Available online at www.sciencedirect.com

ScienceDirect

Procedia Economics and Finance 9 (2014) 242 – 247

Procedia Economics and Finance

www.elsevier.com/locate/procedia

The Economies of Balkan and Eastern Europe Countries in the Changed World (EBEEC 2013)

Σχόλιο [S1]: Elsevier to update with volume and page numbers.

The Greek Family Businesses and the Succession Problem

Spyros Vassiliadis[a], Achilleas Vassiliadis[b]*

[a]*Thessaloniki Institute of Technology, Department of Accountancy, Greece*
[b]*Management Consultant, Greece*

Abstract

Family firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the responsibility they feel and the values they stand for. Greece has one of the largest numbers of SMEs businesses within the EU and most of them are family businesses. Most of these family businesses are small and very small and operate in traditional sectors of the national economy such as retail trade, services and construction. The three most important challenges faced by the Greek family businesses are: business strategy formulation, staff employment and transition of ownership or control to the next generation.

Selection and peer-review under responsibility of Kavala Institute of Technology, Department of Accountancy, Greece

Keywords: Family Business; Succession; Entrepreneurship

1. Introduction

"The lack of succession planning has been identified as one of the most important reasons why many first-generation family firms do not survive their founders" *(I. Lansberg)*

One of the most critical phases in the life cycle of an enterprise comes at the time of transferring its ownership and leadership. Preparing for a business transfer is a long and complex process and can entail many difficulties. The first type of difficulty is psychological or emotional. The second type is related to the complexity of the business transfer process and to the fact that the entrepreneur has no experience or knowledge of how to handle this situation. The third type of obstacle stem from national legislation (company law, taxation and administrative formalities). In a

* Corresponding author. *E-mail address:*spyrosvassiliadis@gmail.com

Selection and peer-review under responsibility of Kavala Institute of Technology, Department of Accountancy, Greece
doi:10.1016/S2212-5671(14)00025-2

number of EU countries appropriate support structure and services have been created for a successful transfer of family businesses to the next generation. In Greece the creation of such a support structure would facilitate considerably the process of a family business transfer to the next generation, especially this particular time of economic crisis, where the alternative employment opportunities of the younger members of a family business, are very limited.

We will examine some issues related to the family business succession problem in Greece, such as:

- Are entrepreneurs well prepared and in which ways, for the transfer of their firms to the next generation?
- Do they have any criteria for choosing their successors?
- Which are the main obstacles during the transfer process?
- Are there any professional bodies providing support and advice for a successful transfer of a family business to the next generation?
- Do the younger family members have real concern to undertake the fate of the family business?
- Are the older family members confident that the younger members will succeed in continuing and growing the family business?
- Is there any successful process securing a normal succession?

2. Family businesses in Europe

There is not a single definition on family business across Europe.

In a number of European countries family businesses are equated to SMEs. Family businesses are run in all legal forms, including listed companies, have different sizes and cover all sectors of the economy, especially traditional and labour intensive sectors.

The EU definition of family business is the following: *a firm of any size is a family business if:*

- The majority of decision-making rights is in the possession of the natural persons who established the firm, or in the possession of the natural persons who have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's' direct heirs.
- The majority of decision-making rights are indirect or direct.
- At least one representative of the family or kin is formally involved in the governance of the firm.
- Listed companies meet the definition of family enterprise if the person who established or acquired the firm or their families or descendants possess 25% of the decision-making rights mandated by their share capital.

Family firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the responsibility they feel and the values they stand for.

Across Europe, 70%-80% of enterprises are family businesses and they account for 40%-50% of employment. They account for about 40% of private sector turnover whereas their share in GDP ranges from 20% to 70%. A large number of European SMEs are family businesses and some of the largest European companies are also family businesses. The family business sector is dominated by micro enterprises (employing less than 10 people) and small enterprises. They are more prevalent in traditional and labour intensive sectors such as agriculture, manufacturing, construction, tourism and retail trade. However, a shift towards more modern (high-tech) industries is taking place, (Overview of Family Business Relevant Issues, 2008).

The main characteristics of family businesses are:

- Within family businesses there is as strong interrelationship between the "family" and the "business".
- Family businesses tend to focus on the firm's long-term sustainability than in the short-term profits. As a result of this, family businesses are longer-lived than non-family businesses.
- When a firm is transferred to the next generation, it is not only financial assets which are passed on but also social and cultural capital (CSR activities and the value system).
- The dominance of management stems from within the family.
- The capital of family firms stems mainly from family funds and bank loans. Profits are often reinvested in the company.
- The existence of social capital facilitates the firm's survival in economically difficult times.
- Family businesses' growth routs are quite stable and continuous in contrast to non-family businesses

The main challenges of family businesses are:

- Lack of awareness of the policy makers of the economic and social contribution of family business.
- Lack of family firms' awareness of the importance of timely planning for intergenerational business transfer.
- Financial issues related to gift and inheritance tax.
- Balancing business and family aspects within the enterprise.
- Lack of family business specific management education and training.
- Access to finance for growth without losing control of the firm and favourable tax treatment of reinvested profits.
- Difficulties in attracting a skilled labour force.
- Need for more research into family business-specific issues.
- Surviving in times of economic crisis.

