SYSTEMIC COMPONENTS OF FAMILY BUSINESSES

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ABSTRACT: *The importance of family businesses for the business environment is reflected both in the academic literature and through studies on their benchmarking indicators. Thus, in this paper, after highlighting several aspects of the concept of family business and the characteristic elements of the strategies and policies of family businesses, we have summed up the reports drawn up at national and European level. We have also presented the operational aspects of the successful development of family businesses by passing them on to several future generations. At the end of the paper we synthesized several statistical data showing the importance of family businesses and the need to analyse them.*

KEY WORDS: *family business, business environment, entrepreneurship.*

JEL CLASSIFICATIONS: *D21, L26.*

1. INTRODUCTION

Family businesses are the oldest and most frequently encountered form of economic activity in the world, which began with a simple form of organization, that of the small producers who sold their produce or the craftsmen or traders of the Middle Ages.

Families were formed along with small communities long before commerce began. In fact, families, often in connection with the local communities, sustained themselves by self-sufficient means (Wang, et al., 2014). Family businesses are most popular and play an important role in lots of countries.

However, in Romania, entrepreneurship and implicitly family businesses developed after the First World War, more precisely after the adoption of the Constitution in March 28, 1923, considered to be one of the most democratic fundamental laws in Europe.

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Romania did not produce enormous and lasting personal wealth until near the beginning of the 20th century because, with the exception of a few boyar families, the fortunes gained in Romania took the path of Istanbul, Paris or Vienna due to irresponsible heirs. Thus, after the War of Independence, and especially after the First World War, large entrepreneurial assets were established by a generation or two.

In the interwar period, there were several family businesses with a European reputation, such as the Malaxa Plant, owned by Nicolae Malaxa, engineer and innovator, and the footwear factory belonging to Dumitru Mociorniţă, an entrepreneur with two Doctorate degrees.

The Communist period and the adoption of regulations to the detriment of any private property or entrepreneurial initiative made these family and fortunes of the interwar period to be destroyed or abusively confiscated by the Communists, while the entrepreneurial spirit could no longer be passed on to the next generations.

Thus, inter-war family businesses have interrupted their entrepreneurial mission far too early to set a tradition in this respect; businesses established at that time could have been family businesses and could have been at the third of fourth generation (Isac, 2017).

2. LITERATURE REVIEW

Family businesses are a traditional way of conducting business within the private sector. In the past, however, family businesses were often perceived as the weakest link in business life. If they were found to be successful, it was said that it was despite their family character. Nowadays, this enterprise type has been "rediscovered" in terms of that their performances are attributed to their family character (Mandl, 2008).

Most of the existing businesses in the current business environment can be assimilated to a family business, from small to medium sized companies to multinationals with a turnover of millions of euros.

However, in Romanian literature the term family business is not very common, on the one hand, because after 1990 there was a tendency to view businesses as something that fraudulently produced wealth and on the other hand because the specialists' concerns were to analyse other mechanisms of the market economy essential in the context of the dynamic and turbulent business environment of that period.

In general, **the family business** is a form of economic organization made up of an individual entrepreneur and his family (Ghenea, 2011), therefore for a business to be a family one, it has three coordinates, namely the family, the shareholders and the business.

They can help manage the sometimes overlapping and frequently competing interests of three key constituents of a family business:

- family members,
- ownership,
- business management.

Emotional ties within a family and family members' differing levels of engagement with the business can put a strain on its operation if policies aren't clear, vetted and determined before emotions intensify. Families can prepare for potential knotty issues by developing and implementing shareholder policies before they're needed (Mattie, 2013).

