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## IMPORTANCE OF FAMILY BUSINESS FOR EU ECONOMIES

*Family business plays a vital role in many national economies. In this paper, the authors describe different types of family business existing in the EU countries and in Slovakia specifically. The support patterns to family business from the European Commission are analyzed. For the analysis of family business the authors take into consideration family small and medium enterprises (SME) only.*

*Keywords: family business; small and medium enterprises; COSME; Horizon 2020.*

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## ВАЖЛИВІСТЬ РОДИННОГО БІЗНЕСУ ДЛЯ ЕКОНОМІК КРАЇН ЄС

*У статті доведено, що родинний бізнес відіграє життєво важливу роль у багатьох національних економіках. Виділено та описано типи родинного бізнесу, що існують у країнах ЄС та в Словаччині зокрема. Проаналізовано інструменти підтримки родинного бізнесу з боку Єврокомісії. В якості родинних фірм розглянуто суто малі та середні підприємства.*

*Ключові слова: родинний бізнес; малі та середні підприємства; COSME; «Горизонт 2020».*  
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## ВАЖНОСТЬ СЕМЕЙНОГО БИЗНЕСА ДЛЯ ЭКОНОМИК СТРАН ЕС

*В статье доказано, что семейный бизнес играет жизненно важную роль во многих национальных экономиках. Выделены и описаны типы семейного бизнеса, существующие в странах ЕС и в Словакии в частности. Проанализированы инструменты поддержки семейного бизнеса со стороны Еврокомиссии. В качестве семейных фирм рассмотрены только малые и средние предприятия.*

*Ключевые слова: семейный бизнес; малые и средние предприятия; COSME; «Горизонт 2020».*

**Introduction.** Family business plays a very important role in national economy. Since these can be micro, small, medium or even large enterprises, they take a significant share in employment and thus contribute to lowering unemployment and creating new jobs. This type of entrepreneurship gets a lot of attention in advanced countries but still not enough and it calls for much more consideration and scientific research also because of the fact that family enterprises employ family members. And this has a distinct influence on enterprise identity and further entrepreneurial goals.

According to (Fabian, 2011) specific goals for further development of SMEs and their access to funding can be set as follows:

- supporting newly established SMEs and expansion of the existing ones;
- restructuring of production processes taking into account efficiency and energy savings;
- using new innovative technologies and development of efficient information flows;
- introduction of eco-management and audit scheme (EMAS);
- encouraging participation in international exhibitions and fairs;
- establishment of professional counselling centres for entrepreneurs.

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With the development of entrepreneurial processes in Slovakia a time has come to start analyzing and evaluating the standpoint of small and medium-sized enterprises, including family business. It is important to point out that Slovakia does not have legislation which would define family business. In 2013 there was an effort to adopt legislation with the concept which already existed in most of the EU countries. The main goal of this legislation initiative was to support this kind of business and reduce unemployment in Slovakia. They proposed 3 basic forms of family enterprises: family trade company, family farm and family business company and these entities should be favoured in terms of taxation, administration simplification and better access to finance. The proposed law implied also tax holidays for two years as an investment aid to this entities. According to the proposal family enterprise should have the total number of family members and employees up to 9 people. The creation of conditions for family business was intended to overcome long-term deterioration of business environment, help fighting corruption, black labor etc. Family business should ensure sustainable socioeconomic benefits. The law should also contribute to reducing the unemployment in Slovakia and social system relief. Family members who would like to become part of company would then have to deregister from the Labor Office. There are also propositions to simplify administration for family business and improve access to start-up capital. Unfortunately, this legislative initiative was not successful and the governmental support is still concentrated more on international corporations. Support for family business as a part of small and medium-sized enterprises is still more proclamative than real.

In this paper, we describe different types of family businesses in the EU countries, especially in Slovakia, and we will analyze the support for family business from the European Commission. For the analysis of family business we will take into consideration family business as small and medium enterprises only.

**Definition of family business.** According to the analysis realized by the Austrian Institute for SME research for the definition of "family business" in public and policy discussions as well as research in 33 countries, there is no single definition of "family business" which is widely and exclusively applied to every conceivable area, such as to public and policy discussions, legal regulations, as an eligibility criterion for support services, and also statistical data and academic research. Rather, there is a comparatively wide heterogeneity of different definitions applied in socioeconomic research (in some cases oriented internationally), also within individual countries (Mandl, 2008).

