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on
"FAMILY BUSINESSES and SMEs
in the Black Sea Economic Cooperation Region"

organized by

ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION (BSEC)
and
KONRAD-ADENAUER-STIFTUNG (KAS)

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FAMILY BUSINESSES AND SMEs IN THE BSEC REGION

Edited by

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ABBREVIATIONS

ALL	Albanian Lek
AMD	Armenian Dram
BSEC	Organization of the Black Sea Economic Cooperation
CIS	Commonwealth of Independent States
CNIPMMR	National Council of Small and Medium Sized Private Enterprises in Romania
DCFTA	Deep and Comprehensive Free Trade Agreement
DM	Deutsche Mark (German mark)
EC	European Commission
ERENET	Entrepreneurship Research and Education Network of Central European Universities
EU	European Union
EUR	Euro, official currency of the Eurozone
FB	Family Business
FDI	Foreign Direct Investment
FET	Family Entrepreneurial Team
FEUSA	Family Enterprises USA
FOB	Free on board
GDP	Gross domestic product
GEEF	Groupement Européen des Enterprises Familiales (European Group of Owner

	Managed and Family Businesses, abbreviated as "European Family Businesses")
GEL	Georgian Lari
GNI	Gross national income
GNP	Gross national product
GVA	Gross value added
INSTAT	Albanian Institute of Statistics
KAS	Konrad-Adenauer-Stiftung
LSEs	Large-scale enterprises
m	Million
MDL	Moldovan Leu
na	Not available
NLC	National Licensing Center in Albania
NRC	National Registration Center of Albania
PERMIS BSEC	Permanent International Secretariat of BSEC
PwC	PricewaterhouseCoopers
RSD	Serbian Dinar
SBA	Small Business Act for Europe
SMEs	Small and Medium-sized Enterprises
UAH	Ukrainian Hryvnia
UNECE	United Nations Economic Commission for Europe
US	United States of America
USD	United States Dollar
WTO	World Trade Organization

PREFACE

H.E. Ambassador Traian Chebeleu
Deputy Secretary General
Permanent International Secretariat (PERMIS)
Organization of the Black Sea Economic Cooperation (BSEC)

On behalf of the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC), I welcome you to BSEC headquarters.

Let me start by thanking the Konrad-Adenauer-Stiftung (KAS) for its longstanding cooperation with BSEC. KAS's support has resulted in the organization of a series of over 40 workshops and seminars since 1997, all of which sought to promote SMEs in the BSEC region.

I would like to take this opportunity to thank Dr. Antal Szabó, Scientific Director of ERENET, for attending most of these events and contributing to the success of the exchanges with his outstanding professional knowledge and incisive analyses of the participants' conclusions and recommendations.

Today's workshop is dedicated to the topic of family businesses and SMEs. This is a particularly salient topic because family businesses represent an important and stable element in the economies of our member states. In fact, family businesses can and do contribute significantly to the BSEC countries' economic growth and social development.

A study undertaken some years ago under the aegis of the European Union revealed that nearly 70-80% of enterprises across Europe and most of the BSEC member states are family businesses. These family businesses account for about 40-50% of employment in Europe and emphasize the fact that family businesses are active in all sectors of the economy. I believe family businesses account for similar percentages in enterprises and employment in all the BSEC member states.

Distinguished Participants, the very existence of the BSEC working group on SMEs attests to the BSEC member states' acknowledgement of the significant role played by SMEs in their economic, social and political development. As an upshot, BSEC has translated this awareness into effective policies and concrete measures so as to support the development of SMEs in the region.

Support for the sustainable development of SMEs 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. This agenda serves as a strategic document guiding the activities of BSEC in the years to come.

To foster the growth of SMEs, BSEC has been focusing on high technology innovation, entrepreneurship and sustainable development, technology parks and incubators. The objective is to encourage innovative ideas, products, services and procedures. Through this, our organization aims to bring together businesses, academies, business incubators, and financial and state institutions from the BSEC member states. So doing also supports SMEs' collaboration with large companies and promotes improved production efficiency.

The development of SMEs is essential to the economic growth of our member states. Therefore, our main objective is to contribute to the stimulation of SMEs from the BSEC region, in particular family businesses, and improve the quality of their performance so as to bring them on par with advanced European enterprises.

I am confident that the discussions engendered from our workshop will likewise contribute to the efforts of our working group on SMEs, which will convene on 10 - 11 October 2013.

Thank you all for being here. I hope that our exchange today will be fruitful.

Dr. Colin Dürkop
Head of the Konrad-Adenauer-Stiftung (KAS) office in Turkey

A very good morning to all of you. It is with great pleasure and honour alike that I welcome you, on behalf of the Konrad-Adenauer-Stiftung, to the Workshop on Family Businesses in the Black Sea Region. Thank you all for gathering here in the beautiful headquarters of BSEC in Istanbul where KAS's successful cooperation with BSEC was inaugurated some 20 years ago.

Since then, international workshops on SMEs have been organized once or twice a year jointly by KAS, the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation and ERENET, led by Scientific Director, Dr. Antal Szabó. For the past two decades, more than 40 such workshops took place with the same common aim, viz. providing a dialogue forum between the stakeholders and decision makers so as to enable them to understand the various SME policies in the different BSEC countries. By facilitating an exchange of experiences and information between SMEs and other non-governmental organizations (NGOs), these workshops help contribute to a better understanding amongst these regional players.

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

We have chosen Istanbul to host this KAS-BSEC workshop in 2013 because Turkey provides very good examples for family businesses.

As Dr. Szabó outlined in his concept paper for this event, we will spend the coming two days closely examining the issue of family businesses, assessing the situation and problems of family businesses in the BSEC area, analyzing the issues arising from the transfer of family business in particular and discussing future possibilities. We should also devise possible suggestions to government authorities so that they would take these issues seriously and implement positive changes in their national SME and employment policies.

Dr. Szabó further points out the fact that the European Commission has estimated approximately a third of European enterprises will be transferred to the next generation in the coming ten years. This means 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 has prepared a comprehensive report and begun helping business make this transition. Special measures seem to be in place to help ease the transfer of these businesses to the next generation.

Without going into too much detail at this stage, I would like to conclude by extending my thanks to Dr. Antal Szabó and ERENET for their intellectual input in conceptualizing this workshop and nominating speakers through its international network. My thanks also go out to our long-term partner, the Permanent International Secretariat of BSEC and its distinguished Deputy Secretary General, Ambassador Traian Chebeleu, as well as Melem Hanim for the close and successful cooperation.

Without further ado, let me wish all the participants an interesting and productive workshop session.

INTRODUCTION

1. FAMILY BUSINESSES IN THE EUROPEAN UNION

by
Dr. Antal Szabó
UN ret. Regional Adviser
Scientific Director of ERENET
Budapest, Hungary

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 worse 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," wrote 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." Up to 2006, the oldest, continuously family-owned firm was Kongo Gumi, located in Osaka, Japan, which was founded in 578 A.D. and then managed successively until its 40th generation.[1]

The Osaka located, Japan-based construction company Kongo Gumi Co. (Kongo Gumi), regarded as the world's oldest continuously operating family-owned business, remained in Kongo family hands until 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 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 was able to help it turn a profit. The company had reported a profit of ¥20 million in its first year of operation under the new management.[2]

According to the Guinness World Records, Hoshi Ryokan was the oldest hot spring and hotel until 2011. Since then, it has been supplanted by another older establishment. It was founded in 718 and currently 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 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 and Zengoro Hoshi is the current patriarch.

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

Of the hundreds of reputable firms in Europe, attention should be paid to two family-owned companies:

(A) Barovier, a glass production company founded in 1295 and operated by the Barovier family on Murano in the Venetian Lagoon. It specializes in crystalline glass, mother-of-pearl glass, gold-free cornelian red glass, drinking glasses, chandeliers and wall lamps (see http://www.barovier.com). In 1936, the Barovier family business merged with another Murano-based glassmaking company run by the Toso family.

(B) Marchesi Antinori, run by the Antinori family, is a wine company based in Tuscany and Umbria. This wine company stands out from the other Italian winemakers for two reasons.[4]

First, the family has been making excellent 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, has no sons, his three daughters will take over this incredible family business.[5]

In 1790, Zwack, the Royal Physician to the Habsburg Emperor Joseph II, offered his royal patient a dark brown bittersweet liqueur distilled from nearly 40 different herbs. "Das is ein Unikum!" shouted the emperor according to Zwack family legend. Thus, a name was given to this popular drink. It is still very popular in Hungary and similar to the Barack Pálinka, an apricot eau-de-vie from Kecskemét. That the Emperor gave a product its name became one of the best marketing tricks in the world. In 1840, József Zwack, the descendent of the Royal Physician, established the first factory producing this drink when he was 20. This factory, in the Morocco playground in Pest, was named J. Zwack & Co. The first trademark slogan, "My treasured liqueur," was registered in 1881. The name Unicum was registered in 1883, and this liqueur was given a round bottle as well as a striking logo consisting of a red cross on a white background.[6]

Probably the most famous advertisement for Unicum is the poster of a man with wet hair swimming in deep water and instantly cheered by the sight of the floating ball-shaped bottle. By 1890, the original site of the factory was too small for business purposes and it moved to the Danube-side of Ferencváros at Soroksári Road. Zwack still operates from those premises today. In 1894, with the tragic news of the death of Hungarian political figure Lajos Kossuth, in Turin, the factory switched over to the dark green round bottle. In 1915, József Zwack'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 created Zwack Unicum's most famous poster of a shipwrecked man happy to find a bottle of this liqueur in the stormy sea. Lajos Zwack was a leading capitalist and philanthropist in the years of Hungary's Belle Époque. During World War II, the factory was hit by a bomb. Fortunately, the distillery equipment remained intact and production continued after the war. In 1946, the new democratic government introduced the new Hungarian currency called Forint, which was satirized in the journal Ludas Matyi whereby the shipwrecked man in the Zwack Unicum poster was depicted with the new Forint in his hand. However, in 1948, the newly instated Communist Government confiscated the factory. With neither possessions nor compensation, the Zwack family fled abroad. János Zwack fled to Vienna with the Unicum recipe in his breast pocket after bribing a Russian driver to take him across the border. Péter Zwack took a train to the Yugoslavia. Béla Zwack chose to remain in Hungary, but was later deported together with thousands of other "class enemies" to the Great Hungarian Plain.[7]

During the communist regime, Unicum was made from a fake recipe that Béla Zwack had given the government. Things gradually changed when Péter Zwack returned to Europe in 1970. By this time, Unicum was already successfully marketed and distributed in Italy. Due to the changing political climate in Eastern Europe, Péter Zwack received overtures from Hungary, inviting him to return and take over his old family factory. In 1987, two years prior the collapse of the Soviet bloc, he took the risk and returned home with his family. At beginning, he entered into a joint venture with the Hungarian State. Within the framework of the Hungarian privatization programme, Péter Zwack & Consorten AG purchased the Budapest Liqueur state-owned property composed of thirteen factories and 1,300 employees in 1991. In 1992, Zwack Unicum was transformed into a shareholding company and Péter Zwack became its President.[8]

In 2008, Péter Zwack passed the baton to his son, Sándor, by appointing him President of the Board of Directors. Péter remained eternal honour-able President and died in 2012 at the age of 85. The family business is now led by his two youngest children, Sándor and Izabella, the sixth generation of Zwacks in the 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 Baylor University. This report stated that 90% of all American businesses were family-owned. According to Family Enterprise USA (FEUSA), there are 5.5 million family businesses in the United States. Family-owned businesses generate 57% of GDP and employ 63% of the nation's workforce.[9]

According to the Laird Norton Tyee,[10] "family business is the heart and soul of the American Dream." Their Family Business Survey 2007 highlighted the role family businesses played in the US economy. Nearly 800 senior leaders of family-owned businesses throughout the country shared their views as to the current state of their businesses. They also spoke of the unique challenges of owning a family enterprise and their outlook for the future. Family-owned businesses generate approximately 64% of America's GNP. Nearly 60% of the majority shareholders 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 the survey's respondents had succession plans, and fewer than 40% had a successor in line preparing for the transition.[11]

Nearly 60% of family businesses believe their ethical standards are more stringent than those of competing firms. More than a 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 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 family-owned businesses 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 existing European companies and have a significant role to play in strengthening the 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 non-existent in the CIS countries. Family enterprises have been the subject of socio-economic research only in the last 20-25 years and even later in some European countries. Available research works often focus on the general characteristics of family business by comparing them with non-family enterprises, or by highlighting some specific features like the transfer of the family business to the next generation.

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 and experts working in this field. Between 2007 and 2009, the Expert Group on Family Business conducted research on this issue. A study was conducted under the supervision of the Austrian Institute for SME Research (KMU Forschung Austria) in conjunction with the Turku School of Economics in Finland and the Studiecentrum voor Ondernemerschap (SVO) in Brussels. The study titled, “Overview of family business relevant issues”, was completed in 2008 and presented valuable information to the Expert Group on Family Business. The study aimed to achieve the following:[12]

- review the national definitions of “family business” used in the 33 countries covered (i.e., EU-27; non-EU countries in the European Economic Area such as Iceland, Norway, Liechtenstein; EU candidate countries like Turkey, Croatia and the former Yugoslav Republic of Macedonia) and identify common elements in order to propose ideas for a conclusive 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
- analyze the need for and the shape of possible future policy initiatives in favour of family businesses

vThere 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. They also encompass a vast range of firms of different sizes and are active in many different sectors. However, there is still a lack of robust data, which often results in inaccurate assumptions (such as equating all family businesses with SMEs). The European business statistics tend to focus on company size, number of employees and turnover. The available data are the by-products of the European Union's SME definition, and may not be entirely representative of family businesses. Consequently, the current statistical interpretation is inaccurate and incomplete. Most SMEs (especially micro and small enterprises) are family businesses and a large majority of family companies are SMEs. If we take "the owner's perspective" instead of the "company size" into consideration, this paradigm shift would improve our understanding of family businesses as a phenomenon. According to European Family Businesses (GEEF), family businesses in Europe represent:

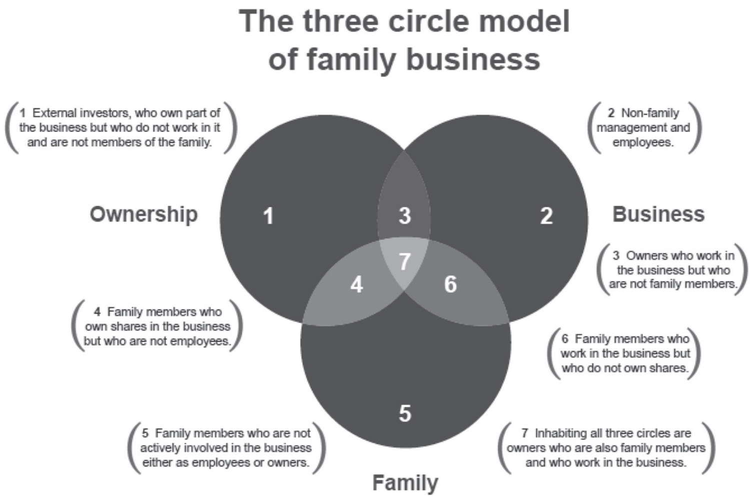
- Over 1 trillion euros in aggregated turnover
- 9% of the European Union's GDP and
- More than 5 million jobs.[13]

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

The debate on family businesses is far from over. The Three Circle Family Business System Model was developed by Renato Tagiuri and John A. Davis in 1982 to show the ways in which people fit into family business.[14] This business model is 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 of family businesses.

Of these three elements, ownership is the key to the business life of the firm. Ownership defines a clear distinction between family and non-family businesses. If we consider the "owner's perspective" rather than "company size", our understanding of the family business phenomenon will be improved.

It is also important to note that family owners tend to focus on the quality of assets on their balance sheets, i.e. a family business's financial management focuses on the balance sheet instead of the profit and loss account.



Family businesses in Europe are of different sizes and cover a vast range of firms in many different sectors. The European Commission study identified more than 90 definitions, thereby demonstrating the existence of several definitions within the same country. Specialized literature clearly shows, "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 a definition of "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 enterprise. There is general agreement that due consideration should be given to 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 up by the Ministry of Trade and Industry in 2006. The Expert Group proposed the following definition:

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% of the decision-making rights mandated by their share capital.

In addition to this definition, there is another point as important as the previous four:

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

The group recommends that opportunities should be explored in order to introduce this definition at national level. National governments should consider adopting measures that create a more favourable environment for family businesses, such as ease of taxation, simplification of company law and improvement of 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 imperfect and deficient.

Hardly any consideration of family businesses can be found across Europe. In some countries, the term "family business" is mentioned in different regulations without any clarification as to its definition. Nevertheless, a few examples of legal regulations exist in which family businesses are not only referred to but also some definitions of the respective target group are listed below[15]:

- In Austria, a regional law on shop opening hours explicitly mentions family businesses and defines them as enterprises where 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 to agricultural family businesses is made in conjunction with the provision of subsidies for family farms. Family farms are defined as entities with an 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 may also contribute to the operation of the family farm.

- The Italian Civil Code describes family businesses as enterprises where members of the family unit (husband, wife, high degree of kinship) work and have the ownership.

- The Lithuanian Supreme Court (as of 4 June 2007) stated that if an enterprise was established during the marriage period, it is by its nature a family business unless regulated otherwise. Such an enterprise would be the joint property of the spouses and encompass the physical and intellectual work of both spouses. Any business revenue garnered from such a family business would be used for the needs of the family.

- In Bulgaria and Slovakia, family businesses are deemed to be businesses co-owned by both spouses. Co-ownership of a business by both spouses is also presumed in the case of self-employment or sole proprietorship unless there are contractual agreements determining otherwise or otherwise proved in litigation.

- 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, close relatives, and 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 businesses. Similarly, the Spanish Ministry of Economy, through its dependant body, the Directorate General for SME Policy (DGPYME), elaborated a definition of family business.

- According to Company Law (Law 2941/2001) in Greece, there is no definition of family business. However, most businesses in Greece are small family businesses. Very often, the terms SME and family business are used interchangeably because they are thought to be the same thing.[16]

It is important to note 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 and employ other family and/or non-family members) are considered to be family firms in most countries.

Therefore, it is important to distinguish the differences between family businesses and non-family enterprises. According to the United Kingdom (UK) Institute for Family Business, family businesses often struggle with their business objectives and rules on the one hand, and family priorities and emotions on the other: "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, based on the research in the Netherlands by Thomassen (2007), compares the main characteristics of family and non-family businesses.[18]

Family businesses	Non-family Businesses
The purpose is continuity	The purpose is maximizing near-term share price
The goal is to preserve 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 on 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 are facing challenges in the following fields:

- Challenges that arise from the environment in which companies operate:
  Policymakers' unawareness of the specificities of family businesses, or 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:
  Family firms' unawareness of the importance of planning business transfers early;
  Balance between the aspects of family, ownership and business within the enterprise;
  Difficulties in attracting and retaining a skilled workforce.
- Challenges related to educational aspects, which impact both the business environment and the 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 not limited to the policymakers. The general public is only now in the process of understanding that which makes a family business. There is a lack of research and common understanding as to the value of the family business for society and the human face beyond these businesses. Thus, it would be important to render family businesses a focal point at both the European Commission and national government levels.

THE IMPORTANCE OF PREPARING FOR BUSINESS TRANSFER

The European Commission estimates that a third of company owners will retire in the next decade. According to the EU's report "Markets for Business Transfers" (May 2006), more than 700,000 SMEs, providing more than 3 million jobs, are transferred to a new owner every year. Thousands of enterprises are at stake if the EC does not educate these businesses on the right approach to transition to the next generation of owners. Hence, the EC should consider the legal framework of the succession, the simplification of the inheritance tax, introduction of tax allowances and support measures for the new owners are important issues. SMEs are not in a position to cope alone with all the problems and difficulties of inheritance.

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. Policymakers often forget that starting a new firm is not the only way to secure jobs.

A business transfer is the transfer of ownership of an enterprise to another person or enterprise in a way that assures the continuous existence and commercial activity of the enterprise. This can take place within the family through management buyouts (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 the failure of business transfer is lack of planning (European Commission, 2002), instruments highlighting the importance of substantial and timely planning as well as measures facilitating this process are advantageous for the family business sector.

Business Transfers are part of succession planning. It 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.

With an estimated 450,000 businesses, providing 2 million jobs, undergoing business transfers in the EU every year, Europe needs to make it easier to transfer businesses and develop more effective support services. The study concludes that Europe loses approximately 150,000 firms (representing 600,000 jobs) a year solely because of inefficiencies in business transfers.[19]

The 2011 EC study on "Business Dynamics", which measures the impact of inefficient transfer of businesses on job creation and business births in Europe, identified the following main problems faced by entrepreneurs during the business life of a company: start-up/licensing procedures, transfer of business, bankruptcy and second chances. Moreover, the study explores potential solutions and recommends policies to ameliorate the ease of doing business and eventually increase the number of entrepreneurs in Europe. The study covers the current national practices in 33 European countries. It also covers the key moments of a company's life cycle: licensing, transfer, insolvency and rebirth. Its final goal is to analyze the key problems in each of these areas and their impact on companies, jobs and GDP loss.

In December 1994, the EC published concrete recommendations on improving the framework for business transfers in the EU member states. The recommendation addressed issues 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 cooperated with three employers' organizations to develop a toolkit for business transfer. It is known as "Overdrachtspakket" or transfer package. All entrepreneurs aged 55 would receive a letter informing them on the importance of business transfer planning and the availability of this toolkit. In addition to awareness raising, advice and consultancy instruments or self-planning tools are available. 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) where different options and solutions for business succession may be discussed.

StudioCentroVeneto (SCV), an Italian consultant company founded by Toni Brunello, has been working with microenterprises and SMEs since 1968. It is presently the foremost consultant company in Europe handling the business transfer issue. Brunello is a member of ERENET. For the last 20 years, SCV has implemented a wide system of tools to deal with business transfer as a "territory matter". In so doing, its work has caught the attention of microenterprises and SMEs at the regional, national and European levels. The Kit.Brunello.System (KBS) developed by SCV was officially recognized by the EC in 2009 as a means of promoting good practices in business transfers. It is hoped KBS will spread to the other EU member countries. To date, the Confederation of Norwegian Enterprise (NHO) has acquired it, and Turkey, Bulgaria and Austria are actively involved with SCV in a European project aimed at spreading this practice within their countries.[21]

Despite some progress, the EU member states have yet to implement the 1994 Commission recommendations. Out of the 33 European countries covered in the "Business Dynamics" study, only 5 had implemented more than 75% of those recommendations. The obstacles still to be addressed include the complexity of the business transfer process as well as 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 from taking over existing businesses. This affects mostly small companies, as bigger companies are usually able to 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 family businesses. The major concerns of family businesses are fostering, preserving and creating new jobs, rising tax revenues, contributing to sustainable development and 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]

As of 2010, Copenhagen Economics, an economic consultancy, compiled a report of EU member states with inheritance or estate taxes. This report revealed that 18 of the 27 EU member states have an inheritance or estate tax in their domestic tax rules.[24] Most member states have inheritance tax and a few have estate tax. Denmark is the only member state with both estate and inheritance taxes.

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

The German government places high importance on SMEs for the economic growth and employment of the country. The appraisal of tax privileges in favour of business property was provided by the German Inheritance and Gift Tax Act (Erbschaft- und Schenkungsteuergesetz, ErbStG) in 2009. The German Inheritance and Gift Tax Act applies to transfers of property and transfers of businesses regardless of transfers resulting from heritage or donation.

The European Commission prepared a guidebook on business transfer issues after studying material published by the leading projects and reports in this field[25].

The Entrepreneurship 2020 Action Plan is a blueprint for decisive action aimed at unleashing Europe's entrepreneurial potential, removing existing obstacles and revolutionizing the culture of entrepreneurship in Europe. Altering the public perception of entrepreneurs, entrepreneurship education and increasing support groups for entrepreneurs are indispensable to the creation of 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 publicize 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 long-term prospects; compare the up-to-datedness of the goods produced or services offered with that of competitors; analyze the technological capabilities and financial circumstances and strengths.

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

- Start conversations with possible candidates and get acquainted with their ideas for the future.
- Discuss the succession with the family members.

- If the child picked to run the business in the future is motivated to do so, he/she should be schooled in both domestic and foreign institutions so as to obtain practical skills.

- It is advisable to bring the possible candidate into the business to learn about the employees and the way in which the company operates. This will acquaint the successor with the company's values. It is also expedient to give him/her a managerial task in the family business.

- If necessary, obtain external expert advice on designing the circumstances surrounding the transfer of the succession.

- The retiring party should think about the things he/she wants to do after the transfer of the business to avoid the problems within the family.
- Prepare the agenda for our own retirement.

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2. FAMILY BUSINESSES IN GERMANY AND THEIR ROLE IN ECONOMIC DEVELOPMENT

2.1. SIGNIFICANCE OF FAMILY BUSINESSES IN GERMANY AND THEIR INNOVATIVE ACTIVITIES

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ABSTRACT
The German business model is heavily linked to the importance of family businesses. This article maintains that the significance of family businesses is not a matter of size, but a specific way of doing business. Being reliant and personally responsible for their decisions makes family entrepreneurs more cautious. When a business is risk averse, it is in danger of falling behind when it comes to innovation. The lack of sufficient innovative power is probably one of the major reasons for failed family businesses. The author argues that the basic set up of family businesses does not hinder innovation at all. In contrast, it might be an advantage in redesigning and modernizing business activities.

1. SIGNIFICANCE AND SPECIFIC CHARACTERISTICS

A quantitative examination of the German economy reveals that family businesses dominate it. More than 90% of the country’s 3.5 million businesses are owned by families. Many of these are also run by at least one family member. Aside from 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 when one looks at the share of employees working for family businesses. 55% work for a family-owned company, while 38% work for non-family owned companies. Family businesses generate almost half (47%) of German turnover. This impressive position of German family businesses has many historical causes, which cannot be discussed in detail here. On the one hand, it seems that the German economy has never completely deindustrialized. On the other hand, companies recognize the need for specification in order to be internationally competitive.

Not a matter of size

Close scrutiny of the nearly 3.2 million German family businesses reveals that 65% of them are single member companies. Even though they make a measurable contribution to the overall German business outcome, I will focus on the remaining 35%. To be precise, I will concentrate on family businesses with at least a million euros turnover and 10 employees. These limits reflect the minimum criteria of the organization "Die Familienunternehmer – ASU e.V.". Die Familienunternehmer, or the German Association of Family Enterprises, is the main interest group of German family businesses and it was founded in 1949.

In focusing on a defined group of family businesses, I am emphasizing the fact that a family business is not a matter of size. Family businesses cannot be put on the same level with small and medium-sized enterprises (SMEs), even though many family businesses are medium-sized businesses. Family businesses in Germany span all sectors and cover a wide spectrum of business sizes. For instance, both a craftsman enterprise with 15 employees and Miele with a 3.2 billion euro turnover and more than 17,000 employees worldwide are family businesses. The concept of family businesses is deeply connected with a special mindset dominated by the principle of liability. Family entrepreneurs act differently from 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.

Regional roots

One of the specific characteristics of German family businesses is that 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 local society, the local sports club and other stakeholders is tremendously high. The qualitative role of family businesses becomes clear when the vocational training market is examined. Family businesses offer 80% of the German apprenticeship training positions. With this investment in upcoming skilled workers, they prepare their companies and the economy as a whole for future challenges.

Many hidden champions

The flip side of this historically developed regional network is that many of these family businesses are still at the locations they were founded generations before. From a modern logistical perspective, these locations might not at all optimal. 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 that he calls 'hidden champions'. By definition, these companies belong to the world market leaders of their industries and are mostly unknown to the general public. Additionally, most 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. So long as they remain open to innovation, they will not be very vulnerable.

Importance of financial independence

Another special feature of German family businesses is their urge to be financially 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 resilient during the European crisis, especially when its peak hit Germany in 2009. Having a reasonable strong equity position greatly helped them when orders decreased up to 70%. Even if most family businesses have good relations with their banks, they are more likely to avoid bank financing than non-family owned companies.

This cautious financial attitude is also reflected in the investment behaviour of family businesses. The equity ratio of investments undertaken by family businesses is outstandingly high. In an internal survey, 42% of the members of the German Association of Family Enterprises 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 it excellently reflects 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 should be noted 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. My position stems from my professional experience with family businesses. Many successful family businesses are typically very innovative and internationalized. The general characteristics of family businesses are advantageous to innovation. The long-term perspective of family companies reduces the pressure that new inventions have to pay off immediately or within a very short period. Typically, the decision-making process is not as formalized and bureaucratic as it is in affiliated groups. Decision-making is often decentralized and informal, which in turn leads to spontaneous innovation. Even if this advantage declines with the growing size of a family business, a different approach can also be seen in large family companies.

The mindset of family entrepreneurs is quick to adapt and flexible 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 risk adversity might rise with every generation, resulting in a slowing down of momentum. There might be some prominent examples where founders of companies were so focused on conserving their growth that they became fixated on previous successful strategies. Consequently, the subsequent generation might not have the opportunity to bring new innovation into the firm because of a still dominant predecessor or because of an incurable business downturn. However, my contact with young entrepreneurs has pointed me in a different direction.

There is a lot of pressure on the next generation for survival and to renew the company through innovation. Pressure increases from one generation to the next. In older family businesses, it is evident that the more stakeholders there are, the greater the pressure. The subsequent generation, on the other hand, has a strong ability and willingness to diversify or completely change business subjects. Sometimes the business unit working in the field in which the company was originally founded contributes just to a small percentage of 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 their very close relation to customers. This often takes the form of business-to-business relations. By working closely together with the demand side, a company is able to find new solutions to various challenges. Open communication with the main customers plays a key role in the evolutionary innovation approach of family businesses. The ongoing process of optimization 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. However, some family businesses are so specialized 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 (R&D) structures. If innovation occurs along the production process, extra research and development is not necessary and therefore does not frequently occur. 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. Human resources are a crucial component of innovation, which family entrepreneurs support with their special set up.

3. POLICY ADVICE

These findings give rise to the question as to how a government can foster innovation in family businesses. The most common approach in western economies is tax breaks for R&D activities. Countries use this instrument to promote 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 penalization of the innovative flexibility often found in family businesses. Inevitable arbitrage effects is another negative feature impacting businesses whenever they redesign their shape in order to apply for tax breaks.

Due to the often high equity ratios in family businesses, there is an alternative way of fostering innovation. Inventing neutrality of financing would abolish the privilege of credit capital. In most tax systems, interest payments for loans are commonly tax deductible. This is a stimulus for debt financing investments that does not contribute to the stability of economies at all. Any (innovative) investment 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 publicized 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 fostering the growth of family businesses and their innovative activities.

2.2. CHARACTERISTICS AND MANAGERIAL BEHAVIOUR OF GERMAN FAMILY BUSINESSES

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ABSTRACT
Among family businesses in Germany, one can often find hidden champions that have had outstanding performances over a long period of time. The key factors of their success lie in the professional management of the company as well as the owning family. Therefore, an adequate governance structure for both business and family is mandatory to preserving the characteristic spirit of entrepreneurship as a source of success. In this context, the changing role of the family in Germany affects some of the key challenges of family businesses, such as the management of succession.

1. FAMILY BUSINESSES IN GERMANY: AN OVERVIEW

Family businesses in Germany presently face a number of challenges. Family businesses are challenged by the larger interconnected world. Having internationalized very early, German family businesses have managed to achieve a transnational position. Transnationality implies being active in a number of different countries and integrating the activities in the respective countries much more than in previous times. As a result, networks of internal units and qualified external partners emerge under the umbrella of the transnational family business. Family businesses consequently develop new governance structures, which give much more discretion to regional and local units than before. Moreover, some German family businesses partner up with international value chains. In this case, the 'old' governance structures are no longer adequate. Networks of internal subsidiaries and external partner companies, as outlined above, have to be managed. This very often implies a shift from a more hierarchical mode of governance to heterarchical ones.

Another core challenge of German family businesses is the volatile world in which we live. This volatility necessitates higher levels of corporate responsiveness. Such flexibility can often only derive from the development of new modes of leadership and governance. German family businesses differ from developing corporate responsiveness in that they look for new ways to set standards in competition. Since the volatility in the business environment very often changes the rules of the game, there are, in fact, new ways to do the business that are different from before.

Most German family businesses are simultaneously small and medium-sized companies. As such, they, more so than bigger businesses, need to bring other resources to the fore. In this sense, they often build long lasting relationships with customers based on trust, commitment, and reliability. Reputation and brand awareness are other crucial factors putting German family businesses in favourable positions in world markets.

Against this backdrop, German family businesses operate in a particular business environment. They face social developments such as the diminishing role of the family, and business developments such as the need for professionalization. The former issue is a core challenge when it comes to business succession.

All in all, German family businesses are said to be highly competitive on a global scale. It is not the intention of this article to prove that. The next sections will simply shine some light on the peculiarities of these companies.

2. FAMILY BUSINESSES IN GERMANY: AN INSIDE LOOK

The list of internationally renowned German family firms is rather long. Aldi, Metro, BMW, Lidl, Heraeus, Tengelmann, Viessmann, Dr. Oetker, or Miele are some prominent examples. Against this background, a few questions arise: First – is there an old, 'Methuselah-like' family business model in Germany? If so, what are the core peculiarities? Second, is the influence of the family of decreasing significance in German society? Third, is the successful German business model outdated?

Let us examine the present situation faced by German family businesses before we begin our in-depth analysis. First, the German family business landscape is indeed changing. However, the changes are slight and more evolutionary than revolutionary. Second, new ways of governance have replaced former ones. This implies that the influence of German family businesses remains, albeit in a different way. Third, many new governance modes accompany the older ones. German family businesses will remain strong and somehow be renewed.

Hermann Simon coined the term, 'Hidden Champions'. In his study of the small business and family business landscape in Germany, Simon pointed out a number of different reasons for the enduring strength of these companies. The reasons for the current situation of German small and family businesses can be traced back to a situation two centuries ago. In the nineteenth century, there was no unified German national state. At the time, Germany consisted of many different countries forming a loosely coupled network. Internationalization of smaller companies and coping with borders was, therefore, more or less taken for granted. Thus, German companies internationalized very early on and had developed considerable skills and capabilities in internationalization. Furthermore, the post World War II rebuilding of the economic infrastructure in Germany (especially in the western parts of the country) proved to be a fertile environment for the growth of newly founded family businesses. The so-called Wirtschafts-wunder or economic miracle years are another reason for the present-day strength of many German family businesses. This is because these companies developed a number of traditional skills that are still relevant to their business today. For instance, the specialization and the know-how transfer in regional networks nurtured the development of these skills.

The local and regional units in Germany have traditionally been rather powerful. The strong influence of a capital like Paris, London, or Moscow, could, apart from a few years, never be observed. Economic development is very often locally and/or regionally driven. Local and regional clusters such as Baden-Wuerttemberg or in Western parts of Germany (e.g. the Bergisches Land and Sauerland), became very powerful centres of innovation. Due to first-mover advantages and consequent development in later times, these regions are still economic strongholds in Germany. Germany's central position in Europe also renders it competitive. These macro- and meso-factors provide small enterprises and family businesses in Germany with particular strengths in international markets.

Other micro-level factors, such as the strong manufacturing base of these companies as well as their strong focus on innovation and experimentation, accompany these aforementioned issues. Another reason is the particular way in which the companies' human resource management departments are backed up by Germany's dual education system. This dual education system differs from the education systems in other European countries.

We now have a profile of family businesses in Germany. Family businesses in Germany are characterized by a passion for technology and a related focus on intellectual property rights, strong commitment to social values, focus on the social embeddedness of their companies and owning families, a strong emphasis on developing strong brands and reputation on international markets, strong international orientation, and an entrepreneurial orientation and mindset.

To better understand the nature of German family businesses, the governance system and entrepreneurial orientation have to be explored. The next two sections will address governance and entrepreneurial issues.

3. FAMILY BUSINESSES IN GERMANY: THE GOVERNANCE PERSPECTIVE

There are several different definitions of family businesses employed in Germany and international family business research.2 One was developed by the Institute for SME Research in Bonn, the Institut für Mittelstandsforschung (IfM) Bonn. IfM's defines family businesses in terms of unity of ownership and leadership, whereby up to two persons and their families own at least fifty per cent of the shares.3 The Witten Institute for Family Business (WIFU), on the other hand, defines family businesses as enterprises owned by at least one or several families who considerably govern the firm's issues.4 The responsibility of the family is reflected in leadership or board membership in the supervisory board. Over and above this, family business is characterized by the trans-generational prospect, i.e. a real family business involves business succession from one generation to the next.

Davis and Tagiuri define family businesses as follows: "(…) any business, large or small, public or privately owned, whose ownership is controlled by a single family and where two or more members of the same family significantly influence the business through their kinship ties, management and/or governance roles, or ownership rights."5 These three definitions contribute to our understanding of family businesses in this paper henceforth.

These definitions give arise to the question – is there only one type of family firm? It is not an easy question to answer because we can identify a good number of different family businesses. Drawing upon the work of Gimeno, Baulenas and Coma-Cros,6 two different dimensions come to the fore when different clusters of family businesses are delimited - namely the complexity of the family and the complexity of the business or the firm. Given these two dimensions, German family businesses and other family companies worldwide develop certain organizational structures in order to cope with both external and internal challenges as well as structural risks. Six different types of family businesses were identified in a survey of 1,500 Spanish companies. We will next appraise four of these family business types. We did so fully acknowledging that there is no real development or evolutionary path from the first over the second or the third to the fourth type. The types reflect the underlying mental model of the family business, and these models may change. Nevertheless, there are examples from business practices where such evolutionary steps may be observed.

The first type is the so-called patriarch (or matriarch) model. The patriarch model rests on a very complex family business situation within the firm. The governance structure is influenced by the thought that someone must be the leader of both the family and the company. In this case, the patriarch is the dominant person of the firm and manages all strategic and, very often, tactical issues as well. Due to the clear line of command, this patriarch or emperor type is useful in coping with a high level of complexity and uncertainty with which the family and the firm is confronted. Many family businesses such as Heraeus, Würth, and the bankrupt firm Schlecker explicitly employ this model. This model is typical for family businesses in the founder generation.

The next model is that of the family team. In this model, a team of solely (or predominantly) family members replaces the patriarch as primary decision-maker. This family involvement penetrates the entire company to some extent. In this model, the family team is not only in charge of strategic decision-making, but are highly involved in the operation of the firm and hold board memberships as well. The company with this model is highly complex and the family behind this enterprise is of medium complexity. This type of family business is often found in Germany and other parts of the world. In this model, managerial discretion is bound to members of the family who have aligned their activities and strategic moves with the company. Coordination is not that easy in this model. Examples of German family businesses functioning through this model are Miele, Dr. Oetker and Boehringer.

The professional family model is the third model. This model is characterized by family ownership accompanied by external leadership, that is, the family business explicitly employs external know-how. Managerial discretion is given to external managers for the sake of increasing the company's professionalism. The influence of the family in this model, however, is rather limited. It is mostly restricted to monitoring issues. When the complexity of the company is between middle and high, and the family is highly complex, this model often is chosen. Family businesses successful in the financial markets, particularly in international capital markets, often favour this model. Here, the family is to some extent able to separate their identity from that of the company. Companies such as Merck, Haniel, Wieland, Brose, or Schaeffler, have adopted this professional family model.

The fourth and last model considered in this paper is the family investment group. This model is not restricted to a certain range of complexity within the company or family. In this model, the family acts as a portfolio manager and decides, for instance, on buying and selling companies and shares within a holding. Return on capital employed is one of the key performance indicators family members typically employ. The family is no longer involved in operational issues. Most of the strategic decisions are made by managers who are not family members. Family influence still exists in this model, but it no longer plays a considerable role. Keeping the family assets and adding to the family's wealth are primary objectives. Companies such as Steinbeißer or Heindl belong to this particular type of family business.

As previously mentioned, there is no logical flow to be empirically observed from the patriarch model to the family team model and the professional team model to the family investment group type. Nevertheless, some family businesses in Germany and other countries have followed this path. A question we should ask ourselves at this point is the circumstances favouring the different types of family businesses. It is a managerial task to analyze the situation of family businesses thoroughly before making a decision as to the models that would best fit a family business. Such decisions would in turn frame the company's entire governance structure.

4. FAMILY BUSINESSES IN GERMANY: AN ENTREPRENEURSHIP PERSPECTIVE

Governance and entrepreneurship issues are often closely related. In family businesses, the entrepreneur takes full responsibility for managerial action. In large firms, the situation is very different. Managers are appointed and work in principal-agent relationships. As agents, they are monitored by the owners. Thus, their managerial discretion is limited.

To better understand the different facets of entrepreneurship, let us define entrepreneurship. Entrepreneurship theory provides us with many systematizations as to the nature of entrepreneurship. One such theory is the entrepreneurial orientation concept developed by Lyon, Lumpkin and Dess (2000).7 In addition to this, entrepreneurship theory developed a set of entrepreneurial functions. Lyon et al.'s (2000) entrepreneurial orientation construct is solely explorative in nature, whereby the system of the entrepreneurial function consists of both explorative and exploitative features. We next outline the cornerstones of entrepreneurial function according to

Freiling (2008).8 There are four basic entrepreneurial functions. The first two functions, namely innovation and risk management, are explorative in nature; that is they are required to renew businesses. Innovation is best defined by Schumpeter (1912/1934),9 who stresses that innovation can be a process of 'creative destruction'. This implies that proven concepts in competition can be replaced by better solutions. In German family businesses, this notion of creative destruction is often nurtured. An innovative culture can be observed in many of these family-run companies. Another feature of the innovation function is non-linear thinking. Non-linear thinking pro-actively questions the status quo and looks for solutions outside typical modes of thought. Non-linearity can be fostered if there is enough room for strategic moves and a low dependence on capital market. With increasing capital market dependence, however, the pressure for quick results increases. Hence, there is not much room for ideas with a return in much later years. Innovation itself rests on different innovative sources. The most prominent sources are product innovations, process innovation, organizational innovations, market innovations, purchasing innovations and business model innovations. To set a process of creative destruction in motion, more than one innovation has to be developed. The innovative sources should also be well aligned. It is not easy for family businesses in Germany to be innovative because they have limited resources devoted to research and development. Nevertheless, smaller family businesses are in the privileged position of having little obstacles to innovation.

The innovation function is accompanied by the risk management function, which seeks to trigger explorative moves. Risk management should provide innovative moves with a belt of protection. It rests on the recognition of risks, a thoughtful assessment of them, a distribution of identified risks, and finally, a transfer of risks to other parties if necessary. Once again, family businesses are in a disadvantageous position because professional risk management systems are often not available to them. Moreover, in order to cover the risks of a business, it is important to accumulate a certain financial strength and corporate reliability. This, however, is very often absent in smaller family businesses in Germany.

There are several examples from German family business practices. HiPP, Delo, Schmitz Cargobull and the Schreiner Group illustrate this connection between innovation and risk management. Let's delve further into the matter by discussing HiPP's explorative measures. HiPP is a manufacturer of baby food and conscious of young parents' concerns. It is expedient for HiPP to be perceived as a reliable manufacturer of high quality baby food. It also has to rise to the challenge of introducing innovative products every once in a while. HiPP responded to these challenges by developing a new approach of managing its supply chain. HiPP introduction of contract manufacturing placed it as a first-mover in the industry. The firm only collaborates with trustworthy partners they are well aware of and with whom they have collaborated for a very long time. HiPP and these selected suppliers carefully develop production and development concepts. By regular on-site visits, HiPP permanently monitors the value added processes of their selected partners. HiPP is in a position to guarantee the highest quality of the products and services provided. Besides this, HiPP invests a lot of their budget in research and development. Due to its considerable experience, HiPP belongs to the firs-movers of the industry. HiPP became an innovative leader in the market. All of HiPP's moves are accompanied by innovative brand and reputation management. Careful reputation management has put HiPP into a situation where they are able to connect with the customers in a highly credible manner. As a result, HiPP is a market leader in many different European markets.

Entrepreneurship does not involve only creating new businesses. Reaping the benefits of newly established businesses is an important task as well. According to Kirzner (1973),10 it also consists of internal coordination of the entire value added system and arbitrage. Internal coordination and arbitrage go hand in hand because the former is an internal task and the latter is an external one. Both interconnected functions are of utmost relevance to the sales and cost situations of a company.

Internal coordination is about setting up the value added process of a company and their orchestration within the firm. Resource allocation is a very important point of internal coordination as well. Internal coordination implies the motivation of employees and a set of sense making initiatives to fully exploit the potential of the human resources. More than that, this potential should be nurtured and developed over time. Family businesses in Germany are familiar with lean production, as espoused by Womack et al. (1990).11 To unfold creativity and motivation among the people working for the family business, personal relations and a challenging corporate culture are vital. Internal coordination in family businesses is favoured by companies with low structural complexity. An example for a company with a sound internal coordination system is the Schreiner Group. The Schreiner Group managed to build a challenging organizational culture by focusing on talent orientation as well as respecting good personal relations and employer branding.

Arbitrage is about making profitable transactions in markets. Successful arbitrage is dependent on a sound grasp as to that which the markets really need and knowing how to connect supply and demand. Arbitrage focuses on business opportunities, i.e. identifying promising exchange partners, building valuable customer relationships and making most of a transaction by negotiation and bargaining. It is also concerned with developing market related assets that put the firm in a favourable position. Examples of market assets are brands, reputation, etc. A core advantage of family businesses is their high level responsiveness to external changes and the high level specialization wrought by their niche orientation. Family businesses are often dependent on collaboration partners and lack bargaining power. Among German family businesses, Sennheiser is a very good example of a company with an excellent market making system. Sennheiser has a global market access with 85% of its turnover realized in international markets. Moreover, their value system is rather globalized. Sennheiser employs very selective distribution channels and involves external parties through a heterarchical network.

Our discussion so far proves that it is not enough to focus only on one or two entrepreneurial functions. Much more is required to connect all the aforementioned entrepreneurial functions and relate them to the challenges faced in markets. Figure 1 portrays this dynamic interplay of entrepreneurial functions and pinpoints the constituents of entrepreneurship. Furthermore, there is a strong positive impact of entrepreneurship in this understanding of financial performance.

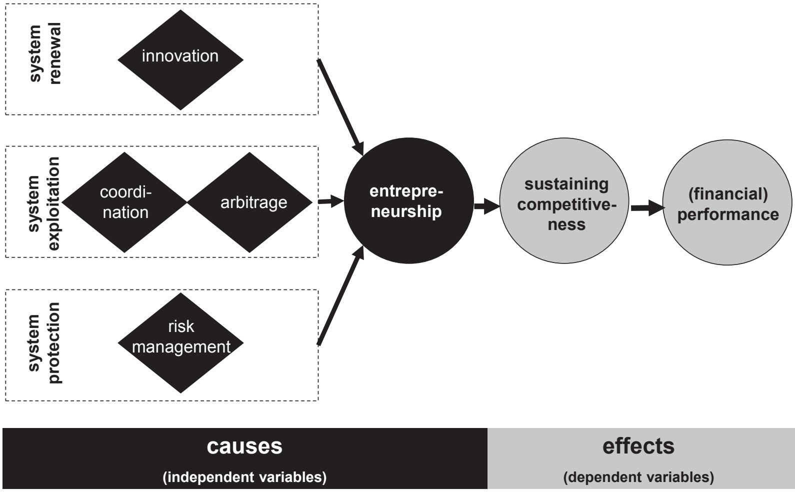

Figure 1: Entrepreneurial Functions and Performance (Source: Freiling, 2008: 16)

5. SUMMARY AND OUTLOOK

When analyzing the phenomenon of the hidden champions, we can see that it is not a riddle. Family businesses with outstanding performance over a longer period of time appear to professionalize their companies as well as their families comprehensively. Governance and entrepreneurship are essential to increasing a company's professionalism. Professional governance of a company is dependent on both the family members and external expertise. This can be arranged in four types of family business governance solutions. By activating creativity, implementing coherence in the entire organization and activating entrepreneurial forces, entrepreneurship and entrepreneurial behaviour can be strengthened. In the future, entrepreneurial and governance issues will come to the fore when businesses hand over the reins of power to the next generation. Between 2010 and 2014, approximately 110,000 family businesses in Germany will undergo a business succession process. That is 3% of all German businesses, according to a recent survey of IfM Bonn (2010).12 This means successors of 22,000 businesses with approximately 287,000 employees will have to devise new solutions for their companies. Generally speaking, 86% of business successions are caused by seniority, 10% occur on the death of the entrepreneurs and 4% result from the predecessors' health issues. The intra-family business succession will still be the dominant type in the near future. 54% of all business successions will be handled internally. 29% of all successions will be externally driven and 17% will find solutions within the firm by looking to employees and managers.

Whether this will continue to hold true in the more distant future is unclear. It is expected that the role of families in Germany will decrease in the future. This could imply that the patriarch model may be in a precarious situation in the next couple of years. However the patriarch model can go along with other hybrid solutions of family governance, i.e. the involvement of external parties in the company's governance. Finally, the aging society and the human resource bottleneck will exert pressure on family businesses in Germany. It also paints the issue of business succession in Germany in a new light. Family businesses have to handle real problems with legitimation in the society. Corporate social responsibility (CSR) is a topic pervading all businesses. Family businesses do not need to be a crucial challenge, as they have often done a lot for social purposes and are to some extent standard setters in CSR activities. For these reasons, it will not be easy for German family businesses in the future. However, it is clearly evident that family businesses are drivers of economic development and are thus an indispensable part of our business world. It may be concluded that they face much pressure to improve governance standards so as to appear in a new light with renewed strength.

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3. NATIONAL COUNTRY STUDIES IN THE BSEC REGION
3.1. FAMILY BUSINESSES IN ALBANIA

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1. MACROECONOMIC OVERVIEW

Before the global financial crises, Albania was the Balkan country with the highest economic growth (6%). It also had satisfactory macroeconomic performance supported by the rapid growth of domestic demand and consolidation of the banking system. Meanwhile, the increase in consumer prices has been stable at low levels, close to 3%, contributing to macroeconomic stability and the strengthening of the financial sector. During this period, the current account deficit widened due to import-oriented consumption. This, therefore, highlights one of the main vulnerabilities of the Albanian economy.