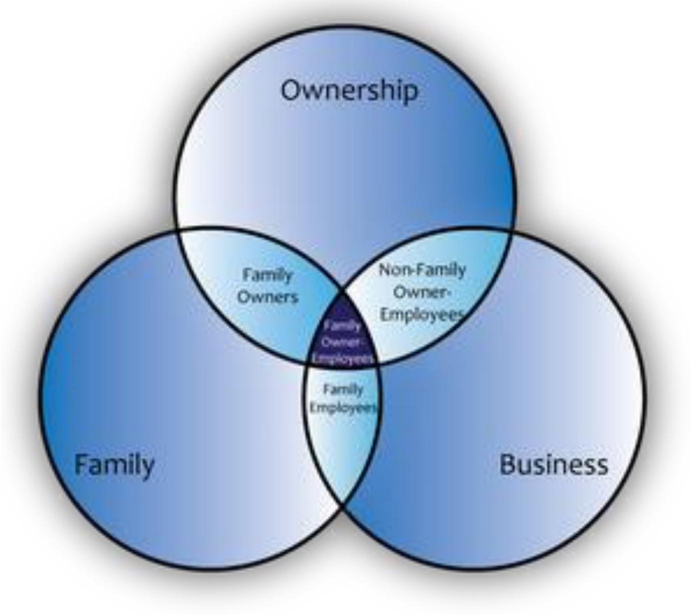

Figure 1. Family-Business-Ownership interaction

An operational definition has focused on a combination of the four components involved in the family`s involvement in the business, namely ownership, governance, management and trans-generation succession (Machado & Melo, 2014).

Defining the concept and characteristics of a family business is directly influenced by the involvement of the family as property and management (Handler, 1989) which makes the family business different from other types of companies. Professor Jean Davis states that a family enterprise is the collection of a family's meaningful activities and economic interests that help to identify, support and unite the family.

Family Romania Business Network Association, shows that a family business must meet several conditions:

- at least one family member is involved in the company's management; companies are listed on the stock exchange;
- the person who founded or acquired the firm or family owns at least 25% of the decision-making rights to which they are entitled due to the capital hold;
- the majority of the decision-making rights belong, directly or indirectly, to the founder or to the spouse, parents, children or direct heirs.

Following several studies, it has been established that family businesses are superior to non-family businesses in terms of profit, productivity and other cost-effectiveness indicators.

When the business is a family business and is wholly owned by members of a single family, they have common goals and invest together time and effort in their entrepreneurial development. Consequently, high performance is a strong point that family businesses have.

3. STRATEGIC PLANNING OF THE SUCCESSION

Family businesses provide family needs and welfare and, in general, their management focuses on resistance more than on performance. The time horizon pursued in implementing the strategies is long, 10, 15 or 20 years, and the pursued goals focus on what can be built at present to benefit the next generation (Kachaner, et al., 2012) and to increase the chances of survival in recession.

One of the most important factors in the continuity of a family business is the implementation of a successful strategic management in the field of business succession across generations. The academic literature has examined the characteristics of successors and founders, succession processes, and the influence of other family members on succession (Blumentritt, 2012).

Success planning is beneficial to the business and from this perspective, specialists appreciate that the most important challenge for this type of company is the test of time.

A survey conducted in 1991 on family companies in America shows that only 40% of family businesses are taken over by the second generation, 15% are passed on to the third generation and only 1% survive to be taken over by the fourth generation (Jaffe, et al., 1997).

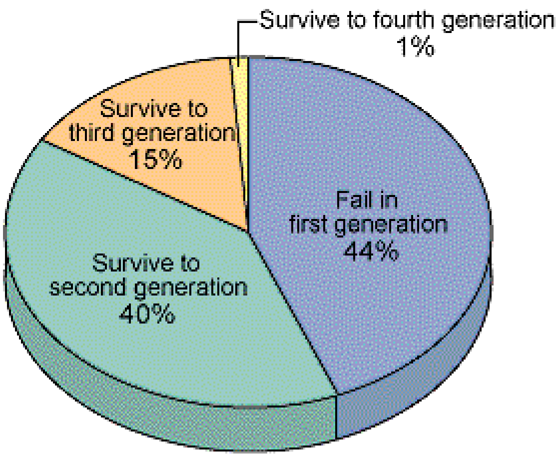

Figure 2. Generations in family business

The theme of business continuity is therefore of paramount importance, which any family business leader has to consider. Early preparation of the successor / successors and the establishment of a medium to long-term action plan, with or without the help of a specialist, should be a priority.

Succession in family businesses is a process that takes place over a long period of time. Le Breton-Miller et co. (2004) regarded succession management as a complex process with four main stages: establishing basic rules, cultivating and developing the group of potential successors, selecting successors and finding the ultimate successor.

In essence, several differences can be distinguished in the strategic management of family and non-family businesses. The specific elements that influence the strategy in a family business are (Kachaner, et al., 2012):

- ✓ ***Strategic planning*** is done over a time frame that can reach even 20 years so that the effects of an effective strategic planning will have beneficial effects on future generations.
- ✓ ***Capital expenditures*** called CapEx relate to the money invested by a company in the acquisition, maintenance and the improvement of fixed assets
- ✓ ***The amount of debt*** allows debt to be associated with the notions of risk and fragility, and although there is considered to be a 'limited room for manoeuvre', the debt may be optimal if it is correlated with the attitude towards investment risk and a short repayment term.
- ✓ ***Expansion strategies*** involve smaller purchases in value and / or in size within areas close to the existing activities, but there are also small exceptions when the family is convinced that the traditional field of activity has been undergoing some change.
- ✓ ***Staff policy*** is influenced by the passing on of family values and respect for the principles of ethics and social responsibility.

