate in innovative activities by family businesses is estimated to be about 2%, even though outliers with rates over 10% exist. At this point it has to be mentioned that measuring innovation activities in family businesses is an uncertain approach not only for experts but also for the family entrepreneurs themselves. This fact is crucial for the following findings on innovation activities and the concluding policy advice.

**2. Innovation activities**

My analysis of the innovation activities does not raise the question whether family businesses are in general *more* or *less* innovative than non-family businesses. This enquiry should be left with researchers and so I will only argue from my professional experience with family businesses. Many successful family businesses are typically very innovative and internationalised. The general characteristics of family businesses can be seen as an advantage with regard to innovation. The long term perspective of family companies reduces the pressure that new inventions have to pay off immediately or at least in a very short period. Typically the decision making process is not as formalised and bureaucratic as it is in affiliated groups. Decision making is often decentralised and informal which plays to spontaneous innovation. Even if this advantage declines with the growing size of a family business a different approach can also be examined in large family companies. The mindset of family entrepreneurs tends to react very quickly and flexibly to market demands. Latest market developments and business opportunities are often picked up by family businesses.

On the contrary, it is sometimes stated that the generational perspective of family businesses might be a hindrance to innovation. The logic behind this argument is that the risk adversity might rise with every generation. Resulting in slowing down of momentum. There might be some prominent examples where

typically the founders of companies were focused on conserving their growth by becoming fixated on previous successful strategies. In consequence the subsequent generation might not have the opportunity to bring innovation into the firm. Be it because of a still-dominant predecessor or because of an incurable business turn down. The impression I got from the contact with young entrepreneurs points in a different direction.

There is high pressure on the next generation for survival – the meaning of renewal through innovation is very present. Pressure increases from one generation to the other. In older family businesses it is evident that the more stakeholders there are, the more pressure there is. The subsequent generation on the other hand has a strong ability and willingness to diversify or to completely change business subjects. Sometimes the business unit working in the field in which the company was originally founded contributes just to a small extent to current operating results. Modern family businesses are highly diversified and have developed very specific competences and capabilities.

#### *Evolutionary approach*

One major source of innovative power in family businesses is the very close relation to customers, often in form of typical business to businesses relations. Working closely together with the demand side helps to find new solutions to various challenges. An open communication with the main customers plays a key role in the evolutionary innovation approach of family businesses. The ongoing process of optimisation is triggered by the trustful exchange of knowledge between family businesses and their clients. The new know-how is used for process innovation as well as product innovation. Not surprisingly, many family businesses are patent holders in order to protect their intellectual property. Surprisingly, some family businesses are so specialised and the time frame of new ideas is so limited that they choose not to apply for a patent. In both cases the innovation is of little value for potential competitors.

#### *Often no R&D department*

Depending on their size, family businesses rarely have clear research and development structures. If innovation occurs along the production process, extra research and development is not necessary and therefore does not exist frequently. This circumstance underlines the importance of the workforce for family businesses. The innovative potential is accumulated in the employees, who are extraordinarily committed if they work for a family business. The human resource is a crucial component of innovation, which family entrepreneurs support with their special set-up.

### **3. Policy advice**

From these findings the question arises how a government can foster innovation in family businesses. Looking at western economies, the most common approach are tax breaks for R&D activities. With this instrument countries want to promote the innovative power in general. Unfortunately, the mechanism is a preferential treatment for trusts and affiliated groups. As shown, family businesses with no clear R&D structures do not benefit from this type of subsidy. The tax breaks approach is to some extent a penalisation of innovative flexibility which can often be found in family businesses. Another negative feature are inevitable arbitrage effects which appear wherever businesses redesign their shape in order to apply for tax breaks.

Coming back to the tendency of high equity ratios in family businesses there is an alternative to foster innovation. Inventing neutrality of financing would abolish the privilege of credit capital. In most tax systems it is common that interest payments for loans are tax deductible. This is a stimulus for debt financing investments which does not contribute to the stability of economies at all. Any (innovative) investment which is financed with equity has an artificial disadvantage because of the tax deductibility of interest payments. This imbalance could be eliminated by the introduction of fictitious and officially publicised interest rates on equity which then could be made tax deductible.

As shown family businesses act and function differently not only with regard to innovation. Helping family businesses to accumulate equity is therefore a twofold approach to foster family businesses and their innovative activities.

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**FAMILY BUSINESSES IN GREECE****ABSTRACT**

**The Greek economy and its entrepreneurial landscape are extremely dependent upon family owned businesses, as they constitute the very vast majority of Greek firms. Despite the crucial role family firms play in employment and economic activity in Greece, very little research has been undertaken. The purpose of this paper is to provide a comprehensive analysis and general description of Family Business in Greece. The research was predominantly library-based, based on selected literature on professional management and institutions. The paper accentuates issues relating to the contribution of Family firms to Greek Economy, characteristics of family businesses, the institutional actors, support policies and initiatives and the challenges of succession. The findings could assist policy makers, advisers, family business owners and members in designing policies and programs, providing advice and managing family business.**

**Keywords:** Family Business, Greece

**JEL Classification:** E20, H70, L25, L26, M13, M21

**1. HISTORY OF FAMILY BUSINESSES (FB) IN THE COUNTRY**

The family business is one of the most enduring institutions in human history. As Professor William O'Hara wrote in his book "Centuries of Success: Lessons from the World's Most Enduring Family Businesses" (2004), "Before the multinational corporation, there was family business. Before the Industrial Revolution, there was family business. Before the enlightenment of Greece and the empire of Rome, there was family business".

There is a classic piece of research from 1970s social psychology, where small children around the world were told a story about baby birds being left in the nest, and their parents' flying away for ever. US kids told researcher Harry Triandis that the babies would just die. Greek Cypriot children asked why there would be a problem: Grandma and Grandpa bird would just come round and take care of them. The same response will be given most probably today, an illustration of how strong family bonds remain in this part of the world. Another pronounced Greek characteristic is for the divide between work and home to be very, very slim. Small service and retail business families continue to live above the shop, quite literally. The family and the business are frequently seen to be one and the same thing. When students in Greece were faced with the three circle exercise, where family members are asked to draw three circles, which can be of any size, and overlap in any relationship, representing family, business management, and ownership we would be presented with three concentric circles: the family holding the business and ownership inside its larger bounds. Often there is confusion, as people tell us "but the business is the family".

It should therefore come as no great surprise that Greek families have very strong traditions of working together, and of next generation succession in a whole variety of occupations and businesses. Family business is the backbone not just of the Greek private sector economy, but of Greek society in a wider sense. Even when family members are not directly involved in the business, close ties ensure they remain aware of what is going on, creating what have been called virtual family firms. Fully a third of all reported personal network contacts for Greek entrepreneurs are family members, about double the rate for other countries for which comparable data exists (Drakopoulou-Dodd and Komselis, 2006).

**2. DEFINITION OF FAMILY BUSINESSES IN YOUR COUNTRY.**

Researchers note the lack of consensus on what constitutes a family firm (Birley, 2001; Chua *et al.*, 1999). Some suggest the use of multiple conditions to identify family from non-family firms (Litz, 1995). Frequently used conditions include family ownership and control (Litz, 1995; Upton *et al.*, 2001), family influence in decision making (Sharma *et al.*, 1997) family members as employees and the intent to transfer the family firm to the next generation (Stewart, 2003).



Even though there is no specific definition of a family business (according to the stocking, legal and administrative control), in most family businesses the definition of the total control of the company on behalf of the owner's family members is ingrained. It seems that often family businesses owners prefer less profit than having a new 'non-family member' as a shareholder.

Family businesses are considered the enterprises that are owned, managed and influenced by a family or families. In other words, in family businesses both ownership and policy making are dominated by family members. According to Company Law (Law 2941/2001) there is no definition about family business. However, most of them are small family businesses and very often the terms SME and family business are used interchangeably, thus considered to be the same thing. However, this neglects the fact that there are also large family businesses. Since there is no official definition, family businesses take many legal forms, ranging from sole traders to private companies, depending on the number of employees (Agapitou and Theofanides, 2008).

### **3. IMPORTANCE OF FAMILY BUSINESSES IN THE NATIONAL ECONOMY.**

The Greek economy and its entrepreneurial landscape are extremely dependent upon family owned businesses, as they constitute the very vast majority of Greek firms. They are the backbone of the Greek economy. (KPMG, 2013). They make a significant contribution to Greece' GNP and employment, and tend to be great innovators, with a longer-term vision. They also tend to be firmly rooted in their regional and national culture.

Greece has, proportionally, one of the largest numbers of small businesses than any other EU member-state (Kyriazopoulos P. and Samanta-Rounti I, 2007). Most of them are small family businesses that operate in traditional sectors such as tourism and agriculture.

SMEs sector in Greece differs significantly in structure from the whole EU. Firstly, it is relatively higher in Greece and the number of large business accounts for only half of the average of the EU countries and provides only 15% of employment. Secondly, within the SME sector, micro enterprises exhibit higher proportion: corresponding to 96.6% of businesses, 56.6% of employment and 33.9% of value added compared with the EU average which is 92.2%, 29.7% and 21.2% respectively (GSEVEE, 2012).

According to data provided by the Hellenic Statistical Authority, 99.8% of the total number of Greek enterprises employed fewer than 100 in 2003, a share which remained at the same level until 2006. The vast majority of them (93.8%) are micro-firms with fewer than five employees, while enterprises employing more than 100 represent only 0.19% of the total number (Eurofound, 2013).

In terms of contribution to employment, Greek SMEs stand for more than 80–85% of total employment, in contrast to 10–15% for large-scale enterprises (LSEs) during the period 2005–2012. As far as contribution to gross value added is concerned (at factor costs), SMEs in Greece maintain a share which exceeds 70% during the period 2005–2012, with an average figure of more than EUR 53 billion, compared to EUR 21 billion in LSEs for the same period. Once more it is indicative that almost half of SMEs' gross value added involves firms employing fewer than 10 employees (Eurofound, 2013).

These data highlight the central role of SMEs in Greece, but a comparison with EU27 average figures sheds some more light on this issue. As shown in Table 1, the Greek economy is based more heavily on micro-firms compared to other European countries, in terms of total number and contribution to employment and total value added. As Mihail (2004) and Doxiadis (2011) also argue, Greece belongs to a group of countries (together with Spain, Portugal and Italy) where employment in SMEs is higher than the rest of Europe and particularly with regards to self-employment and employment in micro-firms, as the country presents a share which reaches 57.6% of the total, compared to 29.8% for Europe and 20% for northern Europe. Hence, it is evident that when a reference is made to the Greek private sector, this mainly involves small-scale business units, which quite often include family-owned firms or self-employment or with fewer than five employees (Eurofound, 2013).

Table 1: SMEs in Greece compared to EU27 average figures

Size	Number of enterprises			Employment			Value added		
	Greece		EU27	Greece		EU27	Greece		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	719,952	96.5	92.1	1,447,218	57.6	29.8	27	35.3	21.6
Small	22,832	3.1	6.6	438,792	17.5	20.4	16	20.6	18.9
Medium-sized	2,893	0.4	1.1	264,427	10.5	16.8	12	15.8	17.9
SMEs	745,677	99.9	99.8	2,150,438	85.6	66.9	55	71.7	58.4
Large	563	0.1	0.2	362,055	14.4	33.1	22	28.3	41.6
<b>Total</b>	<b>746,240</b>	<b>100.0</b>	<b>100.0</b>	<b>2,512,493</b>	<b>100.0</b>	<b>100.0</b>	<b>77</b>	<b>100.0</b>	<b>100.0</b>

Source: Adopted by the Annual Report on EU Small and Medium Sized Enterprises 2010/2011 – SBA Fact Sheet: Greece, p. 1

Family businesses in Greece have been widely equated to Small and Medium-Sized Enterprises (SMEs) in public and policy discussions. Based on the above figures, where SMEs stand for 99.9% of the total amount of enterprises, it can be estimated that Family Business account for approximately 90% of all enterprises in Greece. It can also be assessed that around 70% of Family Business are individuals - solo proprietors.

The number of employees in 2008 and 2009 amounted to 4.8 million, while in 2013 it was only 3.9 million. After continuous fall eight years (2001-2008), the unemployment rate increased dramatically during 2009 - 2013 to 27.0% in average (based on Eurostat). According the European Commission forecasts, the unemployment rate will be reduced by 26.0% in 2014 (an average annual level ) and in accordance with the OECD forecasts (July 2013) the rate of unemployment by 2014 will increase to 28.2% (Fourth quarter) from 26.8% in May 2013. INE / GSEE estimate is more pessimistic , predicting unemployment in 2013 to increase from 24.2% in 2012 to 29-30% and in 2014, 31.5% (INE/GSEE, 2013).

It can be estimated that 60% of employees are working to Family Firms and the share of contribution of the Family Business to GDP is 50%.

#### 4. CHARACTERISTICS AND UNIQUE QUALITY OF FAMILY BUSINESSES.

The family firm is an important and common form of business organisation in Greece. The common feature among most family firms is the fact that the ownership is closely tied to a group of people - the family. The family usually involves in the direct management of the firm. In other words, the principal characteristic among the majority of the family firms is that the main owner (family) is usually involved in the key-decision-making of the firm. A very common argument favoring family firms is that agency costs are minimized, since the owner (family) and the management are the same person or at least different persons coming from the same family.

The main characteristics that distinguish the family firm from other types of corporations are the presence of one or more controlling family and the involvement of the owners in the management. Another issue that is believed to make Greek family businesses ‘different’ from non-family businesses is the preservation of satisfactory relationships among members in order to survive in the long run. Furthermore, the management of people and especially recruitment, compensation, promotion and training decisions is quite different in family businesses in comparison to other companies.

Compared to non-family businesses, family businesses have lower recruitment and human resource costs and are more effective than other companies in labor-intensive businesses. They have a “family language”, which allows them to communicate more efficiently and exchange more information with greater privacy. In terms of motivation, loyalty, and trust, family relationships generate unusual motivation, cement loyalties, and increase trust (Agapitou and Theofanides, 2008).

Family businesses in Greece are characterized by quicker and more flexible decision-making. Due to the typically flat hierarchy in family businesses, management can decide quickly and react immediately to market changes. Most family businesses have a relatively simple hierarchy and management structure, which means that they can deal with problems quickly and react more rapidly to changing market conditions. They can have the advantage of being both formal and informal, using each of these traits when suitable, something that creates certain flexibility.

Passion, dedication, personal approach to business based on trust are common features of Greek Family firms. They are notable for the strength of culture and shared values and it is believed that they win business because they are closer to their customers, and have a more personal relationship with them. Family members are dedicated and committed to company’s success and there are many cases that they put aside personal gain in favour of the common goal. Family businesses are more likely to work harder to maintain their reputation

and build good relations with their customers simply as a matter of pride, as the family name is often above the door. Strong personal bonds mean that family members are likely to stick together in hard times and show the determination needed for business success (PWC, 2012).

