

# **FAMILY BUSINESSES IN THE NEW ECONOMY: HOW TO SURVIVE AND DEVELOP**

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## **ABSTRACT**

The family businesses have a significant role to play in the strength and dynamism of the European economy and long-term stability. Across Europe around 70-80% of all enterprises are family businesses and totally they comprise employment around 40-50%. In Europe the family business sector is dominated by Small and Medium Sized Enterprises (SMEs), and particularly by micro enterprises with less than 10 employees. Family businesses are active in all sectors of the economy. Most of the family businesses can be found in traditional and labor intensive sectors. However, a shift towards more modern industries is taking place.

The family businesses involve three overlapping elements that make them different from other types of business, namely the family, the business, and the ownership. Although many of the challenges facing family businesses also concern SMEs in general, some affect family firms more specifically, and others are exclusive to only them. Some challenges stem from the environment in which the firms operate (inheritance, taxation etc.), others are connected to the family firm's internal matters, such as balancing the business, family and ownership aspects, succession and internal conflicts between family members and ascertaining professional business management. Family businesses compared to other businesses are characterized by two dynamic and sometimes conflicting reference systems - the family (the emotional) and the company (the professional). Private and personal interests may be transferred to the company and vice versa. As same persons may have different overlapping roles in family business it is not easy to find balance at times. Despite the fact that family businesses contribute significantly to economic activity and employment, comparatively little research has been carried out to identify the needs, aspirations and challenges of European family businesses.

This paper recognizes the importance of family businesses in both the Greek and the Finnish economy and the need for in-depth research about the dynamics of family businesses, the difficulties they face (strategy, succession, internal conflicts etc.) and factors influencing their survival (endurance) and sustainability. Despite the differences in economic structure and culture both Greece and Finland are small countries in the outskirts of Europe with a high percentage of family businesses. Greece relies on the service sector and in particular on tourism, whilst Finland counts on a highly industrialized manufacturing sector and is one of the economically and politically most stable countries in the world. Culturally Finns are known to be hard-working with an introverted nature and direct communication style, compared to Greeks who are more outgoing and highly value personal relationships and networks.

Currently a cross-cultural study between Greece and Finland is undertaken. It includes an extensive literature review for deeper understanding of the research variables. In addition it incorporates a qualitative and quantitative research methodology. Personal site visits and interviews will be carried out to obtain deeper understanding of the research problem and to support the design of a survey instrument, comprising an on-line structured questionnaire aiming to collect rigorous data for statistical analysis of 100 family businesses in both Greece and Finland.

This paper describes the study and some early results from the interviews.

## **KEYWORDS**

Family business, Greece, Finland

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## JEL CLASSIFICATION CODES

M10, M12, M14

## 1. INTRODUCTION

Numerous attempts have been made to articulate conceptual and operational definitions of family businesses. Most efforts have focused on defining family businesses in terms of distinguishing them from non-family businesses and seem to revolve around the role of the family in the vision of the firm, the resources and capabilities, as well as control mechanisms used in the firm (Chrisman et al., 2003; Habberson et al., 2003). In this paper we adopt the definition by The PriceWaterHouseCoopers (2008) articulating that family businesses are *'those companies in which at least 51% of the shares are held by a family or related families, the family members comprise the majority of the senior management team and the owners have day-to-day responsibility for the management of the business'*.

According to the European Commission (2003) SMEs count for a total of 99 per cent of all enterprises providing a total of 75 million jobs in diverse fields. In Europe about 70-80% of all enterprises are family businesses covering employment around 40-50% (Mandl, 2008). In Europe most of the family businesses are SMEs or micro enterprises with less than 10 employees operating in traditional and labor intensive sectors. However, recently a shift towards more contemporary fields is taking place.

Although smallness may be a benefit in some aspects on the business level, it may have some downsides, particularly on the practical day to day level such as keeping up to date with legislation, management issues or information and communication technologies to name a few. In addition, those SMEs that identify themselves as family businesses also have to fight with a set of issues stemming from family networks and relationships.

The rest of this paper will proceed as follow: First we summarize the family-business-ownership dilemma followed by a discussion of main characteristics of family businesses. Unique characteristics of family businesses in times of crises are discussed and our cross-cultural study between Greece and Finland is presented starting with the research methodology, a comparison between Finland and Greece in the context of family businesses and some early results from interviews carried out in both countries. Finally we conclude by summarizing the issues raised by outlining further work.

## 2. FAMILY-BUSINESS-OWNERSHIP DILEMMA

The family businesses involve three overlapping elements that make them different from other types of business, namely the family, the business, and the ownership (Taqiuri and Davis, 1982). Families spend a great deal of time and money trying to sort out questions of family governance and ownership structures.