4. STUDIES ON FAMILY BUSINESSES

EY is the institution that annually carries out a survey called the Barometer of Family Businesses and their results are very important in analysing the evolution of this type of business at national and European level.

In Romania, the 2017 study was applied to 247 businessmen running family businesses who filled out the online questionnaire from February 8 to March 5, 2017. Of these, 80 are family-run businesses with a turnover of more than 1 million euros.

From the standpoint of the respondents, when planning the succession one must take into consideration the following elements:

- ➢ 100% of the Romanian entrepreneurs who run family businesses with a revenue over 1 million euros have identified their successors, compared to the global figure of only 87%;
- ➢ On a global level, the Board of Directors is most often responsible for the succession (44%), followed by the owners and CEOs, except for Romania where the owners are 78% responsible of the succession

management, followed by the CEO (15%) and the Board of Directors (5%).

The responses in identifying the person responsible for the succession planning remain similar to those of the previous editions of the survey. In conclusion, more than three-quarters of the respondents believe the owners are the ones planning the succession, followed by the General Manager and the Board of Directors.

The latest edition of the European Family Business Barometer, a joint partnership between KPMG and European Family Business (EFB) shows that 57% of respondents reported an increase in revenue while 27% maintained revenue and only 13% have registered a decrease; 75% plan to reinvest profits; 30% of the respondents (53% of the respondents in the UK) indicated that political uncertainty is one of the main concerns; 56% of respondents consider the increase of integration as one of their preferences for the future of Europe; 43% of respondents identified the 'war over talent' as the most important problem they face; 87% of respondents feel it important to balance family concerns and business interests; 84% of respondents indicated that preparing and training a successor was important or very important for their business.

From the point of view of the fields of activity in which family businesses operate, the agricultural sector is noticeable in most of the European countries. In line with European rural development policies, family farms guarantee food security, protect the natural environment and reduce the phenomenon of rural poverty. In the European rural area, they can be of several types: very large family farms, medium farms, small-commercial farms and subsistence farms.

Regardless of the category they fall into, they are encouraged to adopt techniques/practices of sustainable development of production and rural amenities. One of the countries that pays attention to this sector and also stimulates the development of Agricultural farms is Hungary. In Hungary, a legal reference is made to agricultural family businesses to provide subsidies for family farms. Family farms can own up to 300 hectares of agricultural land, with the possibility to lease another 900 hectares.

In Romania, family farms are considered to be an economic security mechanism within the rural area because social security mechanisms are deficient and the non-agricultural rural economy is not diversified.

According to the information provided by Agricultural Farms, family farming is an important resource for generating high added value by setting up alternative models such as agro-tourism and traditional food specialties, and the family farm provides solutions for economic / occupational diversification of rural areas through the great variety of agro-tourism activities, earning much bigger revenues due to tourism (accommodation) and marketing (selling processed agricultural products or craft products).

The statistics collected by European Family Businesses show the impact of family business activities on local economies, national economies, international relations, and even on the globalization process. In detail, the key figures for the share of family businesses in the total companies within European countries are presented in the following chart.

At the top of the list one can find countries such as Estonia and Slovakia with 90%, the Czech Republic 87% or Spain 85% and the countries with lower percentages, such as Lithuania 38%, Latvia 58% or Romania 65%, show the persistence of a poor entrepreneurial education on the background of a communist education that eradicates the notion of private property in favour of equal income for citizens.

Even though over 96% of all family businesses are SMEs, including family farms, the difference is made by big family companies, some of which have secured a place in the top European and global companies.

Statistics reports on *The Statistics Portal* show that the most important family businesses in Europe with an impressive market value that has allowed them to maintain their position for decades in the business rankings are renowned businesses with a major influence on the world's economy, such as Roche from the Netherlands, BMW and Volkswagen from Germany, or Anheuser-Busch InBev from Belgium.

5. CONCLUSIONS

In conclusion, family businesses are among the largest and most sustainable businesses in the global economy, managing to remain innovative and flexible even in the digital economy by implementing an effective succession management. Due to the organizational imposed by generations, family businesses have proven themselves to be incubators of entrepreneurs so they can be viewed as a strong pillar supporting the world's economy.

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