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SUCCESSION CHOICES IN FAMILY BUSINESSES

The case of Poland



Wydawnictwo
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The Case of Poland

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INTRODUCTION

Family businesses are one of the most important sources of wealth generation and employment growth in the contemporary world. According to the report ordered by the European Commission and developed by the Entrepreneurship and Economic Development Research Institute, it is estimated that in Poland in 2008, family businesses constituted from 50 % (prudent estimates) to about 70–80% (optimistic estimates) of the total number of Polish enterprises (Żuromski, 2008, p. 4). On the other hand, according to the nationwide research conducted in 2009 by PENTOR Research International, ordered by the Polish Agency for Enterprise Development (PARP) on the sample of 1280 micro-, small and medium-sized enterprises in Poland (the sample did not allow for entities of large size), family businesses constitute 1/3 of all Polish enterprises (38% among micro-enterprises, 28% among small enterprises, 14% among medium-sized enterprises) (PARP, 2009a, p. 67). It is estimated that in the years 2001–2008, around 700 thousand family businesses functioned, which constitutes 41% of the total number of all enterprises in Poland.

In 2002, the European Commission estimated that during the coming 10 years as many as 1/3 of enterprises from 15 countries belonging to the European Union at that time would transfer ownership. The rate was from 25 to 40% in individual member states. In absolute numbers, the rate was about 610 thousand small of and medium-sized enterprises, out of which nearly half employs personnel

(about 2.1 million workplaces) (the European Commission, 2002, p. 7). At the beginning of 2006, it was estimated that in case of UE-25 countries “even 690 thousand firms yearly should find new owners – these enterprises, although in majority small or medium-sized, provide 2.8 million workplaces (the European Commission, 2006, p. 5). The quoted data show unequivocally that the issue of the continuity of enterprises, especially family businesses, is one of the key priorities assuring the competitiveness of economy and workplaces. Successful transfer of enterprise ownership is also a chance of survival for enterprises, mainly family businesses.

Carrying out successful succession in family businesses is an issue of vital significance for businesses themselves, and a great challenge for the pragmatics of family business management. It is also an issue important for the dynamics of Poland’s economic development since it regards a wide spectrum of Polish enterprises. The way in which the problem of succession in Polish enterprises will affect the dynamics of Poland’s economic growth in the next decades shaping the entrepreneurial behaviours and the financial condition of Polish enterprises. If the problem is solved on a mass scale in a way that will be conducive to the development of enterprises, strong firms will appear in Poland, both in the sense of capital and organization. If not, small, conservatively oriented enterprises will prevail.

Unfortunately, research on succession strategies of family businesses is undertaken alongside broader deliberations on management strategy, and not as a significant and separate scientific and practical problem. At present, there is no holistic model which would explain succession processes in Polish family businesses. There are no scientific analyses which would verify empirically the determinants of succession strategy.

This monograph constitutes a modest step towards creating bases for systematic gathering of data and improving research approaches in the field of the research on family business development in Poland in the intertemporal perspective. It contains findings of the research project entitled “Family Businesses in the Face of Succession Chal-

lenges. Succession Strategies of the First Generation of Polish Enterprises” financed by the Polish Ministry of Science and Higher Education, and implemented at the Faculty of Economics and International Relations of the Cracow University of Economics in the years 2008–2010¹. The main aim of the conducted empirical research was to identify the succession strategy of the first generation of Polish entrepreneurs since the beginning of the economic transformation in Poland, with the special consideration given to the level and the methods of keeping family control.

The book² consists of six chapters, the first four of which have theoretical character, and the other two have methodological and empirical character.

The first three chapters constitute an overview of the world literature on the succession of enterprises. Chapter One brings closer the essence and the nature of family business. Chapter Two contains the review of the question of ownership, control and management in family businesses. Chapter Three constitutes throughout presentation of theoretical approaches to the analysis of succession process in family businesses. Chapter Four is an analysis of legal, administrative and institutional factors (but from the point of view of management sciences) on the basis of the recommendations made by the European Commission on conducting the policy of support for business succession by member states, worked out on the basis of reports assessing the implementation progress of member states in this scope.

¹ A research project entitled “Family Businesses In the Face of Succession Challenges. Succession Challenges of the First Generation of Polish Enterprises” („Firmy rodzinne wobec wyzwań sukcesji. Strategie sukcesyjne pierwszej generacji polskich przedsiębiorstw”) developed by Aleksander Surdej and Krzysztof Wach in the years 2008–2010, registered under No. NN 115 1326 34, financed by the Ministry of Science and Higher Education on the basis of the agreement No. 1326/B/H03/2008/34, implemented at the Faculty of Economics and International Relations of Cracow University of Economics, Kraków 28 May 2008 – 27 May 2010.

² For the needs of the published research project the “book” will be used interchangeably with the “study” and the “paper” term which are its accepted synonyms.

Two last chapters constitute the empirical part of the monograph. Chapter Five introduces its own research methodology showing its development against the background of the methodology in the world academic research on this subject. The last chapter, Chapter Six, includes the analysis of the questions of business succession in Poland on the basis of the authors' own research materials. The empirical research was carried out in two stages. The first of them, conducted in the first half of 2009, was based on straw polls (the sample was 496 family businesses), whereas the other one, conducted in the second half of 2009, was based on in-depth interviews (the sample was 61 family businesses).

Chapter 1

FAMILY ENTREPRENEURSHIP AND FAMILY BUSINESS IN THE MARKET ECONOMY

1.1. The Essence and the Nature of Family Business

Broad presence of the “family business” term¹ in the academic literature in the field of management and economics does not resolve doubts concerning unambiguity and precision of this notion. How are family businesses defined? What is their distinguishing feature? Are research findings (carried out in various countries, and by various authors in the same country) comparable? Do their authors analyze the same phenomenon?

A scientific journal “Family Business Review”, published since 1988, in its first edition encouraged attempts to define a family business, a family firm and family entrepreneurship. In 2008, that is 20 years later, R.A. Litz carried out an analysis of definitions of family business that had appeared in the mentioned journal (Litz, 2008. Pp. 217–236). He ordered those definitions from the point of view of feature groups identified with family business and the minuteness

¹ For the needs of this study the “family business” will be used interchangeably with the “family firm” and the “family enterprise” term which are its accepted synonyms.

scope of the criteria of its structuralization. These may be synthetic criteria for general description and/or detailed ones for detailed description. Definitions occurring in the literature on the subject base on one criterion (one dimension), or on two criteria or at least three criteria, in this last case they are defined as multidimensional ones or integrated ones (Table 1.1).

Table 1.1. Dimensional Definitions of a 'Family Firm'

Single Dimension	Multiple Dimensions	Integrative
<p>Ownership Donckels & Fröhlich (1991) Davis & Harveston (1998) Littunen & Hyrsky (2000)</p> <p>Management Dreux (1990) Ward (1990) Filbeck & Lee (2000)</p> <p>Ownership or Management Chua, Chrisman, & Sharma (1999) Steier (2001) Astrachan, Klein, & Smyrnios (2002) Chrisman, Chua, & Zahra (2003) Dyer (2003)</p> <p>Generational Continuity Sharma, Chrisman, & Chua (1997) Tan & Fock (2001)</p>	<p>Both Ownership and Management Leach, Kenway-Smith, Hart, Morris, Ainsworth et al. (1990) Gallo & Sveen (1991) Lyman (1991) Holland & Oliver (1992) Welsch (1993) Carsrud (1994) Covin (1994) Lansberg & Astrachan (1994) Donckels & Lambrecht (1999) Kelly, Athanassiou, & Crittenden (2000) Klein (2000)</p>	<p>Ownership, Management, and a Third Dimension Handler (1989) Astrachan & Kolenko (1994) Litz (1995) Shanker & Astrachan (1996) Westhead, Cowling, & Storey (1996) Cadieux, Lorrain, & Hugron (2002)</p>

Source: (Litz, 2008, p. 218)

The paper by R.A. Litz proves the lack of full compatibility as far as understanding of a family business notion is concerned. Thus, let us look at selected suggestions for definitions that we can come across in the literature. E. Venter, C. Boshoff and G. Maas (2005, p. 284) define a family business as “a firm being the property of the members of the same family, who, through it, implement a formal or an informal vision of business activity and have an intention to pass along the business to the next generation, or the business has already been passed along to the present owners by the previous generation”.

M. Bertrand and A. Schoar (2006, pp. 73–96) write that “family businesses are characterized by the accumulation of ownership, control, and the maintenance of key management positions by family members even after the business founders have withdrawn”.

P. Westhead, M. Cowling and C. Howort (2001, p. 370) consider family business to be an enterprise in which over 50% of ordinary shares are in the possession of the members of the biggest homogeneous family linked by ties of blood or marriage, and the firm itself is perceived by its president or the director as a family business. It is worth noticing that the authors emphasize the significance of self-identification of the people who manage the firm. It is certainly important for the ethos of the firm management and it probably affects its long-term orientation (one could expect that an enterprise which in the perception of the people managing it is a family business, will be a firm in which possible future succession should keep its family character).

R. Anderson and D. Reeb (2003, pp. 1301–1328) define family businesses as enterprises in which the founder or one of his family members (a relative or a in-law) is a manager, a director or possesses a considerable block of shares, individually or as a group.

Definitions of family businesses usually refer to the issue of ownership and the enterprise management. In case of ownership it is assumed that the family is the exclusive (in small and very small enterprise group) or a dominant owner. The dominance among the owners may mean the requirement of possessing over 50% of shares in the

firm (in small and medium-sized enterprise group), or only 20% or even 10% of shares in the category of large enterprises (in the relation to this category, we should rather talk about a Family Controlled Firm), although in some countries, for example Denmark, in the large enterprise group, the family business is defined as a firm whose biggest single shareholder” is a family. According to W.S. Schulze, M.H. Lubatkien and R.N. Dino (2003, pp. 174–194), the existing empirical data show that the relation between the share of the family in the ownership and the financial results of a family business takes shapes close to a U-curve. Such a relation in the Polish conditions, using data for the years 1997–2005 for 217 family enterprises quoted on Warsaw Stock Exchange was confirmed by O. Kowalewski, O. Talavaram and I. Stetsyuk (2009).

It is difficult to achieve precision in case of the identification of the role of family in a business management dimension. Except for cases in which the head of a business is the founder and the sole owner, we may deal with a certain continuum of levels of influence and control. For example, a family controlling the business (formally or informally, directly or indirectly) can influence nominating the president or the management board; it can decide (or have the veto right) as far as strategic decisions regarding the business are concerned. In some cases the name of a family business is given to enterprises which have been controlled by a given family for at least two generations. In such a case, the definition emphasizes “cumulative heritage” which links the family to the business.

In his classic paper, R.G. Donnelly defines a family business as a firm which “was closely identified with at least two generations of one family, and this relation was a mutual relation of both the family with the firm, and the firm with interests and goals of the family. Such a relation exists where one or a few of the following criteria are fulfilled: the relation with the family is one of the factors defining the succession in management, wives or sons of the present or the former boss are in the supervisory board; the values of the business which are important institutionally are referred to the family in formal doc-

uments of the business itself, or in an informal tradition of the organization; actions of the family members influence or are perceived as the ones which influence the enterprise image regardless of their formal relation with the enterprise management; relatives involved in the business activity feel obliged to keep the shares in the firm not only for financial reasons (especially when they bring losses); the position of a family member in the business affects their position in the family; a family member must define their relation with the business where they decide on their career” (Donnelly, 1964, p. 94). This definition refers to two dimensions influencing each other: an emotional dimension (family) and a business dimension (the firm). The effective functioning of a family business requires on the one hand the effective business organization, namely corporate governance and, on the other hand, family governance. These are not easy to reconcile and have to be achieved simultaneously.

In the stream of market research the most willingly quoted definition is the one suggested by PriceWaterHouseCoopers (2007, p. 9) according to which a family business is “an enterprise where at least 51% of shares belong to a family or to people related to each other; family members constitute the majority in the Management Board, and the owners deal with managing it on a daily basis.”

On the other hand, according to the definition adopted by the European Commission, a family business is regarded to be an enterprise of any size if (the European Commission, 2009, p. 10):

- the majority vote is possessed by a natural person or persons who have set up a business or who have purchased shares in the business, or shares are possessed by a spouse, parents, children or a more distant offspring of the business founder,
- the majority vote is assured both directly and indirectly,
- at least one representative of the family or its relative is formally involved in the business management,
- publicly listed enterprises are considered to be family businesses if the person who has established it or has purchased shares/stock

in it or if their family or an offspring possesses at least 25% of the vote granted on the basis of the possessed shares.

The quoted examples show that in order to distinguish family businesses most often one applies criteria such as:

- a) ownership,
- b) control (as a derivative of ownership),
- c) management.

We should stress the fact that exercising control in a family business is connected with ownership and should be considered as the exercising of ownership supervision². Thus, from the formal point of view two dimensions are distinguished: ownership (including control understood as ownership supervision) and management.

Therefore, an enterprise is thought to be a family business if its founder and/or successors are among its biggest shareholders and (although it is not always required), they hold major positions in the supervisory board.

Figure 1.1 illustrates the basic characteristics of the family business showing among the tangible elements characteristic of family businesses there are such as economic endowment, performance and partly management. As far as the intangible elements are concerned such elements as interrelationships, motivation/drivers, social endowment/social capital and partly management can be distinguished.

² Ownership supervision is a way of enforcing ownership rights, in relation between shareholders, their formal representatives and the management board, performed by the capital owner or the owner group. For more see: (Colley, Doyle, Logan, Stettinius, 2005).

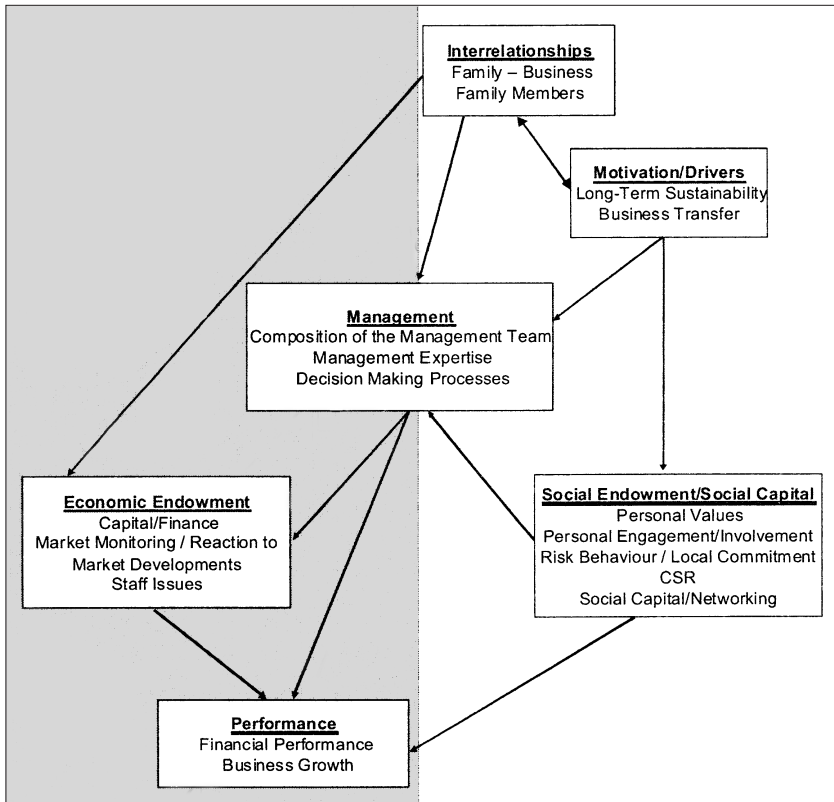


Figure 1.1. Main Specific Characteristics of a “Family Business”

Source: (Mandl 2008, p. 54)

Many scholars treat family enterprises as a system composed of three separate subsystems (Cohn 1992, p. 34):

- a) family,
- b) enterprise (managerial system, economic system),
- c) ownership.

Each of these subsystems (figure 1.2.) has got specific limits, rules of behaviour and goals and the roles are defined. The above subsys-

tems of the family enterprise also contain specific elements and have got their characteristic features, (Jaffe, 1990, pp. 27–36):

- in the family subsystem its constitutional elements are the family members and their next generation. This subsystem is based on feelings and it is oriented towards upbringing, peaceful growth, and ensuring stability and security. It is definitely focused on the family members,
- in the economic subsystem (in the enterprise) the constitutional elements are: the workers, the managers and the clients and its task is to reach the previously set business objectives. This subsystem is externally client – oriented,
- in the ownership subsystem the constitutional elements are all the enterprise owners- both those who are the family members and those who do not belong to the family. Thanks to its existence the enterprise management can be well selected and it is also possible to create the attractive mission of the enterprise as well as to set its objectives.

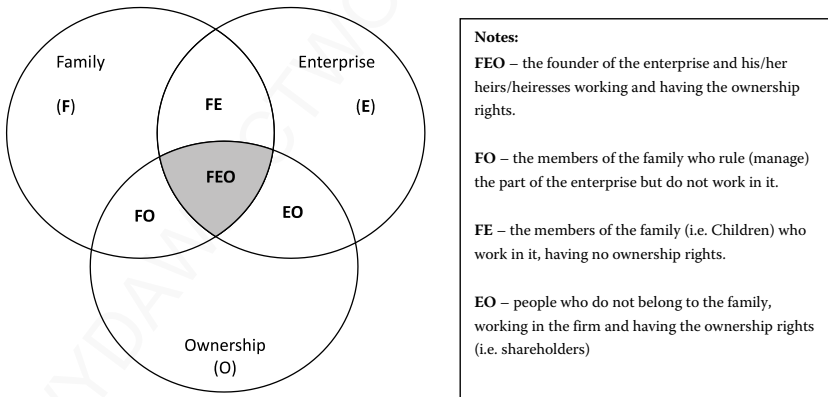


Figure 1.2. Three Subsystems: Three Overlapping Perspectives on Family Business

Source: (Hatten 2003, p. 189); (Cohn 1992, p. 34) and (Jaffe 1990, p. 27)

In Table 1.2. we present a simple typologization of enterprises created by adoption of two criteria: the ownership criterion and the management criterion. Assuming that in reference to each criterion the owner or the manager may be a separate unit, family or persons external to it, we obtain 9 possible types of enterprises which, with regard to “familiness” can be situated on a continuum running from a family business in its germ (owners and managers are family members) to a classic public company (a widely held owner and managers external to the business – zero familiness ratio).

Table 1.2. Typology of Family Businesses

		Who is responsible for the business management?		
		Unit	Family	Professional managers
Who does the company ownership belong to?	Unit	Family business <i>in nuce</i>	The business involving the family to work for its development	Family business with management in external hands
	Family	Family business with the role in management limited to one person	Classic family business	Family business with external Management Board
	Wider group	Public company with dominating manager (e.g. Nokia with Olila)	Enterprise with family management	Classic public company

Source: Authors' own elaboration

In accordance with the position prevailing in the literature what decides about the specificity of family businesses is ownership and the involvement of an entrepreneur's family in the business functioning (Andreson, Reeb, 2003, pp. 1301–1328). In a family business, the family and an economic organization stay in a multi-dimensional inter-

action which exerts influence on the way the business functions, the way it uses resources and its economic effectiveness (Chua, Chrisman, Sharma, 2003, p. 89).

The relation between the family and the business can be presented in a few dimensions. One of the ways of presenting this relation is the F-PEC scale (Family – Power, Experience, Culture), by means of which it is possible to measure the impact of family on the business through “channels”, such as: power, experience and culture. “Power” is understood as control exercised by the family through ownership and the share in management. Experience is a cumulated contribution of knowledge which the family makes owing to its involvement, sometimes multi-generational one, in the firm development. Culture is specific values and loyalty types which permeate from the family to the business (Klein, Astrachan, Smyrniotis, 2005, pp. 321–333).

Table 1.3. Family and Business Pole in the Activity of Family Businesses

Family orientation	Business orientation
<ul style="list-style-type: none"> - Children should be involved in business activity as early as possible - Consecutive enterprise managers should be chosen from the family - It is important to make children interested in markets and products offered by the firm - The founder and/or a representative of the oldest living generation should always play formal role in conducting the business - Business is stronger if the family involves in it. 	<ul style="list-style-type: none"> - How can one finance the enterprise development keeping control over it? - How to estimate the value of the business? - What qualities does the firm of the entrepreneur himself bring? - If I were to introduce external shareholders to the firm, how aggressive are they to be in business?

Source: Authors' own approach on the basis of (Leenders, Waarts 2003, pp. 588–595)

1.2. Family Businesses in Contemporary Economies

The phenomenon of family businesses seemed to belong to the economic history of the world, and the notion itself seemed analytically redundant, when in the middle of the 1980s A. Shleifer and R. Vishny (1896, pp. 461–488) studied the identity of the largest owners in 456 of the biggest American enterprises listed on the “Fortune 500” list, and they found out that in 207 cases they are institutions (45.4%), in 149 families were represented in supervisory boards (32.7%), and in others families which however did not have their representatives in supervisory board (21.9%). They were followed by other researchers. R. La Porta, together with his collaborators, studied ownership and control structure³ in 20 biggest enterprises in 27 richest countries of the world and 10 other smaller enterprises in some of these countries to establish who controls these enterprises. In order to do that, they analyzed identities of final owners of capital, and voting shares. They found out that 36% out of big enterprises represented in their test are Widely Held Firms, 30% are businesses controlled by individuals or families, 18% are state controlled firms, 5% – businesses controlled by financial institutions with widely held shares, and 5% of other widely held corporations. Using less demanding control criterion (the threshold of 10%, not 20%), the share of Family Controlled Firms in smaller businesses increased to 53%.

S. Claessens with the collaborators studied 2980 enterprises in East Asia and found out that 2/3 of those enterprises were controlled by individuals or families (Claessens, Fan, 2002, pp. 105–129). M. Faccio and L.H.P. Lang (2002, pp. 365–395) analyzed ownership and control structure in 5232 publicly listed enterprises in 13 countries of Western Europe and found out that 44% of those enterprises are Family Controlled Firms, and 34% and Widely Held Firms.

³ In this research control meant possessing at least 20% of shares. Compare: (La Porta, Lopez-de-Silanes, Shleifer, 1999, pp. 471–518).

On the other hand, R. Anderson and D. Reeb (2003, pp. 1301–1328) found out that families of the owners are present in 1/3 of enterprises which form S&P 500 index⁴ of the biggest corporations in the years 1992–1999. B. Villalong and R. Amit (2006, pp. 384–417); (2009, pp. 3047–3091) claimed that the families of founders control 40% of the enterprises present on the list of 500 largest enterprises of the “Fortune” magazine, and R.C. Anderson S. Mansi and D. Reeb (2006, pp. 385–417) counted that it is true in case of 48% out of the 2000 biggest enterprises in the United States.

The findings of these research prove that, contrary to the opinions prevailing before, family businesses are not relicts of the past, and their occurrence is not limited to the small and medium-sized enterprise sector since the family ownership also dominates among large publicly listed enterprises.

The strong presence of family businesses among small enterprises should not be a surprise. All newly-established firms are marked with the personality of their founders. They are the product of individual persons acting in the context of their family and business connections. Thus, as far as a great number of family businesses among small enterprises (sometimes defined as enterprises run by the founder) is not surprising, what strikes is the existence of many large public family businesses, and even whole business sectors in which large, dominating enterprises are family-owned. This is the case, for example, in the brewing industry where enterprises like InBev, Anheuser-Busch, SABMiller, Heineken, FEMSA, Carlsberg, and many other smaller ones are still controlled by the founders’ families or financial institutions related by them. The situation is similar among cable television operators in the United States. Six out of seven largest entities are enterprises controlled by the founders’ families (including Comcast,

⁴ S&P 500 is one of the indices of enterprises quoted on the New York Stock Exchange, which consists in 500 enterprises with the biggest capitalisation, they are mainly American enterprises. The index is one of the best known indices managed by Standard & Poor’s.

Cox, Cablevision and Charter Communications). In 2008, 11 out of 12 biggest American daily newspapers were controlled by the founders' families. This enumeration can be continued.

Economic historians emphasize that at the beginning of modern age (till mid-19th century), the consequence of market fragmentation, inefficient transport and communication system was that in many European countries trust, community, culture and ties of blood were entrepreneurship development tools which helped to reduce business uncertainty by facilitating the circulation of information, knowledge and transfer of qualifications within and between family businesses. In Italy, Germany, France, Spain, or Great Britain knowledge and experience in managing trade and industrial enterprises was acquired in informal circles of families, guilds, and other local networks based on strong ties of blood and ties generated by cultural proximity (Fernández, Puig, 2004, pp. 79–99). In contemporary times, advantages of such a system of acquiring knowledge have decreased although they still occur in sectors in which qualifications and people's attitudes are more important than technical equipment. Also in modern times family business researchers observe that family businesses pay great attention to personal relations and development of a successor (Fiegener, Prince, File 1994, pp. 313–329).

The research done by economic historians shows that family businesses are a natural lever of social and economic development in the conditions of low development of formal market institutions since family ties enable to get financial support and appropriate human capital necessary to establish and run a business. What also conduced inheriting control over a firm and its management was the fact that growing up in an entrepreneur's family was a privileged (if not the only one) path of learning how to run a business (business schools originated only at the beginning of 20th century, and MBA programmes in its second half of 20th century). In its origin a modern enterprise is a family business, and out of it, through the evolution of legal solutions, a contemporary public company has come into being.

However, the pace of family businesses' development is limited due to financial abilities, and the latter depends on a firm's profitability (and its decision concerning the relations between reinvestment of profits and consumption), and on the ability to get external capital. Therefore, it depends on the introduction of modern legal solutions, including the institution of public company. Some researchers claim that countries which did not facilitate the transformation of family partnerships into public companies developed more slowly and were left behind in the development by other countries. Ch. Bayer and C. Burhop say that the fact that at the turn of 19th and 20th centuries, Germany got ahead of England and became the first industrial power of the world can be explained by legal reforms of 1870s⁵, which during two years alone, from 1871 to 1873, enabled to establish 843 companies, out of which 442 were publicly listed. However, in the consecutive period (from 1873 to 1879), a hundred of those enterprises went bankrupt, and another 225 were withdrawn from the stock exchange but that crisis bore fruit in the improvement in corporate governance, retaining the significance of public enterprises and giving early birth to "managerial capitalism" in Germany, while in Great Britain the traditional form of family ownership still prevailed, and still in 1970s relatively poor economic results of the country were explained by pointing at the prevalence of family ownership (Bayer, Burhop, 2009, pp. 464–481).

The number of family businesses depends on the total number of enterprises, and the latter number is diverse and depends on the level of the country's development and its specific institutional features. Private entrepreneurship, manifesting itself in undertaking self-employment, and the total number of enterprises are particularly high in Greece where every fifth person working outside agriculture is a business owner. At the other end there is Finland where every 14th employ-

⁵ Before 1870 public issue of shares and the emergence of a public company required in Germany consent of the government which was difficult to obtain. Compare: (Bayer, Burhop, 2009, pp. 464–481).

ee possesses their own firm (data for the years 1972–2004) (van Stel, 2005).

Until recently, a statement prevailing among economists was the one by S. Kuznets (1971) who related the number of enterprises to the level of economic development according to the following rule: the richer the country is, the fewer enterprises there are. This relation stopped being true by the end of 1970s⁶. It was observed that negative relation between the level of affluence and conducting one's own firm stopped being visible in most developed countries. Then, the revival of entrepreneurship was observed and discovered. What is more, economic variables (such as income, unemployment rate) lost some of their ability to explain the dynamics of entrepreneurship. Attention was started to be paid to other "soft" variables, such as culturally determined attitude to risk or a lifestyle (Hofstede, Hofstede 2005).

The existing empirical data show that the relation between the number of enterprises and the level of economic development takes shape of U-curve (Thurik, Wennekers, 2004, pp. 140–149)⁷. The transition from the decreasing to the increasing enterprise share is closely related to the changing role of entrepreneurship in the economic development. This change is well illustrated by two concepts: "econ-

⁶ Only in 1970s, as a result of the economic crisis the role that entrepreneurship and small and medium-sized enterprises play in economy was noticed. After the years 1950s–1970s, the period of fascination with large corporations, when small and medium-sized enterprises were perceived as a manifestation of economic backwardness, the return to perceiving private entrepreneurship at the outset of capitalism when small entrepreneurs were the basis of economy. Compare: (Acs, Yeung, 1999, pp. 63–71).

⁷ Small family businesses dominate economies of the most of developing countries: in Accra and Agra, Dacca and Dakar, small family firms generate and employ dominating part of the population. In Accra, the capital of Ghana, 75% of firms in industry are enterprises of sole traders, and less than 15% of the employed are people working in firms bigger than 10 people. In the most developed countries in industry bigger firms dominate. And thus, for example in USA, enterprises employing fewer than 5 people supplied only 1% of industrial manufacturing, whereas enterprises employing over 500 people produced almost a half of industrial manufacturing – Compare: (Gollin, 2008, pp. 219–233).

omy in the hands of managers or managerial capitalism”, as well as “entrepreneurial economy”. Some authors (Audretsch, Thurik, 1995, pp. 111–140) state that the “managerial economy” model was adapted to the economy dominated by production on large scale, the sectors of industrial production, the period in which development depended on large capital expenditure, and majority of workforce was characterized by low qualifications.

Contemporary “entrepreneurial economy” is an economy dominated by the service sector organized into smaller units whose results to a great extent depend on the personnel’s qualifications and motivation, the quality of human capital, the level of social capital. In such a period one should expect the increase in the number of new enterprises with the high dynamics of increment in the whole sector of small and medium-sized enterprises.

Family businesses are important for the economic development because they support the development of entrepreneurial talents in consecutive generations, they build responsibility for the success of economic ventures, they assure long-term orientation in the enterprise activity, maintaining the autonomy of the enterprises (Westhead, Cowling, 1995, pp. 111–140).

The expansion of self-employment coupled by the weak growth of the scale of activity of enterprises in low-developed countries is partially explained by indicating at the limitation of the access to capital, which influences the decisions concerning whether and who can become an employing entrepreneur since if the chance to become an entrepreneur depends on possessing suitable funds, the rise in the income level (and assets) leads to the growth of entrepreneurship (this phenomenon as a problem of “occupational choice” was formally analyzed in 1970s by R. Lucas (1978, pp. 508–523). Family business enables to decrease the capital limitations since family support (strong family ties) acts as a kind of security in order to acquire capital. Moreover, family is a resource from which the entrepreneur can initially derive employees (the more numerous the family is and/or the stronger the ties in the extended family are, the bigger the resource of avail-

able work is). Family work diminishes the barrier of access to resources when the entrepreneur has an impeded access to external labour market or when available workers are too expensive⁸.

The organic growth of a business has usually a gradual, evolutionary character. Large Family Controlled Firms usually come into existence as a result of development which lasts decades. Sometimes this process is accelerated when larger family businesses take over other enterprises, for example, in the process of the privatization of state enterprises. However, when the privatization process is conducted in relatively closed economy and in the conditions of an immature democracy, the result might be, as it was shown on the example of Bangladesh by S. Uddin, the emergence of “family capitalism” – as a consequence of the takeover of large state enterprises by families related to the government (Uddin, 2005, pp. 157–182). As a result of such a (improper) privatization, as it is claimed by S. Uddin, there was no increase in the productivity of the privatized enterprises but the shift of public assets to the private hands took place. As a consequence of such privatization there was not emergence of widely held firms and institutional corporate control, typical for Western Europe and the United States. Instead, instead a specific kind of “family capitalism” emerged.

In spite of the fact that the general U-shape dependence between the number of enterprises and the level of development is proven, the causes of differentiation between countries with the similar level of development (for example, Finland and Italy) are not well explained. The conducted research points at the co-existence of a number of factors which all together go into the making of the full explanation of this diversity. For example, P. Ilmakunnas and J. Topi (1999, pp. 283–301) studied the relations between the level of the income differentiation and the number of enterprises, and they found the occurrence of such a dependence since countries with more egalitarian distribution

⁸ The detailed discussion on the role of family businesses in developing economies can be found in the paper: (Surdej, 2009).

of income (in Europe, for example, these are Scandinavian countries) are characterized by relatively smaller number of private enterprises. This dependence may not have a direct character but may depend on the type of the state and the type of its redistribution – Scandinavian welfare state indirectly provides numerous services which in other countries are the field of activity of small firms (e.g. social services).