Figure 1 implies the following principles: Each segment represents a family member with a stake (interest) in the family business and a point of view about what should be happening. By other words: any individual in a family business system falls in one of the seven sectors created by the three circles of corporate governance.

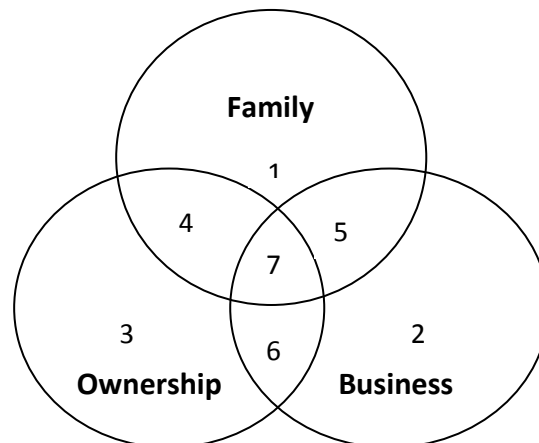


Figure 1: Interrelationships in Family Businesses (Taqiuri and Davis, 1982)

The different segments from 1 to 7 can be explained as follows:

1. Family management and decision making. Seizing opportunities are often provided among family members as shareholders. External investors are individuals and institutions who own part of the business, but who do not work within the business and are neither members of the family. Examples of external investors are venture capitalists, banks and/or business angels. They are interested in return on their investment and often expect business decisions to be clearly separated from family dynamics.
2. Management and employees are neither owners nor family members. They are concerned with career prospects and job security. Many family businesses recognize the problems of recruiting and retaining the best employees, but many times a conflict can arise and the business may be overlooked in favor of irrational and emotional decision making. Opportunity emergence can be sudden and intuitive and decision making in the opportunity-seizing process is often based on individual decision making
3. Owners as managers. Family firms are in general not growth oriented but innovative and flexible. General management can create conservative thinking and behavioral patterns that prevents opportunity recognition (Corbetta and Salvato, 2004; Gallo, 2004; Koiranen, 2000). Sometimes shares or equity linked rewards are given in return for recruiting and retaining key non-family employees. However these are usually small stakes, strictly controlled and not easy to realize.
4. Inactive owners. The ownership of a family business that survives the first generation often succeeds from a controlling owner to family members who do not work in the business. Their interests tend to be a combination of the expectations of external investors blended by a sense of family responsibilities.
5. Family. Every member of a business family has an investment in the family business whether or not they are actively involved in ownership or employment. Long-term trust and loyalty in family businesses are characteristics of family firms, such as 'responsible ownership' and 'interest in social behavior' can increase choice of value added opportunities.
6. Family employees. Family members who work in the business but do not own shares will be concerned with career development. The family employees' decision to grow the business may be tempered by the fact that their efforts will benefit the passive owners/relatives. These feelings are sometimes caused by a blurring of the distinction between rewards for employment and return on investment.
7. The controlling owner. Someone who owns a business, occupies a senior role in management and the family, will face many conflicting choices during their business and private life, especially when it comes to succession. New generation of the family business entrepreneurs can be interested in opportunity estimating and opportunity seizing to compete at the markets (Corbetta and Salvato, 2004; Gallo, 2004; Koiranen, 2000).

Despite the fact that family businesses contribute significantly to economic activity and employment, comparatively little research has been carried out to identify the needs, aspirations and challenges of European family businesses.

### **3. MAIN CHARACTERISTICS OF FAMILY BUSINESSES**

Although many of the challenges facing family businesses also concern SMEs in general, some affect family firms more specifically, and others are exclusive to the family businesses. Some challenges stem from the environment in which the firms operate (inheritance, taxation etc.), others are connected to the family firm's internal matters, such as balancing the business, family and ownership aspects, succession and internal conflicts between family members and ascertaining professional business management. Family businesses compared to other businesses are characterized by two dynamic and sometimes conflicting reference systems - the family (the emotional) and the company (the professional). Private and personal interests may be transferred to the company and vice versa. As same persons may have different overlapping roles in family business it is not easy to find balance at times. For example as a parent it is easy to hire your family member although they would not be the best person for the job at hand or treat competent family members still as children. An opposite example would be that the business takes over the family life so there is no room for intimate family life. The characteristics of family businesses can also be categorized in tangible and intangible characteristics as

in figure 2, which shows economic endowment and performance on the tangible side, while motivation/drivers for family businesses and social endowment on the intangible side. Interrelationships explained in figure 1 are overarching characteristics influencing all the other characteristics of family businesses either directly or indirectly.