Table 1. Macroeconomic indicators*

	2006	2007	2008	2009	2010	2011	2012
Real GDP growth (in %)	5.4	5.9	7.5	3.3	3.8	3.1	1.6
Employment (in thousands)	935.1	939.0	974.0	909.7	895.7	948.0	964.4
Unemployment rate, %	13.8	13.2	12.7	13.6	13.8	13.1	12.8
Inflation rate, % (year average)	2.4	2.9	3.4	2.3	3.6	3.5	1.5
Budget balance (incl. grants, in % of GDP)	(3.3)	(3.5)	(5.5)	(7.0)	(3.1)	(3.6)	(3.4)
Public debt (in % of GDP)	56.2	53.5	54.7	59.4	58.5	59.5	61.5
Current account(excl. official transfers, in % of GDP)	(7.3)	(11.3)	(15.9)	(15.6)	(12.1)	(13.3)	(11.0)
FDI/ GDP	3.5	5.9	6.9	7.9	8.9	7.8	7.6
Remittances/ GDP	13.1	12.1	9.4	9.0	7.8	7.3	7.1
Export/ GDP	8.8	10.0	10.3	8.6	13.2	15.4	16.0
Average exchange rate, ALL/USD	98.1	90.4	83.9	95.0	103.9	100.8	108.2
Average exchange rate, ALL/EUR	123.1	123.6	122.8	132.1	137.8	140.3	139.0
Credit to economy (In % to GDP)	22.2	30.4	36.4	38.4	39.5	42.3	41.7

Data sources: MOF, INSTAT, Bank of Albania Data for 2012 are prelimenary*

After 2008, macroeconomic indicators show a visible slowdown of economic growth. The first sign of the global financial crises in Albania manifested as a lack of public confidence toward banks. From the fourth quarter of 2008 to the first quarter of 2009, Albania experienced a bank run. Due to liquidity constraints, banks had to strengthen their lending standards and were more reluctant to lend money, thereby considerably slowing their intermediation activities. The strengthening of the lending standard associated with high uncertainties and sluggish economic growth reflected in lower credit demand, which in turn contributed to the further slowdown of private consumption and investments. Thanks to the coordinated measures by the government and the Bank of Albania, the confidence crisis was quickly overcome. However, Albania is a small open economy, highly exposed to the performance of the global economy and particularly the

Eurozone. Eurozone countries, especially Greece and Italy, are Albania's main economic and financial partners. The deterioration of the Greek debt crisis, which quickly turned into a European crisis, has further affected the performance of the Albanian economy. The economic growth slowed down even further during the Greek debt crisis, causing GDP growth to drop to 1.6% in 2012 from 3% in 2010-2011. These shocks from the external environment have substantially increased the uncertainty for the future. They also resulted in the contraction of private consumptions and investments. All was not gloomy because the public sector provided a positive impetus in 2009. After 2009, it consolidated fiscal policy to address the high level of the public debt to GDP ratio, which has remained one of the main vulnerabilities of the Albanian economy.

The service sector is vital to the Albanian economy, as it was the main contributor to economic growth in the last few years. Within this sector, trade and financial services are the major contributors. This is unsurprising, as they are closely linked with the consumption-driven economic growth model. In contrast, the manufacturing sector has reflected the negative contribution of construction and the good performance of the export-oriented industry sector.

Meanwhile, the positive economic growth was supported by the good performance of net exports. Albanian exports in 2019-2012 have increased annually by an average of 28.2%, reflecting positive performance of minerals, energy and industrial processors products. Domestic demand has been sluggish overall, as it was mostly driven by lower consumption due to precautionary behaviour of households. Likewise, remittances declined considerably, thereby reducing the financing sources that would have otherwise gone to consumption. Consumption behaviour was initially reflected in the slowdown and then in the shrinkage of annual imports. In fact, imports in 2012 have shrunken annually by 3.4%. This performance translated into a correction of the current account deficit from 15% to roughly 10% of GDP during this period.

The current account deficit is financed by foreign investment inflows from the privatization of state enterprises and from economic sectors such as banking and hydropower energy etc. Foreign direct investment in 2012 amounted to EUR727m (almost 9% of GDP). The introduction and implementation of some structural reforms by the Albanian government, has helped to improve the business climate in the country, supporting the ongoing foreign direct investment inflow. Therefore, addressing the handicap by ensuring property rights and the enforcement of law contract will positively influence the international investors' image for Albania.

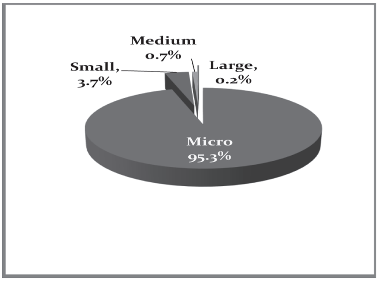
2. DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES AND FAMILY BUSINESSES IN ALBANIA

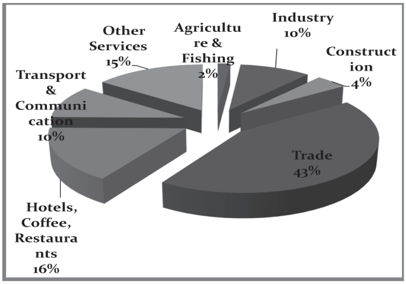
2.1. Current development in SMEs

According to the Albanian legal definition of SMEs, they are small and medium enterprises with less than 250 employees. Details are laid out in law No. 8957, dated 17 October 2002. Although it was modified in 2008, the definition of SME according to number of employees is in line with EU definition, namely: microenterprises have 1-9 employees; small enterprises have 10-49 employees and medium enterprises have 50-249 employees. However, Albania's definition of SMEs according to the turnover differs from the EU definition because it is has been enshrined in the Albanian economy. Microenterprises are defined as businesses generating an annual turnover less than ALL10m (EUR0.08m); small enterprises generate less than ALL50m (EUR0.4m) and medium enterprises generate less than ALL250m (EUR2m). Furthermore, the definition for family business is absent from the Albanian regulatory framework. For practical reasons, family businesses are considered a proxy of the self-employed so long as this self-employed individual employs relatives in their business.

The SME sector contributes greatly to Albanian economic growth and employment. The official data published by INSTAT in 2013 shows that the number of active enterprises at the end of 2012 was close to 104,275.[2] Compared to 2005, this number is almost 72% higher. The number of the enterprises managed by females represents 27.4% of the total. The overall contribution of SMEs is estimated close to 73% of GDP and more than 71% of employment in the economy.

Figure 1: SME-by size **Figure 2: SME-by economic activity :**





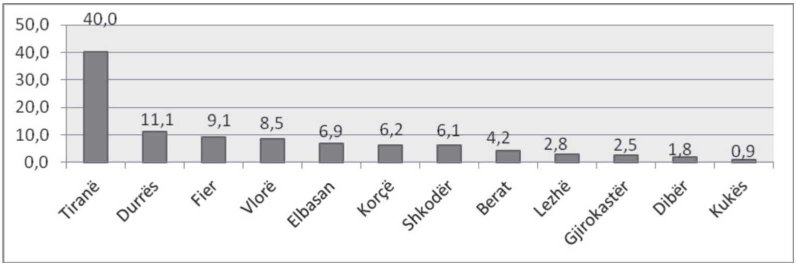
Source: INSTAT, Register of economic enterprises 2012

The active enterprises in 2012 are dominated by microenterprises with 1 to 9 employees, which represent 95.3% of the total number of active enterprises. Small enterprises represent 3.7% of the total active enterprises and medium enterprises represent only 0.7% of the total number of active enterprises. Meanwhile the large enterprises employing more than 250 persons represent only 0.2% of the total number of the active enterprises. The statistics show that 62% of the total active enterprises are self-employed or family businesses.

The distribution of economic activity among the active enterprises in Albania in 2012 is: trade 43.4%, hotels and restaurants 16.2%, transport and communication 9.9%, industry 9.6%, construction 4.3%, agriculture and fishing 1.7% and other services 4.9%. The trade, hotels and restaurants sector is dominated by domestic entrepreneurship. In recent years, this sector shifted slightly towards international trade, especially during summer months of high tourism.

The most developed regions of the country, Tirana and Durres, operate over 50% of active enterprises. A very slight increase in the number of enterprises has been noticed in the prefectures of Elbasan, Diber and Korca. Regional distribution of the active enterprises in the rest of the country did not change from the previous year. Predominance of service producers is a common phenomenon in all the prefectures.

Figure 3: SMEs by region



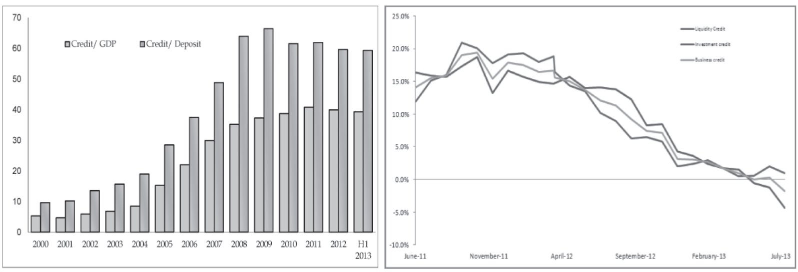
Source: Register of Economic Enterprises - INSTAT 2012

2.1.1. Financial Facilities and Credit

According to the Doing Business World Bank 2012-2013 report, Albania is ranked 23rd in the world for credit facilities, which is considered one of the best performances in the selected criteria of the report.

The banking system is the main actor of the financial sector. Its role as financial intermediation has increased substantially after 2004, when the largest state-owned bank of the system was privatized by Raiffeisen Bank International. From then on, banks have been more involved with the private sector, notably the business sector. Before the beginning of the financial crises, credit activity accelerated considerably by an average of 56% a year due to foreign support of parent banks as well as high domestic demand and GDP growth. After the 2008 crises, credit activity slowed down considerably, averaging 14.5%, initially reflecting the tightening of the lending policy (conservative lending policy dictated by the group policy) and then sluggish domestic demand (Suljoti and Note, 2013).

Figure 4: Financial intermediation and credit development



Source: Bank of Albania

According to the Annual Report of the Bank of Albania (2012), the credit to economy ratio as a percentage to GDP was 41.7%, slightly lower than 2011's figure. The annual growth rate of the credit portfolio to the private sector slowed to 2.4% at the end of 2012, and turned negative in the first half of 2013. Credit portfolio is dominated by credit to businesses and in foreign currency, which represents almost 73% and 61% of the lending portfolio. After the financial crises, lending in domestic currency gained momentum in order to address fund scarcity in the international market and because of higher awareness of exchange rate risk (to unhedged borrowers in particular). The credit to businesses is almost equally disbursed for investment and liquidity purposes. After the crises, the lack of initiative to invest almost put a halt to investment financing. During this period, banks mostly financed for liquidity purposes. After 2011, the main concern of the banking system remains the deterioration of the credit quality and the high ratio of non-performing loans to total loans. Up to the end of 2012 however, the banking system remained profitably well capitalized. Its buoyant liquidity subsequently contributed to the financial stability in Albania.

To improve the financing environment for SMEs, the Albanian government has adapted some measures from other European governments in recent years. These measures culminated in the introduction of credit guarantee schemes for SMEs in Albania.

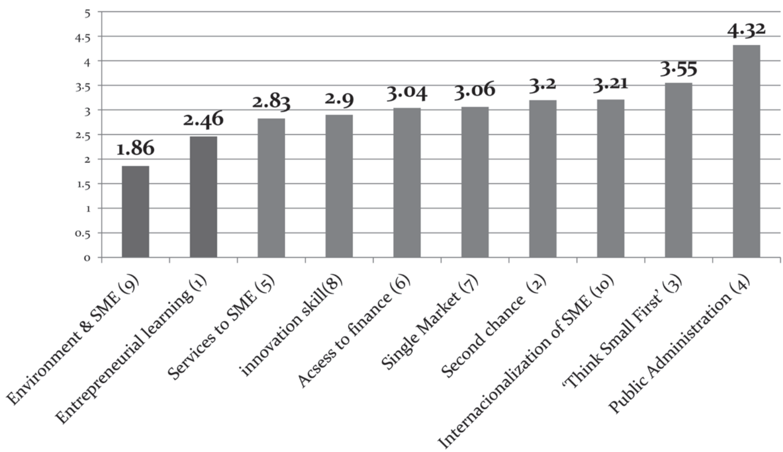
- Implementation of the SMEs credit scheme with the support of the Italian government. From the official launch of the programme in January 2009 to September 2013, credit loans to SMEs amounting to EUR25m funded 79 projects worth EUR17.4m. 10 of these projects were start-ups. During the same period, a guarantee fund of EUR2.5m was available as part of the programme for SME development. This guaranteed bank lending.

- The European Fund for Southeast Europe (EFSE) provided a loan of EUR20m to the National Commercial Bank (NCB). EUR23.8m loans to some 332 clients have been granted so far, providing funds to businesses in many different cities for the purposes of bolstering working capital, inventory and fixed investments assets. The outstanding status for these loans is EUR17.9m, as they have a very satisfactory repayment performance.

2.1.2. Small Business Act for Europe (SBA)

According to the OECD SME Policies Index 2012, which caps at a maximum of 5 points, SME development in Albania is at an estimated 3.01 points. This is only slightly less than the average of the region, which is 3.07 points.

Figure 5: SME policy index for Albania, year 2012



Source: OECD 2012

In accordance with the Small Business Act (SBA),[3] scores are evaluated through 10 performance indicators. Albanian policies during 2007-2011 have been impressive. There are improvements in 6 performance indicators since the 2009 Index of SME policies, especially in the area of business climate policies (such as the registration of companies, licensing of companies, regulatory reform, financing access and promotion of exports). Meanwhile, areas needing improvements are: SME development of human capital and technological capacities, and payment infrastructure of commercial transactions.

2.2. SME contribution to the Albanian economy

According to INSTAT (ASN 2011), SMEs contributes sizeably to total employment in the non-agricultural private sector by employing 81.4% of the working population. They also contribute to 46.8% of the exported value and represent 68.4% of the total value added to the economy. In fact, microenterprises contributed 44.8% to employment in the non-agricultural private sector, 7.7% in exports and 27.2% in value added. Small enterprises contributed 20.0% to employment, 15.4% in exports and 25.6% in value added. Medium enterprises contributed 16.6% to employment, 23.7% in exports and 15.6% in value added.

Table 1: Contribution of SME to economic activity

	Size of enterprises				
	Micro (1-9)	Small (10-49)	Medium (50-249)	Large (250+)	Total
No. of employees	44.8%	20.0%	16.6%	18.6%	100%
Added value	27.2%	25.6%	15.6%	31.6%	100%
Exports	7.7%	15.4%	23.7%	53.2%	100%

Source: INSTAT

3.1. Doing business in Albania

The annual Doing Business report of the World Bank evaluates and ranks countries according to 10 performance indicators, including the speed of registering a business, obtaining construction permits, electricity supply, getting credit, protecting investors, paying taxes, registering property, cross-border trade, enforcing contracts and closing a business.

Starting a business

When entrepreneurs draw up a business plan to start a business, the first difficulty encountered is undertaking the required procedure to incorporate and register the new business before they may legally act. Four procedures have to be followed in order to start a business in Albania. It takes 4 days and will cost approximately 22.1% of income per capita. According to Doing Business 2013, Albania is ranked 62nd, dropping two places from the previous year. However, Albania's 2013 ranking is much better than its 2007 one. In 2007, Albania was in the 121st position.

Obtaining construction permits

Another performance indicator is the time it takes to obtain construction permits. Construction companies are under constant pressure from the government owing to the high frequency of inspections vis-à-vis licensing and safety regulations. Customers also expect them to be quick and cost effective. According to the Doing Business reports of 2013 and 2012, there are no practical means of obtaining building permits in Albania. The country thus ranks 185th in this area, making this its worst evaluated performance indicator.

Power energy supply

Power supply is a new performance indicator included in the Doing Business 2012 report. It is vital for businesses to have safe and affordable electricity. When there is no constant power supply, many firms in developing economies have to rely on self-supply, often at a very high cost. According to Doing Business 2013, Albania ranks in the 154th position in power supply as it requires 6 procedures, takes 177 days to enact and costs 537.7% of income per capita.

Property right

A market economy can only function properly when formal property rights are ensured. This entails the effective administration of land. If formal property transfer is too costly or complicated, formal titles can become informal again. In the overall property registration, Albania is ranked 121st, dropping two places from the 2012 report. This is also a significant decline from its standing in the 2007 report where it was ranked 76th. According to Doing Business 2013, registering a property in Albania requires 6 procedures, takes 33 days and costs 11.4% of property value.

Access to finance

According to the "access to finance" performance indicator, Doing Business 2013 ranks Albania 23rd. Albania holds the same place in this area as it did the previous year.

Protection of Investors

Strong investor protection is an important factor vis-à-vis the capability of companies, as it enables them to increase the required capital and be more competitive. According to Doing Business 2013, Albania ranks 17th in the protection of investors and money, and ranks first among the West Balkans countries in this field. Albania measures 7.3 in the Investment Protection Index, significantly better than its performance in the same index in 2007 where it was only 2.7. Albania's improvement is indicative of the successful reforms it implemented in 2008. Of these, the law on commercial companies is almost in full compliance with the EC directives and ensures better protection of minority shareholders' rights.

Tax payment

Taxes are necessary in order for governments to provide the public goods, infrastructure and services crucial to a well functioning market economy. Albania has taken steps backwards in the field of tax payment. According to Doing Business 2013, Albania ranks 160th in tax payment, dropping five places from 2012. This is because there are 44 different taxes that will take 357 hours to file and tax burden is 38.7% of total profit.

External trade

Cross border trade between countries is becoming more and more important nowadays. Excessive red tape, too many documents, burdensome customs procedures, inefficient port operations and inadequate infrastructure lead to additional costs and delays for exporters and importers. According to Doing Business 2013, Albania ranks 79th in facilities in the foreign trade, dropping one position from 2012. When compared to the Doing Business 2007 report where Albania was ranked 101st, Albania has improved. In 2012, time and cost to export from and import to Albania were reduced. Exports in Albania require 7 documents, take 19 days and are at a cost of USD745/container. Imports require 8 documents, take 18 days and will cost USD730/container.

Contracts enforcing

Albania ranked 85th in enforcing contracts in both the 2012 and 2013 Doing Business reports. This is an improvement from its standing in the 2007 report where it ranked 99th. Enforcing contracts requires 390 procedures, takes 35.7 days and costs 39% of the expected profit.

Closing a business

Of particular importance are the procedures and timing of closing a business or liquidation. According to Doing Business 2013, Albania is ranked 66th, down by one place from 2012. However, this is a significant improvement from its placement in the 2008 report where it ranked 181st. Reforms made during 2006-2007 with the establishment of the National Business Registration as a one stop shop for business registration, made it possible not only to reduce the time it would take to register a business, but also reduce the time for cancelling or liquidating a business. On average, it takes 2 years to close a business. Closure of business is at a cost of about 10% of the property and provides a return coefficient of 39.7% USD invested.

3.2. Albania's ranking versus that of other countries in the Western Balkans

Macedonia is ranked first among the countries of Western Balkans in the 21st position, having made a significant improvement (by 69 places) from its standing in 2007. Furthermore, Macedonia ranks first in the Western Balkan region for the following specific performance indicators: starting a business (5), licensing in construction (65), access to finance (23) and payment of taxes (24). For more details, refer to table 2.

Table 2: Ranking of the Western Balkans countries according to the 10 performance indicators in Doing Business 2013

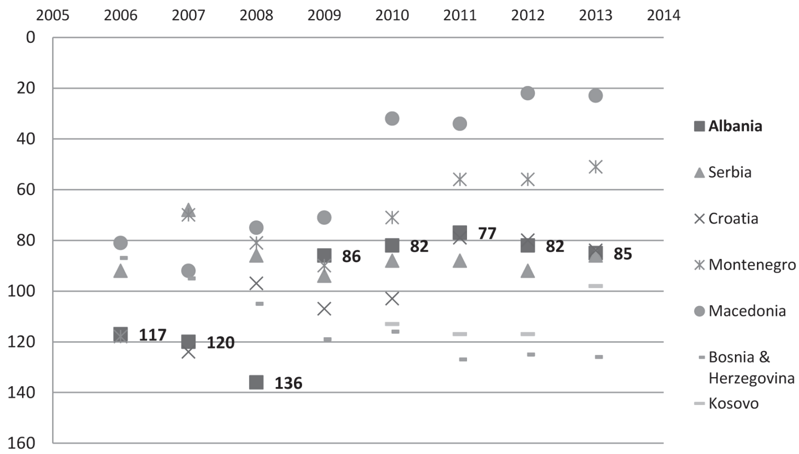
	Ease of Doing Business	Starting a business	Dealing with licenses	Getting Electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a Business
Macedonia	23	5	65	101	50	23	19	24	76	59	60
Montenegro	51	58	176	69	117	4	32	81	42	135	44
Croatia	84	80	143	56	104	40	139	42	105	52	97
Albania	85	62	185	154	121	23	17	160	79	85	66
Serbia	86	42	179	76	41	40	82	149	94	103	103
Kosovo	98	126	144	116	76	23	100	44	124	138	87
Bosnia Herzegovina	126	162	163	158	93	70	100	128	103	120	83

Source: Doing Business 2013, World Bank.

Montenegro is ranked 51st and second in the Western Balkans. Montenegro is ranked first in the region in obtaining credit (4), cross-border trade (42) and closing of business (44).

Croatia is in 84th position and third in the Western Balkans. It ranks first in the Western Balkans in power supply (56) and enforcing contracts (52).

Figure 6: Ranking of Western Balkans countries according to Doing Business (2006-2013)



Source: Doing Business 2006-2013 and authors' calculations

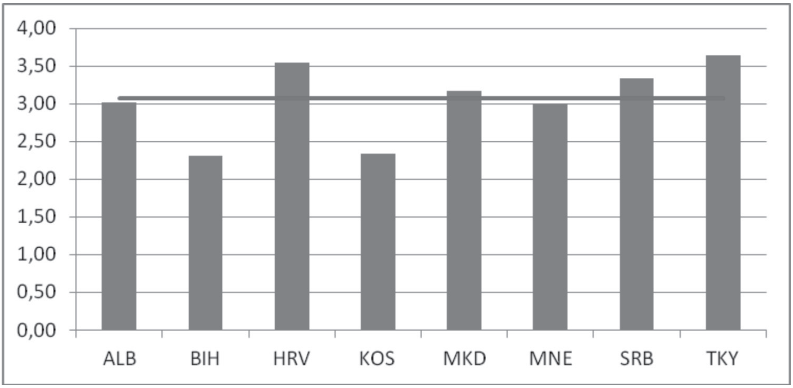
Albania is ranked 85th and fourth in the Western Balkans. It ranked first in the region in investor protection (17) and access to finance (23). But it appears weak in the field of construction licenses, in which it ranked last in the overall standings and in the Western Balkans. It is also weak in the payment of taxes (160) and registering property (121). Albania was in the penultimate position for power supply (154).

Kosovo and Bosnia & Herzegovina ranked last in the region in most of the performance indicators used by Doing Business.

3.3. Comparative analysis of Albania's performance in the 2009 and 2012 SME Policy Indices

According to the 2012 SME Policy Index, published by OECD in 2013, Albania achieved approximately 3.01 points. This is quite an achievement, given that the maximum for best practice level is 5 points. At 3.01 points, Albania ranks slightly lower than the regional average of 3.07. This is an improvement of 0.24 points from Albania's performance in the 2009 SME Policy Index where it scored 2.86. Closer study of the Albania's standing in the 10 performance indicators reveals that it improved in 6 areas. Conversely, Albania deteriorated in access to finance, and in commercial transactions and payments.

Figure 7: SME Policy Index 2012 – Albania, Turkey and the other Western Balkans countries



Source: OECD 2012 and authors' calculations

Albania's developments in the 10 performance indicators of the Small Business Act (SBA) for Europe are analyzed in detail below:

1. Entrepreneurial learning and women's entrepreneurship.
According the SME Policy Performance 2009 report, Albania scored almost 2.25 in this field. In 2012, Albania improved its score to 2.46.

2. Bankruptcy and second chances for SMEs.
This performance indicator was newly used to assess Albania in 2012. In this area, Albania scored 3.2.

3. Regulatory framework for SME policy-making
In 2009, Albania scored an estimated 3.5 points. Its score for this performance indicator remained almost unchanged in the SME Policy Index 2012 report at 3.55 points.

4. Operational environment for SMEs
Albania is at nearly 4.5 points because of its low cost start-up within a

minimal time frame in 2009. It continued to hold the same rating for company registration in the 2012 SME Policy Index. Meanwhile, Albania's score in e-governance was 3 in 2009. It improved its score to 3.3 in 2012.

The improvements Albania has made since 2009 reflects the Albanian government's dedication to reducing administrative barriers vis-à-vis starting up a business. Some government reforms making it easier for business start-ups in Albania include:

- The establishment of the National Registration Center (NRC) as a one stop shop for people desirous of setting up a business. Since the NRC opened in September 2007, business registration can be done in one day and at a minimum cost of 100 ALL (less than EUR 1).

- The establishment of the National Licensing Center (NLC) as a one stop shop. NLC works on the principle that silence indicates consent. Licenses in group I and II are given by the NLC within 2-4 days. Licenses in group III will be granted within 10-30 days, after some follow-up from the related government ministries.

5. Support services for SMEs and start-ups
In SME Policy Index 2009, Albania scored 2.5 points for successful business models. In SME Policy Index 2012, Albania improved its score in this area to 2.8 points.

6. Access to finance for SMEs
This performance indicator measures SMEs' access to finance and determines whether the legal and business environments are conducive to timely payments in commercial transactions. Albania had 3.5 points in this performance indicator in 2009. In 2012, Albania dropped to 3.0.

7. Supporting SMEs so that they benefit from the opportunities offered by the EU Single Market.
In 2012, Albania scored 3.06 points. This is an improvement of its score of 2.75 in the 2009 SME Policy Index. However, it should be noted that the 2012 evaluation sub-indicators for this dimension differ from those of 2009.

8. Promoting skill improvement and innovation.
In the 2009 SME Policy Index, Albania scored 2.0 in this performance in-

dicator. In the 2012 SME Policy Index, Albania improved significantly with a score of 3.3.

9. Making it possible for SMEs to turn environmental challenges into opportunities.
Albania was evaluated by this new performance indicator for the first time in the 2012 SME Policy Index. It obtained approximately 1.86 points for this performance indicator.

FAMILY BUSINESS PORTRAITS

Vila Borsh - guest houses on the beach (Case 1)

Vila Borsh is one of the newest hotels at the beautiful stretch of beach in Borsh, south of Albania. It began construction in 2010 and has been open to the public since 2012. Vila Borsh is a hotel where customers can rent a one-room apartment, a one bedroom apartment, or a two bedroom apartment. It offers comfortable accommodation for families in summer. These apartments are equipped with cooking facilities to ensure that visitors have a pleasant holiday. It is owned by Koco Cito, an Albanian immigrant to Austria. During his time in Austria, Cito, his wife and two sons adapted to the Austrian way of life. His eldest son majored in information technology and has a master's degree from America. In early 2000, Cito and his wife came to Borsh with their life savings and bought a house and some land from an old couple in the vicinity. During the global financial crises, Cito and his family faced considerable difficulties in finding jobs in Austria. As a result, they returned to Albania and invested in the property they bought years ago. After two years of hard work and dealing with the Albanian real estate market machinery, Cito constructed his hotel guest houses and furnished them with modern amenities. His experiences in Austria and his wife's prior knowledge of the service industry meant that they were able to ensure only the best for the hotel guest houses.

Although Vila Borsh opened in the summer of 2012, it was a difficult time for Cito. It was not enough for him to provide families with beautiful guest houses for their vacation; he also wanted to develop the infrastructure of the surrounding beach. Naysayers poured scorn on Cito's plans because the stretch of beach on which his hotel guest houses stand was then an underdeveloped tourist area. However, Cito's optimism and hard work paid off. He and his family worked together to advertise Vila Borsh as a summer resort where people can enjoy nature, the beach and the many facilities on offer. With the help of his eldest son, Vila Borsh came to have a webpage (www.vilaborsh.com) detailing all the facilities of the hotel guest houses and the surrounding environs. Photographs were included and information is available in three languages, along with the choice for potential customers to book a holiday at Vila Borsh online. In 2013, their hard work was rewarded and many families from Albania and other European countries stayed at Vila Borsh for the summer. This success enabled the Cito family to repay some of the loan they had taken from Austria and their Albanian friends. At present, they are working to improve the amenities at the villa and are cooperating with a restaurant opened by a Greek emigrant so as to provide more facilities to vacationers. They have also continued their advertisements and promotion of Vila Borsh through the Google search engine and social networks. Through these means, Cito has collated many photographs and opinions of persons who have stayed at Vila Borsh. These comments and pictures are very detailed and would prove useful to potential visitors. Cito aims to not only promote Vila Borsh, but to ensure that previous vacationers will return.

Wintergarten - a bistro close to the centre of Tirana (Case 2)

Wintergarten is a pleasant bistro situated close to the centre of Tirana. It was established in 2000, and is a small restaurant serving authentic German cuisine. Its owner is Tatjana Karcanaj. The site of Wintergarten used to be an ethnic supermarket ravaged by high humidity and poor maintenance. Wintergarten is the brainchild of a well-educated couple and their son, who returned to Albania in 2000 after working in a guest house in Germany for 8 years. The son returned with his wife, a German citizen with a degree in gastronomy. Their knowledge of running a restaurant, coupled with their parents' canny ability to seek out opportunities in the Albania market, heralded success for this bistro. This family dipped into their savings and took out a USD5,000 loan from a non-banking financial institution so as to start Wintergarten. Owing to the high interest rate, they had to be very careful with their finances. In 2003, the second son of the family joined them in the business. Collectively, the family oversees not only the management of the restaurant, but the cooking and introduction of traditional dishes from Germany, Austria and Italy as well. Their knowledge of traditional German cuisine and local Albanian tastes has helped this business family to adapt to special needs of their clients. It also placed them in good stead to offer specific traditional dishes. The existence of a core stable clientele is a good indicator that Wintergarten has managed to successfully compete in the market.

Business has been successful and is continuing to grow. At the moment, they have 13 employees who are well-paid and undergoing continuous training to enhance the specific products and services offered by the restaurant. With visa liberalization, their turnover reduced. This was because of the reduced number of people coming to the ethnic neighbourhood in which the restaurant is situated. They are currently struggling with their clientele's unwillingness to spend too much when dining out, doubtlessly because of the global financial crises. As both sons are well-trained and knowledgeable in information technology, they actively advertised the restaurant and its specialities on websites or social networks. As a small business, they do not have government protection and lack specific strategies to help them with their struggles against increased competition.

Flutura & Sons - Private institute of translation (Case 3)

Flutura & Sons is one of Albania's first professional translation company. It was established in 1992. The owner of this foundation, Mrs. Flutura Xhabija, was a French lecturer at the University of Tirana. When the regime changed, she became unemployed. To earn her bread, she took a writing machine with her to the law courts and offered to translate from French, Italian, English and Russian to any interested party. After some initial struggle to find clients within the first few months, she managed to rent a small room in a traditional Tirana house from which she offered all services related to translation, such as photocopying, scanning, faxing etc. She started her business with limited funds because she had very little savings. After 3 years, she received her first loan of DM6,000 from a German bank that worked with microenterprises. Due to high interest rates, she repaid the loan quickly and took another from a microfinance institution. She repeatedly invested in state-of-the-art high tech equipment so as to deliver the latest and most modern service to her clients. Eventually, her son and daughter started working with her. They have degrees in jurisprudence and foreign languages. Their talents and qualifications have brought new value to the institute. They have expanded their business activities in recent years and they continue to provide new services upon receipt of financial support from banks.

Flutura & Sons have a reputation for professionalism, fulfilling every request and completing projects on time. At the moment, Flutura, her son and her daughter-in-law are in charge of the institute. When there is a lot of additional work to be done, her daughter works as a part-time employee. She has 10 employees and now provided the institute with the capacity of taking on foreign language students as interns. Flutura's entrepreneurial experience has taught her the importance of persistence, self-confidence and looking ahead. However, she has trouble finding new clients in recent years owing to increased competitiveness. Her son is looking for new ways of promoting the institute by bolstering the institute's services. He plans to use the internet and social networks more intensively so as to highlight to the true value of Flutura & Sons.

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3.2. FAMILY BUSINESSES IN ARMENIA

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Like the majority of BSEC member countries, there are no policies directly targeting family businesses in Armenia. This is especially upsetting, since the overwhelming majority of small and medium businesses (SMEs) in Armenia are family businesses with specific challenges and limitations to their development. However, things look set to change at the moment because support to SMEs is now considered a priority in Armenia.

Studies on family businesses aim to create dialogue with the decision makers and bring family businesses to their attention. It is expected that dialogue with decision makers will lead to policies targeting the development of family businesses (FBs).

Since Armenia does not have a formally accepted definition of family business and does not maintain its statistical registry, figures and findings in this paper represent the opinions of experts. They are mostly derived from SME-related studies, as well as extensive experience and observations from developing SME policy implementation schemes at the state-supported and international levels.

The main findings of these SME studies may be summarized below:

1. Family businesses are characterized by business-specific advantages/strengths, weaknesses, opportunities and challenges.
2. Policies in support of FBs and FB development programmes should be examined within the larger SME context.
3. Economic legislations should contribute to increased FB efficiency and promote the number of family businesses.
4. Decision makers should be in constant contact with the entities representing FB interests, including the public sector.
5. The public should spare no effort in enhancing the image of the family businesses.

HISTORY OF FAMILY BUSINESSES IN ARMENIA

Armenian families have a strong tradition of transmitting the skills of the familial trade from generation to generation. Some Armenian families are known around the world as doctors, goldsmiths or lawyers. This is because of strong family ties and the family's reliance on one another. In turn, this proves that the family is the prerequisite factor for a successful family business. Before the Soviet era, several well known family businesses operated both within and without Armenia.

During the 75 years of Soviet rule, private businesses, including family businesses, were non-existent.
The only exception can be traced back to the introduction of Perestroika, where private ownership was allowed in some industries. During this time, Cekhaviks or small production owners emerged. Most of these small production owners eventually consolidated family businesses.

The third Armenian Republic (1992) has been supporting and promoting the private sector since the country's independence.

Legal foundation for the engagement in private enterprises was established almost immediately in 1992, when agricultural land was privatized. This led to the emergence of privately owned farms. Every citizen of legal age received his/her share of agricultural land. As a rule, rural families in Armenia consisted of 3-4 adults and their land slots were pulled together and farmed jointly by the family. It was during this period that private family farms were formed.

Vouchers were used in 1993-1997 to privatize stores, small productions or service entities. In this case, business ownership was granted to the employees of that particular institution rather than family members. For example, an institution occupying 250 square metres was privatized equally among 15 employees.

Thus, the legacy of family business in Armenia is limited to the last 15-20 years because small and medium-sized family businesses only emerged then. In recent years, however, they have begun to play a significant role in the country's economy.

1. Definition of family businesses in Armenia

There is no officially accepted legal definition of family business in Armenia. The only legislative regulations connected with family members are related to company registration and taxation. The reason for this lies in the absence of state level policies addressing family businesses.

The definitions of a family business used by different organizations include the following components:
- A family business is an economic unit that functions commercially with the intention of making a profit;
- Majority ownership of the enterprise rests with a member or members of one family;
- Management of the enterprise is exercised in whole or in part by a member or members of a single family;
- The strategies of the enterprise are determined in whole or in part by a member or members of a single family.

The most common definition of family businesses used by different organizations performing family business support programmes are:

A family business is a business which is actively owned and/or managed by more than one member of the same family.

According to expert estimates, 80-85% of the SMEs are family businesses.

SMEs are defined under the Republic of Armenia Law on State Support of Small and Medium Entrepreneurship. According to that Law:

- Micro-business
  Average number of annually employed – not more than 10 persons
  Revenue from operations of the previous year - not more than AMD 100m (USD250,000).
- Small Business
  Average number of annually employed – not more than 50 persons
  Revenue from operations of the previous year - not more than AMD 500m (USD 1,250,000)
- Medium Business
  Average number of annually employed – not more than 250 persons

Revenue from operations of the previous year – not more than AMD 1,500m (USD 3,750,000)

Thus, the majority of registered and operational businesses are family businesses. Also, the policies applied to SMEs are relevant to micro, small and medium-sized family businesses.

Importance of family businesses in Armenia's national economy

Since Armenia does not have a formally accepted definition of family business, there is no statistical registry system. However, our observations indicate:

- 80-85% of registered local companies are family businesses with sustainable development.
- Most family businesses work more effectively than other companies.
- Family businesses are a good and necessary prerequisite for the formation of a middle class.
- Almost 90% of family businesses solve social problems in the country, providing jobs for family members.

Number of enterprises in Armenia	161,492
number from the total that are family businesses	Approximately 130,000 (80%)
number from the total that are SMEs	158,260
number from the total that are individuals, i.e. solo proprietors acting as FB	95,520
Number of employees	1,138,000
number from the total that are in private sector (business)	1,010,000
number from the total that are in FB	Approximately 750,000
number from the total that are is SMEs only	423,000
number from the total that are individuals - solo proprietors acting as FB	Approximately 85% - 81,200
Share of contribution of the SME to GDP in %	43%
Share of contribution of the SME FB to GDP in %	Approximately – 38.4%

Characteristics and unique qualities of family businesses

Human capital: Family members possess additional knowledge and skills which could serve business interests.

Social capital: Family members bring valuable social capital to the business in the form of networking and other external relationships.

Financial Capital: The family business typically has financial capital in the form of both equity and debt financing from family members.

Survivability capital: Family businesses are managed by their survivability capital and family members' willingness to provide free labour or emergency loans.

Lower costs of governance: The family business manages its ability to hold down the costs of governance. In non-family firms, these include such costs as special accounting systems, security systems, policy manuals, legal documents and other mechanisms aimed at reducing theft and monitoring employees' work habits. The family firm can minimize or eliminate these costs because employees and managers are related and they trust each other.

Clearly delineating these unique family resources and leveraging them into a well coordinated management strategy greatly improves a family business's chances of success compared to non-family-owned companies.

Institutional actors, support policies and initiatives. Are Governments supporting family firms?

Family businesses endorse SME support programmes.
To bring family business support systems into the SME support structure, policy making and policy implementation measures have to be taken.

POLICY MAKING LEVEL			
	DIRECTION	MAIN STRUCTURES	ATTENDANT STRUCTURES
1	Environment, Lobbying, and Dialogue	National SME Council	International Organizations and Banks
		Ministry of Economy	Local and regional governments
		Chamber of Commerce and Industry	Business Associations
2	Accessible Business Services	Ministry of Economy	International organizations
3	Accessible Finance	Ministry of Economy	Central Bank of Armenia Banks International Financial Institutions (IFIs)
4	Accessible Education	Ministry of Education	Local Governances

The National SME Council is the core structure created for improving the SME environment. It is led by the Prime Minister of the Republic of Armenia and is made up of experts from international organizations and representatives from various enterprise associations.

The Ministry of Economy of the Republic of Armenia has the lead role in elaborating state policy on SME development. It is responsible for developing policies and evaluating the effectiveness of programmes based on the policies.

The Ministry of Education and Science: While the importance of business education is already on the agenda, further capacity building is needed before it may be implemented on different levels.

POLICY IMPLIMENTATION			
	DIRECTION	MAIN STRUCTURE	ATTENDANT STRUCTURES
1	Accessible Business Services	1) SME DNC of Armenia	2) Accredited mentors, 3) Business centres and associations
2	Accessible Finance	• SME Investments Universal Credit Organization	• Branches of Banks, • Universal Credit
3	Accessible Education	• Universities • Colleges	4) Accredited mentors, 5) Business centres and associations

SME Development National Center of Armenia (SME DNC of Armenia) is governed by a Board of Trustees and headed by the Minister of Economy. SME DNC carries out its activities through a well developed network of regional branches. It has representative offices in all regions of Armenia and is coordinated by the central office in Yerevan.

The activities of the SME Development National Center of Armenia target:

- Increasing efficiency and competitiveness of SMEs
- Ensuring availability of business development services for SMEs
- Expanding the financial opportunities for SMEs
- Promoting innovations and R&D activities of SMEs
- Assisting in the establishment of new SMEs
- Supporting the internationalization of SMEs' activities.

SME Investments Universal Credit Organization closed joint-stock company (CJSC) was established in 2009 to support SME enterprise development. The main function of SME Investments is to finance SMEs' functions in priority directions of the economy. SME DNC of Armenia is the only shareholder of SME Investments.

The purpose of the organization is to support small and medium-sized business development and consolidate Armenia's economy. In so doing, SME Investments aims to be a reliable and trustworthy partner for small and medium-sized entrepreneurs. It seeks to maintain and foster the good opinion of present customers, while making the crediting process easy and straightforward for potential customers.

Organizations in Armenia directly supporting enterprises include:

- The branches of SME DNC;
- The regional chambers;
- The business centres;
- Non-governmental organizations, unions, and associations;
- Crafts colleges;

- Universities;
- Branches of banks and universal credit organizations; and
- Accredited mentors

1. Challenges of succession

- There is no special support policy for family businesses. Given that the majority of small and medium enterprises are family-run businesses and their regulation requires a unique approach, this is very disappointing.
- Projects supporting family businesses are carried out within Small and Medium Business Development Programmes as special projects and initiatives. Oftentimes, they are superficial and lack in-depth understanding of and research on the issues of family businesses.
- Family members involved in the management of the firm do not always have the necessary knowledge and skills to manage the business. This can take the form of lack of know-how, skills and experience in management, as well as lack of competence in the specific business areas such as tourism, small production units, services, or others.
- Most newly established family businesses are start-ups. They face all the challenges of start-up businesses, such as lack of knowledge and skills, insurmountable red tape, lack of access to financing and business services, and others.
- Separation of the family often leads to the destruction of the family business. Although we emphasize the fortitude of Armenian families, the percentage of divorces has increased significantly in recent times. This reality has had a negative impact on the efficiency of family businesses, sometimes going so far as to challenge their mere existence and causing their liquidation.
- As a rule, family businesses founded by the first generation are more stable than those managed by the second or third generations. This is because the younger generation often have very little interest in the business activity undertaken by their grandparents and parents.

2. Suggestions for Governments and Civil Society vis-à-vis the recognition and support of family businesses

First and foremost, family businesses have to be clearly defined by the law. Thus, a registry must be started so as to register them. The specific features of FBs should be taken into account when micro, small and medium business support projects are developed. The following components should be incorporated:

- Education: Short term specialized training in tourism, the restaurant business, food processing, trade, IT, new technologies and other areas.
- Business trainings: Management, communication, marketing, business relations, accounting and tax reporting.
- Business consulting: Financial and human resources management, accounting and taxes.
- Financing: Preferential loans, loan guarantees.
- Networking: Business relations, cooperation, value chain development projects.
- And last but not the least, efforts to improve the image of family businesses.

CONCLUSION

Family is the key foundation for stability in any society. Sound families are an important precondition for a successful family business and vice versa. In societies where families are strong, sound family businesses thrive. When sound family businesses thrive, these enterprises have more chances to succeed.

Family businesses, more specifically small and medium-sized family businesses, need support. Larger family businesses are less in need of support because they are established enterprises and have many opportunities available to them. Many of them hold a monopolistic position in Armenia and are able to dictate their conditions in the market. These businesses do not need support and are able to overcome their issues independently.

National or state-level policy support should be extended only to businesses that will boost the country's economical performance. Small and medium entrepreneurial endeavours in Armenia, as well as small businesses in information technology, tourism and so on fall under this category.

Stable family businesses enhance the country and strengthen the societal building block known as the family. Well-grounded, financially stable families are one of the foundations on which a middle class is formed.

FAMILY BUSINESS PORTRAITS

Gourmet Dourme Chocolate Production (Case 1)

Gourmet Dourme (http://gd.am/) is a brand of chocolate founded in Armenia by two brothers, Pierre and Diran Bagdadian. This Austro-Armenian maison du chocolat produces high quality chocolate in exceptional boxes. The chocolates are mainly produced and packed by hand with much care and attention. The word "Gourmet" means epicure in French, while the word "Dourm" means chocolate in Armenian. Other than its own collection, Gourmet Dourme also creates special chocolate models for companies.

Pierre and Diran Bagdadian returned to Armenia in 2005. They had spent some years in Lebanon, where they had a successful packaging business. On their return, it took them two years to decide to set up shop in Armenia. In 2007, they established their family business in Ashtarak, a small town not far from the capital, Yerevan. Their father's words guided their business from the very start. He said "two brothers, one business, one pocket". According to their father, money is not that important; it is more important to implement an excellent idea, have the same mindset and show kindness through work. From the very beginning, these guiding principles became the foundation block of P&D Group Ltd that represented the Gourmet Dourme brand. The Bagdadian brothers are the founders and only owners of the business. They are also in charge of managing the business. Pierre is responsible for logistics and financial management, while Diran is in charge of marketing and coordinating the boutiques. Their children, who are still small, have already expressed their interest in the family business.

In 2007, Gourmet Dourme began with seven types of high quality handmade chocolate. Five years later, the assortment of chocolate on offer grew to 170 and they became the supplier of chocolates to the Armenian President. They have two boutiques in Armenia and a duty free shop at Zvartnots International Airport.

Gourmet Dourme is an excellent example of a family business. During the five years they have been in operation, they were able to create a well known brand in Armenia and consolidate their position in the market. Their business success may be also due to the fact that they introduce a new product to the market every two months. The company intends to export of their chocolates to Russia and Europe in the future.

Alvina Melikyan Sole Proprietorship (Case 2)
Alvina Melikyan lives in Myasnikyan. Along with her husband and son, she set up her own business of semi-manufactured food production and delivery in 2006. This growing family business now produces, packs and delivers lunches and dinners to different organizations. As professional development and continued training of family members involved in the business are considered very important by the owners, they actively participate in various programmes for micro and small businesses. These programmes have benefited them immensely. Alvina's husband, Khachatur Vardanyan is presently the strategy developer and financial manager of the business, while Alvina's son, Ara Avetisyan is a manager. Alvina's grandchildren, Sargis and Khachatur Avetisyan, are distributors. There are also five non-family members employed in the business.

Alvina and Khachatur believe their success is attributable to the solidarity, serious and responsible attitude of their family members towards their business. Over the past 4 years, total turnover has increased more than tenfold and profitability has increased by more than four times.

Due to the high quality of products distributed as well as the accuracy and honesty of the owners, several large companies including Zvartnots International Airport and Tierras de Armenia have established long-term partnerships with Alvina's business. The company plans to establish a refrigeration unit soon so as to ensure the supply of fresh vegetables and fruits to their clients throughout the year.

3.3. FAMILY BUSINESSES IN AZERBAIJAN

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THE SITUATION

Academicians and politicians both agree that family businesses will not strengthen and develop unless there are policies specifically targeting them. Despite this consensus, there is widespread dissatisfaction with the formulation, implementation and realization of policies related to family businesses in CIS economies.[1]

Business policies in Azerbaijan today, including those pertaining to small and medium enterprises (SME), do not overtly focus on family businesses. It seems as though the issue of family businesses has not gained sufficient momentum to warrant significant investigations and discussions. Indeed, there are no publications or studies delving into family businesses. There are also no official definitions of terms like "family business," "family entrepreneurship," "family enterprise," "family ownership," "family governance," "family management" and "family control". There are no reliable definitions through which family businesses (FBs) may be differentiated from non-family businesses (NFBs).

There are also no special local legislations for family businesses pertaining to the market economy and entrepreneurship. Discussions on FBs do not feature in the universities or other institutions specializing in business management.

REASONS WHY THERE HAS TO BE RESEARCH IN FB

Although family businesses are lauded as the "driving force of the American economy," Azerbaijani academicians, politicians and the local bureaucracy continue to have a limited understanding of them. Perhaps this is due to the fact that family businesses in Azerbaijan are not the main driving force of the local economy. This is so much so that there are no references to FBs in official Azerbaijani statistics on entrepreneurship and taxes. In contrast, there is a great deal of information about FB in other parts of the world. For instance, we know from other international studies that FB in the US form 90% of legal entities, 80% in Spain, 95% in Italy, 85% in Switzerland and 95% in Turkey. Cursory attempts to empirically assess FB in Azerbaijan involve hypothesis and analysis of circumstantial statistics. Although the direct data on Azerbaijan FBs is rather limited (or absent), this sector is an important part of the country's economy. Due to lack of research, the role of FBs in the Azerbaijani economy cannot be satisfactorily answered at the moment.

Two questions should first be addressed before any research can take place. How many businesses in Azerbaijan are FBs? How many local families are business families (BF)? It is important to calculate the number of family enterprises in the country because family values constitute a big part of the way they do business. This in turn affects how the family owns, governs, manages and conducts its business. According to the OECD's official assessment of SMEs in Azerbaijan, they account for 15% of GDP and 25% of employment. These figures differ radically from local researchers'. According to the 2011 report published by the State Statistical Committee of the Azerbaijan Republic, there are over 14,000 entrepreneurial entities and over 210,000 individual businesses in the country.

There is sufficient evidence to suppose that the overwhelming majority of businesses in the country are SMEs and FBs. Evidence also indicates that an overwhelming majority of large enterprises in the Azerbaijan's private sector are FBs. Since many large enterprises in Azerbaijan's private sector are FBs, they do not need to depend on the state for help in exerting their direct and indirect influence in the economy. To identify small FBs and microenterprises in need of state assistance, clear official delineation is needed to differentiate between formal and informal as well as real and shadow family businesses.

A BRIEF HISTORICAL LOOK AT FB

Family businesses have been thriving in the post-Soviet era. This is because these family businesses enable enterprise owners to have private property that they can strengthen and grow.

In the Soviet era, particularly in the 1960s, "roofing" (krishovaniya) was a way of allowing certain businesses to exist. In the post-Soviet years, "roofing" became an important economic phenomenon geared towards the transformation of the economic system. This is so much so that "roofing" is now understood to have two effects. Firstly, it is conducive to strengthening business entities, as it draws on external stimuli and adapts accordingly. Secondly, it detrimentally affects the institutional mechanisms of market economy.

HOW MANY LOCAL FAMILIES ARE BF?

It is vital to know the number of business families in Azerbaijan because a family's business activities can impact the mindsets of the family members. Simply put, the family values of a BF are affected by the degree to which a family enterprise is successful. These values can be selfish and mercenary on the one hand, and generous and understanding on the other.

The family values of business families differ depending on their primary enterprises, their location and their way of life. Also, the size of a family enterprise impacts the family. For example, the rural way of life exerts strong influence on family-run farming businesses in the Azerbaijan countryside. When a family unit is at the heart of FB, the business family's way of life eventually becomes part of the way in which the business functions. This is not unique to the modern Azerbaijan small family business, for the notion of the country gentleman and his family involved in agricultural businesses has been entrenched in Azerbaijan's history since the Middle Ages.