1.3. Family as a Factor Stimulating Business Activity

Due to a strong emotional and cultural dimension, smaller family businesses (their internal organizational structure and management methods) may be understood to a great extent as cultural formation, which reflects the most important values of the society in which they act (Redding, 1990, p. 143). This social context is determined by the prevailing system of values and other cognitive variables – the variables reflecting widely spread patterns of thinking. Thus, for example, the Chinese for hundreds of years recognized family businesses as a part of family assets which should be maintained within the family and passed to male descendants. Such cultural factors are the reason for which ownership and management in Chinese firms remain concentrated in the hands of family members (Redding, 1990, pp. 143–181). What is more, family control in the firm is kept even when the market situation is changing since members of the family are the only employees that can be trusted, and the key positions in the business stay in the hands of the family from generation to generation. F. Fukuyama (1995) claims that these factors have deterministic character and they form the basis for the Chinese familism. He also emphasizes that enterprises with such qualities meet with significant difficulties in passing from the control by the family members to professional management. F. Fukuyama (1995) writes about it in the following way “among the Chinese there is a strong tendency to trust people related to us and, as a result, not to trust people who are not members of the family or the group of relatives”. In accordance with the culturo-

logic explanation we should expect that family businesses more often occur in the societies with lower level of “impersonal trust”, namely trust based on respecting formal rules.

In P. Whiteley’s opinion (2000, p. 451), interpersonal trust may be stimulated by economic development through three channels.

Firstly, trust directly influences economic results, reducing transactional costs. Transactional costs appear in the processes of exchange and specialization (North, 1990). For D. North, transactional costs are a part of production costs. Including the impact of trust in the production function, we find out that in a society with a higher level of trust it is possible to achieve a higher level of income than in a society with the lower level of trust, which has to incur additional costs of monitoring, executing and protecting contracts and transactions. People who trust each other do not incur many costs (in the form of money or time) for the protection of property rights. They can solve cooperation problems without resorting to the mediation of lawyers and the administration of justice.

Secondly, trust has direct influence on economic development since it facilitates the solution of group activities (Whiteley, 2000, p. 451). This reasoning derives from classic works by R. Hardin (1982) and E. Ostrom (1990) in which they formally showed, by modeling with the use of game theory and on the example of informal social institutions, that cooperation when solving collective action problems is difficult to achieve in societies characterized by low level of trust. It can be expected thus that in societies with high level of trust, the level of delivered public goods will be optimal.

Thirdly, trust influences the reduction of monitoring costs in principal-representative relations. If an entrepreneur can allocate smaller funds to monitoring and preventing possible abuses from partners, employees and suppliers, he may devote more time and energy to innovative activities and launching new products and services. Moreover, F. Fukuyama (1995, p. 26) found out that societies which are characterized by high level of trust depend less on the necessity to draw up complex contracts and execute them in court, and that coopera-

tion in such societies does not require applying formal means of enforcement.

Excessive trust may also produce negative consequences. M. Olson (1982) observed that some forms of “stability in trust” bring about anti-developmental, anti-innovative collusion between governments and dominating groups of interest. This kind of trust increases resistance against pro-effective reforms. Probably between trust and economic development there is a curve-line relation: in countries with low level of trust, the growth of trust may contribute to the acceleration of economic development. In countries where the level of interpersonal trust is initially high, its further growth may result in the decrease in the pace of economic development (Roth, 2009, pp. 103–128). Trust, which may be the basic factor of family businesses’ supremacy, may produce negative consequences (inertia, closing in the network of existing contacts), which in turn may lead to lower economic effectiveness.

Studies on family businesses indicate not only the role of cultural factors but also great significance of institutional factors. The research is directed at the search for the answer to the question what institutional solutions (external to the business and firm’s corporate governance) minimize the costs of controlling managers by enterprise owners. It is studied what qualities of capital markets and labour markets make it possible to lead to the growth of harmony between shareholders’ interests and managers’ interests.

If we pay attention to the fact that in many countries a family-owned business, managed by family members and employing them is something commonly met, almost natural, then we have to ask a question about the distinctness of separating lines, about where the family end and the business begins. Do family conflicts cause conflicts in the business? Do the rules governing business permeate to family life and what is the outcome?

Family ownership helps to solve problems which occur in the background of market transactions: the problem of controlling contractors, the problems of using shared resources or the problem of in-

formal knowledge transfer. A family business is often included in the network of informal relations characterizing the family and existing before. That is why, while analyzing only formal ownership relations it is difficult to notice all determinants which affect its activity. Such informal relations may seem not very rational from the economic point of view. However, it happens only when we think also about economic activities which are measurable. Non-measurability of the quality and consequences of numerous activities results in the fact that the economic activity based on networks of mutually supporting people may be considered as relatively rational. Therefore, a family business may be analyzed as a “multi-task unit” (Holmstrom, Milgrom, 1994, pp. 972–791) whose members contribute to achieving income and profit, but at the same time they are a community of organizational and entrepreneurial knowledge, and emotional support. If these additional functions are important, they are taken into consideration and rewarded. Incentives of weaker strength related to these additional dimensions become justified in such a multi-task unit.

Family businesses use “soft resources”, such as loyalty and inter-generational obligations. This issue appears with special intensity in case of these family businesses whose name refers to the family, and the business itself has been established and controlled by the same family for a few generations. Such enterprises can be found on both ends of the enterprise size continuum: both among large enterprises (for example, FIAT, controlled by Agnelli family⁹, or Porsche controlled by the founder’s descendants), and among small firms (e.g. craft enterprises). The name and the image of the family may become a valuable business asset which family members try to manage in the same way as other “hard” resources.

A firm with a recognizable and highly valued image may become a place from which initiatives developing and diversifying business

⁹ Giovanni Agnelli, for decades the head of the dynasty of Fiat owners used to say: “A family business is inheritance which should be protected and passed. It is a result of commitment that every generation has towards their predecessors and successors” – quoted after: (Betts, 2001).

activity will branch off. It may become a kind of a business incubator from which new ventures and new enterprises come out. The business may still stay in the hands of the family, but at the same time new, minority shareholders may be introduced to the firm, with the perspective of full “going public” of the enterprise by, for example, taking it public. In this way, around the common identity, such business groups as Salim in Indonesia, Tata in India, or Samsung in Korea came into being around the common identity. These groups used the common financial resources and human resources, often without using formal contracts. Such qualities of business groups are particularly useful in countries where financial, labour markets or product market are not fully effective yet.

1.4. Family Business Groups

The findings of several research conducted in the context of institutional economy lead to a conclusion that diversified family business groups appear more often when there are no well functioning formal market institutions. Family business groups are treated as a kind of functional substitutes appearing when there is an inefficient market allocation of factors of production (Leff 1978, pp. 661–675).

A business group is a “set of enterprises which are mutually related in a formal or an informal way” (Granovetter 1995, pp. 453–475). From the economic point of view, a very significant question is why business groups are most often strongly diversified internally, that is they function in numerous, very different sectors of industry; they act under homogenous leadership of an entrepreneur, transcending normal connections between independent enterprises but they do not achieve an integrated, uniform organizational structure. Examples of such groups are South Korean chaebols, Indian business houses, Turkish family holdings, and family business groups in Latin America.

Business groups are considered to be a method of internalizing inefficiency of the market by entrepreneurs who come across obsta-

cles in gaining capital, labour, raw materials or technologies in countries with the poorly developed market system. Business groups appear in places where developed formal markets do not exist or cannot function efficiently and become an institutionalized form in which business activity proceeds. According to this hypothesis, if in a given country the capital market is not sufficiently developed, enterprises retain profits, develop internal capital market and invest their funds in the existing connected enterprises, or they set up new enterprises.

Family business groups develop in an economy in which capital market inefficiencies incline enterprises to invest profits in new ventures, when the expected rate of return in the existing enterprises is decreasing together with the increase in the scale of activities. According to this assumption, we can formulate the following statement: the stronger capital market inefficiencies are, the stronger significance of family business groups in economy is.

From an another perspective, close to to institutional economics, it is necessary to stress the importance of social and cultural factors in shaping the economic organization. This approach is trying to identify how cultural factors, such as: trust or interpersonal networks, affect the internal structure of economic organizations or the pattern (ability to initiate, durability) of cooperation between firms.

In societies in which social order has a traditional, patriarchal character, and where the rules of inheritance give privilege to the eldest sons, vertically connected business groups organized like a big family appear more often, around the central figure of father and patriarch. Therefore, new business ventures are being adapted to the existing family structures and they are subjected to them. Such a family business group develops with new branches and lasts since it is integrated by strong ties of family submission. However, the group, profiting from the scale of activity, is becoming more complex internally, and by it, more difficult to be effectively managed. Therefore, social relations of power and control are a factor which increases the frequency of the occurrence of business groups focused around one entrepreneur or family.

The analyses show that family-owned businesses are a prevailing form of business organizations in Turkey (Gunduz, Tatoglu, 2003, pp. 48–54). Even very large enterprises and holdings are family-owned, and the most important positions in their Management Boards are taken by their members. Conducted by the end of 1990s analysis of the ownership structure of enterprises listed on the stock exchange in Istanbul showed that family groups possess directly or indirectly over 75% of all enterprises quoted on it and maintain control in them (Yurtoglu, 2000, pp. 193–222).

Family businesses play also an important role in Greece, and their role is particularly visible in sea transport. G Harlaftis and J. Theotokas (2004, pp. 219–255) claim that “the evolution of international sea transport enterprises in Greece cannot be explained without an analysis of the relations of family networks, the relation of trust between family members and close friends coming from the same seaside areas”.

Other patterns of business organizations appear in countries where the process of economic development started later and was stimulated by the state. If the state, led by pro-developmental elites gains certain autonomy in activity for the benefit of economic development, then in a sense it can “invite” selected entrepreneurs to undertake preferred economic activities, increase the probability of the formation of business groups which, under the protection and supervision of administration, implement ventures which cannot be handled by dispersed, consisting of small enterprises private sector. For a few decades, such a model existed and was relatively effectively in South Korea but due to its shortcomings, including first of all opacity of relations between the government and entrepreneurs, nowadays it results in the rise of corruption and distrust of ordinary citizens to public authority.

As a rule, entrepreneurs initially conducting their activity on the local scale face the barrier of the lack of resources and/or insuffi-

ciently developed infrastructure¹⁰. In order to overcome the barrier of capital accessibility it is possible to create family business groups – networks of small enterprises linked with each other by ties of relationship. Such networks of enterprises have come into being and become the prevailing form in Asia and Latin America countries (Claessens, Djankov, Lang, 1999, pp. 81–112). Such networks function in regional or market niches, and the research by P. Ghemewati T. Khann (1998, pp. 35–61) shows that family business groups fill “an institutional vacuum”, the lack of a legal system of appropriate quality, and the low quality of enforcement contracts. Family business networks contribute to solving the problem of legal and administrative system inefficiencies. In certain conditions, in the situation of effective supplier market, family businesses decide on the strategy of vertical integration. Where the existing institutional surrounding is inefficient, family business groups are a factor of economy development and assets growth. Some research shows that the economic growth of Hong Kong, Taiwan and Singapore in the last thirty years may be to a great extent attributed to the activity of family business groups (Weidenbaum, Hughes, 1996).

As far as strongly connected family businesses can accelerate the development in the initial period, their dominance may contribute to slow the development down because of accumulative influence of some negative factors which characterize these enterprises. The acceleration of the economic growth becomes possible if economic activeness will be switched from economic transactions based on family identity to the networks based on formal transactions.

1.5. Advantages and Disadvantages of Family Businesses

We have stated before that family businesses are characterized by qualities which can assure them competitive advantage. H. Demsetz

¹⁰ In contemporary economy, more and more often we can come across enterprises of international orientation from the very beginning, so-called born globals.

and K. Lehn (1985, pp. 1155–1177) found out that ownership concentration gives strong stimuli to the decrease in the costs of agency and the maximization of the enterprise value. In the situation when the fate of the family wealth is closely connected with the fate of the business, families controlling the business are strongly motivated to monitor managers' work and in his way they solve the problem which harasses enterprises with widely dispersed shareholders.

Family in a family firm plays a similar function to the owner of a control share block in a publicly listed firm. Apart from that, family may bring to the management of the business of which it is the founder and shareholder, good knowledge and the firm itself – resources the control of which requires time, and it gives it advantage over an institutional strategic investor (Panunzi, Burkart, Shleifer, 2002).

In some cases, the presence of the founder family among the enterprise shareholders is a kind of a symbolic seal guaranteeing its stability. For example, Du Pont family maintains at least 15% shares in the business possessing the same name for over 200 years.

Potentially, family businesses are characterized by a longer investment horizon than enterprises managed by professional managers who in their activity are oriented at the shorter periods, manifesting a kind of managerial myopia. Moreover, as H. Demsetz and K. Lehn (1985, pp. 1155–1177) found out, family may experience benefits from controlling the business, in the form of benefits which are non-reducible to the money, in such a way that it is not under the pressure of maximizing profit in a short time. Such a situation was submitted to formal analysis by H. James (1999, pp. 41–55) who built a two-period model of investment in a business, showing that a family as an owner possesses stronger incentives to choose efficient (conform to the rule of positive present value) projects, as it is interested in passing the firm to the next generation. Similar conclusions were drawn by M. Casson (1999, pp. 10–23) and R. Chami (1999) who found out that families perceive enterprises more as assets they want to pass to their descendants rather than a resource to be consumed during their

own lives. The survival of the business is for the family an important matter and it means focusing on long-term value maximization. Family is often connected with the firm not only because of its economic significance but also through the phenomenon of reputational linking. The dependence of family reputation on the fate of the family additionally strengthens incentives to its efficient management and it is the reason for which the business gains long-term orientation in spite of the fact that managers who manage it change. The analysis carried out by R. Anderson, S. Mansi and D. Reeb (2003, pp. 263–285) suggests that long-term presence of families in the firm, apart from the consequences already shown, reduces the costs of external financing.

The distinguishing feature of family businesses is the fact that their shareholders are people who are in special relations with other co-deciding people, which allows them to solve the principal-agent problem without separating management and control (Fama, Jensen, 1983, pp. 301–325). Such harmonizing of management and control may decrease the principal-agent problem with the assumption that the people contribute to the common good of the family to which their own interest is subordinated. However, researchers like W. Schulze, M. Lubatkin and R. Dino (2003, pp. 179–194) observed that it is theoretically possible to imagine the occurrence of numerous situations which result in the occurrence of supervision costs since the familiness of the enterprise may increase the risk of worsening the management quality as a result of the selection of individuals with worse qualifications in the situation when this selection is conducted exclusively among the family members. The lack of qualifications or low qualifications of managers may lead to the worsening of the competitive position of the business and to the decrease in its market shares.

The growth in the enterprise size influences its localization on the “family orientation – business orientation” axe. There exists, as M. Leenders and E. Waarts (2003, p. 693) write, a natural tendency to diminish the family orientation when the enterprise size rises.

Table 1.4. Distinguishing Characteristics, Pros and Cons of Family Businesses

Characteristics	Pros	Cons
Resource base	Organic growth based on internal managerial + financial resources	Suffer from substantial resource constraints – managerial, financial
Capability locus	Internal focused: operational effectiveness	Positional disadvantage (structurally unattractive industries, with low capital intensity + low entry barriers)
Social and psychological capital	High social and psychological capital – empathy, cohesion, sympathy, resilience	Constrained manpower and marketing (primarily from and in the community, weak participation in global markets)
Time horizon	More future oriented	Protect bad decisions by the family, governance gaps with fewer professional managers
Communication transparency	Better internal communication: lower information costs in imperfect markets, control of information and secrets	Opaque and easy to hide questionable practices
Spontaneity and agility	Agile and creative: no shareholder accountability	Even big family companies often think like a small company
Flexibility and robustness	Liquid resources – living and working together	Goal misalignment between active vs. non-active family members
Role of heritage	Family history, identity and reputation connects to time-tested values/behaviour → bottom line success	Entrenched loyalties to products, locations, technologies and management practices → succession failure

Characteristics	Pros	Cons
Employment arena	Higher challenges and positions for the family members than the ones they might have access to in the market	Family members may join because they have no other option, and be subsidised by those who take less than market compensation
Incentive factor	High powered incentives: no demarcation between principal and the agent at the top	Pronounced effort to have family members and other employees buy into the vision, diverting from other tasks

Source: (Gupta, Levenburg, Moore, Motwani, 2008, p. 204)

What is more, the family controlling the business may not want the presence of external, strange to it co-owners, and that may influence the readiness for work in it by talented employees who are attracted by big enterprises offering them a better career prospect. Moreover, if the business does not offer competitive remuneration, its employees have to be additionally monitored, and mutual monitoring of employees becomes poor. Family businesses, if their shares are not publicly listed, are not under the pressure from the market whose institutions control operational costs of enterprises and formulate expectations concerning their future profitability. P. Peiser and L. Wooten (1983, pp. 58–65) observed that there is a risk that the interests of the manager coming from the family which controls the business, may not meet the enterprise interests so much that the assumed compliance between the manager's goals and the enterprise's goal stops existing, and this discrepancy becomes a problem for the family. To sum up, we have to say that as far as the delegation costs, resulting from the separation of ownership and management disappear in case of family businesses, unfortunately other types of costs appear.

Chapter 2

OWNERSHIP, CONTROL AND MANAGEMENT IN FAMILY BUSINESSES

2.1. Family Businesses in the Perspective of Principal-Agent Framework

A fruitful starting point for the analysis of family businesses, and more broadly, the problems of management in all kinds of enterprises, is the principal-agent framework. In the perspective of principal-agent problem, competitive advantages of family businesses rise thanks to the non-existence of control costs problem which appears only when there is a discrepancy of interests between the owner and the manager, as well as thanks to longer investment horizon in which enterprises being under the control of the family operate¹.

The basic stream of research concerning the nature of family businesses originated from the classic work by A. Berle and G. Means (1932) concerning separation of ownership and control in contemporary enterprises (this stream refers also to broader problems of corporate governance) (Becht, Bolton, Roell, 2007).

¹ In 19th century, the term “and son” in the name of a business was considered a strong indication of security and a long-term orientation of the company– see: (Southon, 2009).

The separation of ownership and control is the reason for which owners (shareholders) have a hindered possibility to control the actions of the people managing the firm. In order to overcome this problem, the shareholders, caring for their property, introduce and apply various mechanisms of control over the managers (Shleifer, Vishny, 1997, pp. 737–783).

Let us notice that a family business solves the conflict of interest between the owner and the manager (let us call it the principal-agent problem, type I) since an individual owner (or the owner of the family block of shares) manages the firm by himself, and moreover, he is interested in monitoring the manager and controlling whether he does not decrease shareholder value as a result of bad management, excessive pays or unsuccessful investments.

However, if the family (or another owner) is not the only owner, then the principal-agent problem, type II may appear – the threat of the fact that a big shareholder controlling the business will extract profits from the firm for himself at the expense of small shareholders. If, on the other hand, a big shareholder is not a consolidated family, but an institution with widely held shares, then the threat for the minority shareholders is decreasing, but again, the principal-agent problem type I reappears since the incentives to monitor the actions of the managers decrease. A large Family Controlled Firm solves the principal-agent problem of type I, but creates the principal-agent problem of type II. Which of these problems generates bigger costs is a question which requires empirical settlement.

The protection of investors and their investment value is a key issue for the pace of enterprise development, since it is a key factor which affects the possibility to win external funds. When an external investor provides the firm with funds, he has to assess the probability that he will achieve a satisfactory (or any positive) return on the invested funds. Therefore, he must assess the probability of the risk that his resources will be appropriated by insiders controlling the business (for example, family members). Thus, the corporate governance rules are to a great extent a defensive control mechanism through which an

external investor may defend himself against expropriation. A typical example of an investor expropriation “technique” is not a theft, of course, but rather “profit dilution” through high payments, redundant employment of family members and friends, and signing inefficient contracts with enterprises connected with the insiders. In some countries tools of investor protection have been introduced in the law system regulating relations in public companies. Using these tools is not easy, however, (the question of documenting suspicions of acting to the detriment of minority shareholders), and the enforcement of the entitlement depends eventually on the efficiency of the administration of justice. The significance of legal system was noticed by M. Jensen and W. Meckling who stated the importance of “legal system and law for the society organization and a business activity organization. Codified law sets limits within which agreements concluded by individuals and organization must go in, otherwise they would expire. Police authorities stay in the hands of the state and are administered to execute agreements or enforce penalties for damages arising from non-performance of the agreement. Courts rule in cases on agreements between parties and set precedents (in the common law system – author’s note) which become an element of common law. All of these activities of public institutions influence both the kind of concluded agreements and the frequency of concluding them” (Jensen, Meckling, 1997, pp. 737–783).

The lack of efficient protection for minority shareholders is the reason for which large family businesses may be treated as potential “plunderers” who are not worth being trusted funds. Large family firms in Asia (except for Japan whose legal system ensures strong protection to minority shareholders) may be treated just as examples of *not-fully* transparent and mature public companies, even if their shares are publicly listed.

This influence can be illustrated by the example of capital markets impact on the development and diversity of enterprises and the market structure. Over half a century ago J. Schumpeter (1939) emphasized “a personal character of banking” writing that a banker had to

know not only the transaction he was asked to finance and what the probability of its success was, but also he had to know the customer, his firm, business customs, and even the customer's private habits, and by frequent discussing the venture with him, he had to achieve a clear picture of the enterprise's situation. This picture of controlling the debtor by the creditor and bank belongs to the past. Contemporary financial institutions act in procedural and impersonal way. It brings new consequences for an enterprise's external control. F. Modigliani and E. Perotti (2000, pp. 81–96) claimed that in contemporary society informal, personal control is insufficient therefore external control is necessary. Control from banks is to a great extent an institutional private control – the control based on legal contracts. A legal contract is a formal relation enabling control and its duration, which corresponds to the duration of relations between the bank and the firm. These authors indicate that in the conditions of the lack of adequate protection of minority shareholder rights, new enterprises will have less access to external financing. This fact may become a barrier for enterprise development because, as T. Gries and W. Naude (2010) show, as the scale of a business project is growing, the bigger significance the access to external financing sources has². Some researchers state that globalization of financing imposes additional costs on family business groups since the decision to take the business public on a few stock exchanges forces the firm to follow the regulations of each of these stock exchanges separately (Reese, Weisbach, 2002, pp. 65–104).

Banks financing enterprise activity use collaterals on enterprise assets, which makes the optimization of type of financing to the quality of business projects difficult for them. Orienting on collateral, banks will more often finance enterprises which possess large own assets, even if their business projects are not as good as worse secured alternative projects. This hypothesis is confirmed by such authors as

² Sources of financing for setting up a business activity are defined in English in a bit humorous way as 3F (Family, Friends and Fools).

S. Shirai (2004, pp. 1467–1486) proving that financing through capital markets distinguishes the quality of business projects better than bank financing. S. Shirai proved his hypothesis by the analysis of capital market development in India, and this analysis shows that the progress in the supervision through capital market in the years 1997–2001 contributed to better identification of the quality of enterprises attempting to get financing on capital market.

The potential of private benefits is triggered when there is the diversification of voting right among share owners, or when financial flows to other enterprises belonging to the same family are enabled. In the United States, the basic mechanisms strengthening the family private control in the firms traded on stock exchange are two categories of voting rights, overproportional representation in supervisory board or using the pyramid of control.

Control over firms may considerably exceed shares in the joint ownership, if it takes shape of control pyramid. What does control pyramid consist in? In control pyramid a family business controls the first level of subsidiary companies by possessing dominating shares in it (not always more than 50%). Each subsidiary company from level one may control a few enterprises, and these in turn may control the next enterprises (See: Fig. 2.1.).

Control pyramids allow family businesses to control enterprises whose total value significantly exceeds the family's own assets. The way in which it may be done is presented (in a little simplified way) in Fig. 2.1. The family business possesses the majority of shares (over 50%) in each of the enterprises of level one (enterprises 1.1 and 1.2), whereas the remaining shares are in the hands of smaller, widely held shareholder shares. Each of the enterprises of level one possesses controlling interest (over 50%) in two enterprises of level two. These in turn possess majority shares in enterprises of level three (and so on).

If we assume that each firm in this three-level pyramid is worth 1 million zlotys, and the family business controls fourteen other firms of 1 million zlotys in value, then with the additional assumption that only firms of level three have real assets, and firms of level one and

two are financial holdings, we affirm the existence of strong leverage of pyramid control as the family business controls assets worth 8 million zlotys (total assets of the firms of level three) although it possesses 12.5% of shares in these firms' assets.

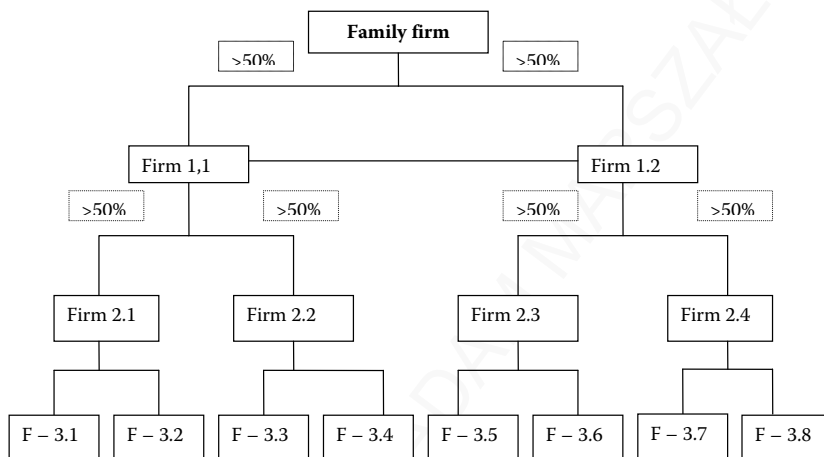


Figure 2.1. Example of Control Pyramid

Source: Authors' own study

In reality, connections between firms may be more complex: firms situated higher in the control pyramid may have a diverse number of subsidiaries, firms of various levels may be connected with each other and can have cross-shares. If, in addition, we admit a possibility that possessing more than 50% shares is not necessary to control a subsidiary, then there is a hypothetical possibility that huge total assets are family controlled (or by another homogenous entity) which possesses significant minority of shares in total firm assets³.

³ R. La Porta, I. Lopez-de-Silanes and A. Shleifer calculated that Wallenberg family controls powerful firms of ABB group possessing only 5% of their total shares [see: (La Porta, Lopez-de-Silanes, Shleifer, 1999, pp.471–517)]. J. Agnblad, E. Berglrof, P. Hogfeld, H. Svancar calculated that Wallenberg family controls firms whose val-

Using control pyramids by families is particularly popular in Italy and a few other countries (also in East Asia). However, it is worth noticing that on the top of pyramids are not necessarily families but, just like in Germany these may be banks or, as in case of France, state enterprises.

Table 2.1. Family Controlled Firms (FCFs) and Widely Held Firms (WHFs) among the Biggest Enterprises in Selected Countries (in%)

Country	Control inferred at 10%		Control inferred at 20%	
	Widely Held	Family Control	Widely Held	Family Control
Argentina	0	65	0	65
Australia	55	10	65	5
Austria	5	15	5	15
Belgium	0	50	5	50
Canada	50	30	60	25
Denmark	10	35	40	35
Finland	15	10	35	10
France	9	70	18	64
Germany	35	10	50	10
Greece	5	65	10	50
Hong Kong	10	70	10	70
Indonesia	0.6	69	5	72
Ireland	15	15	65	10
Israel	5	50	5	50
Italy	8	65	16	60
Japan	50	10	90	5
South Korea	40	35	55	20

ue constitutes about 50% of Stockholm stock exchange capitalization [Compare: (Angblad, Berglöf, Högfelt, Svancar, 2001)].

Country	Control inferred at 10%		Control inferred at 20%	
	Widely Held	Family Control	Widely Held	Family Control
Malaysia	1	57.5	10.3	67.2
Mexico	0	100	0	100
Netherlands	30	20	30	20
New Zealand	5	45	30	25
Norway	5	25	25	25
Philippines	1.7	42.1	19.2	44.6
Portugal	0	50	10	45
Singapore	5	45	15	30
Spain	15	25	35	15
Sweden	0	55	25	45
Switzerland	50	40	60	30
Taiwan (China)	2.9	65.6	26.2	48.2
Thailand	2.2	56.5	6.6	61.6
UK	27	34	69	20
USA	39	23	70	6

Source: (Morck, Wolfenzon, Yeung, 2004, p. 14)

In many countries (see Table 2.1.), control of large economic resources is in the hands of few families, and countries such as Great Britain or the United States in which the majority of large enterprises are Widely Held Firms are an exception. The data gathered by S. Claessens, S. Djankow and L. Lang (2000, pp. 81–112) show that 15 biggest family control pyramids allow control of 84% of Hong-Kong GDP, 76.2% of Malaysia GDP, 48.3% of Singapore GDP and 39.3% of Thailand GDP.

The analysis of benefits and costs of family control pyramids should be started with the statement that the advantage of control concentration in case of single enterprises should not be transferred

automatically to the level of group of enterprises. As far as a single family business can be characterized by higher efficiency and higher stability owing to the presence of family ownership, in case of a group of enterprises such a positive effect is not so certain.

Groups connected by the relation of control pyramid are often met in less developed economies. Some researchers attribute their diffusion to the necessity of coping with worse functioning institutions of capital market and, more broadly, legal system. These groups, as researchers such as T. Khanna and K. Palepu (2000, pp. 867–891) claim, more seldom make use of external financing (it decreases the problem of the weakness of financial market), and adopt internal mechanisms of enforcing contracts (it decreases the problem of poor enforcement of agreements). Making a transaction and conducting investment in the group also overcomes the problem of low level of social trust experienced by underdeveloped countries, which makes it impossible to cooperate with strangers.

If the presence of connected enterprise groups were only a stage in economic development, the stage in which these networks are indispensable in order to decrease the inefficiency of the market, then it would be possible to expect a gradual drop in the weight of such groups together with the economic development of the country and the increase in the efficiency of markets. Yet, it does not have to be this way because such groups may become an economic base of powerful political interests which influence economic policy and, more broadly, politics of the country, and are interested in solidification of institutional solutions which strengthen their economic power. R. Morck, D. Strangeland and B. Yeung (2000) claim that domination of enterprise groups may lead to a situation in which ineffective enterprises last because they create barriers of entry (among others, owing to political power and connections with politicians) for more effective and innovative enterprises.

2.2. The Problem of Transparency in Family Businesses

In family businesses, the concentration of shares in the hands of family members enables gaining the voting rights which exceed the size of the possessed shares and the domination over management boards and supervisory boards. Such real “surplus in control possibilities” over theoretical potential of control resulting from the size of share in the ownership creates possibilities to obtain private benefits by making transactions with the connected enterprises or strengthen authority of their own managers who become impossible to be removed.

Although there is wide consensus to the fact that family businesses solve efficiently the principal-agent problem of type I, as we mentioned before, that is monitoring managers employed to manage the firm, then some researchers claim that these businesses create the principal-agent problem of type II, that is they generate a conflict between a family controlling the business and minority shareholders. In other words, these researchers claim that family businesses are characterized by “specific corporate governance”, the governance which enables them to achieve private benefits from the control over the business. Such a hypothesis was empirically tested by A. Ali, T.-Y. Chenb and S. Radhakrishnan (2007, pp. 238–286) on the sample of American family businesses quoted on the New York Stock Exchange.

The indicators of the quality of family businesses transparency were:

- a) the quality of financial statements;
- b) voluntary disclosure of negative information available in the prepared by the management board projection of financial results.

The main hypothesis claimed that if the family controlling the business were to create conditions enabling to extract private benefits, it would not hamper manipulations in financial statements. However, the research proved that publicly listed Family Controlled Firms more often than non-family businesses passed warnings to inves-

tors about expected impairment of financial results, and that the result forecast formulated on the basis of the materials turned out to be very precise, which suggests that market analysts used more reliable information. Yet, the same authors claimed that Family Controlled Firms more seldom make the information about internal corporate practices accessible, which suggests that the family might care about facilitating the placement of its members in management boards or supervisory boards. Supervisory boards in family businesses are not independent since families place a considerable number of its representatives in them, wishing their representatives to act unanimously for the benefit of the family wealth growth. The lower level of transparency of Family Controlled Firms as far as inter-corporation practices are concerned, enables the introduction of representatives to control bodies and is sometimes tolerated by the remaining owners as long as the business generates high profits.