The European Commission should continue mainstreaming family-business relevant issues in all relevant schemes. The Small Business Act (SBA) is such a comprehensive policy scheme aimed at strengthening the EU SMEs so that can grow and create employment. National governments should consider adopting measures for a more favourable environment for family businesses. Family businesses and organizations representing them should take an active role to raise awareness of the importance of this sector at national and international levels.

3. Overview of family businesses in Greece

Greece has one of the largest numbers of small and micro businesses within the European Union and most of them are family businesses. According to a research conducted by Grant Thornton in 2006, 80% of business owners in Greece consider their business as "family business", while another research by the Hellenic Organization of SMEs shows that 52% of Greek companies are family-owned.

The common feature among the majority of family businesses in Greece, which distinguishes them from other types of businesses, is the fact that they are **owned, managed and influenced by the members of a family**. This means that the owner (family) is also involved in the management and decision making of the company.

According to a recent PWC survey, (Family Business Survey, 2006), the main financial challenges and priorities for Greek family-owned businesses are the following:

- Control of the cost (78%)
- Improvement of cash flows (58%)
- Access to financing (36%)
- Tax planning and tax issues optimization (22%)

Among the listed companies in the Greek Stock Exchange, most of the small and medium sized companies are controlled by large families, whose members usually serve in top management positions.

As far as corporate governance issues are concerned, Greek family-owned companies are **"undergoverned"**. The principal shareholder usually serves also as the CEO or Chairman of the board of directors and makes all major decisions. In addition, the shareholders' rights of family businesses are well-protected under the Greek legislation.

When compared with non-family businesses, family-owned businesses appear to have certain strengths and weaknesses.

<u>Strengths:</u>

- Lower recruitment and human resources costs than non-family businesses.
- More efficient communication and greater privacy in the exchange of information, due to the use of a common "family language".
- Increased motivation, loyalty and trust resulting from family relationships.
- Minimized agency costs, since the owner and the management are the same persons.
- Long-term perspective and commitment by the family members.

Weaknesses

- Poor governance and internal organization.
- Inappropriate and inadequate risk management systems and accounting practices.
- Lack of modern organizational structures.
- Confusion between family and business matters.
- Communication problems between family members of different generations.

The basic obstacles in the development of the Greek family businesses are human resources issues, bureaucracy, the unstable tax laws and international competition, as well as family conflicts and lack of succession planning.

The challenges faced by the Greek family businesses are more or less the same as the ones faced by non-family businesses, but the emotional attachment to the business from the family members can sometimes become a serious threat to the existence and development of the business.

According to the aforementioned PWC survey, the most important challenges for Greek family businesses are:

- Business strategy formulation (70%)
- Staff employment (27%)
- Transition of ownership or control to the next generation (22%)

There are two major threats related to the development of family businesses. The first one is **conflict resolution** among family members, and the second is **resistance to change** mainly from the older generation.

Operating within a business environment which is constantly becoming more challenging, demanding and competitive, family businesses can only achieve sustainable growth and development through **professional management and effective organization**.

4. Problems from the transfer of family business to the next generation

One of the most critical phases in the life cycle of an enterprise comes at the time of transferring its ownership. Preparing for a business transfer is a long and complex process and can entail a number of problems. The first kind of problem is psychological or emotional. Many entrepreneurs, especially those who have created and build up their own businesses over a number of years are reluctant to go and to prepare the transfer of their business to the next generation. The second kind of problem is related to the complexity of the business transfer process and to the fact that the entrepreneur has no experience or knowledge of how to handle this situation. The third kind of problem stem from national legislation (company law, taxation and administrative formalities). High inheritance and gift taxes, time consuming formalities, problems of changing the legal form and of transferring the assets of an enterprise are some examples of problems in this area, (Helping the Transfer of Businesses, 2003).

In a number of EU countries appropriate structure has been created for a successful transfer of family businesses to the next generation. The Finish Employment and Economic Development Centers offer a business tool “passing the baton” that helps to manage the generation shift. This service considers suitable candidates for succession, determines the financial worth of the enterprise, clarifies tax and judicial aspects and accesses the alternative forms of financing. In Netherland the Council of Entrepreneurship in cooperation with a bank and an accountancy firm developed a support structure for succession in family businesses called “From single project to a path of overall support: Towards an integrated method of information and advice on the transfer of family businesses”. A similar support structure in Greece would help considerably the transfer of a family business to the next generation especially this time when alternative employment opportunities of family businesses’ members are very limited.

According to a survey conducted by the Thessaloniki Chamber of Handicraft, Greek family businesses face a succession problem after its founder’s retirement. Nearly 50% of the participated craftsmen replied that their businesses will stop operating as their successors are not interested in. They prefer to find out a safer position in the public sector than the uncertainty of a privet enterprise. After the fiscal crisis in Greece this situation is gradually changing. Provided that alternative employment opportunities especially for the young generation are very limited, family businesses successors are eager to undertake their ancestors’ businesses as a carrier opportunity.