Furthermore, family enterprises are distinguished for their work environment that inspires employee care and loyalty. Family firms feel a stronger sense of responsibility to create jobs, and will make more strenuous efforts than other companies to keep their staff, even during tough times. These result in greater loyalty and commitment from those they employ. The ownership is closely tied to the family, as Family firms are said to have simple and flat structures with the owner-manager at the centre of all decisions and authority. They have paternalistic cultures and informal communication channels that lead to centralised management with one or few individuals dominating decision-making process and discouraging dissent in order to maintain control (PWC, 2012).

It is important to present some interesting findings from a survey that was conducted by PWC in 2012: the most important internal challenges that face the Greek family companies are cash flow/cost control (82%), profitability (48%) and financing (39%), while the most important external challenges are market conditions (76%) and government policies/regulations (64%).

According to a survey conducted by Greek researchers (Spanos, 2005) family firms are demonstrated poor governance compared with non-family firms and the ASE Index companies. There are many weaknesses that threaten family firms: not having appropriate risk management systems; not following appropriate norms of company board structure and management (e.g. directors' independence, board committees' establishment, CEO position); lacking CG commitment; confusing family matters and business matters and so on.

The weak points of the family-owned firms are associated with accounting practices and risk management. Family firms provide their balance sheet statements in accordance with the Greek accounting principles and rarely with the International Accounting Standards (IAS). However, the statutory provisions are in the process of being amended. The large majority of family firms do not have appropriate systems to handle issues of risk exposure and risk management.

Family firms do not have their own specific corporate governance guidelines and do not make a clear statement of their own commitment towards environment. Furthermore, assessment practices based on business competence are difficult to apply and often family members are promoted, while non-family members receive fewer opportunities, resulting in significant monitoring cost.

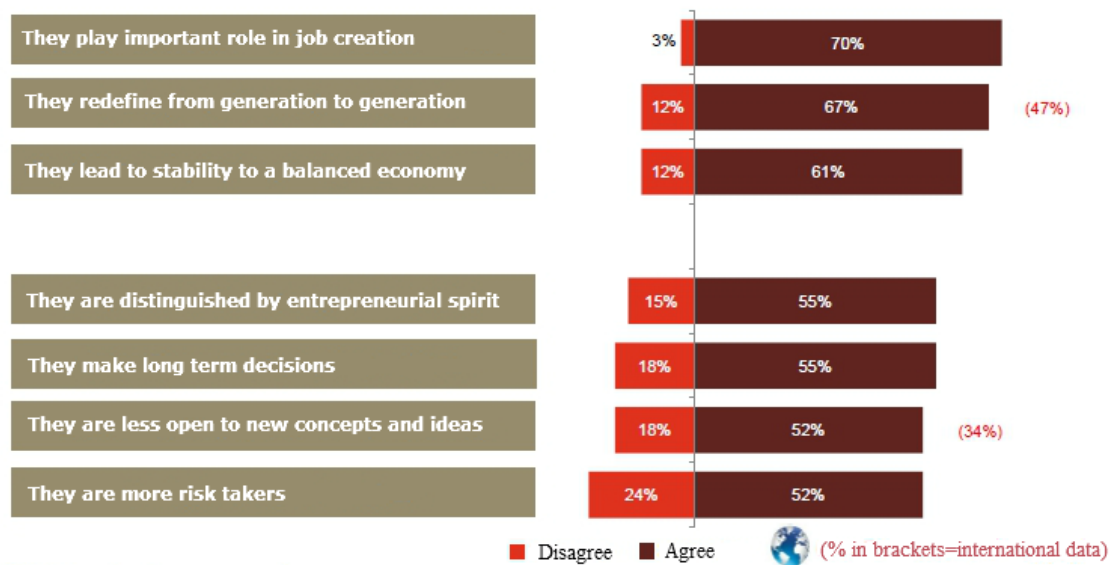
The basic challenge to the growth of a family business is implementation of an explicit business strategy, the development of the personnel and the transition to the next generation at a management level. The latent is one of the most difficult issues that a family business faces. The issue becomes even more complicated if some family members are involved in the company's activities and some not. They also identify disadvantages such as nepotism, family conflicts, overlapping family and business interests and difficulties in managing family members.

The basic obstacles in the development of the Greek family business are human resources issues, the bureaucracy, the unstable tax status and the competition by international companies. They range from complex legal and tax estate planning issues, to family conflicts, trials and tribulations from the progression of families and businesses through evolutionary but not compatible stages of development, and last but not least, lack of succession planning.

Another business barrier to family businesses is the existence of communication problems between members and different expectations of business between the two generations. The more the gap increases the more it will create impediments to the development and continuation of the family business. In addition, the second generation appears to lack proper training and has inadequate experience in a particular industry, as well as a lack of interest in running the family business. Also, the working style of the first generation is different from the second. It is apparent that the first generation did not receive a great deal of attention, a fact that affects the structure and review of such plans, which the second generation should adopt in their transition to the family business.

At this point it is important to present the results of PWC survey (2012) concerning the factors that are believed to distinguish Family Business from Non Family Business.

Figure 1: Factors that differentiate Family Business



Source: PWC, 2012

## 5. INSTITUTIONAL ACTORS, SUPPORT POLICIES AND INITIATIVES. ARE GOVERNMENTS SUPPORTING FAMILY FIRMS?

Despite the critical role family businesses play in employment and economic activity in Greece, government is doing little to support the sector. There is no institutional actor relating exclusively to Greek family businesses and little research, policy, education, organisation, and training exist for family firms within Greece.

A few service providers, such as PricewaterhouseCoopers, Ernst & Young, KPMG, Grant Thornton and other individual professionals, do deliver specialized offerings and a bare handful of universities and colleges offer courses or executive education on family business management.

O.A.E.E. (Organization for the Insurance of Liberal Professionals) a legal body of public law supervised by the Ministry of Labour and Social Insurance, that covers health care, maternity, invalidity, old-age, survivors and employment injuries of the self-employed.

EOMMEX (Hellenic Organization of Small & Medium sized Enterprises and Handicraft S.A.), provided policy advice to the Ministry of Development on the SME sector, but within the public organizations reduction and mergers policy was absorbed from the ETEAN in 2011. ETEAN SA is a valuable element in the integration of Micro, Small and Medium size enterprises (MSMEs) financing cycle, through the collateralization of the fraction of business risk not accepted by the banking system, thus amplifying the scope of viable entrepreneurial initiatives undertaken by MSMEs

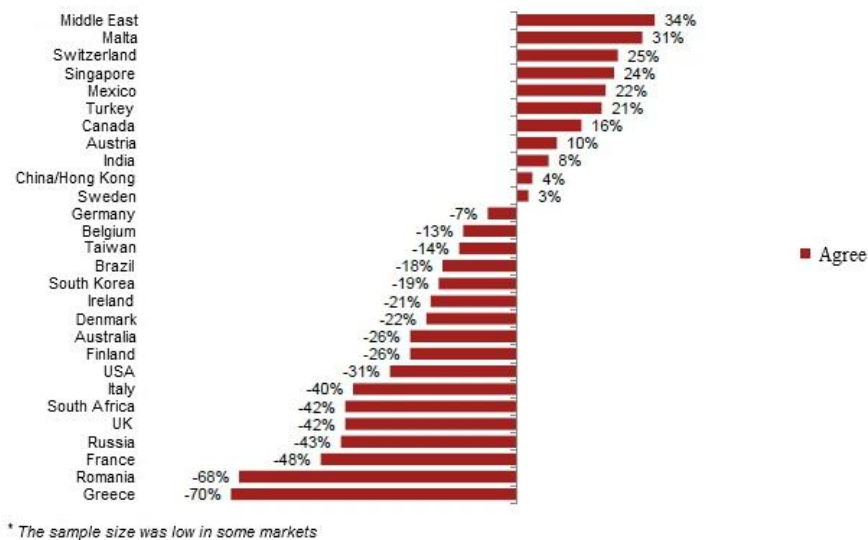
Furthermore, chambers of SMEs can provide some help and guidance to Family Business, as most of them in Greece are SMEs. They Deal with issues and problems that affect SME manufacturing businesses (spatial planning location of facilities, funding, protection of industrial professional premises lease, social security etc.) and make recommendations to the government about laws and other issues that are of concern to its members.

The Ministry of Economics and Finance encourages and supports the development of family owned businesses, through the reduction of tax rate in the case of business transition or shares of it to members of the family and the relief from capital gains tax. In the case of retirement of the owner of sole corporation, general and limited partnership, when the sole corporation or shares of general and special partnership are transferred from parent to child or from husband to wife (and wife to husband) capital gains tax must not be paid (Income Taxation Law- Law 2238/94, Article13, Par. 1).

According to PWC Survey (2012), family businesses in Greece are generally very negative about the government's attitudes and support of their sector, and suggest new state measures. The majority feel that the government doesn't recognize the importance of family businesses, showing the highest disappointment out of all other regions of the PWC worldwide survey. In the following figure it is depicted the family firms' perspectives concerning the government recognition of their importance. It can be seen that in Greece there

was the highest dissatisfaction comparing to all the other countries that were surveyed.

Figure 2: Attitude to government and how much they value family businesses (by PWC, 2012)



## 6. CHALLENGES OF SUCCESSION.

Succession, which is a key issue for family business, is a particularly difficult problem in Greece. When it comes to succession, there is an issue of whether the founder is ready to retire. If the founder child is not willing or able to take it on and does not want an outsider in it, then will the business be sold? What drives the father or the founder may not be present in the child. It's not just about education, it's also about leadership, about charisma, belief, etc., that the father had. So there are many factors here, with no one reason that one can identify.

Most family business in Greece intends to pass the business on to the next generation, whereas only a small number of companies plan to sell the business (PWC, 2012). The difficulty in succeeding the founder of the family business often represents a hard to solve problem and is an issue that family businesses face. However, while many family business founders have been charismatic in their managerial decisions, they have not prepared a succession plan and as a result confusion surrounds the business after their departure. The succession planning in a family business is often really painful and emotionally charged in Greek family firms (Kyriazopoulos and Samanta-Rounti, 2007). In the context of the same survey family business owners rated family business direction and transition success and succession planning as the most important family and business issues and challenges faced in the running of the business.

Despite the importance of succession planning, it seems that Greek firms tend to pay relatively less attention to it than other family firm issues. As the size of the average Greek firm is very small, the case might be that the specific structural and cultural idiosyncrasies do not support an extensive succession planning process. This is also amplified by the lack of an advisory board and the lack of formality such as written job descriptions, fixed compensation plans, formal employee performance reviews, regular meetings which is common in SMEs. All these realities make it difficult or undesirable for incumbents to initiate a formal succession planning and if they do initiate it, really engage in it (Pyromalis and Vozikis, 2009).

## 7. SUGGESTIONS WHAT YOUR GOVERNMENT AND THE CIVIL SOCIETY SHOULD DO IN ORDER TO RECOGNIZE AND SUPPORT FAMILY BUSINESSES.

Given the important role that family businesses play in employment creation and economic development in Greece, it is essential that Government and the Civil Society recognize and support them. It is highly important for the Greek Government to carefully plan and enact a national strategy for supporting and developing family businesses to grow domestically and internationally. It is also crucial to produce a legal framework on which family businesses would have legal guidelines to help them handle key issues and challenges, such as the succession plan. Much attention and importance should be given to improve transparency, reduce bureaucracy, and unleash the pent up potential to support family firms and create new businesses in Greece.

Furthermore, the Government and the Civil Society should help family firms to obtain long-term finance for

expansion and secure a fair and stable tax system. Some suggestions would be tax incentives and ownership incentives, improved tax laws, so as to make it easier to pass the business on without capital gains. Financial incentives and tax reliefs for start-ups, additional grants and incentives to support R&D, innovation and investments in new technology are some of the actions that must be undertaken. Access to external assistance needs to be facilitated for Greek Family Firms, especially specialised consultancy services, in order to help firms to overcome the barriers related to lack of specific knowledge and know-how, centralised management structures and the general disability to plan a restructuring event.

The Civil Society should take actions in order to invest in education and training/seminars such as for new technologies, modern management methods, business plan, international business and generally tailored to the specific needs of family firms. Moreover, agencies that facilitate networking, mentoring and partnerships with multinationals are suggestions that could help family businesses. For example, the Family Business Network is now running a very promising new scheme which allows younger family members from one business to take short-term internships at another family firm, often in a different region or business sector. There are already examples of such Next Generation internships spanning markets as diverse as Brazil and the US, and Finland and Switzerland (PWC, 2012).

## 8. CONCLUSION

It is a fact that the current financial crisis has influenced negatively the majority of business activities. In particular, family businesses, found themselves in a new environment where the market characteristics reversed radically, pressures intensified and uncertainty dominates. In the context of crisis, Greece must leverage itself on its strongest assets, namely the real economy. There is unquestionable evidence that a large part of this, 'real economy', is based on the continuation of family businesses.

Greek family businesses are facing a multitude of challenges. The main internal issue the majority anticipates to deal with in the next 12 months is the lack of cash flow and cost control, a percentage much higher than the global average of respondents. The predominant anticipated challenge over the next five years, is the general economic situation, along with political and market instability.

At this point it should be highlighted that there is some evidence that recent trends may be moving away from the strictly family members' firm management, something that hindered a lot of Greek Family Firms. They are starting to identify a difference between business ownership and management, and are thinking of allowing non-family members to manage the business. Furthermore, the usual family businesses management is characterized by informal processes and procedures, however during the financial crisis there has been a gradual change to more organized systems which are characterized by clearly set criteria and targets (PWC, 2012).

Family businesses in Greece believe they can play an important role in the economy, including creating jobs and giving it stability. They feel that they are redefined and restructured from generation to generation, to a much greater extent than the average family businesses worldwide. This can be considered a sign for an uncertain future. While most of Greek family businesses say they have shrunk in the past 12 months, three quarters is cautiously optimistic about their prospects over the next five years (PWC, 2012).

The crisis opens a 'window of opportunity' for family businesses in Greece to engage in deep structural and managerial reforms. The overall story of Greek family firms is a complex and dynamic mixture of tradition and innovation, small and large; a tale of triumph over the repeated adversities of the past century, and a promise of hope for the country's continued economic development (Drakopoulou-Dodd and Komselis, 2006).

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**Budapest Christmas Market**

Photos © by Antal Szabó

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**INFORMAL GOVERNANCE AND ITS IMPACT ON TRANSACTIONAL UNCERTAINTY OF  
TRANSNATIONAL COMPANIES – THE CASE OF SOCIAL RELATEDNESS****ABSTRACT**

**Due to their particular characteristics, transnational companies (TNC) face numerous challenges, in particular dealing with uncertainty in both external and internal transactions. In this paper, we investigate whether and how far individual and inter-personal interactions among members of the internal units of TNC influence their transactional relationships. We develop the proposition that social relatedness is a crucial means to cope with transactional uncertainty in cross-border relationships within organizational boundaries. Our empirical study provides first support of this causality.**

**Keywords:** Informal Governance, Social Relatedness, Transactional Uncertainty, Transnational Companies

**JEL Classification:** D30, D83, F23, L14, M16

**INTRODUCTION**

Internationalization is a pervasive trend in modern economies and societies (Acs et al., 1997; Buckley and Ghauri, 1999; Johanson and Vahlne, 1977; Oviatt and McDougall 2005). In most recent times, more and more firms employ capital-intensive modes of foreign market entry. One core reason for this is the lacking legal certainty in case of cross-border transactions (Calliess, Freiling and Renner 2008; Freiling, 2009). Insofar, international companies employ hierarchical governance modes in order to stabilize their value-added activities and their transactions world-wide. However, hierarchy goes along with coordination and motivation problems that cannot easily be fixed. Headquarters are simply unable to control local activities. Moreover, international companies face the problem of coping with the challenge of distance, in particular in terms of physical, cognitive, and cultural distance (e.g. Tihanyi et al., 2005; Buckley and Ghauri, 2004). Obviously, the pure hierarchy is not the one and only solution in case of these coordination and motivational challenges.