What is the reason for which Family Controlled Firms refrain from the temptation of decreasing transparency (to minimum level of reporting obligatory for the functioning of publicly listed firms)? It is worth noticing that if a family controlling the business starts activities aiming at obtaining “benefits from being a Family Controlled Firm”, in case of revealing this information it risks the decrease in the value of the shares possessed by it because investors will react negatively to such practices. “Private benefit” could be one-time unless it was unnoticed, and, what is more, it would have to be adequately big to compensate losses in the value of the shares possessed by the family⁴.

It is worth noticing that a high level of transparency of firms was confirmed in case of publicly listed enterprises in the United States.

⁴ Adelpia Corporation is an example of family business in which the Rigas family controlling the firm (John J. Rigas, the founder of the firm, and his three sons) overestimated the firm revenues in order to facilitate the access to a loan and led out funds from the firm (SEC Litigation Release No. 17627). On uncovering those practices the American Securities and Exchange Commission (SEC) penalized the owners’ family with very high fines which led to losing the majority of assets by it. [Compare: (Searcey, Yuan, 2005, p. A3)].

However, not all regulating systems are characterized by a high level of legal protection for minority investors⁵. Yet, the quality of legal system, the effectiveness of execution of law and the level of protection for minority investors in most countries are much smaller than in the United States (La Porta, Lopez – de-Silanes, Shleifer, 2007).

Having its representatives in the management board and the business's control bodies, the family business can more accurately assess the board's merits and remunerate managers on the basis of their contribution to the firm's results, and not on the basis of financial statements. That makes it more difficult to achieve high remunerations by "external" (employed from the outside) management boards thanks to skillful reporting policy. This regularity was confirmed by the research of K. Chen, T. Chen and K. Hui (2009) who found out that payments of presidents of management boards in family businesses are considerably lower than in non-family firms, both as far as absolute volume and the management board payment share in total remuneration costs in the business. In family controlled but publicly listed firms, management board cannot manipulate the enterprise income as easily as it happens in case of enterprises with widely held shareholder structure.

Let us repeat: the basic problem in business owners – external investors relations is the problem of asymmetry of information. The problem is particularly strong in case of family businesses which often do not use full form of financial reporting, and confidentiality in conducting a business is regarded by them as a source of power. Joining the firm by external investors requires "taking the firm public", subjecting the disclosure of information to rules as the evidence of

⁵ Especially in the United States there are solutions such as "proxy by mail", which enables to vote during shareholders' general meeting, "Cumulative Voting / Proportional Representation", which creates a chance for minority shareholders to introduce their own representative to the supervisory board, and "Class Action / Derivative Lawsuits" which facilitates contesting the management decisions in court by minority shareholders and forcing to repurchase shareholders from minority shareholders who object to certain decisions of the company.

integrity in conducting the business and the base for trust. The rise of openness level is an important rule conducting the limitation of proneness to gain “private benefits” from the control over the firm ownership (a little bit metaphorically it was expressed in the formula “the sun is the best disinfectant” already almost a hundred years ago).

The research initiated in 1960s and concerning the impact of disclosing information on the results of publicly listed firms did not bring any conclusions at first. However, later analyses showed that legal regulations related to disclosure of information are positively correlated with the size of capital market in a given country and a higher price of publicly listed enterprises (Greenstone, P. Oyer, A. Vissing-Jorgensen, 2006, pp. 399–460).

Can we draw any conclusions concerning Family Controlled Firms from these observations? In case of enterprises linked with each other by intra-family ties, there is a danger that transactions which suit family interests are well hidden and invisible to external investors. Therefore, it diminishes the trust to invest in these enterprises (Djankov, La Porta, Lopez-de-Silanes, Shleifer, 2008).

Long-term and direct supervision over an enterprise functioning enables to get specific information and knowledge on the enterprise activity, which is a necessary condition to decrease a possibility of manipulating information or entering special-purpose transactions temporarily improving enterprise results in order to increase the managers’ remuneration.

If minority shareholders are protected abroad better, the issuing of bonds abroad becomes relatively more expensive for owners controlling family businesses and accustomed to using their advantage in the country. Moreover, enterprises which possess foreign securities attract stronger attention of foreign analysts and the press.

Yet, such increased publicity may not suit the enterprise owners – it makes it difficult to enter “exchange of favours” relations with politicians. In numerous countries, these are additional, not always visible at first glance, costs of obtaining financing abroad and they explain why only few enterprises which could do this, try to find fi-

nancing on overseas markets (although direct costs of this financing may be attractive).

Research on the factors determining the quality of corporate governance allowed to find out that the quality of corporate governance is dependent on the scope and the depth of capital markets, the pace of growth in the securities market, ownership structure, dividend policies, and the effectiveness of investment allocation seems to be both logical and empirically better explained by the analysis of efficiency by means of which the law protects external investors. The protection of shareholders and creditors is a key factor influencing the quality of corporate governance in a given country.

2.3. The Problems of Personnel Management in Family Businesses

In family businesses and in Family Controlled Firms, a particularly important issue is creating and adopting clear and impartial rules of personnel management. As far as enterprises with widely held shares are concerned, the promotion is basically based on formal rules concerning competencies and qualifications, whereas in Family Controlled Firms, an external employee often encounters a kind of “glass ceiling” – a threshold above which one cannot be promoted as the key positions are reserved for family members. Such a situation may be demotivating and increase an undesirable outflow of middle and top level management (in many family businesses there is no rational system of promotion, based on a substantial rule).

The research carried out among 3860 American family businesses by Andersen Center for Family Business confirmed the existence of a phenomenon of negative selection among employees when the firm’s labour market is becoming the family’s internal market, which is the reason for which the firm serves the employment needs of the family and the recruitment out of a narrow group of people increases uncertainty concerning their quality (Schulze, Lubatkin, Dino, Buch-

holtz, 2001, pp. 99–116). Another problem regarding personnel management, is “the problem of hold up” which appears because managers coming from the family are able to “impose preferences which are favourable to them by the decisions made, taking the owners hostage... their power may come not only from the possessed qualifications, but to greater extent, from the status of family members”. Negative selection and the problem of hold up at the top of management hierarchy may spread onto the whole firm through the cascade effect.

The described factors, including double scope and strength of managerial delegation powers of the manager in the enterprise hierarchy of power and in the family in particular may increase the inclination to take risk by the manager related to the family. This phenomenon contrasts with the prevailing opinion according to which a family business’s owner is more conservative when the majority of his assets is linked with the family and taking risky investments may threaten the family assets. In such enterprises managers act more as guards of family assets rather than entrepreneurs who calculate rationally, their goal is to ensure employment and financial security to the family as well as to create a kind of a buffer decreasing the impact of instability of the environment on the economic situation of the family. Family businesses seem to be more resistant to negative shocks, but also less prone to take opportunities to make high profits when an opportunity appears (Villalonga, Amit, 2007).

2.4. Financing Family Business Start-Up and Development

A lot of researchers draw attention to the fact that setting up and running a firm requires capital necessary to purchase equipment, materials and hire employees. The value of the capital initially required depends on the kind of undertaken activity, and thus it is low (in case when the person stops being a dependent worker and becomes self-employed), and it is relatively high when manufacturing activity is undertaken. This capital often comes from the firm’s own resourc-

es or the family resources (savings, legacy, informal loans from the family, etc.). A beginning entrepreneur has a hindered possibility to take advantage of funds from the financial market (a bank loan needs to be secured against the possessed assets, high risk financial investments – venture capital – often operate in countries outside USA or Great Britain). Capital limitations, as D. Blanchflower and A. Oswald, among others, (1998, pp. 26–60) prove, are a serious barrier in starting one's own business activity, especially in case of young people. S.C. Parker (2004, pp. 135–191), on the basis of an analysis of other sources, claims that the frequency of conducting one's own firm is increasing alongside with the growth of personal assets. To this barrier we should add the phenomenon of loan rationing, that is the dependence of the loan interest rate from the size and the history of the firm. Small and usually new enterprises have to pay higher interest rate on a loan.

According to R. Rajan (1992, pp. 1367–1400), where the system of enforcing contracts is poor, material collaterals come into prominence, and this fact leads to an advantage of bank financing over financing from capital market. Another, direct result of the contract enforcement system is higher interest rate on loans – the pressure on collaterals, such as for example mortgage in case of real estate purchase loan gives advantage to banks (including information advantage) in relations with customers and allows to obtain interest rates above average which, however, results in impeding economic development. From R. Rajan's analysis one more conclusion can be drawn, namely everywhere where there are high costs of obtaining reliable information on the enterprise, an advantage in financing is gained by banks which become not only a financing institution but also an institution which monitors enterprises.

R. Rajan and L. Zingales (2003, pp. 5–50) claim that settled actors create their own groups of interest, and they become an obstacle in the occurrence of competition. S. Tadesse (2002, pp. 429–454) observes that “states dominated by small enterprises develop faster in the financial system dominated by banks, whereas those ones in

which large Widely Held Firms have significant position develop better in market (capital – authors' note) oriented system of financing.”

Families of entrepreneurs-founders are a special group of investors. They are usually characterized by non-diversified assets, striving at passing the firm to the next generation, and the care about the family and its public and business reputation. It may mean that owners-founders attach more importance to the survival of the business than to maximization of its value. Initially, the owner and his family may be the only owners of the enterprise. Alongside with its growth and possible extension of the number of owners, a possibility of discrepancy between the interest of the family controlling the business and other shareholders, external in relation to the family.

Do family businesses achieve lower costs of debt (of external financing) than non-family enterprises? If firms being the property of founders are more interested in survival, it may be a consequence of the impact of two factors: the subjective one (willingness to pass the business to the family) and the objective one (enterprise assets occur in non-diverse, gross of these assets are probably a Family Controlled Firm). M. Casson (1999) and R. Chami (1999) claim that business controlled by the founders are more interested in survival and formulate a hypothesis that owing to the fact that in the situation of co-existence occurrence of other owners there is a smaller discrepancy of interests and thanks to that the firm lowers costs of external financing.

The owners-founders attach more weight to image and reputation than institutional investors. It prolongs the business perspective and gives stronger guarantee of business stability to business partners.

2.5. Foreign Direct Investment versus Family Businesses

Predominance of family businesses may create a barrier of entry for foreign investors. Foreign (especially from Anglo-Saxon circle) investors perceive family businesses dominance as a potentially fertile ground for unclear business practices, authoritarian manage-

ment and the protection of family interests at the cost of external investors. Published in 2002, McKinsey reports concerning *Corporate Governance*, indicate that foreign investors, as a general category of investors, think that the low quality of corporate governance is a key factor which negatively influences the proneness to invest in “emerging markets”, and they attribute negative effect in the form of low quality of management to family ownership and family control (Coombes, Watson, 2001, pp. 4–8). High frequency of family businesses may become an indicator of low quality of enterprise organization and poor perspectives to achieve a stable return for foreign investors⁶. As H.T. Kuan and L.Y. Kan (2005, pp. 404–439) show, some entrepreneurs/founders diminish the role of their family members on purpose, and hire external professional managers in order to improve the enterprise’s image⁷.

However, if a family firm is to be still family controlled, the succession process should build and not undermine the business legitimacy of a successor. One of the methods of building legitimacy of a family member as a competent and a person prepared to manage the business is providing him with professional preparation. The people preparing to take firms over attend prestigious business schools and sometimes work for other enterprises before the takeover of the management.

If people connected with family work on many levels of management, there are premises that being a family member, functioning in the network defined by the ties of blood (assigned tie) is the reason for

⁶ When in a Chinese family business Liansong Gu its owner appointed his son-in-law, Junzhe Chen, to the position of Managing Director in a bank, he terribly upset foreign investors who began to withdraw from the investment. The effect was not diminished by the fact that for many years Chen had been working for Goldman Sachs bank.

⁷ A Chinese company won common recognition when its owner gave up the idea of appointing his son to the position of the President. Instead of it, He appointed an external manager and he did so being aware of tendencies of his family members to form more narrow groups excluding strangers from the participation in management.

which it is more difficult to enforce responsibility for the business' results. It happens because people from the family work on the basis of what R. Milgrom i J. Roberts (1992) called "relational contracts", that is alleged contracts in which parties "do not agree on detailed plans of actions but only on overall goals". Supposedly, family ties diminish the probability of contract efficiency and lead to the drop in economic rationality. The value of the drop in the efficiency level depends to a considerable extent on emotional dynamics of family relations, including, first of all, father-child relations. Social psychology documents situations in which rivalry among siblings appears against the background of the perceived violation of rules of justice by parents, it analyzes the phenomenon of generational jealousy and "unconditional love" which makes the father driven by this motivation make decisions which do harm to efficiency and profitability of the business' operations.

Chapter 3

FAMILY BUSINESSES AND SUCCESSION CHALLENGES

3.1. Developmental Sequence of Family Businesses

Growing economic literature proves that entrepreneurship has become the most important factor of economic development in the 21st century. Entrepreneurship is probably the most important factor of economic development in the time of management intensely using knowledge. OECD (1998) indicates paying more attention to barriers hindering the emergence and development of businesses as one of the recommendations for pro-developmental policy. However, it is not only about increasing the supply of new businesses (the majority of newly-emerging businesses cease to exist after three years (Storey, 1994), but about paying attention to the problems of development of enterprises whose owners want to develop them (Devins, 1999, pp. 86–96). Since a typical form initially taken by an entrepreneur is a family business, one has started to pay attention to the questions of barriers to development and transformation of family businesses (Chua, Chrisman, Sharma, 1999, pp. 19–29), and also to the question how inter-generational process of shaping entrepreneurship and ownership and control transfer in family business progresses (Shanker, Astrachan, 1996, pp. 107–124).

In the analysis of enterprise development it is worth dividing the start-up phase from the phase of managing a small firm, and also from the phase of mature, large and organizationally complex firm which is managed by a hired professional manager (Carland, Hoy, Boulton, Carland, 1984, pp. 354–359). In Schumpeter tradition, an entrepreneur is distinguished by an ability to innovate, to discover and use business opportunities while a small firm is an organizational form in which initially institutionalized economic activity is conducted. On the other hand, a large enterprise is characterized by, among others, professionalization of management, complex internal structure and multi-levelness of management measured with levels of management (typical for deep hierarchies).

New entrepreneurial ventures emerge under the influence of various motivations. In case of entrepreneurs in family businesses it is worth marking the presence of motivations of “parental altruism” type with relation to family members, and this motivation includes the willingness to provide family members with safe employment, proper level of income and other privileges which would be unavailable to them (Schulze, Lubatkin, Dino, 2003, pp. 473–490). A certain part of entrepreneurs are guided by the willingness to maintain and increase family assets. Altruism is connected with taking into account needs and preferences of others in decisions made by the person acting. Altruism makes parents be ready to pass the resources for the benefit of children¹.

Entrepreneurship is not a phenomenon which would appear automatically, it develops where there are beneficial cultural and institutional conditions. An example of such a condition and society may be Taiwan where entrepreneurs (called Laoban in Mandarin) efficiently organize themselves in cooperation networks which enable them to expand into foreign markets and to use the network effect in order to compensate the weaknesses of single, relatively small enterprises

¹ It can be observed that paradoxically in case of altruistic attitude, refraining from passing a gift diminishes the altruist’s usefulness.

(Numazaki, 1997, pp. 440–457). The citizens of Taiwan think that possessing one's own firm is much more beneficial and distinguishing socially than being employed by somebody else as only owners get a profit. They think that if somebody continues to be a dependent worker, he cannot make use of the fruit of his own work. Similarly to Western Europe, where manual workers wish to become clerks, in Taiwan almost everybody wants to become a Laoban.

I. Numazaki demonstrates that Taiwanese Laoban are able to form short- and long-term partnerships which enable them to engage in various economic ventures, particularly in the areas which characterize with high profitability. It made it possible for Taiwan to follow the path of economic development driven by export, in spite of the lack of large economic organizations. The ability to take a risk and the orientation at making money is accompanied, in I. Numazaki's opinion, by widely spread belief that an entrepreneur's assets are the only source of economic security for families. "Business activity is nothing else than a tool for generating sufficient income for security and prosperity of family members" (Numazaki, 1997, p. 445). Linking entrepreneurial orientation with the care about the material prosperity of the family is the main feature of Chinese ethos of entrepreneurship. This family orientation of business is both a cultural choice and a necessity since Taiwan is characterized by a low degree of social security system development, and the general condition of public and political institutions is the reason for which the society is characterized by low level of trust towards strangers and strong tendency to conduct a business with fellow kin and among fellow kin.

As far as being an entrepreneur (setting up and running a firm) is supported (or pushed out) by cultural values, further development of enterprises might be hindered, if there are no appropriate institutional conditions. A lot of family businesses continue to be small firms in spite of the declared willingness to develop the firm.

As A. Chandler (1990) shows, the history of large modern corporations in the United States and Western Europe is a history of specialization in the area of a chosen technology, and then leading to the diversification of business activities. A. Chandler observed that family businesses are characterized by a tendency to impede the development and to stagnate because the requirements of managing an expanding firm exceed administrative and financial abilities of the family. Prevalence of family businesses and what A. Chandler called “personalized capital” is a part of his explanation for relative impairment of economic power of Great Britain at the end of the 19th and in the first half of the 20th century.

Contemporary economic growth is driven by large enterprises which have an ability to create and adopt technological innovations and contribute to productivity growth in this way. However, large economic organizations are not a fact of nature but they emerge when appropriate institutional conditions conduce them. Thus, in many countries, especially in East Asia, family businesses have become a kind of functional equivalent of western corporations (Nee, Opper, 2009, pp. 293–315).

Table 3.1. Public Corporations versus Large Family Businesses

Public Corporations	Large Family Businesses
	Form family firm networks or emerge in the shadow of the relation with the government
Bound by the business transparency rules	Are little transparent
Impersonal in management practice	Refer to personal ties

Source: Authors' own study

The relation between the level of society's education and the number of enterprises has not been fully explained. On the one hand, the research by authors such as F. Delmar and P. Davidsson (2000, pp. 1–23) show that founders of new enterprises in Sweden are better educated

than the whole society on average, on the other hand other researchers (for example Uhlaner and R. Thurik (2007, pp. 161–185) found out that countries with higher level of education are characterized by a smaller number of self-employed people. On the other hand, the research on the OECD member states' economies shows that countries with a bigger number of people with secondary school education are characterized by a lower level of entrepreneurship, whereas countries with a bigger number of people with college/university education are characterized by a higher share of enterprises and entrepreneurs.

On the other hand, as far as age structure is concerned, both earlier (Storey 1994) and later research (Blanchflower, Oswald, 2001) prove that middle-aged and elderly people are more often represented in the group of entrepreneurs and self-employed, and this regularity should not surprise if we take into account the fact that running one's own firm requires connecting capital and experience (in case of e-businesses we have predominance of young generation and smaller capital requirements).

The number of enterprises may be also influenced by policies giving tax preferences or subsidies for small enterprises. It is estimated that for example in Italy, the costs of programmes for small and medium-sized enterprises reach 2% GDP (Muehlberger, Pasqua, 2006). A high number of enterprises and entrepreneurs in case of Italy (Northern Italy in particular) is not only the effect of working of support programmes but also a result of the activity, analyzed, among others, by F. Belussi (1998), the phenomenon of "continuous and coordinated" cooperation within the framework of specific institutional configurations defined by the term of "industrial districts".

Contrary to the forecasts based on historical regularities of development, it is possible that, as M. Fafchamps (1994, pp. 1–30) claims, that a great diversification of medium-sized enterprises is not a transient phenomenon which will be corrected in the process of getting to the state of permanent balance. Some researchers prove and explain why in underdeveloped countries also small manufacturing enterprises are also effective (Biggs, Srivastava, 1996). It points at the necessity

to analyze local factors giving relatively constant advantages to smaller firms and to identify the factors which block transformation of enterprises into bigger, non-family ventures.

The pace of enterprise growth depends on a series of macro-institutional factors. The empirical studies show that one of the reasons for lower frequency of bigger enterprises in developing countries are problems with the quality of governments, including corruption, public security and enforcement of contracts (Brunetti, Kisunko, Weder, 1997). Similarly, the growth of the scale of activity is distracted by the exceeded regulations and their discretionary, unpredictable execution.

Apart from these factors, the pace of enterprise development is also affected by general features of lower level of development, such as a lower level of urbanization or deficiency in transport network. Markets of large cities enable to use agglomeration effects, and the development and the lowering of transport costs enables to use economy to expand outside local markets. The low development level has also impact outside the features of consumption structure characterizing poor people. According to Engel law, poor people's consumption is moved towards food and basic industrial products, such as clothes or shoes. Many of these products may be produced effectively by means of small scale technologies, in craft workshops or small industrial plants. The presence of cheap workforce also constitutes a stimulus to choose such production technologies which do not need huge investment expenditure.

In case of enterprises in underdeveloped countries we can also talk about a specific conglomerization of family, household and business. Transactions, which in more developed environment occur between units which are not connected with each other, are transactions internalized to such a family-manufacturing conglomerate where manufacturing operations are connected with non-manufacturing operations or directly social operations.

Taking into consideration specific circumstances in which enterprises act in developing countries, C. Leidholm and C. Mead (1987) claimed that a lot of small firms are at least as effective as larger en-

terprises. It should be conditioned that this efficiency is most often efficiency in which local limitations are taken into account, thus they can be called a solution of second best type because it is effectiveness measured in the situation of the lack of institutions enabling the use of benefits of scale and other advantages of activity in big markets.

Empirical data in G7 countries group show that in 2004 the rate of enterprise ownership measured as a share of a number of owners/managers (outside agriculture) to the number of the employees, ranged from 8% in France to 19% in Italy. The analysis of van Stel (2005, pp. 105–123) shows the existence of similar differentiation in a long period of time in the whole group of OECD member states.

The explanation of relations between enterprise ownership rates and the level of economic development is a complex problem since it requires considering many co-occurring mechanisms. On the one hand, low level of economic development pushes people to undertake economic activity and self-employment. Low payments in the hired hand sector encourage to “work for oneself” as the resignation from being employed means low lost benefits. On the other hand, low level of development goes hand in hand with lower opportunities offered by the market and lower level of one’s own assets which could be used to start up activity. Additionally, only some of economic activities are activities which comply with Schumpeterian, innovative character of entrepreneurship, they are elements of the dynamic process of creative destruction and contribute to the acceleration of economic development.

3.2. The Process of Succession in a Family Firm

The succession in a family business may be defined as passing enterprise management by the founder-owner to a successor who may be either a family member or somebody from outside the family (a professional manager). Succession should not be understood as one-time event but rather as a process consisting of many stages. The succes-

sion process is connected with passing knowledge, powers to decide and ownership rights, and these elements do not have to (and rather cannot) occur simultaneously. Particularly, passing experience and knowledge needs time, which means that the withdrawing entrepreneur should introduce the successor in managing the business even before he formally passes decision powers and shares in the ownership to him. Choosing a successor unavoidably influences the relations in the family and a long-term perspective of enterprise development. It is also a critical period which threatens the survival of the business.

Succession is connected with transfer of assets and it has impact on their value. From rational point of view, an entrepreneur should decide which of available methods of succession maximizes the enterprise value (modeling of such a choice has been presented in another part of the paper). However, researchers of the problem of succession observe that entrepreneurs often limit the field of choice focusing only on carrying out succession within the family, on passing the business to the next generation. I. Lansberg (1999) pays attention to the psycho-social dynamics of succession, whose fundamental element is transforming an “entrepreneur’s individual dream” into a “family collective dream”. This collective dream conduces the continuity of the business in the next generation but not always this is the best way of maximizing the enterprise value from the multi-generational perspective.

If we assume that in 25% of families there are suitable candidates to take the firm over and to manage it in an effective way (without detriment to its value and developmental prospects), in 75% creating and using another method of succession is necessary (if the firm is not to be closed). Researchers, such as P. Poutziouris (2000), observe that the most important problem family business owners face is unwillingness to strategic planning of inter-generational succession. However, the lack of preparation of the succession in the situation of sudden withdrawal of the enterprise leader threatens with the collapse of the management structure and fierce conflicts between potential successors.

When planning a succession, it is necessary to define criteria of the succession's success. To answer the question what the success in the succession process is. What are its criteria and indicators? Is it to keep harmony in the entrepreneur's family? Are they economic indicators of the business some time after the succession is accomplished? Is it the very fact of keeping control by the family? Special difficulty of succession in family businesses consists in the multiplicity of goals which succession is to implement rather implicitly than clearly.

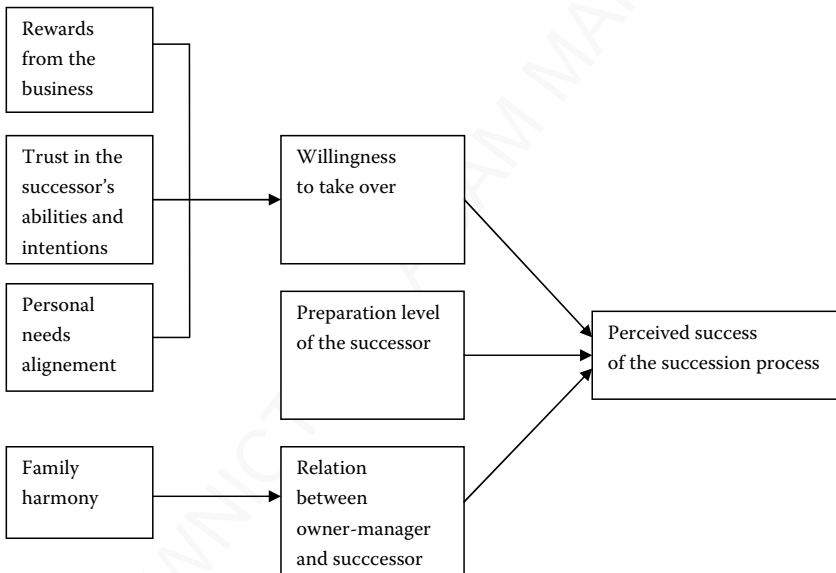
The harmony of the succession progression depends on the co-occurrence of two conditions: firstly, the willingness to resign by the person managing the business (in case of businesses managed by owners and founders we can deal with the emotional identification with the business and delaying or the lack of consent for resignation), as well as accessibility and obviousness (lack of ambiguity) in the choice of the successor (Pramodita, Chua, Chrisman, 2009, pp. 233–244). In case of the creator of the business, who devoted perhaps most of his life to its development, and voluntarily resigned from managing the business, there is a temptation and a possibility to come back to managing the firm when signs of problems in the business appear (Sonnenfeld, Spence, 1989, pp. 355–375). Therefore, the resigning entrepreneur should be placed formally in such a way that his experience could serve the firm without evoking a dramatic effect of “divorce and come back”.

A successful succession may let the family business keep competitive advantage over other enterprises thanks to maintaining and applying in business activity camouflaged idiosyncratic, specific knowledge possessed by family members. If the way of carrying out the succession does not strain loyalty and trust between family members, they can continue managing the business using specific advantages coming from its family (Ram, Jones, 2002).

In the analysis of the progression of succession in family businesses in the Republic of South Africa, E. Venter, C. Boshoff and G. Maas (2005, pp. 283–303) found out that satisfaction from the process of succession depends to a great extent on the willingness to take over the business by a successor coming from the family and on the existence

of positive relation between the founder/owner and the successor. Also the second criterion of the succession of transformation used by them, namely the business profitability after the accomplishment of succession, turned out to depend to a great extent on harmonic cooperation in the family, and the quality of relations between the founder and the successor in particular.

Figure 3.1. Theoretical Model of Successor-Related Factors That Influence Successful Succession



Source: (Venter, Boshoff, Maas, 2005, p. 285)

The dependencies presented in the diagram (Fig. 3.1.) require a short description. Rewards coming from running a firm and working in it are not only income, but also the sense of satisfaction and self-realization. The lack of trust to abilities and qualifications of a potential successor prolongs the time of running the firm by the owner/founder, increases the frustration level of the “waiting” successor and

generates a conflict in the succession process. Working in a family business and taking over the control over it depends on psychological needs of a potential successor (his life interests), and on the age and the phase of life. The relation between the owner/founder and a potential successor usually shapes during a long time, (especially in the father-son relation). Its harmony is not easy to achieve and requires the development of the ability to communicate openly, the readiness to acknowledge mutual merits and mutual respect. The degree of the successor's preparation is assigned both by formal qualifications, and professional experience obtained at work in the family business and outside it. On the other hand, family harmony depends on the quality of ties in the family, the family history, including the durability of family ties. As we can observe, each of these factors has impact separately and together, through the interaction effect.

On the basis of an analysis of six Kenyan enterprises, S. Janjuha-Jivraj and A. Woods (2002, pp. 77–94) found out that the most difficult is the succession between the first generation (the founder and the owner of the firm) and its successor. The succession between a family business in the second generation and a successor in the third generation proceeds more easily and is prepared in advance. It seems that the awareness that the business has been “inherited” and will be passed to the next generation facilitates the neutralization of emotions which accompany the resignation of the owner-founder. The growing easiness of succession in every next generation results probably also from the fact that businesses older by age are businesses which have developed, these are also businesses in which the number of external (not linked with the owner's family) employees. Moreover, such businesses prepare succession by educating successors abroad and encouraging them to train and work in other enterprises.

If there are no potential successors, succession in the family is impossible. If there are a few competing successors, the harmony of the succession is threatened.

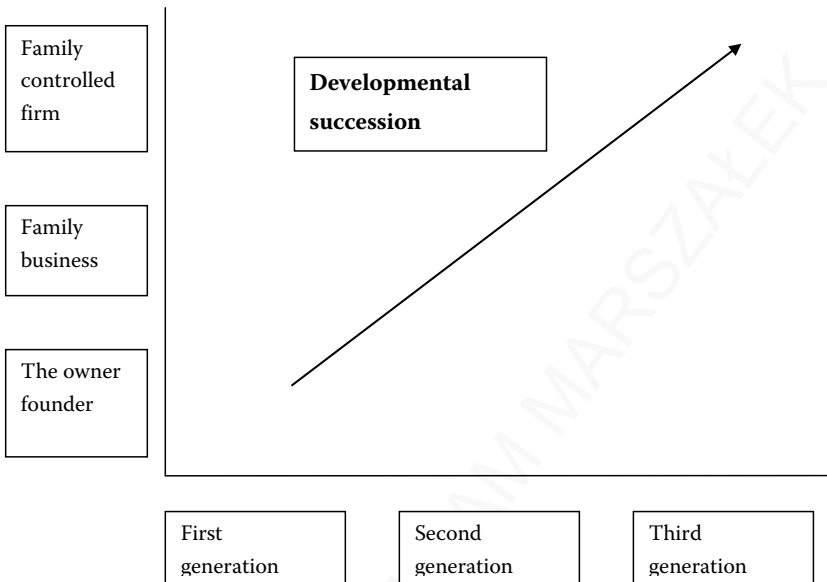


Figure 3.2. Succession versus the Business' Organizational Transformation

Source: Authors' own study

Initially, in general, all enterprises are small businesses controlled by the founder/owner. The business development is connected with the increase in the scale of activity (the number of employees, the volume of turnover), and the involvement of people from the family (the spouse, children, relatives, etc.). The business may then become a family business in the strict sense, namely a firm related to the family through ownership, management and employment. Further growth of the scale of activity is connected with the necessity to win capital, partners and perhaps opening to shareholders not linked with the family. The firm may then become a public company (publicly listed, possessing widely held shareholders).

Transformation in the business may apply to its management exclusively (a decision to employ a professional manager), ownership

only (entering the business by initially minority external shareholders), as well as ownership and management jointly.

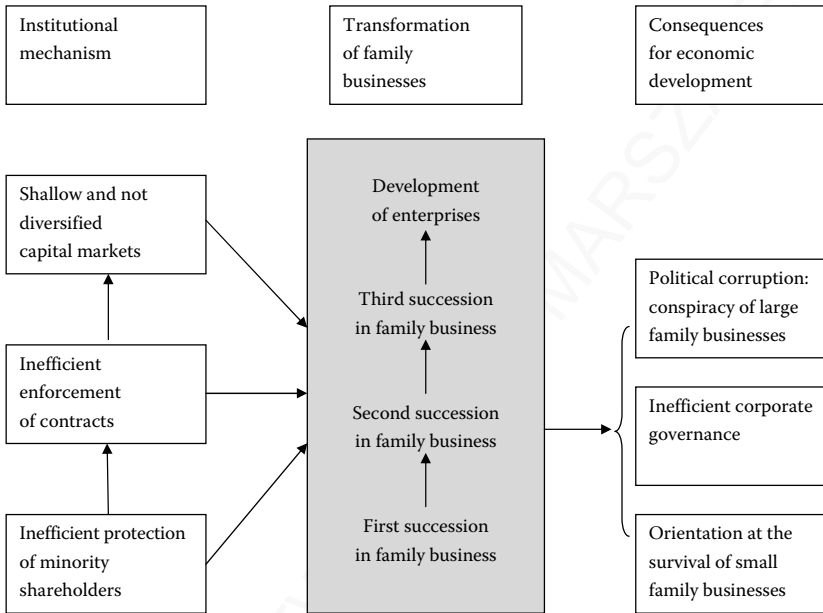


Figure 3.3. Institutional Factors versus the Transformation of Family Businesses

Source: Authors' own study

Small scale of activity and strong dependence of the enterprise's success on the qualifications and the leadership of the owner/founder is the reason for which leaving (death, retirement or resignation) of such a person leads to the liquidation of the business (to illustrate it, let us use an example of a designing company run by an architect and employing a few people). The problem of succession appears only when the basic resources of the enterprise are possible to be separated from the person of the owner/founder, thus when the firm has achieved qualities of an impersonal organizational structure.