LACK OF A CLEAR-CUT DEFINITION OF FB

There is no concrete definition of FB in Azerbaijan because the government does not know which Western country's established definitions it should adapt to its local context. In Azerbaijan, family businesses are more than enterprises owned by family units, for they also entail the family's ability to govern, manage and control a business. Moreover, most politicians, researchers and entrepreneurs still cleave to the old Soviet understanding of FB, which is no longer applicable in the present-day. There is also insufficient research on current family enterprises in Azerbaijan to form a conclusive definition of the term. The lack of research is further hampered by local researchers' unwillingness to do anything more than utilize a definition laid down by other developed countries. Any definition for FB in Azerbaijan should work towards consolidating the standing and growth of family enterprises.

In my analysis, FB in Azerbaijan have the following characteristics:

1. one or several families hold a significant part of the capital;
2. family members retain significant control over the company, i.e. they decide on the distribution of capital and have voting rights where non-family shareholders do not;
3. family members hold top management positions.[2]

FACTORS CONTRIBUTING TO START-UPS AND FIRST GENERATION FB

Changing socio-cultural situations, political regimes, economic policies, taxation and other regulations have affected both the activities as well as organizational and management styles of FBs in Azerbaijan. These factors, along with historical events, population growth and families' traditional way of life, are responsible of shaping the modern Azerbaijani family business.

The positive changes in the business climate and private sector wrought by post-socialist institutional mechanisms of market economy and laissez-faire economics have also shaped FBs in the country.

FBs in Azerbaijan also face many challenges such as adapting to the emerging market economy, learning how to form good state-entrepreneur relationships, overcoming regulatory burdens and the influence of strong political figures, and obtaining financial support.

RELATIONSHIP BETWEEN SMEs AND FBs

Both SMEs and family businesses are concerned with the growth of their enterprises. They both have to come up with strategies and new entrepreneurial activities to remain relevant in the market economy. They also face the same challenges in developing their businesses.

However, their responses to external stimuli may differ depending on their company's mission, values and vision for the future.

OBSTACLES FACED BY START-UPS AND FIRST GENERATION FB

There are many cultural, national, institutional, political, social, ethical and management obstacles impacting start-up family businesses. These hindrances could also affect the business activities of family units. My SWOT analysis of family businesses in Azerbaijan demonstrates this.

SWOT ANALYSIS OF FAMILY BUSINESSES IN AZERBAIJAN

STRENGTHS	WEAKNESSES
1) The confidential relationship between members of family promotes accelerated business decisions, particularly in the start-up stage. 1. Confidential relationship between family members contributes to increased transparency within the business environment. 2. The family environment is conducive to discussions and decision-making. This could lead to reduced business costs. 3. The family environment also promotes increase risk capacity of the entrepreneurial structure. 4. Because the company works as a family, creditors will find it easier to do business with it. • Familial relationships within the company boosts business aims and fosters customers' trust, as it creates a positive public image. This will result in suppliers' and business partners' confidence in the business as well.	• Conflating family values with business values could complicate the way in which the enterprise is run. This is because there is no distinction between the interests of the family and the interests of the company. The lack of a boundary between the family and the business could lead to problems with family expenditure and business expenditure, • Conflict between family duties and business duties could arise. The different relationships within the family could also lead to tensions. Blood relatives of the owners may assume their decisions carry more weight than their in-laws. This could in turn cause the development of the company to stagnate, rendering it less competitive in the market. Conflicts between the owners and individual family members could also arise, owing to different values and beliefs. This would lead to inter-family tension and unnecessary competition within the company so much so that it will result in the breakdown of the business. Because family businesses are held by successive generations of the same family, they might not see the need to innovate or renew the company and the way they do business.
OPPORTUNITIES	**THREATS**
(L) Family ties are strengthened because the business is managed by its own family members. The average number of employees related to the business owner in family businesses in 2012 is 4.72. Working together with the family enhances family values and helps facilitate decision-making discussions. It also prevents conflicts and fallings-out that could arise from working with people unacquainted with the family and its values. It could also prevent divorce as families work together for the sake of the business. As all the employees are family members, they cooperate in the business so as not to disgrace the family. (S) Family businesses are also conducive to population growth as business owners will want to produce heirs to take over their enterprises. Family businesses also help to keep unemployment figures low by ensuring that their family members have jobs within the company. As of 2012, 50% of the active population in the country are gainfully employed.	▪ Family businesses are overlooked in official SME statistics because they lack an official definition and have yet to be accepted as a distinct business entity by the government. Due to this, they do not have any means of cooperating with the state, academicians, other non-family businesses and other entrepreneurs. They are unable to tap into the resources, support systems and business education programmes available to SMEs because they are not represented in official state statistics. There is no comprehensive government policy on FB. They are also at risk of converting family failures and conflicts into FB failures and conflicts. Family businesses are also vulnerable to stagnation because they lack access to flexible non-governmental organizations that could promote them and help devise new business strategies with them. There are no official and unofficial mechanisms to help them deal with economic and business conflicts within the family. There is no official legislation protecting the property and intellectual rights of family businesses in the country.

THE DIFFICULTIES IN HANDING OVER FAMILY BUSINESSES TO THE NEXT GENERATION

The overwhelming majority of FBs in Azerbaijan are first generation enterprises. There are no family businesses in the country that are run by the third or fourth generations. As evinced by the SWOT analysis, there is a lack of local knowledge as to the steps a business should take in handing over control to the next generation.

Local traditions and beliefs further impede this process, for there is a popular adage that goes, "eat and drink with your relatives by all means, but do not do business with them." When a man in Azerbaijan wishes to marry a girl from a good family, he has to prove to her family that he is either working in a prominent state department or owns his own business. Unless the man is in a fast-track career in one of the government ministries or in a position to inherit a steady family business, he is unlikely to make a good marriage. Whether his family owns a small business or a large one, and whether his family owns any private property could also impact a man's marriage prospects. Dr. L. Yalcin-Heckmann has carried out research on economic anthropology to this effect in the rural sectors of many CIS countries.[3]

OTHER FAMILY BUSINESSES

Other family businesses are business enterprises owned by other ethnic groups in the country. These other family business can be large or small. Very often, the founders of these other family businesses hail from other countries in the CIS or are individuals who had run successful SMEs outside the Russian Federation. Although there are a number of other non-Azerbaijani family businesses in the country, there are no studies on them. If studies are conducted on these other family businesses, locals might be sufficiently impressed or inspired to set up their own family businesses too.

WAYS IN WHICH THE END OF SOCIALISM BENEFITS SME POLICY AND FB TODAY

While the transition period has ended for most former Eastern Bloc and USSR countries, some fundamental aspects of socialism are still present in CIS economies. This is evident in the legislation and economic policies of these countries. Azerbaijan is no exception. As a result, some businesspeople in the country do not have much confidence in the government. To remedy this, the government has to implement SME policies and lay down specific policies for family businesses in the country.

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3.4. FAMILY BUSINESSES IN BULGARIA

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ABSTRACT
Although family businesses represent a significant part of the Bulgarian economy, there are few research studies and scarce statistical data on the characteristics and problems of family businesses in Bulgaria. This study describes the history, economic importance, definition, characteristics, unique qualities and challenges of succession in Bulgarian family firms. This paper also presents the institutional actors, support policies and initiatives supporting the family business sector in Bulgaria. It will also make recommendations for policy actions.

Keywords: family business, characteristics, succession, institutional framework, Bulgaria.
JEL Classification: M10, L5.

1. HISTORY OF FAMILY BUSINESSES IN BULGARIA

In the ex-communist countries in Central and Eastern Europe, including Bulgaria, entrepreneurship was not always a legal activity (Tkachev and

Kolvereid, 1999). Until recently, the economies of these countries were based on large state-owned industrial enterprises using mass production methods and relatively inflexible production processes, producing for geographically restricted markets (McMillan and Woodruff, 2002; Tkachev and Kolvereid, 1999; Smallbone et al., 2001). Private business was practically eliminated in these countries (Manolova et al., 2007); and when existent, was part of the grey economy (Smallbone and Welter, 2001). The unprecedented reforms aimed at the democratization of society and the liberalization of the economy resulted in the legalization of private ownership (Tkachev and Kolvereid, 1999) and prompted the emergence of small privately-owned firms in transition economies. During the transition period, entrepreneurship became an important factor for the transition from centrally-planned to market economy (McMillan and Woodruff, 2002).

Bulgarian family firms appeared as separate legal entities as a result of the profound political and socio-economic changes that began after 1989. Due to those specific historical circumstances, they differ in some aspects such as age, growth plans and involvement in international business operation from family businesses in other countries (Yordanova, 2013). At the same time, they are very similar to family businesses in other countries in aspects such as size distribution, industry sector, and reluctance to share control with external investors, (Yordanova, 2013).

In 2007, the Association of the Family Business in Bulgaria was established as an open civil structure for new members sharing the philosophy and principles of family business. The Association aims to collaborate and coordinate its activities with the governmental and municipal authorities, as well as public institutions for the purpose of developing family businesses in Bulgaria. Although the Association has attracted 51 members, mainly representatives of the large business in Bulgaria, it still plays a minor role in influencing government policy and actions vis-à-vis family business in Bulgaria.

2. DEFINITION OF FAMILY BUSINESS IN BULGARIA

There is no official definition of family business in any legal regulations in Bulgaria. Family business is not a policy issue in the National Strategy for SME Development. Until recently, annual reports of the Bulgarian Small and Medium Enterprises Promotion Agency also did not focus on family business issues and did not differentiate family businesses from non-family SMEs. The first Operational Programme “Competitiveness” of the Bulgarian economy did not include any family business issues in its objectives, priorities and measures either.

In 2007, the European Commission set up the Expert Group on Family Business, which is comprised of experts nominated by the EU member states and some experts from the field. The Expert Group aims to discuss the main problems for family firms, identify existing family business related research, good practices in the area of family business and family business organizations, and to give their input to the Commission on family business relevant issues. The Expert Group adopted a common European definition for family businesses. According to which definition, 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 governance of the firm.
4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.

The Association of Family Businesses in Bulgaria, which is a non-profit organization supporting the establishment and development of family businesses, accepted several extremely narrow criteria for membership:

- The company should be entirely conceptualized, registered and established as the business activity of one particular family member.
- The family company should demonstrate continuity and prove that two or more generations of the same family are working together. This means that the children of the current business owners and/or relatives who are direct descendents of the original founder of the business should be working in the company or preparing to work in the company. This new generation has to participate as an owner, manager or participant.

- It is advisable that the company's name coincides with the family's name.
- Clear origin of the company's starting activity and credit.
- The company would have to be in existence for at least 5 years.
- During the period of its existence, the company should have good references and a good name so as to ensure that its economic activities are of the highest possible standards.
- The company should have clearly written objectives and development strategies vis-à-vis its economic activity, in accordance to the principle of "family business".

In 2010, the National Statistical Institute, in conjunction with the Association of the Family Business, conducted a survey on family businesses in Bulgaria. The survey adopted the common European definition of family businesses. In 2012, the Bulgarian Small and Medium Enterprises Promotion Agency presented a special chapter dealing with the issue of family business succession in its annual report on SMEs in Bulgaria.

3. IMPORTANCE OF FAMILY BUSINESSES IN THE BULGARIAN ECONOMY

Until recently, there was no official statistical information as to the number of Bulgarian family businesses and their contribution to the economy. Family businesses were not mentioned in publications by the National Statistical Institute. The first survey on family business in Bulgaria was conducted in 2010 by the National Statistical Institute and the Association of the Family Business. It reveals that family businesses represent more than 42% of all enterprises (Table 1). They employ 28.3% of the workforce in the private sector (Table 1). More than 43% of Bulgarian family businesses operate in the trade sector. Family businesses in trade employ 34% of the total workforce. More than 37% of Bulgarian family businesses operate in the service sector and they employ more than 28% of the total workforce. While only 9% of Bulgarian family businesses are involved in manufacturing, these family businesses provide employment to almost 25% of the total workforce. Other sectors in which family businesses are active include construction, agriculture, and the financial sector.

Table 1: The role of family businesses in the Bulgarian economy

Indicator	Number
Number of enterprises in the country	366,929
Number from the total that are family businesses	156,000
Number from the total that are SMEs	na
Number from the total that are individuals - solo proprietors acting as FB	na
Number of employees in the country	2,242,607
Number from the total that are in FB	474,544
Number from the total that are in SMEs only	na
Number from the total that are individuals - solo proprietors acting as FB	na
Share of contribution of FB to GDP in %	na

Source: The National Statistical Institute, the Association of the Family Business.

Several trends in the size and economic activity of family businesses can be outlined. Solo traders, which can be regarded as family businesses if the owner is married, are concentrated in the trade and service sectors (Todorov, 2011). The many small family farms in the agricultural sector represent the main source of income for the population in the rural areas. Medium-sized and large family firms operate predominantly in the manufacturing, import of equipment, construction and real estate, and tourism and hospitality sectors (Todorov, 2011). Few medium-sized and large family firms can be found in manufacturing of machinery and equipment, building of ships and boats, import and trade with construction equipment, import and trade with boats, security services, manufacture of wine, insurance, etc. (Todorov, 2011).

The turnover of family businesses is about 20% of the total turnover of Bulgarian enterprises, while the amount of investments in fixed assets of family businesses are 16% of all investments in the country. Family businesses provide more than 17% of the total amount of products and services produced by the Bulgarian enterprises. Most family businesses have to transfer ownership and management control to the next generation in the next 5 years because they were founded in 1990-1995. Table 1 summarizes the contribution of Bulgarian family businesses to the economy.

4. CHARACTERISTICS AND UNIQUE QUALITIES OF FAMILY BUSINESSES

Although entrepreneurship in transition economies in Central and Eastern Europe has attracted some research attention, the role of family businesses is largely neglected (Pistrui et al. 1997). In Bulgaria, few empirical studies investigate family businesses (Davidkov and Yordanova, 2013; Yordanova, 2012; Todorov, 2011; Yordanova and Davidkov, 2012; Yordanova, 2011, 2010; Pelov, 2005; University for National and World Economics, 2006).

Empirical investigation of 284 Bulgarian family businesses (University for National and World Economics, 2006) reveals that the main reasons for the creation of family businesses are the desire for economic independence, willingness to test personal knowledge and skills, threat of unemployment, and lack of alternative sources of income. The main start-up problems mentioned by the studied firms are related to acquiring qualified personnel, accessing markets and establishing relations with clients, and getting permissions, licenses etc. These companies prefer to operate in the service or trade sector, and most of them function as sole proprietors. Most of these businesses are microenterprises and only 40% of them are able to fully guarantee the subsistence of the controlling family. Almost one third of the sample firms have no staff and more than half of the sample firms possess only one shop, store house or workshop. They are also aware that their personnel need training.

The family businesses surveyed have low access to external financing. Family savings and loans from friends and relatives formed the main sources of start-up capital, while undistributed profit, bank credit and loans from friends or relatives were the main sources of working capital. The business strategies pursued involved maintaining low prices and large turnover or increasing constant clients. The great majority of family businesses studied demonstrate high stability as they have not changed their area of economic activity since their start-up. The diversification of business activities is perceived to be a bigger opportunity for growth than investment in property. The most important success factors highlighted by these firms include management experience and skills, risk taking, communication skills, useful personnel contacts and good education. The sale of goods was not integrated with other activities in the majority of family businesses studied. Their relationships with clients are underdeveloped. Family businesses usually do not have marketing databases, do not know the sorts of information they needed about their customers, and do not use any systems for managing their customers. These companies do not recognize the opportunities of cooperating with other firms. Thus, most of them do not participate in any form of cooperation.

A more recent empirical study comparing Bulgarian family and non-family businesses describes the following profile of the family businesses surveyed (Yordanova, 2013). The Bulgarian family businesses surveyed tend to be younger than family businesses in other countries. The great majority of family businesses in Bulgaria are 20 years younger than that of other countries. In 2007, a survey of more than 1,450 family businesses in 28 countries revealed that 50% have been operating for at least 50 years (PwC, 2007). In 2010, a similar survey of more than 1,600 family businesses in 35 countries discovered that 82% of firms have been operating for more than 20 years, while 42% have been trading for at least 50 years (PwC, 2010). Bulgarian family businesses are dominated by small and medium-sized enterprises (SMEs). Family businesses seem to be reluctant to share control with external investors and tend to keep ownership within the family. Only 9.1% of the family businesses included in the sample admitted foreign legal entities and/or allowed individuals to acquire ownership in the family business. A significant number of the family businesses in the study (39.8%) rated their access to financial resources as unsatisfactory and declared that their poor access to financial resources was detrimental for the development of their businesses. Like family businesses in other European countries (Mandl, 2008), the family businesses included in the sample were more prevalent in labour intensive sectors such as services and trade.

Similar to the majority of private businesses in Bulgaria (Davidkov, 2005), the majority of family businesses in this study have plans for growth. These findings contradicted previous studies of other countries where the data revealed growth was a less important business objective for family businesses than sustaining the enterprise and maintaining it for future generations (Austrian Institute for SME Research, 2008). This study indicates that in the context of the Bulgarian economy, family businesses may try to achieve long-term sustainability through growth.

The majority of the studied family businesses are focused on national, regional or local markets. The local business focus is also typical for European family businesses (Mandl, 2008). However, in comparison with family businesses in other countries (PwC, 2010), a smaller proportion of the family businesses surveyed have internationalized their business. Most family businesses included in the study were located in the country's capital. Unlike companies located in other Bulgarian towns or villages, family businesses situated in the capital enjoy advantages unique to the location. These advantages are access to foreign investments, well-developed transport infrastructure, highly skilled employees, research and development institutions, and a large tertiary sector including representative sites of financial institutions, businesses, and legislative, executive and judiciary authorities (Development plan of Sofia Municipality 2008-2013).

The chief executive officers in the studied family business are relatively old. The average age of the chief executive officers of the sample family firms is 41 years. More than 51% of them are older than 44 years. In age, the chief executive officers in family businesses are similar to their counterparts in Bulgarian private businesses. Davidkov (2005) reported that Bulgarian private business owner-managers are on average 44 years old in 2004. The author comments that their average age has been increasing steadily since 1991.

The results of the study reinforce findings of previous research in Central and Eastern Europe that women are less involved in entrepreneurship and top management of existing enterprises than men, despite their good education and high labour force participation (UNECE, 2002; Stoyanovska, 2001; Smallbone and Welter, 2001; Davidkov, 1993, 2003, 2005). These empirical findings reveal that the share of female owner-managers in the family businesses surveyed is less than 30%. The lower involvement of women in entrepreneurship in Bulgaria may be explained by their less favourable attitudes towards entrepreneurship, their unfavourable perceptions of the subjective norms of entrepreneurial behaviour and their unwillingness to perform deeds they deem unethical (Yordanova and Tarrazon, 2010).

In the great majority (67%) of family businesses studied, the chief executive officers are also owners of the company they manage. The great majority of chief executive officers in the companies surveyed possess high formal qualifications, giving their companies a significant advantage. At the same time, most of the chief executive officers in the family businesses surveyed lack previous management experience. This finding can be attributed to the fact that family businesses tend to exhibit nepotism i.e. the employment of family members regardless of qualifications (Mandl, 2008; Lansberg, 1983). The lack of previous management experience of top managers may be a serious disadvantage for the family businesses studied because empirical research has demonstrated that previous management experience of entrepreneurs and top managers is important for firm performance, survival and growth (Brush and Chaganti, 1999; Stuart and Abetti, 1990; Manolova et al., 2007). European family businesses are aware of the importance of management expertise as they tend to establish qualification requirements for managers (Mandl, 2008). The majority of chief executive officers in the family businesses included in the sample have managed the company since its creation. This is unsurprising because members of the controlling family in business are often appointed to the position of chief executive officer and they tend to keep this position until their retirement.

Yordanova (2013) identifies both similarities and differences between family and non-family businesses. Despite the paternalistic management style prevalent in family businesses (Mandl, 2008), Bulgarian family businesses are not less likely to appoint female chief executive officers than non-family businesses. The chief executive officers in the family and non-family businesses surveyed do not differ with regard to age. The reasons for not detecting differences in the age of executives in family and non-family firms in the sample may due to the fact that the great majority of Bulgarian family and non-family businesses have been established in the past 15 years. Perhaps this period of time is not long enough for the preferences of the founders of family businesses to be visible. The chief executive officers in the family and non-family businesses studied are very similar in terms education level. The great majority of the chief executive officers in both family and non-family businesses have university degrees. In contrast to these findings, empirical research in other countries indicate that family business managers generally possessed lower formal qualification than non-family business managers because they do not have the formal training of the older generations that established the family businesses (Mandl, 2008). The chief executive officers in non-family firms have significantly shorter tenures than chief executive officers in family firms. These findings reinforce ones from other countries whereby family business executives tend to remain in their positions significantly longer than non-family business executives.

The central role of family members in both family business ownership and management and the reluctance to share control with external managers unacquainted with family business principles and values (Mandl, 2008) reveal that the chief executive officers in the family business are more likely to be owners of the company they manage than the chief executive officers of non-family businesses. In the sample, family business executives are more likely to report that they have entrepreneurial role models than non-family business executives. This could be due to the fact that family business executives in second generation or older family companies, usually belong to the family, and hence, tend to be socialized with family business culture from their early childhood. Non-family business executives, who are not descended from entrepreneurial families, are less likely to have been exposed to entrepreneurial role models. Several generations of Bulgarian entrepreneurs were exposed to only negative entrepreneurial role models due to the country's communist past. Our empirical data reveals that non-family business executives are more likely to have previous management experience than family business executives. In this case, personal relationships seems to be a more important selection criterion than previous management experience.

Family firms were more likely to be SMEs than non-family firms. These differences in firm size between family and non-family businesses are due to differences in strategic focus, risk behaviour and firm resources. Family businesses are significantly older than non-family businesses in the sample. This could be attributed to the role of the controlling family in family firms, who are usually strongly motivated to continue the business. The family and non-family businesses do not differ in their perceptions of access to financial resources. It should be noted that a significant proportion of both groups of businesses (40% of family businesses and 44% of non-family businesses) declared that they are dissatisfied with their access to financial resources and that lack of proper access to such resources are detrimental to the development of their businesses. The family and non-family businesses surveyed are equally likely to have growth plans. In this study, non-family firms are more likely to have internationalized their business than family firms. Family businesses are reluctant to internationalize their business because of their local business focus and proximity to the markets they act on (Mandl, 2008). Family businesses are significantly less likely to have foreign individuals or legal entities among owners than non-family businesses. This is due to the fundamental difference between family and non-family businesses in ownership structure. The family is the controlling owner in family businesses and it aims to retain ownership control for successive generations. Bulgarian family businesses may be less visible and attractive to foreign investors because of their local business focus and small scale.

Family and non-family enterprises are equally likely to exhibit high learning orientation. Family and non-family enterprises in the sample performed similarly. The analysis of the level of environmental dynamism reveals that non-family businesses are significantly more likely to be confronted with high environmental dynamism than family businesses. In contrast to the family businesses in other European countries (Mandl, 2008), family firms in the study tend to be concentrated in more traditional sectors where the changes in technologies, the number of product and process innovations, the level of research and development, and growth opportunities are lower than in other sectors. Thus, Bulgarian family firms are likely to confront lower environmental dynamism.

The study also revealed that family firms were less likely to exhibit high entrepreneurial orientation than non-family firms. The great majority of family businesses have long-term goals and therefore avoided high risk strategies vis-à-vis business growth and external financing (Todorov, 2011). Family and non-family businesses in the present study do not differ significantly in their choice of trade, service or manufacturing sector. Both the family and non-family businesses included in the sample are more likely to be concentrated in labour intensive business sectors such as services and trade. According to these results, family ownership and management are not the decisive factors affecting the firm's main sector of business activity.

5. INSTITUTIONAL ACTORS, SUPPORT POLICIES AND INITIATIVES.

It is difficult to identify institutional actors with well defined goals and sufficient resources that are supportive of family businesses in Bulgaria (Todorov, 2001).

The Association of the Family Business, established in 2007, is a non-profit organization with the following avowed purposes:

- to assist the families in business by helping them to understand and cope with challenges both at the regional and global levels; to support and encourage the success of family businesses so as to ensure the recognition of their business;
- to ensure comprehensive access to the most significant sources of information on family business through associations, meetings, conferences and equal networks of all kinds. It will also help businesses to establish and maintain contact with other information carriers, including scientists and counsellors.
- to support the families in business and serve as a connection between the separate persons and organizations included in the system of family businesses;
- to work for the development and recognition of the family business in Bulgaria;
- to develop and implement projects regarding the realization of family business growth in the Bulgarian economic landscape;
- to realize the exchange of information, ideas, knowledge and experience;
- to collaborate and coordinate its activities with public institutions, the government and municipal authorities so as to develop family businesses in Bulgaria;
- to enrich the human resources involved in family business activities in Bulgaria;
- to encourage and facilitate the interaction and participation of interested representatives of family businesses in Bulgaria. This will create a positive climate for the development of family businesses in the Bulgarian economy.

At a general meeting of European Family Businesses (GEEF) in 2007, Bulgaria's Association of the Family Business was approved as a regular member. The Association has few members, mainly large family businesses, and has not been able to significantly influence government policy and actions on family business in Bulgaria.

The seminar, "The Knowledgeable Family Enterprise," was funded by the Human Resources Development Operational Programme. It was organized by the Znanie Association and the Maltese Association for Family Enterprises. The target group of the project were small, medium and large family companies as well as non-governmental organizations representing this line of business. The seminar offered training and consultative services to family companies and enterprises from Malta to Bulgaria. In so doing, it educated participants in the importance of a sound business model and good business practices. It aimed to research, appropriate, adapt and introduce sustainable practices for employees and owners of businesses. It did so by taking into consideration the particularities and characteristics of the family business environment, the changing work conditions and the use of new technologies in the small, medium and big companies.

Several organizations provide financing for family firms in Bulgaria. The Municipal Guarantee Fund for Small and Medium Enterprises (MGFSME) was established in 2002 by the Sofia Municipal Council (SMC). MGSFSME sought to implement SMC's policy of supporting registered SMEs and helping them to develop their activities in the municipality of Sofia. It did this by guaranteeing a part of the credit risk on loans extended by financial institutions. The Municipal Guarantee Fund, in compliance with all requirements, assigns priority to the projects of small family businesses. Mikrofond AD is a sustainable microfinance institution with 10 branches in the country. It supplies alternative funding for start-up, micro and small businesses without access to bank funding. The institution provides microloans to micro and small family businesses. Financing is provided through the European Progress Microfinance Facility, established by the European Union. Bulgaria's largest bank, UniCredit Bulbank provides mortgage loan for hotels and restaurants. UniCredit Bulbank also finances family business initiatives related to the building and furnishing of small hotels and restaurants in tourist settlements. The microfinance institution, Nachala, was founded in 1997 and functions with the financial support of USAID. It seeks to support the development of small family businesses, create new jobs and create opportunities for the generation of income.

The Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA) was established in 2004 by the Ministry of Economy and Energy of the Republic of Bulgaria. BSMEPA implements the Bulgarian government's policies on SMEs. The Agency provides information and consultation services, organizes training courses and implements promotion activities to raise Bulgarian SMEs' competitiveness and strengthen their international positions. The main BSMEPA functions are realized through the activities of two directorates:

- The Projects and Programmes Directorate implements the pro-innovation policy of the Bulgarian Government. It administrates and monitors programmes, projects and initiatives related to the innovative activity and technological development of Bulgarian companies.

- The SME Development and Internationalization Directorate supports the internationalization of Bulgarian SMEs by providing services and implementing instruments that strengthen the international positions of SMEs.

The Agency has no specific policies or initiatives supporting family SMEs. In 2012, BSMEPA's annual report touched the succession process in Bulgarian family SMEs. Specifically, it focused on the preparedness of Bulgarian family SMEs vis-à-vis the transfer of ownership and management leadership to a successor and the attendant business challenges of such a transfer.

The Bulgarian Association for Management Development and Entrepreneurship (BAMDE) is a national, non-governmental, non-profit organization in the field of management training and development. It was established in 1997 under the Phare Management Training Programme in Bulgaria. BAMDE unites several Bulgarian training institutions, promotes and safeguards the quality of trainers and training programmes, and acts as a platform between professional management development in Bulgaria and international management development organizations. Its founding members are leading organizations in the sphere of economics and management training. BAMDE offers training and consultation services for incumbents and successors in Bulgarian family firms.

Some Bulgarian universities have published research in the field of family business management. Several investigations on issues related to family businesses have been conducted in the last decade (Davidkov and Yordanova, 2013; Yordanova, 2012; Todorov, 2011; Yordanova and Davidkov, 2012; Yordanova, 2011, 2010; Pelov, 2005; University for National and World Economics, 2006).

6. CHALLENGES OF SUCCESSION

In one of the first studies on family business in the Balkans, Poutziouris et al. (1997, p. 244) noted that family business activity in Bulgaria is in the foundation phase and transition from one generation to the next is a rare phenomenon. More than 15 years after Poutziouris et al.'s (1997) research, many family businesses in Bulgaria are in the process of passing ownership and management to a successor. Yordanova (2010) explores succession planning in 51 Bulgarian family businesses of different sizes, firm age and sectors. The results indicate that owner-managers of Bulgarian family firms are aware they would not be able to manage the business forever, but choose to leave important aspects of the succession process to chance. The great majority of the firms surveyed have considered some aspects of the succession process. However, these firms place significantly less attention on the handing off stage, transition process and installation of the successor in the business. Almost half the companies reported having an unwritten succession plan. Succession planning in Bulgarian family businesses is essentially informal as the majority of the firms have neither establish a written succession plan, nor a formal plan regarding the roles and responsibilities of the outgoing president, nor explicit decisions about ownership distribution after the succession. Companies surveyed have not seriously considered important succession issues, including explicit succession criteria and a list of potential successors. Despite the generally informal nature of succession planning, the vast majority of firms studied have made concerted efforts in training potential successors for their future role in the business and ensured that potential successors are familiarized with the business and its employees. Most firms in the sample tended to combine internal and external nurturing and development activities. Their incumbents have also considered the attributes of potential successors such as their education, skills, experience and commitment to business.

An empirical survey of the succession process in Bulgarian family firms reveals that these firms experience diverse problems (Todorov, 2011). The lack of appropriate training for successors is the major problem for 40% of the family firms studied. Next in importance are the distribution of power and the distribution of ownership among successors. Other problems in this area include choice of successor, family conflicts, reluctance of the incumbent to retire, etc. Todorov (2011) emphasizes that Bulgarian family firms have delayed the start of the succession process. They lack resources and are not sufficiently prepared to meet the challenges of succession.

The sustainability of the SME sector, more specifically the issue of family business succession, is a central topic in BSMEPA's 2012 report on the situation and factors impacting the development of SMEs in Bulgaria. The report provides information of the challenges of succession faced by Bulgarian family SMEs. The great majority of the family SMEs surveyed are still managed by their founders. Of the family SMEs surveyed, only 12% had already transferred ownership to their successors. Almost 20% of the owner-managers in family SMEs plan to transfer ownership and management control to a successor in the next 5 years. About 12% of the owner-managers plan for succession to occur in the next 6-10 years. Although more than 30% of the family SMEs report that they planned for a business transfer to occur within the next 10 years, almost half of them have not developed any formal or informal succession plan. The majority of family SMEs surveyed have not made any explicit efforts to prepare potential successors for their future roles in the business. The report outlines the following reasons for the weakness of succession planning in Bulgarian family SMEs:

- owners and managers are not aware of the importance of the succession planning for the survival and continuity of the family business;
- owners and managers do not possess enough knowledge and skills for managing succession process effectively;
- lack of an official definition of family firms; and lack of public policies and measures for supporting family firms;
- lack of consultation services in the field of family business management and succession;
- education and training in the field of family business management is rarely provided by Bulgarian educational institutions.

Bulgarian family SMEs use a variety of approaches to train and develop the potential of future successors. Over half the businesses rely on the experience acquired in the company to facilitate the development of potential successors. Nearly 48% of businesses provided support for the higher education of their potential successors, and over 41% have supported various training programmes for potential successors. Acquisition of professional expertise of potential successors was only actualized in 30.4% of firms. The acquisition of expertise in other organizations is practiced by 26.1% of businesses. Only 23% of the family SMEs surveyed analyzed the capabilities of potential successors against of the company’s requirements and needs.

7. RECOMMENDATIONS FOR POLICY ACTIONS

Specific policy actions aimed at supporting the development of family businesses in Bulgaria are necessary in the following areas:

- Accepting a legal definition of family business

  The government should accept a legal definition of family business that refers to the three major pillars of family business, i.e. family, business and ownership.

- Fostering research in the family business sector

  There is a lack of systematic and detailed statistical data on the characteristics and specific challenges and needs of family businesses in Bulgaria. The available empirical research relies on small convenient samples and the empirical findings may not be applicable to Bulgarian family businesses as a whole. Future research should also outline the specific characteristics and problems of significant groups within the Bulgarian family business sector, such as family SMEs, rural family businesses, first-generation family businesses etc. The information from this research should be used by policy makers for the development and implementation of appropriate policies and measures in support of the Bulgarian family business sector. This is because policies and measures that do not rely on comprehensive statistical data could be highly inefficient.

- Supporting the creation of representative structures of the Bulgarian family businesses

  There is only one organization in the country lobbying for the interests of Bulgarian family businesses and its members are representatives of large family businesses. Representative structures dedicated to supporting family SMEs operating as independent organizations or within existing structures (associations, chambers of commerce etc.) are necessary to the growth of family businesses. Family businesses and existing business associations, chambers of commerce and other representative organizations should play leading roles in establishing such representative structures, while national and local authorities should foster and support the process.

- Support networking

  Bulgarian family firms do not recognize the opportunities related to cooperation with other firms and most of them do not participate in any form of cooperation (University for National and World Economics, 2006). The national government and family business representative organizations should foster and support the establishment of family business networks as well as the cooperation of family businesses with other companies, universities, research organizations, consultants, etc. As the participation of family businesses in local and regional clusters may increase their competitiveness, government and local authorities should foster the development of local and regional clusters.

- Revising regulations according to family business sector's characteristics and needs
  The government should include family business development into SME policy development. The impact of existing legal regulations on family business sector should be carefully assessed in relation to specific characteristics, problems and challenges of the family business sector as well as significant groups within the family business sector such as family SMEs. Legal regulations that hamper the development of Bulgarian family businesses should be revised.
- Supporting family business transfer
  Bulgarian business owners and managers are not aware of the importance of succession planning for the survival and continuity of their family businesses. Furthermore, they do not possess enough knowledge and skills for managing the succession process effectively. They have to be made aware of the importance and challenges of the succession planning process in order to successfully transfer ownership and management. The government should foster and support the provision of information, practical guidelines, specific training as well as consultation services to family business owners, managers, and employees in the field of succession planning.
- Fostering education, training and consultation in family business management
  Management and entrepreneurship education and training programmes provided by universities, consulting firms, and other organizations should include aspects relevant to family businesses. The government should foster and support the provision of free training courses and consultation services in business planning, accountancy, marketing, management and use of information and communication technologies to family business owners, managers and employees.
- Improving the image of and promoting the values of family businesses

Media, public institutions, representative organizations and civil society should work to improve the image of and promote the values of family businesses.

CONCLUSIONS

The family business sector represents an important part of the Bulgarian economy. Most Bulgarian family businesses operate in traditional sectors such as trade and services. The great majority of family businesses are SMEs. There are also large Bulgarian companies that are family businesses. There is no commonly accepted definition of family business in Bulgaria. There is a lack of reliable statistics on family business. There is also a lack of comprehensive research on the characteristics, specific challenges and needs of family businesses in Bulgaria. The available empirical evidence reveals that the relationships between the family dimension, ownership dimension and business dimension determine the specific characteristics and unique qualities of the family businesses. The family, its ownership of business and its business activities affect family business management, strategy and organizational behaviour. Although family business succession is a challenge for the survival and development of family businesses, Bulgarian family firms do not appear to have planned for the succession process. Due to lack of resources, they are insufficiently prepared to meet the challenges of succession.

FAMILY BUSINESS PORTRAITS

TANDEM-B LTD

The meat processing company Tandem-B LTD was registered in 1993, and owned by the brothers, Cyril and Todor Vatev. The business began in a rented building and secondhand machines were bought via bank credit against a mortgage. In 1994, the company strengthened its position in the Bulgarian market through products made according to traditional Bulgarian recipes and without compromises to quality. The shortage of quality meat forced the company to buy livestock for meat production. The slaughterhouse in the village of Drinovo was purchased in 2001. The first meat processing plant with its own laboratory, built according European standards was then put into operation. In 2003, TANDEM received the necessary veterinary and sanitary authorization for free trade from the European market. From 1999 to 2004, the owner-manager of Tandem, Cyril Vatev, was Chairman of the Association of Meat Manufacturers in Bulgaria. In 2004-2005, the company reorganized itself. The slaughterhouse was

separated as an independent company known as Tandem-Popovo LTD with Todor Vatev and Valentin Ruschev as its managers. Tandem-B remained in the hands of father and son, Cyril and Damyan Vatev. The Tandem brand was given the award for best brand in the Bulgarian market in 2007. The company was chosen by the international organization, Superbrands, to lead in the Meat Producers category. After an inspection by a Dutch auditor, Tandem-B LTD was awarded with the IFS Food Safety Certificate for its high standards of food safety in its production line.
(Source: Website of Tandem-B LTD, http://www.tandem.bg/)

PRISTA OIL HOLDING EAD
Prista Oil Holding EAD was founded in 1993 and managed by two brothers, Atanas and Plamen Bobokovi. It is one of Bulgaria's leading companies, operating in more than 20 countries in Central and Eastern Europe, Near and Middle East, as well as Ukraine, Georgia, Kazakhstan and elsewhere. The market presence of the company in these different countries is between 5-55%. Prista Oil plans to expand its business in Europe, Central Asia, the Near East and Africa. Prista Oil is a holding company with two main activities:

- Production and trading of motor and industrial oils, greases and special fluids. These operations are completely managed by Prista Oil Holding EAD and its international affiliates. The Holland-based Star Oil, one of the biggest companies trading in base oils and raw materials, is part of its holding company.
- Battery business – part of the MONBAT structure (one of the blue chips on the Sofia Stock Exchange).

Prista Oils' state-of-the-art production facilities are developed according to the latest in innovative technologies. This is a direct result of the company's research and development activities, as well as its cooperation with the world's leading lubricants and chemical companies, such as Chevron Global Lubricants, Ashland, Ergon Europe MEA, GreenChem etc. Prista Oil has its own production facilities in Bulgaria, Turkey and Hungary, where lubricants, greases, different types of Vaseline, auto cosmetics and special automotive fluids are manufactured. Prista Oil is a company strongly committed to the social and cultural development of the world at large.
(Source: Website of Prista Oil Holding EAD, http://www.prista-oil.com/bg)

INTERSERVICE UZUNOVI PLC

InterService Uzunovi Plc was established in Varna in 1990 as Interservice Uzunov Sole Trader and transformed into a joint-stock company in October 2000 with Mr. Krasimir Uzunov as the main shareholder and Executive Director. Soon after the transformation, the main activities of the company were separated into several daughter companies managed by executive directors and the board of directors of Interservice Uzunovi Plc together with Mr. Uzunov. The other minority shareholders are members of the Uzunov family, who participate in the management of the holding company and its daughter companies. The fixed capital of the company is EUR 9,000,000 with assets of EUR 27,000,000. The overall area of its shops, services and stores exceeds 12,000 square metres. Its national network of showrooms and dealers currently represents more than 20 international trademarks. The head office of the company is situated in Varna and there are representative offices in Bulgaria's biggest cities. The main activities of the company include:

- import and distribution of audio/video products;
- import and distribution of electro-domestic and professional appliances;
- import, distribution and assembly of furniture and accessories;
- import, turnkey hotel and residential furnishing;
- distribution and assembly of construction materials and building components;
- project management of various developments;
- real estate brokerage;
- servicing and maintenance of electronic and office equipment; production, processing, distribution and export of vegetables and wild mushrooms and fruits.

(Source: Website of InterService Uzunovi Plc, http://www.isu.bg/main.aspx?lang=en)

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3.5. FAMILY BUSINESSES IN GEORGIA

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ABSTRACT

Georgia is the gateway to the Caucasus and Central Asia as well as a stepping stone to the region. So long as it uses its location as leverage, the transport economy of Georgia can benefit from large addressable transit flows, neighbouring growing economies and landlocked resources. Well situated in the Southern Caucasus, Georgia can be reached easily from most major European, Central Asian and Middle Eastern cities.[1] Georgia stretches 69,700 square kilometres and boasts of a nearly 4.6 million strong population.[2]

Georgia is located in the Caucasus region of Eurasia, at the crossroads of Western Asia and Eastern Europe. It is the gateway between Europe and Asia. It borders the Black Sea to the west, the Russian Federation to the north, Azerbaijan to the southeast, and Armenia and Turkey to the south.[3] Situated at the strategically important crossroads where Europe meets Asia; Georgia has a unique and ancient cultural heritage, and is famous for its cuisine and traditions of hospitality.[4]

Georgia is rated one of the best countries for doing business because of its business friendly environment, low levels of taxation, simple tax administration, simplified licensing and permitting requirements, competitive cost of labour and energy, pro-business and corruption-free government, stable banking sector and low crime rate.

According to the World Bank/IFC annual report, "Doing Business 2014," Georgia improved its standing in the ease of doing business performance indicator by climbing one place from its position in the previous year. Presently, Georgia ranks 8th in the world's 189 economies when it comes to ease of doing business. Georgia is also among the top 10 countries with a business friendly regulatory environment.

According to the report's 5 ranking categories - Starting a Business, Dealing with Construction Permits, Registering Property, Getting Credit and Doing Business, Georgia is included in the world's top ten countries.

Every region has a leading champion in the field of improvements. George may be a small country, but it is ahead of both Europe and Central Asia in improvements. Indeed, the Georgian economy is advancing furthest toward the regulatory frontier since 2005. Among the world's 189 economies, Georgia is the top improver in Europe and Central Asia. With 36 institutional and regulatory reforms, Georgia has improved in all areas measured by the Doing Business repprt.[5]

Setting up a business in Georgia is a straightforward process. Procedures are simple and efficient because they are based on a transparent system that promotes the establishment of new enterprises. The country has simplified company registration procedures and it has since become easier for companies to interact with public administrations through e-government services. In recent years, reforms to the company registration process have led to the removal of overly burdensome regulations, saving time and reducing costs for SMEs and entrepreneurs in general. In fact, the registration process takes only 1 day in Georgia.[6]

Due to the diversified economic reforms in the country, the Georgian economy is rapidly growing. Easy creation of favourable business under the law and its stable macroeconomic environment has made Georgia attractive to foreign investors.

Most businesses in Georgia are family businesses. Family businesses can be found in almost every sphere of activity, but it is most widespread in agriculture where it takes the form of agribusiness. As Georgia is an agrarian country, half the population live in rural areas and are involved in agricultural activities.

Georgia’s main economic activities include the cultivation of agricultural products such as grapes, citrus fruits, and hazelnuts; mining; and the output of a small industrial sector which produces alcoholic and non-alcoholic beverages, prepared foodstuffs and chemicals.

Georgian family businesses are also involved in the tourism industry. 40% of hotels operating in Georgia are family businesses.[8]

Family businesses in Georgia are mostly individual enterprises and limited liabilities companies, that is to say, microenterprises and small businesses.

Small and medium-sized enterprises (SMEs) play an important role as the driving force behind further economic growth and employment in the country.

Research has shown that family businesses contribute greatly to the country’s economic growth.

In order to better understand the main characteristics of family business, their unique qualities, major problems and challenges as well as their needs and advantages, a survey was conducted among family businesses in Georgia. This survey collected primary information, reported the current demands of family businesses, and developed conclusions and recommendations. It also investigated and analyzed existing data, collected new information and combined them with existing information on the development of family businesses in the country. The survey also identified priorities so as to elaborate conclusions and recommendations for further development of family businesses.

The author of this report conducted the survey. Only major sectors represented by family businesses in Georgia were selected for the study. Family businesses in the country are mainly involved in agriculture, tourism and handicrafts. These were the sectors selected for a pilot survey: agriculture (including wineries), tourism (family-owned hotels, restaurants, cafes) and handicrafts. To study these fields, several qualitative and quantitative methods were used. Key players were identified in each sector, such as large businesses, main exporters, regulatory bodies, training centres etc. The researcher held in-depth interviews with some stakeholders to better understand the different sectors. The interviews were complemented by reports, studies and research done by other organizations including the World Bank, USAID, the Georgian National Statistics Office, the Georgian National Tourism Administration, the Georgian Ministry of Finance, Green Georgia, the Georgian National Investment Agency, etc.

The quantitative part of the survey included 20 companies. The companies chosen for the sample were listed in the Georgian National Statistics Office and National Tourism Administration database of active and registered businesses. In some sectors such as agriculture, the companies selected had some limitations. This is because many family businesses in that field are not registered. Almost 50% of the Georgian population lives in rural areas and is involved in agricultural activities. Simple Random Sampling (SRS) of companies was used for the survey. For the tourism sector, selected companies included family-owned hotels, family restaurants and family cafes. The survey was carried out through telephone calls. If after three attempts, the selected company did not answer the phone, then the selected company was replaced with the next one from the sample until 20 companies were reached in each sector. A questionnaire with open-ended questions and multiple choice questions was used as an instrument for phone interviews.

Survey results identified several important findings, namely: 55% of registered and interviewed family businesses considered themselves successful. The majority of these family businesses (45%) started their businesses less than 5 years ago. Half the businesses surveyed (50%) employed 3-5 persons. 90% of registered family businesses are individual enterprises. 70% of family businesses attended training programmes; and courses in foreign languages are the most highly regarded training programme among family businesses.

Family businesses are very important for economic growth, job creation, improving productivity and promoting growth. Small and medium-sized enterprises (SMEs) facilitate further economic growth and employment in the country. In Georgia, the SME sector represents an important part of the economy, with significant number of them turning over a self-sustainable income.

FAMILY BUSINESSES IN GEORGIA

Family business is one of the most ancient and widespread organizational forms in the world. Many world renowned firms and corporations developed from successful family businesses.

Family businesses are common in Georgia. Most family businesses in the country take the legal form of individual enterprises. In rare cases, they are limited liabilities companies.

The Gallup World Poll Knowledge Center asked business owners their reasons for starting a business. The top two reasons cited by business owners in Georgia were making the best of an opportunity to make more money and wanting to be one's own boss. The best way to be one's own boss is to begin a new business with minimal exercises. The desire to be self-employed is not driven by necessity alone, for survival entrepreneurship is not the only reason why people set up their own businesses.[8]

• Definition of Family Business

Generally speaking, a family business is a business organizational form, where governance and decision-making rights are in the possession of the individuals who established the business. Family members and relatives are employed as staff of such businesses, and management is carried out by the same family units. There is no legal definition of family business in the country at the moment.

Revenues from family businesses make up a relatively small volume. Such businesses usually include microenterprises and small businesses. In rare cases, some family businesses are medium-sized businesses.

According to the laws laid down by the Georgian National Investments Agency, an SME is an enterprise that annually employs no more than 20 persons and has an annual turnover of not more than GEL 500,000 for small businesses, and no more than 100 employees and not having an annual turnover of more than GEL 1,500,000 for medium-sized businesses.9

• Main Characteristics of Family Businesses

Family businesses are not enterprises that are in many sectors simultaneously. Since family businesses are mostly small and medium-sized enterprises, they are mainly focused on specific market segments. In most cases, the starting capital is the savings of the family members. Unsurprisingly, these small family businesses do not have much in the way of working capital, and they attempt to fill this deficit with loans from banks, microfinance institutions or private sources.[10]

• Importance of Family Businesses

Family businesses can be found in almost every sphere of activity in Georgia, including agriculture (in the form of agribusiness), wine production, tourism (hotels and restaurants), handicrafts etc.

Most family businesses in Georgia are in agriculture because Georgia is primarily an agrarian country. As agricultural lands are distributed to families in rural areas, virtually every family owns at least 0.5-1.25 hectares of land. However, only a small business can be set up with land of that size. That is why agribusiness in Georgia is mostly made up of family businesses.[10]

According to the official statistics, approximately 50% of the Georgian population is involved in agriculture. Among them, only about 3% are officially employed in agriculture, hunting and forestry. This means 47% of the population involved in individual agricultural activity are family businesses.

In 2012, agriculture contributed 8.4% to Georgia's GDP. In 2010, it made up 10.7% of GDP. By 2013, agribusiness made up 16.1% of the total economy, while it constituted nearly 20% of the economy in 2006.[11]

Endowed with fertile soils, clean water and favourable climate, Georgia produces a broad range of agricultural products. They include wine, fruits, nuts, live cattle, tea, mineral water, dairy products, juices, grains, fish and flour. Georgia's main agricultural export markets are Ukraine, the EU countries, Armenia, Kazakhstan, Azerbaijan, Belarus, the Russian Federation, Turkey, USA, and more recently, the Middle Eastern countries.[12]

Although the agribusiness sector is undergoing major transformation, it still offers a wide range of investable areas such as wine and spirits; mineral and table water; nuts (Georgia is the 5th largest exporter of unshelled hazelnuts and the 3rd largest for shelled hazelnuts); grains (wheat, barley, corn), flour products and animal feeds; organic farming, tea, aromatic and medicinal plants; greenhouse grown vegetables (tomatoes, onions, peppers, cucumbers); fresh, dry and canned fruits (grapes, citrus, clementine, apple, pear, blueberry), juices, jams, honey; fresh, frozen and canned fish (anchovy, trout); sea products (mussels, oysters); pedigree poultry, hatching eggs, snail farming, live cattle, meat and integrated dairy production.[12]

Tourism is another sector in Georgia in which family businesses are active. The New York Times rated Georgia as the 6th best tourist destination out of 41 other countries in 2011. That New York Times article focused on Georgia's mountain resorts, writing, "Tucked between the Black and Caspian seas and smattered with mountains, Georgia has the kind of terrain adventurous skiers yearn for: peaks reaching 16,000 feet, deep valleys and largely untouched slopes. Known best for spectacular off-piste and heli-skiing, Bakuriani and Gudauri — each a short drive from Tbilisi…"[13]

Georgia is the third friendliest country in the world in 2013, according to HubPages,

"Jammed between Europe and Asia, this contrasting South Caucasus nation is home to people who have been put through many tough times over the decades, something which has resulted in a witty sense of humour and politeness, combined with a keenness to spread the word about their little known country through good deeds and remarkable hospitality.