Insofar, a particular type of international companies (Bartlett and Ghoshal, 1989) could be able to better respond to these challenges, namely the so-called transnational companies (TNCs). TNCs can be understood as globally distributed network with a limited commitment to their country-of-origin. They typically have transcended national economic boundaries by integrating global production processes into heterarchical network structures (Hedlund, 1986, 1993) with multi-domestic subsidiary structures. In other words, TNC are hierarchies with the important peculiarity that non-hierarchical modes sometimes stand at the forefront in terms of internal coordination while the ‘shadow of the hierarchy’ is still present and replaces heterarchical governance in case of dissatisfying results. The particular governance structure of TNCs allows high levels of responsiveness.

Compared to multinational enterprises, TNCs are typically not hub-focused, but more or less ‘hub-less’ networks with a high number of linkages among local units. Their activities are normally widespread and

distributed to several subsidiaries located in diverse environments. Thus, they face the challenge of tapping into localized knowledge (Cantwell, 1995) and to realize location-specific advantages. Moreover, TNCs standardize their worldwide business activities to raise economies of scale and scope (Kogut, 1990). Sharing information and knowledge among the corporate units as well as building organizational competences becomes a pivotal issue in this regard. Moreover, it raises the question what kind of governance modes may allow for a smooth run of activities.

TNCs consist of huge number of internal units. These units, headquarters and foreign subsidiaries in particular, form the internal network of TNCs. To a large extent, building of internal networks results from foreign direct investments (Fujita, 1995). Units of internal networks are - for the sake of raising synergies - interrelated and integrated in the entire structure of the company. Thus, TNCs need - and often have - capabilities to generate and to transfer knowledge within TNCs (Zanfei, 2000). Each of these units is also involved in an external network. Headquarters and subsidiaries of TNCs develop (often complex) relations to other firms and institutions outside their organizational boundaries.

The internal units are not only distribution, production or sales locations, but also legally independent sub-companies acting in foreign markets, building capabilities and competencies and making innovative moves (Birkinshaw, 1997; Phene and Almeida, 2008; Verbeke and Yuan, 2005). Against this background different types of roles and activities, especially from subsidiaries, have been discussed (Birkinshaw et al. 1998; Ghoshal and Bartlett, 1988; Kim et al., 2005). This leads to our assumption that behavioral uncertainty is a problem in cross-border transactions among internal units of TNC. Reducing this kind of uncertainty is relevant, in particular, for ensuring an efficient coordination of transnational activities - which Lipparini and Fratocchi call a transnational organizational architecture (Lipparini and Fratocchi, 1999).

This paper argues that informal modes of governance might have a considerable impact on transactional uncertainty in the realm of TNCs. Whereas typical hierarchies might achieve high levels of coordination efficiency by formal modes of governance, in heterarchical settings like in TNCs different governance modes could be suitable and informal governance plays a pivotal role. In this connection, Granovetter (1973; 1985) pointed out the crucial role of social relations (similarly Tsai, 2002; Galbraith, 1973). We share this reasoning and focus on the role of social relatedness. In particular, we address the following research question: (how far) does social relatedness reduce the transactional uncertainty of TNCs?

## **THEORETICAL BACKGROUND**

The relationship of international companies to their business environment is already well researched (Berry and Rondinelli, 1998; Zahra and Garvis, 2000). The same holds true as for the relationships between headquarters and subsidiaries in cross-border organizations (e.g. Birkinshaw et al., 2000; Forsgren and Pahlberg, 1992; Gates and Egelhoff, 1986; Nhoria and Ghoshal, 1994; Roth and Nigh, 1992). As already mentioned, headquarters and subsidiaries (considered as internal units of TNC) are located in external networks beyond the organizational boundaries of the TNC. While these external networks play a central role for TNC in terms of gaining access to local resources and generating knowledge bases (Zanfei, 2000), cross-unit coordination is needed to circulate information and knowledge among the internal units (Björkman, Barner-Rasmussen and Li, 2004). However, very little has been said about this potential of internal coordination, in particular, about the mechanisms that regulate the internal transactions within the TNC.

Transaction cost theory (TCT) (Coase, 1937; Williamson, 1985) tells us that internalization of transactions is a sound response to market failures. TCT portrays the particular settings (in particular in terms of specificity and uncertainty) when hierarchies are more efficient than other governance modes. Hence, transactions were taken from the market and integrated into the organization. In case of international business, TNCs represent networks of geographically dispersed locations with a rather high level of interrelations to raise synergies. In the above mentioned sense, TNCs employ heterarchical (foreground) and hierarchical means (background) as well to control the company. Headquarters make the decisions on the kind of governance mechanisms in use to steer the entire TNC network including all the subsidiaries. Thus, they also make the choice among 'command and control' and autonomy of sub-units (Birkinshaw, 1997). Autonomy is often chosen in TNCs for hierarchy is costly and not able to dissolve any internal conflict due to lacking internal evidence of coordination challenges. Whereas the first issue is fully in line with TCT

reasoning, the latter departs from TCT logic and can best be explained in terms of resource-based theory (cf. Dierickx and Cool, 1989 for the debate on causal ambiguity). Considering the fact that subsidiaries play pivotal strategic roles in TNCs by developing specific competencies and capabilities (Bartlett and Ghoshal, 1988; Lipparini and Fratocchi, 1999) and act on sometimes rather individual goals, there is no definitely reliability of expectations in transactions between headquarters and subsidiaries as well as among subsidiaries themselves. Not only that the internal units may have different perceptions about their roles (Birkinshaw et al., 2000), but also internal competition within the network (Birkinshaw and Hood, 1998) exists. In terms of TCT, this endogenous kind of uncertainty emerges from interaction between bounded rationality and opportunism (Williamson, 1975, 1985). Beyond TCT, the concept of ‘bounded reliability’ (Verbeke and Greidanus, 2009) is able to address uncertainty problems relevant to TNC governance issues more comprehensively since this concept not only considers opportunistic behavior but problems in connection with cognitive restrictions as well.

Besides internal competition and information as well as knowledge asymmetries that may animate transaction partners to behave opportunistically, distance often comes to an issue in case of cross-border coordination. Hofstede regards cultural distance (Hofstede, 1980) as an important challenge in case of managing cross-border activities. Cultural distance is particularly related to problems of communication and may be connected with conflicting values among sub-units (Ghoshal, Korine and Szulanski, 1994). These problems of cultural distance draw the attention to informal structures and governance modes as the centerpiece of this paper.

To conclude, dealing with behavioral uncertainty is pervasive challenge of TNCs and their different international sub-units. Reducing uncertainty is particularly relevant to enable coordination and any kind of exchange. There may be different means of uncertainty reduction, many of them of the formal kind. However, due to the fact that organizational culture matters in TNCs and given the need of a mutual understanding of people working in TNCs, informal governance matters as well and is sometimes of pivotal interest. To address the research question of this paper, we henceforth focus the (development of) social relatedness as an informal mechanism to reduce behavioral uncertainty.

## **SOCIAL RELATEDNESS AS A DRIVING FORCE OF INTERNAL GOVERNANCE**

Coordination processes between internal units of TNCs rest on the firm-specific system of corporate governance and are embedded in existing internal relations. Against this background social relatedness between these units encompasses all processes of individual and inter-personal contacts or interactions between their members. In cross-border transactions these members slip into the role as representatives of the sub-units. A special aspect of social relationships is that they are able to smooth both occasional transactions in a short-time perspective and long-term transactional relations between the internal units. The reason for this is that social relatedness creates mutual commitment as well as trust and facilitates communication of the internal exchange partners. Thus, social relatedness reduces the likelihood of exchange partners behaving in an opportunistic manner within cross-border transactions.

By building social connections within the internal network of TNCs a sense of togetherness and unity develops that differs from formal structures considerably. Social relatedness goes far beyond economic ties due to a mutual understanding that evolves voluntarily without any third-party incentive mechanisms (Uzzi, 1997). The social connection fosters and strengthens a shared commitment of the partners involved. Thereby, shared commitment is understood as willingness of both parties to make short-term sacrifices (for example neglecting of own interests) for the sake of long-term common achievements (Holm, Erikson and Johanson, 1999). The social relationships can be based on a common history or experiences that lead to a shared responsibility for a common engagement. Besides that, a high level of commitment facilitates a further understanding between the parties for collective goals (Tsai and Ghoshal, 1998). Against the backdrop of a strong commitment within the relationship, cooperative actions in terms of acts and pledges of commitment replace opportunistic moves (Holm, Erikson and Johanson, 1999). Hence, we suggest:

*Proposition 1: The development of social relatedness reduces behavioral uncertainty by creating mutual commitment.*

Building and maintaining social relationships across national borders rests to a large extent on communication (Ghoshal, Korine and Szulanski, 1994). In this context, a social relation implies that communication processes

have taken place between the internal units and/or persons of the TNC. In this respect, there is no need that communication processes necessarily take place in the context of business activities. Whereas, it can be expected that the development of interpersonal ties enhances the communication between the transaction partners (Björkman, Barner-Rasmussen and Li, 2004) on the basis of experiences gained from previous communication and experience gathered on a personal level, mutual understanding may arise between the internal partners. Thereby information contained in messages of the other party can be interpreted holistically and the problems of asymmetrically distributed information can be mitigated. The social relatedness supports a smooth and efficient transfer of information or knowledge between the units (Ghoshal, Korine and Szulanski, 1994; Singh, 2005). In addition, for each recipient of a message within the relationship social relatedness creates strong disincentives of opportunistic behavior.

*Proposition 2: The development of social relatedness reduces behavioral uncertainty by establishing an open and trustful communication.*

Within internal coordination processes both parties have specific expectations regarding attitudes and behavior of each other. By establishing social ties these expectations stabilize in such a way that there is growing assurance that expectations placed on the transaction partner will be met. As a consequence, the internal units will hold a positive attitude towards the trustworthiness and reliability of each other. This nurtures trust between the internal units (Kramer, 1999; Shapiro, 1987; Tyler, 2003). Larson (1992) points out that trust may replace formal contracts in terms of providing stability. Besides that, trust is also a driver of confidence as for a certain behavior of the other, in particular concerning a behavior in a responsive and desirable manner (Das and Teng, 1998; Tyler, 2003). Therefore, interaction based on social relatedness allows for building trust within internal cross-border relationships. As a result, intra-firm trust reduces the likelihood of opportunistic behavior of the transaction partners (Whitener et al., 1998).

*Proposition 3: The development of social relatedness reduces behavioral uncertainty by building intra-firm trust.*

## RESEARCH DESIGN

Having developed research propositions, the question arises how to conduct a first reality check. In the face of the complexity of the core causality of the research question and regarding the early stage of research on this issue, a qualitative research design aimed at exploration seems to be appropriate. Insofar, the empirical research intends to better understand the subject matter and the factors that reduce behavioral uncertainty in internal coordination. This implies to confront the propositions with a first reality check and to modify or specify them, whenever needed. More, the interviews could help us to identify potential other factors that, by now, did not play a role in previous research on this issue. To this end, the narrative parts of our interviews should animate the respondents to check based on their expertise whether other factors might play a role as well. In this vein, we conducted semi-structured in-depth interviews to better understand how far the research propositions pass a first reality check. The interview partners were managers of a subsidiary of a globally acting mechanical engineering company.

We chose the German (mechanical) engineering industry because the respective firms have already implemented a global structure. Moreover, these firms are often small- and medium-sized enterprises (SMEs) with a still rather transparent set of governance principles and mechanisms that are, insofar, easier to research. Besides that, SMEs are less formalized than big businesses for due to their structures the limited complexity does not require higher degrees of professionalism that are almost indispensable in case of big companies. Against this background, we wanted to study whether and how far informal mechanisms play a role especially in companies with a reputation of being traditionally conservative (as one of the interviewees confirmed) and equipped with some formal structures as well.

We began the data collection process by contacting subsidiary management per mail. The sampling is initially limited to one subsidiary and thus one unit of the internal network of the TNC. Four managers could be identified with a sound background and expertise as for the research objectives of our endeavor. Three of them belong to the top management level, one to the middle management. These experts were chosen as respondents because, due to their positions held within the company and their managerial and operational tasks, they have intimate and exclusive knowledge about internal cross-border relationships. The interviews lasted 45 to 75 minutes and were conducted in October 2011. All interviews were documented and

followed an interview guideline to provide the interview with a certain structure. However, it was a core ambition not to over-structure the interviews but to allow narrative parts of the respondents as well. In this vein, the catalogue of questions contains eleven open issues. We used respondent validation to ensure reliability for our obtained data.

## **EMPIRICAL RESULTS AND IMPLICATIONS**

In the empirical study, we touched on several pros and cons of (in-)formal governance. Henceforth, we present the findings proposition by proposition.