M.K. Fiegener, B.M. Brown, D.R. Deux and W.J. Dennis (2000, pp. 291–309), together with their associates, found out that the more often small private enterprises appointed people from the outside to supervisory boards, the bigger share in their ownership was possessed by shareholders not linked with the family. They also observed that elderly presidents of enterprises and presidents of bigger enterprises also more often employed people from the outside in supervisory boards, which suggests that such decisions were a preparation for succession, the willingness to introduce neutral people to the participation in this process which is often emotional and full of conflicts. However, if bosses/founders were going to pass the business to anybody from the family, more seldom did they decide to introduce external people to supervisory boards.

3.3. Choosing the Moment for Succession

What may have impact on the enterprise results is whether the succession is defined in exoogenic and sudden way (for example, as a result of the business owner's death), whether it is a prepared and in a sense voluntary succession. Such research was carried out by B. Johnson, R. Magee, N. Nagarajan, H. Newman, 1985, pp. 151–174) who isolated cases of succession in which the change on the position of the president of management board was the consequence of the business owner's death.

Most frequently, the researchers of the problem focus on the issue of the selection of the business owner's successor and analyze the reason for which the family controlling the business decides to put somebody out of its ranks at the lead of the business. Such an orientation at keeping the control not only through ownership but also through management involves the risk of putting at the top of the business a person whose qualifications are lower than qualifications possessed by a person who would be chosen in a contest "open" to everybody. Sometimes, however, the researchers reverse the perspective and ask

what the cause is for which somebody from the family (a child, a relative) wants to stay in the firm. Such an analysis was conducted by P. Sharma and P.G. Irving (2005, pp. 13–33). The distinguished motivations most commonly met in the business owner's family:

- a) Emotional commitment based on the emotional attachment and the identification with the family as a family organization. By manifesting such an attitude, the person wants to contribute to the family business development because "this is Our company".
- b) Normative commitment based on the sense that the person should fulfill an obligation towards the family, taking the lead in the business².
- c) Commitment to continuity based on the calculation of the expected costs and benefits of leaving the enterprise. It is a rational, calculated commitment, and its starting point is the evaluation of the expenditure related to gaining experience in managing a business and benefits lost in case of "individual" switch.

It is worth noticing that the prepared succession uses each of these types of commitments. The early introduction to managing the business, made by the enterprise owner and parent influences not only an emotional and normative dimension, but also raises costs and increases the lost benefits of children who would not like to continue to run the firm.

We reminded earlier that succession in a family requires interest from a potential successor. What results from the research by E. Stavrou (1999, p. 52) is that there is a positive correlation between the size of the firm and the proneness of children to enter the business at one point of their professional development. Inheriting a large enterprise is, however, a challenge which requires professional preparation. That is why, family members should approach the standards of professional management through education and gaining experience outside the family business. The research by E.C. Aronoff (1998, pp. 181–185)

² Emotional and normative commitments are certainly not strongly separable but they may be understood as overlapping or switching from one into another one.

shows that founders of businesses (especially the ones which have developed) are aware of the need to get business qualifications enabling activity on a wider scale.

Relations between the founder (often the father) and a potential successor (most often the son) may become relations of emotional conflict if a potential successor is forced to wait in order to take over the enterprise management sometimes for a very long time. It happens particularly when between the father and the son there is relatively small difference in age. For example, when this difference is 25 years, the potential successor has a chance to run the firm independently when he is 45 years old, and his 70 year old father retires. It is worth noticing that the history of business shows that 45-year old entrepreneurs, establish large enterprises during 15–20 years of their activity, often single-handed. Waiting until they are 45 may result in numerous frustrations and conflicts, jealousy and hidden competition intensified by direct or indirect comparison of careers and merits. Succession is much easier when there is a difference of 40 or 45 years between the father and the son, since the father, withdrawing from running the business, can pass it to a 30-year old who has gained his first experiences.

For family businesses run by their founder a critical period becomes a period between 25th and 30th year of their existence. Small family businesses (employing up to 10 people) are more often closed when the entrepreneur does not have a successor coming from the family, since Italian entrepreneurs studied by E. Santarelli and F. Loti (2005) claimed that a family business is a social value which should be protected by passing control over it to the descendant of the enterprise founder. These entrepreneurs claimed that succession in the family is the best way to keep “idiosyncratic knowledge” within the firm (Bjuggren, Sund, 2002, pp. 123–33.), and family ties are a good tool to overcome the principal-agent problem which occurs in the period of carrying out the succession, and an efficient way to avoid transactional expenditure.

3.4. Principles of Inheritance versus Development of a Business

One of the main problems connected with an enterprise development is “the problem of inter-generational transition”, that is carrying out the succession of ownership and control in the situation of entrepreneur-founder’s leaving³. The problem is particularly important in countries where customary principles of inheritance prevail. P. Kilby and M. Sam (1998, pp. 133–151) studied the history of small enterprises in Nigeria in the period of 1961–1991, and found out that over a half of the cases of enterprises’ liquidation were connected with an unsolved problem of succession.

The norms of inheritance are these of cultural factors which most strongly affect the development of family businesses. These norms may take different forms: from primogeniture to the rule of equal division of assets (and the business) among the owner’s children. Stiff rules of the division may bear negative consequences for the family business. The researchers who deal with family entrepreneurship in China found out that the rule of patrilineality, originating from Confucianism, resulted in disintegration of assets and the dominance of small enterprises in the economic development of China (Whyte, 1996, pp. 1–30). Moreover, the order of equal division of assets among male descendants was the reason for which the enterprise management, requiring cooperation between many people, was significantly hindered.

The historians of Middle Ages found out that in Europe, in the period of strong demographic pressure, the rule of primogeniture was introduced, which enabled to achieve the benefits of scale in the capital disposal, keeping the assets in one hands and the consolidating the position of the family (Goody, Thrisk, Thompson, 1958).

³ Principles of inheritance have significant impact on family business development. The issue appears as a particularly important problem on the entrepreneur-owner’s leaving (it is estimated that the average period of running the firm by the owner-founder is 28 years).

The principles of inheritance may be informal rules or principles expressed in the rules of law (formal rules). Entrepreneurs-founders may be forced by the law to pass certain minimum value of the assets (of the enterprise) to the inheritors who will stay in the enterprise as its shareholders but they will not participate in management. Such principles of inheritance law may contribute to the decrease in the volume of investment in a family business because they diminish possibilities to gain external financing. Empirical research conducted in 32 countries and concerning investment of over ten thousand firms in the period of 1990–2006 confirmed that in countries which limit the freedom of decision about property division, we can observe smaller investment in family businesses (Ellul, Pagano, Panunzi 2008). The bigger share in the enterprise ownership falls on non-managing shareholders, the fewer means are in the possession of the person controlling the business. In the conditions of perfect effectiveness of financial markets this fact would not influence the ability of a family business to gain funds for investments. Yet in the conditions of the existence of capital market inefficiency, smaller entrepreneur's funds gained limit his abilities to invest.

And thus, for example, informal principles of inheritance in China were egalitarian – every child was to gain equal share of family assets. On the other hand, in Japan, the owner- founder of an enterprise could pass even the entirety of assets to one person (Whyte, 1996, pp. 1–30). Chinese principles of inheritance led to the dispersion of ownership, whereas Japanese ones conduce concentration of capital and control.

Informal (customary) principles of inheritance exist in all societies. In some countries of Western Europe (for example, Italy), a family member, dissatisfied with the owner's decision, may try to challenge his decision about the division of assets by litigating it. This possibility increases the uncertainty of the succession results in Italian Family Controlled Firms.

In traditional societies there are still principles of inheritance in force which were shaped in the period when the basic inherited asset was land. In case of land, we can divide land ownership inherit-

ance (the ownership is divisible) from its use (land can be cultivated by somebody else than the tenant). Automatic transfer of these principles to business threatens with its paralysis or liquidation.

Studying conflicts connected with business inheritance runs into serious methodological problems. Researchers usually analyze ex post cases of successful succession and cases of ruining succession, and a lot of information remains the secret of the parties of the conflict.

Family businesses in the first generation are very strongly marked with the qualities of the owner/founder. For example, research conducted in Spain allowed to isolate the following types of family businesses by the leaders' qualities (ESADE 2006):

- **“captain’s” firms** constitute 24% of the family businesses existing in Spain. They are usually strongly controlled by the owner and conduct activity in fields which do not require organizational complexity. The strong position of “the captain” in the business is also the extension of his role and dominance in the family.
- **“emperor’s” firms** constitute 19% of all family businesses in Spain. They have considerably bigger size and complexity. The owner founder plays a central role in such businesses.
- **firms of “family team” type** constitute 22% of Spanish family businesses. As opposed to classic firms of small size characterized by low organizational complexity, a family firm is complex, which leads to the problem “there is too much family for such a small firm”.
- **firms of “structured” type** constitute 16% of family businesses in Spain. The organizational complexity of the business is big, whereas the complexity of the family is low.
- **firms of “corporation” type** constitute 18% of Spanish family businesses. In this case, both families and the firm are characterized by considerable complexity. These firm are also much older than other family businesses.

A lot of research shows that the personality of the entrepreneur founder is important for the enterprise effectiveness. B. Villalonga and R. Amit (2006, pp. 385–417) found out that family ownership conduc-

es effectiveness from the point of view of all of its owners when the firm owner is still its actively managing president or the boss of the supervisory board (with the management board president employed from the outside). If family businesses are managed by the founder's successors, minority shareholders are in a worse situation than in a non-family business. Founders of the business generate values for minority shareholders even when the right to control is not well secured to them. On the other hand, successors contribute rather to impairment of the firm. The findings of another study show that running a business by its owner improves its market valuation and financial results (Brick, Palia, 2007, pp. 452–476); (Fahlebrach 2006). The analysis carried out by R. Adams, H. Almeida and D. Ferreira (2005, pp. 1403–1432) also indicates that the manager of a publicly listed business resigns from his position if the results of the enterprise are poor, which shows that in case of publicly listed businesses, the proneness to control the business becomes less important than its results.

Another study pays attention to additional aspects of the entrepreneur founder's impact. The W.B. Johnson, R.P. Magee, N.J. Nagarajan and H.W. Neman analysis (1985, pp. 151–174) asserted the existence of positive reaction of stock exchange valuation after the enterprise founder's death. R. Morck, A. Shleifer and R. Vishny (1988, pp. 293–315) proved that the owner's control over the business exerts negative influence on its market valuation but it happens only in case of older enterprises. In "young" businesses the market positively assesses the presence of a founding family member among two most important enterprise managers. Studying Canadian enterprises, R. Morck, D.K.. Strangeland, and B. Yeung (2000) observed the existence of negative correlation between the business control by the family founder's successors and its results. The research by R. Anderson and D. Reeb (2003, pp. 1301–1328) showed that in case of American firms, Family Controlled Firms were characterized by better financial results than non-family businesses. These results are compliant with the findings of F. Pérez-González (2006, pp. 1559–1588) who conducted research on a sample of American enterprises, and M. Bennedsen – with ref-

erence to Danish enterprises (Bennedsen, Nielsen, Pérez-González, Wolfenzon, 2006).

The findings were proved by the research of R. Morck, D. Stangeland and B. Yeung (2000) who found out that “inherited control”, “inheriting the enterprise management” by a family member usually leads to the impairment of its results. The universality of this regularity was, however, questioned by D. Sraer and D. Thesmar (2007, pp. 709–751) who in case of France found out that family businesses controlled by inheritors not only are not characterized by worse results but quite the contrary, they mark better results.

3.5. Consequences of Succession for Family Businesses Development

The existing research shows how important for the enterprise development is the decision about the succession of ownership and management. It is not a symbolic event, with no influence on the firm’s survival. If a person from the owner/manager’s family becomes the manager of an enterprise, the effectiveness of its monitoring decreases (the threat of dismissal is scarcely effective).

Whether the result of succession is destructive or brings recovery depends on the configuration of factors which are specific for a given country. It seems that cultural factors have very strong impact. In countries such as Italy, Spain, or more broadly, Latin countries there are strong inter-family ties and strong ties in the groups of friends. The United States represent a case of individualistic culture. It seems that family businesses are better adapted to the context of Latin culture, and less in case of individualistic societies. Strongly felt family ties facilitate the concentration of resources necessary to set up an economic venture, however, they may lead to harmful practice of cross subsidizing, which protects less effective ventures, impairing chances and the developmental dynamics of the firm. In the economic and social sense family may be analyzed as a basic network

of mutual insurance which diminishes the risk of business ventures, may encourage to economic initiative, but at the same time it may be a burden for a business. Yet, strong family ties (internal trust) build barriers for more extensive business relations, the base of which is trust to legal rules and strong trust from the inside.

In the research on inter-generational succession in family businesses two problems were identified. The risk for the effectiveness of the firm coming from the possibility that the successor may not be as talented as the enterprise founder, which limits the possibilities for the enterprise development (Burkart, Panunzi, Shleifer, 2003, pp. 2167–2202). On the other hand, the very process of succession may result in decision paralysis in the business and lead to the worsening of its results. On the example of family businesses in Thailand, M. Bertrand, S. Johnson, K. Samphantharak, A. Schoar (2008, pp. 466–498), the presence of many male children results in the impairment of financial results since each of them is a potential successor and the manager. Referring to Thailand in another elaboration, M. Bertrand and A. Schoar (2006, pp. 73–96) write that “cooperation between the siblings is hard to achieve in spite of the parents’ will. Even if there are very strong ties in the family, everyday interactions in the context of the business functioning may lead to brutal struggle. There are many examples of families (and family firms) which were disunited as a result of such internal struggle”.

For the continuity and development of family businesses, the key question is the question of succession in case of the business owner/founder’s death or leaving. Succession, with the exception of sudden events, must be prepared. A lot of authors emphasize the importance of succession planning (Pitcher, Cherim, Kisfalyi, 2000, pp. 625–648).

Researchers pay attention to the fact that a family member (son) is often a favoured candidate for the post of the management board president. Such an indication is accompanied by a strong conviction about the candidate’s qualities which, however, are usually not checked in confrontation with other candidates. Because selection takes place in a narrow circle of people, the danger of such “ nepotism recruitment”

for the enterprise effectiveness is indicated (“nepotism may turn out to be a serious problem for a family business development”) (Pollak, 1985, pp. 581–608). Keeping control over the business by the family may be its predominant goal but not necessarily may be in the interest of other enterprise shareholders.

According to M. Shanker and J. Astrachan (1996, pp. 107–124), a family business requires direct involvement of the family in its everyday functioning, the involvement of at least one family member in managing it, and the involvement of a few generations. Succession is “an open process, which, through the control of the enterprise management, goes from one family member to another” (Sharma, Chua, Chrisman, 2000, pp. 233–244).

Empirical research shows that the average lifetime of a family business is 24 years – this period corresponds with the time in which the firm is run by its founder, as few as 30% last in the second generation of entrepreneurs/owners, and only 13% go in the hands of the third generation (Ward, 1987).

As far as statistical data of dying out are cruel for family businesses, the family business researchers indicate that a lot of successful entrepreneurs want their children to continue running the firm, and the family business to become a projection of their deed for the next generation (Lansberg, 1999). Such attitudes cannot be reduced to the dimension of altruism versus egoism adopted in the analysis of intra-generational transactions since this is not about a firm as a carrier of economic values but of a symbolic value – the manifestation of care about the heritage of one’s own name and the negation of the capital’s anonymity.

S. Prokesch (1991) indicated Marriott Corporation as an example of one of the best managed hotel enterprises. Willard Marriott, Jr., the President of the supervisory board and the enterprise founder’s son says that success and durability of a firm as an enterprise tightly controlled by the family may be to a considerable extent explained by the ability of the people managing the enterprise to “show the door to inefficient relatives and kinsmen”. A lot of businesses are not able to

cope with the pressure from the family to employ relatives, which explains low expected length of family businesses' functioning and low rates of such enterprises' survival. S. Prokesch (1991, p. 180) recalls also the research of J. L. Ward, which shows that only 6 out of 200 studied enterprises survived 60 years. B. Benson (1990) documents that fewer than 13% of family businesses survive till the next generation of owners. We can make a hypothesis that one of the main factors responsible for the failure of family businesses is a conflict between the family needs and the business needs.

One of the key problems in the family business analysis is the problem of decisions concerning succession in case of the enterprise owner/founder's leaving. The way in which the question of succession will be solved may decide about the future development of the business. Appointing a person from the family to the position of the President solves the problem of the control over the managers as management board presidents coming from the family are, also by non-financial rewards, more strongly motivated to work better for the benefit of the business's success (Davis, Schooman, Donaldson, 1997, pp. 20–47). What is more, if the succession within the family was planned and prepared, people selected in this way enjoy not only a higher level of trust among other family shareholders but they also have better knowledge about the specific character of the enterprise activity, including the knowledge of its technologies, markets and suppliers. However, the process of appointing a successor may create tensions and conflicts inside the family by itself, and what is more, it may lead to the choice of an inappropriate candidate.

Emphasizing the importance of a successful succession, P. Sharma and his associates distinguish the following elements of planning a succession (Sharma, Chrisman, Pablo, Chua, 2001, pp. 17–35)⁴:

- choosing a successor (preceded by the identification of a potential successor, formulating criteria of selection, and marking successors);

⁴ They may occur simultaneously or in sequence.

- communicating the decision;
- training the successor;
- creating the enterprise strategy in the period following the succession;
- defining the role of the leaving leader after the accomplishment of the succession.

Empirical research shows that succession in family businesses may have negative impact on their results. The results of family businesses going through the phase of succession are considerably worse than in fast-developing sectors, where highly-qualified staff and sizeable economic organizations are indispensable for development. It means that for their development family businesses need managers from the outside because they fill a gap of qualifications unavailable in the family.

In spite of this, family businesses seem to consequently prefer acceptable family members for the posts of presidents, in case of the enterprise owner/founder's leaving. This conclusion may mean that from the point of view of families controlling the business, there is exchangeability between the affinity to the family and financial results, which justifies preferring family members even when the employed external manager offers a possibility of higher profits. The research of M. Bennedsen, K.M. Nielsen, F. Pérez-González and D. Wolfenzon (2006, pp. 647–691) confirm the existence of what is called by the literature on corporate governance as “rents from control of the firm by a family”. If, indeed, the family controlling the business accepts certain drop in the effectiveness of enterprise management in order to keep the control over the business, then we can suppose that this drop cannot be too big: in case of the lack of an acceptable successor or the lack of will to manage the firm on his part, the recruitment of the manager from the outside may be “the second best” solution. However, this situation creates costs for possible minority shareholders who “do not gain private benefits from the control”, thus in this way they cannot justify the possession of shares in the firm which obtains worse than possible results. This fact may explain difficulties in attracting minority shareholders by Family Controlled Firms.

Chapter 4

INSTRUMENTS OF SUPPORT FOR THE BUSINESS SUCCESSION IN THE EUROPEAN UNION

4.1. Directions in Evolution of Community Policy in Favour of Business Succession¹

In 2002 it was estimated that during the following 10 years, as many as 1/3 of enterprises from 15 countries of the then European Union made transfer of ownership, however, this indicator ranged from 25 to 40% in individual member states. In absolute numbers this indicator amounted to about 610 thousand small and medium-sized enterprises, out of which nearly a half employs workers (about 2.1 million workplaces) (the European Commission, 2002, p. 7). At the beginning of 2006, it was estimated for the EU countries that “even 690 thousand enterprises a year should find new owners – these enterprises, although small and medium-sized in majority, give 2.8 million workplaces in total” (the European Commission, 2006b, p. 5). The quoted data show unequivocally that the question of continuity of enterprises, especially family ones, is one of the key problems which will make competitiveness of economy and the dynamics of workplace forming

¹ Compare also: (Wach, 2010).

impaired if not solved. The enterprise ownership transfer is a chance for “survival” for many, mainly family firms.

Already at the beginning of 1990s, the European Commission noticed the complexity of enterprise succession problem and its significance for the survival of European enterprises, especially family ones. On 29–30 January 1993 in Brussels, a symposium on the transfer of enterprise ownership took place, organized under auspices of the European Commission. The symposium allowed the European Commission to identify the main problems connected with enterprise succession in the form of a communication of 29th June 1994, and indicate the best practice in this scope. The communication postulated focusing on the questions, such as (European Commission, 1994b, pp. 1–23):

- ensuring continuity to partnerships and sole traders
- preparing enterprises to ownership transfer by adopting the most suitable organizational and legal form,
- supporting the transfer of enterprise ownership by administrative and legislative powers,
- ensuring tax reliefs in case of enterprise ownership transfer within the family.

On 7th December 1994, the Commission passed, in the form of recommendation, detailed guidelines on the improvement of the conditions for enterprise ownership transfer in the Community member states. These recommendations also concerned numerous areas affecting the transfer of enterprise ownership, such as taxation, the change in legal status of an enterprise, access to transfer financing. The recommendations directed to individual member states included in this legal act were as follows: (the European Commission, 1994a, pp. 1–9):

- inducing initiatives which serve raising awareness, passing information and providing trainings on how to plan enterprise ownership transfer,
- ensuring proper financial environment conducting enterprise ownership transfer,

- providing legal possibilities for enterprise restructuring in order to prepare to ownership transfer, especially with reference to legal status of an enterprise,
- establishing legal regulations ensuring the continuity of partnerships and sole traders in case of death of one of partners or the owner,
- creating favourable regulations concerning inheritance or donation tax from enterprise ownership transfer in order to ensure survival to them,
- facilitating enterprise ownership transfer to third persons by introducing beneficial tax regulations.

The progress in the implementation of the above recommendations by member states was discussed at the forum organized by the Commission on 3–4 February in Lille in France. The working document summing up the debate included 13 conclusions systematized in three groups (the European Commission, 1997):

1. Legal measures facilitating transfer of enterprise ownership:
 - facilitations in the scope of transferring partnership enterprises into limited enterprises,
 - introducing simplified forms of limited enterprises,
 - introducing limited companies wholly owned by sole traders
 - ensuring legal continuity to partnerships, especially civil law partnerships,
 - simplifying administrative formalities in the scope of enterprise ownership transfer.
2. Taxation means facilitating enterprise ownership transfer:
 - decreasing tax rates from legacies and donations in the scope of enterprise ownership transfer,
 - exemption from tax or decreasing the burden of tax on capital transfer in the scope of enterprise ownership to the benefit of third persons,
 - liquidation of any forms of tax in the scope of enterprise transformation,

- increasing the number of agreements signed between member states on the avoidance of double taxation in the scope of taxes on inheritance and donations,
 - ensuring information on tax consequences of enterprise ownership transfer.
 - tax reforms should take into account facilitations for enterprise ownership transfer.
3. Supporting action in the scope of the facilitation of enterprise ownership transfer:
- ensuring proper financing of enterprise ownership transfer and beneficial loan strategy in this scope by financial institutions,
 - ensuring broadly understood counseling in the scope of enterprise ownership transfer, already at the preliminary phase of planning an enterprise succession.

In 1998 the Commission published a report on activities undertaken till 31st December 1996 by member states in the scope of the facilitation of enterprise transfer (European Commission, 1998, pp. 2–18) which, apart from general conclusions convergent with Lille conclusions, included also comparative tables and the presentation of detailed progresses of 15 countries of the then European Union.

In November 2000, the Commission appointed an expert group on transferring small and medium-sized enterprises, the task of which was to draw up a report assessing the effects of the implementation of recommendations made by the member states after 1998². In May 2002, a final report of the expert group was published, which contained the following recommendations (the European Commission, 2002b, p. 8 and 44–45):

- Creating the European Centre for Transfer of Enterprises coordinating and facilitating activity in this scope,
- creating the European database of sellers and buyers of enterprises, as well as the intensification of the existing databases and in-

² The Project was called the *Best Project on Transfer of Businesses*.

ducing the creation of such bases in countries in which they do not exist yet,

- arranging regular European seminars, meetings and forums on transfer of enterprises,
- the development of alternative and additional, tailor-made services in the scope of trainings and managing the process of enterprise ownership transfer,
- initiating programmes of support for enterprise transfer by national authorities, but also research in this scope,
- the attention of decision-makers should be equally divided between the support for setting up new enterprises and the support for the ownership transfer of already existing enterprises.

The report provided for the same means of achieving the effectiveness and efficiency of enterprise transfer, as the means presented in 1997 and 1998, yet their analysis was more detailed. A lot of attention was paid to the awareness of entrepreneurs on the transfer of enterprise ownership and creating the transfer market. To 2002 such markets existed in 4 member states (Austria, Denmark, France, Holland), and partially in other 4 countries (Germany, Luxembourg, Italy, Finland). The report called to the Commission to define, in agreement with the member states, time frame for the implementation of experts' recommendations.

On 23–24 September 2002 in Vienna, under the auspices of the Commission, the European Seminar on Enterprise Transfer was organized. Conclusions coming from the sum-up report were mostly informative. They basically postulated raising the awareness of the problem both among authorities and entrepreneurs, suggesting a number of instrument in this scope (the European Commission, 2002a, pp. 5–6).

On the basis of the Council's decision on 20th December 2000, the Fourth Multiannual Programme for Enterprise and Entrepreneurship and in particular for Small and Medium-Sized Enterprises 2001–2005 was passed (the European Council, 2000, pp. 84–91). Initially, the programme was intended for 5 years, but then it was prolonged by

a year, till the end of 2006, so that it could agree with the Community's programming period. The programme contained 5 main objectives, and one of them, (the promotion of entrepreneurship) provided for the assistance in establishing new enterprises and the help in ownership transfer of already existing enterprises.

In *The Green Book of Entrepreneurship in Europe* published by the Commission in January 2003 (the European Commission, 2003a), a lot of space was devoted to enterprise transfer, although this subject was not a separately analyzed area. However, it permanently appeared in all areas indicated in the Book, including hitherto prevailing postulates in this scope.

In 2003, a handbook of good practice on transferring enterprise ownership was also published by the European Commission (the European Commission, 2003b).

In October 2002, the Commission appointed another expert group on enterprise transfer (so-called MAP 2002 Project), the works of which allowed to publish in August 2003 another report assessing progress in the scope of policy for the benefit of enterprise transfer. The report contained six key areas on which the Community policy on enterprise transfer should focus. These were the following areas (the European Commission, 2003c, p. 8):

1. Activities facilitating enterprise transfer by third persons.
2. Special activities facilitating transfer of ownership to employees.
3. Special rules in the scope of tax on inheritance and donations from enterprise transfer.
4. Incentives encouraging "timely" preparation of the process of enterprise transfer³.
5. Tax reliefs from funds obtained from enterprise ownership transfer, which have been reinvested in another SME.
6. Financial instruments facilitating enterprise transfer.

³ "Timely" in "timely preparation" term is connected with the necessity of an enterprise owner retirement, however, due to employment policy which promotes professional activeness of people in the retirement age the Report uses a softer expression, which was clearly emphasized.

The report postulated carrying out benchmarking for all identified key areas.

At the beginning of 2004, in the form of announcement, the Commission proclaimed Entrepreneurship Action Plan – EAP (a plan of actions for entrepreneurship) in which among nine indicated key actions, one concerned facilitations in enterprise transfer. The communication claims that “The Commission will continue giving assistance to national and regional decision-makers in order to facilitate enterprise transfer, mainly with the intention of ensuring continuity to many EU family firms which have a chance to survive on the market. The Commission will continue to encourage the member states to implement recommendations on enterprise transfer and will increase efforts in raising the awareness of prospective entrepreneurs in the scope of enterprise transfer” (the European Commission, 2004a, p. 10). The indicated detailed actions within the framework of this key activity were as follows (the European Commission, 2004a, p. 10):

- publishing a new communication from the Commission on enterprise transfer, in which recommended actions will be specified, and assessing the implementation of recommendations of 1994 (the communication was initially planned for 2004, although in fact it was published only in 2006),
- providing appropriate framework for enterprise transfer market in the member states,
- analyzing causes for success and failure of the process of enterprise ownership transfer in Europe,
- making funds for financing enterprise transfer available within the framework of the Community financial instruments.

In the initial report on EAP implementation issued in 2005, the Commission’s efforts to implement three out of four actions indicated above were summed up, since the third action by rotation was cancelled due to a negative decision of Enterprise Programme Management Committee, EPMC) (the European Commission, 2004b, p. 7).

By the end of 2004, the Commission appointed another expert group on enterprise transfer within the framework of “Support for

Establishing Transparent Market for Enterprise Ownership Transfer” project (so-called MAP 2004 Project). The final report, entitled Enterprise Exchange was published in May 2006 (the European Commission, 2006a). The report presented nine models of enterprise exchanges functioning in 8 member states (Belgium⁴, Germany, France, Italy, Finland, Luxembourg, Holland, Austria). The report also discussed the situation occurring in the remaining 10 member states (Bulgaria, Check Republic, Greece, Spain, Hungary, Poland, Romania, Slovenia, Sweden, Great Britain, and Turkey as a candidate country). The essence of the report is the elaboration of the enterprise exchange with the indication to its desired features.

In March 2006, two months before the publication of the evaluation report, the Commission issued a communication entitled “Transferring Enterprise Ownership – Continuity Through a New Beginning”. On the basis of the conducted analysis of the implementation of 1994 recommendation, the Commission drew six recommendations for the future which reinforce the recommendations of 1994 in the areas in which progress is not sufficient, and they are an expression of changes in the economic environment marked during the last decade. The recommendations are as follows (the European Commission, 2006a, pp. 10–12):

- Focusing political attention both to the transfer of enterprise ownership and on the newly-set up enterprises.
- Providing proper financial conditions facilitating transfer of enterprise ownership.
- Raising the awareness, taking into account “soft” factors and promoting counseling in the scope of the transfer of enterprise ownership.
- Constituting a transparent market for the transfer of enterprise ownership.

⁴ In Belgium, due to a federate political system two such stock exchanges function – a Flamand and a Walloon one.

- Providing taxation systems conducting the transfer of enterprise ownership.
- Creating appropriate structures in order to implement Community recommendations in the scope of the transfer of enterprise ownership on a great scale.

At the beginning of 2007, the European Commission appointed the Expert Group on Family Business, EGFB. The result of the experts' work was the report entitled "Overview of Family Business Relevant Issues" published by the end of 2008. It is worth stressing that the appointment of this expert group significantly changes the hitherto prevailing Community policy which will treat this problem much more broadly, not focusing only on the question of the transfer of enterprise ownership but on the question of family entrepreneurship, whose one of the key areas is enterprise succession (tab. 4.1).