As the backpacker word begins to spread, travel to Georgia and experience its friendly people first hand before the resulting hoardes [sic] of tour buses arrive, and experience everything from the Caucasus Mountains and the cosmopolitan capital Tbilisi, to the Black Sea beaches and holiday city of Batumi."[14]

There are 1,060 hotels operating in Georgia, of which 40% are family-run hotels.

Family-run hotels can be found all over Georgia. 23% of family hotels are located in Kakheti, 20% in Samtskhe-Javakheti, 17% in Samegrelo-Zemo Svaneti, 10.1% in Imereti, 9.6% in Mtskheta-Mtianeti, 6.1% in the capital, Tbilisi, 5% in Racha-Lechkhumi and so on.

Out of all the hotels in Racha-Lechkhumi, 74% are family-run hotels. 72% of all hotels in Samegrelo-Zemo Svaneti, 68% in Kakheti, 64% in Shida Kartli, 63% in Kvemo Kartli, 55% in Mtskheta-Mtianeti, 54% in Samtskhe-Javakheti, 47% in Imereti, 27% in Guria, 20% in Tbilisi and 4% in Ajara are family-owned.[7]

Tourism's share in the country's Gross Economic Output was almost 7% in 2012, where it grew by 2 percentage points from the previous year.[11]

In 2012, 4,389,256 non-resident visitors arrived in Georgia, 56% more than the previous year.

For the whole of 2012, European visitors (excluding those from CIS) numbered 1,738,766 (39.6% of visitors), 92% higher than the previous year.

There were 2,451,971 visitors (55.9% of visitors) from CIS in 2012, 37% higher than the previous year.

There were 33,737 visitors (0.7% of visitors) from America in 2012, 16% higher than the previous year. Visitors from Asian countries numbered 123,385 (2.8% of visitors), 44% more than the previous year.

African visitors numbered 6,974 (0.2% of visitors), increasing 84% from the previous year. Middle Eastern tourists numbered 17,046 (0.4% of visitors), increasing threefold from the previous year. There were 17,377 visitors from other countries (0.4% of visitors), 6.2 times more than the previous year.

In first ten months of 2013, there were 4,556,110 non-resident visitors arriving in Georgia, 24% higher than 2012.[7]

INSTITUTIONAL ACTORS, SUPPORT POLICIES AND INITIATIVES, GOVERNMENT SUPPORT FOR BUSINESSES

Governments play an important role in providing high quality framework conditions for businesses by removing bottlenecks in the general business environment that impede able and innovative entrepreneurs from starting a new venture and creating jobs. These conditions include well functioning institutions, competitive markets for inputs and outputs, a predictable system of taxation, and bankruptcy legislation facilitating resource reallocation while protecting creditors.

The government thus promotes a conducive business environment that allows failure and company exit as a necessary part of entrepreneurial learning, provides company incentives favouring entrepreneurs with good ideas, introduces policy instruments easing entrepreneurs' access to capital for start-ups, and ensures flexible labour market policies so as to enable firms to expand and attract the best talents from outside the firm or the country.

The government has implemented reforms in a range of areas to support a liberal business environment. Most noticeably, the government has reduced bureaucracy, improved tax policies, battled corruption and liberalized labour regulations. Reforms in tax laws, customs laws, employment laws and legislation governing licensing have made it much easier to start and run a business.[8]

In order to promote private sector development and enhance sustainable economic growth, the government of Georgia has liberalized the tax code by significantly reducing the number of taxes as well as their rates. There were 21 different taxes in Georgia; all of which have been cut down and their tax rates gradually decreased. At present, there are only 6 taxes left, namely: value added tax (0% and 18%), personal income tax (20% flat), corporate income tax (15%), import tax only on agricultural products and construction materials (0%, 5% and 12%), excise (depends on the type of good) and property tax (up to 1%).

Of these six taxes in Georgia, five (personal income tax, corporate income tax, value added tax, excise tax, and import tax) are state-wide and one (property tax) is a local tax. There are no capital gains, inheritance, wealth, property transfer, social, branch remittance or other taxes imposed in Georgia.

A unified revenue service was established in Georgia when the Georgian Revenue Service merged with the other tax, customs and financial police bodies into one agency. Since then, taxpayers have to deal with only a single governmental agency vis-à-vis tax issues.

A new tax code was enforced in Georgia in January 2011 so as to further provide simplified procedures for doing business. This new tax code also provided incentives for microenterprises and small businesses in order to encourage business development and overall economic growth. The new tax code aimed to increase confidence in the Georgian tax system and enhance trust in the Georgian tax authorities by improving communication between taxpayers and tax authorities, protecting taxpayers' rights, making administration more efficient and harmonizing Georgian laws with the best international tax practices. The new tax Code also offered low tax rates on existing taxes and increased exemptions. If a taxpayer's business is a microenterprise or small business, he/she will enjoy reduced overall administrative and tax burdens. High-net-worth individuals will discover simplified rules for obtaining residency status in Georgia, thereby allowing them to be Georgian residents without their actual presence in Georgia.

Extended filing periods, automatic refunds and simplified taxation on imports comprise the constantly expanding list of benefits offered to taxpayers. Income and gain received from listed securities and Government bonds have been exempted from taxation for both corporate and individual taxpayers. It is particularly noteworthy that Georgia has already converged to European tax standards by recognizing the technical regulations of the Organization for Economic Cooperation and Development (OECD) and introducing the generally accepted transfer pricing rules within the country's new tax code. This fact will consequently promote both the development of the business environment and cross-border trade. Georgian tax legislation offers another unique opportunity to offshore companies by serving them in the most efficient and least costly way. The International Financial Company, a financial institution established in accordance with Georgian tax legislation, carries out most of its services with parties outside of Georgia.[15]

As was previously mentioned, the new tax code simplified procedures for microenterprises and small businesses. According to the new tax code, microenterprises and small businesses are covered by special tax regimes. A microenterprise is one that does not hire any personnel, and conducts economic activity independently and has an annual total income not exceeding GEL 30,000.

The Ministry of Finance of Georgia is responsible for granting microenterprise status to businesses. Tax authorities are responsible for giving a certificate for the status. Since the new tax code came into force, 4,575 new microenterprises registered with the Ministry of Finance of Georgia in January-June 2011.

A physical business with microenterprise status is free from income tax and current taxes. Small business status is granted to a physical person/ an individual/sole entrepreneur whose annual total income from economic activity does not exceed GEL 100,000.

Small businesses only face one single tax. The tax rate for small businesses is 3% or 5% of revenue. By removing bookkeeping requirements in conformity with international standards and fixing tax rate at 5% of total revenue, small businesses are only obliged to maintain simple purchases-and-sales journals and cash registers. In order for small businesses to be taxed at the rate of 3%, they have to prove through documentation and records that 60% of their income falls on expenditures and consumption.[16]

The Georgian State Commission for Regional Development is responsible for conceptualizing innovative policy schemes in support of new technologies and entrepreneurship. The commission is supported by a task force for regional development and seven working groups. The working group on innovation, new technologies and entrepreneurship brings together experts and policymakers and makes recommendations for innovative policy.

The Georgian Chamber of Commerce and Industry, the Business Association of Georgia, the Employers' Association of Georgia, the International Chamber of Commerce, and the Tax Ombudsman's Office all provide information and business services to Georgian enterprises.

The Georgian National Investment Agency has also helped SMEs access international trade fairs to showcase their products.

Trade expansion and diversification is one of the main priorities of the government of Georgia. The new government of Georgia is committed to expanding exports into new products and markets so as to ensure the economy's continued growth.[8]

Georgian foreign trade turnover is growing apace because it is supported by the country's liberal trade policies. Competitive trade regimes in Georgia include its free trade agreements with CIS countries and Turkey (since November 1, 2008) and its most favoured nation (MFN) status with World Trade Organization (WTO) member countries. Georgia also enjoys generalized system of preferences (GSP) with USA, Canada, Japan, Switzerland and Norway. Georgia has GSP+ or enhanced preferences with the EU in 7200 items since 2005.

The European Union is one of Georgia's main targets for trade diversification and expansion. Between 2005 and 2012, the share of exports going to the European Union dropped from 25% to 15%. At the same time, the share going to the Commonwealth of Independent State countries increased from 47% to 52.4%. Within the first ten months of 2013, exports to the EU constituted 19.9% of total exports, while exports to CIS within the same period made up 55.5% of Georgia's total exports. Georgia is also increasingly exporting to Turkey. In the first ten months of 2013, exports to Turkey made up 6.6% of total exports.

To further deepen trade relations with the EU, the government of Georgia and EU negotiated a Deep and Comprehensive Free Trade Agreement (DCFTA). This DCFTA is part of the Association Agreement (AA) between the EU and Georgia. Negotiations were successfully finalized on 22 July 2013. The DCFTA with the EU differed from other free trade agreements that Georgia had previously concluded because it covered both trade in goods and services. Through DCFTA, Georgian legislations will gradually come close to existing European legislations. This will be a step forward in Georgia's further integration into Europe.

Due to the liberal reforms implemented by the government of Georgia, the country has enhanced its relations with partner countries. Through new bilateral treaties, Georgian foreign trade has diversified. Georgia has concluded double taxation treaties with 45 countries and has bilateral treaties on investment promotion and protection with 32 countries.

Georgia remains strongly committed to the World Trade Organization (WTO). Its links to the WTO forms the primary basis for its trade policy. Georgia firmly believes that trade liberalization is the best way to meet the challenges of an increasingly globalized world economy.

The basic objectives of Georgia's trade policy are:

1. integration into the world economy by joining WTO and entering into other international agreements;

2. trade policy liberalization, including the simplification of export and import procedures and tariff and non-tariff regulations;
3. diversification of trade relations through free trade agreements with main trading or regional partners.

Georgia has a very liberal trade regime with simplified trade procedures. There are no quantitative restrictions on exports and imports; and there are no tariff quotas. There is also effectively no tariff escalation nor tariff peaks.

In accordance with Georgian legislation, no tariff duty is applied to exports or re-exports from Georgia. Exports are exempted from value added tax (VAT) as well. Georgia does not use minimum export prices and export subsidies. There are no non-tariff restrictions, prohibitions or licensing hurdles in international trade related Georgian legislation except in the areas where health, security, safety and environmental issues are concerned. The share of goods subject to non-tariff restrictions constitutes about 1% of all tariffs. Due to the reforms carried out by the Georgian government, the barriers to foreign trade have decreased tremendously, resulting in increased volumes of export and import flows.

To improve the skills base and facilitate better alignment of labour force skills in the enterprise sector, Georgia emphasizes increased training in natural science disciplines. A technology university in Batumi, with a curriculum focused on engineering, information technology, and agriculture and emphasize commercialization of scientific findings, is currently being established. The government has to implement medium to long-term policies reorienting the higher education system to produce graduates with more industry-relevant skills.[8]

A state programme, Employment for small and medium business development, was instituted in 2007. It aimed at improving the employment prospects of the local the population. It also seeks to improve regional economic infrastructure and economic activity development in the tourism sector by improving small and medium-sized family businesses' access to credit resources.

A GEL 5 million loan from the state budget was allocated to the programme's partner bank, ProCredit Bank, on 17 June 2007 so as to assist small and medium- sized enterprises.

The annual interest rate on the loan to enterprises is 12%, significantly lower than current market rates. Businesses have 5 years to repay the loan.

An entrepreneur could use the loan and repay it interest-free in the one year grace period. The maximum amount that an enterprise may borrow under this scheme is GEL 50,000. Although the beneficiaries of these bank loans are small and medium-sized enterprises, most of the loans are taken out by families with enterprises in hotels, agrotourism facilities, restaurants, catering facilities, etc. These family businesses then use the loans to develop their business's tourism-related activities by improving the tour equipment they have on rental, the quality of the local handicrafts sold and so on.

The programme also provided training and consultation services to the beneficiary for free. This greatly helps enterprise managers on their business specificity, thus enabling them to make plans for improvement. This also provides them with training in marketing, management and financial management.

Businesses financed by the programme are given free sessions in a variety of areas such as general information, management, marketing, financial and human resources management, tax liability issues, specific information on business, marketing etc.

Over 1,000 proposals were presented since the launch of the programme, of which nearly 200 have been approved by the bank. 20% of the businesses financed were start-ups and 80% were already functional businesses. Due to this programme, almost 2,500 persons were employed.

The agricultural sector is important to the Georgian economy. Agriculture has gained greater prominence in the Georgian political agenda in recent years. The state budget law for 2011 earmarked a 78% increase for the Ministry of Agriculture. Huge steps have been made in terms of attracting foreign direct investments (FDI) to this specific sector. Entities willing to establish agricultural processing enterprises will be able to acquire agricultural land for only 20% of the market price. There is 0% property tax on plots of land that are less than 5 ha, 0% property tax on property transactions, 0% value added tax (VAT) on primary supply of agricultural products, no import duties on agricultural and other equipment, as well as 100% depreciation allowance on investments and liberal labour regulations.[17] There is also the opportunity for the agricultural small business owner to privatize land.[17] Seeing how 75% of all agricultural land is state-owned, this is a decided incentive.

Since the spring of 2013, the Preferential Agro-Credits Project has been carried out as a means of supporting workers in the agricultural sector. I t provides access to financial resources through preferential agro-credits. 12 banks and 2 microfinance organizations are involved in the project.

The Preferential Agro-Credits Project was launched by the Georgian Ministry of Agriculture with the support of the Prime Minister. The project is financed by the Rural and Agricultural Development Fund and implemented by the Agriculture Project Management Agency.

Since it started in March 2013, the project has consulted with many banking and credit institutions as well as suppliers of agricultural production related goods to draw up the project's three main components:

1. Commodity interest-free credit for small farmers fixed at 0%;
2. Preferential agro-credits for medium and large farmers have the potential to be more than 8% to enable them to bolster current assets and meet short-term financing in stock purchases.
3. Preferential credits for rural agro-industrial enterprises are at more than 3% so as to provide long-term financing for fixed assets and technology.

This project offered agricultural cards to small landowner farmers. 710,000 farmers all over the country, each possessing land not more than 5 ha, received agricultural cards of GEL 195.8 million (USD 119 million). In total, GEL 700 million were mobilized in the agrarian sector this year, GEL 200 million of which was dedicated to the support of small landowning farmers.[18]

Different organizations, institutions, agencies, schools, companies, association etc. provide free training courses for family businesses in Georgia. In 2009-2012, training programmes were provided by the Georgian National Tourism Agency, the Academy of the Ministry of Finance of Georgia, Marketing House, Center for Professional Development, Caucasus Travel (a tour agency), the Biological Farming Association ELKANA and other tourism related associations. These courses centred on:

a) Networks and associations to creation and development

b) Practical accounting and taxation,

c) Internet marketing,

d) Practical accounting

e) Successful cooperation between family-owned hotels and tour operators,

f) Financial planning and marketing,

g) Business planning and management,

h) Practical skills for managers of family-owned hotels,

i) Computer courses,

j) English language lessons, and

k) Business basics.

The Ministry of Economy and Sustainable Development (MoESD) launched the SME guide, How to start a Business, in 2011. The business guide covers the ten steps it takes to set up a business in Georgia. It presents useful information on the forms of business entities, required registration and permits/licenses, applicable taxes, trading and fees, access to finance and business consulting and so on. Market analysis is included, as is an excellent guide on the way in which a business plan should be prepared. It also provides contact information as to the different services provided by the various public agencies and the procedure an applicant should take in approach in these agencies.

A pilot survey was conducted on family businesses in Georgia in September 2013, whereby the intention was to collect primary information, report current demands, and develop conclusions and recommendations. So doing would help with our understanding of the main characteristics and unique qualities of family businesses. It would also clearly show us the major problems and challenges faced by family businesses. After investigating and analyzing existing data, collecting new information, combining existing and new information, identifying key priorities, conclusions and recommendations were made for the further development of family businesses.

Sectors dominated by family businesses were selected for the survey. Family businesses in the country are mainly involved in agriculture, tourism and handicrafts. Thus, family businesses in agriculture (including winery), tourism (including family-owned hotels, restaurants, cafes), and handicrafts were selected for the pilot survey. Several qualitative and quantitative methods were used to study the data gathered. Key players were identified in each sector, such as large businesses, main exporters, regulatory bodies, training centres etc.

20 companies were used in the survey. They were randomly selected from the Georgian National Statistics Office and National Tourism Administration database of active and registered businesses. In some sectors, for example, in agriculture, the companies were selected with some limitations, as many of family businesses there are not registered. Almost 50% of Georgia's population lives in rural areas and are involved in agricultural activities. Simple random sampling (SRS) of companies was used for the survey. Companies selected in the tourism sector included family-owned hotels, family restaurants and family cafes. The survey was carried out through telephone calls. If the selected company failed to answer the phone after three attempts at contact, the selected company was replaced by the next one from the sample list until 20 companies were reached in each sector. A questionnaire composed of open-ended questions and multiple choice questions was used as an instrument for phone interviews.

FINDINGS AND CONCLUSIONS

The survey yielded the following results and conclusions:

- 55% of Georgian family businesses considered themselves successful;
- 45% of them were established less than 5 years ago and half these companies employed 3-5 persons;
- 90% of registered family businesses are individual enterprises;
- 70% of family businesses attended training programmes, particularly foreign language courses;
- Main problems identified by the family businesses surveyed are lack of financial resources (55%), lack of education (25%) and lack of technology (10%);
- 45% of businesses surveyed consider financial aid essential for the further development of their family business, while 25% deemed free training programmes important;
- 75% of family enterprises use the internet to advertise their businesses;

- Many SMEs, especially micro and small enterprises, are family businesses;
- Family businesses are very important to Georgia, as 94% of its registered enterprises are SMEs and 83% are small businesses;
- Family businesses in Georgia mainly operate in the sectors of agriculture, tourism and handicrafts;
- Free training courses for businesses create new opportunities;
- The government's efforts at creating a favourable environment for family businesses, through the simplification of company law, reduction of bureaucracy, easing of taxation and provision of financial resources have had a positive effect on business development.

FAMILY BUSINESS PORTRAITS

- **Iago's Wine**

The company's primary business activities are ecological wine-growing and winemaking. The company was founded in 2003 and five family members are currently involved in the business.

The company received a bio-certificate for their vineyard and their ecologically sound enterprise. The family owns 1 ha of vineyard and a small wine cellar (marani) in the Chardakhi village in Mtskheta. The vineyard is situated in the Mukhrani valley, which is one of the best known and historical sites in Georgia.

At present, the company produces approximately 1,200–1,500 bottles of dry white wine called Chardakhi.

The company performs all winery and winemaking operations by traditional methods that are safe for the environment. The wine is made from one of the best Georgian wine grape varieties, Chinuri. Pressing at Iago's Wine is done traditionally, for grape clusters are stomped on by feet. The extracted juice is then fermented and stabilized in clay pitchers that are 3 centuries old.

An Italian company, Velier, active in natural wine production became interested in the production methods of Iago's Wine in 2006, after the first export of the wine arrived in Italy. Subsequently, Chardakhi wine has been exported to Italy through the assistance of this company. Today, Iago's Wine exports to USA and England as well. The company also has present plans to expand its business.

- **Family-owned Hotel, Samtsikhe**

Samtsikhe, a family-owned hotel, is located in the heart of Dartlo village, in the Tusheti region of Georgia. Located on the northern slopes of the Greater Caucasus Mountains, Tusheti is a protected territory and has much to offer visitors, such as a church listed as a UNESCO world heritage site.

The hotel, which has 5 guesthouses, was founded in 2008 with the assistance of the World Bank. Three family members are involved in the business and 40 travellers can check into the hotel's guesthouses simultaneously.

- **Family-owned Hotel, Bakuriani**

The family-owned hotel, Bakuriani, was founded in 2001. It is located on a ski resort on the northern slope of the Trialeti Range, which is 1,700 metres (5,576 feet) above sea level.

The business benefitted from the government's support through a state programme in 2007. Four family members are currently involved in the business.

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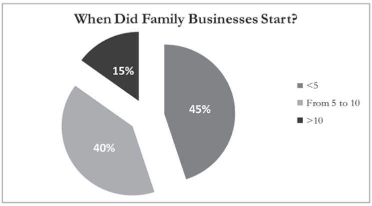
ANNEX 1

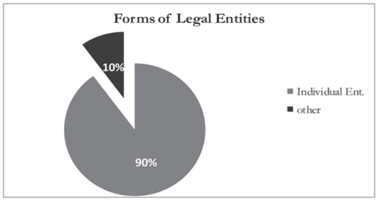
Number of enterprises in your country	54,324
number from the total that are family businesses	na
number from the total that are SMEs	50,983
number from the total that are individuals - solo proprietors acting as FB	24,593
Number of employees in your country	1,724,000
number from the total that are in FB	na
number from the total that are SMEs only	229,057
number from the total that are individuals - solo proprietors acting as FB	48,353
Share of contribution of the FB to GDP in %	na

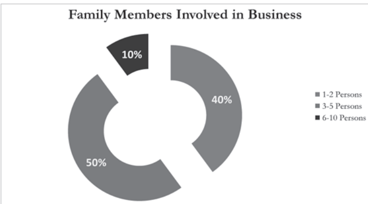
Data of National Statistics Office of Georgia

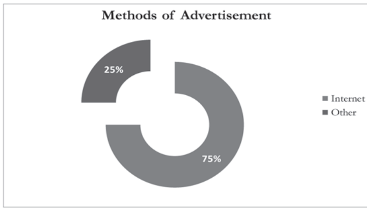
ANNEX 2

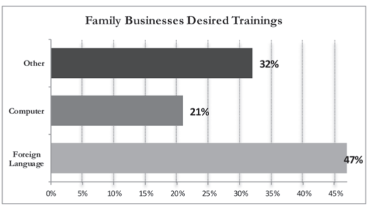
Pilot Survey Results

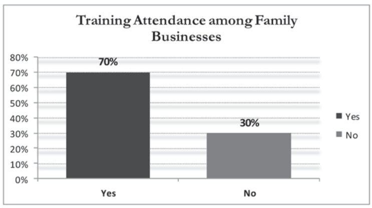


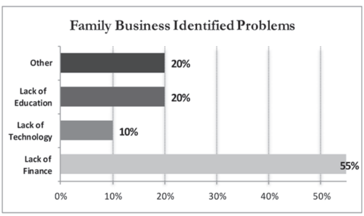


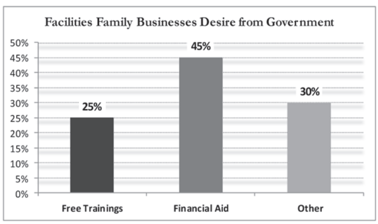












Survey Questionnaire

Ministry of Economy and Sustainable Development of Georgia

Family Businesses Research

October 2013

Sector	
Company	
Respondent identification number	|___|___||___|
Village/town	
Municipality	
Region	
Respondent and his/her position	

Hello, I am Eteri Mamukelashvili, employee of the Ministry of Economy and Sustainable Development. At the moment, I am working on the Family Businesses Survey in Georgia, which aims to study family businesses. If it is okay with you, I would like to ask you a few questions. The interview will last nearly 5 minutes.

Contact results

	C1. Initial contact	**C2. Final contact**
Interview was conducted completely or incompletely		
Nobody answered the phone / phone was outside the service reception range		
Telephone does not belong to the company		
The respondent was not in a position to answer the questions		
The respondent refused to be interviewed		
It was agreed that I call back later		
The relevant personnel could not be reached for the duration of the survey		
DD.	|_______|_______|	|_______|_______|
MON.	|_______|_______|	|_______|_______|
HR.	|_______|_______|	|_______|_______|
MIN.	|_______|_______|	|_______|_______|

1. When did you launch your business?

< 5 years	
5-10 years	
> 10 years	

2. What is the legal entity of your company?

Individual Entrepreneur	
LTD	
Other	

3. How many family members (including you) are involved in your business?

1-2 persons	
2-5 persons	
5-10 persons	

4. What sort of familial connections exist between the employers?

Direct connection (wife, husband, sister, brother, daughter, son, mother, father)	
Indirect connection (Nephew, Cousin, Aunt, Uncle etc.)	
Other	

5. Did you attend some training courses connected to your business?

Yes	
No	

6. Which are the most important training programmes you would like to attend?

Foreign Languages	
Computer	
Other	

7. In your opinion, how can the government help family businesses in Georgia?

Free Trainings Courses	
Financial Resources	
Other	

8. What problems can you identify?

Lack of Finance	
Lack of Technology	
Lack of Education	
Other	

9. In your opinion, is your business successful?

Yes	
No	
I don't know	

10. What methods do you use for advertisement?

Internet	
Other	

Thank you.

3.6. FAMILY BUSINESSES IN THE HELLENIC REPUBLIC

by
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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, there has been very little research on them. The purpose of this paper is to provide a comprehensive analysis and general description of family businesses in Greece. The research was predominantly library-based, drawing on analyses of selected literature on professional management and institutions. The paper accentuates issues relating to the contribution of family firms to the Greek economy, characteristics of family businesses, the institutional actors, support policies and initiatives as well as the challenges of succession. The findings could assist policymakers, advisers, family business owners and members in designing policies and programmes, providing advice and managing family businesses.

Keywords: Family business, Greece

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 forever. 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 most probably be given today, as an illustration of how strong family bonds remain in this part of the world. Another pronounced Greek characteristic is the very narrow divide between work and the home. Small service and retail business families literally continue to live above their shops. 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, whereby family members were asked to draw three circles 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. There would often be confusion because people would 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. They also have a strong tradition of the next generation succeeding the previous one in a wide 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 that which is going on, thereby creating virtual family firms. A third of all reported personal network contacts for Greek entrepreneurs are family members, about double the rate for other countries in which comparable data exists (Drakopoulou-Dodd and Komselis, 2006).

DEFINITION OF FAMILY BUSINESSES IN GREECE

Researchers note the lack of consensus as to the constituents of a family firm (Dziechciarz & 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, the definition of the total control of the company on behalf of the owner's family members is ingrained in most family businesses. It seems that family businesses owners often prefer less profit to having a new 'non-family member' as a shareholder.

Family businesses are considered enterprises that are owned, managed and influenced by a family or families. In other words, both ownership and policy-making in family businesses are dominated by family members. According to Company Law (Law 2941/2001), there is no definition of family business. Since most of them are small family businesses, the terms "SME" and "family business" are often used interchangeably. This is so much so that SMEs and family businesses are deemed 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 contribute significantly to Greece's GNP and employment, and tend to be great innovators with 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 in the EU (Kyriazopoulos and Samanta-Rounti, 2007). Most of them are small family businesses operating in traditional sectors like tourism and agriculture.

The SME sector in Greece differs significantly in structure from the EU. Firstly, it is relatively higher in Greece and the number of large business accounts for only half of the EU average and provides only 15% of employment. Secondly, within the SME sector, microenterprises correspond to 96.6% of businesses, 56.6% of employment and 33.9% of value added in contrast to the EU averages of 92.2%, 29.7% and 21.2% respectively (GSEVEE, 2012).

According to data provided by the Hellenic Statistical Authority (ELSTAT), 99.8% of all Greek enterprises employed fewer than 100 persons 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 persons represent only 0.19% of the total number (Eurofound, 2013).

Greek SMEs contribute more than 80–85% of total local employment, in contrast to the 10–15% of large-scale enterprises (LSEs) during the 2005–2012 period. SMEs in Greece contribute to gross value added (at factor costs) at a share exceeding 70% for the 2005–2012 period, averaging more than EUR 53 billion. This is much more than the EUR 21 billion contribution to gross value added by LSEs in 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).

While these data highlight the central role of SMEs in Greece, a comparison with EU-27 averages sheds more light on this issue. As shown in Table 1, the Greek economy is more heavily centred on micro-firms in terms of total number, contribution to employment and total value added than other European countries. As Mihail (2004) and Doxiadis (2011) also posit, Greece belongs to a group of countries (together with Spain, Portugal and Italy) where employment in SMEs is higher than the rest of Europe, especially in self-employment and employment in micro-firms. Greece represents a share which reaches 57.6% of the total, compared to 29.8% for Europe and 20% for northern Europe. Hence, when a reference is made to the Greek private sector, it indicates mainly small-scale business units, which quite often include family-owned firms or self-employed enterprises or businesses with fewer than five employees (Eurofound, 2013).

Family businesses in Greece have been widely equated to Small and Medium-Sized Enterprises (SMEs) in public and policy discussions. Based on the figures above, where SMEs represent 99.9% of the total number of enterprises, family business account for approximately 90% of all enterprises in Greece. It can also be assessed that around 70% of family business are managed by individuals, namely, enterprises owned by solo proprietors.

	Number of enterprises			Employment			Value added		
	Greece		EU27	Greece		EU27	Greece		EU27
Size	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
Total	**746,240**	**100.0**	**100.0**	**2,512,493**	**100.0**	**100.0**	**77**	**100.0**	**100.0**

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

Table 1: SMEs in Greece compared to EU-27 averages

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

It can be estimated that 60% of employees in Greece are working in family firms and FBs' contribution to GDP is 50%.

CHARACTERISTICS AND UNIQUE QUALITIES OF FAMILY BUSINESSES

The family firm is an important and common form of business organization 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 is usually involved in the direct management of the firm. In other words, the principal characteristic among the majority of family firms is that the main owner (family) is usually involved in the key decision-making of the firm. A very common argument favouring family firms is that agency costs are minimized, since the owner (family) and the management are the same person or different persons from the same family.

The main characteristics distinguishing family firms from other types of corporations are the presence of one or more controlling family members and the involvement of the owners in the management. Greek family businesses differ from non-family businesses because they strive towards the preservation of satisfactory relationships among members in order to survive in the long run. Furthermore, the management of people, especially recruitment, compensation, promotion and training decisions, is quite different in family businesses than in other companies.

Compared to non-family businesses, family businesses have lower recruitment and human resource costs and are more effective than other companies in labour intensive businesses. They have a "family language" allowing 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 allows them to deal with problems quickly and react more rapidly to changing market conditions. As they can have the advantage of being both formal and informal, family businesses flexibly use each of these traits when suitable.

Passion, dedication and personal approaches to a business based on trust are common features of Greek family firms. They are notable for their cultural strength and shared values, so much so that it is believed they win at business because they are closer to their customers and have a more personal relationship with them. Family members are dedicated and committed to the company's success. There are many cases in which 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 in Greece are distinguished by a work environment that inspires employee care and loyalty. Family firms feel a stronger sense of responsibility in the creation of jobs, and will thus make more strenuous efforts than other companies to keep their staff, even during tough times. These result in their employees' greater loyalty and commitment. Ownership of the business is closely tied to the family, as family firms 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 centralized management with one or few individuals dominating the decision-making process and discouraging dissention in order to maintain control (PwC, 2012).

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

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

Family-owned firms are also weak in accounting practices and risk management. Family firms have to provide their balance sheet statements in accordance with 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 are not equipped with the appropriate systems for handling issues of risk exposure and risk management.

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

The basic challenges to the growth of a family business are implementation of an explicit business strategy, the development of the personnel and the transition to the next generation at a management level. The last one is the most difficult issue of a family business. The issue becomes even more complicated if some family members are involved in the company's activities and some are not. Other disadvantages identified include nepotism, overlapping family and business interests, family conflicts and difficulties in managing family members.

The basic obstacles in the development of the Greek family business are human resource issues, the bureaucracy, their unstable tax status and competition from 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 incompatible 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 family members and different business expectations between the two generations. The larger the gap, the more impediments there will be to the development and continuation of the family business. In addition, the second generation appears to lack proper training and has inadequate experience in industries relevant to the family enterprise. They also lack interest in running the family business. Furthermore, the working style of the first generation is different from the second. It is apparent 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 when they succeed to the family business.

At this point, it is important to present the results of PwC survey (2012) distinguishing family business from non-family business.

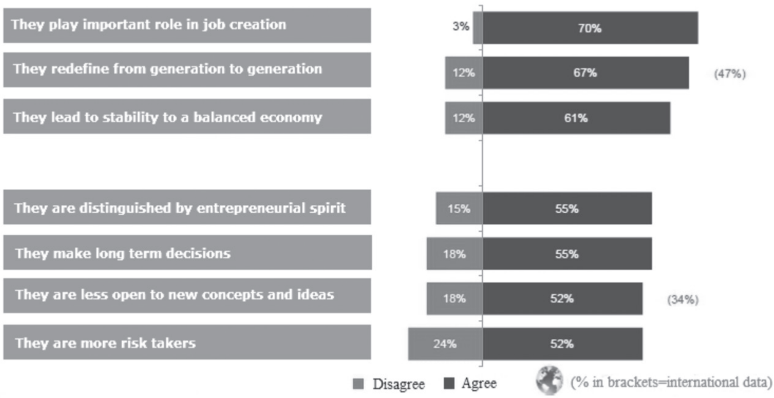

Figure 1: Factors that differentiate Family Business
Source: PwC, 2012

5. INSTITUTIONAL ACTORS, SUPPORT POLICIES AND INITIATIVES: IS THE GOVERNMENT SUPPORTING FAMILY FIRMS?

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

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

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

The Hellenic Organization of Small and Medium-sized Enterprises and Handicraft S.A. (EOMMEX) used to provide policy advice to the Ministry of Development in SME matters, but it was absorbed into the National Fund for Entrepreneurship and Development (ETEAN) in 2011 due to the public organizations reduction and mergers policy. ETEAN S.A. is a valuable element in the integration of micro, small and medium enterprises (MSMEs) financing cycle because it collateralizes the fraction of business risk not accepted by the banking system. In so doing, it amplifies the scope of viable entrepreneurial initiatives undertaken by MSMEs.

Moreover, chambers of SMEs can provide some help and guidance to family businesses, as most such enterprises in Greece are SMEs. These chambers deal with issues and problems affecting the 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 relief from capital gains tax and the reduction of tax rate in the case of business transition or shares of it to members of the family. When the owner of a sole corporation, general and limited partnership retires, or when the sole corporation or shares of general and special partnership are transferred from parent to child or from one spouse to another, no capital gains tax needs to be paid the event where the owner of a sole corporation retires, capital gains tax need not be paid when the corporation, its shares and/or ownership is transferred from parent to child or from one spouse to another (Income Taxation Law - Law 2238/94, Article 13, Par. 1).

According to a 2012 PwC survey, family businesses in Greece are generally very negative about the government's attitudes and support of their sector. As a result, they have been actively suggesting new state measures. The majority feel that the government does not recognize the importance of family businesses and exhibit the greatest disappointment out of all other regions in the PwC worldwide survey. In the following figure, family firms' perspectives concerning the government recognition of their importance is depicted. It is evident that Greece has the highest dissatisfaction of all the other countries surveyed.

Figure 2: Attitude to government and how much they value family businesses

Source: 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's child is not willing or able to take on the business and the family does not want an outsider in it, will the business be sold? That which drives the business founder may not be present in his/her child. It is not only about education; it is also about the founder's leadership, charisma, beliefs and so on. There are many factors at play here, as no single reason may be pinpointed.

Most family businesses in Greece intend 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 is a hard problem to solve and one that family businesses face. While many family business founders have been charismatic in their managerial decisions, they do not have a succession plan and confusion consequently surrounds the business after their departure. Succession planning in a family business is often painful and emotionally charged in Greek family firms (Kyriazopoulos and Samanta-Rounti, 2007). In the same survey, family business owners rated family business direction, transition success and succession planning as the greatest challenges in running the business.

Despite the importance of succession planning, Greek firms appear to pay less attention to it than other family firm issues. As the size of the average Greek firm is very small, it might be that the specific structural and cultural idiosyncrasies do not support an extensive succession planning process. This is also amplified by the absence of features common in non-family managed SMEs like the lack of an advisory board as well as the lack of formally written job descriptions, fixed compensation plans, formal employee performance reviews and regular meetings. These realities make it difficult or undesirable for incumbents to initiate and engage in formal succession (Pyromalis and Vozikis, 2009).

7. SUGGESTIONS AS TO THE THINGS THE GOVERNMENT AND CIVIL SOCIETY SHOULD DO IN ORDER TO RECOGNIZE AND SUPPORT FAMILY BUSINESSES

Given the importance of family businesses in employment creation and economic development in Greece, it is essential that government and civil society recognize and support them. It is highly important for the Greek government to carefully conceptualize and enact a national strategy supporting and developing family businesses so that they will grow domestically and internationally. It is also crucial to produce a legal framework in 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 and reduce bureaucracy so as to enhance the support of family firms and inspire the creation of new businesses in Greece.

Furthermore, the government and civil society should help family firms obtain long-term finance for expansion as well as secure a fair and stable tax system. Some suggestions to these ends include tax incentives and ownership incentives and improved tax laws facilitating the ease of business transfer to the successor 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 implemented for Greek family firms. Specialized consultancy services should be made available to help firms overcome the barriers related to lack of specific knowledge and know-how, centralized management structures and the general inability to plan a restructuring event.

Civil society should take actions to invest in education as well as training programmes and seminars for new technologies, modern management methods, business plan and international business. These training programmes and educational seminars should be generally tailored to the specific needs of family firms. Moreover, agencies facilitating networking, mentoring and partnerships between family firms and multinational companies should be established. For example, the Family Business Network (FBN) 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 (NGI) spanning markets as diverse as Brazil, the US, Finland and Switzerland (PwC, 2012).

CONCLUSION

The current financial crisis has negatively influenced most business activities. Family businesses, in particular, found themselves in a new environment where the market characteristics have reversed, radically pressures have intensified and uncertainty dominates. To pull the country out of this crisis, Greece must leverage itself on its strongest assets, namely the real economy. There is unquestionable evidence that the real economy is largely based on the continuation of family businesses.

Greek family businesses presently face many challenges. The main internal issue anticipated with some trepidation by the majority of family businesses in Greece is the lack of cash flow and cost control within the next 12 months. The number of Greek family businesses reporting this fear is larger than the average global respondents. The predominant challenge anticipated by Greek family business for the next five years concerns the general economic situation as well as political and market instability.

However, there is some evidence indicating that family enterprises are moving away from the strictly family members-only management that has hitherto hindered many Greek family firms. These family businesses are starting to identify a difference between business ownership and management, and are thinking of allowing non-family members to manage the business. Where traditional Greek family business management is characterized by informal processes and procedures, there has been a gradual shift towards more organized systems of set criteria and targets since the financial crisis (PwC, 2012).

Family businesses in Greece believe they can play an important role in the economy by stabilizing it and creating jobs for the population. They feel that they are redefined and restructured from one generation to the next to a much greater extent than the average family business worldwide. However, Greek family businesses also face an uncertain future. While most Greek family businesses say they have shrunk in the past 12 months, three quarters are cautiously optimistic about their prospects in the next five years (PwC, 2012).

The international financial crisis has opened 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).

FAMILY BUSINESS PORTRAITS

1. FRESH LINE COSMETICS

Background information

The story of Fresh Line goes back to 1992 when the company's founder, Mayra Vagioni-Stasinopoulou, decided to turn the knowledge she acquired from her grandmother (whose family actually owned a traditional soap factory on the island of Zakynthos) into a competitive business advantage. The first Fresh Line shop was launched in Chalandri, Athens. Consumers loved its original concept so much so that within a short period, the increased demand led the founder to organize a nationwide support system and expand via franchising.

Since her childhood, Mrs. Mayra Vagioni-Stasinopoulou has followed traditional family recipes in making her own cosmetics at home with fresh ingredients from her kitchen and garden. As time passed, she turned to the study of botanical therapy and aromatherapy, further exploring ancient and contemporary writings. The long history of ancient Greek medicine and its famous practitioners, philosophers and physicians such as Hippocrates, Dioscurides, Theophrastus and others encouraged the family to utilize beauty recipes based on fine herbs and rare plants with aromatic and therapeutic properties found naturally in Greece.

As a result, there is both an ancient story and intensive study behind each and every product. The stories and the resultant studies of them formed the philosophy of the company. Most of its products are named after mythological characters, honouring this inheritance. The knowledge, experience and passion of Vagioni-Stasinopoulou have been passed on to her daughters, Paula and Natalie. The three of them, united by their common vision for a global development of the company, aim to constantly expand Fresh Line so that more people will come to love their products and remember them by their Greek names.

Current Corporate Activity

Fresh Line currently produces over 450 unique, handmade and safe cosmetics for the whole family. The company operates a state-of-the-art production unit in Attica and an extensive network with 40 points in various areas of Greece. Overseas, Fresh Line products are available in 14 different markets, in more than 250 points of sale.

Fresh Line has been certified by the international quality management standard ISO 9008:2001 as well as by the Italian Institute for organic certification, ICEA. While it is expanding through franchising and strategic partnerships with major department stores, it also operates corporate stores in both Athens and Berlin.

The Products

Fresh Line products are divided in two main categories, each one with a separate philosophy that could be a standalone proposal for purchasing cosmetics. Fresh Beauty Bar refers to products made from fresh ingredients from the kitchen and garden, such as vegetables, fruits, milk and honey. As these products are sold by weight, consumers are charged for the actual product rather than the packaging. In Fresh Line's Beauty Fresh Bar, one can find products such as organic facial masks that are kept in the refrigerator as well as shower gels, body milks and soaps sold in the desired quantity. This offers a revolutionary proposal which is completely aligned with current consumer needs.

The second group of products refers to packaged speciality products and intensive treatments for the face, hair and body. These products are based on remedy recipes created by famous ancient Greek physicians and updated with modern ingredients. They cover a wide variety of personal care needs such as hair loss, sensitivity, dry skin, acne, aging, etc. Due to their infusion with therapeutic herbs and essential oils, these products provide intense treatment.

Developments

This year, Fresh Line is due to complete the rebranding process of all its products, a process that started in early 2011. The main focus of this rebranding has been the renewal of packaging, the enrichment of recipes and the introduction of brand new products.

The company is currently expanding in the Asian and the UK markets. Fresh Line is also exploring the possibility of expanding in the US market, as it is the largest export target and ultimate expansion goal. The founder hopes to establish the company as one of the largest natural cosmetics brands worldwide.

Additionally, there are plans to launch a new state-of-the-art website with an online shop. As the company is continuously expanding and 75% of its total production is channelled into international markets, Fresh Line is also looking into moving to a new, larger factory in Attica.

2. LOULIS MILLS S.A. COMPANY

A Historical Retrospection

In 1782, Zois Loulis built a small, stone watermill in Aetorahi in Ioannina. The Loulis family fortune was destroyed when the mill was burnt during the Turkish withdrawal in 1912. After the mill's destruction, four out of Themistocles Loulis's nine sons (Christos, Konstantinos, Nikos and Giorgos) decided to settle in Volos. They purchased a share in the J. Xydis- N. Hadginikou Mill in 1914. After three years, full ownership of the mill passed to the Loulis brothers, who then developed it into the largest mill of its time in Thessaly. In 1975, Nikolaos Loulis, owner of the mill, passed away. His wife, Evi Loulis became the company's Chairman, while his son Konstantinos took over as Managing Director. When Nikolaos Loulis was Chairman of the company, he was the 7th generation owner of the business.

Company Presentation

Loulis Mills S. A. is still currently active in Greece with two state-of-the-art production plants at Sourpi and Keratsini. It is the leader in the Greek flour industry in terms of milling, sales and technology. The state-of-the-art technology employed by Loulis Mills provides its customers with over 120 varieties of flour, thus producing a wide product range suited for meeting all the demands of a professional baker.

The excellent and stable quality of its products is ensured through a high technology chemical laboratory. Detailed monitoring occurs at all production stages in its pilot bakery to ensure strict rules of hygiene are upheld. Its highly trained staff consists of millers, experienced bakers and food technologists, all of whom ensure the highest possible quality in all of its products. This team also focuses on developing new innovative products to meet the ever-increasing demands of the modern baker.

Loulis Mills features the best and largest nationwide distribution network with a large fleet of privately owned trucks and silo carriers as well as many associate carriers. Thus, it is able to serve customers from Evros to Crete. The highly organized network and expert sales staff are capable of assisting customers immediately.

Loulis Mills currently employs 250 people. To remain a competitive fore-runner in the Greek flour industry, Loulis Mills constantly invests in new technological resources and the upgrading of its plants. The company is listed in the Athens Stock Exchange under the name, Loulis.

Products

The business objective of Loulis Mills is exclusively focused on the production and trading in flour ground from wheat, as well as rye, corn and barley. By implementing the latest technology and monitoring the needs of the market, Loulis Mills produces 120 types of flour and semolina for its 5,000 customers, many of whom are bakers and pastry cooks. To reach all its customers, it has a highly organized sales network across the country from Evros to Crete.

Loulis Mills has the best and largest nationwide distribution network with a large fleet of privately owned trucks and silo trucks, as well as a many associate transporters.

The company's sales network in Greece includes 3 sales branches in Athens, Thessaloniki and Kavala. Its head office in Sourpi in Magnesia services all the other regions.

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3.7. SMALL AND MEDIUM ENTERPRISES AND FAMILY BUSINESSES IN THE REPUBLIC OF MOLDOVA

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ABSTRACT
This article presents some aspects of the development of family enterprises in the Republic of Moldova. Currently, the country's legislation does not provide a legal definition of the term, "Family Company". Special studies on family businesses in Moldova have not been conducted until now. However, there are some attempts made today, especially on the part of public authorities, to regulate the issues of formation and development of family businesses at the legislative level.

Due to the lack of necessary statistical information, the quantitative assessment scale on the contribution of family businesses were performed indirectly by authors, following the data on SMEs of certain sizes and legal forms. Along with the statistics, the interviews conducted by the authors with entrepreneurs in previous years show that there are certain advantages and challenges typical of family businesses. This paper concludes by highlighting the importance of a legal definition of family business under official legislation. It will also end with a number of specific recommendations.

Keywords: small and medium enterprises, family business, government regulation and business support, transition countries

JEL Classification: K22, H31, H32, D10.

In today's economy, small and medium-sized enterprises (SMEs) solve various problems by ensuring the development of competition and social stability through the creation of new jobs, saturating the domestic market with consumer goods and services, and representing an important source of innovation.

In the Republic of Moldova, like many other emerging market countries, SMEs contribute to the improvement of the economic structure and support the income rise by promoting the development of private property, providing employment (including self-employment), producing goods and services, and creating better value for their customers and shareholders. SMEs, in accordance with a number of indicators, represent a significant proportion of the national economy. The National Bureau of Statistics of the Republic of Moldova revealed the presence of 50,700 enterprises in the country at the end of 2012. The vast majority of them (49.4 million) belong to the SME sector (97.4%). The SME sector employs 57.7% of the total workforce. SMEs made up 34.5% of the national economy's sales revenue, creating 23.0% profit (before taxation) for all businesses. SME share in GDP was 29.5% in 2011.

As there is no legislation providing for a legal definition of family business in Moldova, family enterprises are excluded from official statistics. However, the authors of this paper maintain that the activities of family businesses can be indirectly estimated through an analysis of the different groups of SMEs. In accordance with Moldova's Law on the Support of Small And Medium-sized Enterprises Sector, the SME sector comprises three groups of companies with different business sizes - micro, small and medium.

Microenterprise corresponds to the following criteria: no more than nine employees with annual sales revenue of no more than MDL 3 million and total yearly assets amounting to no more than MDL 3 million.

A business is deemed to be a small enterprise in Moldova when it has no more than 49 employees, an annual sales revenue of no more than MDL 25 million and a total yearly assets cost of no more than MDL 25 million.

Medium-sized enterprises in Moldova should have no more than 249 employees, an annual sales revenue of no more than MDL 50 million and a total yearly assets cost of no more than MDL 50 million.

In the Republic of Moldova, most SMEs are microenterprises. The research of the authors has indicated that most microenterprises are family businesses. Each microenterprise has an average of 2.4 employees.

Out of all the businesses in Moldova, microenterprises make up 77.5%, small enterprises 19.4% and medium enterprises 3.0%. In recent years, the proportion of microenterprises vis-à-vis total businesses in Moldova has increased from 76.7% in 2006 to 77.6% in 2012. The main indicators of microenterprises are presented in the Table below.

Table: Key indicators of the SME sector, including microenterprises, 2011-2012

Main indicators	2011	2012
Number of enterprises – total x 1,000	48.5	50.7
Family enterprises	na	na
SMEs	36.6	49.4
Microenterprises	na	38.3
Individual entrepreneurs acting as family business (FB)		na
Number of employees – total x 1,000	510.2	520.3
Family enterprises	na	na
SMEs	294.2	300.2
Microenterprises	86.9	90.4
Individual entrepreneurs acting as family business (FB)	na	na
FB's contribution to GDP in%	na	na
SME's contribution to GDP in%	29.5	na

Source: Calculated by the authors according to figures from the statistics database

Analyzing the organizational and legal forms of enterprises registered in the Moldovan State Chamber of Registration is another method of quantitatively assessing the activities of family businesses in the country. Current legislation in Moldova allows SMEs to develop under different legal forms such as sole proprietorship, general partnership, limited partnership, limited liability company, joint-stock company, production cooperative and business cooperative.

As of 1 March 2013, 164,569 legal entities and individual entrepreneurs are listed in the State Chamber of Registration of the Republic of Moldova. These include:

- 81,817 limited liability companies
- 65,784 individual entrepreneurs
- 4,795 joint-stock companies
- 4,007 cooperatives (production cooperatives, consumer cooperatives and business cooperatives)
- 1,508 state and municipal enterprises
- 3,496 non-commercial organizations
- 3,162 others (subsidiaries, branches, general partnerships, limited partnerships, lease businesses, inter-household enterprises, collectives, associations of farmers and other businesses).

In the course of their research, the authors of this article have discovered that family businesses form 40% of sole proprietorship enterprises, 49.7% of limited liability companies and 2.4% of cooperatives. The main characteristics of these forms of business activities are discussed below.

Sole proprietorship

One of the easiest ways of legally conducting entrepreneurial activity is through the individual enterprise. This is because individual enterprises can be founded by one person or by family members. The costs incurred by the entrepreneur to register the company are reduced and the registration procedure is quite simple.

Individual business assets derive from the goods of the citizen (or their immediate family) and other sources not prohibited by law. There is only one type of individual enterprise in agriculture – the household of the peasant farmer.

Individual enterprises are not recognized as legal entities and have to be classified as individual private entrepreneurs under current Moldovan law. Individual business assets are inseparable from the individual personal assets.

A person can pursue entrepreneurial activity if he/she is of legal age and is not subject to state registration as an individual entrepreneur. Thus, individuals can practice independent entrepreneurship activity upon reaching the age of 18 (Art. 20 Civil Code) so long as they are not legally prevented from doing so by mental disorders or limited exercise capacity resulting from the abuse of alcohol, drugs or other psychotropic substances.