The ideal process securing a successful family business succession, according to J. Lambrecht and R.Donckels

(2006), includes six stepping stones. The first stepping stone is *intrepreneurship*. This means the transfer of professional knowledge, management values, entrepreneurial characteristics and the soul of the family business to the following generations. The second stepping stone is *studies*. Most successors get a higher degree before their full time entry into the family business. *Internal education for family members at a young age* is the third stepping stone. They learn the figures of the company, its future and its values during organized training sessions and by attending board meetings. The fourth stepping stone is *the acquisition of outside work experience in other companies* at home or abroad. Within the official start in the business we have arrived at the fifth stepping stone which is the *successors should start at the bottom rung*. Before the succeeding generation holds a manager position it passes through the various departments of the company. Successors must win the confidence of the employees, discover the company, the sector and the customers and learn from their mistakes. The final stepping stone relates to *a written planning and agreements*. There must be a foresight in case of death or resignation of a family member. In such cases written plans may not guaranty for a successful transfer, but poor planning can prove costly for the company and the family, (Lambrecht & Donckels, 2006).

According to Kyriazopoulos & Samanta-Rounti (2007), only 32.4% of the Greek family businesses have a second generation perspective. Large firms are more concerned with issues such as selecting, preparing and training the next generation than small firms. According to their survey "the second generation tends to be reasonably well prepared, both in terms of their educational background and experience. They tend to start at the bottom of the company and spend a number of years serving in a variety of capacities throughout the organization", (Kyriazopoulos & Samanta-Rounti, 2007).

5. Conclusion

Family firms are important not only because they make an essential contribution to the national economy, but also because of the long-term stability they bring, the responsibility they feel and the values they stand for. One important advantage of a family business is its ability to survive in times of economic crisis. Greece has one of the largest numbers of SMEs within the EU and most of them are family businesses. The common feature of family businesses in Greece is the fact that they are owned, managed and influenced by the members of the family. As far as corporate governance is concerned, Greek family-owned businesses are under-governed. The basic obstacles faced by the Greek family businesses are human resources issues, bureaucracy, unstable tax environment, as well as family conflicts and lack of succession planning. Preparing for a business transfer to the next generation, is a long and complex process and can entail a number of obstacles. Professional support bodies in Greece would help considerably the transfer of family businesses to the next generation. As alternative employment opportunities are very limited, especially among younger people, family business successors are eager to undertake the fate of the family business as a carrier opportunity. A life-long process, consisting of six different stepping stones, is strongly recommended for a successful transfer of the Greek family businesses to the following generation. Only 1/3 of the Greek family businesses, mainly large firms, have a second-generation perspective.

Acknowledgements

This research has been co-financed by the European Union (European Social Fund-ESF) and the Greek national funds through the Operational Program "Education and Lifelong Learning" of the National Strategic Reference Framework (NSRF)-Research Funding Program: ARCHIMEDES III- Investing in Knowledge through the European Social Fund.

References

Andoniadis I., 2007. Family Control and Firm Performance in the Greek Listed Firms. *Proceedings of the 4th International Conference on Applied Financial Economics,* Samos Island, Greece, pp 403-410.

Chrisman J.J. et al 1998. Important Attributes of Successors in Family Businesses: an explanatory study, *Family Business Review,* Vol.XI, No 1, pp 19-34.

European Commission, 2003. *Helping the Transfer of Business: A 'good practice guide' of measures for supporting* *the transfer of businesses to new ownership.*

European Commission, 2008. *Overview of Family Business Relevant Issues*, Study conducted by the Austrian Institute for SME Research.

Family Business Survey, 2006. Grant Thornton & Center for the Entrepreneurial & Technological Development of North Aegean, (accessed 14/4/2008; www.keta-ba.gr).

Family Business Survey, 2006. PriceWaterhouse&Coopers (accessed 15/4/2008; www.pwc.gr/fbsurvey).

Handler W., 1994. Succession in Family Business: A Review of the Research, *Family Business Review,* Vol 7, Iss: 2, pp 133-157.

Lambrecht J., 2004. Towards a Business Family Dynasty: A life process (accessed 1/11/2004; www.campdenfb.com/article)

Lambrecht J. and Donckels R., 2006, Towards a Business Family Dynasty: A life long, continuing process, in the *Handbook of Research on Family Business*, edited by Poutziouris P., Smyrnios K. and Klein S., Edward Elgar Publishing Ltd, UK, pp 388-401.

Lansberg I., 1988. The Succession Conspiracy, *Family Business Review,* vol. 1, No 2, pp.119-143.

Kyriazopoulos P. and Samantha-Rounti I., 2007. Problems and Opportunities of the Relationships between the First and Second Generation of Self-Managing Family Businesses, *7th International Congress Marketing Trends*, Venice, Italy (accessed 13/4/2008; www.escp-eap.net/conferences/marketing

Moriss M. et al, 1996. Factors Influencing Family Business Succession, *International Journal of Entrepreneurial Behavior and Research*, Vol.2, Iss: 3, pp 68-81.

Shurma P., 2004. An Overview of the Field of Family Business Studies: Current Status and Directions for the Future, *Family Business Review,* Vol 17, Iss: 1, pp 1-36.