### **Shared commitment**

The respondents confirmed that a huge number of social relations on an interpersonal level exist. As for the relations, the members belong to different national or international locations within the TNC. To a large extent, these connections can be observed among domestic units of the network. Notwithstanding this, the social relationships also spread beyond borders and, thus, create cohesion on the entire heterarchical TNC network. Due to unanimous statements of the respondents, the resulting social relatedness between internal units influences the cross-border cooperation in a positive manner. According to one expert, the motivation of the transaction partners to attain common goals increases with an intensification of social relatedness. The people preferably use existing social contacts in internal economic transactions. Thus, in the course of social relatedness a sense of cross-border togetherness develops. Moreover, one interviewee states that these social relationships can be the basis of 'good cooperation'. The focus of these relations is the achievement of common goals and interests. Due to enhanced motivation and a deeper common sense, cooperative instead of opportunistic forms of behavior can be found within the internal relations. As a further result of social relatedness, cross-border transactions are, as another interviewee mentioned, 'easier' to handle between the internal units. Finally, social relationships foster the development of a certain level of shared commitment in the run of transactional events. The cooperation partners predominantly refrain from opportunistic behaviors in favor of attaining common goals which reduces transaction uncertainty. Against this background, the findings support the first research proposition insofar as a shared commitment works as a bridge on the way to reducing behavioral uncertainty. Based on our obtained data this first proposition can be specified as follows: *A high level of social relatedness has a positive effect on cooperative behavior between the two parties by creating mutual commitment and therefore a reducing influence on behavioral uncertainty as well.*

### **Social relatedness and communication**

A fluent and unambiguous exchange of information within cross-border relationships is favored by a shared understanding of the transaction-partners. Against the background of the geographically spread network of TNC, the parties in internal relationships are often confronted with different states of knowledge and information as well as with different levels of cultural distance (Hofstede, 1980; Inglehart, 1995). As a consequence, communication challenges may occur between the coordination partners. In this context, a common understanding of the existing diversity plays an important role in respect of not only transferring but also processing information received from the other. In connection with the formation of social relatedness a mutual understanding mainly arises on the basis of inter-personal collected experiences. Hence, as a result of shared experiences cross-border social relations can be established on a personal level between members of different units. The participation in common activities may initiate the building of a social relationship and its long-term preservation. In this regard, the respondents mention the role of corporate education activities and professional backgrounds in order to establish and develop social contacts. In addition to that, another interviewee suggests that the development of social relationships depends on self-initiative of the people. This implies a certain degree of individual willingness to communicate within social connections and also shows that social relatedness requires communication activities between internal units. Previous communication on a social level offers mutual insights about the coordination partner. Therefore, communicating during cross-border coordination has been simplified, as one of the experts notices. Messages from the internal coordination partner are easier to understand so that the reliability of information transfer increases. The improved communication processes across national borders mitigate problems of asymmetrically distributed information within the relationship. Thus, the incentives for opportunistic behavior due to incomplete communication decrease. More reliable communication processes reduce, as a possible consequence of social



relatedness, behavioral uncertainty within internal relationships. In this understanding, the obtained data enables a modification of the second research proposition, as follows: *The development of social relatedness enhances an open and trustful communication between the transaction partners by establishing a common understanding about their differences in knowledge and cultural background so that behavioral uncertainty is reduced.*

### **Intra-firm trust**

The experts agree on the pivotal relevance of the expectation of coordination partners in cross-border relations that the counter-party acts in a reliable manner. In this regard, formal structures of togetherness are less significant than a social relatedness within internal ties. The simple fact that internal units are parts of the same organization already creates a certain sense of togetherness. One respondent points to the specific form of trust working in internal transactions. However, without any back-up this kind of trust that relies on the official and formal bonds between internal units does not unfold considerable power. Consequently, besides this mode of (intra-firm) trust we can identify trust on an inter-personal or individual level. Once these two levels of trust are interconnected, they unfold considerable impact on individual behavior. People get more familiar with each other and actions become more predictable - finally due to social connections and mutual beliefs in benevolent behavior of the coordination partners. Obviously, trust creates reliability and stabilizes internal relationships, as one of the interviewee mentions. Against this background, two aspects seem to be noteworthy: First, developing a social relatedness does not necessarily and 'automatically' imply a simultaneous development of a cross-border relationship based on trust. Second, it is basically due to an interaction of multiple forces when social relations create trust on an inter-personal level. As long as trust relationships exist on a non-economic basis and backed up by social relations, it is a question how far the resulting expectations remain valid in economic transactions. As to one of the interviewee noted, these effects are limited to several cases, but also depend on certain circumstances. Therefore, our data do not allow predictions whether the third proposition is supported or neither rejected. Instead, more research on this is required.

## **DISCUSSION AND RESEARCH IMPLICATIONS**

What do we learn from the findings above? Social relatedness has been discussed as a crucial driver of reducing behavioral uncertainty in internal cross-border coordination. Different from other governance means of the more or less formal kind, social relatedness is relevant to hierarchical settings as well. TNCs are not the pure archetype of the hierarchical organization due to their heterarchical structures. However, even in TNCs hierarchical principles work but differently compared to 'pure hierarchies'. In TNCs hierarchy works much more in the background as long as coordination is workable because otherwise hierarchy could replace other modes of coordination. Insofar, hierarchies employ informal modes of governance as well - and oftentimes in a meaningful way. Admittedly, there are other modes of informal governance as well that might work similarly. One example is the organizational culture that is able to reduce cultural distance in TNCs that exists due to country-specific cultural peculiarities and differences. While in business relationships the role of social contacts and relations is already researched (Uzzi, 1997; Yeung, 1997), the particular role of social relatedness for the governance of TNCs is still rather open. Thus, this paper shed some light on this construct and the causal relationship to behavioral uncertainty. By our empirical fieldwork we detected both shared commitment and reliable communication as potential effects of social relatedness that reduce behavioral uncertainty within internal transactions. Despite the fact that our approach might be very simplistic at first glance, the background of this approach is more complex. This is reflected, in particular, by the multilayered interaction between social relationships and trust in economic transactions.

Our empirical study of this paper highlights two key aspects. On the one hand, not only within market transactions participants are confronted with the problem of behavioral uncertainty. Organizational boundaries of TNCs do not keep internal units from chasing after information advantages and behaving in opportunistic patterns in this context. On the other hand, apart from legal or contractual structures cross-border transactions between internal units are additionally filled with informal patterns of governance. Against this background social relatedness provide with a reduced degree of uncertainty by establishing a deeper sense of bond for a common engagement (shared commitment) and by advancing an improved communication with a mutual understanding (reliable communication).

What are the research implications of our study? With regard to our results, empirical studies should be undertaken in order to check the modified cause-effect structures (shared commitment and reliable communication) by a larger sampling. Moreover, the study should be extended to various internal units, especially according to their transactional relationships. Facing the role of intra-firm trust, further explorative research should focus on unraveling the complex and dynamic interplay of social relationships and the different forms of trust within cross-border transactions. Besides that, our third proposition is likely to be reformulated. To date, we see the presented approach as a starting point for future research on informal governance structures in TNCs. Further considerations include the research on other initial points, in addition to social relatedness, that influence coordination between internal units. In this context, the potential of formal governance structures combined with informal mechanisms could be one cornerstone of future research. So far, our constituted set of cause-effect structures has a one-dimensional focus, but it could be a first step for further research that refocuses possible repercussions and reciprocal effects. This, in turn, requires a dynamic perspective considering not only that informal governance develops over time, but also may change in nature. Moreover, we did not touch on the concept of 'social capital' (e.g. Bourdieu, 1983). It could be useful to analyze the role of social relatedness in the context of the debate on social capital.

The development of social relatedness within the internal network of TNCs makes a contribution to reduce the coordination effort of cross-border transactions between the units. Against this background, the management of SMEs should make use of their lower number of internal relations that are - compared to big businesses - often much more personalized.

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**FAMILY BUSINESSES – FOCUSING ON SUCCESSION**

THESES OF PH.D. DISSERTATION

Business and Management Ph.D. Program

Supervisor: Dr. Péter Szirmai, Director, Associate Professor  
Budapest, 2012**ABSTRACT**

We can find family businesses all over the world with different industries and various operating systems. Succession is the final test of a family enterprise. The concerns about succession in family businesses are not without a cause according to research results. The dissertation overviews of the theoretical literature and of the problems of succession relating to family businesses with special characteristics within the field and presents the results of the empirical research examining the succession peculiarities of Hungarian small family businesses. The dissertation consists of six parts: the first two chapters are the sum of the general, theoretical knowledge related to family businesses, the third and fourth chapter are the detailed decompression of the special questions of succession, the fifth chapter is the presentation of the results of an empirical survey, the last chapter includes the summary and the future possibilities of research directions. The dissertation should be especially useful to professionals in family business field, family business owners, successors and their non-family member managers.

**Keywords:** Family businesses, theoretical knowledge on family businesses, succession of family businesses.

**JEL Classification:** D10, L25, L26, M10, M20

**1. BACKGROUND AND AIM OF THE RESEARCH****1.1. Significance of family businesses**

We can find family businesses all over the world with different industries and various operating systems. Observing the list of Family Business Magazine (listing the world's oldest and biggest family businesses) one could be surprised which famous and successful companies operate as family businesses <sup>51</sup>, although this list is just a little teaser from the world of family businesses (Kristie [2010]), (Pearl – Kristie [2010]).

The family-owned and family operated businesses play an important role in employment and GDP production in most of the capitalist countries. They give 75-95% of enterprises and they produce 65% of the world GDP. Despite the fact that they are mostly small enterprises, they give 1/3rd of the 500 biggest companies Fortune magazine lists, 50% of the GDP of the US and their paid wage, and 80% of employment (Miller et al. [2003]), (Winter et al. [2004]), (Miller et al. [2006]), (Casson [2009]). About 90% of the enterprises in the US are in family property and have family operation (some sources say it is 2/3rd (Fitzgerald - Muske [2002])). About 60% of the stock exchange- listed companies are considered to be family businesses (Poza [2007]).

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<sup>5</sup> Houshi Onsen, Château de Goulaine, Merck KGaA, Villeroy & Boch, Faber-Castell, Meerlust, Bombardier Inc., Hutchison Whampoa, Groupe Auchan S.A., Groupe Danone, Michelin, Sodexo, ALDI Group, Robert Bosch GmbH, Oetker Group, Reliance Industries, Toyota Motor Corp., Heineken N.V., LG Group, Samsung Group, Banco Santander, H&M Hennes & Mauritz AB, Inter IKEA Systems B.V., Roche Holding Ltd., Cargill Inc., Ford Motor Co., Wal-Mart Stores (Kristie [2010]), (Pearl – Kristie [2010]).

According to the research in the EU, here the rate of family businesses is 70-80%, they give 20-70% of the EU's GDP, and their participation in employment is 40-50% (Mandl [2008]). The group of family businesses is dominated by the enterprises of SME sector. The rate of enterprises employing less than 10 people is quite high, but we can find quite a few family businesses among the world's biggest enterprises (Mandl [2008]).

Considering the rate of family businesses in Hungary, statistical collection of data does not exist, but this rate could be assumed 70-80% similarly to the data in the EU (Mandl [2008]). Based on Central Statistical Office (CSO) data and the own researches of SEED Foundation for Small Enterprises Development, there is an assumption according to which the half of corporate enterprises and the at least 20% of sole proprietors are family businesses (Horváth [2008]). The inconsistency between the data considering the rate of Hungarian family businesses is not surprising, as I have mentioned before, applying a particular definition and queried data (or data of public databases) can be a very affecting factor for the results. Probably both presented pieces of information are correct in their own context, and one thing we can be almost sure of is that at least the half of corporate enterprises are family businesses. In the case of sole proprietors arises the question of whether being worthwhile to define the rate of family enterprises since we can find among them quite a few forced enterprises which are not engaged in concrete business, and they are actually not operating. This way the base population is so large that the rate of such sole proprietors which are considered as family businesses seems small. Although if we observed the rate sole proprietors engaged in actual business considering family businesses, perhaps we would get a rate even bigger than that of corporate enterprises.

The strong presence of family businesses is proved all over the world, at the same time due to their heterogeneity and the lack of related statistical data, we can only assume their role in economy which cannot be negligible considering their ratio.

## **1.2. Importance of succession in family businesses**

Succession is the final test of a family enterprise. If an enterprise becomes from a one-man business into a family business, continuity becomes a unifying interest. If the enterprise is passed on while it is profitable and in good condition, it will be the main driving force for the new generation (Gersick et al. [1997]).

According to the survey of Chua and his colleagues [2003] involving Canadian family entrepreneurs, the main concern of entrepreneurs is related to succession.

The significance of succession is also supervised by the EU. It is desirable that on this subject would be paid attention in every member state, mainly due to the role of enterprises involved in employment. According to assumptions, in the next ten years 1/3rd of European enterprises will face with the challenge of succession. It means the handover of about 610,000 small and medium sized enterprises which provide approximately 2.4 million jobs (European Commission [2003a]). Based on experience, more and more handovers happen outside the family, many entrepreneurs want to operate the self-founded enterprise for just a short period of time then they are planning to sell it. In certain cases it is not just the age of the entrepreneur that motivates the handover or sell. Other factors – such as personal and family reasons and changing of market conditions – also influence the decision about the handover (European Commission [2002]).

The concerns about succession in family businesses is not without a cause according to research results. Based on surveys in the U.S., 30% of family enterprises are passed on to the next generation, and only 13% of these enterprises remain in family ownership through three generations. In Australia 11% of family businesses survive to be third generation enterprises, 6% of these to be fourth generation businesses. <sup>6</sup>The reason of succession failures is mainly the lack of planning and preparations (Westhead [2003]). Based on Poza [2007] 85% of new enterprises fail in the first 5 years of operation. From those family businesses that

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<sup>6</sup> In certain cases the failure of the handover through generations – if non-family succession brings development, innovation, fresh capital by the new owner – does not mean the failure of the enterprise.

survive, only 30% is handed over successfully to second generation of the founder-owner family. This rate is even worse in the case of the second-third and third-fourth generation. 12% of the enterprises remain in the ownership of the third generation and 4% of them remain for the fourth generation to the family. Surveys performed in the UK show that 30% of family businesses will be second generation enterprises and 2/3rd of these get into the hands of the third generation and the rate of those enterprises which survive after the third generation is 13% (Chirico [2008]). According to other researchers three enterprise of ten live the handover to the second generation while the third generation hands over only 15% of these enterprises (Tatoglu et al. [2008]).

Birley [2001] examined the rate of first, second and third generation family businesses and those which are not in family property any more concerning 16 countries. According to his statement the highest rates of second generation family businesses are in: Belgium (55%), Italy (48%), Finland (44%) and the U.S. (40%). The highest rates of third generation family businesses are in: Germany (34%), Finland (24%), the UK (23%), Italy (22%) and the U.S. (20%). The tail-enders of this survey regarding both second and third generation family businesses are Ireland (14%, 5%) and Poland (6%, 0%).

To call the attention on the significance of succession and enterprise handover is justified by that according to the survey performed by the Barclays Bank [2002] 61% of the family enterprise leaders do not know what future the enterprise will have (regarding non-family businesses this rate is 71%) and only 16% of them are ready for the handover. Based on a survey in Finland by Malinen [2004] 61.1% of the entrepreneurs deal with problems of succession due to their old age, 9.5% due to they got tired of being an entrepreneurs, 7.1% due to they are no longer capable of operating the enterprise with profit. From the involved 492 entrepreneurs 24.8% say that their companies will become involved in succession in the near future, 9.3% say that a change like that is not due, 65.8% did not share their opinion.

### 1.3. Aim and structure of the dissertation

In my dissertation I undertake an overview of the theoretical literature and of the problems of succession relating to family businesses with special characteristics within the field. In the second part of the dissertation I present the results of the empirical research examining the succession peculiarities of Hungarian small family businesses.

In our country the problem of generational change is sharper as – due to our particular historical development – in most of the Hungarian enterprises these years it is decided whether the enterprise is able to become such family business where more generations are collaborating with one another, and the enterprise is inherited from generation to generation. In the near future Hungarian entrepreneurs will face the challenge of succession in mass and bursts without former experiences (Filep – Szirmai [2006], [2008]).