Entrepreneurs in Moldova register with the State Chamber of Registration by filling up an application wherein they indicate the types of activities in which they will be engaged. This application will be processed in the same day it was filled. When an application for registration is rejected, it is because the necessary licenses are missing, the enterprise’s stated activities are prohibited by law or because the state deemed the entrepreneur to be incompetent for whatever reason. The refusal of registration can be contested in court. After successful registration and the consequent paying of the registration fee, the applicant will be issued with a certificate confirming his/her right to engage in entrepreneurial activity.

Peasant household

A peasant farm or peasant household (PH) is an individual enterprise centred on private ownership of farmland and other property as well as the personal work of family members (peasant household members). It is mainly engaged in agricultural products, primary processing and the commercialization of their own agricultural production.

Basic characteristics of the peasant household are:

- Its status as an individual enterprise under the law.
- Annually, the land area and size of other goods, including leased ones, of the homestead must account for more than 50% of the personal labour of its members
- the full name of the homestead contains the words, “peasant household”.
- farmers’ household registration is done at the local town hall, where the lot of land is located.
- peasant household members are unlimitedly liable for their obligations with their entire property.

Limited Liability Company

Limited Liability Company (LLC) is a commercial company with its own distinct legal personality. According to the articles of incorporation, an LLC’s social capital is divided into shares and its obligations are secured by assets of the company.

The company can be founded by one or more persons. The maximum number of shareholders is 50.

A limited liability company must have a minimum share capital of MDL 5,400 before it can be registered. In addition to social capital, a limited liability company is required to set aside a capital reserve consisting of at least 10% of the share capital. Capital reserves of the company can only be used to cover losses or increase share capital. Capital reserves are formed by annual payments of at least 5% of the company's profit and can increase to the amount stipulated in the articles of incorporation.

The management of the company is conducted by its administrator, who is appointed by the general meeting of the shareholders or the company board. The administrator may be appointed from among the partners or even be a third party. To handle matters related to company management and the administrator's actions, the general meeting of shareholders may appoint one or more auditors from among the partners or other third parties. If there are more than 15 shareholders, it is compulsory for the company to appoint an auditor. The number of auditors in a company is fixed by the company's articles of incorporation. Auditors are appointed for a period of three years and their tenure may be revoked at any time.

The main advantages of the limited liability company are:

- It has a relatively simple method of formation. The founding formalities are reduced and costs are relatively low.
- It has a well-defined legal status. In 2007, the law on limited liability companies was approved. This law regulates the establishment, operation, reorganization and liquidation of the limited liability company.
- It faces lower financial risks, owing to its relatively simple management.
- It is not obliged to publish financial reports. Instead, it only has to present its financial statements to the territorial State Tax Inspectorate.
- There is limited liability of the company's partners. Associates are not liable for the losses incurred by the company.

Disadvantages of a limited liability company are:

- obligation to hold capital, unlike an individual enterprise;

- the possibility of misunderstandings between partners, which could lead to liquidation of the company.

Production Cooperative

A production cooperative is a company founded by five or more individuals who have reached the age of 16. The members of a production cooperative have voluntarily come together to pursue joint production activities and other economic activities. The share capital of such a cooperative is built on the personal work and cooperation of its members.

A production cooperative is a legal entity. State registration procedures for a production cooperative are similar to those for commercial companies, that is, the applicant has to submit the necessary documents to the State Chamber of Registration. As in the case of a limited liability company and joint-stock company, a production cooperative is required by law to have a capital reserve in addition to social capital. Although the law does not specify the minimum amount that a production cooperation should have as social capital, the minimum size of its capital reserve is set by statutes and should amount to at least 10% of the cooperative's share capital.

Despite the fact that the public authorities have been discussing issues related to the formation and development of family businesses, special studies on family businesses in Moldova have not been conducted until now.

Observations, surveys and interviews conducted by the authors from 2000 to the present indicate that Moldova has a great many SMEs employing several members of one family, one of whom is invariably the owner of the business. These companies have many characteristics setting them apart from other SMEs. There is more confidence amongst the workers of a family business because they are all family members. There is also a high level of trust among them. Balancing business interests and the interests of individual family members is straightforward, as flexible working time for the employees can always be arranged.

For example, in one of the interviews, a 35 year old man, the owner and manager of a small company, reported that he was not able to find an accountant willing to work for a low wage in his company. Qualified accountants demand higher wages, and those who are willing to accept low wages would be slipshod with their work and hand in their work late. As a result, the tax authorities slapped this director with fines for the late submission of his reports. This changed when "the family council" decided that his wife (who had a higher level of education than him, but who was not a qualified accountant) should take some accounting courses. His wife did so and soon became the company's chief accountant, and later, the head of the service personnel. As they both work in a common field (the company) and for a common goal (the growth of the business), both spouses have improved understanding of each other's work. As a consequence, the business and the family benefited.

Conversely, problems in the family could negatively impact the business situation. A case in point is the history of the formation and development of the family business described in Innovation and Entrepreneurship: Successful Start-ups and Businesses in Emerging Economies.1 The company described in the book faced problems because the spouses' disagreements led to their divorce. Their poor relationship was exacerbated by the divorce and they were unable to work together. They also refused to give way to one another in business matters. As a result, a successful company came to be on the brink of bankruptcy. If the law regulates the division of business assets during a divorce, then matters would be less complicated for the company.

In order to define family business, the authors examined the different types of family businesses in existence. In so doing, they took into consideration the emergence of new economic and legal relationships between the family members who are participants in the enterprises.

We consider family business to be an enterprise. It is organized by an individual entrepreneur and his family. As there is no official definition of family business in Moldovan law in the present time, we propose that a written agreement outlining the set up of the business be filed with a government agency before it is established. Once the agreement has been filed and approved, family members can decide which part of their heritage they want to inject into their enterprise. They can also work out the participation quotas of each family member in the business, as the hours they are willing to put in will affect the net income and losses of the enterprise. We suggest that the government step in to provide the contents of this agreement by law.

It would be best if family business interests were to be managed by a representative. This representative should be appointed in the agreement establishing the enterprise. The family business's representative may undertake legal acts on behalf of the enterprise so long as he has power of attorney enshrined in a legal document signed by all members of the company. Discussions on family businesses amongst the state authorities and economic and legal circles focus on the following:
- How many persons make up a family business?
- How many people out of the family business's founders must be of legal age, i.e. at least 18 years old?
- At what age may other family members become affiliates of the family firm? Is 16 or 17 years old too tender an age for young family members to join the company? If this young family member is to be a full member of the company in future, what procedures must the firm, family and this young person take?
- Can members of family businesses be holders of individual companies?
- Can members of the family business combine family business functions with employees of another company in the same field? Can members of the family business combine family business functions with employees of another company in a different field?
- The possibility of family businesses hiring third parties through labour contracts.
- How will debts accrued by members of the family business on behalf of the enterprise be settled?
- What are the rules for the closure of the family business and its deletion from the state register?

Legal registration for family firms as well as the establishment and development of family businesses are very important to Moldova because they provide more opportunities for small entrepreneurs with limited resources. The introduction of such legislation will facilitate the accumulation of assets, expedite the transfer of business by inheritance, and legalize the labour of family members who work informally for the business.

CONCLUSION

Currently, there is no official definition of family business in the Republic of Moldova at the legislative level.

Observations, surveys and interviews with entrepreneurs have shown that many companies today are family-owned. Family-owned enterprises encounter their own set of benefits and challenges.

In the near future, it will be possible to conduct detailed research on the advantages and disadvantages of real family businesses as well as their impact on families and the country. When a definition of family business is finally enshrined in the legislation of Moldova, it is hoped the state will design means of official support for these enterprises.

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3.8. FAMILY BUSINESSES IN ROMANIA

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ABSTRACT

This study presents a general overview of Romanian family businesses. Although an exhaustive, officially accepted definition of family businesses

is missing in Romania, they can be identified in large numbers, engaged in various activities and possess different resources, strategies and turnovers. While family businesses can be found among both SMEs and large enterprises, they are not treated as separate entities. They are neither tracked, analyzed nor included in official statistics provided by the National Institute of Statistics (NIS) of Romania. Family enterprises are only referenced in legislation as a form of organization, without legal entity, created by an entrepreneur, a natural person and his family. Nevertheless, this year, Romania became member of the Family Business Network (FBN), which is an important step towards the clarification of the situation of family businesses in the country.

Keywords: family business, Romania, SMEs, employment, economic development, government regulation and policy
JEL Classification: O52, E24, F63, G28

1. HISTORY OF FAMILY BUSINESSES IN THE COUNTRY

Family businesses have had hundreds of years of international history and many of them long outlive their founders.

Family before businesses 1990

During in the interwar period in Romania, family businesses faced a striking development. This phenomenon was magnified by the communist period after the war in which centralized economic planning put a stop to entrepreneurial activities. A fine example of this is famous Romanian leather shoe manufacturer, Guban. It was started by an entrepreneur in 1935 and grew into an enterprise with 475 employees, but it was nationalized in 1952. Today, it is once again functional and has approximately 100 employees.

However, there are regions where small-scale family businesses (in manufacturing and pottery for example) survived the communist period and achieved remarkable performances after 1990. These small-scale businesses present a best practice model for the problem of succession, whereby the next generation takes over from the previous one. Thus, regions with a strong tradition of family businesses do exist in Romania.

"In Romania, family businesses have gained momentum in the interwar period, but discontinued their entrepreneurial mission too early to develop a tradition in this respect. Today, family businesses represents a large portion of private companies in Romania," Bogdan Ion, country managing Partner of Ernst & Young Romania, aptly remarked (Romania Insider, 2013; Ernst & Young S.R.L., 2013).

Family businesses after 1990

While there is no official data on family businesses, many businesses were set up in the 1990s and they do act as family businesses (FBs). The roots of family businesses can only be traced sporadically in some cases, but we can generally say that businesses in Romania (including family businesses) have no more than 20 years of activity. The revival of businesses in post-communist Romania shows that the entrepreneurial spirit had never died out. According to Family Business Network Romania, over 50% of the private sector is made up of family businesses (Cambieri, 2013). However, it should be noted that most of them are still in their first generation of owners. The second generation of entrepreneurs will have to take over the family businesses built up by their predecessors within the last 20 years. The transfer of businesses will be from the generation of entrepreneurs born and educated before the 1990s to a generation that has evolved in a fundamentally different socio-political environment.

It is necessary and important to know the role of SMEs in the national economy before determining the role of FBs in the national economy. This is because family businesses form a significant percentage of SMEs. Generally, microenterprises (over 90% of SMEs) can be considered family businesses with 0 to 9 employees. A considerable number of small and medium-sized enterprises are also family businesses.

General overview of the SME sector and its role in national economy

After 40 years of centralized planning in Romania, the transition to the market economy began in 1990. This transition was more difficult for Romania than other Central and Eastern European countries. Romania could not take advantage of an initial, natural and challenging model because the nationalized and centralized system of the communist economies obliterated the entrepreneurial capacities of present-day adults. They ought to be successful models of the youngsters nowadays.

The transition to a market economy allowed for the creation of a large number of SMEs. On top of boosting the number of SMEs, this phenomenon also led to the diversification of their activities. FBs can be distinguished from the total established businesses only at the National Trade Register Office (ONRC) where the documents to start a business are submitted.

In the last 20 years, a legislation framework was created in Romania and aligned with the EU's. This framework aims to formulate of policies as well as create government and non-governmental interest groups to encourage the development of the SME sector. (Table 1)

Table 1: Evolution of the SMEs' number

Size	2002	2003	2004	2005	2006	2007	2008
Micro	377,499	417,366	358,787	386,561	410,763	431,029	602,711
Small	30,231	33,856	36,392	39,128	43,419	47,022	49,560
Medium	7,761	8,147	9,121	9,158	9,322	9,577	9,753
TOTAL	**415,491**	**459,369**	**404,300**	**434,847**	**463,504**	**487,628**	**662,024**

According to the estimates, over 90% of SMEs felt the impact of the recession in 2008. Official data shows that the business environment has deteriorated. As seen in Table 2, the number of SMEs decreased dramatically in 2009, for 10 times more enterprises suspended their activities than in 2008.

Table 2: The impact of the economic crisis on SMEs after 2008

	2009	2010	2011	2012 (sem 1)
SMEs	517 870	468 561	429 035	441 712
SMEs + large enterprises	519 441	470 080	430 608	443 517

In Romania, more than 99% of all enterprises are micro, small and medium businesses. According to official data from the Romanian Statistical Yearbook - Enterprise Activity 15, NIS 2010 and National Council of Small and Medium-sized Enterprises in Romania (CNIPMMR) 2010, the percentage share of active enterprises in 2008 are as follows: 90.7% micro, 7.4% small, 1.6% medium and 0.3% large.

Of all active businesses in trade and other services in 2008, 92.3% were microenterprises, 6.6% were small enterprises, 1% were medium enterprises and 0.1% were large enterprises. Of the total number of active businesses in industry and construction in 2008, 78.6% were microenterprises, 15.7% were small enterprises, 4.7% were medium enterprises and 1% were large enterprises.

Even if the current Romanian economic situation were to be similar to that of USA, Japan and Western Europe, key differences will still be noticeable. This stems from the fact that SMEs have existed for many years in advanced economies, whereas they are newcomers in transition countries and trying to find their way in the new world economic order.

SMEs play a significant role in the national economy, as evinced by the high turnovers achieved by active SMEs. SMEs' turnovers contributed 58.8% to the economy in 2006 and over 60% in 2007. The private sector had higher turnover rates than the SME sector, for it contributed 83.9% to the national economy in 2004 and 89% in 2008. Despite the unfavourable economic situation and the unpredictability of the global financial crisis of 2009, the private sector contributed to 70.5% of the country's GDP. However, the private sector contributed 78.8% to Romania's GDP in 2010. The annual report of SMEs analyzes this development briefly (Raportul annual privind sectorul IMM din Romania, 2010, 31-37). The economic situation of SMEs will continue to deteriorate because restructuring plans and further market contractions eventually lead to the bankruptcy of many enterprises. As a result, companies in Romania concentrate their strategies on reducing the costs of resources instead of improving productivity. The Doing Business 2012 report shows the dire effects of this, for Romania fell from 65th place to 72nd in the ease of doing business performance indicator.

Family businesses today

Family businesses are private companies. They can be found amongst SMEs and large enterprises. Many challenges confront family businesses. A large majority of family business owners do not have prior experience in business, as they were previously employees in state enterprises. the main objective of Romanian family business owners is eking out enough to sustain themselves in daily life. Since they have limited financial resources, it has not crossed these business owners' minds to further expand and develop the business. This is because they lack extensive technical and material endowments.

A high percentage of private entrepreneurs are preoccupied by their short-term needs. Since they are mostly concerned with fulfilling their basic needs, they do not have the long-term vision needed to develop their businesses, or adapt their strategies, products and services to meet market changes. The majority of these private entrepreneurs established their own businesses out of necessity.

The future evolution of family businesses is dependent on the extent to which they manage to overcome competition in the European market and improve their innovative capacities, skills, performance and education (Szabo et al., 2013; Hartescu, 2008). In Romania, family businesses (FBs) encounter the same difficulties as SMEs and large enterprises. Additionally, special policies to sustain FBs do not exist.

The ease of doing business performance indicator (World Bank, 2013) and the index of economic freedom (Miller et al., 2013) cover all aspects of the economic environment. They list the four pillars of economic freedom requiring the involvement of civil society and governments, namely rule of law, limited government, regulatory efficiency and open markets. As Table 3 clearly shows, the business environment in Romania is deteriorating.

Table 3

Countries / Rank & number of analyzed countries	**RO**	HU	CZ	SK	PL
Ease of doing business /183	**72**	51	63	48	62
Economic Freedom Index /179	70	37	28	67	**107**
Global competitiveness index/ 142	**77**	48	36	69	41

Source: Ease of doing business performance indicator (Doing Business 2013) and Index of Economic Freedom

We studied the relationship between institutional environment and the competitiveness of companies. We calculated the Pearson correlation coefficient, ρ, using data from EU countries. The results show a positive and strong relationship between ease of doing business and competitiveness ($\rho=+0.742$). Likewise, there is a positive and strong relationship between economic freedom and competitiveness ($\rho=+0.727$).

Thus, Romania needs to improve its business environment and the performance of its entrepreneurial activities if it is to meet the challenges of the EU Single Market.

2. DEFINITION OF FAMILY BUSINESSES IN ROMANIA

In Romanian legislation, family businesses are established by a natural person who then involves either his/her spouse, children over 16 years old or relatives four times removed in the enterprise. Under Law 300/2004, entrepreneurs can operate as:

- The individual who initiated the business, or
- Part of a family-owned business.

Under Romanian law, the natural person initiating the business must either be a citizen of Romania or a citizen of one of the other European member states. Before these persons can start independent business activities, they must register with the National Trade Register Office (ONRC). Family businesses do not have any legal personality in Romania.

Family-owned businesses (FA) are established by a natural person (i.e. a real human being and not a corporation or association treated by the law as a fictitious person). A family-owned business will comprise said natural person, this person’s spouse and/or children above the age of 16. Relatives may also be included in family-owned businesses so long as they are not more than four times removed from the natural person who established the firm. Family-owned businesses do not have any legal personality in Romania.

According to Government Emergency Ordinance (GEO) 44/2008, independent business activities may only be undertaken by the following:

- authorized Natural Persons (PFA);
- individual enterprises / sole proprietorship (II);
- family enterprises / family-owned businesses (IF).

Family-owned businesses in Romania must be established at the initiative of a living human being with the capacity for rights and duties. Businesses with legal personalities such as SMEs and large enterprises are treated the same regardless as to whether they are owned by natural persons, a large agency or the government.

The final report of the expert group on the overview of family business relevant issues (2009) posited that a firm of any size is a family business if: “the majority of decision-making rights is in the possession of the natural person(s) who established the firm or in 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. The majority of decision-making rights are indirect or direct. At least one representative of the family or kin is formally involved in the governance of the firm […] or the person who established or acquired the firm (share capital) or their family or descendents possess 25 per cent of the decision-making rights mandated by their share capital."

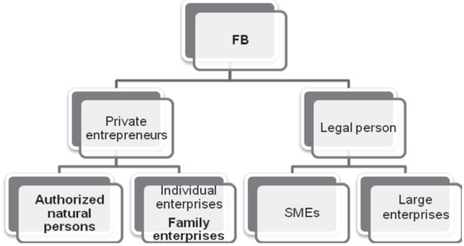
This definition reveals that current regulation in Romania is not exhaustive. FBs in Romania should not and cannot be reduced to entities without legal personality.

In order to clarify which businesses in Romania are FBs, we will next identify the various types of economic entities in the country.

Family businesses can be found in enterprises of all sizes and types. Before FB in Romania can be identified in accordance with the EC's definition and Romanian national law, Romanian companies have to be analyzed. To do so, we will examine the ownership of these companies as well as their entrepreneurial activities.

Under Romanian law, there are 2 types of business owners: private entrepreneurs (natural persons, i.e. a real human being) and legal persons (e.g. large conglomerates, associations, foundations and government bodies that are treated as persons by the law). Under Romanian law, these 2 types of business owners may be involved in entrepreneurial activities in 4 ways, namely, as authorized natural persons, individual enterprises (or family enterprises), SMEs and large enterprises. This is better illustrated in Figure 1.

Figure 1. Entrepreneurial entities that can considered FBs



Official data on enterprises do not reflect the presence of the family businesses, their current situation in the country or their contribution to the national economy.

3. IMPORTANCE OF FAMILY BUSINESSES IN THE NATIONAL ECONOMY

Family businesses cannot be limited to SMEs. Private entrepreneurs, such as sole proprietors, can also act like FBs. Because official data is missing, the importance of FBs will be evaluated on the authors' interpretation and judgement.

As defined in Romanian law, family businesses are named family-owned business (IF). According to the law, the natural person who registered the family-owned business is self-employed. This self-employed person can have family members as employees or he/she can work solely by himself/herself. The self-employed human being is deemed to be in a family-owned business because the "decision-making rights are in the possession of the natural person(s) who established the firm or in possession of their family members" (EC, 2009).

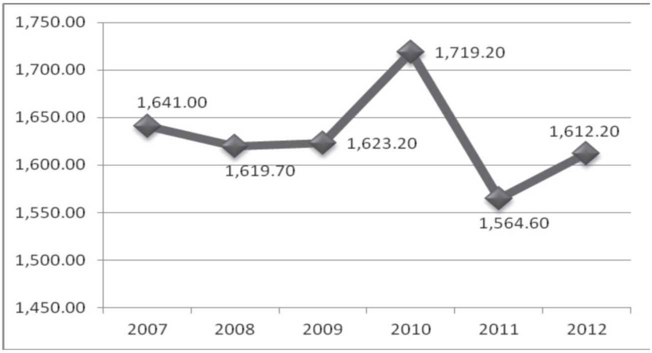
Self-employment and Private entrepreneurs

The National Institute of Statistics (NIS) differentiates self-employed individuals into 2 categories: workers in the family (i.e. agriculturalists) who represent 12.6% of the population, and authorized natural persons who present 18.9% of the population. All authorized natural persons who are self-employed are automatically deemed to be private entrepreneurs, according to GEO 44/2008. 67.3% of the population are employees or remunerated/salaried persons, while 1.2% are employers (NIS, 2012). According to NIS (2012), 31.5% of the Romanian population is self-employed. According to Eurostat (2010) however, only private entrepreneurs are self-employed. Owing to their different definitions of self-employed persons, Romanian national data on self-employment is very different from the European one.

Self-employment is widespread in Romania. In 2012, Romania was ranked 4th in EU-27 after Greece (31.9%), Italy (23.4%) and Portugal (21.1%) with a percentage of 20.1% (Teichgraber, 2013). Analysis of Romanian self-employment longitudinal data shows that it has approximately remained at the same level. When compared to the other transition economies, self-employed persons in Romania make up a large percentage of its population.

Private entrepreneurs with their own businesses create subsistence both for themselves and their families. The increasing number of self-employed people in Romania means a decrease in unemployment levels and an increased number of gainfully employed people.

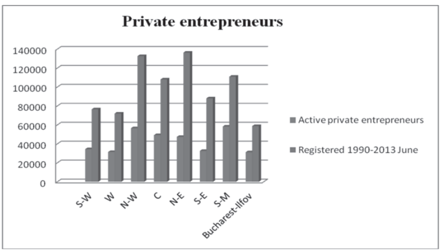
Table 4: Self-employed / private entrepreneurs in Romania (thousand of persons)



Source: Eurostat

As seen in Figure 2, there are two developments in Romanian entrepreneurial activity. While areas with low levels of urbanization have very few SMEs, these same areas have a great number of private entrepreneurs.

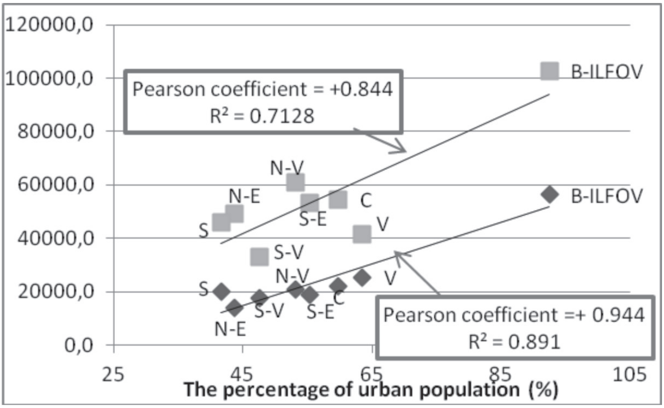
Figure 2



Development regions	SMEs/1000 inhabitants
N-E	12.52
S-E	17.66
S	14.18
S-W	14
N-W	21.8
C	20.66
W	12.52

Authors' calculation based on ONRC data

Figure 3



• The relationship between level of urbanization and number of SMEs

• The relationship between level of urbanization and GDP per capita in development regions

Next, we will use GEO 44/2008 to delve into the evolution of private entrepreneurs' independent activities. Table 5 compares the activities of family enterprises with the activities of authorized natural persons and individual enterprises in industry, trade, hotels and restaurants, tourism, transportation and other services.

Table 5

		Industry	Trade	Hotels & Rest.	Tourism	Transport	Other services	Total
Family Enterprises	2008	11,485	18,620	2,733	205	1,750	12,062	46,855
	2009	7,908	12,820	1,882	141	1,205	8,306	32,262
	2010	4,443	7,204	748	155	677	4,902	18,129
Individual Enterprises	2008	57,236	22,098	2,094	526	58,576	119,494	
	2009	60,646	23,414	2,219	557	62,066	126,613	
	2010	60,055	23,186	5,229	1,185	61,461	121,715	

Source: Enterprise Activity 15, NIS

The low number of family enterprises (FE) vis-à-vis individual enterprises can be explained by the disadvantages of FE activities in Romania, which we will discuss in section 4. The number of family enterprises without legal personality in Romania is presented in Table 6.

Table 6

	2007	2008	2009	2010
Family enterprises	39,433	46,855	32,262	18,129
Authorized Natural Person + Individual Enterprises	145,609	260,024	275,515	272,831
Total Private entrepreneurs	185,042	306,879	307,777	290,960

The total number of registered economic entities in Romania with and without legal personality is represented in Table 7.

Table 7

	Individuals and Private entrepreneurs	Legal person
Total registered 1990-2013 (June)	783,294	1,633,699
Active in 2013 August	341,072	711,601

Source: ONRC, 30 June 2013, nr. 259

Table 8 shows the role and importance of the different economic entities in Romania's national economy. The authors' calculations are based on official data published by NIS as well as unofficial data given by Family Business Network (FBN) which states that 50% of the private sector is made up of family businesses (FBs) and 65% of SMEs are FBs.

Table 8

Number of active enterprises in Romania	443,517
Number from the total that are family businesses	na / own estimation 221 758
Number from the total that are SMEs	441,712
Number from the total that are individuals or solo proprietors acting as FB	341,072
Number of physical able people in Romania	9,964,000
Number of people who are gainfully employed in Romania	9,262,807 (and 701,000 unemployed)
Total number of employees	6,229,375
Number from the total that are in FB	na / authors' estimation, 2,400,000
Number from the total that are in enterprises	4,681,104
Number from the total that are SMEs only	2,900,000 / authors' estimation
Number of non-salaried person	3,033,432
individuals - solo proprietors acting as FB	1,754,507 (18.9% private entrepreneurs, own workers)
	1,167202 (12.6% are agriculturalists working with their families)
employers	111,723
Share of contribution of FB to GDP in %	na / authors' estimation, 39%

Authors' calculations based on NIS and ONRC Data

4. CHARACTERISTICS AND UNIQUE QUALITIES OF FAMILY BUSINESSES

As previously mentioned, family businesses in Romania are without legal personalities. Family business is understood in Romanian law to only apply to the independent activities of family enterprises or family-owned businesses (IF). Enterprises (SMEs and large enterprises) which are family businesses are not treated as separate entities. FBs are included as "enterprises" in official statistics and large FBs are officially SMEs under Romanian national law.

Thus, a discussion of the characteristics and unique qualities of FBs in Romania will have to be confined to its definition under Romanian law. We are, therefore, only able to talk about family enterprises (IF).

Advantages of family enterprises (IF) are:

- Different tax rates. Taxation for IF is lower than that of commercial companies like SMEs and large enterprises;
- License fees are lower and fewer;
- A simplified accounting system.

In the matter of taxes, family enterprises are required to do the following:

- a single-entry bookkeeping system;
- maintenance of a record of transactions based on invoices, cash receipts and accounts payable and receivable;
- keep records of their inventory as well as registers of monthly expenses and revenues.

Family enterprises, therefore, present a useful and helpful opportunity for self-support. They are important to the family. The family also does not seek to add value to their business. Family enterprises do not produce venture level output measured by GDP per capita.

The disadvantages for family firms is that the business cannot develop for the duration of its existence. Other disadvantages for IF include:

- Less possibilities of the development of the business;
- Less possible access to financial assistance and loans;
- Restrictions vis-à-vis the site of business;
- Expenditure is limited to the amount needed to generate incomes, in accordance with the tax code.

According to GEO 44/2008, independent business activities can be conducted by 3 forms of enterprises, namely sole partnerships (II), family-owned businesses (IF) and an enterprises established by an authorized natural person (PFA) . They each have their own advantages and disadvantages.

The law states that sole partnerships (II) are allowed to be involved in a wider range of businesses, whereas family-owned businesses (IF) and enterprises established by authorized natural persons (PFA) can only carry out one authorized business activity.

A sole partnership (II) has the advantage over an enterprise established by an authorized natural person (PFA) and a family-owned business (IF) because it is legally allowed to hire staff when their business grows. IF and enterprises set up by PFA are not allowed to hire employees under current Romanian law.

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

While there are no institutional actors in Romania sustaining family businesses, entrepreneurial activities are supported and encouraged by the law, government bodies, public and private institutions, non-governmental organizations and through business and consulting centres. These structures create a steady and coherent business environment for the development of the private sector, which in turn helps Romania to create a real market economy open to foreign markets and companies.

One government structure supporting business endeavours is the Ministry of Economy. Through SMEs, tourism and developing a safe business environment, the Ministry of Economy in Romania encourages and sustains the entrepreneurial activities of various enterprises.

Non-governmental structures encouraging the growth of entrepreneurial activities include consultancy centres and support structures for business development. Some examples of these non-governmental structures are the 8 Regional Development Agencies, the Post-Privatization Foundation (FPP), the Romanian Centre for SMEs (CRIMM), the Centre for the Implementation of Performance Management, the Group of Applied Economics

(GEA), the Romanian Center for Economic Policies and the network of SME Development Centres.

Organizations, business confederations and representative professional associations for various industries exist in the country. Some of them are the National Union of Romanian Employers (UNPR); the General Union of Romanian Industrialists (UGIR); the Employer Confederation of Romanian Industry (CONPIROM); the Employers' Confederation for Industry, Services and Commerce of Romania (CPISC); the Alliance of the Romanian Employers' Confederation (ACPR); and the Foreign Investors Council of Romania (FIC). There are also various regional employers' confederations such as the Union of Free Professions in Romania and its 18 member organizations. Of the member organizations in the Union of Free Professions in Romania, the National Agency for Small and Medium-sized Enterprises and Cooperatives (ANIMMC) is of particular note. It is subordinated to the government and officially tasked with the implementation of information, consultancy and financial programmes for the development of SMEs. National confederations for employees and employers' associations such as the National Council of Private SMEs in Romania (CNIPMMR), the Romanian Association of Businessmen, Alliance of Romanian Employers' Confederation (ACPR), institutions for financial support and other business and consultancy centres gather entrepreneurs from different professional categories so as to protect their members' interests. The National Institute for Small and Medium Enterprises (INIMM) was founded in 1998 and promotes SMEs interests at the national level. It also supports technology transfer activities for SMEs, provides consultancy services to SMEs at a low rate and presents studies on the SME sector in Romania. More information on INIMM may be found on its website, http://www.inimm.ro.

The Chamber of Commerce and Industry of Romania (CCIR) was founded in 1990. It is currently the coordinator and national representative of all businesses in Romania. It is also a member of the Association of European Chambers of Commerce and Industry (Eurochambres). It is the most powerful business association in the country, as it represents Romanian businesses environment and holds together the chambers of commerce, business associations and the entire network of commerce and industry associations. It is a non-governmental and self–sustaining organization supporting the business community's interests. Most of its members are in dialogues with the national authorities and international organizations.

It supports the business community by providing business services, organizing economic missions, training programmes and detecting business opportunities. Collaboration with CCIR enables both Romanian and foreign companies to develop their businesses for domestic and foreign markets. CCIR provides training programmes to the staff of many business enterprises. It also disseminates economic information on various commercial sectors. Details of its services and achievements may be found on its website, http://www.ccir.ro.

The National Council of Small and Medium-sized Private Enterprises in Romania (CNIPMMR) was set up in 1992. As stated on its website, http://www.cnipmmr.ro, it aims to promote and protect the economic, production, commercial, financial, juridical and other interests of SMEs. It is a member of most of the important international organizations and cooperates with similar associations from abroad. CNIPMMR has 41 branches all over the country.

Crafts Foundation Romania (http://www.crafts.ro) was established in 1997 and represents crafts enterprises. It promotes public recognition of Romanian crafts at the national and international levels. It also cooperates with other public and private crafts organizations.

An example of a business organization for social enterprises is the National Union of Consumption Cooperatives (http://www.centrocoop.com) which incorporates business organizations, enterprises and entrepreneurs. The Uniunea Nationala a cooperatiei mestesugaresti or National Union of Handicraft and Production Cooperatives of Romania (UCECOM) represents all the handicraft cooperatives in Romania to the government as well as regional and international bodies. More information on UCECOM may be found on its website, http://www.ucecom.ro/engleza/engleza.htm. It handles business matters related to the production and export of textile products, clothes and knitwear, handmade knotted and woven carpets, leather footwear and other leather goods, furniture and other wooden products, metal products and handicraft articles. The services provided to the population and companies registered with it include, body care, motor vehicle repairs, training, advertising, the organization of trade fairs and exhibitions, tourism and medical treatments. Its commercial activities of sales, imports and exports are done through various specialized companies.

Among the national associations of Romanian credit unions, Alianta Confederatiilor Patronale din Romania or Alliance of Romanian Employers' Confederation (ACPR) is the most notable. It was founded in 2004 and represents the collective interests of the business community. See http://www.confederatii.ro/ for information on ACPR.

Organizations which represent enterprises run by women entrepreneurs also exist in Romania. The most notable of which is the Association for Women Entrepreneurship Development (ADAF). It was founded in 2001. See http://turing.cs.pub.ro/cec-wys/organizatiien.html for more information. Another organization for Romanian businesswomen is the Coalition of Women Business Associations (CAFA), founded in 2004. Details on its activities may be found on its website, http://www.cafa.ro.

Of the organizations representing enterprises run by young entrepreneurs, the Junior Chamber International Romania, founded in 2002, is the most prominent. It has branches in Timisoara, Bucharest, Constanta, Brasov, Buzau, Cluj-Napoca, Lasi, Craiova and Lugoj. Another affiliate branch will be opening soon in Târgu Mureş. See http://jciromania.ro/ for more information.

The Young Entrepreneurs Associations from Romania (PTIR) is the only employer organization presenting the interests of young Romanian entrepreneurs aged 18-40 at the national level. It is a member of CNIPMMR and holds membership to the European Organization of Young Entrepreneurs (JEUNE). For more information, see http://ptir.ro. PTIR has 6 regional structures, namely, the Young Entrepreneurs Associations in the South West Oltenia region, west region, southeast region, South Muntenia, the central region and the northwest region. Its core activities are to represent the young entrepreneurs' interests vis-à-vis the national authorities, provide consultancy and assistance to young entrepreneurs in Romania, elaborate and implement specific programmes, develop working reports and set up networks between young Romanian entrepreneurs, and organize entrepreneurial training programmes.

After 6 years of expansion in eastern Europe, the Family Business Network (FBN) established a branch in Romania. Its first branch in this part of Europe was opened in Bulgaria in 2007. Since then, it has set up branches in Ukraine, Hungary and Poland. The Romanian FBN Chapter was founded in

2013 by well-known entrepreneurs, Mircea Tudor (head of MB Telecom), Sorin Preda (managing director and founder of engineering firm, Global Vision), Florin Madar (owner of the distribution company, Temad) and Gabriel Marin (chief executive officer of IT company, Omnilogic).

6. CHALLENGES OF SUCCESSION

Romanian family businesses are vulnerable to the challenges of succession. Generally, two generations participate in family businesses. "An effective communication among the two generations plays a critical role in fostering a mutual engagement in the family business," (Fotea et al., 2012). As there is no tradition in Romania in this respect, the involvement of the younger generation consequently results in the failure of the business.

In Romania today, a family business is often established and controlled by a single individual entrepreneur. In some cases, it is managed by two or three members of a family, with one of them being the dominant business personality. Since family businesses are controlled by one main entrepreneur, their business relations, reputations, capacities to react and entrepreneurial styles are closely linked to that same person. This is unsurprising because business partners, banks, lenders and providers sometimes rely more on the personal capabilities of such an entrepreneur than anyone else to resolve issues.

On the other hand, if this same individual should become incapable of running the business, trust in the business may disappear to the point where the enterprise is no longer solvent.

"Obviously, such situations can be solved if succession is prepared, if the business is run by a management team capable to efficiently replace the main entrepreneur. However, in the case of "first generation" family businesses (as are the majority of those in Romania), these aspects are not often well settled and therefore become a vulnerability or risk factor," as Alexander Milcev of Ernst & Young rightly points out (Dan Popa, 2012). There are several Romanian businesses that reported considerable drops in revenue or faced insolvency since their founders passed away. Examples of these are Edy Spedition Transport, and food processing company, Aldis.

On the one hand, a business's high dependency on the individual entrepreneur can be an extremely valuable asset and ensure the smooth running of the enterprise. On the other, it is a burden when business issues become too much to handle and that individual is no longer available to solve these problems.

Early participation in the day-to-day practice of the business enables children of enterprise owners to identify with the business. It will imbue them with a sense of ownership and responsibility for the business. In so doing, the owner of the enterprise is providing them with hands-on entrepreneurial learning, equipping them to run the business as well as teaching them to identify and capitalize on opportunities.

7. SUGGESTIONS AS TO THAT WHICH THE GOVERNMENT AND CIVIL SOCIETY SHOULD DO IN ORDER TO RECOGNIZE AND SUPPORT FAMILY BUSINESSES

An analysis of Romania's private sector, in concordance with the European definition of family businesses, has revealed the significant presence of family businesses (FBs). Gabriel Marin, President of the FBN Romanian Chapter and founder and CEO of Omnilogic, declared that unofficial data indicates over 65% of businesses in Romania are family businesses.

Because of the dearth of official data, there are no statistics on the contribution of family businesses to employment, total turnover and GDP. The role of FBs in national economy cannot be accurately surmised as well.

To remedy this, the government must treat the problems of family businesses as a priority. It can do so by first defining family businesses at the national level. Secondly, it should also ensure that an exhaustive definition of family businesses should be enshrined in the law.

Upon determining a national and lawful definition of family businesses, national surveys should be carried out so that Romania has official statistics on FBs. The resultant data will be very useful to government policies on the economy. FBs must be acknowledged as separate entities from SMEs in their national and legal definitions as well as in official statistics. The legislative framework must be further developed through business succession educational programmes, taxation measures and so on to encourage the growth of family businesses.

CONCLUSION

Romania's objective is to conform to the Classification of Activities in the National Economic (CAEN) approved Government Decision No. 656/1997 as well as to keep in line with NIS order no. 337, issued on 20 April 2007, which states, "an entrepreneur can develop, in the same legal form acknowledged by law, specific activities in various economic domains." In 2007, 62 economic activities were defined by NIS. In 2008, Romania adopted the Statistical Classification of Economic Activities in the European Union (NACE) and all its revision codes alongside CAEN in a bid to bring its economy in line with European standards.

Romanian law regards family businesses as family-owned businesses or family enterprises engaged in independent economic activity. Under Romanian law, family businesses are without legal personality. Family businesses that are SMEs and large enterprises are not treated as separate entities from SMEs and larger companies. Since family businesses have no legal personality regardless of size, they can only legally exist as SMEs or large enterprises. This is reflected in the official statistics where figures and analyses are conducted for SMEs and large enterprises as a whole. Despite the lack of official and legal recognition, there are many family businesses in Romania.

The PwC Family Business Survey 2012/2013 for Romania revealed that several large enterprises like Transavia, Betty Ice, Electrogroup, Moda Tim and Kasarom were in fact family businesses. Thus, careful analysis of the various enterprises in Romania will show that many other SMEs and large enterprises are actually family businesses as well.

More than 18,000 family enterprises and other reduced size business entities like solo proprietors have no legal personality in Romania. The private entrepreneurs, self-employed and solo business proprietors also act as family businesses. It would be expedient to acknowledge the presence of such enterprises in the country by defining family businesses under the law and officially recognizing their contribution to the national economy. To that end, the Romanian government is advised to formulate and implement policies to encourage and sustain the development of family businesses.

Family businesses in Romania and other countries face the same problems. Firstly, family businesses in all countries tend to have no clear distinction between the familial and professional. This means the family members who work for the firm and the family member who owns the firm do not keep family matters (or their issues with each other) separate from business matters. Secondly, the owner of the family business is afraid of losing his/her business. This fear often affects business growth. Thirdly, family businesses do not have a developed management and organizational structure. Fourthly, there is insufficient succession planning in family businesses to allow for the smooth transition of ownership from one generation to the next. There are also obstacles in knowledge transmission as family business owners and their family members do not have access to business training and education programmes.

The fact that most family businesses are controlled by a single individual entrepreneur presents a vulnerability or risk factor.

Most businesses and start-ups begin as family businesses. To foster the entrepreneurial spirit in the successive generations of family entrepreneurs, entrepreneurship education must form part of the curriculum in all business related study programmes. Entrepreneurship education is different from general business and economic studies. The goal of entrepreneurship education is to promote self-employment as well as creativity and innovation. Communism destroyed the entrepreneurial system in Romania. The nationalized and centralized system of the communist economies has reduced the entrepreneurial capacities of present-day Romanian adults. The businesses of the communist era were crypto-communist in nature because entrepreneurs took advantage of their positions and relationships to high ranking communist officials to start their enterprises. Owing to a dearth of qualified teaching staff in entrepreneurship education, entrepreneurship educational programmes in Romania are wanting.

FAMILY BUSINESS PORTRAITS

Businesses without legal personality

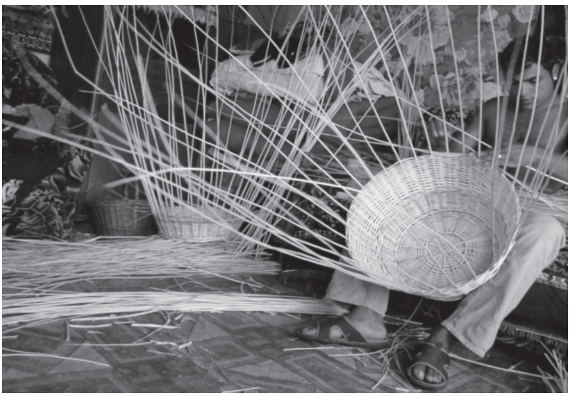
1. Romanian family businesses have no legal personality. Under current Romanian law, a natural person engaged in independent business activities is deemed to be running a family business. Romanian law also states that a family-owned business is where two or three people from the same family work together in one independent business activity.

Most small family enterprises in Romania are in the tourism and hospitality industries. These businesses offer either accommodation or tours. These tourism and hospitality oriented family businesses have formed a network in Romania and now have their own homepage http://www.romanianaccommodation.ro/index.html.

Vizimalom Panzio is an example of a Romanian family business in the tourism and hospitality industry. It is situated in the middle of the country and managed by a married couple. Upon starting the business in 1990, the couple slowly developed it. It has been refurbished and offers a comfortable and pleasant stay for tourists to the Harghita mountains. See http://www.szekelyfoldiinfo.ro/Menu/Szallashelyek/korond-szallas-vizimalom_panzio-korond-hotelek-villak-panziok.html for more information.

2. Authorized natural persons (PFA) allowed by the law to set up a business and private entrepreneurs that act as family businesses.

There are many Romanian family businesses falling into this category. These family businesses are engaged in a wide variety of activities. To highlight how an authorized natural person allowed by law to set up a business operates, we present a case study of gypsy basket makers. Gypsy basket makers can be found in different parts of Romania, such as Glodeni in Mures county. Their activities are very important, as they generate enough income to support their families. However, these businesses are not sustainable in the long run because they have not come together to form a network to sell products. These businesses lack the knowledge and education they need to better their enterprises and productivity.



3. Individual enterprise acting as family businesses.

An example of an individual enterprise acting as a family business may be found in Corund, in Harghita country, Romania. It is a pottery business specializing in the traditional pottery of Transylvania and is currently managed by the third generation of owners. This business was registered as a family association in 1990. Due to legislative changes, it became a family enterprise in 2008. However, the growth of the business and its hiring of employees means that it is classified under the law as an "individual enterprise" rather than a "family business". Although its official name is Lorincz Margit Individual Enterprise, it is essentially a family business with 14 employees. The children of the present owner are involved in the business because they have expressed their interest in inheriting the business. They are still schooling at the moment and receiving education to prepare them for the succession of the business.

Business with legal personality

1. A medium sized enterprise acting as a family business, Larix.

Larix, an herbal and fruit tea company, was set up in 1992 in Sovata, a small town in Romania. In 2001, Larix employed 30 people. In 2002, a Dutch investor took an interest in their products and helped them to export their products. Consequently, they started selling their products wholesale in 2008. Some performance indicators of the business are presented in the next table.

Profit and Loss	2008	2009	2010	2011	2012
An turnover	4,036,649	4,004,507	4,145,352	4,409,793	4,590,629
Total revenues	4,240,212	3,977,683	4,311,015	4,601,251	4,701,211
Total expenses	3,893,972	3,757,638	4,191,620	4,322,369	4,625,040
Profit before tax	346,240	220,045	119,395	278,882	76,171
Net profit	295,881	184,511	96,416	238,422	66,105
No of employees	65	61	54	57	53

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3.9. FAMILY BUSINESSES IN THE RUSSIAN FEDERATION

by
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ABSTRACT
This paper is based on the PricewaterhouseCoopers (PwC) research papers.
Keywords: Russia, family business, Russian Federation, advantages, challenges, international experience, economy, grants

1. HISTORY OF FAMILY BUSINESSES (FB)

Russia is a country of first generation family firms. This is because the vast majority of private companies were established less than 20 years ago, following the breakup of the Soviet Union. According to PricewaterhouseCoopers (PwC), 77% of private companies operating in Russia now are 20 years old or less. That same PwC study shows that 92% of Russian companies are owned by their first generation owners. The remaining 8% of companies in Russia are second generation family-owned companies.
Some analysts have also pointed out that in certain sectors of the economy, particularly in agriculture and trade, up to 80% of all small and medium-sized businesses are family-owned companies in the first generation.

2. DEFINITION OF FAMILY BUSINESSES

As the Russian Federation has no legislation on a common definition of family businesses yet, the way that Russia addresses the issues of family businesses is inextricably linked to its overall support of small and medium-sized businesses.

A family business is basically understood as any company belonging to the members of one family, some of whom work directly at this enterprise. Despite this commonly held understanding of family business, the term does not appear in Russian legislation nor is it officially elucidated in the Russian federal legislation.

At the regional level however, family business is used in legal acts in some of the regions of the Russian Federation. For example, the regional support programme of SMEs in the Chelyabinsk region contains the following definition:

“The owner of the family business is its head. Its founder is the person who first owned it and/or the owner’s close relatives. The circle of close relatives is determined by the Family Code of the Russian Federation.”

3. IMPORTANCE OF FAMILY BUSINESSES IN THE NATIONAL ECONOMY

Family businesses in Russia play a vital role in the country’s economy by supporting social initiatives, creating jobs and adding stability to a balanced economy.

Russia strives to develop family businesses because the experience of other countries has yielded palpable positive aspects and advantages, such as:
- high rate of decision-making;
- steady corporate values;
- high personal motivation of employees;
- high level of independence.

However, family businesses also face a number of challenges, such as:
- lack of professional training;
- financial difficulties (specially with getting loans);
- property problems.

Russia has initiated some programmes in an attempt to solve these problems. For example, the Russian Ministry of Economic Development offers training and access to financing through the State Programme for the Support of Small and Medium Enterprises (SMEs).

4. CHARACTERISTICS AND UNIQUE QUALITIES OF FAMILY BUSINESSES

Family businesses in Russia can be divided into two categories, urban and rural.

Family businesses in the rural areas are of particular importance. It is impossible to develop Russia’s agricultural sector and its contribution to the economy without developing family farms.

Urban family companies, on the other hand, predominantly thrive in spheres that are atypical for large and medium-sized businesses. That is to say, urban family enterprises can mainly be found engaged in small wholesale and retail trade, consumer services, small catering businesses, renting of household equipment, minor repairs and construction as well as accounting and auditing work.
Whether a family business is rural or urban, the basic definition remains the same. It is a company belonging to the members of one family, some of whom work directly for this enterprise.

5. INSTITUTIONAL ACTORS, SUPPORT POLICIES AND INITIATIVES

Currently, Russia has no special support measures for family businesses at the federal level. There are only regional support measures.
For example, the State programme for the Support of SMEs in the Republic of Khakassia as well as in the Belgorod and Chelyabinsk regions, assist family businesses in the following ways:

- grants compensating the family enterprise for the costs of implementing business projects;
- assistance in promoting family business products to a wider market;
- organization of family business contests, forums, assemblies and other events at the regional level.

6. CHALLENGES OF SUCCESSION

The State Programme for the Support of SMEs also ensures that small businesses are provided with access to credit. In the 80 regions of the Russian Federation, regional microfinance organizations and state guarantee funds providing micro loans and guarantees for the obligations of small businesses were set up.

The State Programme for the Support of SMEs has likewise come up with appropriate support measures for insufficient professional business training by:

- providing certificates to the entrepreneur so that he/she can choose his/her educational institutions and training areas;
- directly providing educational services;
- issuing grants that partially pay for these educational services.

7. SUGGESTIONS AS TO THAT WHICH THE GOVERNMENT AND CIVIL SOCIETY CAN DO TO RECOGNIZE AND SUPPORT FAMILY BUSINESSES

In Russia, family business is still a new construct. This form of entrepreneurship only came to being 20 years ago. The Russian government is dedicated to the development of family businesses, as it knows these enterprises have much to contribute to the economy. To this end, Russia has been studying the international experiences of family businesses as well as the various family business support programmes around the world. Since family businesses the world over face more or less the same problems, Russia is very interested in the problems faced by such enterprises abroad and the ways in which these issues might be solved.

The following are suggestions for the further growth and development of family businesses in Russia:
- the government should learn from international experience;
- the government should carry out activities to promote family businesses in the country;
- the government should organize family business contests, forums, assemblies and other events.

CONCLUSION

The dynamic development of family businesses in the Russian Federation depends on the implementation of support measures. These measures should ultimately create a supportive institutional environment for all businesses in Russia. Doing so will allow Russia to be on par with developed economies where family businesses are not only the most economically active small enterprises, but also a significant contributor to GDP.

FAMILY BUSINESS PORTRAITS

MOSCOW WORKSHOP OF CLASSIC COSTUMES

An example of an urban Russian family business is The Workshop of Classic Costumes in Moscow. It is a microenterprise that exclusively makes men’s suits.