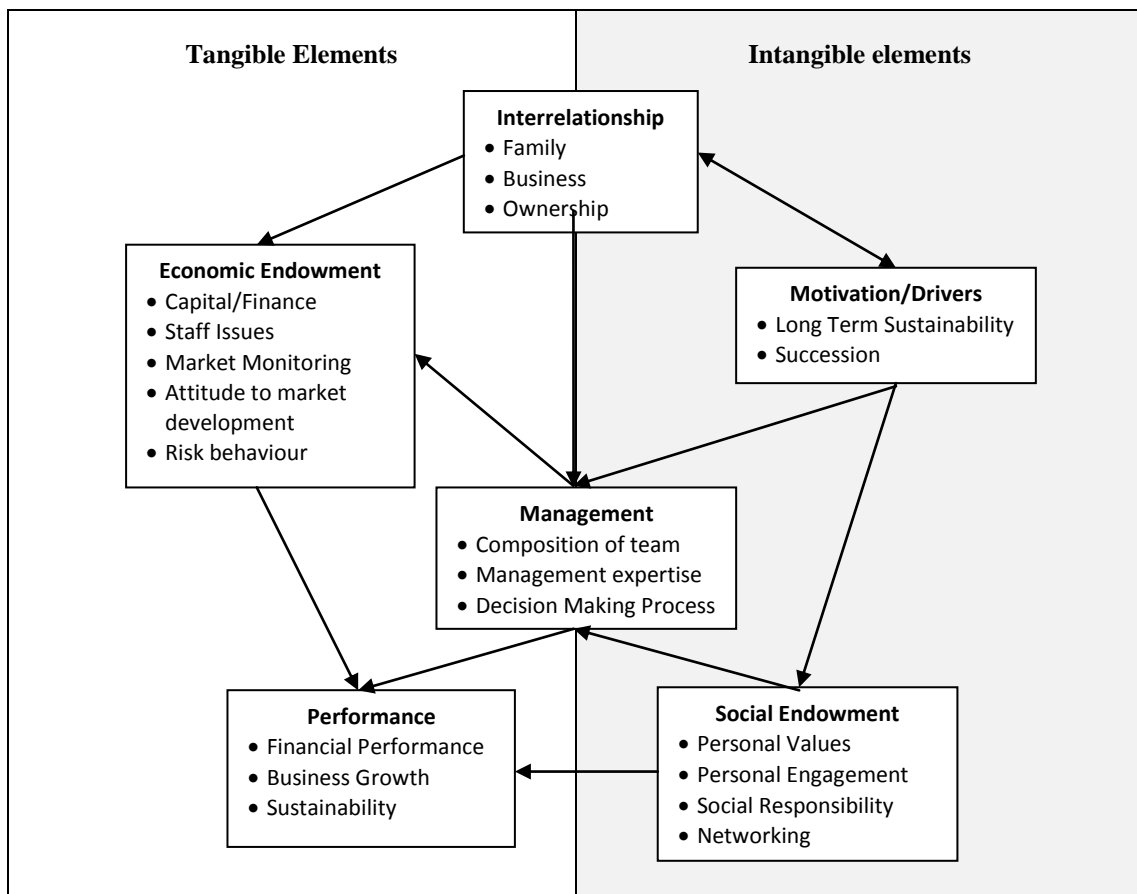


Figure 2: Specific Characteristics in Family Businesses (adapted from Mandl, 2008)

The arrows in figure 2 are one-way showing the source of the influence/characteristic except of the arrow between Motivation/Drivers and Interrelationship, which is two-way because of the influences as eg. family, business and ownership are likely to influence the succession, and vice versa. The business successions and the effects of their failures have recently increased the popularity of public discussion regarding family businesses. Within family businesses, there is a very strong interrelationship between the family and the business. The family is (formally, but also informally) at the centre of the company. This results in two structures encountering each other, namely the family and the business, increasing the potential for conflict which affects the family, the ownership and the business sphere.

Family businesses tend to focus on the firm's long-term sustainability rather than realizing short-term profits and on realizing generational changes in ownership and management. In line with this, family businesses are on average older 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 endowment and cultural capital. The latter refers, for example, to the value system, i.e., the importance of honesty, credibility, modesty, respect etc. On the one hand, this has led to particular emphasis being placed on the personal commitment and engagement of family members within the enterprise and, on the other hand, on the firm's engagement in (local) Corporate Social Responsibility activities.

Another characteristic of family businesses, placed in between tangible and intangible characteristics, is the dominance of management from within the family. In this context, paternalism and nepotism/favoritism are also often prevalent in family firms, as is the existence of emotional and informal decision making. This affects the "business culture" of the family business. Bases for creating the business culture are the moral values. Business culture is defined as "the shared values in which a particular group of people believes, which remain stable over time even if a team member leaves". (Denison et al, 2004).