Table 4.1. Challenges for Family Business in Europe

Challenge	Policy Recommendations	Concerned Level
Lack of awareness by politicians of the economic and social/ societal contribution of family businesses, resulting in a low level of activity to create a family business friendly environment	Provide an operational definition of "family business"	Expert Group on Family Business Relevant Issues
	Conduct and disseminate research on family businesses	National governments, chambers of commerce in cooperation with researchers
	Establish family business representative organisations	Family business sector with the assistance of the European Commission and national governments
	Empower the family business representative organisations	European Commission and national governments

Challenge	Policy Recommendations	Concerned Level
Lack of family firms' awareness of the importance of timely planning for intergenerational business transfer (particularly in the NMS and against the changing Framework conditions such as socio-demographic change), resulting in ill-prepared successions endangering the firms' survival	Establish/continue awareness raising measures of the importance of planning business transfers as well as the provision of practical planning tools	European Commission and national governments, in cooperation with chambers of commerce and family business networks as well as education providers
	Establish training for entrepreneurs and successors to prepare them to cope with the challenges of the transfer process	
Financial obligations	Reduce/abolish inheritance/gift tax	National governments
	Establish access to finance which does not involve the loss of control of business decisions	
Balancing business and family issues, resulting in the need for specific governance instruments	Raise awareness to the importance of governance structures and provide information on/assistance in their design and establishment	European Commission and national governments, in cooperation with chambers of commerce and family business networks
	Provide financial support for the establishment of governance instruments	National and regional governments
Lack of family business specific management and entrepreneurship education	Tailor management and entrepreneurship education towards the specific needs of family business owners/managers (i.e., dealing with specific issues, focusing on practical applicability)	National governments (particularly in the NMS) in cooperation with education providers
Limited access to finance for growth	Establish tax regimes treating retained profits favourably	National governments

Challenge	Policy Recommendations	Concerned Level
Attracting and maintaining a (skilled) workforce	Launch an image campaign	Family business networks, in cooperation with national governments

Source: (Mandl 2008, pp. 4–5)

4.2. National Instruments of Support for the Succession of Enterprises

While analyzing the directions of evolution of the European Union Policy in the scope of the transfer of enterprise ownership, we may notice that from the beginning of 1990s to the end of 2008, not radical but only evolutionary changes took place in it. During these two decades, the assumptions and recommendations of 1994 were specified. The actions discussed in the elaboration undoubtedly contributed to conceptualization of the Community policy in this scope, which may be now systematically summed up (compare: Tab. 4.2).

Table 4.2. The Assumption of Community Policy in the Scope of the Transfer of Enterprise Ownership to be Implemented on the Level of the Member States

Areas of policy	Actions
1. Legal means	1.1. Facilitations in transferring partnerships into companies and <i>vice versa</i> . 1.2. Introduction of simplified forms of companies. 1.3. Introducing companies wholly owned by sole traders 1.4. Ensuring legal continuity of partnerships, especially civil law companies 1.5. Introducing right of pre-emption of a business by an owner/founder's family members in case of his death or illness. 1.6. Facilitation of administrative formalities concerning the transfer of enterprise ownership.

Areas of policy	Actions
2. Taxation means	<p>2.1. Decreasing rates of tax on inheritance and donations in the scope of the transfer of enterprise ownership.</p> <p>2.2. Exemption or decreasing burdens in the scope of tax on capital transfer in the scope of the transfer of enterprise ownership for the benefit of third persons.</p> <p>2.3. Decreasing burdens in the scope of tax on capital transfer in the scope of the transfer of enterprise ownership by employees.</p> <p>2.3. Liquidation of all forms of taxation in the scope of business transformation.</p> <p>2.4. Introducing tax reliefs from funds gained from the transfer of enterprise ownership, which were then reinvested in other small and medium-sized enterprises.</p> <p>2.5. Introducing reliefs from funds obtained for the transfer of enterprise ownership, which have been invested in pension fund for the initial owner/founder of the business.</p> <p>2.6. Providing information concerning tax consequences in the scope of the transfer of enterprise ownership.</p> <p>2.7. Tax reforms should consider facilitations for the transfer of enterprise ownership.</p>
3. Supporting actions	<p>3.1. Raising awareness among entrepreneurs on the transfer of enterprise ownership. Organizing regular European seminars, meetings or forums on business transfer.</p> <p>3.2. Providing proper financing of enterprise ownership and beneficial loan strategy in this scope.</p> <p>3.3. Providing broadly understood counselling on the transfer of enterprise ownership, already at the preliminary stage of planning a succession. The development of alternative and additional tailor-made services on trainings and the management of the transfer of enterprise ownership process.</p> <p>3.4. Support for creating transparent market for the transfer of enterprise ownership (so-called enterprise exchange).</p> <p>3.5. Creating European database of sellers and buyers of enterprises, as well as the intensification of the existing national database and inducing the creation of such databases where they do not exist yet.</p> <p>3.6. Creating the European Centre for the Transfer of Enterprises, coordinating and facilitating activeness in this scope.</p> <p>3.7. Creating <i>one-stop-shops</i> for enterprise transfer or offering such services by the exiting shops of "one window" type.</p>

Areas of policy	Actions
4. Best practice	4.1. Promotion of best practice in the scope of planning the process of enterprise ownership transfer. 4.2. Promotion of best practice in the scope of trainings on business transfer. 4.3. Promotion of best practice in the scope of business valuation. 4.4. Promotion of using experience of initial/former owners of passed businesses.

Source: Authors' own study on the basis of source materials quoted in the study

In the communication from the Commission of 2006, the information was passed that the level of the implementation of 1994 recommendations in EU-25 countries amounted only to 65% (although there were significant differences in the recommendation implementation between member states), and the results of this indicator were regarded as insufficient (compare: Table 4.3). The most advanced in the implementation of the recommendations were three countries: Belgium, Austria and Germany, whereas the least advanced were Greece, Portugal, and Slovakia. Poland, with the result 6 is placed below the Union's average which is 7.24 (the lowest result is 2, and the highest is 12).

Table 4.3. Progress in the Implementation of the Recommendations of 1994 in the Scope of Transfer of Businesses by Member States till the End of 2005

Country	Awareness raising	Financial environment	Change of legal firm	Tax neutral restructuring	Simplification SMEs/PLCs	PLC with one member	Legal principle of continuity	Unanimity not required	Reduced inheritance tax	Deferring inheritance tax	Retirement tax relief	Re-investment tax relief	Sale to employees tax relief	TOTAL + and (+)
B	+	+	+	+	+	0	+	0	+	(+)	+	+	(+)	11
CZ	-	-	+	(+)	+	0	(+)	0	(+)	(+)	+	+	0	8
DK	-	+	(+)	+	+	+	+	-	+	0	+	0	+	9
D	+	+	+	+	+	+	+	0	+	+	+	+	0	11
EE	0	0	+	-	-	+	-	-	+	+	0	0	0	4
EL	-	-	-	-	-	-	-	-	(+)		-	-	-	2
E	(+)	-	+	-	+	+	(+)	-	+	0	-	+	+	9
F	+	+	+	+	-	+	-	-	+	+	+	+	+	9
IRL	(+)	(+)	0	+	+	0	(+)	-	+	+	+	Φ!	+	9
I	+	(+)	+	0	0	+	+	+	+	+	0	0	0	8
CY	(+)	0	+	-	+	(+)	(+)	-	+	+	0	0	0	7
LV	-	0	(+)	(+)	0	+	+	+	-	-	-	-	-	5
LT	(+)	-	+	+	+	+	+	0	+	+	0	0	0	8
L	+	+	+	-	(+)	+	+	0	-	(+)	0	0	0	7

Country	Awareness raising	Financial environment	Change of legal firm	Tax neutral restructuring	Simplification SMEs/PLCs	PLC with one member	Legal principle of continuity	Unanimity not required	Reduced inheritance tax	Deferring inheritance tax	Retirement tax relief	Re-investment tax relief	Sale to employees tax relief	TOTAL + and (+)
HU	0	0	+	+	0	+	+	+	(+)	-	+	+	+	8
MT	0	0	(+)	+	+	0	(+)	0	+	+	0	0	0	6
NL	+	-	+	+	+	+	+	-	+	+	Φ!	0	0	8
A	+	+	(+)	+	+	+	(+)		+	(+)	0	0	0	12
PL	-	(+)	+	+	0	+	(+)	0	+	-	0	0	0	6
P	(+)	-	+	-	-	0	+	-	0	0	0	0	0	3
SI	0	0	(+)	+	+	+	(+)	-	-	(+)	0	0	0	6
SK	0	0	(+)	0	0	+	-	0	+	-	0	0	0	3
FIN	+	+	(+)	+	+	+	+	0	+	+	0	0	0	9
S	(+)	-	(+)	+	-	+	0	0	+	+	-	-	0	6
UK	(+)	-	+	-	-	+	-	0	+	+	Φ!			7
EU	15	10	23	16	14	19	19	4	41	18	8	6	8	181

The table show in which areas measures have been reported by the Member States but does NOT reflect an assessment of measures

Notes: + Recommendation implemented 0 Recommendation not implemented
 (+) Partial or planned implementation Φ! Former implementation revoked
 - no information

Source: (European Commission, 2006a, p. 11)

On the basis of gathered and presented material we can draw a conclusion that the Community policy in the scope of the transfer of the ownership of businesses boils down to the Commission's recommendations, and it is not developed and "equipped" enough. In spite of this, implementation and improvement of these recommendations will certainly improve the support for the continuity of European enterprises, especially small and medium-sized family businesses. We should add that actions of individual member states are insufficient. The implementation of the recommendations indicated above could contribute to the improvement of transfer of businesses process, that is it could increase the survival rate of European enterprises, especially family ones. Everything lies in the competence of national governments of individual member states because policy in the scope of the transfer of the ownership of businesses is based only on recommendations issued by Community bodies, which however are known not to be binding. In the empirical part of our elaboration the factors discussed above will be analyzed in the context of succession problems in Polish enterprises.

Chapter 5

RESEARCH METHODOLOGY ON THE FAMILY BUSINESS SUCCESSION PROCESS

5.1. Research Approaches to Business Succession

The research on succession in family businesses takes into account a wide spectrum of conditions, as well as exogenous and endogenous factors. Empirical research concerning succession in family firms may be expressed in three basic trends (Motwani, Levenburg, Schwarz, Blankson, 2006, pp. 474–475):

- 1) description of the process of succession,
- 2) modeling the process of succession,
- 3) evaluation of the process of succession.

Trend One (description of the process of succession) deals with the problem of defining and general course of succession in family businesses. It concerns the description of the process of succession planning in family businesses and Family Controlled Firms. The representatives of this trend, such as S. Cliffe (1998, pp. 16–18), W. Handler (1989, pp. 133–157), or K. Suarez, P. Perez and D. Almeida (2001, pp. 37–46) undertake such detailed topics as:

- the question of the necessity of succession planning,
- identification and analysis of the process of succession,

- identification and analysis of barriers and destructive factors in the process of succession,
- diagnosis and evaluation of factors which decide about the effectiveness of the process of succession.

Trend Two (modeling the process of succession) deals with creating an implementation and assessment model of succession planning in family firms. Representatives of this trend, such as I. Le Breton-Miller and his associates (2004, pp. 305–328), or E. Stavrou (1999) do not deal with a holistic conceptualization of the process of succession in the theory of strategic management (succession planning) but they develop pragmatic plans for the succession process (a specific kind of a road map, that is steps indispensable for the implementation of succession processes in a given business entity).

Trend Three (evaluation of the process of succession) deals with the assessment of the course of the succession process in family businesses, conducted in the studied entities. Representatives of this trend, such as S. Klein (2000, pp. 157–181), P. Sharma and A.S. Rao (2000, pp. 313–322) or W.W.C. Chung and K.P.K. Yuen (2003, pp. 643–655) emphasize the extension and complexity of the succession planning process and their diversity in various parts of the world. According to the researchers of this trend, and they represent situational approach, typical for many contemporary trends in management sciences, the succession planning process depends on many factors which are different not only in various environments (macro-, mezzo-, and micro-environment creating so-called external environment of an organization, but they are also determined differently by inter-organizational factors (an organization's internal environment).

The analysis of empirical research findings on succession in family firms allows to distinguish a few research hypotheses most commonly met in the literature. These are:

- 1) a hypothesis concerning the existence of dependency between the level of the legal protection of external and minority shareholder and the strategy of succession. This hypothesis leads to a prediction about the existence of negative correlation between the level

of investor protection and the level of ownership concentration. This hypothesis is possible to be verified only in comparative studies but the existing empirical data seem to indicate that it is true. We should also notice that the problem of control in the situation of succession seems in many respects analogical to the problem of the enterprise transformation since it makes efforts to raise funds from the outside, and particularly by the introduction of investment funds (La Porta, López-de-Silanes, Shleifer, Vishny, 2002, pp. 1147–1170.).

- 2) Equally frequent hypothesis talks about the existence of a connection between the degree of innovativeness of the branch in which a business functions and the enterprise strategy. According to this hypothesis, the more innovative a given branch of economy is, the bigger profits from passing the firm to professional managers are, and lesser benefits from keeping the family control. Therefore, in traditional branches we can expect bigger frequency of cases in which descendants and relatives are appointed to manage the business.
- 3) In the conducted research, a hypothesis about the existence of relation between the size of a business and succession strategy is also verified. In accordance with this hypothesis, the bigger the firm is, the bigger profits from passing the firm to professional managers are, and lesser benefits from keeping the family control. However, it is worth noticing that the research findings by E. Stavrou (1999, p. 52) indicate the existence of the opposite relation. According to it, there is a positive correlation between the size of the firm and the proneness of descendants to work in it at some point of their professional career: people whose parents possessed bigger enterprises, started to work in them with more frequency.
- 4) One of the most frequently empirically verified hypotheses is the one about the existence of the relation between possessing a descendant by the owner/founder, who is assessed as talented and prepared to manage the business after handing it over. Through questionnaire research, the ways of preparing successors chosen

out of the descendants, types of the completed education, and the places of getting experience needed to manage the business will be identified.

5.2. Assumptions of the Research Model

Solving the problem of succession influences considerably the future of a business. It is estimated that internationally only 30% of family firms “survive” till the next generation, whereas fewer than 14% keep functioning as the business belonging to the same family in the third generation (Flemin, 1997, p. 246); (Matthews, Moore, Fialko, 1999, p. 159). Of course, the problem of family firms’ transformation is not only a Polish problem, resulting from the current phase of the country’s economic development. In spite of broadly-spread thesis of the advent of manager capitalism era, family businesses were and still are an important element of the economic structure of the contemporary capitalism. As empirical research results show the majority of enterprises in the world are controlled by founders or their successors.

In spite of the increase in the number of elaborations concerning succession in family businesses in Poland, we can notice fragmentarity of scientific knowledge in this scope (compare Tab. 5.1). Thus, there is an urgent need for conducting empirical research and analyses of foreign research in order to make an attempt to integrate them. The way in which the problem of succession in Polish family businesses will be solved will have a great influence on the dynamics of Poland’s economic development in the next decades. Unfortunately, the research on the succession strategies of family businesses is undertaken at the occasion of broader considerations on management strategy rather than as a significant and separate scientific and practical problem. At present, there is no holistic model explaining the processes of succession of Polish family firms. There is no scientific analysis verifying empirically the determinants of succession strategy.

Table 5.1. More Important Research on Family Entrepreneurship in Poland

Year of the Research	Research Sample	Author / Source	Remarks
1998	100 enterprises of various size	W. Popczyk, A. Winnicka-Popczyk (1999)	The research focused on motives, structures and barriers and stimulators of family business.
2002	40 enterprises of various size	Ł. Sułkowski (2004)	The research concerned family ties in business.
2004	98 family businesses	K. Safin (2007)	The research concerned strategic behaviours of family businesses
2004–2005	Over 40 family businesses of various size	B. Haus, Ł. Sułkowski, K. Safin (2005)	The research concerned strategic behaviours of family businesses.
2005	nearly 200 family businesses of various size	J. Lipiec (2006)	The research focused on the identification of a Polish family entrepreneur profile.
2005–2006	35 small and medium-sized family businesses	A. Marjański (2006)	The research concerned the strategy of small and medium-sized family businesses.
2007	207 publicly listed family firms	O. Kowalewski O. Talavera I. Stetsyuk (2009 / 2010)	The research uses data for 217 publicly listed businesses. It used data for the years 1997–2005, the total number of 1270 observations was subject to statistical analysis.
2009	1280 micro-, small and medium-sized enterprises, only 1/3 of which (ca. 425) were family businesses	PENTOR Research International for PARP (2009)	The aim of the research was to assist in designing actions for the benefit of family businesses, implemented by Polish Agency for Enterprise Development (PARP).
2008–2010	496 family businesses of various size	A. Surdej, K. Wach (2010)	The research concerned the succession processes in Polish family businesses.

Source: Authors' own study

Among sparse Polish empirical research in this scope we should include the elaboration of the Institute for Market Economics of applied character, indicating considerable concentration of ownership and control in publicly listed businesses in the hands of individuals and families. According to the estimates of P. Tamowicz, M. Dzierżanowski and J. Szomburg (2001) “for public companies, the median value of the block of shares possessed by the first, biggest shareholder by the end of 1990s amounted to about 39.5%”.

These premises induced the authors of the project to suggest and carry out empirical research on the problem of succession strategies in Polish family firms. Undertaking such research is of great importance both for the discipline of economic sciences and for the pragmatics of management in Poland.

The main aim of the research conducted in the years 2008–2010 is an empirical identification of succession strategies of the first generation of Polish entrepreneurs since the beginning of economic transformation in Poland, with the special consideration given to the level and the methods of maintaining family control.

Within the framework of the goal defined in this way, the following partial goals were isolated:

- 1) Systematic analysis of empirical research findings, Polish and foreign ones, in the scope of succession strategies in family businesses.
- 2) Empirical analysis of the processes of succession conducted in Polish family businesses.
- 3) Identifying succession strategies of family businesses prevailing in Poland.
- 4) Defining determinants of choosing succession methods in family businesses in Poland.
- 5) Empirical analysis of planned succession processes in Polish family businesses.
- 6) Diagnosis, analysis and assessment of egzogenic conditionings of the succession process in family businesses in Poland.

Solving succession can generally be effected using several models (figure 5.1.) and their resulting forms, thus possible succession models, taking into consideration contractual arrangement with regard to future ownership and the taking over of management responsibilities, can be essentially seen in the four dimensional matrix proposed by Junker and Griebisch (2010, pp. 82–84) differentiating between Intra-Family (within a family) and Extra-Family (outside a family) succession models.

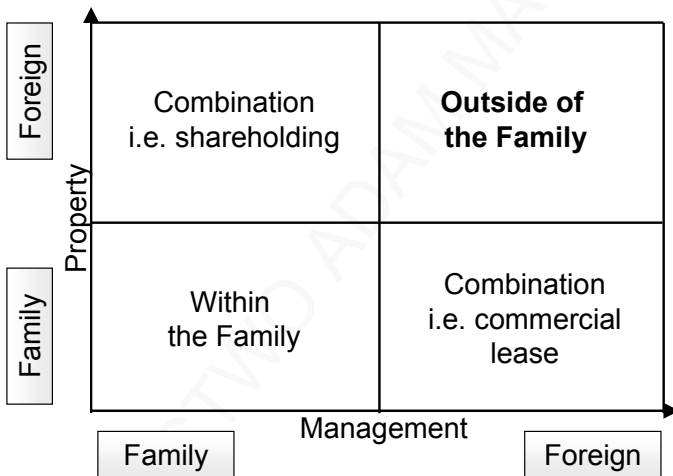


Figure 5.1. Classification of Models of Succession

Source: (Junker and Griebisch 2010, pp. 83)

From the theoretical point of view, there are possible **four main ways of conducting succession** in family firms whose founders decide to give up ownership and managing them (see Table 5.2.).

Table 5.2. Methods of Succession of Businesses

Formal way of acquiring the ownership	Ways of carrying out a succession
1. Inheritance 2. Donation 3. Selling to family members 4. Selling to third persons 5. Employee buy-out	1. Passing the business to descendants 2. The sale of the entire business 3. The sale of a part of the business 4. Taking the business public

Source: Authors' own study

Firstly, the founder/owner may pass **the ownership, control and management to his children and successors**, gradually introduce them to the requirements of management and passing the responsibility for managing the businesses. From the formal and legal point of view, it can be done in three ways, namely by passing it in the form of a donation, by selling it to the family members or by the procedure of inheritance (in case of the founder/owner's death).

Secondly, the founder/owner may **sell the whole firm** to another enterprise or person and give up further conducting of the activity. This solution may be effective if there are buyers (persons or enterprises) possessing sufficient funds and proper competencies to run the firm further on. It is a sale of the whole of family firm to a third person or the buyout of this business by the employees.

Thirdly, the founder/owner may **sell a part of the firm** to another firm or person. It is a sale of a part of a family business to a third person or a buy-out of this firm to its employees.

Due to formal and legal character of acquisition of enterprise ownership in the ways discussed above, this issue needs a little more attention. The takeover of a family business may take place by obtaining control by another entity which may be another enterprise, a financial institution or the management staff, or employees of a given family business. Economic practice distinguishes a few techniques of taking control over a family firm through its buy-out. These are:

- *management buy-out* (MBO) – managerial buy-out of the firm where the entity buying out is the management staff of the same firm;
- *leveraged management buy-out* (LMBO) – the supported managerial buy-out of a business where the entity buying out is the management staff of the same business supported by an external financial institution;
- *management buy-in* (MBI) – managerial buy-out of a business where the entity buying-out is the management staff of another business, most often external staff is supported by a strategic investor;
- *leveraged management buy-in* (LMBI) – supported management buy-out of a business where the entity buying out is the management staff of another business supported by an external financial institution;
- *employment buy-out* (EBO) – employment buy-out where the entity buying out are employees of the same business;
- *leveraged employment buy-out* (LEBO) – supported employment buy-out of a business where entity buying out are the employees and the management staff of the same business supported by an external financial institution;
- *management spin-out* – financial institutions together with a strategic investor support the management staff called initiative in order to appoint a new innovative business based on the family business structure existing before;
- *spin-off* – isolating and giving independence to material and intellectual resources of the business taken over.

Fourthly, the founder/owner may **take the business public and turn the firm into a Widely Held Firm**, keeping the minority shares for himself but under some circumstances sufficient to control the enterprise effectively. In this case, the firm is transformed in such a way so that it could fulfill the requirements of the stock exchange, and after its debut the founder/owner may try to control the business by general meeting and supervisory board. From formal and le-

gal point of view, it is the sale of a part (or alternately the whole) of the firm to third persons.

The literature on the subject and the results of numerous studies show that the founder/owner more often decides to “publicize” management and ownership by empowerment the management and introducing other owners if the legal protection of minority (and external) owners is higher. Therefore, we can claim that the low level of external and minority owners make the enterprise owners/founders face limitations in the chosen succession strategies: they are in a sense doomed to keep family ownership and control. The predominance of family succession may also be regarded as a result of insufficient development of capital market. The hypotheses concerning determinants of succession strategy are brought out from the existing research literature indicating the weight of two types of factors: the character of the family and legal solutions in the scope of the “corporate governance” regulations and the rules of stock exchange turnover.

In the literature on the subject another method is indicated, and thus, **fifthly**, the founder/owner may choose an option of **staying the dominant owner** by hiring a professional manager who will be managing the business in his name. This professional manager is a professional external to the family, and his actions must be controlled because the goals of the founder/owner and the effectiveness criteria. However, it must be emphasized that this way is not de facto one of the methods of succession as the ownership stays in the same hands, and trusting the management to a professional manager may take place since the very moment of setting up the business. Thus, this method will not be tested on the stage of empirical research.

A. De Massis, J.H. Chua and J.J. Chrisman (see figure 5.2. and table 5.3.) showed the relationship existing between factors that prevent succession. They identified three exhaustive but not mutually exclusive direct causes that prevent a previously intended succession from occurring among them (2008, p. 185):

- all potential family successors decline the management leadership of the business;

- the dominant coalition rejects all potential family successors;
- the dominant coalition decides against family succession although acceptable and willing potential family successors exist.

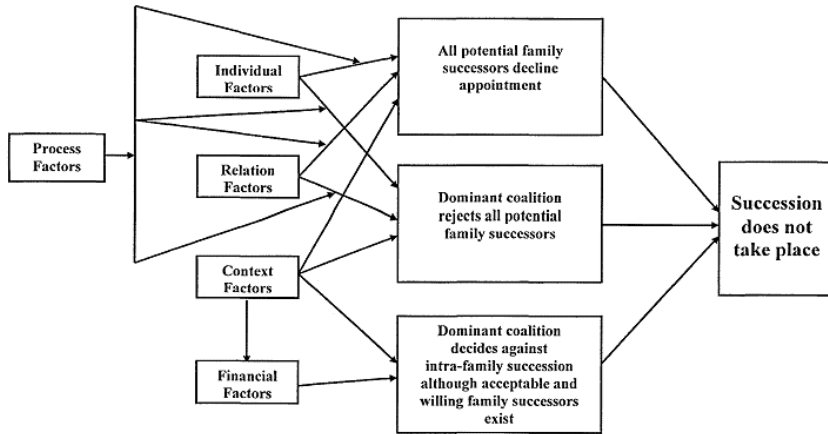


Figure 5.2. Model of Factors Preventing Intra-Family Succession in Family Firms

Source: (De Massis, Chua and Chrisman, 2008, p. 185)

Table 5.3. Factors Preventing Intra-Family Succession

Category	Subcategory	Factor
Individual factors (related to profile and/or motivation of single individuals)	Successor(s)-related Factors	Low ability of potential successor(s) Dissatisfaction/lack of motivation of potential successor(s) Unexpected loss of potential successor(s) (e.g., death or illness)
	Incumbent-related factors	Personal sense of attachment of the incumbent with the business Unexpected, premature loss of the incumbent (e.g., death or illness) Incumbent's unforeseen remarriage, divorce, or birth of new children

Category	Subcategory	Factor
Relational factors (regarding the relationships with/among family and nonfamily members involved in the family business)	Family members	Conflicts/rivalries/competition in parent-child relationship Conflicts/rivalries/competition among family members (e.g., sibling rivalries) Perils related to high “consensus sensitiveness” of the family business Lack of trust in the potential successor(s) Lack of commitment to the potential successor(s)
	None family members	Conflicts between incumbent/potential successor(s) and nonfamily members, and non-acceptance of the potential successor(s) among nonfamily members Lack of trust in the potential successor(s) Lack of commitment to the potential successor(s)
Financial factors (regarding inadequate internal financial resources and excessive opportunity costs associated with raising external financing)		Inability to sustain the tax burden related to succession Inability to find financial resources to liquidate the possible exit of heir(s) Inadequate financial resources to absorb the costs of hiring professional managers
Context factors (associated with changes in the political-economic environment in which the family business operates)		Change in the business performance Decrease in the scale of the business Loss of key customers or suppliers/decline of the relationship between the potential successor(s) and customers or suppliers

Category	Subcategory	Factor
Process factors (related to the absence of good actions or the presence of bad actions that cause succession not to take place)	Establishment of the preparatory activities	Not clearly defining the roles of the incumbent and the potential successor(s) Not communicating and sharing the decisions related to the succession process with family members and other stakeholders
	Development of successor(s)	Incorrectly evaluating the gaps between needs and potential successor's abilities Failing to train potential successor(s) Late or insufficiently exposing potential successor(s) to the business Not giving the potential successor(s) sufficient feedback about the succession progress
	Selection of successor(s)	Not formalizing rational and objective criteria for selection Not defining the composition of the team in charge of the assessment of potential successor(s)

Source: (De Massis, Chua and Chrisman, 2008, p. 187)

The Authors' own empirical research conducted in the years 2008–2010 were based on the authors' research model (see Fig. 5.3). Apart from verification and explaining inter-organizational mechanisms it is justified to focus attention to the role of the state in promoting appropriate succession strategies of family businesses (legislation context). A practically important, because potentially serving changes in the state policy, research results will be comparing Polish solutions in the scope of the protection of minority shareholders with the solutions adopted in other countries. The authors' research model to test the hypotheses made consists of five input and two output factors. On the basis of the studies of the literature on the subject the following input determinants were distinguished (Compare: Table 5.4.):

- structural parameters of a family (e.g. the sex of the first child, the size of the family),

- demographic parameters of a firm (e.g. the age of the firm, the size of the firm, the industry of economy in which the firm functions),
- biographical parameters of the owner/ entrepreneur (e.g. the owner's age, level of education, the history of entrepreneurial activity, legal and organizational forms of the previously conducted entrepreneurial activity),
- parameters of organizational and legal environment (e.g. corporate governance rules, valid legal and tax regulations),
- parameters describing the industry in which the business conducts its activity (e.g. the intensity of competition).

We assume that the factors presented above determine the choice of the method of succession of family firms, and in this way define a desired and maintained by initials owners the level of control over the firm by the family.

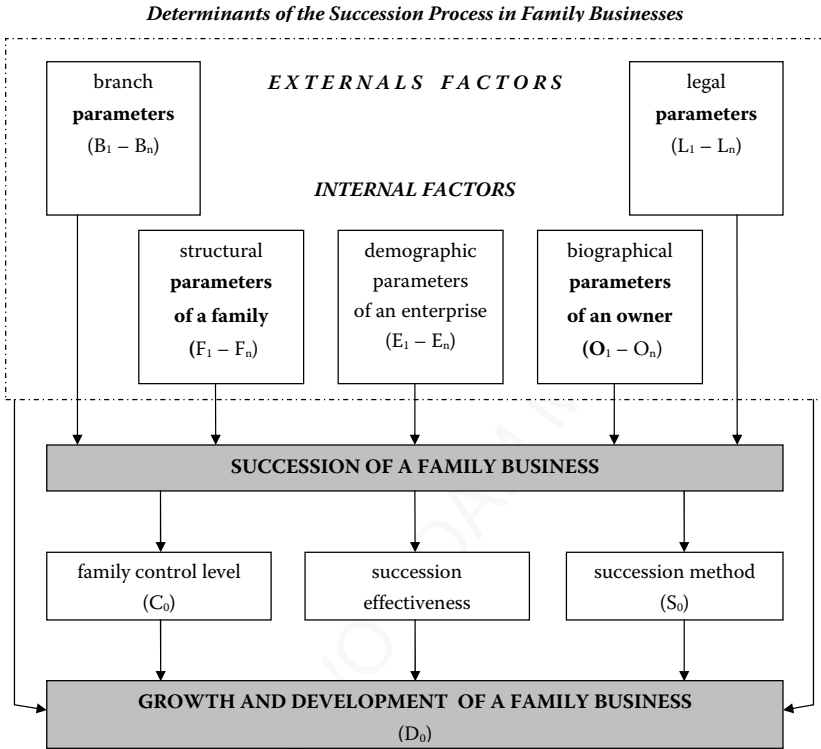


Figure 5.3. The Research Model

Source: Authors' own study

Table 5.4. Variables of the Implemented Research Model

Factors	Variables
<i>Input: Internal Determinants of the Succession Process</i>	
structural parameters of a family ($R_1 - R_n$)	<ul style="list-style-type: none"> - the size of the family - generation spread - sex of the first child, - relationship within the family
demographic parameters of an enterprise ($F_1 - F_n$)	<ul style="list-style-type: none"> - age - size - scope - the branch of the industry
biographical parameters of an owner ($P_1 - P_n$)	<ul style="list-style-type: none"> - age - sex - level of education - entrepreneurial attitude - history of earlier entrepreneurial activities
<i>Input: External Determinants of the Succession Process</i>	
branch parameters ($B_1 - B_n$)	<ul style="list-style-type: none"> - innovativeness level within the branch - competitiveness degree within the branch
legal parameters ($O_1 - O_n$)	<ul style="list-style-type: none"> - rules of corporate governance - development of capital markets - minority ownership protections - legal contracts enforcement
Variables	Measurements
<i>Output – Succession Process Results</i>	
family control level (K_0)	<ul style="list-style-type: none"> - family absolute control - family majority control - family minority control
succession method (S_0)	<ul style="list-style-type: none"> - passing the family business to the heir - selling the whole family business - selling the part of the family business - quoting on the stock exchange

Variables	Measurements
succession effectiveness (E_1)	– effective – non-effective
growth and development (D_0)	– progress – status quo ante – regression

Source: Authors' own study

On the basis of the literature and the observation of cause and effect phenomena, the following research hypotheses have been distinguished:

- H1:** The period of 20 years from the beginning of post-communist economic transformation (1989–2009) shows that a part of entrepreneurs, nota bene the first generation of Polish capitalists, because of their age of tiredness have begun or is beginning preparations to passing control over the business “in other hands”.
- H2:** The succession planning process, including particularly the development of succession strategy, is closely connected with the size of the family business.
- H3:** Planning ex ante the process of succession in family firms affects the effectiveness of the succession process measured ex post.
- H4:** The most frequently chosen method of succession in Polish family businesses is to pass the family business to children.

5.3. Applied Methods and Research Techniques

Efficient conduction of scientific research requires proceedings according to stages, steps or phases defined in advance in order to obtain the most cognitively valuable effects of the research process (Kmita 1977, p. 112). While choosing research methods, techniques and tools, procedures already used in similar research were taken into consideration, and first of all, the character of the research prob-

lem and the research purpose. The research procedure was based on the stages of research proceedings in empirical sciences according to M. Bunge (1959). Within the framework of the conducted research the following partial tasks have been completed:

1. Operationalization of the project assumptions (including preparing research tools and the selecting businesses to be studied),
2. Conducting survey research,
3. Preparing a report on survey research,
4. Conducting in-depth study research,
5. Preparing a report on the in-depth research,
6. Preparing and publishing a monograph comprising the research results.