All members of the family are involved in the work process. The head of the family is the manager of the business as well as the accountant and driver. His wife is in charge of purchasing materials and tailoring. His children are responsible for taking orders from customers and tailoring.

The family is planning to expand the business by opening another studio for women's clothes.

The eldest son is the successor of the family business and he has recently completed his degree in management. The other members of the family are unaffected by the founder's succession plans and intend to continue working in the studio.

AMIR KHISAMOV'S RURAL FAMILY COMPANY IN TATARSTAN

Amir Khisamov of the Republic of Tatarstan founded his own rural family business. He started his business by selling produce grown on the land he received after leaving the collective farm. When he realized that he could expand his business to meet his customers' demands, he enlisted the help of his relatives from the same village and rented land from the other villagers. He repays his rent to the villagers in kind through the grain he produces or in forage grasses.

Owing to his success, his family now owns over six hundred acres and employs twelve workers.

Due to the regional support programme of SMEs, his family was able to purchase a new tractor and a mini-bakery a few years ago. One of his sons also received a grant for building a mill.

This family business is a closed cycle going from the field to the counter. That is to say, the business expanded from one that grew wheat to one that used that wheat to bake bread.

Amir has three sons. There is general agreement that the middle son will continue the family business. The others are amenable to helping him in the business when he succeeds to it.

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3.10. FAMILY BUSINESS IN THE REPUBLIC OF SERBIA

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ABSTRACT
The paper contributes to the understanding of family firms in Serbia by examining their importance to the national economy, their tradition of entrepreneurial family spirit as well as their macroeconomic and business work environment. To better understand the ways in which they sustain their businesses, we will examine the institutional infrastructure support, educational, innovation and financial support offered to them. Literature reviews, analyses of available research data on the subject in Serbia and theoretical views on family firms form the backbone of this paper. In the turbulent and complex mar¬ketplace today, it is difficult to achieve strategic competitiveness. These difficulties are compounded when leaders do not have a clear understanding of that which affects a firm's performance. The findings of this paper address these issues by identifying factors affecting family business performance and delving into the unique problems of family bu¬sinesses. Recommendations will also be made to the policy makers in Serbia so as to encourage the creation of a supportive entrepreneurial infrastructure for family businesses. Although recent electoral campaigns of Serbian politicians emphasized the importance and promotion of family business development, this is not so much due to the politicians' awareness. The claim that family businesses should be developed is so overused by politicians that it is doubtful the politicians are knowledgeable about the ways in which family entrepreneurship may be encouraged, strengthened and developed.

Keywords: family firms, SMEs, perspectives, entrepreneurial, business, theoretical, behaviour

EL Classification: G32, G34, M13, M14, L20, O53

1. INTRODUCTION

Family businesses make up 65-80% of all European companies and account for 40-50% of all jobs in Europe. Family businesses constitute a substantial part of existing European companies and play a significant role in strengthening the dynamism of the real economy. 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 represent.

Family businesses are an important part of the national economies of many countries (Mandl, 2008), including Serbia (Grozdanic, 2006; Grozdanic et al., 2008 and 2009). Though the vicissitudes of the economy is not a new phenomenon in Serbia, family businesses have endured and often prospered through difficult times.

As families in business have an enlightened self-interest in the enterprise they own, they infuse it with a controlling set of values. Families in business tend to plan long-term and invest accordingly.

The contribution and stability that family businesses bring to society is now adequately recognized and there is a positive curiosity as to the features that make it a successful organization. It is the Serbian Family Business's mission to convince the government and policy makers to maintain a healthy environment in which family businesses can thrive by removing discriminatory measures against them and promoting business best practices among them (Radovic-Markovic et al., 2013).

There is growing recognition, however, that families often have portfolios of interconnected businesses ranging from formal family business groups (Gedajlovic et al., 2004) to family members helping each other to set up individual businesses. Many families create teams of family members, which found and develop several businesses over time. We do not know the full extent of family entrepreneurial team (FET) start-ups, but studies in related fields suggest they could represent a significant proportion of entrepreneurial activity. Family firms are widely recognized to represent the majority of businesses worldwide. In most countries, over 60% of firms are believed to be family firms. In some other countries, 95% of enterprises could be family businesses. Alongside increasing worldwide evidence that teams of family members have been coming together to develop portfolios of businesses, there is growing recognition of the importance of portfolio entrepreneurship. While many new firms have been started by family teams (Francis & Sandberg, 2000; Ucbasaran, Lockett, Wright, & Westhead, 2003), family influence on these enterprises is not understood. Given the extent of family business activities and evidence that entrepreneurial team start-ups perform better than ventures founded by individuals, the formation of FETs may be a more dynamic process than that of non-FETs. This might be because family members are often socialized into the business from a very early age and individual family members may join the businesses at varying points in time. FET formation may be motivated by very different drivers to other types of entrepreneurial teams. For example, it may be driven by altruism to provide opportunities for family members, or it may be a collective response to stewardship of the family's assets. In this paper, we highlight a commitment to stewardship geared towards the growth of the family's assets, which we term, "entrepreneurial stewardship." Theories previously used to explain the formation of entrepreneurial teams may be less relevant within the context of the family. Similarly, there is a body of evidence about the employment and succession of family members within a family business, but very little is known about the membership dynamics of FETs. Families are a unique bounded network, and FETs restricting membership to family members draw from a limited pool of talent. Studies indicate that membership of entrepreneurial teams is associated with the resources and human capital of individuals and their affinity with others (Forbes, Borchert, Zellmer-Bruhn, & Sapienza, 2006). Family members bring trust, altruism, stewardship, common values and shared understanding with them to the business, all of which ultimately provide a competitive advantage for the team (Barney, 1991; Barney & Hansen, 1994; Davis et al., 1997).

Family companies have many features and may be businesses of any size. Most family businesses are small and medium-sized companies, but the public usually does not know that there are many large family-owned companies too.

In developing economies, it is common for family ties and relationships to be more overt in business activities. Developing economies are characterized by institutional voids, market imperfections, unreliable information flows, and fragile legal and financial frameworks.

2. LITERATURE OVERVIEW

The family business is often said to be a special kind of firm. It is special in that family members involved in the business combine family life and work. Therefore, it is difficult to view the business, its management and its ownership separately.

As the study of family businesses evolved, so did different ways of viewing these enterprises. The common theories used to analyze family business management are listed below:

- The agency theory (Schulze et al., 2010) is employed to explore the relationship between a firm's ownership, management structure and financial performance. Where a separati¬on of ownership and control exist, agency control mechani¬sms are put in place to align the goals of the managers (agents) with those of the owners (principals).
- In the field of strategic management, the resource-based view of the firm (Habbershon & Williams, 1999; Habbershon, Williams & MacMillan, 2003) has been successfully used to explain long-term differences in firm performance that cannot be attributed to industry or economic conditions. As family firms are unusually complex, dynamic, and rich in in¬tangible resources (e.g., Habbershon & Williams 1999), the research-based view gives family business researchers an appropriate means of analyzing family and non-family business performance differences.
- The stewardship theory (Miller & Le Breton-Miller, 2006a & 2006b) provides greater insights into ownership and ma¬nagement than the agency theory. This is because it acknowledges that closely held and managed family firms may exhibit an organizati¬on-serving culture and focus on non-financial objectives. Such behaviour may retard the firm's financial performance.

The further evolution of the field at the end of the 1990s led family business studies to become more theoretically sound. As a result, a wealth of articles started appearing in top tier journals and special issues of other publications.

Many authors (Habbershon et al., 2003) suggest that, in family-influenced firms, the interaction of the family unit, the business entity, and individual family members create unique systemic conditions and constituencies impacting the performance outcomes of the family business. In their comparative study, Daily and Dollinger (1992) found that family-owned and -managed firms do appear to achieve better results than professionally-run firms in terms of financially oriented growth rates and perceived measures of performance. In contrast to these findings, Chrisman, Chua and Litz (2004) found that family and non-family firms had similar economic performan¬ce in short-term sales growth. Similarly, Grozdanic (2005) found no significant differences in performance (measured by economic efficiency and value added per employee) between Serbian family and non-family enterprises. Analysis of family and non-family firms through various other performance measures indicates the existence of mixed results and conflicting opinions regarding the impact of family control on performance, empirical family business studies (e.g., Chrisman et al., 2004; Dyer, 2006; Habbershon et al., 1999; Schulze et al., 2010;). Family business leaders are often characterized as entrepreneurs (Shepherd and Haynie, 2009). In attempting to understand the entrepreneurial thinking of family firm leaders, scholars have typically borrowed from the extant literature on entrepreneurship, which traditionally emphasizes the characteristics of individual entrepreneurs such as their personalities, propensity for taking risks and other personal values. However as Aldrich and Martinez (2003) point out, there are changes afoot in the ways in which entrepreneurship is studied, including:

a. a shift in theoretical emphasis from the characteristics of entrepreneurs as individuals to the consequences of their actions,
b. a deeper understanding of how entrepreneurs use knowledge, resources and networks to construct and reconstruct firms, and
c. the use of a more sophisticated taxonomy of environmental forces at different levels of analysis (population, community, and society) to understand how these external stimuli affect entrepreneurship.

2.1. Problems in defining a family business

Family businesses and non-family ones differ along important strategic and organizational dimensions. As the term family business implies, the most important diffe¬rences have to do with the ways in which a family influences the behaviour of a firm (Steier & Ward, 2006). A family business has no commonly accepted definition (e.g., Mandl 2008; Sharma 2004). Numerous attempts have been made to articulate conceptual and operational definitions of a family enterprise. Such efforts have also led to questions about the homogeneity of these enterprises. Empirical research has revealed that the degree of family involvement in family enterprises vary (Westhead & Cowling, 1998; Astrachan et al., 2002; Sharma, 2004). Attempts to capture the varying extents and modes of family involvement in enterprises have been directed in three general directi¬ons (Sharma, 2004): articulation of multiple operational de¬finitions of family enterprises (e.g., Westhead & Cowling, 1998), development of scales to capture various types of family involvement (e.g., Astrachan et al., 2002) and the de¬velopment of family firm typologies (e.g., Sharma, 2004). Family businesses in Europe have been widely equated to SMEs in public and policy discussions. However, this neglects the fact that there are also large family businesses. According to the definition adopted by the EU Expert Group on Family Business, a firm, of any size, is a family business, if:

- The majority of decision-making rights are 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.
- The majority of decision-making rights are indirect or direct.
- At least one representative of the family or kin is formally involved in the governance of the firm.
- 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.

  Based on recent calls to apply concepts established in entrepreneurship theory broadly to the family, a business is a family business, if:
- More than 50% of the voting shares are owned by one single family, and more than 50% of the management (team) are drawn from the family owning the business.

  In the narrow definition that is only applicable to second or later generation businesses, a business is a family business, if:
- More than 50% of the voting shares are owned by one single family, and more than 50% of the management (team) is drawn from the family owning the business, and the enterprise is owned by second or later generation family members.

In the majority of definitions proposed, different com¬binations of the components of the family's involvement in the business are used - namely, ownership, governan¬ce, management and generational succession. According to Chrisman, Chua and Litz (2004), these definiti¬ons do not explaining why family in¬volvement in a business leads to behaviours and outcomes differing from non-family busines¬ses. The authors describe such an approach to defining a family firm as the components-of-involvement approach. Instead of using this method, they propose a more adequate essence approach (Chrisman et al., 2003) "… based on [the] belief that family invol¬vement is only a necessary condition; family involvement must be directed toward behaviors that produce certain distinctiveness before it can be considered a family firm." In other words, two firms with the same extent of family in¬volvement may not be family businesses if either lacks the intention, vision, femaleness, and/or behaviour that constitute the essence of a family business. Following Chrisman, Chua and Litz, the conditions listed below also indicate family businesses:

- The family holds the main management functions (Handler,1989);
- The family has majority ownership or when a firm has over 51% family shares;
- A minimum of 2 generations are included in the running of the business;
- Every firm where business influences family;
- Firm employs family members first and provide them long-term salaries;
- Family management of the firm entails that capital is in the hands of one or more families, the family influences the firm's system of values and ensures the transition of power to the new generation so much so that it is very hard for non-family members to enter the firm (Neubauer & Lank, 1998)

The conditions are based on the ideas of ownership as management, inclusion of family members, creating transition opportunities for the next generation and intertwining family matters with that of the business and its ownership.

This short overview of the various definitions of family businesses indicates that many questions remain when defining a family business. As Serbia still does not have the legal framework or a legal definition of family business, this paper can contribute to further national discussions on a clear definition of family enterprises (Handler, 1989). Thus, in this theoretical part of the paper, a family business is understood in the context of the essence approach, viz. family business is characterized by family ownership or active involvement of two or more family members in business operations, regardless as to whether the family business was established by the current generation or inherited from previous generations.

The extent to which family members are involved in the business and the types of jobs they do in said business can vary significantly. It can be a full-time or part-time engagement. These family members can work in various managerial or non-managerial jobs in the business too. Regardless of size, all family businesses have the following in common: family ownership, family control or management of the company, active involvement of family members in business operations and the tendency to transfer the leading role from one member of the family to another.

3. FAMILY BUSINESS IN SERBIA

Family businesses are very important in the contemporary market Serbian economy and look set to be even more important with time.

Of all the business activities in Serbia, running a family business is the oldest. In fact, family businesses in certain parts of the country with long traditions and high entrepreneurial spirits are historically related to farmers, guilds, craftsmen, local traders, textile and shoes production, legal, medical, pharmaceutical, professional repair services etc. The level of connection between families and work may be seen in the pre-industrial age where families lived in the same space (buildings, farms, etc.) and performed economic activity together. Only with industrialization and the increased number of paid workers who were not family members did the realms of the family and work separate.

The SME sector in Serbia had 317,162 enterprises in 2012. Since there were 317,668 enterprises in total at the time, this means SMEs made up 99.8% of all enterprises in the country. 95.0% of these SMEs are microenterprises and solo traders, while 62% are privately owned. Even though there is no official data on family businesses and firms in Serbia, sporadic analysis estimates family businesses form 60-70% percent of the SME sector, mostly in professional businesses and services, solo traders or properties. Traditional family businesses are more often found in the processing industry than in textile and furniture production or chemical and pharmaceutical enterprises. The common processing based industries in which most traditional Serbian family businesses may be found are milk production, bread making, producing drinks, fruits and vegetables. The SME sector is very important to the Serbian economy as it contributes to 60% of GDP, 70% of employment, 65% of GVA and 52% of Serbian export.

Table 1: Number of enterprises in 2012

Enterprise type	SMEs	FB	Large	FB	Total		
	No.		No.		No.	SMEs structure (%)	FB out of enterprises Structure (%)
Enterprise	91,030		506		91,536	28.8	20.0
Entrepreneur/solo trader	226,132		0		226,132	71.2	60.0
Total	317,162		506		317,668	100.0	100.0
Structure (%)	99.8		0.2		100.0		

Source: Serbian Business Registers Agency, authors' calculation

Family businesses most often start their business in these sectors: Trade (27.0%), Processing (13.7%) and Accommodation and food services (12.1%).

As can be seen in Table 2, family enterprises dominate the low technology companies in the processing industry with slightly over 50% of trade and low profit margins. Also noticeable is the low number of family businesses involved in high technology processing sector.

Table 2: Indicators of SMEs in the processing industry (u %)

Industry	No. of SMEs	FB out of total SMEs (%)	No. of employees	Trade	GVA	Export	Import
SMEs in Processing industry	100.0	20.0	100.0	100.0	100.0	100.0	100.0
Low technology Production of food, drinks, tobacco, textile, furniture and paper	62.8	80.0	58.5	54.4	51.4	49.6	37.2
Medium technology sectors	27.8	10.0	25.2	25.4	26.8	28.7	29.6
Medium-high technology sectors Production of chemicals, electric gadgets, motor, travel equipment and products	6.5	6.0	12.7	14.3	16.,7	18.6	21.8
High technology sectors Production of pharmaceutical goods, optics, computers and electronic products	2.9	4.0	3.5	5.9	5.1	3.2	11.5

Source: Serbian Business Registers Agency, authors' calculation

In 2012, 10,672 SMEs in the processing industry and 10,096 in trade have realized RSD 788.1 billion in export, making up 45.9% of total export in the non-financial sector and 89.8% of the total SME export.

- 29.5% of all start-ups are initiated by existing family firms.
- 16.9% of new firms are related to existing family firms.
- 17.8% of established entrepreneurial firms are related to another family firm.
- 29.5% of start-ups expect family ownership.

3.2. Advantages of Family Firms in Serbia

Although there is no formal statistical data on family businesses in Serbia, these unique companies contribute much to the economy.

- Family businesses account for an important part (on average 40-60% of all jobs) in the Serbian private sector.
- Family businesses reinvest profits responsibly, preferring equity as opposed to debt financing.
- Family businesses act as responsible owners because of their long-term strategy towards stakeholder interests, employees, customers, shareholders and local communities.
- Family businesses ensure that a high sense of social responsibility is transmitted in its family values.
- Family businesses are especially concerned with building a local or regional base, thereby helping local communities and economies.
- Family businesses are the natural incubators of an entrepreneurial culture because they foster the next generation of Serbian entrepreneurs.
- Family businesses are the stewards of social and economic capital from one generation to the next, even though they are not supported by any specific legal framework in such a reinvestment.

The family firms have flexible time, work and money at their disposal. They work hard to innovate their products and services. Due to their workaholic natures, family firms accumulate a great knowledge and experience through the generations. They are thinking long-term and are able to make decisions for the company very quickly in a stable, credible and ethical manner. Advantages to the individuals involved in the family business are:

- No fear that someone has been put in charge of their destiny. They

know that their destiny is aligned with the family and the business it manages.
- An acute sense of achievement as a family.
- An incentive to keep going, despite adversities.
- Working for the family firm provides a certain level of freedom that one would not get in a public sector job.
- Working for the family firm is an opportunity for employment.
- Working together with close relatives helps keep the family together.
- Working together helps create wealth for the family, and one knows one has a share in that wealth.
- Working in a family firm offers one job security and reduces one's social anxieties.
- Working in a firm owned by one's family imbues one with a sense of pride and belonging.

These are not the only advantages of working in the family firm. Further benefits that families derive from being part of a family business in Serbia are:

- Loyalty. Family members in a family business tend to demonstrate a greater sense of loyalty to each other and to the business. They also tend to be more committed to the success of the business and are more passionate about the history, values, products and services, represented by the business.
- Labour pool. Multigenerational family businesses have access to a labour pool of family members who tend to be more loyal and committed to the business. Family members also tend to be more flexible in taking on different job functions and filling in for others.
- Key employees. Non-family employees appreciate and enjoy the unique work environment created by a family in business. The workplace tends to be less formal, more hands-on and personable. Many key employees are treated like extended family and are consequently able to develop strong bonds with both the family and the business.
- Patience. Family businesses tend to be less driven by short-term financial results, as they are prepared to sacrifice short-term gains for the achievement of longer-term goals. This allows the business to deploy resources in line with its strategic objectives. This long-term approach to investing is often referred to as "patient capital".
- Values. Family business owners have the opportunity to teach and

transmit their business and personal values to the next generation. Family members take pride in upholding these family values by incorporating them into their day-to-day work and personal activities. The work culture in a family business is often a reflection of these family values.

- Career opportunities. Family business owners pride themselves on being able to provide family members with career opportunities in the business. The family business can be an excellent training ground for family members aspiring to pursue business careers elsewhere or within the family business. Family members are also afforded the opportunity of becoming managers and owners of the business.
- Relationships. The opportunity to work with family members to pursue common business goals can be a very rewarding experience. Years of bonding among family members can create a strong sense of belonging and interdependency. Effectively managing these relationships will go a long way in ensuring long-term family and business harmony.
- Financial rewards. Successful family businesses are able to provide financial rewards to both active and non-active family members. It is not uncommon for family businesses to reward family members more than they could obtain elsewhere. This is often viewed as one of the privileges of being family.
- Succession. As well as providing career opportunities, family businesses also favour passing the business along to the next generation of family members. The opportunity to be an owner of the business can be both motivating and rewarding.
- Community and philanthropy. Most family businesses are active in their local communities. These communities benefit from the family members acting as volunteers/supporters, and from the business providing financial support and employment opportunities. This commitment to the community tends to permeate the generations and provides family members with opportunities and rewards that only stem from this ongoing community support.

3.3. Disadvantages of family firms in Serbia

However, there is no agreement in Serbia as to a definition of family business. There is also no legal definition of family firms under Serbian law.

Despite the many benefits to the family engaged in its activities, family firms can demonstrate a certain rigidness and be sceptical vis-à-vis business challenges. They may also be myopic when it comes to new capital involvement. Older family firms generally have problems with modernizing management and coping with new management styles. This could result in a lack of open communication between the different generations involved in the business, and eventually culminate in leadership and transition issues. To resolve these leadership and transition issues, family firms sometimes resort to the following:

- Agreeing to accept the decision of opening another business for the dissenting family member, or seeking recourse in the law and agreeing to the court's decision to close the firm;
- Buying the dissenting family member's shares in the family firm, or selling the company so as to prevent further quarrelling and disagreements related to the family firm's functions, expenditure and profits.

Owing to the interlocking nature of the family and its impact on the management and the ownership of the business, the ways in which the family members interact with one another in the firm creates challenges and unique opportunities for the business. Since family firms (FF) are dominated by one person, the patriarch or matriarch who founded the business, this founder will believe that his/her successor will dominate the business in the same way. The criteria that the FF founder will adopt in choosing a successor are as follows:

Criteria	%		%
Age		Oldest	13
	20	Second	2
		Youngest	6
Capability	22	Son	22
		Daughter	2
Decision making	95	FF level	53
		Studying for the FF	24
		Dismissed / uninterested	10
Experience	33	Experience in the FF	26
		Business experience gained elsewhere	7

Although the potential for relationship conflicts among entrepreneurial teams of unrelated (non-family) individuals is high, a team composed of family members does not necessarily ensure tranquillity. Thus, being a member of a family business can be a double-edged sword. This, then, is one of the disadvantages of being in a family business in Serbia. Other negative effects of being in a family business include:

a. Disadvantages to the individual and to the business
- The individual could feel trapped, as he/she may feel the family is preventing him/her from doing that which he/she really wants. There is also the pressure to perform better than non-family peers in the business as well as the cumulative stress from family, peer and employee responsibility. It is also very difficult for the individual to raise the liquidity of the family firm according to the family's expectations. If these pressures, personal wants and family expectations are not properly managed, they can tear both the family and the family business apart.

b. Disadvantages to the business.
- Family businesses can be regarded as amateurish when compared to professionally set up and managed businesses. It will be difficult for these non-family members to raise the necessary capital to join the family firm in the first place. Non-family members may not join because they cannot reach the top. The reason for this lies in the fact that senior family members often see themselves as having a job for life. Any decisions made by the family members in the firm may be too emotional. The senior family members in the firm may also have a deep-rooted aversion to change. As a result, it can be a struggle to continue the spirit of innovative entrepreneurship.

While the concept of stewardship for future generations comes naturally to many family-owned businesses, these companies also face their share of sustainability challenges.

4. THE POLICIES AND ACTORS OF INSTITUTIONAL SUPPORT

Institutional actors involved in the development of private sector policies often focus on the mobilization of private sector resources in the country, with a particular emphasis on small & medium sized enterprises (SMEs). Most private companies in Serbia are SMEs. These private companies contribute much to Serbia's economic integration in the EU. Through their local, regional and global commercial flows, they create jobs, introduce new technologies and help broaden the tax base. Government policies for the growth and development of the private sector centre on three complementary raison d'êtres, namely:

1. Strengthening the business environment for the private sector,
2. Strengthening the financial sector so as to facilitate family firms' access to financial assistance,
3. Supporting SMEs and financial intermediaries through capacity building and advisory services.

4.1. The business environment for the private sector

Before the business environment in Serbia can be explored, it would behove us to understand the main characteristics of the country. As of 2013, Serbia is an upper middle income country with a population of 7.2m. It is a part of Europe and Central Asia. Serbia's GNI per capita in 2013 was USD 5,280. Serbia has a high employment rate of 24.1%, according to the Serbian Statistics Office in April 2013. During this same period, the Serbian Statistics Office also reported that the unemployment rate for people aged 15-64 was 25%. The country's high unemployment levels may be attributed to the privatization process whereby the young are not offered jobs and many ordinary workers were made redundant. Privatization hit the industrial sector the hardest and made many companies insolvent. As a result, over 300,000 workers in the industrial sector were laid off. The macroeconomic environment for family businesses in Serbia is further characterized by set of performance indicators that measure ease of doing business and competitiveness, as illustrated in Tables 3 and 4.

a. Serbia ranked 93rd out of 189 economies when it came to ease of doing business.

Table 3: SMEs' and family firms' ease of doing business in Serbia, 2013

Starting a business	(rank) 45	**Dealing with construction permits**	(rank) 182	**Protecting investors**	(rank)80
Procedures	(number) 6	Procedures	(number) 18	Extent of disclosure index	(0–10) 7
Time	(days) 11.5	Time	(days) 269	Extent of director liability index	(0–10) 6
Cost	(% of income per capita) 7.2	Cost	(% of income per capita) 1,433.5	Ease of shareholder suits index	(0–10) 3
Minimum capital	(% of income per capita) 0.0	**Getting electricity**	(rank) 85	Strength of investor protection index	(0–10) 5.3
Getting credit	(rank) 42	Procedures	(number) 4	**Registering property**	(rank) 44
Strength of legal rights index	(0–10) 7	Time	(days) 131	Procedures	(number) 6
Depth of credit information index	(0–6) 6	Cost	(% of income per capita) 505.6	Time	(days) 11
Public registry coverage	(% of adults) 100	**Enforcing contracts**	(rank) 116	**Trading across borders**	(rank) 98
Paying taxes	(rank) 161	Procedures	(number) 36	Documents to export	(number) 6
Payments	(number per year) 66	Time	(days) 635	Time to export	(days) 12
Time	(hours per year) 279	Cost	(% of claim) 34.0	Cost to export	(US per container) 1,455
Total tax rate	(% of profit) 36.8	**Resolving insolvency**	(rank) 103	Time to import	(days) 15
Documents to import	(number) 7	Time (years)	2.0	Cost to import	(US per container) 1,760
		Cost	(% of estate) 20		
		Recovery rate	(cents on the dollar) 29.0		

Source: Doing Business 2013, World Bank

b. According to Global Competitiveness Index (GCI) 2013-2014, Serbia ranked 101st out of 145 countries.

Table 4: Global Competitiveness Index for Serbia, 2013-2014

GCI 2013-2014	Rank	Score	GCI 2013-2014	Rank	Score
Basic requirements (40.0%)	**106**	**4.0**	**Efficiency enhancers (50.0%)**	**92**	**3.8**
Institutions	126	3.2	Higher education and training	83	4.0
Infrastructure	90	3.5	Goods market efficiency	132	3.6
Macroeconomic environment	136	3.4	Labour market efficiency	119	3.9
Health and primary education	69	5.7	Financial market development	115	3.5
Innovation and sophistication factors (10.0%)	**125**	**3.0**	Technology readiness	60	3.9
Business sophistication	137	3.2	Market size	69	3.7
Innovation	112	2.9			

Source: The Global Competitiveness Report 2013-2014, World Economic Forum

Field research undertaken by the Serbian Employers' Association in 2013 pinpointed the foremost concerns of family firms. They are the country's high corruption rate (13.8%), inefficient government bureaucracy (13.1%), lack of access to financing (11.1%), coups and government instability (10.9%), inadequate socio-economic infrastructure (7.3%), poor national work ethic (3.3%), inadequately educated workforce (3.1%) and so on.

4.2. The family business support infrastructure

Though business support infrastructure is often mentioned in specialized literature as well as official government documents and reports, there is no unique definition as to its constituents. Business support infrastructure covers a network of institutions and organizations providing either services to potential entrepreneurs, entrepreneurs or SMEs for the development of their business capacity (human, organizational, marketing, etc.) or physical facilities for business operations. In order to help develop the capacity, structure and purpose of enterprises, business support infrastructure should keep abreast of local and regional development potential as well as market demands. The primary goals of the business support infrastructure are raising the potentials for polycentric development and fostering the overall economic development at the local, regional and national levels. Business support infrastructure often operates within geographical limitations. While this means the business support offered is mostly restricted to enterprises in the municipalities and cities, it is sometimes available to the smaller districts in other parts of the country. Business support infrastructure rarely provides services across the whole country. In the Republic of Serbia, business support infrastructure is limited to the larger cities and some municipalities.

Business incubators, business clusters, industrial zones and technology parks throughout the country form part of the Serbian business support infrastructure. The infrastructural support offered to businesses in Serbia is constantly evolving, as Serbia moves towards a market oriented economy. Many international organizations assisted in laying down the foundations of the country's business support infrastructure. The Serbian government, through development agencies and associations active at the local, provincial and regional level such as the National Agency for Regional Development, has continued to bolster the business support infrastructure. Most businesses in Serbia, however, developed without receiving any support from public institutions. These businesses consolidated themselves through the initiatives of private agencies, non-governmental organizations and through the personal initiatives of those anxious to promote economic development in their communities.

Local regional governments as well as the governments of the Republic of Serbia and the Autonomous Province of Vojvodina are dedicated to strengthening their business infrastructures. The importance of developing business infrastructure has been widely acknowledged because the services and facilities provided have augmented entrepreneurial spirit and improved the competitiveness of SMEs and family businesses. Consequently, official government reports often refer to business support infrastructure in this light. Despite references to business support infrastructure in this manner, there are no government reports or documents focusing exclusively on the development of business infrastructure. Official reports only reference the development of business support infrastructure in strategic economic programmes. One of the rare official documents touching on the development of business support infrastructure is the Serbian government's National Economic Development Strategy Report of 2006-2012. This was the first report to consistently and comprehensively define the basic development priorities of the country and the ways in which they may be achieved.

The Serbian Ministry of Economy and Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship collaborated with the Norwegian Foundation for Scientific and Industrial Research (SINTEF) to prepare the Programme for Business Incubators and Clusters Development in the Republic of Serbia 2007–2010, which included recommendations for the establishment of at least 15 business incubators, a national umbrella association of business incubators, at least one technology park and 10 operative clusters (Republic of Serbia Ministry of Economy, 2006a). This document builds upon the previously published Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia 2003-2008 (Republic of Serbia Ministry of Economy, 2003), the National Economic Development Strategy of the Republic of Serbia 2006-2012 (Republic of Serbia Ministry of Economy, 2006b) as well as the Plan of the Government of the Republic of Serbia for stimulating Small and Medium-sized Enterprises and Entrepreneurship Development 2005-2007 (Republic of Serbia Ministry of Economy, 2005). In 2009, the National Agency for Regional Development (NARD) was established as a legal successor to the Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship.

The Serbian government's Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises for the period 2008–2013 implemented programmes developing business incubators and clusters. This strategy, introduced in late 2008, also emphasized improved institutional support for the development of entrepreneurship and SMEs. The Regional Development Strategy of the Republic of Serbia 2007–2012 (Republic Development Bureau, 2007) is the first strategic development document focusing on regional development in Serbia, specifically, the improvement of polycentric regional development of Serbia through entrepreneurship and SME development policies. Such polycentric regional development will boost the economic links between the various Serbian regions and reduce differences in regional economic development. Also, the cluster associations, connections between various local enterprises, establishment of business and technology incubators in local municipalities as well as the establishment of technology parks in university centres will result in improved economic links among the different Serbian regions. The recently adopted Strategy of Industrial Development of the Republic of Serbia 2011–2020 also considers the necessity of developing regional business support infrastructures. According to this Strategy, business support infrastructure encompasses mapping, constructing and equipping industrial zones, industrial parks, business incubators and clusters, logistic and business centres and tourist infrastructure. More importantly, this Strategy is the first roadmap of business support infrastructure in the Republic of Serbia.

The development of business support infrastructure is also recognized by the EU institutions that have, in different ways, supported numerous project initiatives throughout the Republic of Serbia. Business support infrastructure is also recognized in the Operational Programme for Economic Development 2012-2013 under IPA component III as a means of developing economic competitiveness (Government of the Republic of Serbia, 2011). Expertise provided by bilateral organizations as well as funds from the government of the Kingdom of Norway enabled the Serbian government to develop business incubators and clusters throughout the country. The United States' Agency for International Development's (USAID) Competitiveness Project also provided invaluable assistance to the development of Serbian business support infrastructure. The Nišava district in Serbia was able to boost its business support infrastructure due to help from the government of the Kingdom of Denmark via the Local Economic Development in the Balkans (LEDIB) programme. Business incubators were likewise developed in the Autonomous Province of Vojvodina through the assistance of the Austrian Development Agency. In sum, the development of Serbian business support infrastructure was due to joint efforts of the Serbian government, several European and international donor programmes such as Support to Enterprise Competitiveness and Export Promotion (SECEP), Regional Socio-Economic Development Programme 2 (RSEDP2), Municipal Infrastructural Support Programme (MISP) and USAID's Competitiveness Project. Other international bodies contributing to the development of business support infrastructure in Serbia include the LEDIB programme, the BBI project funded by the Austrian government and the private sector projects of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) like WBF, which later became Assistance to competitiveness and compatibility with the EU of Serbian SMEs (ACCESS) (Mijacic, 2011).

Before SMEs and family businesses can improve their competitiveness, it is necessary to target specific regions through the development and transformation of business infrastructure as well as the establishment of industrial and technology parks and industrial zones. Independent private companies specializing in various different fields should be identified and networks formed so that these multifarious enterprises can be linked to one another through joint technology and knowledge. Through strategic approaches, the synergistic effects of an area with a concentration of similar and/or complementary business activities can be fostered to encourage the production of more competitive goods and services. Business activities for which resources, market conditions and technical advances would yield faster growth would be developed first. To date, there are 23 business incubators, 85 cluster initiatives, 92 industrial zones, 2 existing and 4 planned industrial and technology parks, 4 existing and 4 planned free zones and 66 brownfield sites in Serbia.

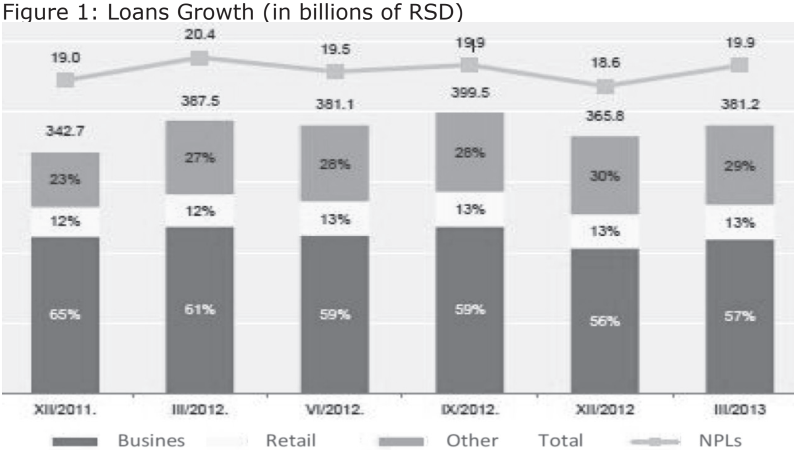
4.3. Financial support

Entrepreneurs mostly draw on their own sources of finance. Around 70% of SMEs are self-financed, when it comes to their working capital (73%) and investments (69%). It could be indicative of a trend whereby entrepreneurs are less likely to take loans to implement investment plans. External sources of finance are used by 26% of SMEs, which is 18% less than in 2013, or 10% less than in 2010.

Medium-sized enterprises (39%) and small enterprises (33%) mainly use external sources to finance investments and working capital. On the regional level, entrepreneurs from South and East Serbia take least loans both for working capital and for investments.

Of external sources of revenues, commercial bank loans are used the most (48%), followed by loans from state funds (14%) and foreign loans (10%). Loans from banks are followed by loans from relatives and friends (8%). Loans from commercial banks are mostly used by medium-sized enterprises (64%) and small enterprises (58%), whereas sole traders mostly rely on relatives and family. Foreign loans are largely used by business entities in Belgrade (17%) and Sumadija and West Serbia (19%).

Figure 1: Loans Growth (in billions of RSD)



Source: National Bank of Serbia (NBS)

More than half of SMEs do not have loans. Microenterprises and sole traders owe the least debt (58%). Companies with the least debt are found in Belgrade (56%). Most SMEs are able to successfully repay the loans they took out. Medium-sized enterprises have more delays in annuity payments. Entrepreneurs in Vojvodina, West Serbia and Sumadija have the most difficulties in paying off debts. More than 80% of enterprises surveyed do not plan to take loans in the following year. The main reasons are high interest rates and bank costs, as well as long procedures for loan approval. Of all the regions in Serbia, businesses in Vojvodina show a decided lack of interest in taking loans in the following year.

Loan repayment periods and short deadlines to fulfil obligations are the most frequent financial problems for business operations, especially smaller business entities. While 53% of entrepreneurs fulfil their obligations towards suppliers within less than 30 days, only 32% manage to collect their payments in the same period of time.

SMEs are interested in state support programmes (58.6%), primarily financial ones (54.5%). Medium-sized enterprises are most interested in state support programmes, whereas microenterprises and sole traders have the least interest. Small enterprises show more interest in consulting and training than the other businesses surveyed. Two-thirds of entrepreneurs, mainly from West Serbia and Sumadija (72%), greatly favour state support programmes providing them with subsidies to improve their business operations. Small enterprises (42%) are most interested in subsidies for job creation. Loans with favourable interest rates are very much needed in Vojvodina (36%) and Sumadija and West Serbia (33%). Business links in the country and abroad are most attractive to medium-sized enterprises (22%).

Table 5: Financial incentives in Serbia according to company type and purpose, in RSD, 2013

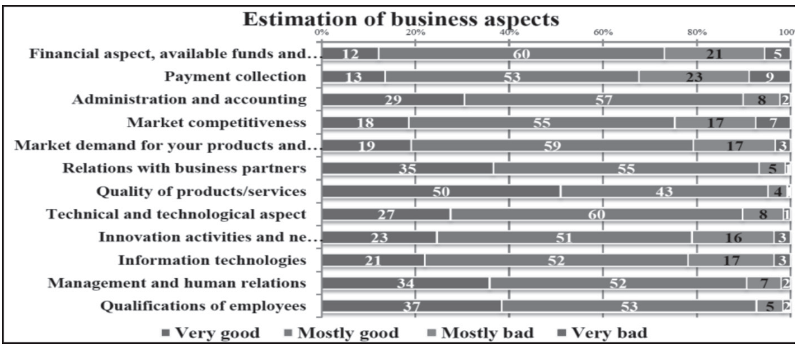
Type of financial incentive	2013	Type of beneficiary	2013	Purpose	
Total regional development incentives	173,661,103	Large companies	52,609,547	Employment	4,101,315
Loan	136,717,134	SMEs	22,696,597	Export	5,361,510
Non-returnable subsidy	12,789,463	Entrepreneur (solo trader)	361,501	Manufacture	11,273,268
For attracting investments	1,052,198	Agricultural holdings	3,682,339	Agriculture	4,697,158
Non-returnable resources	263,059	Business incubator/cluster	9,888	R&D	7,833,035
				Education, science, sport	3,454,514
				Infrastructure	

Source: Serbian Business Registers Agency, 2013

4.4. Advisory services

Advisory services have so far been used by 39% of respondents. Free services were mostly used in the field of business start-up consultation (33.5%), marketing/promotion and sales trainings, then business planning, legal services and training for computer skills. On the other hand, entrepreneurs most often paid for services in accounting (64%), legal services (59.5%) marketing/promotion and sales (35.6%), work safety and protection (31.1%) and information technologies (23.5%). In the last field research conducted by the Serbian Employers' Association, SMEs (of which family firms are a part) ranked the different aspects of their business. This self-ranking is reproduced in Figure 2 below.

Figure 2: Serbian businesses rank the different aspects of their enterprises



Source: Serbian Employers' Association, Research on advisory support of SMEs, 2013

In ranking the different aspects of their business, SMEs have demonstrated the ways in which they view themselves. To SMEs, success is equated to the quality of their products/services, the qualifications of their employees and their relationships with business partners. They have the most problems with the collection of loan repayment. They also tend to fret over their financial stability and competitiveness in the market. According to the opinion of half the respondents, they believe their business would be more successful if the system of loan repayment collection was improved (48%) and the financial aspect of their companies' business operations were more stable (47%). According to respondents, market demand (40%) and market competitiveness (33%) are the third and fourth most important priorities for improvement.

4.4.1. Innovation and educational support

An innovation is the implementation of a new or significantly improved product, service or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations (OECD, 2005). A business entity can undergo several types of innovative activities in the defined period. Table 6 shows the types of innovations undertaken by SMEs in 2012.

Table 6: Share of types of innovation

	Product/ service innovation	Business process innovation	Abandoned/ in progress innovations	Organizational innovation	Marketing innovation	Non-innovators
Serbia	26.49	27.25	14.46	31.27	28.51	53.19
Medium-size	33.30	36.30	21.10	40.32	37.51	42.78
Small	24.86	25.09	12.87	29.10	26.34	55.68

Source: National Agency for Regional Development (NARD)

This table on the implementation of innovation by business size shows that the biggest share of innovation in businesses is as follows: total 31.27%, small enterprises 29.10% and medium-sized businesses 40.32%.

Advice services through which SME owners and managers discuss sources of information and cooperation for innovative activities reveal that internal sources most important to the development of new innovations and the implementation of existing projects. This is due to undeveloped cooperation networks and institutional support services.

Table 7: Business entities (technological innovators) placing high importance on the source of innovation information

Sources		Total	Small	Medium-sized
Internal	With the business entity or the group to which it belongs	32.25	31.06	35.88
Market	Suppliers	16.86	15.53	20.89
	Clients or customers	24.60	22.99	29.50
	Competitors or other business entities in the industry	10.07	8.58	14.60
	Consultants, business research agencies/IR	6.28	5.84	7.64
Institutional	Universities/higher education institutions	4.58	3.60	7.54
	State or Public Scientific Institutes	2.59	2.17	6.58
Other	Conferences, trade fairs, exhibitions	14.75	14.64	15.09
	Scientific magazines and technical publications	9.86	9.76	10.15
	Professional and industry associations	5.49	4.86	7.93

Source: NARD

There are 65 state and private accredited tertiary education institutions in Serbia, offering a total of 378 study programmes. More than 50% of these study programmes are in the field of technical and technological sciences (TTS). TTS programmes dominate the state-run tertiary institutions, making up 61% of their curriculum. 66% of the curriculum in private tertiary institutions focuses on the humanities and social sciences (HSS). In 2008-2012, there were 21,384 students in HSS, 26,343 in TTS and 2,262 students in the medical sciences (MS). By law, all education providers, including those offering technical vocational education and training (TVET), are required to establish an internal Quality Assurance and Evaluation Commission for the purpose of conducting mandatory annual self-assessment. The rationale for this is that the existing educational infrastructure and its attendant programmes provide inadequate educational and institutional support to family firms' development needs. Therefore, one of the challenges for the Serbian tertiary educational system is the modernization of the TVET system. Through specially tailored business programmes, the performance, quality and attractiveness of TVET syllabi for family firms' development needs will be improved. When TVET is thus modernized, its programmes will meet the immediate and future skills needs of family firms. This will, in turn, reduce the socio-economic impact of the various global financial crises and facilitate the Serbian economy's recovery.

5. DISCUSSION AND CONCLUSIONS

Family businesses form the backbone of the Serbian real economy and are incubators for entrepreneurship. Productivity, competitiveness, job creation and sustainability are part of their success and development structures. They often achieve these successes because of institutional support and tailored qualitative services. There is an unbalanced geographical distribution of business, innovation, financial and educational support infrastructure elements in Serbia. As most (if not all) institutional, financial and educational support cater to the SME sector, there is no specific business infrastructure supporting the development of family businesses. Most business, innovation, financial and educational support infrastructures are found in the five largest Serbian cities of Belgrade, Novi Sad, Niš, Subotica and Kragujevac, where donor programmes, regional agencies and SME development agencies have the strongest presence. These donor programmes, regional agencies and SME development agencies jointly contribute to raising the awareness of the need for business support infrastructure development. An analysis of business support infrastructure reveals a weak link between business clusters, business incubators, universities and development agencies.

Serbia owes its past economic and social prosperity to family firms. Now, in times of trouble, Serbia should look back to its roots by valuing family businesses as a reliable and committed driving force for recovery. Family businesses can also generate new employment opportunities for the population. Thus, the creation of a positive environment for family businesses in Serbia involves:

- Promoting a fuller understanding of the key long-term role played by family-owned enterprises in the Serbian economy.
- Pressing for policies that support the creation of a level playing field between family businesses and other business enterprises. This will ensure that family businesses have equal access to financing, entrepreneurship education and legal aid. A simpler taxation framework and ease of business transfers to their successors will also benefit family businesses.
- Ensuring recognition of their contribution to the entrepreneurial culture and social cohesion of Serbia in Europe.
- Fostering the next generation through entrepreneurship education. Family businesses are incubators of entrepreneurs in that they foster creativity and innovation. Thus, entrepreneurship education is very important for the development of family businesses. Furthermore, family business specific issues such as succession and family governance should be included in the entrepreneurship curricula to better prepare future business owners to successfully manage their companies in the long run.

In addition, the relationship between universities and businesses must be improved. Business owners need to be directly engaged in the learning process, as they bring practical expertise and hands-on know-how into the classroom. Family business owners can also transmit their corporate values, tenacity, trust, responsibility and integrity to students in the classroom. Traditionally, family businesses are acknowledged to be at the heart of many local communities in Serbia such as Cacak, Indjia, Novi Pazar and Arilje. Their future entrepreneurial commitment and prudent approach to company financing enables them to contribute to long-term growth and job preservation in Serbia.

In order to raise competitiveness and economic development at the local and regional levels, close cooperation must be established between the elements of business support infrastructure, the public and private sectors, development agencies, chambers of commerce and other relevant institutions. So doing would enable the businesses and these various institutions to harmonize their activities and exchange necessary information. It is also expedient to align the activities of the business support infrastructure with the family businesses' strategic plans. To foster their own growth, family businesses should continuously work on building their management capacities and human resources. The state and institutional actors can add to the family businesses' efforts at growth and development through business support infrastructure elements such as business incubators, clusters, zones and parks. National and regional institutions supporting economic development should design programmes that support an integrated approach in the local and regional development of family businesses in Serbia. It is also recommended that national and regional institutions cooperate with the media so as to raise the public's awareness of the benefits of family business development and the employment opportunities they engender.

FAMILY BUSINESS PORTRAITS

1. CINI Cacak, Serbia

CINI Cacak is a privately owned family business, established in 1977 in Cacak, Serbia. Cacak has a great tradition in family businesses and used to be one of the leading cities with the highest entrepreneurial index. At the very beginning, CINI's business orientation centred on its wide range of products and appropriate production growth. It has continued this tradition for the past 30 years. Today, CINI is an example of a successful Serbian metal manufacturing company with its own range of products, mainly in the field of thermal technology.

CINI employs 90 workers, out of which 40% have higher education (different kinds of engineers, economists and lawyers). Thanks to them and many other qualified workers, CINI is able to oversee the different phases of its production process in development, purchasing, manufacturing, marketing, sales and post-purchase services. CINI strives towards:

- **Application of patents;**
- **Innovations;**
- **New technologies implementation.**

The company has always been supportive of young, creative and successful people. The Spasovics, who are descendents of the original founder, are in the top management positions of the company. To ensure the smooth and efficient running of the business, they have melded modern management styles with their respect of the firm's long traditions and skills. In so doing, they bolster CINI's reputation and render it a suitable partner for business collaborations in many different areas. All aspects of business are measured against the high quality standard set by ISO 9000-2000. The strict application of ISO 9000-2000 throughout all documented procedures and work processes helps ensure the quality of CINI products. Special attention is paid not only to professional business communication, advertising and active participation in domestic and foreign trade fairs, but also to direct presentations to potential customer groups. Most of CINI products have export potential. Some of them have already secured good market positions in Russia, Ukraine, Poland, Bulgaria, Bosnia and Herzegovina, Croatia, Macedonia, Sweden, Denmark, Germany and Spain. CINI's resources and capabilities enable it to collaborate with business partners in the following ways:

- Placement of finished products in local and regional markets;
- Joint development of new products;
- Manufacturing various parts and components of the final products;
- Complete mounting and final analyses of CINI products;
- Guarantee of post-purchase services with the inclusion of a warranty period;
- Exporting commonly manufactured products to markets where CINI already has a presence, such as countries of the former Eastern Bloc;

- Setting up and coordinating cooperative networks with other Serbian enterprises according to their requests.

2. Extreme Intimo, textile and clothing company

Extreme Intimo is a family business founded in 1992 in Arilje, Serbia. Arilje is a small city famous for having the largest number of family-run textile firms. It is a medium-sized company specializing in the production of textile products. Extreme Intimo's modern line of innerwear includes underwear, nightwear and swimming costumes. As Extreme Intimo's designs are very beautiful, its creations are very popular. Its retail network covers several countries including Montenegro, Bosnia-Herzegovina, Croatia, Slovenia, Macedonia, Russia, the Czech Republic and South Africa. For more information about Extreme Intimo, consult its official website, http://www.extremeintimo.com/en/home.php

3. Ivancic & Sons, pharmaceutical company

Ivancic & Sons manufactures and markets pharmaceutical products. It was founded in 1991 in Belgrade, Serbia. The first Ivancic & Sons pharmacy opened in 1991; the second opened in 2000; the third in 2004; and the fourth in 2007. The company has 128 employees on long-term contracts. In all, it has 65 employees in production, 34 in management, 15 pharmacists and 14 pharmaceutical technicians. The company's pharmacies are reputable health institutions with a strong tradition of quality control and high quality products. Pharmaceutical products by Ivancic & Sons also undergo the stringent hazard analysis and critical control points (HACCP) system to ensure their safety for public consumption. The company's manufacturing facilities are located in Stari Banovci, while the management, marketing, sales and purchasing departments are in Belgrade.

Ivancic & Sons produce 22 products including medicine and dietary supplements (both in capsule and powder forms). Due to its use of cutting edge medical technology and contemporary packaging designs, the firm's products are very recognizable.