Despite the fact that in everyday language family enterprises are identified as micro and small enterprises, family enterprises are present in every size category. My researches and the theoretical processing are directed to micro and small family enterprises which are quite different in several matters from medium or large companies with professional management, established operating system where the arising problems (especially succession) occur in a different way. (On succession in medium companies Bálint [2004], [2006] made deep research. <sup>7</sup>)

The dissertation consists of six parts: the first two chapters are the sum of the general, theoretical knowledge related to family businesses, the third and fourth chapter are the detailed decomposition of the special questions of succession, the fifth chapter is the presentation of the results of my own empirical survey, the last chapter includes the summary and the future possibilities of research directions.

## 2. APPLIED METHODOLOGY

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<sup>7</sup> The focus of his work was directed to the future of the enterprises interested in succession, he observed the possible outputs of succession and what factors affect a particular decision.



During the research related to my dissertation, my main goal is the deep examination of succession features of family businesses, and drawing such conclusions which help the better understanding of the features of remarkable challenges that family businesses face.

For the examination of the hypotheses of my dissertation I used the database of the research "Succession, generation change in the Hungarian entrepreneur sector and its financial consequences" for the Budapest Bank Plc. by the Corvinus University Budapest, Small Business Development Center (Filep – Pákozdi – Szirmai [2007])<sup>8</sup>.

The sample selection happened based on the Hungarian database of D&B, it does not include all the Hungarian enterprises, but the active operation of these businesses are more or less guaranteed. Moreover it provides detailed search possibilities: it contains the names of the leaders of the enterprises and their phone number which was essential for the later steps of the research.

From the sample selection we excluded the sole proprietors consciously, though their number is remarkable, the activities of many are limited, it is often that they are operated only for being "VAT registered", they do not perform actual business activity, that is why we thought that we focus mainly on forms of social enterprise, thereby meeting our goal to map the succession plans of more companies engaged in real business. Considering the deliberations listed above, the sampling criteria and the related item numbers are the following:

2,722 enterprises which have the following features:

- ❑ form of enterprise: deposit partnership, Ltd., general partnership, joint-stock company
- ❑ revenue: 50 million HUF – 5 billion HUF
- ❑ number of employees: 4-100 people
- ❑ date of foundation is before 2002 (by this, we wanted to provide that stable, long operating enterprises are in the sample, these more likely survive the period of succession and generation change)
- ❑ Hungarian-owned (we excluded from the sample the non-Hungarian-owned enterprises due to language problems while answering the questions)

286 enterprises which have the following features:

- ❑ form of enterprise: deposit partnership, Ltd., general partnership, joint-stock company
- ❑ revenue: 18 million HUF – 49 million HUF
- ❑ number of employees: 3-100 people
- ❑ date of foundation is before 2002 (see above)
- ❑ Hungarian-owned (see above)

Based on these criteria, there are 3008 enterprises in total in the sample used for sending the letters. The one-page personalized invitation letter was sent to the address found in the database for the senior manager, in the name of the Corvinus University. These enterprises were invited to participate in our research. In these letters, there were some relevant questions for the later sample choice, and there were also some "teaser" questions.

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<sup>8</sup> During the performance of this research a wide group worked together out of bank representatives, department staff and specialized students. I am thankful to all the members of this group for their enthusiasm, great attitude, for that the survey went on in a good mood and quite productively, despite its complexity. It was a great challenge and a fantastic experience at the same time to coordinate a great volumed research like this. I give special thanks to Imre Pákozdi and Dr. Péter Szirmai, who did plenty of work for the success of the research. I thank them for their help and for they have supported me, they have given a free range to the realization of my ideas. I hope that reading my analysis they will be content with my results.

We got back 528 responses which serves as a base of the choice of personal questionnaire sample. Based on the returned letters we knew who are involved in succession and generation change, and what the age of respondents is. For the choice of personal questionnaire sample it was our perspective that we preferably ask such entrepreneurs who considered themselves involved in succession. The entrepreneurs were reached by professional interviewers, and they performed the survey in person. During the fieldwork 279 questionnaires were recorded.

The most important point of examinations related to family businesses is giving the definition of family businesses, and their distinction. For this, at the first stage of research I undertake to identify the family businesses with methods of mathematics and statistics, distinguishing the matter of examination. Then I perform the examination of succession- related hypotheses based on important topics. In the following table there is the separation method of research sample, topics of examination, hypotheses, the extent of the examination sample and the applied methodology.

For the definition of family businesses the whole available database is used. The examination of hypotheses only happens on the partial sample of family businesses for revealing the succession features of defined family businesses.

### 3. RESULTS OF THE THESIS

#### 3.1. Distinction and grouping of family businesses

In my dissertation literature review I discuss in details that the essential issue related to family businesses is definition and typology (Astrachan et al. [2002], Colli [2003], Melin - Nordqvist [2007], Bianchi - Bivona [2000], Laczko [1997], Handler [1989], Morris et al. [1996], Poza [2007], Sharma et al [1997], Poutziouris [2001], Chrisman et al. [2003], Chua et al. [2004], Leach [2007]). During my research I raised the question of whether family businesses can be distinguished from non-family businesses regarding such definitive features of family businesses as intentional handover to the next generation, family ownership and family participation in operation. If family businesses can be distinguished from non-family businesses, do they form a homogenous unit or can they be divided into groups with diverse features? The question formulated also serves as a base of research sample definition, I composed the following statements related to this and based on literature review experiences:

**Statement 1:** Family and non-family businesses can be distinguished based on preferred handover outcome, ownership and participation in enterprise operation.

**Statement 2:** Family businesses form separate groups based on preferred handover outcome, ownership and participation in enterprise operation.

The cluster analysis has given the answer to the question of the research related to the distinction and homogeneity of family businesses, and it differentiates well the sample for the examination of hypotheses. The performed examinations confirmed the following statements: family and non-family businesses can be distinguished based on preferred handover outcome, ownership and participation in enterprise operation and family businesses form separate groups based on preferred handover outcome, ownership and participation in enterprise operation. The cluster analysis revealed more typical forms of family businesses: marital businesses, kinship businesses, nuclear family businesses and non-family businesses: businesses with no vision of independent parties and businesses of vision of former colleagues.

By this, I identified 73% of the enterprises in sample as family businesses. Due to the already mentioned disfiguration of the sample, it cannot be considered as a credible source of the rate of Hungarian family businesses.

On this basis, I give the following definition of family businesses: family businesses are those enterprises where most of the ownership is in the hands of the wider or smaller family, in the operation there are at least two members of the wider or smaller family participating. It strengthens the family nature of these enterprises but not a definitive criterion that it is more likely that in the future they wish to keep the ownership and/or management within the family.

**ANALYSIS SAMPLE DEFINITION****Family business definition**

<b>Statements for sample definition</b>	Statement 1: Family and non-family businesses can be distinguished regarding preferred handover outcome, ownership circle and those involved in enterprise operation.
	Statement 2: Family businesses form separate groups regarding preferred handover outcome, ownership circle and those involved in enterprise operation.
<b>Matter of examination</b>	Whole Sample
<b>Methodology</b>	Examination of data of my own empirical research with cluster analysis.

**HYPOTHESES****Succession planning in family businesses**

<b>Hypotheses</b>	H1/a hypothesis: In making of succession plans, there are no gender specific features. H1/b hypothesis: Those entrepreneurs who have a potential successor more likely make succession plans than those who do not have one. H1/c hypothesis: In those family businesses where the enterprise has debts, they more likely make succession plans than in those where they manage without debts.
<b>Matter of examination</b>	Defined family businesses during analysis sample definition
<b>Methodology</b>	Examination of data of my own empirical research with cross-table analysis.
	<b>Expectations against the successor in particular types of family businesses</b>

<b>Hypothesis</b>	H2 hypothesis: In those family businesses where the entrepreneurs want to hand over the enterprise to their children, the expectations against them are lower.
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<b>Matter of examination</b>	Defined family businesses during analysis sample definition
<b>Methodology</b>	Examination of data of my own empirical research with principal component analysis.

**Succession features of different types of family businesses**

<b>Hypothesis</b>	H3 hypothesis: Family businesses with different basic features can be distinguished based on challenges of succession process, expectations against the successor and their financial needs during handover.
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<b>Matter of examination</b>	Defined family businesses during analysis sample definition
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<b>Methodology</b>	Examination of data of my own empirical research with discriminant analysis.
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**Succession content in family businesses**

<b>Hypothesis</b>	H4 hypothesis: In those family businesses where during the handover they are planning to keep the close family ownership and management, it is rather typical that the predecessor hands over the enterprise ownership to the successor.
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<b>Matter of examination</b>	Defined family businesses during analysis sample definition
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<b>Methodology</b>	Examination of data of my own empirical research with cross-table analysis.
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TABLE 1: SUMMARY TABLE OF HYPOTHESES (own compilation)

The percentages of the clusters in sample are presented in the following figure. The figure shows that the lowest rate is of businesses with no vision of independent parties, while the highest rate is of nuclear family businesses. On the whole we can say that I managed to group the sample in proportion which is fortunate regarding family businesses which will be specially analyzed later (kinship businesses, marital businesses, nuclear family businesses).

### Distribution of businesses identified by cluster analysis

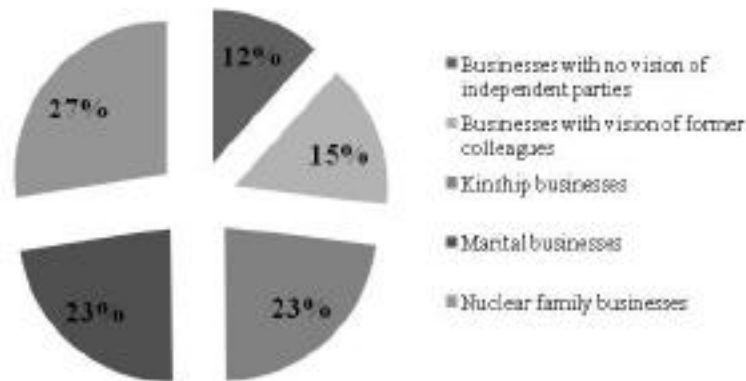


FIGURE 1: DISTRIBUTION OF BUSINESSES IDENTIFIED BY CLUSTER ANALYSIS (own compilation)

### 3.2. Succession planning

The literature discusses unplannedness as a relevant problem related to enterprise handover (Poza [2007]), (Rosenfeld – Friedman [2004]), (Kiong [2005]), (Fager – McKinney [2007]), Stavrou [2003]), (Sharma et al. [2000]), (Motwani et al. [2006]), (Sonfield – Lussier [2004]), (Ip – Jacobs [2006]), (Gersick et al. [1997]), (Sharma et al. [2003a]).<sup>9</sup>

Related to the results in literature review, a question was formed and I considered it worthy for further studying: Are there factors which influence the succession plan making propensity? I performed the analysis based on the following hypotheses:

**H1/a hypothesis:** In making of succession plans, there are no gender specific features. - Accepted

**H1/b hypothesis:** Those entrepreneurs who have a potential successor more likely make succession plans than those who do not have one. - Accepted

**H1/c hypothesis:** In those family businesses where the enterprise has debts, they more likely make succession plans than in those where they manage without debts. – Rejected

The hypotheses related to succession planning reveal that the influence of the successor is the biggest on the planning process. The presence of the successor "enforces" keeping the topic on the agenda, during the collaboration, willy-nilly, the future plans come into play, the potential solution possibilities crystallize.

It is an interesting result and it hints the remarkable aversion related to succession planning that there are no differences between the planning tendencies of male and female entrepreneurs, although we would expect that women more likely plan the future of their enterprise – regarding their manners and lower tendency for taking risks.

It is also surprising that in enterprises with debts also there is no succession planning generally. We can come to the conclusion that the financing banks do not see relevant risk in unplanned succession process which is forecasting unpredictable future for the repayment of outstanding debts, or simply they have not noticed the significance of this process yet, that is why they do not urge on making prior plans.

### 3.3. Expectations against the successor in particular types of family businesses

<sup>9</sup> The topic is discussed in details in chapter 4.2. of the dissertation.

Among the many conditions of the successful succession process, the most important one is that the successor has those characteristics which are essential for the successful management of the family enterprise in the future.<sup>10</sup>

It is an exciting topic related to the internal successors of family businesses that the expectations against them are lower or higher than the requirements against non-family member candidates. Do the family ties obscure the deficiencies in preparedness, skills, or are these conditions the same against internal and external successors, or do family ties cause rather higher expectations than lower?

In the sample, I thought it would be interesting to examine that whether in those family businesses where the successor is of the family, the expectation against him are lower or higher. The hypothesis which is the base of the examination is the following:

**H2 hypothesis:** In those family businesses where the entrepreneurs want to hand over the enterprise to their children, the expectations against them are lower. – Rejected

The results of principal component analysis show that successors with family ties are not in an easy situation, in most of family businesses, family relationship does not replace preparedness, it even indicates higher expectations.

### 3.4. Succession features of different types of family businesses

Family businesses are often classified under one roof, and it is considered that they face with the same difficulties during succession process, their expectations against successors are similar and so are their needs in handover financing. During examination matter definition, I managed to detect three types of family businesses and related to this, it is worth examining that regarding succession related features whether these enterprises are actually similar to one another.

**H3 hypothesis:** Family businesses with different basic features can be distinguished based on challenges of succession process, expectations against the successor and their financial needs during handover. – Accepted.

The discriminant analysis verified the H3 hypothesis – family businesses with different basic features can be distinguished based on challenges of succession process, expectations against the successor and their financial needs during handover. During the analysis, the revealed discriminant functions detected that to which group the enterprises belong with 60.7% confidence. I managed to distinguish marital businesses most clearly, here the success of classification was 85%.

The results strengthen the validity of the cluster analysis defining the types of family businesses. It revealed that in the case of particular family businesses the features of the succession process are different. The further important message of the hypothesis verification is that during the examination of family business succession features we have to pay attention on the features of particular typed family businesses. We cannot say that family businesses are homogeneous with same challenges and needs. It is essential for the correct interpretation of their behaviour and decisions to examine them separately considering their unique characteristics.

### 3.5. Succession content – What does the predecessor give to the successor?

The relevant question of succession content is what is given to the successor by the predecessor. In the literature there are plenty of examples for how it is difficult for the predecessor – especially when he is the founder as well – to give up and give on the enterprise (Poza [2007]), (Westhead [2003b]), (Leach [2007]).<sup>11</sup>

During the handover, the predecessor may pass on the operative tasks, the decision-making power and the enterprise ownership. Related to this the question arises: whether are handing over the decision-

<sup>10</sup> Expectations against the successor, desirable features and characteristics are discussed in details in chapter 3.3. of the dissertation.

<sup>11</sup> In the 3.2 chapter of the dissertation, predecessors' features are discussed in details.

making power and especially giving up the enterprise ownership less difficult in the case when the company is kept within the family? I performed the examination of this question based on the following hypothesis:

**H4 hypothesis:** In those family businesses where during the handover they are planning to keep the close family ownership and management, it is rather typical that the predecessor hands over the enterprise ownership to the successor. – Rejected

I did not manage to verify the H4 hypothesis, it cannot be detected significantly that in those family businesses where during the handover they are planning to keep the close family ownership and management, it is rather typical that the predecessor hands over the enterprise ownership to the successor.