The research was started from the study of the literature, the aim of which was to make an overview of the research problems, and then their initial evaluation and selection from the point of view of the research problem. The analysis of the literature served as the basis to formulate the research problem included in the subject of the research problem: **“Family Businesses in the Face of Succession Challenges. Succession Strategies of the First Generation of Polish Entrepreneurs”**¹. The answer to the formulated research problem “is to explain a given fragment of reality better than so far” (Brzeziński, 2003, p. 35). In the conducted research the experiment method² was chosen as a leading research method apart from the analysis method and the criticism of literature. On the other hand, as complimentary methods, the observation method and the statistical method were adopted (Apanowicz, 2005, pp. 56–57). On the basis of the presented research

¹ The research project entitled “Family Businesses in the Face of Succession Challenges. Succession Strategies of the First Generation of Polish Enterprises” developed by Prof. Aleksander Surdej and Krzysztof Wach, PhD, in the years 2008–2010, registered under the number NN 115 1326 34, financed by the Ministry of Science and Higher Education on the basis of the agreement No. 1326/B/H03/2008/34, implemented in the Faculty of Economics and International Relations at the Cracow University of Economics, Cracow 28 May 2008 – 27 May 2010.

² In the methodology of sciences empirical research is regarded an experiment

problem, the objectives of the research and research hypotheses were defined. On the basis of the adopted assumptions, the research model was defined, on the basis of which research hypotheses could be subject to the procedure of empirical verification. In order to do that, measures and parameters of the model were defined, where two types of quantitative and qualitative indices were adopted:

- single indices which are the arithmetic mean of the answers to individual questions (sometimes expressed as percentage);
- indices which are the resultant of single indices.

Both single indices, and resultant indices include the quantitative features which adopted both a value from the numerical set (e.g. age, the size of employment), and qualitative features (e.g. sex, qualitative assessment of individual factors). For the qualitative variables indices called aggregates were built (the sums of answers for a given category), and then these indices were standardized in the fixed range (they were replaced so that their value would be a sum from 0 to 1, and then they were given in the percentage from 0–100). On that basis quasi-continuous features were obtained, thus they can be treated as continuous features and statistical methods assigned for continuous features can be adopted.

As a method for operationalization, **managerial perception** was chosen, which provides acceptable correctness and reliability, and, first of all, exceeds other methods with respect to the practicability of application. Managerial perception is very often used in analogous research³. The method was used for all qualitative variables (Charmaz, 2006). Thus, questionnaire research was adopted as the main research technique (preceded by diagnostic survey), completed with the technique of observation. Each of the areas was verified by asking 5 to 7 questions. For quantitative variables, as the operationalization method, data analysis of was adopted (e.g. the age of the business, the size of employment, the value of revenues).

³ Argumentation for its use can be found, among others, in: (Lyon, Lumpkin, Dess, 2000, pp.1055–1085).

As the primary research tool, on the basis of the adopted variables and their operationalization, the questionnaire of the survey, as well as the questionnaire of interview was structured, which served the implementation of the research technique. The survey applied mainly qualitative approach. Thus, the five-point Likert scale with qualitative answers was used. On the other hand, in order to gather information describing an entrepreneur and a business, classic questions with closed answers were used. Evaluation questions were to assess individual factors as definitely beneficial, rather beneficial, moderately, rather unbeneficial and completely unbeneficial. The questions concerning the enterprise development were to define whether the situation had improved, worsened or, alternately, had not changed.

Empirical research was carried out on the basis of research questionnaire on both the first stage (a survey using a questionnaire) and the second stage (in-depth individual interview). During the research two questionnaires were used:

1. The survey questionnaire included nominally 83 questions, and part of the questions were of complex character.
2. In-depth interview questionnaire numbered nominally 36 questions.

In both survey questionnaires mainly **closed questions** were used. Closed questions were based on the set of a respondent's possible answers (so-called **cafeteria-style checklist**⁴), which aimed at the improvement of the process of surveying using a questionnaire (shortening the time), but most of all, the possibility to standardize the answers, including deduction and making comparisons. In in-depth interviews open questions were used, which left the freedom of opinion to the respondent, and at the same time more accurately verified the studied reality in some areas.

⁴ Cafeteria-style checklist – a repertoire of possible answers to questionnaire questions, prepared by the authors of the questionnaire. The respondent who is asked the questions with cafeteria-style checklist out of the presented answers chooses the one or the ones which best suit his individual case.

The last stage of the development of the research methodology was defining the research methods and techniques used in the prepared study. In the presented research, both quantitative and qualitative methods were used. The following research techniques were used to carry out theoretical and empirical research⁵:

- the method of the analysis and the criticism of literature – the analysis of the literature on the subject, both Polish and foreign publications,
- the method of a diagnostic poll with the use of paper survey;
- qualitative field research with the use of in-depth interviews;
- the method of studying documents – the analysis of legal acts, reports, government programmes in the Polish and foreign edition,
- the statistical method (the analysis of statistical data) analyzing source materials, and commonly accessible statistical data;
- the logical deduction method – using reasoning “consisting in deriving, from sentences assumed to be true (premises), new theorem (conclusions) in accordance with the laws of logics” (Sławińska, Kruk, 2008, p. 104),
- the comparative (analogous) method – comparing “studied economic phenomena in one community and predicting its development in another community” (Sławińska, Kruk, 2008, p. 106),
- the method of participating observation,
- techniques of mathematical and statistical analysis by means of computer statistical package.

The statistical tools used at the stage of empirical analysis were both descriptive statistical data and the tools for the verification of hypotheses. For numerical characteristics of the distribution of individual features the following measures were used (Aczel 2000):

- 1) arithmetical mean – to define the mean value;
- 2) modal (dominant) – to define the value typical for the most numerous group of respondents;

⁵ The choice of research methods and techniques was made on the basis of: (Babbie, 2005); (Sławińska, Kruk, 2008), and (Apanowicz, 2005).

- 3) median – for the division of the studied community into two parts with respect to the adopted values;
- 4) quartiles – for the division of the studied community into four parts with respect to the adopted values;
- 5) standard deviation – to define the mean result for the studied community unit with respect to the value of variable from its arithmetical mean.

For the statistical verification of hypotheses the Authors of the paper used nonparametric test for independence, chi-square (χ^2).

The Pearson product-moment correlation coefficient finds application in case of the research on the existence of the relation between continuous (quantitative) variables. It adopts values between -1 to 1 inclusive, and achieving the limit value means the occurrence of perfect correlation of variables, where negative values talk about negative correlation, and positive – about positive correlation, and value 0 means the total lack of correlation. The chi-square test serves comparing two samples when the dependant variable has the form of two or more category classifications (TCC or MCC) (qualitative features).

In many studies, the level of relevance equal to 0.05 is adopted as a typical value of acceptable level of error, however, we may also come across the detailed classification comprising three threshold values ($p < 0.01$; $p < 0.05$; $p < 0.10$). For the needs of the research in the paper a typical level $p < 0.05$ was adopted as a level to test hypotheses, and the permissible level $p < 0.1$.

In the analysis of the empirical material, the authors also used the analysis of Quantile-Quantile Plots, the analysis of Interaction Plot, as well as the analysis of 2D Range Plot. To illustrate the analysis results, also two most popular statistical graphical methods were used: box plot and histogram.

For the statistical verification of the hypotheses, the computer package “Statistica 8.0 PL” was used.

Chapter 6

EMPIRICAL ANALYSIS OF FAMILY BUSINESS SUCCESSION IN POLAND

6.1. The Selection and Characteristics of the Sample

The objects of the research were family businesses regardless of their size or legal form. The research was conducted in two stages:

- a) Stage One used diagnostics poll with the use of survey using a questionnaire (the survey was based on the sample of 496 family businesses),
- b) Stage Two comprised in-depth research carried out by the method of the individual in-depth interview (the interview was based on the sample of 61 family businesses).

For the needs of the survey, family firms are broadly understood. These are not only enterprises in which family members are employed, but also the ones in which family members help, or these which give support in the scope of business processes.

Stage I – survey research

The selection of businesses to the research sample had a quasi-random character, however, a purposeful sample was adopted. The main criterion of sampling businesses was regarded as having the status of a family business. The survey was directed only at family firms of pri-

vate sector regardless of their size (micro-, small, medium-sized, and large enterprises). Private sector comprises all forms of private ownership (it does not include state enterprises, cooperatives, and other non-private forms of ownership).

It was assumed that empirical material should comprise at least 250, and maximum 500 cases because the research sample was being updated until the assumed value was achieved. Allowing these assumptions, 520 surveys were received, including 496 surveys which were completely fit for statistical analysis (24 surveys were rejected due to significant deficiencies). It is worth stressing here that the size and the representativeness of the sample in the Polish and foreign analogous empirical research conducted recently ranged from 40 to over 1000¹, whereas the adoption of the method of statistical data analysis requires a research sample of at least 100 cases. The fulfillment of these assumptions confirms the significance of the research findings based on the sample of 496 enterprises.

Stage One was carried out on the basis of the survey from January to June 2009. Gathering such a big number of surveys was possible only owing to the use of individual contacts of the research project authors and thanks to contacts of students and graduates of Cracow University of Economics working in the studied enterprises. Also, the goodwill of Inicjatywa Firm Rodzinnych (the Initiative for Family Businesses) association federating Polish family businesses whose members filled in the survey. A similar course of research is used also by other researchers (Stabryła, 2009, p. 207).

The authors decided to include family businesses in the research regardless of their size because such research will enable to show differentiation between small and medium-sized enterprise (SMEs) sector and large enterprises (LEs) on the other hand,. For pragmatic reasons the authors limited themselves to adoption one quantitative criterion – the volume of employment. Depending on the number of employees, the studied firms were divided into:

¹ The volume is given on the basis of the study of the literature.

- micro-enterprises with the number of employees up to 9 people;
- small enterprises with the number of employees from 10 to 49 people;
- medium-sized enterprises with the number of employees from 40 to 249,
- large enterprises with the number of employees of at least 250.

Moreover, self-employed with the number of employees zero as an auxiliary policy². In the studied community the biggest group was constituted by micro-enterprises, and the smallest by large enterprises.

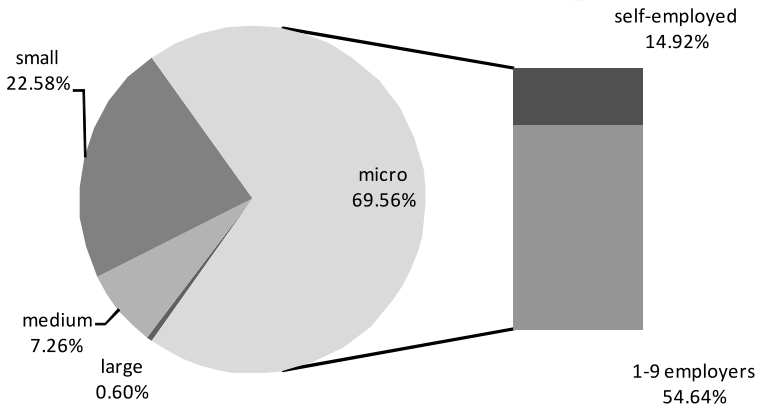


Figure 6.1. The Structure of the Studied Community by the Size of the Enterprises – the Survey Research (in%)

Source: Authors' own study on the basis of the conducted research (the survey, N=496)

The average volume of employment in the studied enterprises amounted to 17 people, however, the most important group was constituted by sole traders.

² Due to yet specific needs of these entrepreneurs I decided to isolate them as a separate category. This category was also taken into account in the research conducted by Austrian SME Research Institute. In accordance with the classification adopted by EUROSTAT, sole traders are jointly treated as micro-enterprises.

The average volume of employment in the studied enterprises was 17 people, and the most numerous group was the group of sole traders ($M_0 = 0$ at 62 observations), and additionally $\frac{1}{4}$ of the studied enterprises employed not more than 2 employees (lower quartile, Q_1). On the other hand, the highest employment was 1100 people. A half of the studied enterprises employed up to 5 workers, which is proved by median value (M_0). Only $\frac{1}{4}$ of the studied enterprises employed above 12 employees (upper quadrille, Q_3). The distribution of the research sample slanted to the right was observed with respect to the volume of employment, which should not be surprising due to the prevalence of micro-enterprises in the structure of Polish economy.

The scope of activity of the studied enterprises is also diverse and it distributed almost evenly. Over a half of the studied enterprises conducted their activity either on local or regional market (Fig. 6.2.). Less than $\frac{1}{4}$ of the studied enterprises conducted their activity on the domestic market, and only 16% of the studied family entrepreneurs indicated international market, out of which over a half on the European Union countries markets.

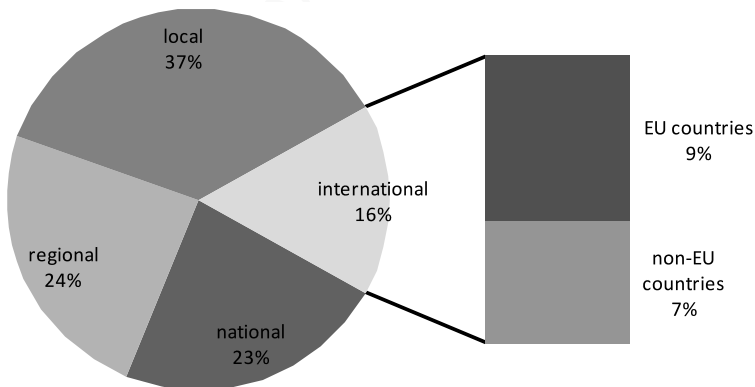


Figure 6.2. The Structure of the Studied Community with Respect to the Scope of the Enterprise Activities – the Survey Research (in%)

Source: Authors' own study on the basis of the conducted research (the survey, $N=496$)

Due to the research procedure, the range of the studied enterprises included mostly the area of Southern Poland, the most numerous group of enterprises came from *malopolskie* (Lesser Poland) voivodeship. However, entities located in *śląskie* (Silesia) voivodeship, *podkarpackie* and *świętokrzyskie* provinces also had a great contribution (compare: Table 6.1.). The research sample came from 13 out of 16 Polish voivodeships³.

Table 6.1. The Localization of Studied Enterprises – the Survey Research

Voivodeship (Provinces of Poland)	Number of Studied Enterprises	Partition in Research Sample (in%)
<i>malopolskie</i> (Lesser Poland Voivodeship)	267	53.83
<i>śląskie</i> (Silesian Voivodeship)	108	21.77
<i>podkarpackie</i> (Subcarpathian Voivodeship)	62	12.50
<i>świętokrzyskie</i> (Holy Cross Voivodeship)	19	3.83
<i>podlaskie</i> (Podlaskie Voivodeship)	9	1.81
<i>mazowieckie</i> (Masovian Voivodeship)	9	1.81
<i>łódzkie</i> (Łódź Voivodeship)	7	1.41
<i>kujawsko-pomorskie</i> (Kuyavian-Pomeranian Voivodeship)	3	0.60
<i>lubelskie</i> (Lublin Voivodeship)	3	0.60
<i>opolskie</i> (Opole Voivodeship)	3	0.60
<i>zachodniopomorskie</i> (West Pomeranian Voivodeship)	2	0.40
<i>lubuskie</i> (Lubusz Voivodeship)	2	0.40
<i>warmińsko-mazurskie</i> (Warmian-Masurian Voivodeship)	2	0.40
Total	496	100.00

* Due to rounding the values do not add up to 100%

Source: Authors' own study on the basis of the conducted research*survey, N=496)

³ Such voivodeships as *dolnośląskie* (Lower Silesian), *wielkopolskie* (Greater Poland), *pomorskie* (Pomeranian) are not represented in the research sample.

The organizational and legal form prevailing in a given community is business activity of a natural person (sole proprietorship), which is represented by 70.71% of the respondents. The second most popular form among the studied community is civil proprietorship, and then general partnership and the limited liability company. Business activity in the form of enterprises is jointly represented by fewer than 1/3 respondents (Fig. 6.3).

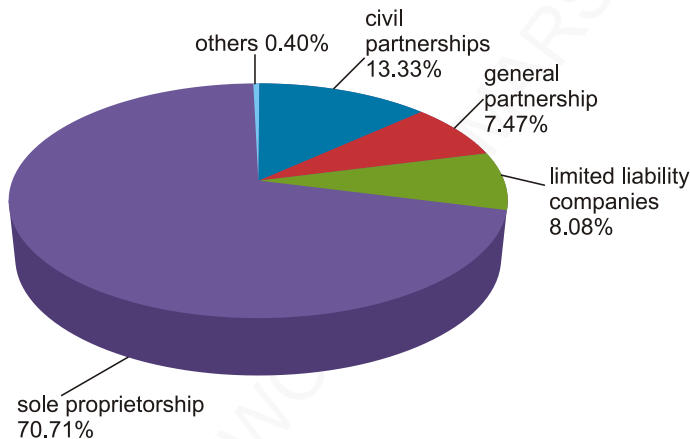


Figure 6.3. The Structure of the Studied Community by Legal Form of Entrepreneurs – the Survey Research (in%)

Source: Authors' own study on the basis of the conducted research (the survey, N=496)

The average age of the studied enterprises was 15 years (at the same time, it was the most numerous group, $M_0 = 15$ at 36 observations), whereas 25% of the studied enterprises conducted activity up to 8 years, and a half of them functioned on the market for not longer than 14 years, only $\frac{1}{4}$ of the studied firms was conducting activity for over 18 years. The oldest business functioned on the market for as long as 140 years.

By economic sectors, industry constituted 31.77%, services 65.992%, and agriculture 2.24% of the research sample. The division

of enterprises by diverse scope of the activity conducted by them was also done on the basis of the GDP section classification⁴ (Table 6.2.). The most numerous representation was of enterprises which deal with trade and repairs (section G), and then with other kinds of services (section S), construction (section F) and production and industrial processing (section C). Only four sections were not represented in the research sample, namely manufacturing and energy, gas and water supply (section D), sewage and waste management and reclamation (section E), real estate management and supporting services (section N), public administration (section O).

Table 6.2. The Structure of the Studied Community by the Kind of Activity – the Survey Research

Sectors and Sections according to NACE*	Total	Number of Enterprises			
		micro	small	medium	large
Sector I – Industry including:	31.77%	93	44	18	1
mining and quarrying (B)	0.61%	2	0	1	0
manufacturing (C)	13.44%	40	20	5	1
construction (F)	17.72%	51	24	12	0
Sector II – Services including:	65.99%	244	61	17	2
wholesale and retail trade as well as repair (G)	26.27%	96	26	7	0
transportation and storage (H)	4.68%	16	6	1	0
accommodation and food service activities (I)	5.09%	17	8	0	0

⁴ A new classification, so-called GDP 2007, was used, which has been in force only since 1 January 2010 (it has replaced GDP 2004 classification which was in force before). The research survey (carried out in January–June 2009) was prepared on the basis of the new classification, although it was not binding yet at the time.

Sectors and Sections according to NACE*	Total	Number of Enterprises			
		micro	small	medium	large
information and communication (J)	0.61%	2	0	1	0
financial and insurance activities (K)	1.22%	4	2	0	0
real estate activities (L)	0.81%	3	1	0	0
professional, scientific and technical activities (M)	1.83%	9	0	0	0
other service activities (S)	20.16%	75	16	6	2
education (P)	1.43%	6	0	1	0
human health and social work activities (Q)	1.43%	6	1	0	0
arts, entertainment and recreation (R)	1.22%	4	1	1	0
activities of households producing goods and services (T)	1.22%	6	0	0	0
Sector III – Agriculture including:	2.24%	7	3	1	0
agriculture, forestry and fishing (A)	2.24%	7	3	1	0

* The Statistical Classification of Economic Activities in the European Community (in French: Nomenclature statistique des activités économiques dans la Communauté européenne), commonly referred to as NACE, is a European industry standard classification system consisting of a 6 digit code

Source: Authors' own study on the basis of the conducted research (the survey, N=496)

The first stage of the research using a survey as the main research tool, comprised all family businesses regardless of the stage of succession, that is the horizon in which succession processes were or are going to be carried out (496 cases in total). Due to this criterion, the research sample included the following cases (Compare: Fig. 6.4):

– 85 family businesses which have already conducted succession,

- 147 family businesses which are planning the succession process during the next years,
- 264 family businesses which are not interested in carrying out the succession.

A very interesting thing is the distribution of the research sample with respect to two variables, namely both the succession stage and the size of the enterprise (Compare: Fig. 6.5).

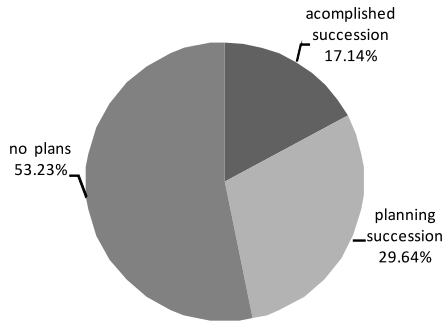


Figure 6.4. The Structure of the Studied Community by the Succession Horizon – the Survey Research (in%)

Source: Authors’ own study on the basis of the conducted research (straw poll, N=496)

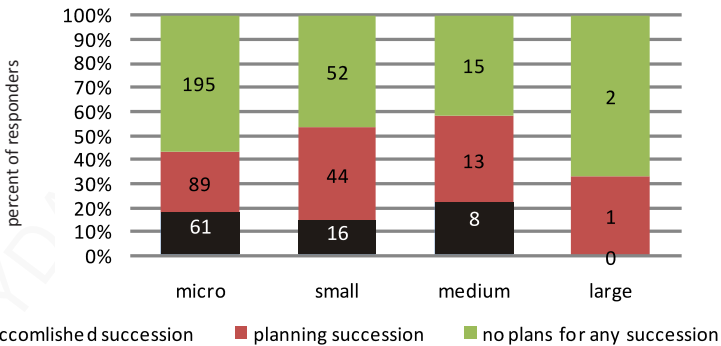


Figure 6.5. The Structure of the Studied Community with Respect to the Succession Horizon and the Size of the Family Business – the Survey Research (in%)

Source: Authors’ own study on the basis of the conducted research (the survey, N=496)

Stage II – field research

The selection of enterprises for the research sample based on individual interviews (*in-depth-interview*, IDI) was made in the purposeful way. The interviews were conducted during two meetings of family entrepreneurs⁵:

- 1) A Seminar for entrepreneurs entitled “Challenges that Polish Family Businesses Face” organized in Cracow on 5th November 2009 by Małopolski Związek Pracodawców (the Employers Union of Malopolska) and Inicjatywa Firm Rodziny (The Initiative of Family Businesses Association).
- 2) The 2nd Congress of the Initiative of Family Businesses Associations “u-Rodziny 2009” organized in Kędzierzyn Koźle from 20–22 November 2009.

In total, 66 interviews were conducted in family businesses, regardless of their size, however, in the second stage of the research only these family firms were taken into account which have either finished the succession process or are in the progress of planning it. For further statistical processing and deduction, 61 interviews were taken into consideration (the results of 5 were rejected due to big deficiencies or the lack of succession plan in the nearest future).

In the research sample only micro-, small and medium-sized enterprises were represented but large enterprises were not taken into account (Fig. 6.6). The most numerous group was micro-enterprises. The average employment in the studied community was 27 people (minimum 0 people, maximum 200 people). A half of the firms employed not more than 9 people. Only $\frac{1}{4}$ of the studied enterprises employed above 23 people, and another $\frac{1}{4}$ not more than 3, with the most numerous group was constituted by enterprises employing 1 person (at 9 observations).

⁵ The Authors would like to express cordial thanks to Mr Artur Chaberski, a member of Family Firm Institute (USA), the co-founder of Polish Association The Initiative of Family Businesses for goodwill and making it possible to conduct the research among family firms federated in the association.

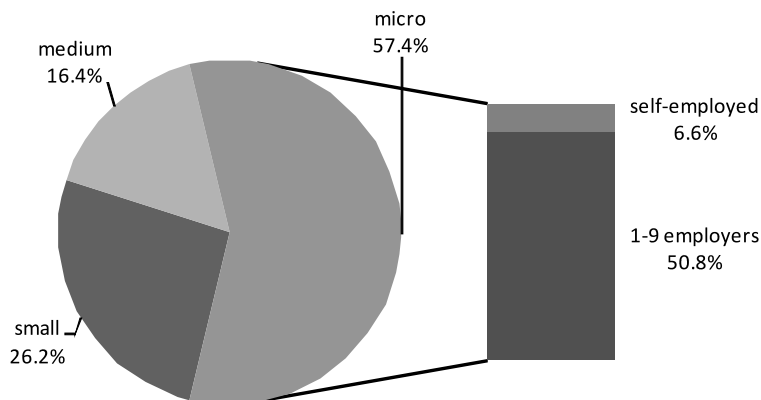


Figure 6.6. The Structure of the Studied Community by Enterprise Size – Field Research (in%)

Source: Authors' own study on the basis of the conducted research (interviews, N=61)

The youngest enterprise was 1 year old, the oldest one was 87 years old. The average age of the studied enterprises did not exceed 16 years of activity, and the most numerous group was constituted by enterprises functioning on the market for 20 years (at 8). Only $\frac{1}{4}$ of the firms conducted their activity for over 20 years, whereas the same number of the firms conducted their activity for 9 years at the most.

The scope of activity of the studied enterprises was diverse and mostly local and regional (Fig. 6.7). The same number of the studied family businesses conducted their activity on international market.

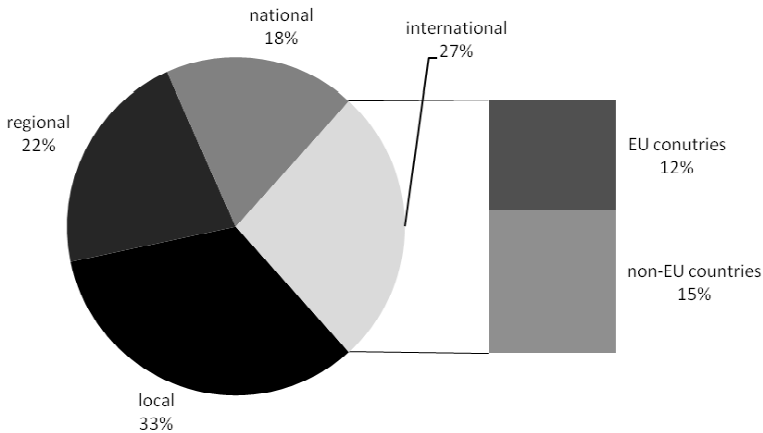


Figure 6.7. The Structure of the Studied Community by the Scope of Businesses' Activity – Field Research (in%)

Source: Authors' own study on the basis of the conducted research (interviews, N=61)

The studied enterprises, in relation to the research procedure, comprised with its scope mainly the area of Małopolskie province, the share of entities from other provinces amounted only to 31.15% (see Table 6.3.).

Table 6.3. The Localization of the Studied Enterprises – Field Research

Voivodeship (Provinces of Poland)	Number of Studied Enterprises	Partition in Research Sample (in%)
<i>małopolskie</i> (Lesser Poland voivodeship)	42	68.85
<i>podkarpackie</i> (Subcarpathian voivodeship)	7	11.47
<i>lubelskie</i> (Lublin voivodeship)	5	8.20
<i>śląskie</i> (Silesian voivodeship)	5	8.20
<i>mazowieckie</i> (Masovian voivodeship)	2	3.28
Total	61	100.00

Source: Authors' own study on the basis of the conducted research (interviews, N=61)

The prevailing legal form of the studied enterprises was economic activity on their own account (Fig. 6.8.). Further most popular legal forms are in sequence civil proprietorships, general partnerships and limited liability companies, which corresponds with the economic reality in Poland.

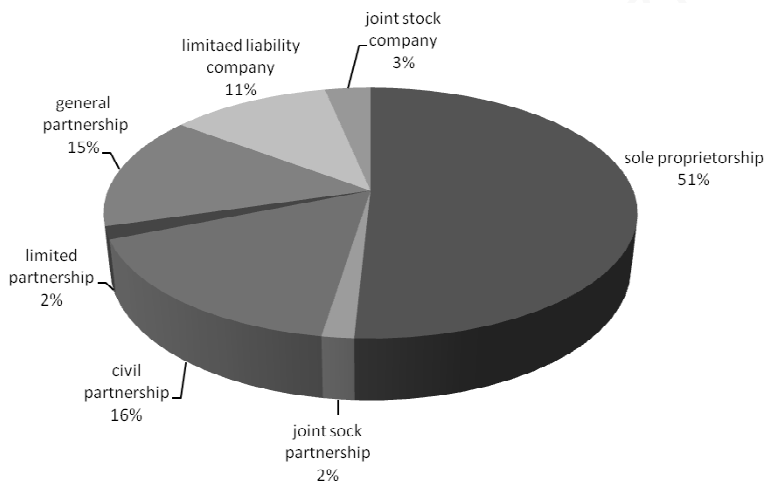


Figure 6.8. The Structure of the Studied Community by Legal Form of the Enterprises – Field Research (in%)

Source: Authors' own study on the basis of the conducted research (interviews, N=61)

By sectors, services prevailed and they constituted 72.9% of the research sample, and then industry – 23.7%, whereas agriculture was represented only by two enterprises (3.4% of the research sample). Due to the subjective character of activity in accordance with GDP- 2007 codes two industries prevailed, namely trade and repairs (section G) and other services (S), in industrial sector both industries were represented by the identical number of enterprises, and these were production and industrial processing (section C) and construction (section F) (see Table 6.4.).

Table 6.4. The Structure of the Studied Community by the Kind of Activity – Field Research

Sectors and Sections according to NACE*	Total	Number of Enterprises		
		micro	small	medium
Sector I – Industry including:	23,7%	2	6	6
manufacturing (C)	11,9%	1	3	3
construction (F)	11,9%	1	3	3
Sector II – Services including:	72,9%	28	11	4
electricity, gas, steam and air conditioning supply (D)	1,7%	1	0	0
water supply, waste management and remediation (E)	1,7%	0	0	1
wholesale and retail trade as well as repair (G)	20,3%	8	3	1
transportation and storage (H)	5,1%	2	0	1
accommodation and food service activities (I)	5,1%	2	0	1
financial and insurance activities (K)	3,4%	0	2	0
real estate activities (L)	3,4%	1	1	0
arts, entertainment and recreation (R)	5,1%	2	1	0
other service activities (S)	28,8%	13	4	0
Sector III – Agriculture including:	3,4%	2	0	0
agriculture, forestry and fishing (A)	3,4%	2	0	0

* A few indications or the lack of an indication was marked in 2 cases (they were not taken into consideration while calculating percentage values)

Source: Authors' own study on the basis of the conducted research (interviews, N=61)

The second stage of the research using in-depth interviews as the main research tool comprised family businesses which have conduct-

ed or are going to conduct succession (61 cases altogether) Due to this criterion, the research sample included the following cases:

- 20% that is 12 family businesses which have already carried out the succession,
- 80% that is 49 family businesses which are planning the succession process during the next years.

Very interesting is the distribution of the research sample due to two variables, namely both the succession stage and the enterprise size (Compare: Fig. 6.9.).

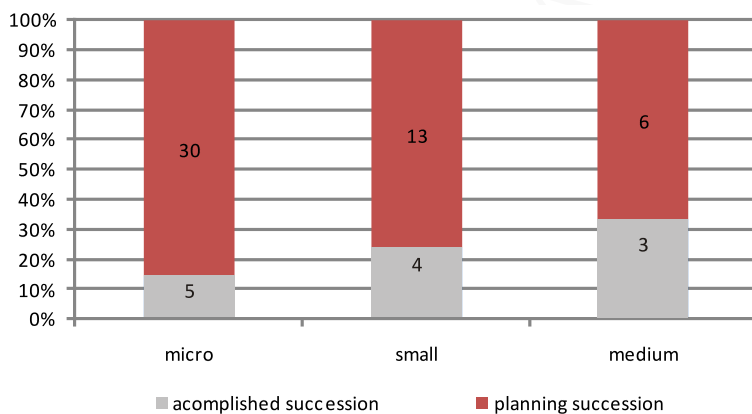


Figure 6.9. The Structure of the Studied Community by Succession Horizon and the Size of the Family Firm (in%)

Source: Authors' own study on the basis of the conducted research (interviews, N=61)

6.2. The Diagnosis of the Structure and Developmental Tendencies of Family Businesses in Poland

Official Polish statistics does not provide data on the actual number of family businesses functioning in Poland. Therefore, various authors differently estimate the size of the family business sector in Poland. It is worth having a closer look at these estimates (compare: Table 6.5.).

