

New approach to defining family enterprises – results of empirical research in Poland

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Abstract

The paper presents theoretical foundations for developing the definition of a family enterprise in the world. The main outcome of the research is a new approach to defining a family enterprise based on a five-level model. The model was applied in the study of the share of family enterprises in Poland's GDP and the total number of Polish enterprises.

Key words: *new definition model; family enterprises; share and GDP of Polish family enterprises*

1 Introduction

Interest in the development of family entrepreneurship in Poland has been growing from year to year. Such a trend is well-justified. A number of institutions and academic centres involved in conducting research into family enterprises operate both in Poland and around the world. They need to, however, grapple with the lack of unified approach to defining family enterprises. Having noticed this shortfall, the authors of the paper made an attempt to systematize the terms and on this basis proposed a model of defining family enterprises, which was then used in specifying the scope of research and its consecutive implementation. The authors wished in this way to address the question of family enterprises' share in the total number of enterprises and determine their share in GDP.

2 Problem with defining a family enterprise

The number of family enterprises and their share in the total number of enterprises is an issue discussed not only by scientists, but also by politicians and business and job market institutions. Poland's economy, like other countries' economies, abounds in family enterprises. They are, however, dispersed and do not have one differentiating factor, such as generally applicable legal regulations, as is the case in other countries, e.g. in Finland, Slovenia, Slovakia, China or Thailand. The lack of coherence in opinions concerning family enterprises was observed in as early as the 1960s. In 1964, *Donnelly*¹ used a multi-criteria definition covering issues such as ownership, influence on making decisions and intergenerational transfer. Another thirty years brought little change. New approaches appeared, which referred to engaging a family in the strategic and operational activity of a business². Other authors pointed to management elements and taking decisions by a family³. The significance of the capacity of a definition is reflected in problems encountered while comparing research results between countries and between scientific centres within the same countries, which the authors and, undoubtedly, readers have experienced on many occasions. Enterprises with family roots

and the family structure of operation make up a specific category of businesses whose worldwide number, according to different sources, ranges from 36 to 95%, depending on the country and adopted definition. Fig. 1 presents the said shares (based on *Family Firm Institute*). FFI data [4] shows a large range from 36% in Afghanistan to 96% in Dominican.

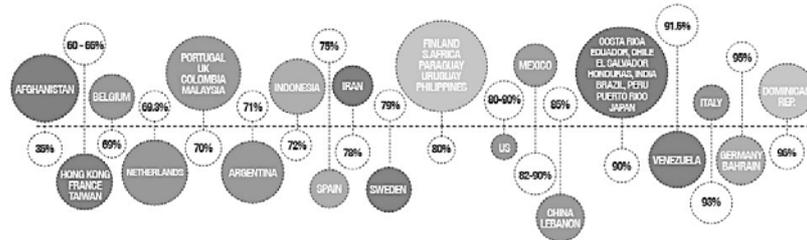


Fig. 1. Percentage share of family enterprises in the total number of enterprises in selected countries
Source: Family Firm Institute ⁴

The specified share of family enterprises in the total number of enterprises influences in a direct way the level of indicators determining family enterprises' impact on generating workplaces and on the level of GDP. *European Family Businesses* research ⁵ shows that close to 50% of GDP and 40% of workplaces come from family businesses. The share of Polish family enterprises, according to EFB estimates, amounts to 75%. The level of the share of family businesses in the total number of enterprises based on the data provided by EFB was thoroughly analyzed by the authors. It was observed that countries of long-standing free market and private ownership tradition such as France, Great Britain, Holland display the percentage share of family businesses at a similar or lower level than in Poland. As it is commonly known, it was in the 1990s that private ownership was able to be fully committed to the development of market economy in Poland. These considerations imply the necessity for the verification of stated values, which the authors recognized as being an essential issue to be treated.

The PwC report of 2015 states that over 60% of Polish family businesses are those which are run by their founders and as of now have not undergone the first succession process ⁶. Such a high percentage results, according to the authors, from geopolitical and economic conditions in Poland, which has operated on the principles of market economy since 1989, affording a chance to start and expand privately-owned businesses. Enterprises which were set up at that time have recently faced decisions connected with this exceptional event in the life of family and business.

Conclusions drawn and connected with this topic became the principal aim and prerequisite for undertaking work, firstly to standardize the term of a family enterprise, secondly to analyze the number of family businesses in accordance with the adopted terms.