The company's modern technology based management style promotes teamwork, strong work dynamics, modern organization and, above all, expertise. More than a third of its employees are highly qualified in the fields of medicine, pharmacy and pharmaceutical technologies. All its employees are tasked with continuous professional education. As the firm follows global trends in medicine, pharmacy and pharmaceutical technologies, the implementation of new ideas is a priority in Ivancic & Sons' development plans. Through clever marketing techniques, recognizable advertisements and innovative packaging designs of new products, Ivancic & Sons convey a clear message to its consumers. Whenever the company places a new product on the market, it is based on original ideas, years of experience and the latest expert findings. Its marketing activities targets knowledgeable members of the public and the general population alike. For more information on this firm, consult its website, http://www.ivancic.com/show.php?id=4&lang=en

4. Nektar, fruit and vegetable processing company

Established in 1997 as a small family venture in local non-alcoholic beverages and apple vinegar products, Nektar eventually grew to be one of the Balkans' biggest and highly respected fruit and vegetable processing companies (SIEPA, n.d.). In 2013, the company became the biggest fruit juice maker in the region. It also became the biggest fruit and vegetable processor in Southeast Europe with a production capacity of 120,000 tons per season. Nektar has the most important international quality control certificates, most up-to-date technology and a complete control over the entire production process from growing of fruit, to fruit processing and to the manufacturing of the final product. It is an organic producer with organic control systems. Its products are also in line with the German BCS Eco-Guarantee, thus assuring the public that its organic products are of the highest quality. Apart from keeping up with current global trends, Nektar emphasizes innovation and a technology based style of management. This not only allows the family managing the business to create new market trends; it also means that Nektar is able to attract a team of highly qualified managers, experts and specialists. For more information, consult Nektar's official website, http://www.nectar.rs/

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3.11. FAMILY BUSINESSES IN TURKEY

HISTORY, DEVELOPMENT AND CHARACTERISTICS OF FAMILY-OWNED BUSINESSES IN TURKEY

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ABSTRACT
Family businesses are of great importance to Turkey. This article considers the results of research carried out on family businesses in Turkey. While analyses of the ways in which the characteristics of family businesses affect their entrepreneurial activities have traditionally been studied, there is insufficient research on the ways in which the development of family businesses can affect their succession processes. This study analyzes both the main characteristics and issues of family businesses in Turkey. The study also delves into policies supportive of family businesses as well as succession challenges. To illustrate the development of family enterprises, this study considers Turkey's top family-owned businesses. This paper will begin with a discussion of the definition of family business, their main traits and their importance to the national economy. Upon understanding the characteristics of family businesses and the ways in which these enterprises contribute to economic growth, their challenges and opportunities will be analyzed. There are two key challenges that family businesses will face in the coming years. Firstly, would they be able to seize the opportunities awaiting them? Secondly, how will these firms hold out once they have changed hands and passed on to the next generation of entrepreneurs? Upon analyzing the unique qualities of family businesses and discussing the different measures they could adopt in meeting present and future challenges, this paper will conclude with a brief summary as to the opportunities that family businesses still can tap into.

Keywords: family-owned business, business success, family control, entrepreneurship

JEL Classification: F23, J21, L21, L22, L26

THE PHENOMENON OF FAMILY BUSINESSES

A family business is a unique form of business organization. Family businesses come in many different forms. Within a family firm, family and the structure of the business are the most important factors. Since family values may differ from business values, family businesses should employ their family members so as to imbue the enterprise with family traditions. Although family businesses have been defined in many different ways by various researchers, they all agree that the business is always family oriented. It is generally agreed that the role of the family is of utmost importance to the family business. On the other hand, there is no universally accepted definition of family businesses. Most definitions of family business centre on the contents and purposes of the enterprise. Ownership, family involvement, family power and control when transferring the family business to the next generation are the common analytical points of researches on family businesses. In brief, families are the business owners (Donckels and Fröhlich, 1991) business managers (Dunn, 1996) and/or workers (Astrachan and Shanker, 2003) in family enterprises. According to Bowman-Upton (1991), the control of a family firm lies with its family members. Chrisman, Chua and Sharma (2005), on the other hand, state that family involvement in the firm's behaviours, resources and allocation of power will affect the ownership, management and succession of the family business. To Churchill and Hatten (1987), a family-owned business is one where the younger generation inherits control of the business from the previous generation.

Family businesses generally exhibit better economic performances and financial stability than non-family businesses. In short, the stability and profitability of a family firm are influenced by the family members and the way in which they wield their authority (Allouche et al., 2008). As family control directly affects the firm's financial stability and profitability, family-owned firms should develop a management system where the successor is able to continue the firm's sustainability. If the family business is controlled by the founders, the business is more efficient (McConaughy, Matthews and Fialko, 2001). When family members are the main stockholders of the business and when family members participate in the firm's management, the family enterprise performs better than non-family businesses. Since family businesses rejuvenate the market in many ways, they are often regarded as key contributors to the economy of many countries. Family businesses' contributions to the economy are attributable to their strong entrepreneurial activities (Lazear, 2002: 1). Researchers like Hayek (1948) and Bianchi and Henrekson (2005) have pointed out the importance of family-owned businesses.

In Turkey, the definition of family business is not dependent on its size. Companies in Turkey with 1-50 employees are small enterprises, while firms with 50-150 employees are medium enterprises. According to Karpuzoğlu (2004), family businesses are companies where families allocate key management positions to family members so as to ensure they retain control of the business. On the other hand, Koçel (2006) states that a family business is an enterprise founded and managed by one or more members of a family before it is transferred to the next generation of the same family. Underlying both these definitions of family businesses in Turkey is the fact that the family is the building block of Turkish society. In light of this, it is unsurprising to discover that the relationship within the family affects the family business structure. There are many small and medium-sized enterprises (SMEs) in Turkey, of which family-owned micro-enterprises make up 99.5% (Erdoğmuş, 2007).

There are common points in all the definitions of family businesses discussed so far. The most commonly used definitions of family businesses touch on the following:

(a) The business is started by an entrepreneur from a family; family members are included in the firm later.
(b) Business management in a family enterprise has its own cultural, economical, social and ethical forms which affect business activities as well as the family. The family's main aim in the business is to control the management of the firm.
(c) In sum ownership, management and business activities are the central concerns of family-owned businesses.

CHARACTERISTICS OF FAMILY BUSINESSES IN TURKEY

At different stages of its operation, a family business will have different characteristics (Gersick et al., 1997). In the first stage, the manager or the founder of the business has a strong effect on decision-making and control of the company. They do so by exercising their prerogative as the person(s) who built up the business. According to Karpuzoğlu (2004), a family business has to undergo four stages of development:

(a) it begins life as a first generation family business;

(b) it then grows into a business that involves the other members of the family in its management;
(c) after which, it becomes a complex family business with its own values and business goals; and
(d) it finally evolves into a business that can stand the test of time and continue to exist and thrive for generations to come.
These four stages of a family-owned business' development are illustrated.

Table 1: Development stages of family businesses in Turkey

	First Generation Family Businesses	Growing And Developing Family Businesses	Complex Family Firms	Family Businesses Achieving Continuity
Ownership	founder/owner	siblings	family and professionals	family and to many professionals
Organization Structure	simple/ centralized	simple/ semi-centralized	complex	complex
Decision Taking Mechanism	founder/owner	in the siblings	professional managers and family members	committee consisting professional managers, consultants and family members
Communication	horizontal	horizontal/vertical	horizontal/vertical cross	multi-dimensional
Values	family and entrepreneur values	entrepreneur values	business values	internal and external market values

Source: Karpuzoğlu, 2004 (p 124).

If the business is founded by an entrepreneur who intends his/her family to work for and with him/her, then this entrepreneur has set up a family business. By giving family members management control of the company and roping them in to work for the enterprise, the entrepreneur-founder is integrating his/her family into the firm. Although the founder's family works for and with him/her, he/she remains the owner of the firms. This means control of the firm and crucial decisions vis-à-vis the business are in his/her hands. At this stage, the founder seeks to consolidate managerial and financial control of the newly established firm in the hands of his/her family. When this is achieved, the business will seek to generate wealth through growth and development. In this second stage of development, business expansion is a decision undertaken by both the founder and his/her immediate family such as siblings or spouse. This is because the founder's spouse and/or siblings would have been incorporated into the business at this point. The firm's management style will be shaped during this period, as input will come from the founder and other members of the family, each according to their abilities. The entry of family members (whether spouses, siblings or children) into a business is fraught with financial, psychological and emotional challenges. Additionally, the future of the business at this stage is dependent on the career paths chosen by the founder and the other family members. In order for the firm to succeed, the founder and all family members involved in the business must weather the problems they face during this development process so as to create new opportunities for the firm's future generation of owners. Should a family business be able to overcome most of the challenges in this stage of development, it will become a multi-generational and complex company. It is more difficult to manage a multi-generational and complex company than an initially established family business. However, the opportunities encountered by the firm at this stage are many and will help ease the succession process. When the succession process is made easier, the family members' loyalty and faith in the firm will increase. As a result, the firm will look to innovative policies and new disciplines to create a more successful business. The last developmental stage for the family business is the challenge of achieving business continuity. By this time, the firm has completed its maturation and is older than many of the family members. The careful consideration of the succession process adds to the institutionalization to the business because business values will supersede family values at this point in the family firm's development. Thus succession strategies and plans must be given careful thought.

Unfortunately, there are not many studies on family businesses in Turkey. One of the reasons for this is because many family companies cannot make it past the first three stages and collapse in the face of challenges. As an upshot, most family businesses in Turkey are small enterprises or regional enterprises. There are four types of family businesses in Turkey:

1. Family limited partnership. In such a company, all decisions are made by the boss or owner.
2. Siblings are the main shareholders of the business. The siblings also share the management of the company.
3. Complex family businesses where different family members with different degrees of relatedness are shareholders of the business.
4. Settled family companies where business is directed by professional managers. This type of family-owned business generally wants to institutionalize.

THE ECONOMIC IMPACT OF FAMILY BUSINESSES IN TURKEY

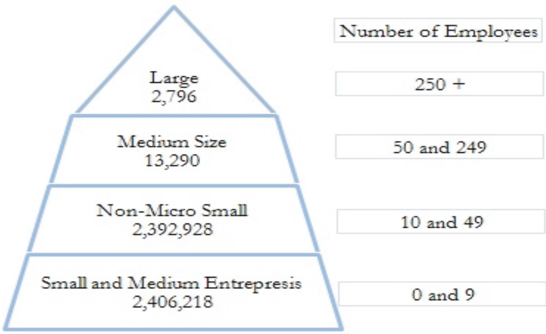
Only 18 family enterprises in Turkey have a long history. Most of them have an average of 100-200 years history. Out of the 18 longstanding family businesses in Turkey, only a handful were founded before the 1900s and still going strong today. The lifespan of family businesses in Turkey is unfortunately short. The oldest known family firms are now in the hands of their fourth generation owners. A study on 50 of Turkey's oldest family firms revealed that 21 of them are currently managed the second generation, 26 are owned by the generation and only 3 - Cağaloğlu Hamamı (founded in 1471), Ali Muhittin Hacı Bekir (founded in 1777) and Çukurova Gıda Sanayi (founded in 1783)- have been transmitted intact to the fourth generation.

The companies that began life as small enterprises now lead the Turkish economy. 3 Turkish family-owned businesses are now part of the world's biggest enterprises. They are Sabancı Holding, Doğuş Holding and the Koç Group. Most small and medium family companies are in Turkey are still in the hands of the first generation and will hand over management to the next generation in the coming years. Since there are more Turkish family businesses than in the world average, it is unsurprising to find that they contribute a great deal to the national income and economy.

- In 2011, there were almost 3.5 million family businesses in Turkey. In other words, four out of five of private sector enterprises in Turkey in 2011 were family businesses.
- The vast majority of these family businesses were SMEs. There were also approximately 3,000 large family firms.
- 23.4% of family businesses are in Istanbul.
- Within the last decade, family firms increased their exports by almost 60%, thereby contributing EUR 75 million (55.5%) value added to the Turkish economy.
- Family businesses make up of 65% of total production. 52% of all workers in the country are paid by family businesses.
- Family businesses employed nearly 7.7 million people. In short, three out of every five private sector workers are employees of family businesses.

43% of Turkish family-owned businesses are in the automobile and trade sectors, 16.5% are in the transportation sector, 14% are in construction and 13% are in manufacturing. Very few SMEs (only 2%) are in the health and media sectors. There are no family enterprises directly conducting business with the Turkish public sector. 49% of family-owned firms avail themselves to consulting services before making strategic business decisions, while 51% of firms find consulting services to be useless. Although 44% of senior managers in family-owned businesses place importance on personal development training, only 36% of middle management benefits from these opportunities. 64% of these enterprises' board of directors meet regularly to discuss business management issues so as to make the best decisions for the firms, while the remaining 34% do not. Men make up 45% of these businesses, while women make up 23%. In most Turkish family-owned businesses, one member of the family controls the decision-making and leads the others/workers (Ince, 2012).

Figure 1: Number of family businesses by size of family firm in 2011



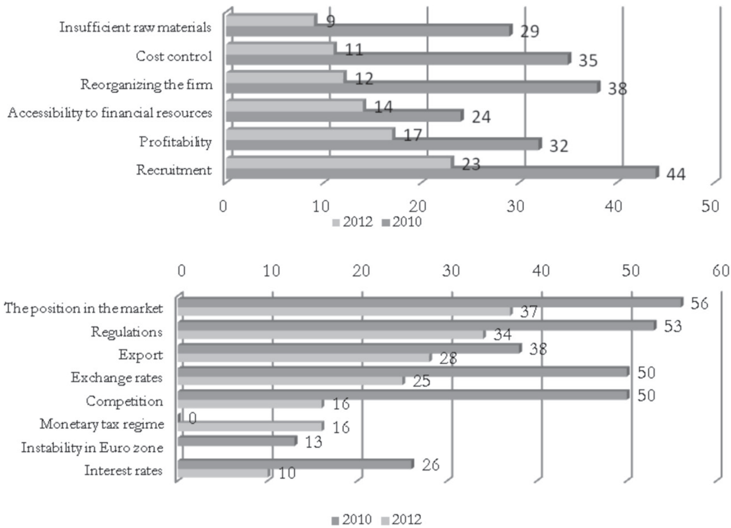
Source: OECD and the Turkish National Statistical Office, compiled by Cambridge Econometrics

THE CHALLENGES FACED BY FAMILY BUSINESSES IN TURKEY

Turkish family businesses have increased their sales growth by 81% last year, in contrast to the global sales growth of 65%. Only 9% of Turkish family businesses faced a decline in sales, whereas 19% of firms worldwide reported a drop in their sales growth. Due to current conditions, all businesses around the world are facing various challenges. However, family-owned businesses in Turkey were less concerned about the economic situation in 2012 than they were in 2010. Other international family firms outside Turkey cited three external elements affecting their businesses: market conditions (37%), government policies and/or regulations

(34%) and competition (16%). These three external reasons have boosted Turkish family businesses' confidence in conducting business abroad (PwC, 2012).

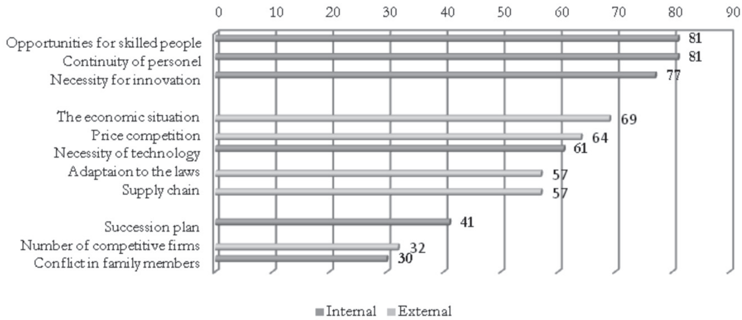
Figure 2: Challenges family businesses face at the national and international levels



Source: PwC Global Family Business Survey – Results of Turkey, 2012.

41% of Turkish family business founders think that handing over the firm to the next generation will cause problems. Internationally, only 32% of family firm founders express the same doubt. 30% of Turkish family businesses accept that conflict between family members is natural when the enterprise is handed over to the next generation. Internationally however, only 9% have the same reservations. 63% of family businesses in the global market call themselves entrepreneurs, while 69% of family businesses in Turkey have dubbed themselves entrepreneurs. While 54% of Turkish family businesses believe they are ready to take on more risks, only 39% of family businesses at the global level share this belief. Family businesses in Turkey emphasize the creation of employment even during times of crisis. This desire to ease the social chaos in the labour market demonstrates Turkish family firms' decisiveness. Through their support of employment during tough economic times, family businesses in Turkey have hastened the country's recovery from these crises. 81% of Turkish family-owned businesses agree that social responsibility is important and that they should increase their participation in these social initiatives. Innovation is also held to be the key issue in the development of management in Turkish family firms, for 77% of Turkish family enterprises have deemed it to be a priority. Turkish family businesses pay similar attention to the acquisition of new technology and technical skills. They are aware that lack of technical skills, inadequate funding for projects and insufficient resources weaken their technological development and business advantages. In order to be competitive in the global market, Turkish family firms need to have significant sustainable growth. To that end, they are very keen on acquiring innovation and technology.

Figure 3: Main challenges to Turkish family firms in the next five years



Source: Directorate General for Productivity, Ministry of Science, Industry and Technology, Republic of Turkey, 2013

Though family businesses wish to enhance their technological capacity, their lack of access to credit and equity may prevent them from doing so. As most family enterprises in Turkey are very young, they are deemed to be very risky and therefore will not likely obtain financial credit or venture capital if they were to seek them. Inadequate technological capacity will impinge upon the family firm's technological production and case it to stagnate. Moreover, an individual has to go through complex administrative procedures before he/she can conduct business activities or set up a business in Turkey. An environment friendly to family businesses with simpler legal procedures and reduced registration costs will be conducive to family-owned companies in the country. In brief, lack of information, insufficient specialization in production, scarcity of resources and moral hazards make it difficult for family businesses to continue doing business.

THE MOST FAMOUS TURKISH FAMILY BUSINESS IN THE INTERNATIONAL ARENA

Three Turkish companies are amongst the world's top 100 family businesses. They are the Koç Group, Sabancı Holding and Doğuş Holding.

The Koç Group was established in 1926 by Vehbi Koç and presently contributes 9% to Turkey's national revenue, 11% to Turkey's total export and pays 15% of taxes in Turkey (Dünya Gazetesi, 22 April 2008, quoted in Ince, 2012). Koç Holding is under the management of the third generation. Vehbi Koç left the company to his son, Rahmi Koç in 1984. Rahmi Koç, in turn, left it to his son in 2003. When the successor has taken over the company, the predecessors remain Koç Holding's honorary president. (See www.koc.com.tr/kurumsal/tarihce).

As Vehbi Koç saw himself as an entrepreneur, he decided to establish a holding group not long after starting his business. He did so out of an ambitious desire for his holding company to thrive well into the successive generations. He professionalized the management of the companies under Koç Holding and remained president of the board of directors. Under the third generation, Koç family members are on the board of directors of the companies and the holding. Koç Holding owes its success to Vehbi Koç prioritizing development and raising his son to be his successor.

Turkish family businesses are able to develop successfully because of the improved education of the successive educations. This is especially true after the 1960s. Turkish family businesses are also able to adapt to changing market conditions because foreign shareholders were gradually included in the companies. This was the case for Koç Holding.

Instead of remaining in the industrial sector, it institutionalized and expanded its operational base. As part of this institutionalization process, Koç Holding established the Turkish Education Foundation (TEF) to provide donations for educational purposes and to support activities in health and culture. To help people with family health problems, the company established the Turkish Family Health and Planning Foundation (TAPV) so that the public's health care needs can be met. To that end, TAPV has invested in various health related institutions such as the American Hospital, Italian Hospital, MedAmerikan Polyclinic, Nursing Fund, the Semahat Arsel Nursing Training and Research Center (SANERC), and Koç University's School of Nursing to name a few. TAPV has also supported many students through scholarships and donations. To date, TAPV has built 13 primary schools around the country and transferred these schools to the Ministry of National Education. It is also the founder of Koç Private Primary School, High School and University. Not only does TAPV provide funds for people who need assistance, it also creates job opportunities through more than 113 companies, 14,000 dealers and agencies in the country. As Koç Holding is active in the automotive, food, financial, energy, tourism, construction, international trade and durable goods sectors, it has 45,626 employees and makes a corporate income of $4.9 billion. It employs the most people in the automotive sector. Through Tofaş and Ford, Koç Holding employs more than 9,000 people in the automotive sector. Koç Holding is also foremost amongst its competitors in durable consumer goods, as it employs more than 7,000 people in Arçelik and Beko. As may be surmised from all the facts discussed thus far, Koç Holding's contribution to the Turkish economy is very important. For more information on Koç Holding, please consult its website, http://www.koc.com.tr.

Sabancı Holding is another Turkish family company with a longstanding history. It was established in 1966 by Hacı Ömer Sabancı and is now managed by its third generation. Sabancı Holding's history began in 1932, when Hacı Ömer Sabancı invested the money he had saved in a cotton gin. With the profit he gained through the cotton gin, he established a vegetable oil factory in 1946 that he named Toroslar trading company. That was the cornerstone of the Sabancı business empire. It gradually added textiles, financial services, chemicals, retailing, insurance companies, tourism, construction, cement, manufacturing, tyre manufacturing and more to its production portfolio. Now its sales amount to almost USD 6 billion per year. Sabancı Holdings has 75 companies, including 13 publicly listed companies in a wide range of industries. Through its numerous companies, it operates in 18 countries across Europe, the Middle East, Asia, North Africa, North America and South America. Many of its companies are in joint ventures with large foreign firms like Aviva, Bridgestone, Carrefour, Citigroup, Dia, Heidelberg Cement, International Paper and Philip

Morris. Companies held by Sabancı Holdings will contain "sa" in their official names, for "sa" are the initial letters of Sabancı's name. The Sabancı Foundation was established in 1974 as a partner organization to the Third Sector Foundation of Turkey (TÜSEV) and the European Consortium of Foundations on Human Rights and Disability. The Sabancı Foundation is also a governing council member of the European Foundation Center (EFC) and a member of the Council on Foundations (COF). More than 36,000 students have obtained scholarships through the Sabancı Foundation's programmes. It also supports the Ankara International Music Festival, the Metropolis Antique City excavation in Izmir and the Turkish National Youth Philharmonic Orchestra. Sabancı University was established in 1994 as a world university with a unique educational system. For more information Sabancı Holdings and the Sabancı Foundation, please see its website http://www.sabanci.com.tr/en.

Doğuş Holding is one of three largest family-owned businesses in Turkey. It holds 32 companies, including one of Turkey's largest banks, Garanti Bank. It also has Porsche, Audi and Volkswagen dealerships. It is engaged in the retailing, food, media, energy, construction and tourism sectors. It was founded in 1951 by Ayhan Şahenk with investments from the construction sector. After establishing itself as the leading builder of Turkish roads, ports and hospitals, it added tourism, banking and media to its business structure. It is very customer focused in all its companies. It has a productivity centred management style and provides jobs to over 30,000 people. It also places great importance on social responsibility and sponsorship projects. Its social responsibility programmes mostly focus on child development, education, environment, culture and sports. For more information on Doğuş Holding, please see its website, http://www.dogusgrubu.com.tr/en.

CONCLUSION

The issue of succession is inevitable for the continuity of the family-owned businesses. Good succession planning and a smooth transition of power from one generation to the next will help prevent the collapse of the business. As previously discussed in this paper, more attention has to be paid to the concept of entrepreneurship in Turkey. Literature on the subject is very limited and social norms of Turkish society make it difficult to conduct field research and collect data. Although many Turkish family businesses know they have to hand over their companies to the next generation in the near future, the succession process often fails to effect a smooth transition of power and the companies fail in the second or third generation as a result. Support from business development institutions would enhance the infrastructure of Turkish family businesses by helping them to shape and grasp appropriate market and socio-economic opportunities. Perfect information of the market with low costs and support from governments will have positive consequences for the economy. Family businesses in Turkey face the challenges of intensified competition, expanding market opportunities, wider distribution channels and increasing products. Family-owned businesses need managers who are capable of making strategic decisions and overcoming these challenges. This is a very timely issue because most family-owned businesses in Turkey are experiencing performance difficulties.

Entrepreneurial programmes for family businesses should, therefore, monitor the industrial, commercial and social policies. These programmes should also alleviate the plight of the downtrodden and oppressed, such as women and the young, by providing them with the push to start up small businesses of their own. Furthermore, credit subsidies for start-ups and ongoing businesses should be enhanced with other inclusive plans in order to achieve business longevity. Family businesses differ from other businesses in terms of values, emotions, beliefs and culture. Family firms have succeeded because they are adaptable, progressive in thought and loyal. These principles are at the heart of the biggest family businesses in Turkey. These principles are the reasons for successful third generation management and ownership of companies such as the Koç Group, Sabancı Holding and Doğuş Holding. All in all, family-owned businesses have to decide whether they wish to incorporate their businesses into more competitive markets or to change hands. Since business success and the continuity of the firm are the core desire of all companies, Turkish family enterprises should adopt corporate management principles in order to grow.

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3.12. FAMILY BUSINESS IN UKRAINE
FAMILY BUSINESS DEVELOPMENT AND THE SOCIAL REINTEGRATION OF CRIMEAN TATARS IN UKRAINE

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ABSTRACT
This article reviews the problems in family business development in Ukraine. The socio-economic integration of the Crimean Tatar people in Ukrainian society through the development of family and small businesses will be analyzed as well. This article will also examine current Ukrainian realities, particularly the problems surrounding the formation and function of family business. In so doing, I acknowledge that such research has not yet been covered in the national scientific literature.

The reintegration of formerly deported peoples into Ukrainian society is still ongoing. Its pace and prospects are dependent on state policy towards the socio-economic development of the Crimean Tatars, Ukrainian society at large and the effectiveness of the practical measures implemented by the authorities vis-à-vis the return and resettlement of peoples previously deported from the country.

Owing to the lack of domestic research on the issue, it is necessary for Ukraine watchers and scholars to methodologically analyze the theory and practice of state policy on the socio-economic reintegration of the Crimean Tatars into Ukrainian society and Europe. Family business matters in Ukraine can only be truly understood when the socio-economic reintegration of the Crimean Tatars is analyzed.

Ukraine is an independent country strategically building a democratic civil society. Thus, any economic study or research on the business in the country should consider the public policy trends and peculiarities vis-à-vis family development and the impact of those family oriented policies on small and medium-sized enterprises. Only when the reintegration of Crimean Tatars into Ukrainian society has been normalized and inter-ethnic harmony established can socio-economic stability occur. Thus, before discussing family businesses in Ukraine, we must understand the government's ethnic policies.

This paper will review the current scientific literature and legal framework of Ukraine's public policy on family business development and analyze the government's interaction with family businesses, before recommending possible ways through which interactions between family businesses and the Ukrainian authorities may be improved. The theoretical-methodological approach of this paper will analyze the major problems of family businesses, the issues concerning family business development as well as the history and theory of international studies on family businesses. State regulations and legal support for family businesses will also be studied in detail so as to provide us with a better picture on the functions, contributions and future of family enterprises in Ukraine.

Research objective – Ukrainian state policy on the development of family businesses.

Research subject – analyzing family business development through the formation and implementation of state policy on the socio-economic reintegration of Crimean Tatars into Ukrainian society.

In the literature review section of this paper, the author used sociological methods and structural functionalism to comparatively analyze the concepts and definitions published by other scholars. To analyze the data collected from the State Statistics Service of Ukraine, assorted research documents and formal in-depth interviews with family businesses, the author conducted empirical modelling and participant observation.

Family businesses in Ukraine lack support from state policies and financial institutions. This is unsurprising because family business is not defined in Ukrainian legislation. There is presently no consensus on the future development of Ukrainian family businesses. Implementation of laws that fight corruption and make it easier to conduct businesses in Ukraine are vital to the country's economy. The implementation of these laws will not only bode well for the development of family businesses and small and medium-sized enterprises (SMEs); they will also render Ukraine more attractive to investors.=

This paper, presented at a conference discussing the dynamics of family businesses in the countries of Black Sea region and the conditions under which they may flourish, adds to the prevailing literature on family business studies. It does so in two ways. Firstly, it examines national and international programmes related to family businesses. Secondly, it recommends the implementation of plans, projects and legislation for family businesses.

Keywords: Crimean Tatars, socio-economic and legal problems, resettlement, legislation, family businesses, socio-economic integration, Ukrainian society, small business, strategic development, state policy, entrepreneurship, Unified State Register of Enterprises and Organizations of Ukraine, financial activity, consumer credit, registration of an enterprise, bank loan, family traditions, operational plans, Black Sea countries.

1. HISTORY OF FAMILY BUSINESSES IN UKRAINE

The process of resettling the Crimean Tatars coincided with the collapse of the Soviet Union. It marks the beginning of basic political and economic reforms in Ukraine. Repatriates faced socio-economic and legal problems like the lack of housing and jobs. Crimean Tatars were not allocated land for the construction of private housing. They were deprived of the right to participate in the allocation of agricultural lands. They were not employed in state institutions. In order to survive and build their houses, Crimean Tatars had to organize businesses involving the whole family. Repatriated Crimean Tatars are mostly active in food production where they sell cooked and uncooked foodstuff to marketplaces, cafes, restaurants and small trade food establishments. They also work part-time on farms, greenhouses and small hotel business. They are also responsible for the revival of sales in national handicrafts. However the lack of interaction between public administrations, non-governmental organizations and business enterprises in the decision-making process at the local administration level with representatives of formerly deported communities and other citizens has added to the legislative problems of the repatriation programme. As a result, many Crimean residents are living below the poverty line and most of their economic activities are very basic. The socio-economic growth of the Autonomous Republic of the Crimea is seriously limited by its poverty. Poverty in the Crimea leads to slower economic growth, negative demographic balance and reduces the competitive advantages of the peninsula. Poverty decreases the population's demand for goods and services. The demand for goods in the population is restricted to items that are strictly necessary. As a result, the development of local manufacturers becomes limited. This, in turn, leads to the stagnation of the economy and deteriorating tax revenues. The encouragement of businesses in the Crimea will enhance its economic growth. This economic growth would lead to improved quality of life for its residents and go a long way in reducing inequality and poverty. Continued poverty in the Crimea will exacerbate social tensions and negatively impact inter-ethnic and inter-religious stability. Therefore, alleviating poverty in the Crimea will increase the stability and security of the Black Sea region.

2. DEFINITION OF FAMILY BUSINESSES IN UKRAINE

Although Ukrainian small businesses have become more active in recent years, family businesses are not defined in the Ukrainian legislation. Domestic research has yet to catalogue or study the peculiarities and problems touching on the formation and functions of family businesses in Ukraine. In contrast, research on the development and growth of family businesses has been published abroad.

3. IMPORTANCE OF FAMILY BUSINESSES IN THE NATIONAL ECONOMY

As a young independent state, Ukraine, aspires to have the same standard of living as the rest of Europe. Ukraine is also gradually bringing its legislation up to scratch with European legislation.

Small family businesses face the same problems as small non-family businesses. The many changes and additions to Ukrainian legislation since independence are often in conflict with one another. In some cases, they directly contradict current regulations. This makes it difficult for all enterprises, regardless of size, to do business in the country. Small entrepreneurs often find it very difficult to navigate through the legal minefield that is Ukrainian legislation. In Ukraine, there are no mechanisms for the support, promotion and protection of small businesses. To remedy this, the state has to develop a national system of support for businesses, encourage the initiative of small businesses and provide public financial assistance to enterprises in need. Given the lack of growth in employment rates, it is likely that small businesses in Ukraine are mostly family businesses employing members of their immediate families.

According to the State Statistics Service of Ukraine, 1,335,834 businesses were registered in Unified State Register of Enterprises and Organizations of Ukraine on 1 August 2013. The Unique State Register of Enterprises and Organizations of Ukraine (USREOU) clarifies this further by stating that 494,692 businesses are limited liability companies, 279,827 are private enterprises and 114,306 are business organizations. As there is no definition of family business in Ukrainian legislation, the State Statistics Service of Ukraine does not any information on family businesses. Approximately 20,084,500 people were employed in Ukraine in 2012. It is unknown how many of these workers are in family businesses as family enterprises or solo traders. This is because family businesses and solo traders are not recognized by law. As they are not recognized by law, their contributions to the economy are not factored into national statistics. Existing data only lists the number of people working in SMEs and large enterprises. However, it is known that 1.45 million private entrepreneurs paid tax at the end of 2012. The extent to which family businesses contribute to GDP is also unknown. Since family businesses are not defined in Ukrainian legislation, they do not have any legal form in the country. Thus, the author has to compare the GDP contributions of SMEs and large enterprises. According to various estimates, SMEs contribute between 5-12% of GDP. Given the preponderance of solo traders and family microenterprises in the country, the author estimates that 30% of the population are engaged in small businesses. These business activities of these small enterprises revolve around trade and services. These small businesses can be found selling handicrafts or offering repair services. Others operate small hairdressing shops, cafes and roadside stalls.

4. CHARACTERISTICS AND UNIQUE QUALITIES OF FAMILY BUSINESSES

There is no data on family businesses in Ukraine because they are neither defined nor recognized by law. Thus, the author can only analyze the characteristics and unique qualities of small businesses in Ukraine and assume that they hold true for family businesses too.

Small family businesses face the following specific problems in Ukraine:

1) Entrepreneurs are unable to develop their businesses

a. Small businesses are very sensitive to economic fluctuations and would be unable to grow in times of recession and economic depression.

b. While high rates of inflation are deleterious to all businesses, they are especially harmful to small businesses. Inflation will add to small businesses' financial difficulties.

c. Small businesses do not have much in the way of financial reserves. Rising interest rates on loans prevent them from seeking financial assistance, as they would be unable to repay these loans. Deprived of financial assistance, small businesses find it very difficult to develop and grow.

d. Numerous studies have emphasized that state support of small businesses in developed countries is one of the key drivers of prosperity. Yet, there is neither state regulation nor support for small businesses in the country.

Small businesses are unable to grow because they face these macroeconomic problems. The aforementioned factors are not conducive to business development in Ukraine.

2) Small businesses, including family businesses, often fail

There are a number reasons account for the failure of small enterprises and family businesses. These are:

a) business owners are incompetent at running their own businesses.
b) business owners do not have experience in their chosen business activity.
c) Business owners have poor control over their firms' financial activity.
d) Small businesses lack capital.
e) Small businesses are negligent in providing consumer credit to their clients.
f) Shortcomings in the business owners' and managers' strategic planning.
g) The company is situated in the wrong location.

Before the condition, prospects and opportunities of small Ukrainian family businesses can be analyzed, their raison d'être must be considered. In Ukraine, most businesses value collegiality, collective forms of activity and being morally upright. These values, in turn, shape the development of small family businesses in the country. Small family businesses are often driven by these values rather than profit.

3) Very little assistance is given to small businesses and family businesses

a. Imperfect business legislation leading to poor state support of entrepreneurship results in:

- the lack of business development in general
- the legislation failing to define family business
- the lack of strategic state policy encouraging big businesses to cooperate with small ones
- failure to educate small businesses on the importance of innovation
- strong fiscal pressure, which forces many businesses to go into the shadow economy
- insufficient state financial and credit support to small businesses.

b. Business registration and closure regulations have to be improved. While it is easy to start a small business in Ukraine, official channels must be badgered for years before it can be closed or declared bankrupt.

c. The absence of laws governing microcredit.

d. Although some bank loans are available to SMEs, a small family business with no financial reserves cannot repay the loan or the 22% interest accrued.

e. Small businesses face many problems when they want to expand into a medium-sized enterprise. This is due to the negative attitudes of the local authorities, who use red tape to make it difficult for any business to expand. Thus, transparent allocation of land and premises is needed. The official decision-making process with regard to land leases and building permits should also be transparent.

f. Lack of skilled specialists in the field of technical education.

g. Limited information and consultation services are offered to small family businesses.

h. Ukrainian family businesses do not have a transparent business structure. They practice closed bookkeeping and have very complicated relationships with the authorities. As they do not have many legal documents of their business, they cannot accurately access their profits. They also do not have any strategic development plans. They are also mistrustful of information that would help them to build their business. The members of the family business only trust each other.

These economic, cultural, social and administrative problems plague small businesses in Ukraine. The state must help these businesses overcome these problems because small businesses have great potential.

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

Out of all the small businesses in Ukraine, family businesses are the most economically active. Family businesses are often started by women, youths, the disabled and the elderly as a means of earning their own bread.

Currently, there is much discussion on the possibility of a whole family unit starting a business of its own in catering, sales or the provisions of services. To that end, a bill was developed by the Ministry of Finance and promulgated by the State Committee of Business. Although this bill was rejected, it made many excellent suggestions. It proposed that a family business can have to up to five family members participating in its activities so long as these family members' names are documented.

The proposed bill forbade family enterprises from hiring employees who are not family members. If a family enterprise has more work than its family members can cope, its inability to hire other workers can result in the liquidation of the firm.

The bill also proposed that a family business' annual income should not exceed UAH 2.5 million. The family business must pay an annual tax of UAH 50,000. If a family firm makes more than UAH 2.5 million, it will have to pay 10% of that income as tax. Regardless of the amount it pays in taxes, the bill also proposed that family businesses pay 2% as a tax base, 20% to VAT and social insurance. So long as a family business pays these requisite taxes, it will be exempt from income tax, market dues and the necessity of paying for a trade patent.

This bill deserves support because it seeks to regulate the relationship of family members engaged in joint business. The draft of the prepared bill defines family business and proposed to regulate the creation, property, economic activities and termination of family businesses. Of note is the bill's proposed taxation of family businesses. It suggested that the income and tax rate make up 2% of the tax base. It was also proposed that businesses should be freed from paying income taxes, fees for trade patents and market dues.

To facilitate the taxation process, these small enterprises would be provided with a simplified reporting form. In addition to this form, they must keep books detailing their income and expenditure according to the rules laid down by the state tax authorities.

6. CHALLENGES OF SUCCESSION

Family business succession is a socio-psychological problem of the family. It cannot be regulated by the state because it depends on the following factors:

- Social psychology and family traditions;
- The role of family members in the family business, regardless of gender;
- Physical and mental abilities of the family members in the business;
- Whether family values can be reconciled with the values of the family business;
- Improving the public perception of entrepreneurs from small family businesses;
- Problems of family management.

7. SUGGESTIONS FOR THE GOVERNMENT AND CIVIL SOCIETY IN RECOGNIZING AND SUPPORTING FAMILY BUSINESSES

In order to enhance the economic potential of small family businesses and develop its role in the Ukrainian economy, several organizational, legal, financial, economic, social and psychological problems must first be solved.

Organizational and legal problems:

1) Organizational tasks:

- The state must develop consistent policies and programmes supportive of small family businesses. These policies and programmes must be carried out at both the state and regional levels. The state must establish a unified system of registration for businesses. This will help legalize family businesses. The state must also simplify the procedure of registering and closing a business. The state should reduce the costs of starting a business as well.

- The state must expand and improve the information, consultation, research and technological networks for businesses. The state should also promote innovation.
- The state must provide financial guarantees to existing small businesses. Municipalities should disseminate information about this. Municipalities should also bring the state's attention to small businesses that need help.

2) Legal tasks:

- The state should streamline and improve legislation vis-à-vis small business. The state should also acknowledge family business as a separate business entity.
- The state should improve its regulation of family businesses by changing the legal and taxation structures.

Financial and economic objectives:

1) Financial tasks:

- The system of financing, lending and insurance should be improved. These systems should be redesigned to appeal to family businesses.
- The tax system and customs duties system should be reformed.
- Various forms of financial assistance should be offered to family businesses. A microcredit system should be organized and implemented through municipal financial institutions, charity funds and credit unions.

2) Economic tasks:

- The state should facilitate the improvement of the economy.
- The state should encourage the growth of total domestic production;
- The state should strengthen the national currency so as to increase its reliability.

3) Resource tasks:

- The possibility of a start-up fund for first time entrepreneurs should be considered.
- Information on the importance of innovation should be disseminated. Scientific and technical education should be made available to entrepreneurs as well.

- The real estate market should be developed.

4) Social and psychological tasks:
- Educate owners, managers and employees on the importance of distinguishing between family values and the values of the family business.
- Improving the public perception of entrepreneurs from small family businesses.
- The development of youth and women's entrepreneurship.

8. CONCLUSION

In conclusion, it should be noted that small businesses in almost every civilized country start-up on their own family capital. Ukraine is no exception. In contrast to other countries, family businesses in Ukraine are exclusively defined as small businesses. This is an inadequate understanding of family business, as it disregards the fact that family businesses come in all sizes. Small family businesses in Ukraine face many obstacles in the form of state regulation and lack of access to financial institutions. Changes in Ukrainian legislation will go a long way in removing these obstacles. There is presently no consensus on the future development of Ukrainian family businesses.

Whereas family businesses pay minimal tax in Europe, family businesses have to pay more taxes in Ukraine. A simplified taxation regimen was proposed in a bill, but that bill was sadly rejected. The state should perhaps consider tax holidays. This is because it is difficult to legally determine who should pay taxes and who do not have to do so.

Ukraine has one of the highest levels of corruption in Europe. According to the Corruption Perception Index published annually by Transparency International, Ukraine ranked 144th, along with Bangladesh, Cameroon, the Central African Republic, the Republic of Congo and Syria in 2012. In addition, Ukraine has a notable shadow economy. Friedrich Schneider, a Johannes Kepler University of Linz professor highly regarded by the World Bank and International Monetary Fund, estimates that the Ukrainian shadow economy makes 44.1% of the country's official GDP.

Ukraine must redouble its fight against corruption, ease the business regulatory system and overhaul the business taxation system if it is draw out legitimate enterprises from the shadow economy. So doing will encourage the growth of family businesses and SMEs. It will also render the country more attractive to investors.

FAMILY BUSINESS PORTRAITS

1. Seitkhalilov's farm, the story of an individual entrepreneur

In 1944, the Seitkhalilov family was evicted from the Crimea to Uzbekistan as part of the Soviet Union's state-organized forcible deportation of the Crimean Tatars. The Seitkhalilov family returned to the Crimea in 1977. The father of the family, Server Seitkhalilov, was only able to buy a house in the village of Ivanovka in the Saki region, as houses were not sold to Crimean Tatars in the cities. However, none of the other family members were officially registered as owners of that house. This is because Crimean Tatars could not be registered as homeowners or residents of rented houses in the Crimea until 1989. Since none of the family members living in that could be officially registered as having a residence, they could not be employed. This affected Server Seitkhalilov too. Even though he bought the house, he could not be registered as its owner. As a result, he was not deemed to have an official address. Without an official address, he could not be officially employed. Between 1977 and 1987, seven people lived in that house, Server Seitkhalilov, his wife, two daughters and three sons. One of his sons has been disabled since childhood. The family took up farming in order to survive, as there were 6 acres of land along with the house they had bought.

Server Seitkhalilov and his sons grew vegetables, herbs and fruits. They also looked after cows, bulls and sheep. His wife and daughters sold their produce at the market. Some of the produce they sold included vegetables, sprouts, butter, milk, sour cream and meat. In 1982, the family could be registered residents of the house Server Seitkhalilov had bought. This mean Server Seitkhalilov could now get a job at a collective farm. Being official owners of their house also meant they could add to it. They did this by building a greenhouse. The family also continued their own farming activities.

In 1989, an opportunity arose for them to rent agricultural land. Server Seitkhalilov rented 1 hectare of land, on which he grew onions, melons and watermelons for 5 years. Again, Server Seitkhalilov's wife and daughters sold their produce at the market. One of Server Seitkhalilov's sons, Dilyaver Seitkhalilov, went to college to study agronomy. He graduated from college in 1990 and got a job growing vegetables at the collective farm. He eventually became a foreman at the collective farm. In his spare time, he helped his family at the family farm.

In 1993-1994, the Seitkhalilov family rented 5 hectares of agricultural land and some agricultural machinery. As agricultural land was gradually privatized during that time, the Seitkhalilov family rented land from workers of the former collective farms. Throughout this time, the family cultivated crops. Currently, Seitkhalilov's farm is one of the leading farms in the Saki region. This family's farm has 80 hectares of its own land and uses 70 hectares of its shareholders' land. The Seitkhalilov family continues to grow all sorts of crops, mostly vegetables. The Seitkhalilov family's greenhouse produces herbs and vegetables as well. The Seitkhalilov family also restored the old collective barns, engaged in animal husbandry and created a drying centre so that they could make dried fruits.

Recently, the Seitkhalilov family has ventured into the hotel and tourism business. The family has built a hotel with 40 rooms at the seafront. In the meantime, the family plans to work their farms for produce, develop storage facilities and improve their food production methods so that they can serve top quality food in their hotel. The family business is currently managed by Alim Seitkhalilov, who is the son of Server Seitkhalilov's youngest son. The business proper is controlled and owned by Server Seitkhalilov's oldest son, Dilyaver. According to Dilyaver Seitkhalilov, the children and grandchildren of Server Seitkhalilov are actively involved in the family business.

2. Umyut, an agricultural service cooperative

In 1944, the Khalilov family was evicted from the Crimea as part of the Soviet Union's state-organized forcible deportation of the Crimean Tatars to Uzbekistan. The Khalilov family returned to the Crimea in 1989. They were offered some land in the village of Petrovo in Belogorsky, where they could build a house. However, they could not find employment in the village as it was slowly emptying. As there was no way back, the family settled in the area, relying on themselves and their own efforts.

One day, Esma Khalilova noticed a car was passing through the village and suggested that the villagers sell these visitors thyme. The villagers were not impressed with her proposal and did not pay her any heed. Her family was very hard up and willing to try her proposal. Thus, they collected thyme for sale. Although they were initially successful, their harvesting system broke down irreparably in 1995. Uncertain as to that which they should do, they looked about them for a market and accidentally found a kiosk specializing in medicinal plants and herbs in Simferopol. This kiosk took their thyme and cooperated with the Khalilovs. The Khalilovs subsequently found other customers. However, their success was short-lived as the procurement system collapsed due to chaos in the herb trade. The family had to start from scratch by searching for a new market. During this time, collectivized farming collapsed completely and many people lost their jobs. These unemployed people followed the example of the Khalilov family and started collecting herbs. Some of these people worked together with the Khalilov family, while others sought out their own customers. When this herb collecting cooperative began, it had 10 people – all of whom were Khalilov family members and friends. Then the villagers joined in and the cooperative grew. The family did not have any equipment and had to use their hands, hoes and sickles. By this time, the villagers of Petrovo, who were left jobless from the collapse of collective farming, organized a cultivation cooperative. The main aim of this cooperative was the harvesting of medicinal herbs under the guidance of Khalilov family. The cooperative called itself, "Umyut", which means "Hope" in Crimean Tatar. It is hard to believe that Umyut began life as the idea of an ordinary peasant woman, Esma Khalilova.

Tangible assistance was received in 2007, when the president of the cooperative learned of the existence of the United Nations Development Programme Crimea Integration and Development Programme (UNDP CIDP) fund and the way in which it contributed to the development of rural areas. Esma Khalilova wrote to UNDP CIDP and defended her project. Through support from the fund, she purchased a packaging machine to pack the herbs into herbal sachets. Another machine was purchased to cut herbs. However, a lot of work was still done by hand, of which, almost 80% was performed by women. Indeed, women compose a large part of the agricultural enterprise. With the aim of further development, the cooperative began to work in close cooperation with the Ukrainian Horticulture Development Project, the Association of Farmers and Landowners of the Crimea, the Association of Green Tourism and various agricultural service cooperatives. This work enabled the enterprise to purchase equipment that ensured the final product was of the highest quality. The tea produced by this cooperative was so superb that it obtained state certificates.

Experts at Poltava herb stations helped ensure that their tea blends met all the necessary standards. This was very important because the Khalilov family used their ancestors' recipes in making these tea blends. In addition, they also produced other goods such as fitobalsams, forest fruit jam and fruit, rose petals and dried fruits. They also made souvenirs in the form of scented sachets, magnets and scented pillows. The peasants also had the opportunity to visit their colleagues abroad, where they acquired interesting knowledge. The village lives because "Umyut" or "Hope" works. Today, the family provides work to all unemployed peasants in Petrovo and other nearby villages. Aside from the cooperative in Petrovo and nearby villages, the cooperative has 30 cells in the most remote corners of the Crimean peninsula. Umyut hires 1,000 people from all over the Crimea and continues to develop itself.

For several years now, Umyut conducts the Festival of Herbs in May. It is attended by herbalists from all over Ukraine. The event ropes in everyone from Umyut. The children participate too by playacting. It should be noted that the children help out during other rural holidays as well. This prompted the cooperative to be part of a society that sought to revive interest in the country. Eventually, Umyut gathered enough equipment and materials to repair the entire village. Today, the members of the Umyut cooperative and local children maintain the village. The cooperative has many ideas for the development of the village and the improvement of the villagers' lives. They are especially interested in attracting tourists to historical sites that are over three or five thousand years old. They also hope to gain visitors seeking beautiful flora.

Although Umyut is a successful cooperative, it has to become a powerful enterprise to give people an opportunity to earn more money. Herbalists understand that it is not in their interest to take ruthlessly from nature because they might have nothing left to take some day. There were many individuals interested in growing medicinal plants in their gardens, but had problems with getting them to sprout. Therefore, the cooperative was faced with the challenge of creating of its own seed plot. This also brought Umyut's lack of qualified specialists to light. However, Umyut was able to overcome this when colleagues from other parts of Ukraine came to gain and exchange experiences. Now, the company would like to receive state support to further develop itself. Umyut is now in search of preferential loans and preferential payment of taxes, as well as financial support for its development. The company works with primitive equipment, which does not allow its workers to package teas properly. As Umyut cannot package its teas properly, its products cannot be presented in Crimean hotels or sold in supermarkets. Fortunately, there are people and organizations that are not indifferent to Umyut's problems. There are funds and projects that can provide Umyut with an opportunity to stay afloat and get back on its feet. Out of the 400 species of medicinal plants growing in the Crimea, 50 species can be cultivated. The market today needs herbs, but nobody is willing to trek 20-30 miles from home to collect them and haul these herbs back with large sacks on their backs. Therefore, Umyut has chosen six plant species that are most in demand so as to plant and process them in the cooperative's backyard. These six herbs are mint, lemon balm, Echinacea, sage, marshmallow and valerian.

There are currently 40 people who are members of the Umyut cooperative. There are 1,000 employees in the cooperative. 95% of raw materials are grown and 5% are processed into jams, teas, gifts and aromatherapy. A storage shed of 400 square metres and a dryer were also built.

4. BEST PRACTICES OF FAMILY BUSINESSES IN TURKEY

KURTSAN HOLDING

by
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ABSTRACT
This paper analyzes the story of a successful family business operating in Turkey's health and cosmetics sectors. It showcases the key elements and important factors resulting in the growth of the business from the very beginning. It also examines the manner in which it grew from a pharmacy to a group of companies in the health and cosmetics sectors. This study emphasizes not only the importance of institutionalization in a family-

owned company, but also the benefits of a business acting as an effective shareholder.