According to the GrantThornton survey (1999, p. 70) in Poland in 1999 only 18% of the studied entities perceived themselves as family firms (the average for the European Union was 56% at that time). In the survey conducted in 2001 this percentage was only 13% (the average for the EU was 55%) (GrantThornton 2001, p. 57).

K. Safin (2007, p. 48) estimates that in Poland in the years 1992–2001 family enterprises constituted from 20.36 to 27.53% of the total number of functioning enterprises⁶. On the other hand, Ł. Sułkowski (2005, pp. 97–99) estimates that “family businesses are about 50% entities, they generate about 40% of GDP, and constitute about 50% of all workplaces”. However, as the author emphasizes, these are only careful estimates.

A. Marjański (2006, pp. 97–99) estimates that in Poland in the years 2003–2004 about 700 thousand family firms functioned, which constitutes 41% of the total number of all enterprises in Poland.

The research carried out by K. Wach (2008, p. 69) in 2007 on the representative random sample of 323 enterprises, although it did not concern directly family businesses, but rather verified the influence of accession to the European Union on the development of Polish enterprises,⁷ identified as many as 34.2% entities in the studied community declaring to be family businesses.

According to the results of the nationwide research conducted in 2009 by PENTOR, commissioned by PARP (2009, p. 67) on the sample of 1280 micro-, small and medium-sized enterprises, family firms constitute 1/3 of all Polish enterprises (38% among micro-enterprises, 28% among small enterprises, 14% among medium-sized enterprises).

According to a report written on the commission of European Commission by the Entrepreneurship and Economic Development Research Institute (Instytut Badań nad Przedsiębiorczością i Rozwojem Ekonomicznych), it is estimated that in Poland in 2008, fam-

⁶ They are estimates on the basis of PARP statistical data, however, with the use of the Authors' method of estimating population.

⁷ The research was fully financed by the Ministry of Science and Higher Education.

ily businesses constituted from 50% (careful estimates) to about 70–80% (optimistic estimates) of the total number of Polish enterprises (Żuromski, 2008, p. 4).

Table 6.5. Enterprises Perceiving Themselves as Family Businesses in the Years 1999–2008 in Selected European Countries (in% of the enterprises in total)

Country	1999	2001	2008
Austria	58	61	80
Belgium	61	66	70
Cyprus	–	–	85–90
Czech Republic	–	–	84
Denmark	38	35	35–95
Estonia	–	–	90
Finland	58	68	80
France	57	63	67
Greece	78	68	52
Spain	62	57	85
Netherlands	38	47	55
Ireland	45	53	75
Lithuania	–	–	38
Luxembourg	54	56	70
Latvia	–	–	30*
Malta	64	–	–
Germany	60	41	95
Poland	18	13	33**
Portugal	57	56	70–80
Romania	–	–	–
Slovakia	–	–	80–95
Slovenia	–	–	60–80
Sweden	47	51	55
Hungary	–	–	70

Country	1999	2001	2008
UK	42	48	65
Italy	55	56	93
EU-27 (average)	52	52	71
Norway	45	46	67
Switzerland	57	55	–
Turkey	63	75	90
Europe-30 (average)	55	54	72

* among micro- and small enterprises (medium-sized and large enterprises were not considered)

** data for 2009 among small and medium-sized enterprises (large enterprises were not considered)

Source: Authors' own study. The data for 1999 taken from: (Grant Thornton 1999, p. 70) The data for 2001 taken from: (Grant Thornton 2001, p. 57). The data from 2008 taken from: (Mandl, 2008, pp. 40–46). The data for Poland for 2009 quoted after (PARP 2009, p. 67)

It is worth making a detailed analysis of the structure of family business in Poland on the basis of the Authors' own empirical material gathered in 2009, and comprising 496 family businesses of different sizes.

Due to the family structure of a family business, the studied community included (Fig.6.10.):

- 376 family businesses (75.80% of the sample) founded by the present owner (the first generation of the family business),
- 76 family businesses (15.32% of the sample) founded by the previous owner (the second generation of the family business),
- 36 family businesses (7.3% of the sample) are multi-generational firms with long tradition, the oldest of which was founded in 1869, 140 years old at present (these are family businesses run in the third and next generation).

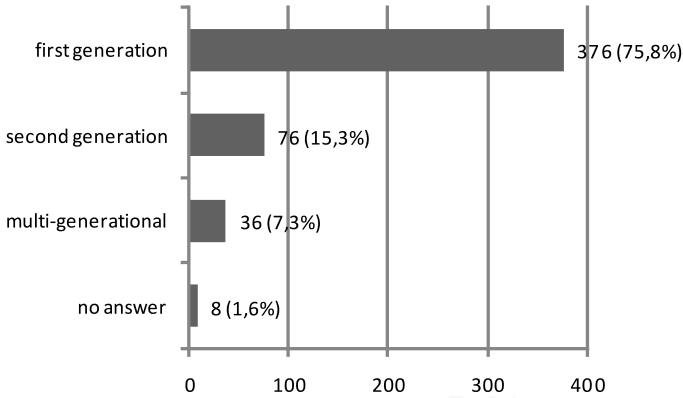


Figure 6.10. Family Structure of the Studied Community – Survey Research

Source: Authors' own study on the basis of the conducted research (the survey, N=496)

To make the description of family business structure more tight, we should add that:

- The majority of families (because as many as 57.7% of the cases) involved in running a family business are one-generation families (a husband, a wife, under-age children), multi-generational families (at least 3 generations: grandparents, parents, children), constitute 31.6% of the research sample, and the remaining combinations constituted 10.7% of the sample.
- As many as 88.9% of the initial owners have children, which affects plans in the scope of generation continuity of the business. Among this group, one child is possessed by 16.1% of the respondents, two and three children – respectively 38.3% and 24.4%, the rest of the studied declares possessing four and more children. As many as 54% of the respondents declared having four and more children. As many as 53% of the descendants are male offspring. The sex of the first-born child in case of 54% of the sample is a man.

As it was already mentioned in the theoretical part of the paper, every third biggest global consortiums is a family business. For example, Fiat, Ford, BMW, IKEA, Heineken, Auchan, Wal-Mart. Poland

also used to have such multi-generational economic dynasties, however only few of them survived the communist Poland “Lilpop, Cegielski, Wedel, Bracia Borkowscy, Szpotański are already only names from the textbook on economic history. Some of them (e.g. Wedel, Cegielski) are still used as trademarks but they have nothing to do with the founders’ families” (Grzeszak, Wrabec, 2007, pp. 46–48). However, there are also family businesses which have survived, and among them the oldest Polish jeweller’s firm, W. Kruk, functioning since 1840 (Table 6.6. and 6.7.).

Table 6.6. The Oldest Polish Family Businesses

Established Year	Name of the Enterprise	Name of the Family	Industry
1840	W. Kruk S.A.	Kruk	jewellery
1850	Tombut s.c.	Tomasiński	shoe-making
1869	A. Blikle sp. z o.o.	Blikle	confectionary
1922	Pellowski	Pellowski	bakery
1927	Mokate S.A.	Mokryrz	drinking
1945	Bem	Bem	caps and hats

Source: Authors’ own study

Table 6.7. The Ranking of the Biggest Polish Family Firms in the Years 2003–2008

Place in the Ranking			Name of the Enterprise	Industry	Established Year	Turnover in 2008 (in thousands PLN)
2008	2005	2003				
1.	1.	1.	Farmacol S.A.	medicines distributions	1990	4 271 501
2.	2.	3.	Torfarm S.A.	medicines distributions	1990	3 604 896
3.	5.	4.	AB S.A.	computers and IT accessories distribution	1990	2 852 292

Place in the Ranking			Name of the Enterprise	Industry	Established Year	Turnover in 2008 (in thousands PLN)
2008	2005	2003				
4.	8.	8.	Inter Cars S.A.	trade of cars accessories	1990	1 691 416
5.	9.	6.	PKM Duda S.A.	meat processing	1990	1 533 591
6.	4.	2.	Farmutil S.A.	meat processing and trade	1982	1 493 668
7.	3.	5.	Gant S.A.	multibranch holding	1990	1 462 053
8.	6.	10.	Neonet S.A.	trade of electronics and household appliances	1994	1 069 775
9.	7.	7.	F.H.P.U. KEM	trade of steel	1992	833 155
10.	10.	9.	P.P.H.U. Mars	trade of electronics	1991	486 900

Source: Authors' own study on the basis of: (Ranking "Pięćsetka Polityki") and (Nikodem-ska-Wolowik, 2006, p. 306)

As it was discussed in detail in the theoretical part, the basis for conducting a family business is mutual trust and good relations between family members involved in the family business activity. Theoretical concepts in this issue were proved by the empirical research findings (Table 6.8.).

Table 6.8. The Evaluation of Family Relations among Family Members Involved in a Family Business

The factor evaluated		NO ←————→ YES (the values in percent)				
		1	2	3	4	5
1	Family members trust each other	0.21	1.06	3.17	15.86	79.70
2	Family members cooperate	0.21	1.27	6.58	26.11	65.82
3	Family members are proud of being a part of the family	0.00	0.85	5.32	18.30	75.53
4	Family members have concurrent interests	6.67	4.09	10.75	26.45	52.04
5	Family members are friendly and well-wishing to each other	0.21	0.85	4.68	21.49	72.77
6	Family members do not compete with each other	3.40	2.34	7.86	18.26	68.15

Scale: 1 – completely disagrees, 5 – completely agrees, whereas 2,3,4 – indirect grades

Source: Authors' own study on the basis of the conducted research (the survey, N=496)

The profile of the Polish family firms owners is very interesting. Out of 496 of the studied enterprises, as many as 73% are men (fewer than 1/3, only 27% are women). The great majority of the family business owners have university/college education or secondary school education (respectively 42.7% and 43.2%), and then vocational education (1.0%). Technical education (university, technical secondary school, vocational education) is possessed by 49.2% of the studied family business owners, the other kinds of educations are very diverse, In most cases, family firm owners declare entrepreneurial attitudes (compare: 6.9.).

Table 6.9. Self-Assessment of a Family Business Owner's Entrepreneurial Attitude

Criterion		NO ← YES (values in percent)				
		1	2	3	4	5
1	I find it easy to persuade people to my ideas	0.21	1.67	18.13	46.88	33.13
2	I can react quickly to changing conditions	0.00	2.69	13.87	44.93	38.51
3	I quickly find solutions in difficult situations	0.21	1.45	17.18	48.65	32.51
4	I can bring to agreement when I am in the quarreled team	0.41	1.24	17.84	42.32	38.17
5	I am not afraid to take a risk although I calculate it carefully	0.21	3.50	18.93	40.53	36.83
6	I feel the need for self-improvement as a manager	1.45	5.17	18.18	32.64	41.56
7	I try to learn continually by reading literature and observing other firms	2.26	5.35	20.58	35.19	36.63
8	I care about honesty in business activity and the way I manage people	0.00	1.03	2.89	26.45	69.63

Source: Authors' own study on the basis of the conducted research (the survey, N=496)

As far as the age of the present family firms owners is concerned, it is very diverse and synthetically it presents itself in the following way:

- 20–40 years old is declared by 158 respondents (31.8% of the research sample),
- 41–60 years old is declared by 313 respondents (63.1% of the research sample),
- 61–80 years old is declared by 18 respondents (3.6% of the research sample),

- 81 years old and more is declared only by 1 respondent (0.2% of the research sample),
- 6 respondents refused to give their age (1.2% of the research sample).

The detailed descriptive statistics for **the age of the present owners** in the studied community presents itself as follows:

- minimum value Min = 20 years old, and maximum value Max = 83 years old,
- arithmetic value = 4.8 years old with the standard deviation $s = 11.2$ years old,
- median $M_e = 47$ years old,
- modal $M_o = 52$ years old at 26 observations (out of 496),
- lower quartile $Q_1 = 36$ years old,
- upper quartile $Q_3 = 53$ years old,
- the percentile of 10% is 28 years, and the percentile of 90% is 57 years.

In the analogical way it is also worth looking at the experience of the present owners of family business. The detailed descriptive statistics for **the seniority and professional experience of the present owners** in the studied community presents itself as follows:

- minimum value Min = 0 years, and maximum value Max = 63 years,
- arithmetic mean = 22.8 years with the standard deviation $s = 10.9$ years,
- median $M_e = 25$ years,
- modal $M_o = 30$ years at 72 (out of 496),
- lower quartile $Q_1 = 18$ years,
- upper quartile $Q_3 = 30$ years,
- the percentile of 10% is 7 years, and the percentile of 90% is 35 years.

The detailed descriptive statistics for **the seniority and professional experience in the present family firm owners' own businesses** in the studied community presents itself as follows:

- minimum value $\text{Min} = 0$ years, and maximum value $\text{Max} = 50$ years,
- arithmetic mean = 14.4 year with the standard deviation $s = 8.5$ years,
- median $M_e = 15$ years,
- modal $M_o = 20$ years at 47 observations (out 496),
- lower quartile $Q_1 = 8$ years,
- upper quartile $Q_3 = 20$ years,
- the percentile of 10% is 3 years, and the percentile of 90% is 25 years.

The detailed descriptive statistics for **the seniority and professional experience in a given industry** of the present owners of family businesses in the studied community presents itself as follows:

- minimum value $\text{Min} = 0$ years, and maximum value $\text{Max} = 51$ years,
- arithmetic mean = 16.8 years with the standard deviation $s = 9.8$ years,
- median $M_e = 16$ years,
- modal $M_o = 20$ years at 42 (out of 496),
- lower quartile $Q_1 = 10$ years,
- upper quartile $Q_3 = 23$ years,
- the percentile of 10% is 5 years, and the percentile of 90% is 30 years.

The general indicator of the development of family businesses was structured on the basis of 17 partial variables with the use of intervals. In the literature on the subject in the dynamic grasp, two notions are distinguished: growth and development. The enterprise growth comprises quantitative changes of the adopted measures, whereas the development reflects qualitative changes, or both quantitative and qualitative changes. To measure the development of the studied enterprises subjective measures were used, dependent on knowledge and perception of owners-managers. The used variables have unequivocally quantitative character, and only in the conducted research they were subject to their qualitative assessment, referring to their subjective evaluation by the entrepreneurs (qualitative measures were used for

their evaluation in the research questionnaire: it has definitely grown, no change, it has rather dropped, it has definitely dropped). With the use of these variables, the overall index of a family business development (D_o) was developed, which was used as the overall measure of family development, and what follows, is the comparative variable.

In order to determine the level of development of the studied enterprises by the sum of values (range from 1 to 5), indicated by the respondents at each of the questions, and then the it was divided by the sum of the maximum values that could be achieved. In the final effect, the average jointly assessment, standardized in the range from 0 to 1 (given in percentage in the range from 0 to 100). The assessments of the individual development factors of the studied enterprises adopted continuous values in the double side closed interval $<1;100>$, where the following weights were adopted: $|1-25|$ – definite regression; $|26-50|$ – moderate regression; $|51-75|$ – moderate development; $|76-100|$ – definite development.

The Authors' index of family business development (developed for the needs of the research) in 59.3% (294 cases) adopted the “moderate development” category, another 39.1% (194 cases) are “definite development”, the remaining family firms marked “moderate regression” (1.6%). The detailed results of the individual assessments are presented in Table 6.10.

Table 6.10. Self- Evaluation of the Development of a Family Business in 2009

No.	Criterion	Regression	No change	Progression
1	employment	10.18%	43.99%	45.82%
2	employed (including temporary contracts and outsourcing)	7.92%	46.25%	45.83%
3	the number of family members connected with the family business	3.26%	71.49%	25.25%
4	market share	7.96%	31.63%	60.41%

No.	Criterion	Regression	No change	Progression
5	position among the competitors	6.10%	29.47%	64.43%
6	annual turnover	8.98%	17.35%	73.67%
7	tangible resources	2.86%	17.96%	79.18%
8	online communication	3.51%	30.31%	66.19%
9	new markets	5.10%	38.57%	56.33%
10	new service centres	2.86%	64.83%	32.31%
11	financial liquidity	6.94%	41.84%	51.22%
12	earning capability (profitability)	10.18%	29.74%	60.08%
13	equity	3.05%	36.79%	60.16%
14	quality of customer service	1.02%	20.12%	78.86%
15	assortment/ offer	1.22%	20.73%	78.05%
16	the quality of services/ products	1.02%	18.57%	80.41%
17	modernity of applied technologies	1.02%	29.67%	69.31%

Source: Authors' own study on the basis of the conducted research (the survey, N=496)

Other authors obtained similar results on qualitative data, checking financial reports of family businesses in 2008, which only proves the aptness of the selection of the research sample to authors' own empirical research conducted in 2009 on the sample of 496 family businesses. According to the Rzeczpospolita daily newspaper report prepared yearly, since 2002 under the name of "List 2000"⁸, in the latest edition of this list, every tenth enterprise with the Polish capital is a family firm. What is more, family businesses included in the list coped exceptionally well with the economic crisis of 2008, since they

⁸ The surveys are sent to over 4000 enterprises which achieved revenues on the level of at least 80 million zlotys in the previous year.

marked the 20-percent increase in the sales revenues and the 15-percent increase in the net profit (Ostrowska, 2008, p. B-005).

The respondents were asked to indicate three most important barriers to the development of family businesses in Poland in their opinion (see table 6.11.). The form of the survey – an open question – enabled to identify real barriers, without indicating possible hints or making a choice from the list offered by the researchers. The obtained answer were only grouped in thematic blocks.

Table. 6.11. Barriers to the Development of Family Businesses in Poland

Importance of Indication	Frequency of Indication	Characteristics of the Barrier Provided by Responders
1	15.3%	fiscal issues (taxation system, high tax rates, taxation initiatives)
2	12.8%	complicated and unambiguous legal rules
3	10.5%	bureaucracy (onerous administration procedures, numerous formalities)
4	7.5%	competitiveness and tough “market game”
5	6.8%	lack or shortage of external financial sources
6	5.5%	family relations (various difficulties in family business management)
7	5.2%	lack or shortage of internal financial sources
8	4.6%	lack or insufficient public policy in favour of family entrepreneurship
9	3.9%	high social contributions and too complicated system (ZUS)
10	3.2%	lack or low level of management professionalization in family firms
11	2.7%	too complicated procedures for EU aid application and granting
12	2.3%	lack or shortage of well-qualified labour resources on the market
13	2.1%	very high labour costs

Importance of Indication	Frequency of Indication	Characteristics of the Barrier Provided by Responders
14	1.8%	lack or insufficient support from institutional business environment
15	1.1%	lack of the tradition of family firms operating in Poland (communism)
16	0.9%	foreign firms threats (uncontrolled import from Asian firms)
17	0.7%	lack or insufficient demand for products and/or services
18	0.5%	unstable exchange rate
19	12.8%	other barriers

Source: Authors' own study on the basis of the conducted research (the survey, N=496)

As it was already discussed, the studied population included three groups of family businesses. The first of them, constituting 17.14% of the sample (85 cases) are firms which have completed the succession process, the second one, 29.64% (147) are businesses planning the succession, and the third one, 53.23% (264 cases) are enterprises which declare that succession does not apply to them. The first two groups will be subject to deep analysis which will be presented in the next two subsections. To complete the picture of the studied population, it is necessary to show the reasons for the lack of interest in succession by the last group (Fig. 6.11. and 6.12.).

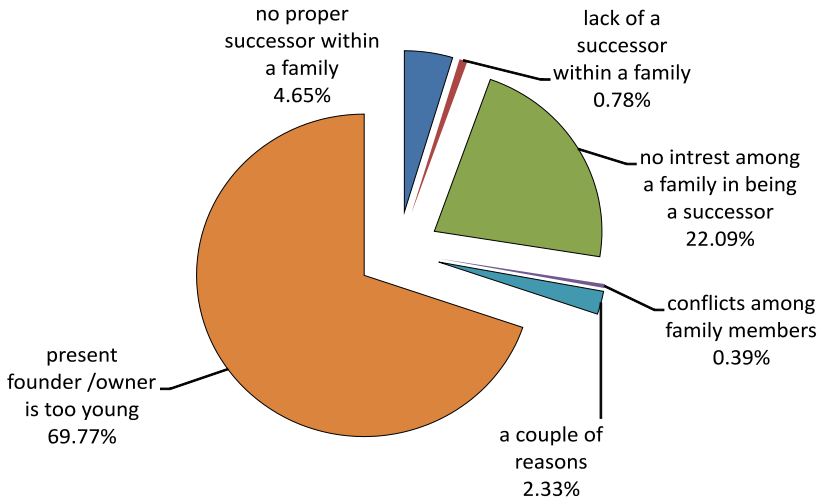


Fig. 6.11. Reasons for the Lack of Interest in Succession within the Family

Source: Authors' own study on the basis of the conducted research (the survey, N=264)

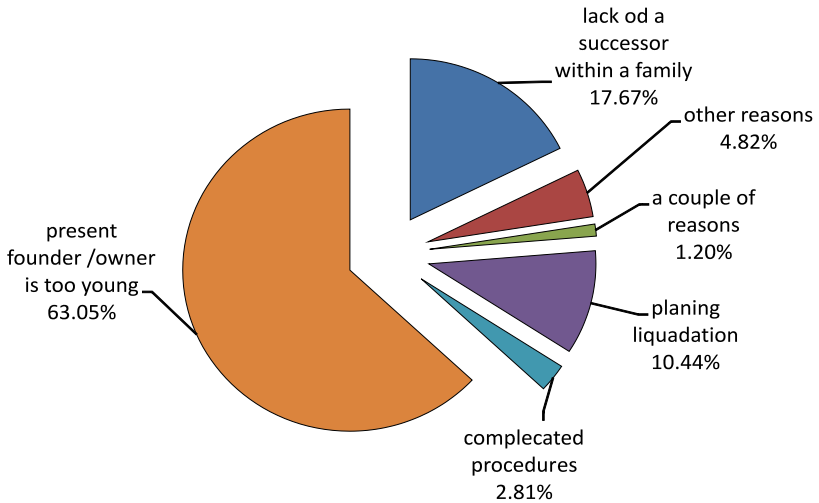


Fig. 6.12. Reasons for the Lack of Interest in Succession outside the Family

Source: Authors' own study on the basis of the conducted research (the survey, N=264)

6.3. The Analysis of the Conducted Succession Processes

The studied group of family businesses in which the process of succession was conducted, included 85 entities on the stage of survey research (out of 496 cases, which constitutes 17.1% of the research sample)⁹. On the other hand, on the stage of in-depth interviews 12 family businesses were studied, which completed the succession process (out of 61 cases, which constitutes 19.7% of the studied community).

The group of 85 family businesses which have already completed the process of succession is very interesting with respect to its structure. The youngest enterprise is 2, and the oldest one is 140 years old, and only $\frac{1}{4}$ of the studied businesses has been on the market for longer than 40 years, and another $\frac{1}{4}$ shorter than 13 years. The median dividing the community into two parts is 20 years. The average age of these enterprises is 29 years with the standard deviation amounting to as many as 24 years (in the whole group $N=496$), the average age was 15 years). The majority of the studied enterprises was on the market for 17 years (at 7).

The method and the circumstances of the conducted succession

The most popular succession method among the studied enterprises was passing the family firm to the progeny (Fig. 6.13.), the other forms did not arise too much interest. As for the reasons for passing the ownership and the firm management, it was mainly the age of the predecessor (his resignation due to age), it happened in 45 cases (52.3%), but also the predecessor's death in 19 cases (23.2%). Another reason was declared by 18 respondents (21.9%). Here were other reasons such as an illness, the resignation from conducting the activity, or financial problems. With respect to the succession form, the level of family control over the family business was basically without changes

⁹ Compare also: A. Surdej, K. Wach, *Succession Scenarios in Polish Family Firms. Empirical Study* (Chapter 8) [in:] *Managing Ownership and Succession in Family Firms*, edited by A. Surdej, K. Wach, Scholar Publishing House, Warsaw 2010, pp. 121–134.

(Fig. 6.14), but the respondents declare that the preferred level of control plays a key or big role in the succession process (Fig. 6.15).

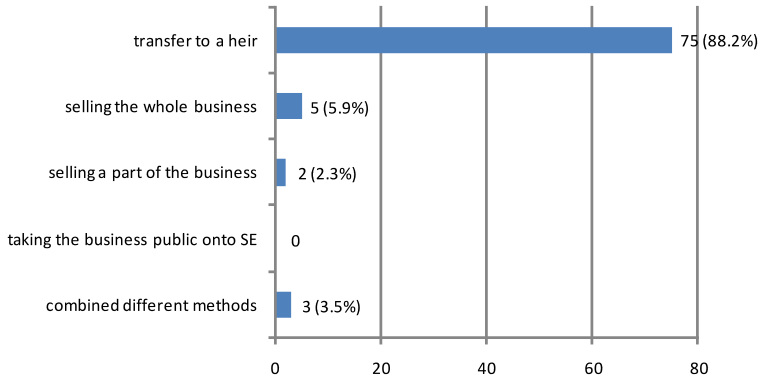


Figure 6.13. The Way of the Conducted Succession among the Studied Enterprises

Source: Authors' own study on the basis of the conducted research (the survey, N=85)

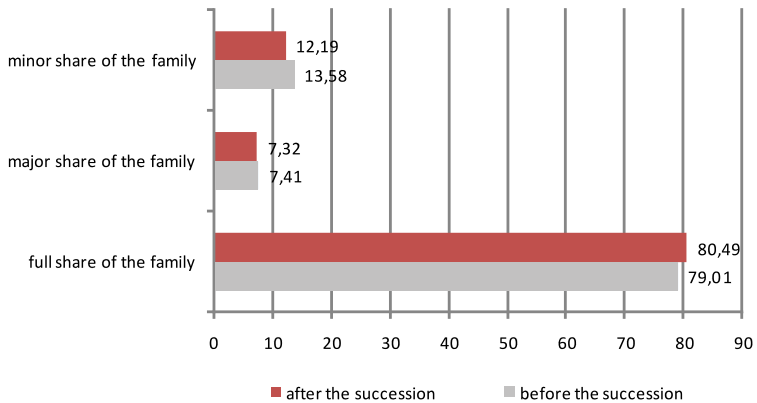


Figure 6.14. The Level of Family Control over the Business before and after the Conducted Succession (in%)

Source: Authors' own study on the basis of the conducted research (the survey, N=85)

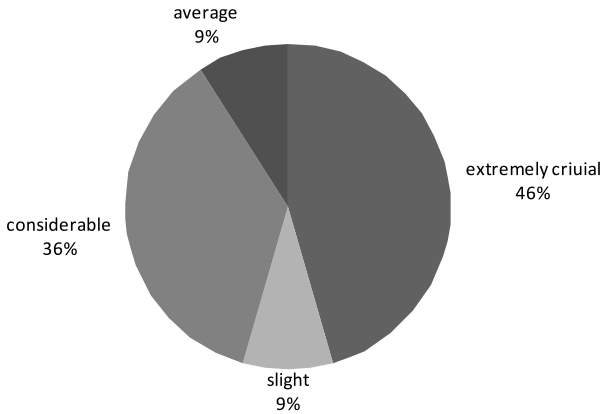


Figure 6.15. The Role of the Preferred Level of Family Control over the Business in the Succession Process

Source: Authors' own study on the basis of the conducted research (in-depth interviews, N=12)

The period which passed from the completion of succession among the studied enterprises seems to be particularly interesting. The minimum period measured in the years is 1 year, and maximum amounted to 33 years. Although the arithmetic mean was 8 years, yet with the standard deviation amounting to as much as 7.68, which means dispersion between 0 to 16 years. The value most commonly occurring in the studied community is 1 year (at 16 out of 85 of the studied cases). The median for the studied community was 6, where the lower quartile was 2 years, and the upper quartile was 10 years. The distribution is characterized by slant to the right, which is visible in the histogram (Fig. 6.16.). These results allow to prove the H1 hypothesis put forward in the introduction, since $\frac{1}{4}$ of the studied enterprises carried out the succession not earlier than 2 years ago, out of which most often it was 1 year before the research conducted in 2009. The findings prove that the period of 20 years since the beginning of system transformation and the explosion of private entrepreneurship falling

on the period 1990–1991 results in the search of the first generation of successors by Polish entrepreneurs.

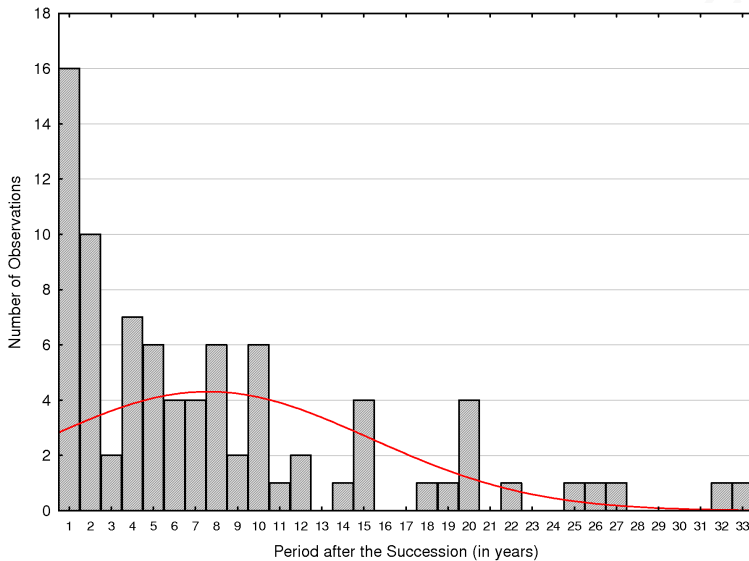


Fig. 6.16. Statistical Histogram of Period after the Accomplished Succession in 2009

Source: Authors' own study on the basis of the conducted research (the survey, N=85)

In every fifth family business (17 out of 85) which accomplished the succession process there was a collective board before the succession. By its character it was:

- the board consisting of family members only (13 out of 17, i.e. 75.6%),
- the board consisting mostly of family members (2 out of 17, i.e. 12.2%),
- the board consisting mainly of external persons (2 out of 17, i.e. 12.2%).

It is worth stressing that only in 10 cases the successor was previously the board member (10 out of 17, which constitutes 58.8% of cas-

es in which a board existed). The descriptive statistical data concerning the length of sitting on the board ($\bar{x} = 9.4$, $s = 6.5$, $M_e = 10$, $Q_1 = 5$, $Q_3 = 15$, $P_{10\%} = 1$, $P_{90\%} = 20$, $M_o = \text{multiple}$) are interesting and confirm great diversification.

The initial founder of the studied family firms, handing the firm over in the new hands, in most cases (62.34%) is not only still connected with it, but actively or passively involved (Fig. 6.17).

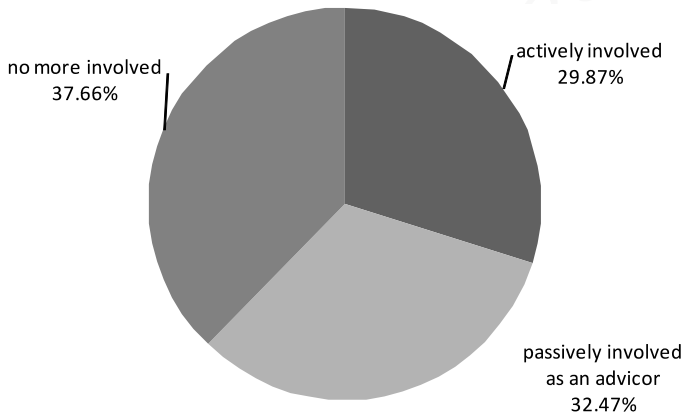


Figure 6.17. The Present Role of the Previous Owner in the Family Business

Source: Authors' own study on the basis of the conducted research (the survey, N=85)

As far as the assessment of the progression of the whole succession process is concerned, the studied firms assess them as efficient (rather or definitely efficient), or neutral, no firm assessed the succession process as inefficient (Fig. 6.18.). The assessment of the emotional relations among family members during accomplishing the succession was as follows:

- 48.24% – very good,
- 36.47% – good,
- 11.76% – average,
- 1.18 – bad,

– 2.35% – very bad.

Only 40 out of 85 studied successors (namely 47% of the community) think that there was a relation between the succession and the enterprise results in the following years. Out of these 40 successors as many as 33 describe this influence as positive (which constitutes 82.5%), which proves well of the accomplished succession process in the studied group of family businesses. All studied successors think that succession had impact on the internal situation of the firm, its functioning. This impact is assessed positively by as many as 49 out of 85 respondents (i.e. 57.6%), the others think that succession had negative consequences – which, unfortunately, in this case is quite high percentage.