3 Model of five levels of defining a family enterprise

The departure point for making an attempt to unify the definition of a family enterprise was to rank definitions available in world literature. The basic task in developing a uniform definition of a family enterprise was to allow for the co-existence of two orders: business and family, which arises from linking two areas of family businesses in which various values and

operational principles remain. Several criteria which were used in a range of terms related to a family business were singled out. They were: (1) linking with the ownership of over 50% share of a business in the hands of a family; (2) allowing for the presence of a family in a business through engagement into managing an enterprise at different levels; (3) allowing for intergenerational transfer, (4) self-defining an enterprise as a family enterprise.

The authors of the paper considered all the criteria that appeared in source literature and took into account: (1) family's share in the ownership of an enterprise at the level higher than 50.1%; (2) self-defining an enterprise as a family enterprise; (3) engaging of at least two family members into operational activity; (4) engaging of at least two persons into management issues in a long-term perspective and an intention of succession; (5) implemented intergenerational transfer.

This allowed to specify five levels of classifying enterprises as family enterprises, which were assigned names facilitating the interpretation of each of them.

Level 5 – *Potentially family enterprises*. The ownership of an enterprise is in the hands of a family (50.1% for small and medium-sized enterprises, minimum 25.1% for joint-stock companies). Level 4 – *Enterprises with family identity*. They contain the characteristics of level 5 and self-defining itself as a family business. Self-defining a business as a family business implies business behaviour covering the system of family values. At this level, one notices the family character in business and shaping the identity of a family business begins. Level 3 – *Single-generation family businesses*. They contain the characteristics of level 4 and, besides, engagement in an enterprise's operational activity and an enterprise's strategic co-planning of at least one family member (besides the owner). Level 2 – *Family businesses on the verge of succession*. They contain the characteristics of level 3 and strategic planning in a business taking into account the succession process. At this level, at least two persons become engaged in every-day management and family members become engaged in the operation of a management board with the specified intention of succession. Level 1 – *Multigenerational family enterprises*. They contain the characteristics of level 2 and the implemented succession.

4 Research methodology

The developed model classifying definitions of family enterprises was subject to verification following two paths. The first one concerned literature research. An analysis was made and the presented approaches were assigned to each of the five levels of the model. The second path concerned the analysis of data obtained from research carried out as part of the EU programme for the competitiveness of enterprises and SMEs (COSME) 2014-2020⁷. The aim of the undertaken attempt in this path was to determine the share of family businesses in the total number of enterprises in Poland and estimate on this basis their share in Poland's GDP. An essential element, from the point of view of research methodology, was the stage of selecting a sample, which took into account the following: (1) the study was conducted on a representative sample of enterprises in Poland; (2) quota-typical sampling was used; (3) the analyzed subjects were owners or management board members of an enterprise, who were high-powered decision makers. The analyzed population numbered 2 mln 50,000 enterprises. The sample numbered 2,291 persons. The research method used was CATI: *Computer*

Assisted Telephone Interview. The research tool contained 24 closed- and open-ended questions.

5 Literature references

The verification of the model developed by the authors required obtaining data related to the characteristics of a family business at each of the five levels. Data for level five – *potentially family enterprises* – point to 92% of the share in the analyzed sample of enterprises whose ownership is in the hands of a family. The results allow to conclude that the majority of shares is owned by the family. Definitions related to ownership were presented by *B. Bernard*⁸, *J.A. Barach* and *J.B. Ganitsky*⁹, *M.H. Stern*¹⁰, *Babicky*¹¹. A similar type of research was carried out in Poland by research organizations and institutions which stated that there are 93% of enterprises with a marked share of the family in ownership according to the Polish Agency for Enterprise Development (PARP)¹². Also KPMG puts ownership in the hands of a family at the level of 89%¹³. Potential family businesses are a significant majority in the Polish market. This data is close to data recorded in Italy and Germany, where the share of family businesses is at the level of 93%. Data which verifies level four – *enterprises with family identity* – points to a substantial difference between this level and the one discussed before. There are 36% of enterprises in Poland which recognize their family identity. Self-defining an enterprise as a family business apart from the present paper was also propounded by *P. Westhead* and *M. Cowling*¹⁴ and *Sten*¹⁵. The authors of the paper, however, pointed to the practical aspect of running a business by members of one family. The authors narrow down this approach to an element of acceptance by decision-makers of the family character of their business, thus pointing to the essence of shaping the brand of a family business on family-related values. The causes of this difference (between levels five and four) were discussed by the authors in other publications. Data for level three – *single-generation family business* – allows to put the share of family businesses congruent with such an approach at the level of 27%.