There can be more underlying reasons for this. By the result, the measure of the close relationship between predecessor, founder entrepreneurs and their businesses was confirmed. It also shows in the strong affection for enterprise ownership in the case of internal family succession. In many families, ownership settlement is relegated to the background not just because of this affection but also due to the delicateness of the topic. The involved feel that talking about ownership is like speaking of the death of the predecessor. Having a kick against ownership handover can be also written on the account of inexperience in the succession process. Without a good example and proficiency, predecessors do not recognize the significance of reorganization, handing over (at least a part of) the ownership structure. As Gersick and his colleagues [1997] and also Leach [2007] revealed that settling ownership structure is the base of the succession process.

### 3.6. Summary

The goal of the performed research related to my dissertation was to provide deeper insight into family business succession. To achieve this goal, it was essential to identify family businesses in the research matter. The distinction of family and non-family businesses happened with cluster analysis, with it I managed to identify family businesses, and also to distinguish their three types: nuclear family businesses, kinship businesses and marital businesses. Identifying the three different types of family businesses with different features was quite relevant result of this research, as it reveals that family businesses are not homogeneous, they have different features depending on their different nature. It influences their behaviour in the succession process, their needs and the challenges they face with.

There were four topics of the hypotheses: succession planning propensity, expectations against the successor, succession features of different types of family businesses and succession content.

Regarding succession planning propensity, based on international surveys, Hungarian family businesses are negative. Neither gender nor indebtedness have influence on succession planning propensity. Only the presence of the successor is the effective motivator of planning. Regarding expectations against the successor, the research had interesting results, contrary to the assumptions, in family businesses, the expectations against internal successors are higher than against successors without family ties. For the time being, the reasons of the results can be just guessed, however it can be an exciting question for a survey concerning second generation enterprises which have already got through the succession process, to reveal whether just the expectations are higher against the internal successor or their higher levelled preparedness is also shown by measurable factors (education, language skills, professional orientation, other achievements).

Examining succession features of different types of family businesses revealed that in particular typed enterprises, challenges, expectations against the successor and succession financing needs differ. The result has an important message: family businesses are heterogeneous, and one has to keep it in mind during examinations, support and development programs. A possible future research direction related to family businesses are to map the further, significantly distinctive features of enterprises in the defined groups and to reveal other well-segmentating perspectives of family businesses.

The examination of the hypothesis concerning succession content reveals that it is not guaranteed that the successor gets shares in the succession process, even when he has family relations. To execute the succession process without settling ownership issues carries remarkable risk. In this case I think one can decrease the risk with preparing, giving information, outlining various options.

The research results of the dissertation fulfil the goal of this thesis, they provide deeper insight into family business succession. However the topic cannot be considered nearly fully processed and exhausted, with

every result raises at least one new question of research. Beyond further quantitative researches, qualitative surveys also promise exciting possible discoveries. An either quantitative or qualitative longitudinal research database would be a real treasure for those who are interested in the subject.

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## 5. SELECTED LIST OF PUBLICATIONS ON THE TOPIC OF THE THESIS

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4) Filep Judit (2007): Az utódlás kihívásai a magyar vállalkozásokban, *A kis-és középvállalkozások helyzete Magyarországon*, Közpolitikai füzetek sorozat, *Generáció 2020*

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## NEWS

### WORKSHOP (LER-WG – ECGC)

Thursday, 26.09.2013, Budapest, Hotel Benczúr

**“The experience of the Hungarian legal framework for MF provision and its lessons in an international context, and the possible effects of the implementation of the European Code of Good Conduct for the sector”**

**PROGRAMME**

In Hungary, microcredit activities have started in 1992 within the framework of the PHARE Programme. The crediting was managed by non-profit foundations with the involvement of commercial banks.

Based on the experience of the programme, the modification of the Banking Law in 1998 allowed – *among the firsts in Europe* – one of the foundations, followed by 20 foundations in 2003, to independently perform microcredit activities without involving a commercial bank.

Has this regulation lived up to the expectations? What are the experience regarding the legal regulation in Hungary? Could this example be followed by other European countries? Can the requirements of the European Code of Good Conduct be applied in the case of the non-profit foundations as well? What are the expected effects on the European microfinance sector of the implementation of the Code of Good Conduct?

The participants of the event could get answers for these questions among others first-hand from those directly involved.

The panellists will include the representatives of Microfinance Institutions (MFIs) involved in the regulation, Hungarian members of the parliament, representatives of the Ministry of Economic Affairs and the Central Bank, as well as EU experts involved in the elaboration and the implementation of the European Code of Good Conduct.

**Panellists:**

*Tibor Szekfü*, President of the Hungarian Microfinance Network, Local President of the Consortium for National Small Enterprise Promotion in Fejér county, member of the national board, Managing Director of the Fejér Enterprise Agency (Székesfehérvár, Hungary);

*András Nagy*, Local President of the Consortium for National Small Enterprise Promotion in Zala county, Member of the National Board, Managing Director of the Zala County Foundation for Enterprise Promotion (Hungary);

*Dr. Antal Szabó*, Scientific Director of the ERENET, UN ret. Regional Advisor;

*Dr. Györgyi Nyikos*, Counsellor, Cohesion Policy, Permanent Representation of Hungary to the EU;

*Pal Vik*, University of Salford (UK)

Participation is also expected from members of the parliament & representatives of the Ministry of Economic Affairs and the Central Bank

**Moderator:** *Maria Doiciu*, EUROM Consultancy & Studies (Romania)

**ORGANIZATION  
OF THE BLACK SEA  
ECONOMIC  
COOPERATION (BSEC)**

**KONRAD  
ADENAUER  
STIFTUNG  
(KAS)**

## **WORKSHOP ON “FAMILY BUSINESSES AND SMEs”**

Istanbul, BSEC Headquarters, 8-9 October 2013

### **Summary Proceedings**

**1.** The Workshop on “Family Businesses and SMEs” was held at the BSEC Headquarters in Istanbul, on 8-9 October 2013. It was jointly organized by the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC PERMIS) and the Konrad-Adenauer-Stiftung (Foundation) (KAS) in Turkey.

**2.** Welcoming statements were delivered by Dr. Colin DÜRKOP, Head of Office of the Konrad-Adenauer-Stiftung (KAS) in Turkey, and Ambassador Traian CHEBELEU, Deputy Secretary General of BSEC PERMIS.

**2.1.** Ambassador T. CHEBELEU welcomed the participants of the Workshop on behalf of the BSEC PERMIS. He expressed thanks and appreciation to the KAS for its long-standing support to and cooperation with BSEC which has resulted in the organization of a series of workshops and seminars - over 40 workshops since 1997 - aimed at promoting the SMEs in the BSEC region. He took the opportunity to thank in particular Dr. Antal SZABO, UNECE ret. Regional Adviser on Entrepreneurship and SMEs, Scientific Director of ERENET, for his contribution and professional knowledge to the success of the exchanges which have taken place. The topic of the Workshop “Family Businesses (FBs) and SMEs” represents an important and stable element of the BSEC economies. Support for the sustainable development of the SME sector is one of the goals of the “BSEC Economic Agenda Towards an Enhanced BSEC Partnership.”

**2.2.** Dr. C. DÜRKOP welcomed the participants of the Workshop on behalf of the KAS. He highlighted the cooperation with ERENET as well. Over the past two decades, many Workshops were realized aiming at providing dialogue form between the stakeholders and decision-makers for SME policies in various BSEC countries. For 2013, Istanbul was chosen as the venue of the Workshop, as Turkey especially provides a very good example for FBs. Dr. DÜRKOP underlined the importance of elaborating on possible suggestions to Governments to deal with these issues with a view to incorporating them eventually into national SME and employment policies. He added that the Workshop findings, conclusions and recommendations will be submitted to the BSEC Working Group on SMEs where it will be considered during its next session on 10-11 October 2013.

**3.** The Workshop was co-chaired by Ambassador T. CHEBELEU, BSEC PERMIS Deputy Secretary General; Dr. C. DÜRKOP, Head of the Konrad-Adenauer-Stiftung (KAS) in Turkey; Dr. Antal SZABO, UNECE ret. Regional Adviser on Entrepreneurship and SMEs, Scientific Director of ERENET; Dr. Fikret N. ÜÇCAN, Vice-President of TOSYÖV (Turkish Foundation for Small and Medium Business); and Ms. Meltem GÜNEY, Executive Manager of the BSEC PERMIS.

**4.** The Workshop was attended by the representatives of the following BSEC Member States:

Republic of Albania  
Republic of Armenia  
Republic of Bulgaria  
Georgia

Hellenic Republic  
 Republic of Moldova  
 Romania  
 Russian Federation  
 Republic of Serbia  
 Republic of Turkey  
 Ukraine

**5.** On the first day of the Workshop, Dr. Antal SZABO; Assistant Prof.Dr. Meltem İNCE YENİLMEZ, Faculty of Economics and Administrative Sciences, Yaşar University; Dr. Daniel MITRENGA, Chief Economist, Die Familienunternehmer ASU e.V.; and Prof.Dr. Jörg FREILING, Vice Dean of the Faculty for Business Studies and Economics, Chair in Small Business and Entrepreneurship, University of Bremen addressed the Workshop as lead speakers.

**5.1.** Dr. A. SZABO, in his presentation, stated that the FBs constitute a substantial part of existing European companies. The Small Business Act highlighted the role of the FBs and the need to make full use of their potential. The study on the “Overview of FB relevant issues” completed in 2008 provides an overview of national definitions of FBs, their specific characteristics, classifies existing national networks and support institutions. The most important issue is preparation for the transfer of the FBs. The Entrepreneurship 2020 Action Plan calls the European Commission and EU Member States to improve legal, administrative and tax provisions for business transfers. He added that reviewing tax regulations with respect to their impacts on the liquidity of small or medium-sized FBs should be considered. Finally, Dr. SZABO highlighted the key elements of success of the FBs as follows:

- understanding and harmonic utilization of the three levels of responsibility including ownership, enterprise management and family;
- only those FBs became successful where all members of the FBs became responsible owners.

**5.2.** Assistant Prof. Dr. M.İ. YENİLMEZ presented the history, development and characteristics of the FBs in Turkey. 90% of enterprises are family firms and 94.1% of SMEs are FBs. According to the PwC survey in 2008, the majority of FBs are of first generation - 56% of companies are engaged in the production sector and 14% in construction. FBs are characterized by innovative cultures. Taking low capital market and dependencies are preferable. They prefer good relationship with customers. Best known Turkish family-owned business examples were mentioned as:

- Koç Holding with USD 4.9 billion income and employing 45,626 people; and
- Sabancı Holding with USD 5.3 billion income and 31,380 employees.

**5.3.** Dr. Daniel MITRENGA pointed out the significance of FBs in Germany and their innovation activities. This association was founded in 1949. Today it includes 5,000 members. The share of FBs is 91.0% with employment of 55% and 47% of overall turnover. 65% of FBs are single-member companies. FB is not a matter of size. Not many enterprises get old, only 29% are of 2<sup>nd</sup> generation, 13% of 3<sup>rd</sup> generation and only 2% of 5<sup>th</sup> generation. FBs offer 80% of apprenticeship training position. They are very good standing as employers. FBs are deeply-rooted in regional structures evolved over generations. They survived very good through the economic crisis. Although FBs are very innovative and internationalized, many of them are acting only in their own regions. It is worth mentioning that FBs build close business to business relations, having strong customer relations.

**5.4.** Prof. Dr. Jörg FREILING, in his presentation, highlighted the characteristics and managerial behaviour of German FBs. There are many clusters in the country which are strong

and they are interconnected. Innovation and experimentations are very strong in FBs. Recently, the influence of FBs in society is decreasing. This is perhaps due to the erosion of the old family business model. In the globalized world, the FBs are building a transnational position and having partners from international value chains. The volatile world builds responsiveness and looks for ways to set standards. The small world of business aims at building relationship based on trust and reliability developing reputation and also increasing brand awareness. He identified four types of FBs including: (i) patriarch; (ii) family team; (iii) professional family model; and (iv) family investment group models.

6. An exchange of experiences concerning family businesses in the BSEC Member States took place. The representatives of the BSEC Member States made their presentations. Issues addressed included:

- (i) definition of a family business;
- (ii) characteristics of family businesses;
- (iii) financial constraints of family businesses;
- (iv) entrepreneurship education and family-business specific training requirements and practices;
- (v) transfer of family businesses;
- (vi) Government support to family businesses;
- (vii) family business contests and awards.

7. On the second day of the Workshop, presentations were made by Dr. Ahmet ÇİMENÖĞLU, KOÇ Holding A.Ş. Economic Research Coordinator; Ms. Meltem KURTSAN, Shareholder of KURTSAN Holding, Vice President of KURTSAN Foundation; and Dr. Serhat ÖZTÜRK, Manager of the Anatolia Service Center of the Small and Medium Enterprises Development Organization of the Republic of Turkey (KOSGEB), Istanbul.

### Final Discussions and Conclusions

8. The following points were made in conclusion:

- 8.1. Family Businesses (further as FBs) are considered to be the backbone of the economies of the BSEC Member States and their societies in a wider sense.
- 8.2. FBs make up about 70-80% of all European enterprises, accounting about 40-50% of employees.
- 8.3. Most SMEs, especially micro and small enterprises, are FBs and some of the largest European companies are also FBs.
- 8.4. Most of FBs are SMEs operating in traditional sectors such as tourism, agriculture and the service sector.
- 8.5. There is no commonly accepted definition of FBs in the EU. However, the Participants of the Workshop agreed that a firm, of any size, is a FB if:
  - (i) the ownership of the company belongs to a natural person(s) or his relatives;
  - (ii) the majority of decision-making rights is in the possession of this natural person(s); and
  - (iii) at least one representative of the family is formally involved in the management of this firm.

The definition should be introduced at the national level.

- 8.6. The common feature of FBs is that the family dimension, the business and the ownership

are intertwined.

- 8.7. FBs are flexible in time, work and money, they are innovative entities with long-term thinking, stable culture, credible, moral and proud business behaviour. However, their business challenges contain scepticism, they are reluctant to modernize their management styles.
- 8.8. FBs in many BSEC countries including the advanced ones are generally negative about the Governments' attitude and support. The majority of FBs feel that the Governments do not recognize the significance of the FBs.
- 8.9. In FBs the way of entrepreneurial thinking and actions are different compared to large businesses.
- 8.10. In advanced market economies, like in Germany, the influence of FBs is decreasing. The old family model is eroding because of changing the requirements from the outstanding environment due to increased globalization.
- 8.11. There is a lack of research and common understanding with regard to the value of the FBs for the economy and the society.
- 8.12. Succession of FBs as well as business transfers constitutes a challenge for the long term survival of the existing FBs. Major reasons for failure of business transfers are lack of careful planning and rigid taxation policies in this process.
- 8.13. There is a lack of reliable statistics on the FBs in the BSEC Member States.