Family business is often defined as an enterprise with family member ownership. The essential criterion is that family business is managed by a member or members of family. It can also be controlled by descendants of a founder. Family business is a result of the development of business processes creating a number of new features and economic activities. Family businesses are close to the social system to the extent how they represent themselves in small social systems. Their specificity among other things is that they are organizations whose decisions regarding ownership and management are significantly affected by family relationships (Strazovska and Strazovska, 2002).

Family business is an integral part of small and medium-sized enterprises. In literature we can find data about their significant representation in SMEs in different countries. Japan and the USA are good examples, family businesses represent 90% of

all their enterprises. In Europe family businesses have the strongest position in Germany, Italy and Spain, where their share is close to 80–90% of the total number of enterprises. And we have to emphasize here that family businesses are created primarily as small and medium-sized enterprises (Poza, 2010).

We can assume that the first official definition of family business was adopted in 1997 by Massachusetts Mutual Life Company, the first institution realizing extensive and important research of family business. According to this research a company can be considered as family business if one of the following criteria is fulfilled: owner considers his business as a family business or owner intends to hand over his business (resp. left to) close relatives, or the owner, another family member or family members work(s) as regular employee(s) and they are part of daily management process (Strazovska and Strazovska, 2002).

The above consideration implies that family business is connected with the activity of several generations, and family is a factor which interferes into life and business at the same time. Development of entrepreneurial processes gives rise to many new elements and economic activities, among them there is family entrepreneurship. Family enterprises are so close to social systems that they themselves become small social systems. Among their particularities belongs the fact that these are organizations in which decisions about ownership and management are significantly influenced by family relationships.

A more common and narrower definition was used by A. Drake (2009) in his book "Understanding Family Business", after him family business runs along the following lines:

- Family owns a majority of voting shares or effectively controls business.
- One or more family members (or their spouses) are involved in business.
- More than one generation is, or will be in future, become involved in business.

It is really the last of these points that distinguishes family business from owner-managed businesses which are not necessarily passed down to next generation. Whenever business is run through a company listed at stock exchange, that company is often defined as family business, in ownership terms, if family holds not less than 25% of voting shares and the remainder of shares are held by minority shareholders.

The EU applies a common definition of family business which relies on the following features:

- The majority of decision-making rights are in the possession of natural person(s) who established this firm, or in the possession of natural person(s) who has/have acquired the share capital of this firm, or in the possession of their spouses, parents, child, or direct heirs.
- At least one representative of family or kin is formally involved in management.
- 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% of the decision-making rights mandated by their share capital (EC, 2016a).

**Types of family businesses.** Several authors point out that family business reflects the relations in the family. Sometimes it can bring benefit and sometimes it is an obstacle. Family relations may be different, depending on the type of family business. In this context we can define 3 types of family businesses, namely:

- the parent type;
- the marriage type;
- the kinship type (Strazovska et al., 2008).

In the case of a company which can be characterized as a parent one, most often the father has a dominant position as the owner and the boss at the same time. The research results show that he may be too authoritarian for the reasons of the majority in ownership or by competence in decision-making. That's one of the reasons to apply power status. We can say that this is a centralist organizational structure, with rather low autonomy of other family members, especially young members of the family. Democratic orientation in this context is considered to be the most favorable. Family business is managed by participation of all members of the family, and also with shareholders (e.g., family enterprise "Swarovski"). In the case of "Swarovski" it is interesting that marketing of this famous enterprise is taken care of direct members of family business, which at the same time are designing products according to today's most actual trends (Swarovski, 2014).

Kinship is an enterprise in which siblings or their spouses, or other relatives work together. However, some authors point out that despite of epy initial success, such business have a tendency to fall apart (Srpova and Rehor, 2010).

One of the most important and unique characteristics of family businesses is joining family business as part of related and complex system. This system according to many authors, has several characteristics. Family members often feel they must be the owners of shares in family business. They also often have the feeling that they must stick together, especially in times of crisis. The requirement of fidelity to own family, when compared with the essential ingredients of business can lead to the feelings of unfairness and resentment and may jeopardize long-term cohesion of family. Position of a family member in family business also affects its position in the family. Who has authority in company, also has respect in family circles. In general, business may affect relations between family members. Reputation of the family and family business reputation are also very closely interlinked. Family business often operates on the basis of individual social connections of family members. Family business also has access to knowledge and skills of the family and these are not always used simultaneously.

If we take a correct view on family businesses, we can assess the impact of its operations on the surroundings. Members of family business have divided functions and powers, namely marketing issues are addressed by an informed family member responsible for promotion or advertisement (Strazovska et al., 2008).