The third level of the family character besides the two previous ones assumes the influence of a family on long-term planning, taking decisions by at least one family member in accordance with the approach followed by *Pratt, Davis*¹⁶, *Leach et al.*¹⁷. The third level of the model corresponds with the definition proposed by the European Commission, Enterprise and Industry Directorate General [5]. Data for level two – *family business on the verge of succession* – states that 19% of Polish businesses are going to hand over the management of a business to successors. At this definition level, one assumes, apart from the characteristics of a business discussed earlier, engagement of at least two persons into the every-day management of a business and commencement of the succession process^{a1}. Such variables were taken into account in definitions by *Churchill, Hatten*¹⁸, *Venter, Boshoff, Maas*¹⁹, *Bernard, Schoar*²⁰, *Narva, Dreux*²¹, *Więcek-Janka* [2013]. A similar approach to defining a family business was presented by *Sulkowski*²². The first level of the model –

^a The authors see the succession process as intentional work by the owners geared towards the future transfer of a business to successors. It comprises a few stages: mental, resulting in e.g. bringing up children in the spirit of entrepreneurship, conceptual, resulting in e.g. preparing the constitution of a family business giving a business over to successors in accordance with the 4W model (knowledge, power, ownership in the context of values).

multigenerational family enterprise – points to succession as *conditio sine qua non*. Taking into consideration such a restrictive approach, one may indicate that this condition is met by 5% of the total number of Polish enterprises. Many authors all over the world consider it to be necessary^{1, 9, 18, 23, 24}. The share in the amount of 5% does not appear to be large. It must be remembered, however, that, although there is a long history of family entrepreneurship in Poland - even 200 years, most family enterprises ceased to operate at the time of People's Republic and those that survived, mostly involved in crafts, wrestled with a multitude of economic and social barriers. The 1990s witnesses the “eruption” of privately-run businesses and thousands of businesses set up then reached the stage at which the present owners take decisions concerning their future operation. One of the paths chosen by them is intergenerational transfer. One can conclude then that in the future there will be an increase in the number of family enterprises at the first level of the model.

6 Conclusions

Irrespective of the adopted definition used in carrying scientific research, one cannot disagree with the fact that family enterprises exist in Poland and affect the national economy. Wishing to summarize work on the model, an attempt was made to determine the share of family enterprises in Poland's GDP at each level of defining^{b2}. Fig. 2 presents the model of five levels of defining family enterprises allowing for the share of family enterprises in the total number of Polish businesses and in Poland's GDP.

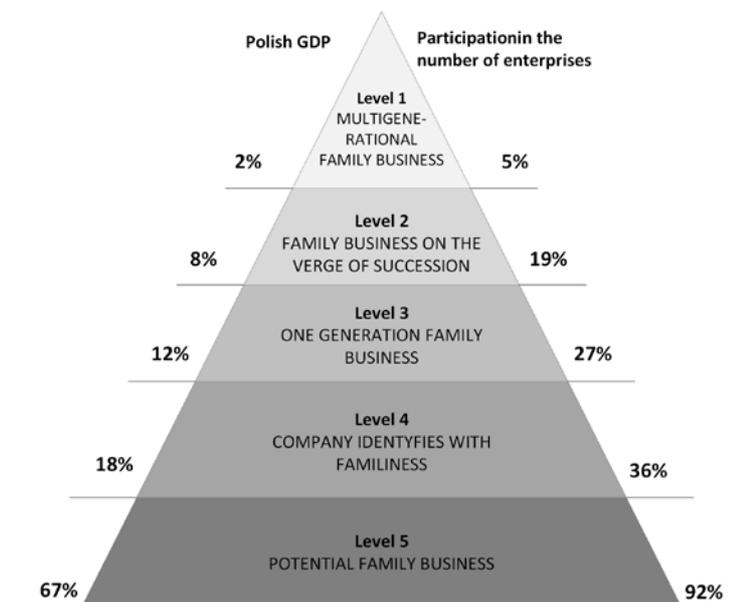


Fig. 2. Share of family enterprises in: the population of enterprises in Poland and Poland's GDP according to the model of *Five definition levels* Source: Own elaboration

The developed and verified model may form a basis for extensive discussion among individuals involved in the issues related to family entrepreneurship on the need for a unified approach to defining it. The authors' observations concerning both scientific trends and

^b In cooperation with a chief economist at Millenium Bank

market practice lead to a conclusion that developing a mutual stance in this question could become the first step in taking account of statistics related to family enterprises in research conducted at pan-European and world levels.

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