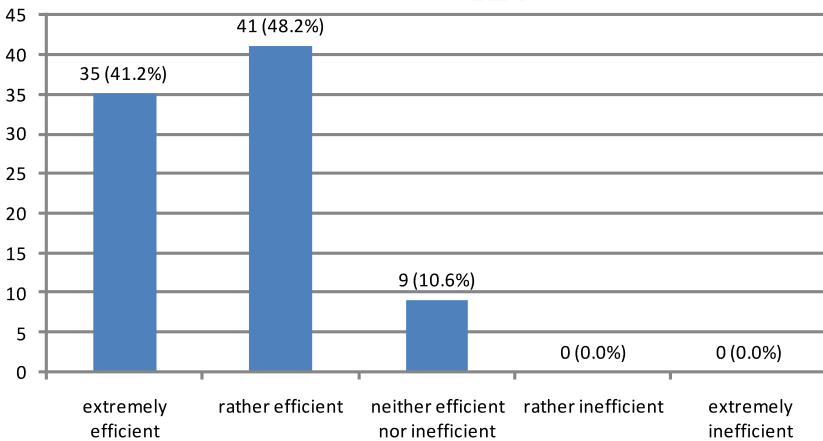


Figure 6.18. The ex post Assessment of the Whole Succession Process in a Family Business

Source: Authors' own study on the basis of the conducted research (the survey, N=85)

Planning a succession in progress

Planning a succession carried out by the studied enterprises took place only in 24 out of 85 analyzed cases (28.23%), which is rather poor result. The number of issues taken into consideration in the suc-

cession plan was diverse and amounted from 1 to 3 (in the detailed specification it looked as follows: 1 component in 11 cases, 2 elements in 9 cases and 3 elements in 5 cases). In the course of the statistical calculations it was proved that the immensity of the conducted succession planning measured with the number of elements included in the succession plan depends on the size of the enterprise ($\chi^2 = 14.9$ at $p = 0.02$). The bigger the enterprises were, the more elements they took into account on the stage of succession planning. The results confirm the H2 hypothesis made previously.

Among the selected elements with the use of the cafeteria-style checklist, most frequently the identity of the successor was indicated as an element of the conducted succession plan (see Fig. 6.19). Only every fourth successor was a woman (74.11% of the successors were men). The youngest successor was 18 years old, the oldest one was 60. However, it should be stressed that detailed descriptive statistics confirm that the second generation of Polish family firm owners are so-called young entrepreneurs ($\bar{x} = 32$, $s = 10$, $M_e = 30$, $Q_1 = 24$, $Q_3 = 40$, $M_o = 24$ at 10 observations).

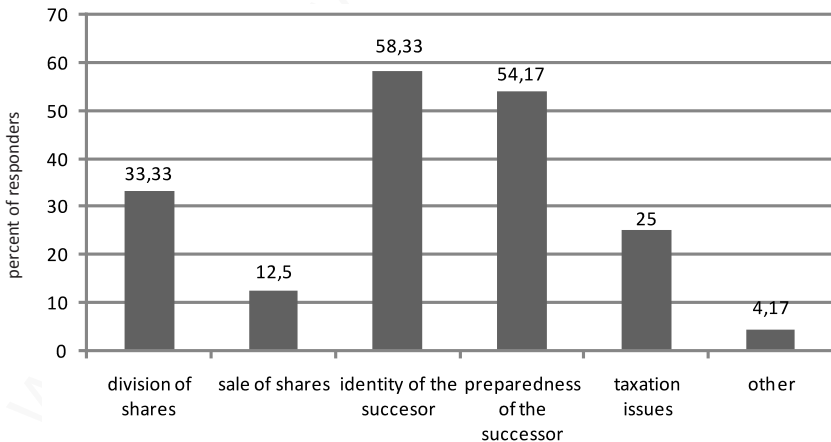


Figure 6.19. The Elements of the Conducted Succession Plan

Source: Authors' own study on the basis of the conducted research (the survey, $N=85$)

While planning succession process a potential successor player a key role since nearly a half of the initial owners took into consideration only one criterion in the scope of a successor's choice, which was the successor's identity (49.41%). Two criteria were applied by 34.11%, three- by 15.30%, and four only in case of 1.17% of the respondents (Fig. 6.20 – the criteria of choosing a successor taken into account in the process of succession planning).

The successor was previously involved in the family business in 73 out of 85 cases, which constitutes 85.88% of the community. The period of involvement in the family business differs considerably. The shortest period of involvement was 1 year, whereas the longest one was as many as 30 years ($\bar{x} = 9$, $s = 7$, $M_e = 8$, $Q_1 = 3$, $Q_3 = 12$, $M_o = 10$ at 12 observations). The detailed distribution of the results allows to draw certain conclusions. In the studied population two groups of successors were observed. The first group consists of the successors included in a family business not longer than three, or alternately 5 years (respectively 23.5% of successors or 40% of successors). The other group consists of the successors involved in a family business for a long time (about 10 years). The successors which were previously involved in the family business activity took the following positions:

- 36.5% executive employees,
- 15.3% advisors or assistants,
- 10.6% managers,
- 9.4% co-owners or partners.

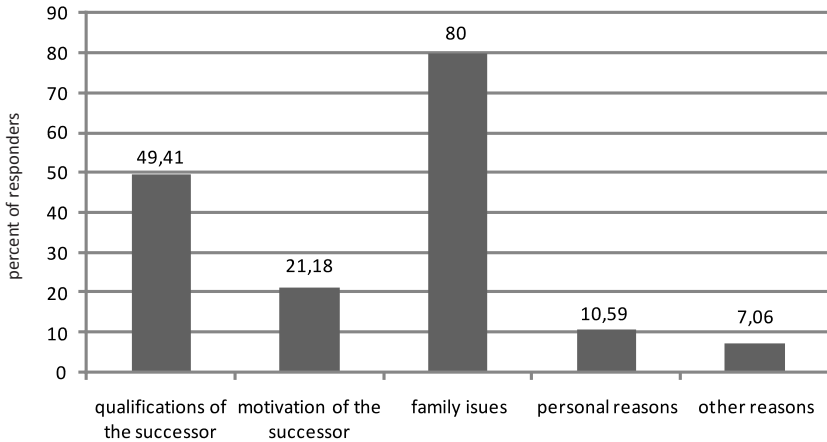


Figure 6.20. Criteria Taken into Account while Choosing a Successor

Source: Authors' own study on the basis of the conducted research (the survey, N=85)

The dependence between succession planning and its evaluation is very interesting. Statistical calculations, with the use of non-parametrical chi-square independence test proved the correlation between these two variables in the studied population ($\chi^2 = 4.0$ at $p = 0.05$). In order to improve approximation of chi-square statistics through the reduction of the absolute value of differences between the expected and the observed numbers we implement, multiplying it by 0.5, before the operation squaring (Yates's correction) the chi-square statistics with Yates's correction was used. On the basis of the calculations, the following result was achieved: $\chi^2_{\text{Yatesa}} = 6.4$ at the level of significance $p = 0.01$. The results allow to conclude on the influence of succession planning *ex ante* on the succession effectiveness measured *ex post*, which lets accept the H3 hypothesis. Each enterprise which had a plan for the approaching succession, assessed the succession process as effective (58.33% as rather effective and 41.67% as definitely effective). The assessment made by the firms which did not prepare a succession plan was not as good.

6.4. The Analysis of the Planned Succession Processes

The studied group of family businesses in which the succession process is being planned, comprised 147 entities (out of 496 cases, which constitutes 80.3% of the studied community) on the stage of the survey research.

The sample of family businesses foreseeing possible succession by age presents itself as follows: the youngest firm is 1 year old, and the oldest one is 60, but only one fourth of these firms have been conducting their activity for more than 19 years (lower quartile $Q_1 = 11$, upper quartile $Q_3 = 19$). The arithmetic mean is 16 years, with the standard deviation of 8 years. The value dividing the community in half is $M_e = 15$.

Out of 147 entities which are going to carry out the succession, every fourth one is planning to carry out the succession process during the next 5 years (24.66%), and the remaining part in a longer time perspective (75.34%).

For the question whether the firm will be still in the hands of the family after the planned succession, three out of four respondents declared that it definitely will, every fourth one declared that probably it will. Only 1.3% claimed that it will not or it is not known yet. The predicted level of control over the family business after possible succession is convergent with the results achieved for businesses which have already accomplished the succession process (see: Fig. 6.21., compare: Fig. 6.14.). The results in the scope of predicted succession method shape in an analogous way (see: Fig. 6.22, compare: Fig. 6.13.).

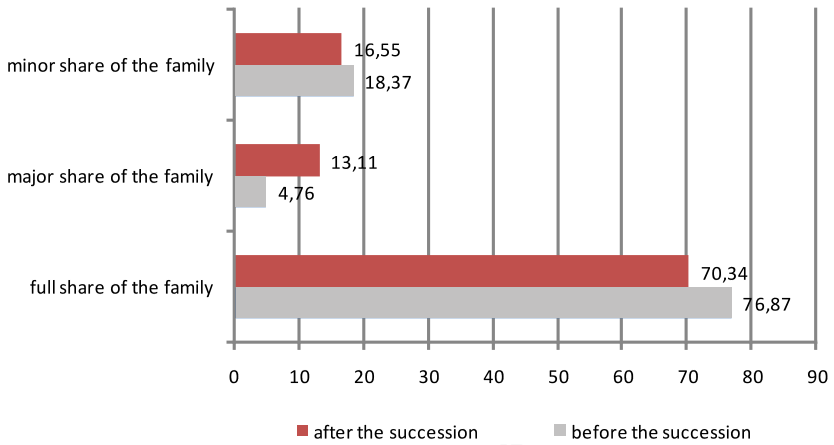


Figure 6.21. The Level of Family Control over a Firm at Present and after the Predicted Succession

Source: Authors' own study on the basis of the conducted research (the survey, N=147)

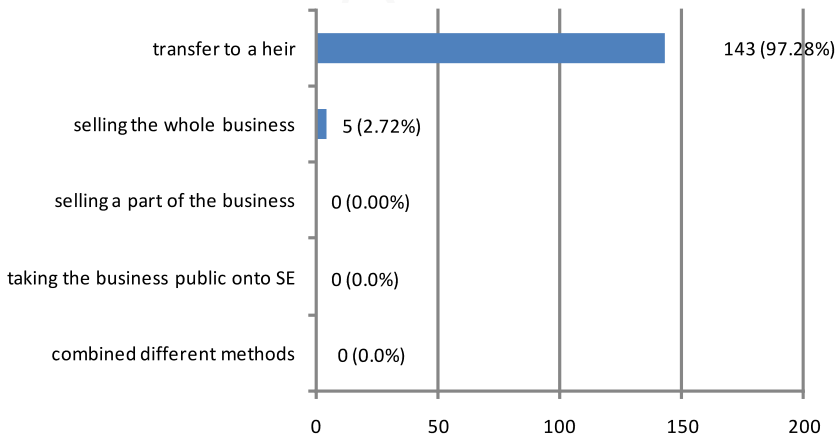


Figure 6.22. The Method of the Predicted Succession

Source: Authors' own study on the basis of the conducted research (the survey, N=147)

Plans for the predicted succession, according to the respondents' declarations, will be developed in 76 out of 147 cases (51.7%). It should be stressed that this result is quite satisfactory in comparison with the results for already accomplished succession, but, unfortunately it is still a low value. The number of issues planned to be considered in the predicted succession plan is varied and ranges from 1 to 6 (1 element in 33 cases, 2 elements in 29 cases, 3 elements in 4 cases, 4 elements in 8 cases and 6 elements in 2 cases). The considered elements of the predicted succession plan are presented in Fig. 6.23.

Only in one in four cases, the future successor will be a woman (72.1% are men). The youngest future successor within the family will be 20 years old, and the oldest will be 52 years old, however only 31.9% of the declared responses exceed 30 years, which proves that the second generation of Polish family entrepreneurs will be extremely actively involved in the currently conducted family businesses (most of them is already at present involved actively or passively in the family business). While planning the process of the predicted succession a potential successor plays an important role. The criteria taken into account while choosing a future successor are presented in Fig. 6.24.

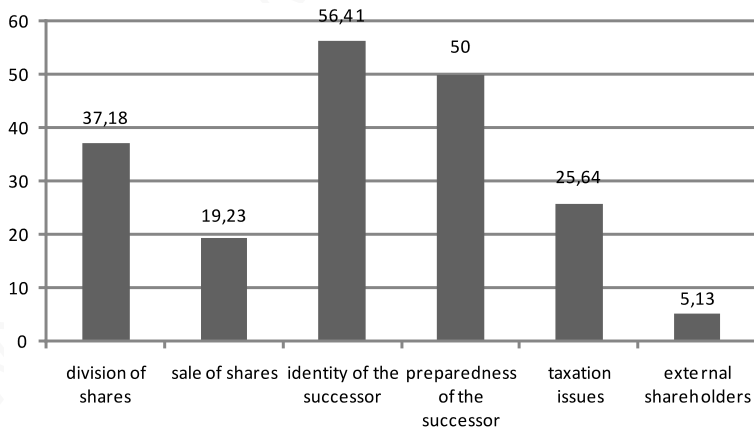


Figure 6.23. The Elements of the Predicted Succession Plan

Source: Authors' own study on the basis of the conducted research (the survey, N=147)

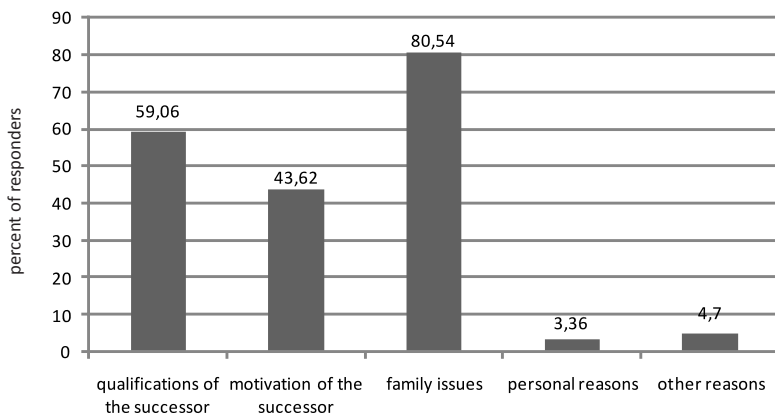


Figure 6.24. Criteria Taken into Account while Choosing the Future Successor

Source: Authors' own study on the basis of the conducted research (the survey, N=147)

6.5. The Analysis of External Factors Affecting the Process of Polish Family Business Succession

In the first stage of the research, the respondents were asked to evaluate legal regulations being in force in Poland, which create factors influencing the succession process (Fig. 6.25.).

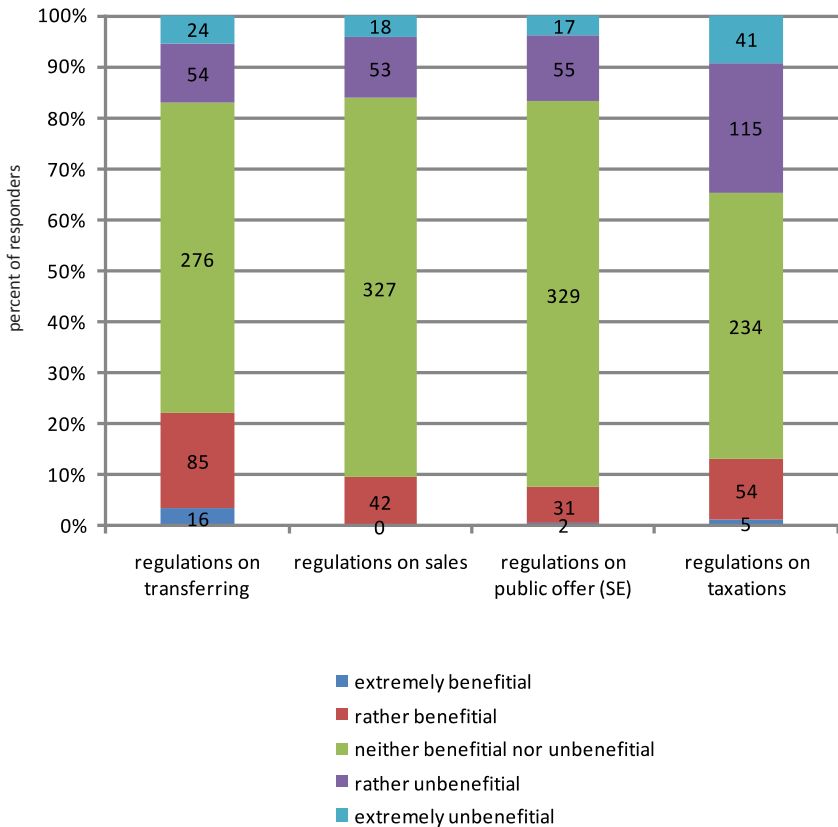


Figure 6.25. The Evaluation of Legal Conditions for the Succession Process in Poland

Source: Authors' own study on the basis of the conducted research (the survey, N=496)

They evaluated (N=496):

- legal regulations concerning passing the family business to next generations of the family (among the estimates, the highest percentage of “definitely beneficial” answers were marked, 3.2%, as well as the highest percentage of “rather beneficial” answers, amounting to 17.1%),

- legal regulations in the scope of the sale of a family business to a third party (another firm or person),
- legal regulations in the scope of taking the firm public,
- legal regulations in the scope of taxation issues in the process of passing or selling the family business (among the estimates for this factor, the highest percentage of "definitely unbeneficial" answers, that is 8.3%).

What is the distribution of the population by analyzing these factors in advance while choosing the method of passing a family business like? Well, these issues were taken into account in detail or in minimum scope by 72.7% of the studied family businesses which have already accomplished the succession process, whereas among the firms which are only predicting to carry out the succession in the nearest perspective this percentage is as much as 89% (Fig. 6.26). Of course, for the predicted succession these results are surprisingly high, especially in the context of the quoted above results concerning the formal succession plan concerning the succession plan. Thus, it should be explained with the educational aspect of surveying. As far as the degree of the impact of the analyzed factors on the choice of succession form is concerned, it appears that they do not have special significance since passing the firm to the offspring, that is generational continuation of a family business is a sufficient condition to choose this method, even in spite of unfavourable legal conditions (Fig. 6.27).

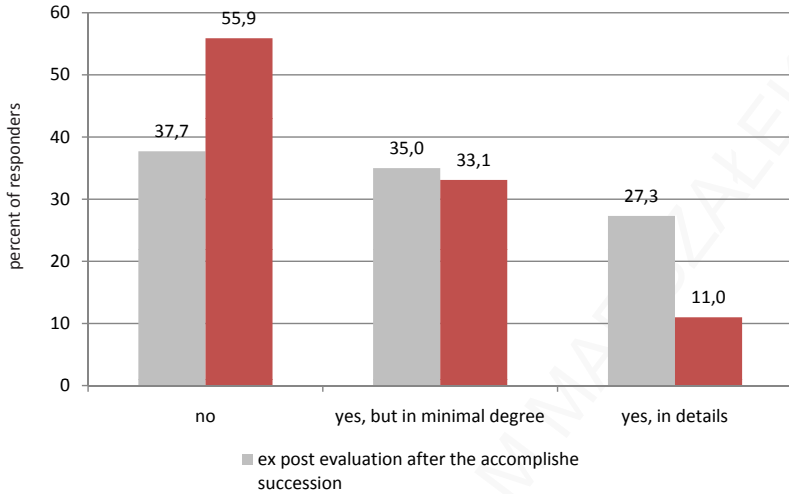


Figure 6.26. The Assessment of Legal Conditions of the Succession Process in Poland

Source: Authors’ own study on the basis of the conducted research (the survey, N=496, the diagram considers the results only for N=147 and N=85)

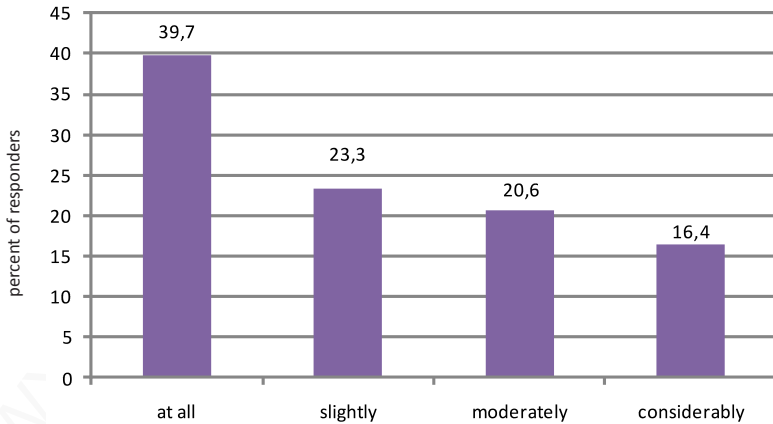


Figure 6.27. The Impact Degree of Legal Conditions of the Succession Process on the Choice of its Method in the Assessment of the Studied Family Successors (in%)

Source: Authors’ own study on the basis of the conducted research (the survey, N=85)

On the stage of in-depth research the entrepreneurs were asked for detailed assessment of changes in administrative and legal conditions of succession in Poland during the last 3 years. For the assessment the five- point Likert scale was used. The factors were chosen on the basis of the analysis of the Community source documents including a recommendation on shaping the policy and instruments of support in the scope of enterprise transfer, including family enterprise succession. The detailed methodology of the selection of assessed factors is discussed in Chapter Four of this paper. The collective results of these evaluates are presented in Table 6.12. One may assume that the results achieved in this way are much more reliable than the European Commission's results which are based only on the declarations of member states checking if a given instrument has been or has not been implemented in the national legal order¹⁰.

In total, 25 different instruments were assessed, grouped in four thematic groups (legal means, taxation means, supportive actions, promotion of good practice). The respondents were asked not only for the assessment of the changes (positive changes, negative changes, no changes), but also for the assessment of the significance of these factors for the succession in the scale from 1 to 5, where 1 means completely insignificant, and 5 is a very significant action. On this basis it was possible to arrange individual factors from the most significant (1) to the least significant (25), which was marked in the table. In addition, arithmetic means calculated for this group allow to arrange them. It turns out that according to the respondents, tax means play the most significant role (3.17), then legal means (3.12), and supporting activities (2.09), whereas the least important is the promotion of good practice (3.03). It should be emphasized that the results of the

¹⁰ Compare: Table 4.3. in this book. The detailed information may be found in the study: *The Implementation of the Community Lisbon Programme for the Benefit of Economic Growth and Employment. The Transfer of Enterprise Ownership – Continuity Through New Beginning*, The Communication of the Commission to the Council, the European Parliament, The European Economic and Social Committee and Committee of the Regions, Brussels 14.03.2006, COM (2006) 117 final version, p. 13.

self-evaluation of these factors significance are very close to each other and oscillate from 3.03 to 3.17.

Table 6.12. The Assessment of Administrative and Legal Conditions of Succession in Poland – Field Research

Significance		evaluating factors / actions	positive changes	no changes	negative changes	no opinion
Place	Average					
Group 1: Legal means						
18	2.94	1.1. Facilitations in transferring partnerships into companies and vice versa.	31.7%	23.3%	8.3%	36.7%
23	2.87	1.2. Introduction of simplified forms of companies.	31.7%	16.7%	5.0%	46.7%
19	2.90	1.3. Introducing companies wholly owned by sole traders	33.3%	11.7%	3.3%	51.7%
13	3.04	1.4. Ensuring legal continuity of partnerships, especially civil law companies	30.5%	20.3%	3.4%	45.8%
2	3.59	1.5. Introducing right of pre-emption of a business by an owner/founder's family members in case of his death or illness.	45.8%	20.3%	1.7%	32.2%
5	3.39	1.6. Facilitation of administrative formalities concerning the transfer of enterprise ownership.	21.7%	28.3%	10.0%	38.3%
Group 2: Taxation means						
1	3.72	2.1. Decreasing rates of tax on inheritance and donations in the scope of the transfer of enterprise ownership.	50.0%	19.0%	1.7%	29.3%

Significance		<i>evaluating factors / actions</i>	<i>positive changes</i>	<i>no changes</i>	<i>negative changes</i>	<i>no opinion</i>
<i>Place</i>	<i>Average</i>					
12	3.05	2.2. Exemption or decreasing burdens in the scope of tax on capital transfer in the scope of the transfer of enterprise ownership for the benefit of third persons.	25.4%	28.8%	6.8%	39.0%
25	2.58	2.3. Decreasing burdens in the scope of tax on capital transfer in the scope of the transfer of enterprise ownership by employees.	13.8%	24.1%	5.2%	56.9%
20	2.90	2.3. Liquidation of all forms of taxation in the scope of business transformation.	25.9%	24.1%	3.4%	46.6%
8	3.30	2.4. Introducing tax reliefs from funds gained from the transfer of enterprise ownership, which were then reinvested in other small and medium-sized enterprises.	27.6%	15.5%	5.2%	51.7%
14	3.00	2.5. Introducing reliefs from funds obtained for the transfer of enterprise ownership, which have been invested in pension fund for the initial owner/founder of the business.	15.3%	23.7%	6.8%	54.2%
6	3.33	2.6. Providing information concerning tax consequences in the scope of the transfer of enterprise ownership.	30.5%	25.4%	6.8%	37.3%

Significance		<i>evaluating factors / actions</i>	<i>positive changes</i>	<i>no changes</i>	<i>negative changes</i>	<i>no opinion</i>
<i>Place</i>	<i>Average</i>					
4	3.44	2.7. Tax reforms should consider facilitations for the transfer of enterprise ownership.	25.9%	29.3%	0.0%	44.8%
Group 3: Supporting action						
9	3.16	3.1. Raising awareness among entrepreneurs on the transfer of enterprise ownership. Organizing regular European seminars, meetings or forums on business transfer.	37.9%	32.8%	6.9%	22.4%
11	3.14	3.2. Providing proper financing of enterprise ownership and beneficial loan strategy in this scope.	29.3%	31.0%	8.6%	31.0%
10	3.14	3.3. Providing broadly understood counseling on the transfer of enterprise ownership, already at the preliminary stage of planning a succession. The development of alternative and additional tailor-made services on trainings and the management of the transfer of enterprise ownership process.	24.6%	24.6%	5.3%	45.6%
15	3.00	3.4. Support for creating transparent market for the transfer of enterprise ownership (so-called enterprise exchange).	17.2%	32.8%	3.4%	46.6%

Significance		<i>evaluating factors / actions</i>	<i>positive changes</i>	<i>no changes</i>	<i>negative changes</i>	<i>no opinion</i>
<i>Place</i>	<i>Average</i>					
17	2.98	3.5. Creating European database of sellers and buyers of enterprises, as well as the intensification of the existing national database and inducing the creation of such databases where they do not exist yet.	25.9%	27.6%	3.4%	43.1%
24	2.72	3.6. Creating the European Centre for the Transfer of Enterprises, coordinating and facilitating activeness in this scope.	28.6%	19.6%	3.6%	48.2%
3	3.54	3.7. Creating <i>one-stop-shops</i> for enterprise transfer or offering such services by the exiting shops of "one window" type.	29.3%	37.9%	5.2%	27.6%
Group 4: Best practices						
16	3.00	4.1. Promotion of best practice in the scope of planning the process of enterprise ownership transfer.	15.8%	35.1%	0.0%	49.1%
21	2.90	4.2. Promotion of best practice in the scope of trainings on business transfer.	25.9%	32.8%	1.7%	39.7%
22	2.89	4.3. Promotion of best practice in the scope of business valuation.	22.8%	36.8%	1.8%	38.6%
7	3.31	4.4. Promotion of using experience of initial/ former owners of passed businesses.	29.3%	34.5%	1.7%	34.5%

Source: Authors' own study on the basis of the conducted research (interviews, N=61)

At the end of the interview, 61 representatives of family businesses were asked whether in their opinion, during the last few years, the policy of support for family businesses has shaped, including the support for succession processes. The responses that it has shaped fully were sporadic (2% of the research sample). The prevailing opinion was that that it has shaped but it still requires support or that it has shaped fragmentarily (respectively 17% and 24%). The percentage of the respondents who think that such a policy has not shaped at all is high (compare: Fig. 6.28).

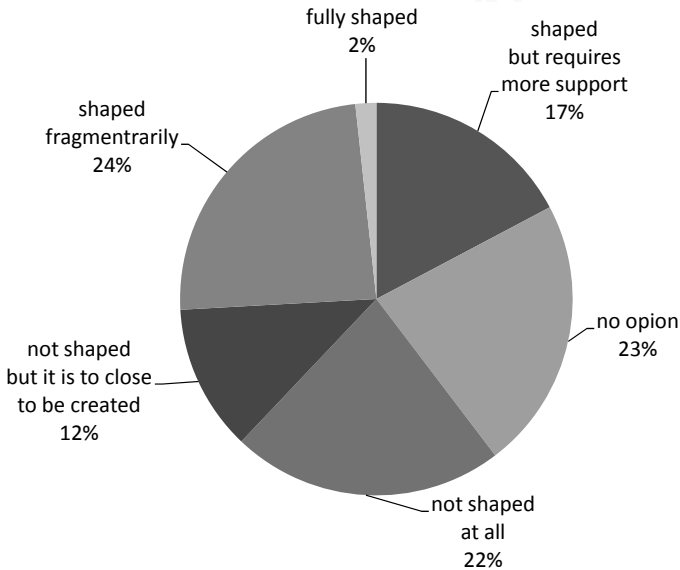


Figure 6.28. The Assessment of Policy of Support for Family Businesses in Poland

Source: Authors' own study on the basis of the conducted research (interviews, N=61)

CONCLUSIONS

The succession of ownership and control in family businesses is an important issue, both from the theoretical and empirical point of view. In the theoretical perspective it is a research problem attracting representatives of economics, finance, and representatives of management sciences. From the practical point of view it is a question which determines the efficiency of economy and the dynamics of economic development.

Within the framework of the conducted research, we could undertake empirical analysis of the selected problems and, as it seems, the set research objectives have been to a great extent achieved. The Authors carried out an analysis of Polish and foreign literature on the subject, which allowed to systematize various approaches to the question of succession in family businesses. With reference to international academic debate, an original model of studying determinants of the succession process has been created. This model and this methodology will be improved in the future, especially in the aspect of determining the strength of the factors since we are convinced that the research on the succession in Poland is only beginning. Thus, the results achieved by us will be verified by ourselves and other researchers.

The findings of the research project presented in this paper conducted in the years 2008–2010 on quite a big research sample (the questionnaire survey $N = 496$, in-depth interviews $N=61$), one can assume that the first organized on such a scale in Poland (compare: Ta-

ble 5.1.). Among 496 family businesses only in 85 cases the process of succession has been observed. They allow to formulate the following conclusions:

- The most popular way of succession in the analyzed community is passing the family business to progeny, inheritors (in the survey this percentage was 87.36%, whereas in the in-depth interviews it was 83%).
- After 20 years of economic transformation in Poland, founders of family businesses have started to initiate the process of ownership transfer and the control over their own business enterprises. One fourth of the analyzed firms carried out a succession not earlier than 2 years ago (most often it was a year before the research, namely in 2008, and the whole project took place in the years 2008–2010), in addition, a half of them did it not earlier than 6 years ago.
- The bigger the studied family business is, the more factors are taken into consideration while planning the succession (in the formal plan of the coming succession). Statistical calculations proved that the extensiveness of the succession planning measured with the number of elements included in the succession plan depends on the size of the studied family business ($\chi^2 = 14.9$ at the level of significance $p = 0.02$).
- In the studied population there is a relation between planning the succession and its assessment. Each enterprise which had a plan for the incoming succession, assessed the succession process as efficient (contrary to the enterprises which did not have such a plan).

The presented research findings are the pioneer contribution to the analysis of succession strategies in Polish family businesses. In majority of developed countries worldwide the research in this scope has been conducted for many years and there is rich research literature on this. Thus, there is an urgent need for the continuation of empirical research on the succession strategies in Poland.

The research findings may serve on the one hand as practical guidelines directed at Polish entrepreneurs, on the other hand as the

basis for recommending the activities of the government and self-governments in order to increase the probability that ownership and control succession will not decrease developmental opportunities for Polish enterprises, small and medium-sized enterprises in particular. The research findings will allow first of all to verify the actual condition and tendencies of succession strategies in the first generation of Polish entrepreneurs, which may contribute to the enrichment of the existing scientific knowledge in this respect.

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