Family businesses should be seen as having both positive as well as negative sides. Family businesses are in SMEs as a rule rather than exception. At first glance it would seem that there is nothing better than running a company involving many family members. Experience shows that this may not always be the case.

Positive aspects of family businesses include:

- family members have higher motivation because they are working for their own sake;
- there is a effort to build a family tradition in business in a particular area;
- family business provides their members by wider opportunities for self-fulfillment and trying out own skills.

Negative aspects of family businesses include:

- blurred difference between work and family life, problems from firms are transferring into the family circle;
- family members, who are not managers of the company have a tendency to usurp more power as they were initially entitled;
- by employing a family member they block the job which could be more appropriate for a more qualified side employee;
- there is a temptation to put an equal sign between firms property and family property;
- insufficient funds are often spent on marketing;
- frequently occurring conflicts caused by difference in interests of the family and of the company.

Also, in times of economic and financial crisis, we can see the advantage of family businesses in their stability and certainty of continuity, even in difficult times.

It needs to be emphasized that even though family enterprises have some specifics, from the point of view of effective internal and external communication with human resources, managers need to meet the same requirements as managers in other, bigger companies. If companies want to succeed in today's global and highly competitive environment, their representatives, managers at different levels have to have such competencies which positively determine not only performance of workers but also positively influence interactions with internal and external environments, which strengthen motivation and loyalty of both employees and customers. Development of interpersonal skills needs to be emphasized. High level of emotional intelligence is required which includes a wider range of social skills, the ability to motivate, cope with stress and emotions, as well as high level of cultural intelligence enabling effective interaction with people of other cultures. An inherent part of interpersonal skills, of emotional intelligence, are communication skills. Without them effective reaching of company's goals and effective people management cannot be even expected. Effective interpersonal communication includes a range of communication skills such as the ability to have a dialogue, the ability to persuade and reason, the ability to use feedback, the ability to listen actively and acquire information, the ability to determine the main idea, the ability to motivate, to solve conflicts, to present effectively etc. It is necessary to develop all these abilities especially during preparation for managerial positions both in big companies and in family businesses.

Family enterprises: owners do not often realize how important marketing is for prosperous business. For example, nowadays, and not only in Slovakia, a big marketing priority is considered displaying a year when a family enterprise was established (author's observation). This looks as follows, usually in two languages: since 1850 (in English), seit 1850 (in German). Such information is often seen on covers especially in the countries which did not go through different political changes and family enterprises have lasted for centuries. In such a case, we can speak about a marketing advantage, that is displaying the year of the establishment of an enterprise and also who established it. In about 90% of family enterprise cases there is another priority – company's name – trademark – the name of the person who established it.

Marketing advantages of family enterprises according to our research are the following:

- family enterprises have a certain tradition and thus they ensure certain quality;
- name, surname and a picture on a cover, shop door or website ensure serious approach for buyers, customers see this as evidence of product quality;
- mental marketing motive – if a family enterprise is run by let's say the fourth generation – the customer sees this as respectability and expertise in production, confirmed by decades of existence.

It has to be pointed out that even in Slovakia we can encounter covers with a displayed year when the company was established but these are all years after 1990. Sometimes we can read information on Slovak products when the enterprise was established long time ago but we all know that today it is not anymore a family enterprise, because it has gone through several phases of rearrangement, for example, through "arisation" – depriving Jews of their property during the World War II.

In such cases we can also speak of misusing former family enterprise name and its trademark for marketing purposes.

**Support for family businesses in the European Union.** Family businesses make up more than 60% of all the companies in Europe. They range from sole proprietors to large international enterprises. Big or small, listed or not, family business plays a significant role in the EU economy. The European Commission recognizes this role and promotes the creation of favorable environment in which family businesses can grow and develop (EC, 2016a).

Family business in the EU is facing many challenges and policy makers are often not aware of the actual needs of family businesses, and their economic and social contribution to the society. We could mention the following main problems of family business today:

- Access to finance and taxation issues.
- Balancing family, ownership, gender etc. interests with solely business aspects.
- Attracting and retaining skilled workforce, entrepreneurship education, including family business-specific management training (EC, 2016a).