## Recommendations

9. The following recommendations were made:

- 9.1. Governments should provide a legal definition of the FBs in the BSEC Member States and harmonize it with their existing company and SME laws. While defining FBs, the three major pillars including the family, the business and the ownership should be taken into consideration.
- 9.2. Governments should foster entrepreneurial mindsets in the entire education system in order to contribute to the creation of the sustainable FBs in the BSEC countries. Special attention is required to modernize the VET system in the BSEC Member States.
- 9.3. Governments should improve national statistics related to FBs.
- 9.4. Free training courses, especially in business planning, accountancy, marketing, management and use of ITC should play an important role for the further development of FBs.
- 9.5. Governments should consider adopting measures to create a more favourable environment for FBs, including simplification of company law, reducing bureaucracy, easing taxation and providing financial resources especially for the start-up of FBs.
- 9.6. Governments and national authorities should foster the development of local and regional clusters especially by providing cross fertilization.
- 9.7. Governments should foster transfer and innovation projects between academicians and FBs.
- 9.8. Governments should include FB development into their SME policy development.
- 9.9. The civil society should be encouraged to represent the interests of FBs especially at



national level.

9.10. Where necessary, media and public institutions should improve the promotion of the values of the FBs.

9.11. The Participants of the Workshop agreed to produce a book on family businesses in the BSEC Member States, based on the guidelines which will be sent by ERENET Scientific Director in agreement with the KAS, by 15 October 2013.



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**PRESS RELEASE ON**  
**THE MEETING OF THE BSEC WORKING GROUP ON SMEs**  
**(Istanbul, 10-11 October 2013)**

The Meeting of the BSEC Working Group on SMEs was held at the BSEC Headquarters in Istanbul, on 10-11 October 2013. The meeting was chaired by Mr. Ömer PAK, Head of the EU and Foreign Relations Department of the Small and Medium Enterprises Development Organization (KOSGEB) of the Republic of Turkey, which is the Country-Coordinator of the Working Group.

During the meeting, the Working Group decided to focus its efforts on 3 out of the 10 priorities listed under Goal 9 of the BSEC Economic Agenda Towards an Enhanced BSEC Partnership, during the medium-term covering the 2013-2015 period. These priorities include:

- Developing BSEC programs aimed at promoting favorable conditions for local businesses and foreign investments; facilitating networking, exchange of experiences and know-how; organizing training for young entrepreneurs.
- Focusing on high technology, innovation, clusters, industrial-technology and software parks and business incubators as concrete instruments to facilitate SME start-ups in the Member States and to encourage entrepreneurship, competitiveness and cooperation with large companies in the BSEC Region.
- Developing a support system for innovation and technology at BSEC region, with the view to promoting cooperation among SMEs and the university environment, or research and development institutions.

Under the 3 selected priorities, the participants identified 3 project ideas, namely, a Program on Promoting Innovation Culture in the BSEC Member States; a Program on Promoting Entrepreneurial Culture in the BSEC Member States; and Establishing a BSEC Network of Incubators for SME Start-ups. As the next step, concept papers regarding these project ideas will be elaborated until the end of 2013.

In the context of the planned vision and strategy of the Working Group for the next two-years (2014-2015), in addition to concentrating on innovation and entrepreneurship, the importance of finalizing the BSEC E-Booklet on Energy Efficiency Best Practices in the SME Sector was highlighted.

During the Working Group meeting, the Representative of the Konrad-Adenauer-Stiftung (Foundation) (KAS) in Turkey made a presentation to the participants on the findings and recommendations of the BSEC-KAS Joint Workshop on "Family Businesses and SMEs" which was held at the BSEC Headquarters in Istanbul, on 8-9 October 2013, preceding the meeting of the Working Group.

A part of the meeting was dedicated to a presentation on a BSEC model for establishing a Business Incubator for SME Start-ups and a round table discussion regarding this model as well as information and best practices on existing incubators for SME start-ups in the BSEC Member States.

Within the framework of the program of the meeting, the participants paid a technical visit to the Kocaeli

Branch of the Chamber of Mechanical Engineers of Turkey where a presentation was made on energy efficiency trainings and audit.

## Background Information

The BSEC Working Group on SMEs aims to contribute to stimulating the development of the SMEs of the region.

The Working Group is currently working on the draft template of an electronic “Best Practices Booklet” which will compile the best practices of the BSEC Member States in promoting energy efficiency in SMEs.

Since 1997, more than 30 workshops on SME development have been organized jointly by BSEC and the Konrad-Adenauer-Stiftung (KAS) in Turkey. Various publications have been produced based on the presentations and conclusions of these workshops. The outcomes of the workshops are recommended to be taken into account in the process of the elaboration and implementation of SME policies in the BSEC Member States.

BSEC also cooperates closely with the International Network for SMEs (INSME) which is a Sectoral Dialogue Partner of BSEC.



By Milan Cabrnach - 26th November 2013

file: <http://www.theparliament.com/latest-news/article/newsarticle/eu-making-huge-mistake-in-south-caucasus-relations/#.UpWy9MTuK5w>

### **Milan Cabrnach warns that Europe's lack of understanding and insistence on acting as a mentor is jeopardising its relations in the south Caucasus.**

Over the last four and a half years, I have regularly visited the region of the south Caucasus as chair of parliament's delegation to Armenia, Azerbaijan and Georgia. Mainly during election observation missions, I have had several opportunities for discussion with my counterparts from national parliaments, members of governments, representatives of NGOs, as well as with citizens of the above mentioned countries.

The European Union has committed a huge mistake in its relations with the Caucasus countries, stemming from a lack of understanding and efforts to act as a mentor to these states. We address these countries as younger brothers who need to be raised, but this is not the way to build real partnerships.

The topic that concerns every country of the south Caucasus is neither judicial reform nor LGBT rights; it is national security. This is the area where Armenia, Azerbaijan and Georgia expect help from our side. Unfortunately, we are unable to act decisively and strongly enough. Apart from the EU monitoring mission, we are not helping these countries in finding solutions to their problems. The strongest tools we possess are only vague declarations condemning conflicts in the region.

It is important to draw attention to the fact that the EU is not the only entity interested in the future development of these countries. Our hesitant and indecisive policy gives an opportunity to Russia to gradually regain its former territories. Up to now, all we have offered to these countries are words, criticism and experts, whereas Russia offers security support, weapons and oil and gas. We cannot and

should not offer the same; we have to promote democracy, human rights and freedom of media. But at the same time we should continue to support reforms, development and strengthen European involvement in the region. Last but not least, we must be proactive in resolving current conflicts.

## **EU and the South Caucasus:**

### **Armenia**

EU relations with Armenia are governed by the EU-Armenia partnership and cooperation agreement (1999). Negotiations on association agreement, including a deep and comprehensive free trade area, were finalised in July 2013. However, given Armenia's wish to join the customs union of Russia, Belarus and Kazakhstan, announced in September 2013, the association agreement, incompatible with membership in the customs union, will not be initialled nor signed. The EU will continue cooperation with Armenia in all areas compatible with this choice, but a new EU-Armenia visa facilitation and readmission has recently been agreed.

### **Azerbaijan**

Azerbaijan has been involved with the EU's neighbourhood policy since 2004 and, during 2007-2010, received €92m from the EU, while during 2011-2013 a further €122.5m was received. In addition, Azerbaijan also benefits financially from regional and interregional programmes, plus a number of thematic programmes such as the European instrument for democracy and human rights. The EU and Azerbaijan are currently negotiating an association agreement which will significantly deepen Azerbaijan's political association and economic integration with the EU.

### **Georgia**

Relations between the EU and Georgia started in 1992 just after Georgia regained its sovereignty in the wake of the break-up of the Soviet Union. Bilateral relations have further intensified since the 2003 "rose revolution" which brought to power a new Georgian administration headed by Mikheil Saakashvili. During the period 2007-2010, Georgia received €120m whilst also financially benefiting from regional and interregional programmes. The EU has also provided €6m in humanitarian aid for people affected by the Ossetia-Russia conflict in 2008. In October 2013, Georgia elected Giorgi Margvelashvili to replace Mikheil Saakashvili as president.

**Milan Cabrnoc is the Chair of parliament's delegation to the EU-Armenia, EU-Azerbaijan and EU-Georgia parliamentary cooperation committees**



## DECLARATION OF THE 2nd EASTERN PARTNERSHIP BUSINESS FORUM

Vilnius, 28 November 2013

The BUSINESS FORUM, organised on the eve of the 3rd Eastern Partnership Summit, brought together business, banking and government leaders to address business environment issues in Eastern Partnership countries under the umbrella theme of “Business. Without borders.” Participants discussed how to enhance investment and revive the SME sector; highlighted the critical need of sound infrastructure for business success; and examined opportunities for closer trade and economic ties between the EU and Eastern Partnership countries.



Photo by BFL

Acknowledging the important role of the Eastern Partnership and the significance of close cooperation between the EU and the Partner countries in creating mutual trade benefits; enhancing investment; contributing to economic growth; and improving the business environment in the partner countries, the FORUM:

- ❖ Welcomed the initialling of Association Agreements including Deep and Comprehensive Free Trade Areas (DCFTAs) between the EU and Georgia, the EU and Moldova, which offer a clear framework for structural reforms and further improvement of the business climate. Expressed readiness to support the implementation of these Agreements.
- ❖ Underlined that creation of Deep and Comprehensive Free Trade Areas would increase trade and investments between partners. Business communities expressed their wish that Ukraine remains on the path of reforms and encouraged
- ❖ Ukraine to reengage in the process leading to conclusion of the AA/DCFTA with the EU.
- ❖ Welcomed the substantial increase in lending to the region by the EIB and other International Financial Institutions over the past years in support of growth and jobs; the modernisation of economic infrastructures; the improvement of the environment; and deeper economic integration with the EU market to the benefit of business and the citizens of the Eastern Partnership countries.
- ❖ Called for strengthening the business dimension of the Eastern Partnership seeking to improve business environment, including in the field of Foreign Direct Investment, in partner countries for the benefit of local, regional and European businesses.
- ❖ Stressed the benefits of the East-Invest II project, which will run for the period 2014-2017 to support the development of business organisations and SMEs in Eastern Partnership countries and to promote trade opportunities between the EU and Eastern Partners' companies, through capacity building in areas such as trade, including with regard to DCFTAs, as well as internationalisation and advocacy, with special attention to SME development.
- ❖ Agreed on the need to actively promote bilateral and multilateral cooperation by creating business councils, associations or chambers that help to build understanding and business networking, as well as to establish a better business environment across the borders.



Underlining the significance of a strategic vision and greater involvement of the partner countries in capacity building in major sectors of the economy, including energy and transport, the FORUM reiterated the importance for partner countries to continue converging with EU standards and improving their legal and regulatory environment. To this end, the FORUM:

- ❖ Encouraged **BUSINESSEUROPE** and **EUROCHAMBRES**, the main European business horizontal associations, to share their expertise with businesses in Eastern Partnership countries in order to improve understanding and enhance approximation between the different regulatory frameworks.
- ❖ Underlined the need for further investment in essential economic and social infrastructure in the Eastern Partnership countries, and recognised the key role the EIB and other IFIs have in supporting such investment, including in climate action projects, in line with EU objectives.
- ❖ Encouraged the EIB and other IFIs to step up lending to the private sector and foster the development of SMEs, thus contributing to the creation of more and better jobs in the region, recalling that a sufficient lending mandate is needed for the EIB to make the full use of its potential.
- ❖ Agreed that EU technical assistance can be essential to help accelerate the preparation and financing of more and better projects.

Reiterated the need to continue and speed up the reforms in the Eastern Partnership countries that are to create the basis for macro-economic stability in order to enhance SME development, broaden the economic base.

- ❖ Called on the EU and Partner countries to initiate ICT projects for business, people and Governments in support of, inter alia, key economic sectors.

Recognising the importance of coordinated action to further promote regional business and economic growth, and recognising the need to further strengthen formal dialogue between business and political leadership of the EU and Eastern Partnership countries the FORUM:

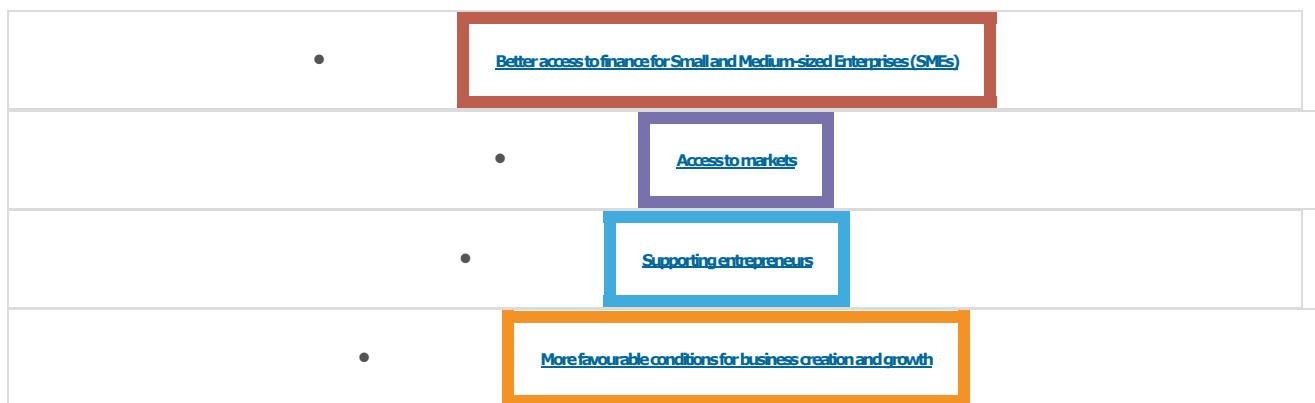
- ❖ Proposed that the Eastern Partnership Business Forum becomes a regular event organised in parallel with the EU-Eastern Partnership Summit, and that the business community establishes a mechanism for more regular contact and collaboration.
- ❖ Endorsed the idea to establish a dedicated advisory committee at the EIB aiming to strengthen the Eastern Partnership countries' involvement in the projects financed.

Source: <http://www.eu2013.lt/en/news/declaration-of-the-2nd-eastern-partnership-business-forum>

## INSTITUTIONAL PROFILE

### WHAT IS COSME?

On 26 September 2013, the European Parliament Committee on Industry, Research and Energy (ITRE) adopted almost unanimously the consolidated text of the Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME). This programme will provide support to SMEs throughout the period 2014 - 2020 with a planned budget of EUR 2.3bn by means of dedicated funding instruments. With four specific objectives - improving access to finance, improving access to markets, improving framework conditions, and promoting entrepreneurship - COSME should help SMEs in their start-up and growth phase and help improve the general entrepreneurial climate in which they operate. COSME will support SMEs in the following area.