Keywords: family business, foundation, effective shareholder, woman entrepreneur, institutionalization, governance

JEL Classification: L10

OTACI, STORY OF A FAMILY SUCCESS

Niyazi Kurtsan, pharmacist, was a successful entrepreneur who dedicated himself to developing medicines and healthcare products from herbs in the 1950s when the concepts of "natural life" and "alternative medicine" were not prevalent. He was also a creative and productive scientist. He was born in Gumulcine, Greece, in 1925. When Second World War started, he convinced his family to move to Turkey. He completed his studies at the Faculty of Pharmacy in Istanbul University. He then married Meral Kurtsan, with whom he had two daughters, Meltem and Deniz. Eventually, Meral Kurtsan completed her education and became a pharmacist. Meltem and Deniz followed in their parents' footsteps by becoming pharmacists too.

In 1955, Niyazi Kurtsan set up his first pharmacy in Kocamustafapasa, which he named Gunes. In the laboratory of his pharmacy, he launched his first products such as tincture of iodine, cologne and gargling solutions. He moved Gunes Pharmacy to Sirkeci in 1965 and renamed it, Buyuk Pharmacy. In 1969, he established his first factory, Kurtsan Laboratory. At that time, Meral Kurtsan took over management of Buyuk Pharmacy and Niyazi Kurtsan devoted his time to Kurtsan Laboratory. Through the laboratory, Niyazi Kurtsan was able to manufacture pharmaceuticals such as antiemetics, cough syrups, gargling solutions, dermatological creams and corn plasters. He was also able to continue researching and developing new products.

Niyazi Kurtsan's interest in herbal medicines can be traced back to his childhood. He had always remembered the way in which his grandfather had treated his wounds with natural herbs. In the course of the business and its resultant research and development efforts, the pharmacy and laboratory introduced the Capila, Burnil, Tuba and Otacı brands of its products.

By 1980, the Kurtsans had come up with herbal throat pastilles for their Otacı brand. Production of these throat pastilles was followed by shampoos and other herbal products released under the Otacı brand. Otacı, which means "pharmacist" or "doctor" in ancient Turkish, is one of the Kurtsan group of companies' favourite brands. In the past, Otacı was the term used to refer to people who simultaneously performed the roles of pharmacists, doctors and scientists. Old Turkish is no longer used in the country and this word only survives through the branding of one of our products.

The company outgrew the laboratory in Sirkeci and moved to its new plant in Merter, in Istanbul, in 1985, where it became known as Kurtsan Pharmaceuticals. In 1988, Kurtsan Medical was established as a joint venture with Paul Hartmann AG, a German company specializing in hospital supplies. A new 5,000 m2 production facility was built on an 80,000 m2 plot in Bandirma, Balikesir.

Today, Kurtsan Holding manages the following companies:

- KURTSAN PHARMACEUTICALS, specializing in dermatological and respiratory tract medicines as well as herbal throat pastilles,
- KURTSAN MEDICAL, which produces and distributes medical and hospital supplements, antiseptic plasters, bandages and adhesive bandages,
- OTACI HERBAL PRODUCTS, the leading Turkish brand of natural and herbal products for the hair and body. Otaci also makes baby care products.
- All Kurtsan products are derived from plants located in Istanbul and Bandirma, Balikesir. Plants are collected and used in accordance with good manufacturing practice (GMP) guidelines and ISO standards. There are 320 employees in total. Kurtsan Holding produces more than 150 products and exports to more than 25 countries.

The Kurtsan Science, Art and Education Foundation was founded in 1993 by Niyazi Kurtsan. He believed that an institution should invest in the people; and the best way of investing in people was through education. Thus, he set up the foundation for the twofold purpose of supporting education and the sciences, and promoting social and cultural development. Since its establishment, the Kurtsan Science, Art and Education Foundation has provided scholarships to more than 400 students, most of whom were females from the medical science, pharmacy, chemistry and dentistry faculties of various Turkish universities.

After Niyazi Kurtsan passed away in 2004, Meltem Kurtsan, who had been active in the Kurtsan family business since 1984, was elected President of the Board of the Kurtsan group of companies for 2004-2013. During her tenure as President of the Board, she worked to further the professionalism and institutionalization of the companies under Kurtsan Holding.

A successful entrepreneur like her father, she was nominated a Global Leader for Tomorrow by the World Economic Forum in Davos in 1999 and elected Woman Entrepreneur of the Year by UNECE in 2002. She was the founding President of the Women Entrepreneurs' Association of Turkey (KAGIDER) in 2002 and was re-elected for the position in the subsequent 4 years.

By working closely with a professional team, she enabled the companies in Kurtsan Holding to achieve higher growth than the health and cosmetics sectors' national average. In 2013, family members who are shareholders and part of the professional board at Kurtsan group of companies agreed to guarantee and maintain the continuous improvement of the family business. The third generation of family members in the business consists of four members who obtained their Bachelor Degrees from reputable universities and are now working as professionals in other companies so as to improve their management skills.

Ms. Kurtsan is now an effective shareholder and Vice President of the Kurtsan Family Foundation. She is firmly committed to the belief that institutionalization of the family business and approaching company matters from the macro-level creates added value. She believes the most important challenge family businesses have to overcome now is transferring the business from one generation to the next. This can be done smoothly only when there is institutionalization in the company. Her main aim in Kurtsan Holding is to create a healthy environment for sustainable continuous improvement throughout the generations.

THE KOÇ GROUP

by

Koç Holding
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ABSTRACT

Koç Holding is Turkey's leading investment holding company. The Koç Group is Turkey's largest industrial and services group in terms of market capitalization, employment, revenues and exports; its shares are even listed and traded on the Istanbul Stock Exchange.

The Koç Group focuses on sustainable and profitable growth through consistent leadership positions in Turkey, the region and the world.

Steadily growing from strength to strength for the past 87 years, Koç Holding's foremost objective is to continue creating high value dividends for all its stakeholders and managing all its activities according to international standards of corporate governance, customer satisfaction, social responsibility and environmental protection.

The Group has been internationally recognized for its accomplishments. Koç Holding is the only Turkish company in the "Fortune Global 500" list; and it is the 217th largest, according to the 2012 financial results. It is the only Turkish company to make it to the "World's Most Admired Companies" list in the energy sector in Fortune 500's 2013 rankings.

In addition, Koç Holding is one of only three Turkish companies in the Boston Consulting Group's (BCG) "2013 BCG 100: Rising Stars" list.

MISSION & CORPORATE VALUES

The Koç Group aspires to customer satisfaction and sound growth by providing high quality products and services of impeccable standards. We are committed to being a symbol of trust, continuity and esteem for all our stakeholders, our country, customers, employees, shareholders, dealers and suppliers.

The corporate values set by our founder, Vehbi Koç, will continue to inspire our Group in the future, just as they have in the past.

- The customer is the focus of everything we do.
- Our ultimate goal is to be the best in all we do.
- People are our most important asset.
- Our key objective is the creation of wealth for continuous development.
- We are guided by honesty, integrity and superior business ethics.
- We aspire to strengthen the Turkish economy because we owe our success to it.

BUSINESS DETAILS AND CONSOLIDATED FINANCES

SECTORS	COMPANIES / INTERNATIONAL PARTNERSHIPS	MARKET POSITION
ENERGY		
Refinery	Tüpraş[1]	Sole & Leader
Fuel Distribution	Opet	2nd - 19%
LPG Distribution	Aygaz[1], Mogaz	Leader - 29%
Power Generation	AES Entek / AES Corporation	
Natural Gas	Aygaz Doğal Gaz	
Other	Akpa, Demir Export	
AUTOMOTIVE		
Automotive	Ford Otosan[1] / Ford Motor Co. Tofaş[1] / Fiat Auto S.p.A.	Leader - 27%
Passenger Cars		*Leader - 17%*
Commercial Vehicles		*Leader - 49%*
Farm Tractors	TürkTraktör[1] / Case New Holland	Leader - 50%
Defense Industry	Otokar[1]	Leader
CONSUMER DURABLES		
White Goods & Consumer Electronics	Arçelik[1]	Leader
All Conditioner	Arçelik LG Klima / LG Electronics	Leader
FINANCE		
Banking	Yapı Kredi Bankası[1] / UniCredit	4th[2], Leader[3] - 19%
Leasing	Yapı Kredi Leasing[1]	Leader - 17%
Insurance	Yapı Kredi Sigorta[1]	Leader[4] - 23%
B-Type Investment Trust	Yapı Kredi Yatırım Ortaklığı[1]	2nd
Real Estate Invesment Trust	Yapı Kredi Koray[1]	
Pension Funds	Yapı Kredi Emeklilik	3rd - 17%
Factoring	Yapı Kredi Faktoring	Leader - 15%
Brokerage	Yapı Kredi Yatırım	2nd - 7%
Asset Management	Yapı Kredi Portföy Yönetimi	2nd - 18%
Consumer Finance	KoçFinans	
OTHER LINES OF BUSINESS		
Food Production	Tat Konserve[1] / Kagome Sumitomo, Kaneka Seeds	Leader[5]
Food Product Distribution	Düzey	
DIY Retailing	Koçtaş / B&Q	Leader
Tourism	Setur, Divan, Mares[1]	
Marina Operations	Setur Marinaları	Leader - 25%
IT	Koç Sistem, Bilkom	
Ship & Yacht Construction	RMK Marine	

[1] Publicly traded companies [2] Private sector asset size [3] Credit Card balances [4] Health Insurance [5] Tomato paste, tomato products premium pasta and ketchup

KOÇ HOLDİNG CONSOLIDATED FINANCIAL STATEMENTS (TL MILLION)	2012	2011	CHANGE %
Revenues (net)	84,833	74,943	13
Operating Profit	4,464	5,490	-19
Profit before tax	4,517	4,707	-4
Profit for the year	4,102	3,850	7
Profit for the year attributed to equity holders of the parent	2,315	2,124	9
Earnings per share (Kr)	0.913	0.838	9
Earnings before interest, taxes and amortization – EBITDA	5,613	6,525	-14
Operating profit/Revenues (%)	5.3	7.3	-2.0[1]
Total assets	109,067	98,621	11
Total liabilities	82,316	75,350	9
Total equity	26,751	23,271	15
Shareholders' equity	16,286	13,897	17
Capital expenditures	3,829	2,233	72
Depreciation and amortization	1,149	1,035	11
Revenues/Total assets	0.78	0.76	0.02[1]
Operating profit/Total assets (%)	4.1	5.6	-1.5[1]
Return on equity (%)	16.6	18.0	-1.4[1]
Current ratio	0.88	0.80	0.08[1]
Total liabilities/total equity	3.1	3.2	-0.2[1]

[1] The changes in ratios are given as percentage point differences.

MILESTONES

1926: Establishment

16-year-old Vehbi Koç started his career at his father's grocery store in Ankara. The store was registered with the Ankara Chamber of Commerce under the name, Koçzade Ahmet Vehbi, on 31 May 1926. That date symbolizes the official foundation of the Koç Group.

1930s: The first joint stock company, Koç Ticaret A.Ş.

Koç Ticaret A.Ş. was established in 1938. This company, the initial cornerstone and development centre for all the initiatives that later consolidated into the Koç Group, was the first in Turkey to allow managers to become shareholders. Foreign representation was acquired during this period and Ram Commercial Corporation became the first Turkish company to be established in the US.

1940s: First industrial ventures

In the late 1940s, the Group entered the manufacturing sector. A joint venture agreement with General Electric in 1948 resulted in Koç Group's first industrial venture, a light bulb factory.

1950s: International partnerships

In 1951, the first Turkish light bulb was introduced to the market, following the first Turkish-American joint investment venture with General Electric. A similar agreement was made with Ford, later evolving into the Ford Otosan partnership.

1960s: Institutionalization

To facilitate rapid growth and development and build an institutional structure, Koç Holding A.Ş. was officially institutionalized in 1963 with Vehbi Koç as Chairman of the Board.

In 1969, the Vehbi Koç Foundation, the first and largest foundation in Turkey, was established to enrich life and accelerate Turkey's development.

1970s: First public offering

In order to secure capital for large investments that would contribute to Turkey's economic development, the Group had to find a means through which savings could be directed to investment. To that end, shares in

Aygaz and Koç Holding were sold to employees in the Koç Group. Shares of the Kav match factory, which was established in 1970, were likewise offered to the public.

Growth and exports

In the 1970s, the Koç Group continued its uninterrupted growth by acquiring new companies, concentrating on exports and establishing foreign trade companies.

1980s: Second generation takes over

As Vehbi Koç was a great believer in institutionalization, he named his son, Rahmi M. Koç, Chairman of the Board of Directors in 1984 and stayed on as Honorary Chairman of Koç Holding.

1987: Vehbi Koç is "Businessman of the Year"

Vehbi Koç was named "Businessman of the Year" by the International Chamber of Commerce.

First private museum

Sadberk Hanım Museum, which currently has a collection of over 18 thousand artefacts, was established as Turkey's first private museum in 1980.

1990s: The end of an extraordinary life

Vehbi Koç passed away on 25 February 1996, at the age of 95. His extraordinary life was marked by constant activity and achievements.

Koç Group grows in banking

In 1992, Koç Holding fully acquired Koç-American Bank, which was established as a joint venture with American Express in 1986. The Bank was renamed Koçbank.

2000s: A new vision for the new millennium

Koç Group enters the new millennium with a new global vision, "To be one of the world's leading companies".

Third generation assumes command

Rahmi M. Koç handed over Chairmanship of the Board of Directors to his eldest son, Mustafa V. Koç, on 4 April 2003. Rahmi M. Koç then became Honorary Chairman of Koç Holding, a post he still continues to hold.

2005: Large investments in energy and finance

As part of its plan to pursue sustainable growth, the Koç Group acquired a majority stake in Tüpraş, Turkey's largest industrial enterprise, and Yapı Kredi Bank, a giant in the Turkish banking sector.

2006: Koç Holding signs the UN Global Compact

A strong sense of corporate citizenship has been an intrinsic part of Koç Holding since its establishment. With the signing of the United Nations Global Compact in 2006, this became an official international policy.

2007: Profitability focused growth strategy

With growth strategy aiming to increase efficiency, profitability and shareholder value, Koç Holding has opted to focus on organic and inorganic growth opportunities.

2008: Koç Group - A powerful player in the crisis

The Koç Group weathered the storm of the financial crisis by successfully picking up early warning signs in forecasts, implementing timely measures, ensuring proactive risk management, and focusing strictly on cost cutting and efficiency gains.

2009: Koç Family is awarded the Carnegie Medal

The Koç Family was honoured with one of the most prestigious international awards of its kind, the Andrew Carnegie Medal of Philanthropy for their philanthropic contributions to the society.

2010: Increasing R&D investments

Koç Holding was listed among the world's top 1000 research and development (R&D) investment companies according to the "EU Industrial R&D Investment Scoreboard" for five consecutive years, rising to 506th place in 2010. Of the three Turkish companies on the list, two are companies from the Koç Group.

2011: 85th year

It comes as no surprise that Koç Holding should have successfully completed its 85th year in business in 2011. Koç Holding is famous for making a difference at every stage of its business programmes because it values innovation, consistently aims to offer the best products and services, and takes risks and manages them well.

2012: Turkey's largest

As attested by national and international accolades, Koç Holding is the Turkish economy's driving force and is continually consolidating its global position.

STRATEGIC DIRECTION & MANAGEMENT PHILOSOPHY

Competition and advancements in technology necessitate the dynamic operation of companies. They must be proactive on various fronts, particularly in innovation, productivity, risk management, flexibility and economies of scale.

We are constantly thinking outside the box because we know new developments elude those who remain within existing moulds and limits. Thus, we are always on the lookout for inorganic growth opportunities. Throughout the past 10 years, colossal companies such as Tüpraº, Opet and Yapı Kredi Bank have become part of the Koç Group through acquisition. Since then, they have grown and developed further with us. We are tremendously satisfied to witness their sizeable contributions to the Turkish economy because this confirms that we have taken the right steps.

Our Group's main competitive advantages can be summarized thus:

- We lead in sectors with high growth potential and low penetration levels.
- We control the largest distribution network and the most extensive customer database in Turkey.
- Our powerful brands command strong recognition.
- We provide the highest quality service before, during and after sales.
- We are a symbol of trust and achievement.
- We have strong footholds in global markets and are engaged in strong international partnerships.

We adhere to the following strategic principles when making new investment decisions:

- Further growth in sectors where we can create a differential competitive advantage.
- Make the most out of our brand strengths and technological competence.
- Derive maximum benefits from growth potential and economies of scale by being the market leader or a close second in every business we operate.

- Minimize sector and geographic risks though a diversified portfolio structure.

The Koç Group will make every effort to maximize productivity and profitability in the coming years, while remaining actively committed to a policy of seizing new investment opportunities as they arise.

The Group is a powerful organization capable of converting uncertainty into opportunity. The cornerstone of Koç Holding's vision is its ability to play a key role in enabling our companies and our country to make progress. Since its founding, Koç Holding has had the requisite qualities and necessary organizational skills to pioneer change. Establishing effective early warning systems, focusing on the long-term, quickly adapting strategies to new opportunities, maintaining a threat-resistant financial structure, installing the appropriate risk management mechanisms, and rewarding the creation of sustainable value rather than short term gains in performance management are traits will make Koç Holding a pacesetter in the future.

A strong balance sheet structure and effective risk management are vital components in our ability to turn new developments into opportunities. The Group is resilient to risk, both at the Holding and subsidiary level, because we do not maintain speculative foreign exchange positions and strive to keep a tight check on debt and liquidity levels. When making investment decisions, we use sophisticated methods such as risk-adjusted cost of equity capital to raise value for our shareholders.

We are endeavouring to diversify our international markets in a bid to minimize the effects of regional economic fluctuations. We are steadily increasing our international revenues and diversity through market share gains in our existing markets and forays into new markets via exports or direct operations.

The best way of achieving sustainability against rapidly advancing technology is to invest in R&D, innovation and technology. Our companies' investments in these areas and the rewards reaped have strengthened our competitiveness and sustainability for the future.

The Koç Group is determined to enhance its businesses' competitive edge by leading the way in innovation and technology. It continues to focus on delivering innovative, environmentally friendly and energy efficient products and services.

In the last 10 years, the Koç Group has spent a total of 3,557 billion Turkish liras on R&D. With an R&D investment level of almost 506 million Turkish liras in 2012, the Koç Group was Turkey's biggest spender on R&D. The R&D spending of the Koç Group constitutes around 10% of private sector R&D spending across Turkey.

Koç Holding has augmented its strengths with its R&D culture and R&D centres. All 14 R&D centres are certified by the Ministry of Science, Industry and Technology. The Koç Technology Board was established in 2005 to share and transfer technology management know-how, spread the use of best practices within the Group and support the development of joint R&D projects among Group companies to help companies improve their R&D and technology management capacities. Koç Holding believes R&D investments will translate into a competitive edge for all its companies in the long-term. It will continue to carry out its activities in cooperation with universities, its suppliers, after-market partners and SMEs.

Koç Holding has a strategic holding structure that concentrates on long-term investments and sustainable growth so as to add value to the companies in its portfolio. Our opportunities for growth and abilities in risk management are greatly aided by our possession of a balanced yet diverse portfolio structure that encompasses various sectors. Our portfolio is also balanced between rapidly growing businesses and more mature, higher dividend-paying companies, and our strategy is to maintain this structure.

In order to "make the whole bigger than the sum of its parts", Koç Holding adds value to its Group companies through:

- Reliability, strong reputation and powerful brand management based on 87 years of experience.
- Guidance in defining long-term strategies and exchange of best practices throughout the Group.
- Financing opportunities to encourage companies to strengthen their international competitiveness through investments.
- Strong balance sheet management and access advantageous terms of financing.
- Embracing universal standards of corporate governance, business

practices, ethical principles, environmental policies and working conditions through the application of Group vision and objectives.

- Broad distribution channels, comprehensive customer information and database facilitating effective customer relationship management (CRM) capabilities.
- Benefits of economies of scale and effective resource management.
- Performance management system focused on creating shareholder value.
- Effective use of early warning systems and strong risk management, backed by leading positions in diversified business segments.
- Strong human resources infrastructure.

STRICT ADHERENCE TO GOOD CORPORATE GOVERNANCE

In an era when there were no officially drawn up corporate governance principles in Turkey, Koç Holding acted on the belief that good corporate governance is fundamental to the sustainability of companies by ensuring that it and its companies achieved the highest standards of corporate governance. Koç Holding has always subscribed to the principles of (i) transparency, (ii) fairness, (iii) responsibility, and (iv) accountability.

Koç Holding’s management structure, processes and policies were established in compliance with the prevailing regulations, ensuring clarity and transparency in the areas of decision-making and responsibility. Koç Holding is one of the first Turkish companies to appoint independent members to its Board of Directors (BoD). Koç Holding is also one of the few companies in Turkey to link the remuneration of its senior management to sustainable financial and operational performance.

The Group’s voluntary commitment and proactive approach to good corporate governance includes the following:

1. Separate roles for the Chief Executive Officer (CEO) and Chairman
3. No board members are to be in the executive management team
4. Separate Corporate Governance, Management, Risk Management, Nomination & Remuneration and Audit Committees.
5. The Corporate Governance Committee actively monitors changes in regulations so as to ensure the Group and its companies adhere to the highest level of standards.
6. It is one of the first Turkish conglomerates to participate in the UN Global Compact.

7. 90% of its net asset value (NAV) is listed, ensuring high transparency in its operations.

CREATING VALUE FOR SHAREHOLDERS

Through Koç Holding's relatively strong performance, institutional investors' steadily growing long-term investments and our low discount rates, we are able to demonstrate the value that we have created for our shareholders.

In 2012, Koç Holding's market value jumped 81.9%, surpassing the Istanbul Stock Exchange (ISE) 100 index by 19.8 points in US dollars. Koç Holding raised the average volume of free float shares held by foreign investors to 79.4%. While Turkish holding companies were traded at a mean 45% discount compared to the value of net assets, Koç Holding was traded at only 6% discount. These are the most important indicators of the value we create through our long-term strategies and management quality, and the trust that our shareholders have in us.

Koç Holding and the Group's 13 publicly traded companies represent 16% of total market capitalization on the ISE at the end of 2012.

Koç Holding strives to continuously increase shareholder value by implementing international standards in corporate governance and investor relations.

Koç Holding's value added to its investors indicates the following:

- It is the best proxy through which they can invest in Turkey's high growth potential on the ISE.
- It is Turkey's largest investment holding company.
- Its strategies are focused on sustainable profitability and increasing shareholder value.
- It has a strong net cash position and solid balance sheet structure.
- It has a high growth potential as it is a leader in sectors with low penetrations and has the advantages of economies of scale.
- It has made superior and sustainable improvements in its operating performance.
- Its portfolio structure is resilient to economic volatility and risks.
- It has an efficient risk and opportunity management, supported by an extensive customer database and effective early warning systems.
- It has an 87 year old proven track record; and was built by proactive

restructuring, mergers and acquisitions, privatizations and domestic and international partnerships.

RISK MANAGEMENT

Koç Holding achieved long-term success through its cautious yet robust approach towards risk management. As part of its risk management strategy, it uses sophisticated risk assessment, modelling, reporting and capital allocation techniques. These processes boost transparency and encourage the Company to consider risks as integral parts of investment and business decisions.

Within the Koç Group, risk management is overseen by the Board of Directors and all the Group's presidents. Koç Holding's Risk Management Function was established to further develop the Group's risk policies, analyze its limits and review its mechanisms. This risk function leverages the risk infrastructures in each of the Company's businesses and ensures the adoption of an approach that is aligned with the Group's overall risk policies and limits.

Risks identified through risk management processes are prioritized according to their probability and severity. Business leaders at the Company or Group level will deal with the most important risks. The Company's general response strategy for managing risks involves identifying whether it should avoid, transfer, reduce or accept the risk. Each risk response strategy is designed to be acceptable to the Board of Directors.

The Company's risk infrastructure is designed to identify, evaluate and mitigate risks within each of four main categories:
Financial Risks

Financial risks relate to the Company's ability to meet financial obligations and mitigate the effects of market volatility. To keep financial risks under control, a variety of financial ratios, chiefly Net Financial Debt/EDITDA, Net Exchange Position/Equity and current ratio are monitored at the Company and consolidated level, and kept within particular limits. Financial risks are broken down into five categories:

Exchange: The Koç Group protects itself from exchange rate volatility by making sure risk exposure is within the limits approved by the Board of

Directors. The strategy sanctions the use of derivative transactions when required.

Liquidity: The Company's policy is to continue to diversify its funding sources so long as they are compatible with the maturation of liabilities, and a sufficient level of cash and cash equivalent assets are maintained. The Company also balances its cash and cash equivalent assets with the short-term liabilities to meet any sudden cash need.

Credit: The Company mitigates this risk through credit assessments, credit limits and obtaining the highest possible guarantee. It also leverages the Group's credit intelligence across different markets through an internally developed programme called E-risk, which tracks trade receivables risk on a daily basis.

Interest rate: In order to manage interest rate risk, the Koç Group implements certain precautions such as balancing the re-pricing dates of interest-rate sensitive assets and liabilities. It also employs certain derivative financial instruments when necessary.

Commodity price: The Company accepts commodity exposures as part of its core business and will avoid or reduce exposure where possible through a variety of hedging mechanisms.

Strategic Risks

Strategic risks are related to market regulations as well as the demand for the Company's products and services. They also encompass factors driving market share such as competition, technological changes, consumer trends and product innovation.

Sectoral and geographical diversification of markets is the most effective way of reducing sales risks. Accordingly, Koç Holding has increased both sectoral and geographical diversity so as to control long-term risks. To control short term risks, macroeconomic and sector specific developments are monitored by the president of each company in the Group. Koç Holding's strong presence and diversified business lines in the national economy enables it to recognize market changes early and coordinate responses rapidly.

Operational Risks

Operational risks affecting the Company's operations and the integrity of its internal systems and processes include earthquakes, fires and environmental accidents. Insurable risks are frequently re-assessed and transferred out of the Group through cost-benefit analyses.

Legal Risks

Koç Holding has developed various systems against potential legal risks. These include early warning systems, an online database, an online intellectual property rights management programme (mari@a sistem), a legal compliance test (HUY) and a contract audit system (LERİMAN).

HUMAN RESOURCE POLICIES

The Koç Group's human resource policies are based on the following words of its founder, Vehbi Koç: "Our most important asset is our people."

Our human resource policies are committed to:

- Attracting the most competent young and experienced professionals capable of carrying our Group into the future;
- Rewarding achievement through fair and competitive compensation policies and high performance standards;
- Making investments for continual employee development;
- Improving employees' loyalty to the Company through equal opportunities in promotions and rewards;
- Creating a peaceful working environment.
- Implementing an objective and transparent human resources management system.

All employees are able to access the human resources management system through the electronic platform koc@insan. This human resources management system has been prepared for the purpose of implementing these policies. As the information of all our employees are managed under the human resources management system, this platform provides employees with an open communication environment. It also ensures that all policies and practices are fair and transparent. This means employees will be aware of their development and assessment criteria from the very beginning. In addition to this platform, employees have access to handbooks and announcements on the Group's human resource policies, procedure, directives and systems.

The Performance Management System is also electronically available to all the Group's employees at koc@insan. This system not only guarantees the effective and transparent dissemination of the Company's objectives to employees; it also measures its employees' performance vis-à-vis the achievement of objectives.

From time to time, a special Talent Management Programme is conducted to identify talented leaders whom we believe will play an important role in the future success of Koç Holding. Once these individuals have been identified, Koç Holding will foster their development through our Corporate Coaching Programme.

Koç Academy plays an important part in the Development Planning process as well, for it enables employees to assess their own talents, plan a development programme best suited to their talents, and monitor their own progress.

For the past ten years, 5,124 managers from Koç Holding's subsidiaries have attended its Leadership Development Programme as part of a wider scheme to improve their managerial competency. This enables them to carry the Koç Group into the future.

When there are vacant positions in any of Koç Holding's companies, Koç Group' employees have priority. KoçKariyerim is a portal where all vacant jobs within the Group are announced. It provides our employees with the means to actively shape their own career paths. In addition to KoçKariyerim, companies in Koç Holding also collaborate with the Turkish Employment Agency to raise employment.

CORPORATE SOCIAL RESPONSIBILITY

Koç Holding's approach to social responsibility is best surmised by its founder, Vehbi Koç, who once said, "I live and prosper with my country." The Koç Group and the companies under it seek to create value for the society in which it has grown and developed. In order to repay society, it will implement projects that it hopes will contribute to the development of society.

In a pioneering move, the Koç Group acted through the Vehbi Koç Foundation to establish Turkey's first privately owned museum, industrial museum and private student dormitory. This made it a leader in the area of corporate citizenship. Koç Holding and the companies in the Koç Group use their projects to contribute to society and promote common understanding and shared principles.

Koç Holding's business models are based on the principles of responsibility and sustainability. Performance is constantly monitored to ensure continuous progress. Operational and performance results are reported to all stakeholders in an accountable and transparent manner. Corporate responsibility activities of all companies in Koç Holding are undertaken within a framework of sustainability and corporate citizenship.

MANAGEMENT OF SUSTAINABILITY PERFORMANCE

Work environment, environmentally friendly practices and social development are the three main focal areas of Koç Holding's sustainability management programme. Corporate commitments, performance as well as policies and targets are managed and monitored by the specialized organizational units in accordance with international norms.

The Koç Group's Sustainability Performance Evaluation and Reporting System is used to evaluate Koç Holding's sustainability performance. Implemented in 2010, this system periodically assesses the performance of Koç Holding and its affiliated companies through hundreds of key performance indicators in many primary fields. The results obtained would be reported to Koç Holding stakeholders for their evaluation, in compliance with the Global Reporting Initiative Standard B-level reporting requirements and United Nations Global Compact Principles.

GLOBAL COMPACT

The United Nations Global Compact (UNGC), signed by our Chairman of the Board, Mustafa V. Koç, in 2006, is an international framework demonstrating the ways in which social responsibility can be implemented in corporate operations and improved.

ENVIRONMENTAL PRACTICES AT KOÇ

Koç Holding is committed to preserving the environment for future generations. AlI its activities comply with national and international legal regulations as well as environmental standards. It aims to be a model company and places great importance on raising its employees' environmental awareness and improving its commitment to the environment. By sharing its experiences, it endeavours to find common solutions to local and global environmental problems. It is also sensitive to expectations in health and safety, and to the needs of society. These principles are aligned with the environmental principles of the UN Global Compact.

Koç Holding’s Environmental Policy and its Environmental Vision and Mission are fundamental to the way in which the Group’s companies conduct their business activities. The Policy, Vision and Mission are managed through strong organization and sound processes extending from the Holding level to the field. The Holding’s Environment Committee was formed in order to share best practices, create common long-term plans and develop common projects.

An Auditing Group and the Environment Committee jointly conduct an environmental audit every two years to determine possible risks and raise environmental awareness within Koç Holding’s companies. The indicators used for these evaluative audits are derived from sustainability criteria.

Koç Holding’s companies combat climate change within the framework of Koç Holding’s Climate Change Strategy. Accordingly, the Holding’s companies strive to effectively measure and reduce greenhouse emissions. All of Koç Holding’s companies are committed to minimizing the environmental impact of production. All the Holding’s companies respect the environment in their production processes.

In addition to Koç Holding’s dedication to the reduction of harm to the environment, all its companies are engaged in improving nature and biodiversity as well as raising society’s environmental consciousness.

SOCIAL DEVELOPMENT

Koç Holding’s goal is to contribute to the prosperity of the locations in which it operates; and in so doing, promote the expansion of social creativity and encourage social development according to stakeholder needs and expectations.

An advanced level of social development institutionalization is important to Koç Holding. Accordingly, it concentrates its efforts on education, health, the environment as well as culture and art. The institutions overseeing

Koç Holding's work in these areas conduct regular programmes, support projects and engage in periodic activities.

Vocational Education: A Crucial Matter for the Nation

In 2006, Koç Holding, the Ministry of Education and Vehbi Koç Foundation launched the "Vocational Education: A Crucial Matter for the Nation (MLMM)" project. The MLMM project has the support of 20 companies from Koç Holding and more than 550 Koç Holding employees. Since its inception, this project for the promotion of vocational education has been supported by national and international actors. It is also lauded as a successful model in the field of vocational education. The MLMM Project started out by providing internships cum scholarships to 8,000 vocational high school students. Over time, the project developed into a working model for forging cooperative links between schools and businesses. It did so by combining the vocational high school coaching system with development modules and educational laboratories.

The Cooperation for Quality in Vocational Education project, which began on 20 December 2010 with the Education Reform Initiative so as to raise the quality of vocational education, was completed in 2012.

In 2012, the Vocational High School Coaching Programme, which had been developed under the auspices of the MLMM project, transferred to the management of the Private Sector Volunteers Association. The Vocational High School Coaching Programme nurtures the personal development of vocational high school students and fosters the spirit of volunteerism in the employees who participate in it. Since the Private Sector Volunteers Association took over the implementation of the programme, it has already reached 29 companies and has an excess of 300 volunteers.

For My Country:

"For My Country" is a Koç Holding social responsibility initiative launched in 2006 to promote individual entrepreneurship as part of responsible citizenship. This initiative encourages Koç Holding companies, employees, dealers and suppliers to involve themselves in the resolution of social problems. "For My Country" focuses on a particular social need every two years. When "For My Country" was implemented in 2006-2007, 387 projects supporting local development were realized. In 2008-2009, "For My Country" fostered environmental education by providing 18,000 children with 1,084,000 saplings that they were to plant in 7 forests. Increasing the number of regular blood donors was the theme of "For My Country" in 2010-2011 and its efforts led to an additional 103,000 donors. By the end of 2010-2011, Koç Holding's "For My Country" initiative had collected 83,579 units of blood, the highest amount garnered by any single corporation.

"For My Country" collaborated with the Alternative Life Association and the United Nations Development Programme's (UNDP) No Barriers project in 2012-2013. The project sought to create awareness in practices that would support and improve the quality of life for the disabled in their social interactions and jobs. Social awareness and sensitivity to the disabled were indeed raised, for by May 2012, volunteers from Koç Holding had reached out to 37,980 persons in 44 of Koç Holding's companies and to many others in 20 provinces. 375 volunteers underwent 730 training sessions in the Right Approach to Disability training programme so that they could be effective instructors. Additionally, 55 projects to render Koç Holding's companies, distributorships and stores friendly to the disabled were initiated. This project also led to the development of products and services for disabled consumers.

International Istanbul Biennial

Koç Holding has always supported projects with the potential to leave a lasting legacy to society. The International Istanbul Biennial is one of those projects. Organized by the Istanbul Foundation for Culture and Arts, the International Istanbul Biennial is a modern art event that explores social issues through the mediums of art and culture. Koç Holding has assumed sponsorship of the International Istanbul Biennial for 2007-2016. This is one of the most famous art events in Turkey, as it has traditionally garnered much attention abroad. In supporting the International Istanbul Biennial, Koç Holding is celebrating art, culture and Istanbul. Koç Holding will continue to do all it can to enrich the International Istanbul Biennial and thereby ensure its continuity.

Koç Fest

Koç Holding and its affiliates started Koç Fest in 2006 to create a special festival for university students through music and entertainment. Koç Fest is quite a tradition now and has had 65 festivals in 28 cities in 7 years. Koç Holding is a firm believer in a well balanced academic life and strongly adheres to the idea that sports raises the quality of people's lives. Koç Holding not only sponsors Koç Fest; it had sponsored the Turkish University Games organized by the Turkish University Sports Federation in 2009 as well. From then on, the most prestigious and highly attended sporting event amongst Turkish universities came to be known as the Turkish Koç Fest University Games. Koç Holding has since become an essential part of the festival. Through this initiative, Koç Fest became the largest youth festival in Turkey, bringing together sports, music and fun through one event. Since 2009, Koç Fest has hosted 20,000 athletes in 42 disciplines from 185 universities annually. Some of the successful athletes and teams at these annual sporting events have gone on to represent Turkey at international events sponsored by Koç Holding. In 2012, Koç Fest once again visited seven universities and held the big finale at Eskişehir Anadolu University where approximately 5,000 students attended.

VEHBİ KOÇ FOUNDATION

Since its establishment, the Vehbi Koç Foundation's centres of excellence and numerous programmes have set examples in the areas of education, healthcare and culture.

EDUCATION

Through its headquarters and affiliated institutions, the Vehbi Koç Foundation (VKF) has provided scholarships to 4,048 students in the 2012/2013 academic year, specifically, 3,251 junior and senior high school students and 797 university students. VKF has increased the number of students eligible for scholarships in order to offer financial support to a greater number of successful students. The number of universities receiving scholarships from VKV has increased to 17.

In the memory of the 75th year that the Turkish Republic was founded, VKF established 13 Koç elementary schools in different parts of Turkey.

VEHBİ KOÇ FOUNDATION

EDUCATION
Koç Schools (High School 1988, Elementary School 1998)
Koç University (1993)
Koç Elementary Schools (1998-2008)
On the Republic of Turkey's 75th anniversary, the Vehbi Koç Foundation built 13 elementary schools across the country. This project was extended to 17 schools with the addition of four more schools between 2006 and 2008.
Model School project (launch planned for 2014)

HEALTH
Semahat Arsel Nursing Education and Research Center (SANERC, 1992)
VKV American Hospital (1995)
Koç University School of Nursing (1999)
Koç University School of Medicine (2010)
Health Sciences Campus (opening planned for 2014).

CULTURE
Sadberk Hanım Museum (1980)
Vehbi Koç and Ankara Research Center (VEKAM, 1994)
Suna-İnan Kıraç Research Institute for Mediterranean Civilizations (AKMED, 1996)
Antalya Kaleiçi Museum (2000)
Koç University Research Center for Anatolian Civilizations (ANAMED, 2005)
TANAS Art Gallery, Berlin (2008)
ARTER Space for Art, Istanbul (2010)

Through the establishment of Istanbul Bayazıt Ford Otosan Elementary School in 2006, Kocaeli Ford Otosan Elementary School in 2007, Diyarbakır Kayapınarı Elementary School in 2008 and the restoration of Diyarbakır Bağlar Elementary School in 2008, there are now 17 Koç elementary schools. According to VKF's principle of "Build, Transfer, Own", these elementary schools were transferred to the Ministry of National Education after their establishment.

All these schools have the same architectural design characteristics and are fully equipped with computers. Through the continuous support of VKF, these schools are able to provide children with a contemporary education that will aid them in their futures.

The VKV Koç School is one of the most preferred educational institutions in the country and presents a role model for other schools because it has both a High School (founded in 1988) and an Elementary School (founded in 1998). The school provides a stimulating learning environment through a student-centred educational programme and interdisciplinary activities. In the 2011/2012 academic year, there were 152 graduates from the Elementary School and 209 graduates from its High School.

Of all the non-profit private universities, Koç University has attracted the largest number of top-scoring students in Turkey. Times Higher Education ranked Koç University along with two other Turkish universities in the top 250 universities of the world. Koç University, which would have celebrated its 20th anniversary in 2013, aims to become the first Turkish university to rank in the top 100 universities worldwide.

After a model school...

VKF and Cannon Design jointly hosted the first of the "Education Architecture in the 21st Century" and "The Impact of the Environment on Education" conferences in February 2011. The second of these conferences was held on 4 December 2012 at the Koç University Anatolian Civilizations Research Center in Istanbul. Cannon Design is supporting the Model School Project in the hopes that it will produce an ideal school offering innovative educational environments and pedagogical approaches. As this model school will be based on an organic relationship between the shareholders and the community, it will be student-centred, sustainable, reproducible and adaptable. The model school process and the architectural concept were presented to the participants, who were then asked to discuss the subjects of education, architecture and learning in the new century. The basis of the idea of a reproducible model or ideal school was nurtured at these conferences, and the findings made public in 2014.

HEALTH

At the Health Sciences Campus, education and health intersect. The construction of the Health Sciences Campus, one of the largest of its kind in Turkey, has begun in Topkapı, Istanbul. Affiliated with VKF and the Faculty of Medicine at Koç University, the campus is set to open in September 2014. The first phase of the project involves setting up a faculty of medicine and establishing a research and training hospital. The second phase will see the establishment of a nursing school as well as housing for faculty members and nurses. When complete, this project will contribute greatly to the country.

Revenues from the VKF American Hospital are used as investments in the construction of the Koç University Faculty of Medicine teaching hospital. The VKF American Hospital was taken over by VKF in 1995 and is now one of Turkey's largest private hospitals with 60 intensive care units, 300 patient beds, 13 operating rooms and 38 clinics.

In providing this crucial social contribution to the construction of the Health Sciences Campus, the VKF American Hospital has broken new ground.

Every year, the Vehbi Koç Foundation Nursing Fund provides scholarships to nursing students. It also supports professional development projects conducted by nurses.

The Koç University School of Nursing was founded in 1999 to provide professional applied nursing education. To this day, it is well known for producing modern, exemplary and self-confident nurses. In the 2011/2012 academic year, the Nursing Undergraduate Programme admitted 28 students who had passed the university entrance exam. Students are expected to complete the four year programme, attend two summer terms of English, undergo clinical practice, receive their nursing degrees and become professional nurses.

The Semahat Arsel Nursing Education and Research Center (SANERC) was founded as an affiliate of the Vehbi Koç Foundation on 21 December 1992. In 2004, it was attached to the School of Nursing at Koç University. To achieve its mission, SANERC educates and gives advisory services; conducts and supports research contributing to professional development; and prepares guidelines for textbooks and training. It also publishes and distributes the "Training and Research Journal" free of charge. Since it started publication in 2004, this journal is published three times a year. SANERC is accredited by the American Nurses Credentialing Center. Since SANERC's founding, over 8,679 healthcare professionals (mostly nurses) have participated in its training programmes.

CULTURE

Sadberk Hanım Museum was established by the Vehbi Koç Foundation. It is also Turkey's first private museum. Under contemporary museum management approach, Sadberk Hanım Museum is designed to be a living, productive centre for culture and education. The museum opened in 1980. It occupies the Azaryan Residence at Büyükdere, in the Sarıyer district of Istanbul. At its opening, it was dedicated to the memory of Sadberk Koç, the late wife of Vehbi Koç, because this museum houses her personal collection. The collection, forming the core of the museum, has been enriched time and time again through donations and purchases. As of 2012, it contains over 18,000 pieces. The museum is composed of two wings: the Turkish-Islamic artwork collection is exhibited in the Azaryan Residence, while the archaeological arts collection resides in the Sevgi Gönül Building that was opened in 1988.

The Vehbi Koç and Ankara Research Center (VEKAM) is situated in the vineyard house belonging to Vehbi Koç in Keçiören, one of the last remaining vineyard houses in the city. VEKAM functions as Ankara's library and archives, for it holds resources rich in information. By constantly improving its collection through acquisition of all published material on Ankara, including rare books, VEKAM has managed to become the primary reference centre for urban studies on Ankara. In 2012, VEKAM honoured the 90th anniversary of the Turkish Republic and Ankara becoming the capital city by publishing an interdisciplinary biannual refereed journal, the Journal of Ankara Studies.

The Suna and Inan Kıraç Research Institute on Mediterranean Civilizations (AKMED) and Suna Inan Kıraç Kaleiçi Museum opened their doors to the scientific, cultural and artistic communities in 1996, after Suna and Inan bought and restored two old facilities on a building plot in Kaleiçi, Antalya.

This is an apt location for AKMED and the Suna Inan Kıraç Kaleiçi Museum because it stands on a protected urban archaeological site.

AKMED was established as the first and only Turkish private research institute specializing in the Mediterranean. It aims to support the research, documentation, protection and maintenance of the historical, archaeological, ethnographical and cultural values of Antalya and its regions. It also publishes scientific studies on the state of affairs between nations and communities along the Mediterranean coast.

The Research Center for Anatolian Civilizations (RCAC), established in 2004 as a managed subsidiary of Koç University, is the first and only Turkish institution in this field. It offers research scholarships to 20 PhD students and academicians from Turkish and foreign universities and hosts them at its historical building in Beyoğlu, Istanbul. It also supports academic work on Anatolian civilizations and is dedicated to the development of the knowledge base in this field both in Turkey and the world. With the libraries, conference hall and gallery space opened in June 2012, RCAC serves as an integrated hub for studies on Anatolian civilizations.

ARTER, an initiative of the Vehbi Koç Foundation, opened in 2010 to offer a sustainable infrastructure for producing and exhibiting contemporary art.

Through its programmes, ARTER encourages the production of contemporary artworks. ARTER provides artists with a platform through which they may showcase their work and artistic practices. Exhibitions of artwork are frequently held and they come from various sources like the VKF Contemporary Art Collection, private collections and archives. Joint productions with international institutions are included as well. The Vehbi Koç Foundation intends to expand ARTER further by providing it with a museum complex as well as a research laboratory and a space for art preparation.

In 2012, a new exhibition opened at ARTER. This exhibit, Voices, aims to introduce the works of the world's leading contemporary artists to the Istanbul art world and support the production on aural art projects.

The Vehbi Koç Foundation Ford Otosan Culture and Community Center in Gölcük was established under the auspices of Ford Otosan. Since its inception in 2010, it has contributed to the social and cultural development of the region and the locals. With its natural setting, garden, award winning architecture, personal development classes, art courses, exhibitions, theatre performances and musical activities, it provides a rich cultural environment for the region. Although it has only been opened for nearly three years, it offers an extensive array of activities such as classical music and jazz concerts, theatre, children's shows and art workshops. Local art lovers make use of its facilities by assembling there. Its many free and unrestricted activities enable it to draw an average of 9,000 visitors a month. Due to its emphasis on social responsibility, it is able to attract people of all ages from all walks of life.

THE VEHBİ KOÇ AWARD

Every year, the Vehbi Koç Foundation acknowledges achievements in the fields of culture, education and healthcare by presenting the Vehbi Koç Award to individuals or institutions who have contributed to the elevation of Turkish people's quality of life.

In 2012, Prof. Dr. Nermin Abadan Unat was presented with the Vehbi Koç Award in recognition of her outstanding contribution to education.

Prof. Dr. Unat is considered a teacher of teachers because of her pioneering and exemplary work on women's studies and immigration, her invaluable efforts in cultivating hundreds of students and her mentoring of academicians in political science and sociology.

Previous recipients of the Vehbi Koç Award were:
2011 - Culture: 2011 – Prof. Dr. Filiz Ali and the Ayvalık International Music Academy
2010 - Health: Prof. Dr. Tuncay Dalkara
2009 - Education: Prof. Dr. Türkan Saylan
2008 - Culture: Prof. Dr. Mehmet Özdoğan
2007 - Health: Prof. Dr. Aziz Sancar
2006 - Education: Nuri Okutan
2005 - Culture: Fazıl Hüsnü Dağlarca
2004 - Health: Bilkent University, Faculty of Sciences, Department of Molecular Biology and Genetics
2003 - Education: Mother Child Education Foundation (AÇEV)
2002 - Culture: Topkapı Palace Museum

AWARDS GIVEN TO THE VEHBİ KOÇ FOUNDATION

2012: Iris Foundation Award for Outstanding Contributions to the Decorative Arts.
2011: BNP Paribas Grand Prix for Individual Philanthropy
2009: Carnegie Foundation Medal of Philanthropy
2007: World Monuments Fund, Hadrian Award
1988: Sadberk Hanım Museum was presented with the Europa Nostra Award
1987: Sadberk Hanım Museum was presented with the Aga Khan Award for Architecture

5. CONCLUSIONS AND RECOMMENDATIONS OF THE BSEC WORKSHOP ON FAMILY BUSINESSES

5.1. CONCLUSIONS

The following points were made in conclusion:

1. Family Businesses (FBs) are the backbone of the economies of the BSEC member states and their societies.
2. FBs make up about 70-80% of all European enterprises and account for about 40-50% of employees.
3. Most SMEs, especially micro and small enterprises, are FBs and some of the largest European companies are also FBs.
4. Most of FBs are SMEs operating in traditional sectors such as tourism, agriculture and the service industry.
5. There is no commonly accepted definition of FB 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.
6. The definition should be introduced at the national level.
7. The common feature of FBs is that the family unit, the business and its ownership are intertwined.
8. FBs enable families to be flexible with their time, work and money.

They are innovative entities with long-term planning, possess stable cultures, and are credible and moral. Families in business are also very proud of their traditions, achieves and enterprises. However, FBs are sceptical about change and external market stimuli, and are therefore reluctant to modernize their management styles.

9. FBs in many BSEC countries, including the advanced ones, believe their governments ought to be more supportive of them. The majority of FBs feel that their governments neither recognized their contributions nor acknowledged their significance.
10. FBs differ from large businesses in entrepreneurial thoughts and actions.
11. In advanced market economies like Germany, the influence of FBs is decreasing. The old family model is eroding because increased globalization has changed the socio-economic environment.
12. There is a lack of research and common understanding as to the FBs' value for the economy and society.
13. The issues of business succession and business transfers are particularly salient for FBs, as they directly challenge the long-term survival of existing FBs. Most business transfers to the next generation fail due to lack of careful planning and rigid taxation policies.
14. There is a lack of reliable statistics on the FBs in the BSEC member states.

5.2. RECOMMENDATIONS

The following recommendations were made:

1. Governments should provide a legal definition of FB in the BSEC member states and harmonize it with their existing company and SME laws. When defining FBs, the three major pillars of the family unit, the business and its ownership should be taken into consideration.
2. Governments should foster the entrepreneurial spirit through education in order to encourage the creation of sustainable FBs in the BSEC countries. Special attention is required to modernize the vocational education training system in the BSEC member states.
3. Governments should improve FB related national statistics.
4. Free training courses in business planning, accountancy, marketing, management and information technology are necessary, if FBs are to further develop.
5. Governments should consider adopting measures to create a more

favourable economic environment for FBs. Some of these measures include the simplification of company law, reducing bureaucracy, easing taxation and providing financial resources for FB start-ups.

6. Governments and national authorities should foster the development of local and regional clusters especially by cross-fertilizing traditional sector clusters with technology and services clusters.
7. Governments should foster transfer and innovation projects between academicians and FBs.
8. Governments should include FB development in their SME development policies.
9. Civil society should be encouraged to represent the interests of FBs especially at the national level.
10. Where necessary, the media and public institutions should improve the public image of FBs and promote their values.
11. On 15 October 2013, the participants of the Workshop agreed to produce a book on family businesses in the BSEC member states, based on the guidelines outlined by ERENET’s Scientific Director and KAS.

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