In the EU support available for family business is closely connected to all support provided for SMEs. One of the most important aspects here is the possibility to use funding under COSME (Competitiveness of SMEs). COSME is the first EU programme for SME running from 2014 to 2020 with the planned budget of 2.3 bln EUR. The objectives and the budget are built on 4 main goals of COSME. The total budget will be divided to improve SMEs' access to finance (60%), improving access to markets (21.5%), business support (11%) and improving the framework conditions for enterprises' competitiveness (2.5%). It is expected that loans covered by the program will be available up to 330,000 SMEs and the total amount of COSME resources on loans may reach up to 21 bln EUR. On the basis of the experience acquired in the Programme for competitiveness and innovation (CIP) from the previous programming period, it is expected that 90% of beneficiaries will be companies with 10 or less employees (Euroactiv, 2014).

Family enterprises can be also supported via Horizon 2020 pillars or priorities. Their participation in this programme is encouraged through a new dedicated SME instrument. Horizon 2020 takes an integrated approach to SMEs, based on a different dynamics. It stimulates SME participation across the whole programme, yet with

a particular focus on close-to-market support. At the end of the day, if R&D activities are not translated into innovations, i.e. value creation from invention, SMEs cannot take profit from these activities. Great ideas need to be picked up by users, customers and the market overall, before they can really transform society.

In direct support, a dedicated SME-exclusive instrument will encourage for-profit companies to put forward their most innovative ideas within the EU dimension if they were not able to find financing before due to high-risk character. The SME instrument targets highly innovative SMEs showing strong ambition to develop, grow and internationalise, regardless of whether they are high-tech and research-driven or non-research conducting, social or service companies. With the budget of over 3 bln EUR for the period 2014–2020, this SME instrument would innovations in SMEs to the next level, by granting tailored support to SMEs that have ground-breaking ideas with a market potential, but are short of certain resources, or a strategy to deliver (Pawera and Smehylova, 2014).

Most EU family enterprises consider taxation matters to be the most burdensome area affecting them. While large enterprises can usually call on tax experts to optimize their net profits, SMEs have many difficulties in tax matters, for example: indirect taxation (VAT), direct taxation (income, capital, double taxation etc.), tax compliance costs; administrative burden that arises from tax rules, studies and projects (EC, 2016b).

The European Commission promotes a family business-friendly environment, helps spread information, and supports the sharing of best practices between the EU countries. The EU also encourages national governments adopt business-friendly taxation and laws, and support entrepreneurial education. We can include here also the Small Business Act which highlights the role of family business and the need to exploit its full potential. Creating a business friendly environment for SMEs and potential entrepreneurs is one of the EU's key objectives. The European Commission is working together with the EU countries on developing SME-friendly policies, monitoring the progress in their implementation and sharing best practices (EC, 2016c).

Family enterprises can also take advantage of the opportunities offered by the transition to green economy through The Green Action Plan (GAP). It presents ways for family enterprises to turn environmental challenges into business opportunities. The main objective of this program is to raise awareness about resource efficiency improvements and the potential of circular economy for productivity, competitiveness and business opportunities, to inform about the EU resource efficiency actions under the COSME, Horizon 2020 and other programs. The GAP aims to help businesses by improving productivity, driving down costs, supporting green entrepreneurship and developing European leadership in green processes and technologies (EC, 2016d).

In the EU one of the most important policy is regional policy. Maintaining a broad base of family business is very important for economic development of region, their wealth and sustainability. To help create a business-friendly environment and boost family business competitiveness on the regional level, the Commission provides analysis, shares best practices, programs and policy initiatives (EC, 2016e).

**Conclusion.** Family entrepreneurship in Slovakia exists, even though not formally up to now. Entrepreneurs tend to use this form of business organization more and

more frequently. That is why any support from the government is most appreciated, as well as from the academic community. We believe that this form of entrepreneurship will soon be made official and will be able to benefit from the adequate government aid.

One of the most important and specific features of family enterprises in Slovakia is linking family and business as parts of a complex system.

According to our own research, the following unique advantages of family enterprises can be outlined:

- family enterprise is very flexible (same applies to small and medium-sized enterprises as such);
- in a family enterprise intangible relationships are considered important, such as understanding and trust;
- problems with access to resources especially financial ones, is solved in a family enterprise mostly by depositing personal property of family members;
- sharing information among family members, especially concerning possible growth of enterprise;
- social responsibility and pertinent communication.

Family business plays an important role in the economies of EU countries. Survival and enhancement of this kind of business is subject to granting easy access to finance, especially to bank loans, which are the most important resource for external financing of these companies. The European Commission is aware how important it is to support and promote the creation of favourable environment in which family business can grow and develop. Their main support is concentrated on taxations issues, family governance through balancing family ownership, gender balance rules, and other business aspects.

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