### ESBA WELCOMES COSME VOTE, BUT WITH RESERVATIONS

ESBA Secretary General Patrick Gibbels said:

ESBA congratulates rapporteur Jurgen Creutzmann MEP for carrying the report through the European Parliament. COSME is one of the few programmes available dedicated solely to SMEs. We welcome the particular attention that has been paid to calibrating the debt and equity instruments envisaged, something ESBA has advocated since the very beginning. In the current economic climate, banks ask entrepreneurs for exorbitant collateral and offer loans against very high interest rates. The COSME programme has the potential to offset some of these negative effects on small business. However, it should be noted that the general budget of the programme is still low, taking in consideration that funds are allocated over a 7-year period. Particularly compared to Horizon 2020 - a much heftier programme but geared toward highly innovative SMEs and therefore not attainable to most - the COSME programme is a lightweight. Though research and innovation are important, we urge the institutions not to undervalue "mainstream" SMEs.

## INTERNATIONAL INVESTMENT CENTER - IIC



**International Investment Center - IIC** - is an international non-profit organization, founded in 1994 and registered in the Russian Federation. It is accredited in Switzerland, Austria, Italy and the United States and holds special consultative status with the UN Economic and Social Council (ECOSOC) and consultative status with the United Nations Industrial Development Organization (UNIDO).

### **IIC main activities are:**

- development of foreign economic and foreign relations;
- exchange of experts and youth delegations;
- organizing conferences;
- organizing foreign fellowships for representatives of government and business organizations;
- attracting foreign investments into Russian territory and vice versa;
- research and analytical work.

The Center is engaged in research activities in the field of legislation, cooperates with the State Duma of the Russian Federation, Academy of State Service under the President of the Russian Federation, as well as with various government, commercial and public organizations.

IIC is actively involved in UN programs aimed at developing economic cooperation and improving the image of the Russian Federation abroad, including the development of volunteering. In 2008-2011, IIC had implemented a number of research on economic and social issues in Russia with UN Volunteers and within the framework of the UN Economic development Program (UNDP).

IIC is devoted to organization of international conferences and presentations at UN venues. For example, in 2010 and 2011, International Conferences "Public Diplomacy and Youth Volunteering" were held in Geneva with the support of Directorate General of the UN Office in Geneva, Russian Ministry of Foreign Affairs, Permanent Mission of the Russian Federation to the UN Office and other international organizations. The Representative of ERENET participated in the last two events.

IIC cooperates with the United Nations Economic Commission for Europe (UNECE) as an expert organization on innovations and investments, public-private partnerships and technical cooperation and annually participates at UN meetings.

For regions of Russia IIC offers cooperation in organizing economic mission to Switzerland, Italy, Austria, the United States with a visit to United Nations activities and meetings with government and business community (UN European Economic Commission, United Nations Conference on Trade and Development (permanent UN body), International Trade Centre, regional economic development offices, banks, Chambers of Commerce, business associations, etc.). Trips may include visits to manufacturing facilities, innovative business centers, business incubators and municipal infrastructure facilities. IIC is also engaged in the development of sister-city relations for the regions and towns (including small and historic towns).

In 2001, the International NGO "International Investment Center" has become the winner of the All-Russian competition on the project "Strategy for the Development of a Small Town" in 2000 -2001 in the framework of the "Small Towns of Russia".

The Center collaborates with various international and foreign organizations, including: United Nations, World Bank, Trade Mission of the U.S. Embassy, Chambers of Commerce of Italy, Chambers of Commerce of Croatia, etc.

**IIC President** is *Andrey Ivanovich Generalov*, a lawyer, MP Russia's State Duma (1993-1995), Member of International Federation of Journalists. E-mail: andrey.generalov@gmail.com and iicyar@mail.ru  
Representative office in Geneva: Quai du Seujet 10, 1201 Geneva

file: <http://uniic.ru.gg/-Main-page--k1-English-k2-.htm>



## **INSTITUTE OF ENTREPRENEURSHIP DEVELOPMENT IN LARISSA (GREECE)**

The Institute of Entrepreneurship Development was founded in 2005, is a Non-Profit organization and its main office is located in Larissa, Greece.



### **NECESSITY OF FOUNDATION**

Entrepreneurship is a fundamental factor for the economic development of many countries. Although the European Union generally promotes the idea of entrepreneurship to its member states, there is still a lack of an entrepreneurial culture mind set in many countries. The Institute of Entrepreneurship Development, therefore, aims to strengthen and promote entrepreneurial spirit and mindset to all countries and citizens, especially youth.

### **VISION**

Our vision is to create an environment that promotes entrepreneurship, research and the entrepreneurial spirit of businesses, creating long-lasting and fundamental relations with society and the overall academic community. Our vision is anthropocentric one of our primary concerns so to provide assistance to citizens and disadvantaged groups to improve their place in society, promoting social inclusion and cohesion.

### **ACTIVITIES-SERVICES**

#### **Social Development Objectives**

- Assistance to developing countries in the fields of education and economic and social development
- Promotion of human rights and democracy
- Promotion of activities that contribute to the development of intellectual, economic, social and cultural levels
- Development of actions for democracy and peace
- Contribution to scientific research
- Empowering social responsibility and cohesion
- Protection of humanity and dignity
- Promotion of voluntary effort and volunteerism
- Promotion of economic and social processes of disadvantaged groups

#### **Economic Development Objectives**

- Promotion of the philosophy and principles of entrepreneurship
- Development of the scientific field of entrepreneurship, promoting dialogue and co operation
- Support of innovative entrepreneurial ideas
- Offer consulting and training services to organizations and businesses in the field of entrepreneurship
- Cooperation with other institutions, organizations, universities...etc. towards the fulfillment of the Institute's aims objectives
- Contribution to policy planning in the field of entrepreneurship

#### **Activities**

- Preparation and submission of proposals at National and European level
- Initiatives in the field of research and cooperation
- Consulting of disadvantaged groups
- Workshops – Training
- Networking
- Consulting services for institutions, businesses and individuals on issues of entrepreneurship

- Studies – Research
- National and European Programmes and projects
- Meetings/Conferences
- Collection, creation and distribution of informative material
- Statements and publications in press and media
- Membership in national and international networks

#### Contact

*Institute of Entrepreneurship Development*

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Tel/Fax: +30 2410626943

Email: info@entre.gr

Website: www.entre.gr



**Tibor Szekfű opens the LER Working Group Workshop in Budapest**

**Antal Szabó highlights the history of microcrediting and practice in V4-countries at the LER WG Workshop**



Photos © by the Hungarian Microfinance Network



## YES-YOUTH EMPLOYMENT: FOSTERING ENTREPRENEURIAL SKILLS

In spite of the European economy's recovery, young people across Europe continue to face high levels of unemployment. To face this reality, "effective training programmes need to be accessible to all young people from across the Member States in order to ensure that they have the necessary skills to apply to a variety of positions in the EU. During these difficult economic times we need to unlock the huge potential of start-up entrepreneurs and stimulate them to take the final step and set up a new enterprise. Small enterprises are creating most new jobs and are the driving force of our economy. One of the main priorities of the EU is ensure that there are prospects for growth and provide employment to young Europeans" (EC Vice-President Antonio Tajani, Industry and Entrepreneurship, Europe Day 2011). The aims of the Project are as follows:

- 2 innovative methodologies and tools, ePROF and ePACK, focused on entrepreneurship competencies development will be transferred by IED and BETI. While ePROF bring an innovative model and assessment profile tool, ePACK brings a entrepreneurship e-learning package;
- 2 target groups will be fit: (i) first, YES project will equip (transfer workshop) VET providers with methodologies, tools and competences in order to be the future entrepreneurial educators and thus speed up entrepreneurship learning among young unemployed; (ii) second, young unemployed will be the end users (national pilot) of ePROF and ePACK;
- 1 European ECVET curricula for youth entrepreneur and a common guideline for it integration in existing national VET programmes will be developed;
- Several dissemination and exploitation activities will be present daily at the YES project.

The YES project consortium includes METGEM (TR) plus 6 VET partners, GoI (TR), TUGIAD (TR), ISQ (PT), IED (EL), BETI (LT) and DOCUMENTA (ES), all of whom have worked on European projects. Each partner has specific expertise in key project areas, have access to young unemployed and are involving in national and European networks relevant for YES project topic.

YES project will facilitate the development of innovative practises in the field of VET by: (i) transferring and adapting ePROF and ePACK materials; (ii) developing a common guidelines on ePROF and ePACK as an integrative solution; (iii) piloting ePROF and ePACK; (iv) design ECVET youth entrepreneur curricula; (v) developing dissemination and valorisation outcomes.

We intend that ePROF and ePACK transfer workshop will directly involve 6 VET providers and that 150 VET providers will benefits indirectly. We intend that ePROF and ePACK national pilots will directly involve 60 young unemployed and that 180 young unemployed will benefits indirectly. We estimate that each country it will integrate ePROF and ePACK into their own VET systems, meaning that more than 3500 VET promoters can, in the next 3 years, freely use ePROF and ePACK.

file: [http://yes-project.org/?page\\_id=56](http://yes-project.org/?page_id=56)

## NEW COMING EVENTS AND CALL FOR PAPER



### “GCMRM 2014”

Global Conference on “**Managing in Recovering Markets**”

5 - 7 March 2014

MDI, Gurgaon INDIA

*in Association with*

**Australian Centre for Asian Business, University of South Australia, Adelaide,**

**and**

**Faculty of Economics & Business, University of Maribor, (Maribor) SLOVENIA**

*is organizing a*

**Global Conference on Managing in Recovering Markets**  
(GCMRM 2014 : CONFLUENCE OF GLOBAL STRATEGIES)

DURING **March 5-7, 2014** | VENUE: **MDI Gurgaon, INDIA** | [www.gcmrm.org](http://www.gcmrm.org)

#### About the Global Conference

The last two decades have seen extensive research on the topics of emerging markets. The developed markets saw an opportunity in the developing and emerging markets. This scenario changed over a period of time. Various parts of the world moved to the next orbit of development. The developed markets have seen severe financial turbulence in the last decade, which influenced the overall growth of the emerging as well as the developed markets. This led to initial stagnation in certain markets followed by signs of recovery. In view of this, researchers have started realizing the need of an extensive research on managing in the recovering markets. This conference initiative will provide a platform for fruitful exchanges within the research community, policy makers, industry leaders, and change masters.

MDI in association with its worldwide partner Institutions University of South Australia and University of Maribor, Slovenia plans to set an agenda for organizing a series of global conferences on a larger theme of managing in recovering markets. Frankfurt Business School, Germany is also an active collaborator in this initiative. MDI plans to organize four international conferences every year for next 3 years.

#### About MDI

Management Development Institute (MDI) Gurgaon, established in 1973, a top ranking business school in India with vision to be a ‘Global Business School’, is a center of excellence in management education, high quality research, executive development, and value added consultancy. It is the first Indian Business School and second in Asia to be accredited by ‘Association of MBAs’ (AMBA), UK. MDI is also South Asian Quality Systems (SAQS) accredited by AMDISA in 2005. Various surveys have consistently ranked MDI amongst the top B-Schools of the country.

#### Conference Tracks

Researchers, academicians and policy makers from across the globe including multinational corporate shall be presenting their findings, case studies and points of view on various spectrums of economy including but not limiting to the following:

- General Management
- Information Technology
- Operations Management
- Corporate Strategic Management
- Human Resource Management and Organizational Behavior
- Marketing Management
- Business Communication
- Economics

- Information Science
- Finance & Accounting

### Conference Speakers

Many global thought leaders and distinguished speakers like **Mr. Balaji**, NOKIA India MD, and **Dr. S. Yamamoto** of Ritsumeikan Asia Pacific University, Japan and others will be gracing the inaugural function on 5<sup>th</sup> March 2014.

### Publication Proceeding

The selective proceedings of the conference shall be published

## **BUSINESS FOR PEACE - STRATEGIES FOR HOPE**

Commemorating the centennial of the first World War (1914-1918)  
**ANNUAL CONFERENCE OF THE EUROPEAN SPES FORUM**  
**in Flanders Fields, Ieper (Ypres), Belgium**  
**10-12 April 2014**

**Dear friends of SPES,**

We are glad to announce that a special website concerning our International Conference Business for Peace, [www.businessforpeace.be](http://www.businessforpeace.be), has been launched. You can turn to this website for information about the **program, speakers, subscriptions** and all other practicalities. The Conference Business for Peace commemorates the centennial of the first World War in the heart of Flanders' battle fields. Its main aim is to stimulate a collective reflection on the practice of peacebuilding in global and local businesses. The opening address will be given by Herman van Rompuy, President of the European Council. We would also like to remind you of the **Call for papers**. The deadline for the submission of a paper abstract has been extended until **31 October 2013**. More information can be found on the website.

Looking forward to this inspiring gathering,

Luk Bouckaert

President of the European SPES Forum

[www.eurospes.be](http://www.eurospes.be)

[www.businessforpeace.be](http://www.businessforpeace.be)

Waversebaan 220, Heverlee-Leuven, Belgium

### **Scientific Committee of the Conference**

Bouckaert, Prof.em.Catholic University Leuven, Belgium

Henri Claude de Bettignies, Prof.em.INSEAD, France

Josep M. Lozano, Prof. ESADE, Spain

Hendrik Opdebeeck, Prof. University of Antwerp, Belgium

Mike Thompson, Prof. China Europe International Business School, Shanghai, China

Laszlo Zsolnai, Prof. Corvinus University of Budapest, Hungary



**MEB 2014**  
**12<sup>th</sup> INTERNATIONAL CONFERENCE ON MANAGEMENT,**  
**ENTERPRISE AND BENCHMARKING**  
**30-31 May 2014, Budapest**

**MEB 2014** is an international conference to provide a forum for presentations and discussions of scientific, economic and business areas. This year we would like to focus on the management, development and competitiveness of small and medium enterprises.

**TOPICS** within the scope of the conference will include:

- Theoretical studies, modelling and adaptive approaches;
- Analyzing measure, structure and organizational parameters;
- Examining the connection between marketing methods and benchmarking;
- Management and competitiveness of small and medium sized enterprises

**REGISTRATION**

Prospective participants are kindly asked to fill in the online registration form which can be found on the website.

**SUBMISSION OF PAPERS**

Authors are asked to submit electronically a full paper by E-mail.

After notification please send your camera-ready paper of maximum 15 pages according to the paper format to Tímea Edöcs by e-mail (edocs.timea@kgk.uni-obuda.hu). Acceptable file formats are rtf or doc. Please check the website regarding the paper format.

**PRESENTATION**

OHP and data projector will be provided for oral presentation. Authors are asked not to use their own laptop, but bring the presentation on pendrive.

**AUTHOR'S SCHEDULE**

Deadline of registration	31 March 2014
Deadline of paper submission	31 March 2014
Deadline of notification	15 April 2014
Deadline of final paper submission	1 May 2014

Organized and sponsored by **Keleti Faculty of Business Management of the Óbuda University** (Hungary) in cooperation with the **ERENET Network**

For further information see at <http://kgk.uni-obuda.hu/MEB>



**FIRST ANNOUNCEMENT!**  
**THE 7th ANNUAL MEETING OF THE ERENET**  
**WILL BE HELD DURING THE MEB 2014**  
**preferable Morning on 31 May**





The address of the ERENET Secretary sees below:

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**Edina Szegedi-Ötvös**, Secretary  
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**ERENET PROFILE**

ISSN 1789-624X