For the family business the concept of business culture is more complicated. The company's founder is a primary personification of the business culture (Barney, 1986). Because of the dominant role of the founder his/her personal values and motivations are key factors of the configuration of the business culture. The business culture does not only exist during the first years, but also when the command passes to the next generation (Denison et al., 2004).

The dominance of management affects also the strategic planning. Based on research conducted in 2010, in implementing strategic planning in SMEs in Greece, family businesses are lacking in strategic planning and use of marketing tools (Koufopoulos et al., 2010). The personal character of administration, the lack of expertise in marketing, the different cultures that coexist in the system "business" and affect the business culture, the different vision of generations involved in the administration and finally quite often, the distrust of management regarding the usefulness of techniques and tools, have as result the limited application or even the absence of modern marketing techniques in operational practice. The fact is that marketing is used sparingly by small family business (Stokes, 2000).

The capitalization of family firms stems mainly from family funds and bank loans. Profits are often reinvested in the company and the owners are more willing to wait for a return on their investment. Non-family businesses, take in general more dynamic and unpredictable routes/risks, while Family businesses' growth course is quite stable and continuous. Family business networks seem to focus their activities (mainly networking, information provision and lobbying) on the family business sector.

Every family has its own dynamics and life cycle. Because of significant assets together, families who own businesses have a special need for a shared sense of who belongs to the family. Gersick et al. (1997) developed a four-phase family life cycle with unique characteristics and challenges define each stage, based on the life histories of hundreds of family businesses:

- Start-up phase: the business is launched. Relationships with the spouse partner and extended family are established, and children are raised.
- Midlife transition: members of the younger generation grow up, separate from home, and make initial career decisions.
- Working together: parents and children learn to collaborate, develop strategies and solve conflict in the family business.
- Succession: parents disengage from the business while the next generation takes over family leadership.

#### **4. FAMILY BUSINESSES IN TIMES OF CRISIS**

Entrepreneurship can be considered as the real backbone of the Western economies creating needed structure and stability, especially during difficult economical times. It has been argued that whereas big corporations turn to downsizing and cut offs in hard times, the SMEs are often more patient and persistent with their practical day to day operations and ownership structure (Mandl, 2008). According to an article published by the Piraeus Traders Association (2009) the family businesses have greater resistance toward the impacts of the financial crises, due to the special family ties that can help them overcome problems with minimal losses.

According to a research carried out in Greece (Vlachakis et al., 2011), family businesses have in-built mechanisms that can operate in crisis periods and thus contribute to meet the business needs more effectively, compared to a non-family business. Such mechanisms are:

- a) The economic crisis can be perceived as forced "*opportunity*" for organisation in many functional areas of the business. It converts into a cause of reorganisation of business plans and helps the company to adopt more formal management procedures for decision making.
- b) The combination of emotion with entrepreneurship brings family members around the common goal and through the effective cooperation of two separate systems of "*family*" and "*business*" they create a dynamic growth in the middle of the crisis. Similarly the Piraeus Traders Association (2009) asserts that the family businesses combine emotion with entrepreneurship and create a unique dynamic decision pattern with strong responsibility. Every family business has invested in the relationship business and family, which help them to cope with the crisis, but also help them to create dynamic growth despite the crisis.
- c) The weight of the failure of a family business leader is much larger than that of a manager of a non-family business. There is high risk to the family property, negative publicity for the family's name, and the sense of cancellation of the family's legacy. Therefore responsible management is exercised, by adopting constant self-control aiming to avoid major errors. Similarly the Piraeus Traders Association (2009) considers that in times of crises the concept of

responsible management in family businesses is more obvious, due to the fact that in family businesses there is constant self-assessment and self-criticism, aiming to discover shortages in the property for coverage through the family or from the market.

- d) An essential element contributing strongly in response to the crisis is adopting a lean and flexible budget. While this is obvious for non-family firms, family ones have the advantage of being motivated and supported by all members of the family who are involved in the family business; they share anxieties and problems; they are willing to work long days under difficult conditions, and often they are limitedly rewarded.

Wang and Zhou (2012) give new evidence examining whether family firms are better performers during the global financial crisis. Using a several dataset covering firms from US, UK, Germany, France and Italy during the period 2006-2010, according to the paper broadly defined family firms do not outperform non-family firms in the crisis. However, family firms with founder presence (as CEO, a board member or a significant block holder) outperform by 18 percent relative to non-family firms in Operating Return on Assets (OROA). Tobin's Q of founder firms, by contrast, does not exhibit difference. Wang and Zhou (2012) interpreted the attenuation of the market value premium of founder firms as the result of high volatility of stock prices and investors' overreaction during the crisis. In the crisis, compared with non-family firms, founder firms have less administrative cost incurred, less investment and better access to credit market. The founder firms have less incentive to over-invest in risky projects with high likelihood of failure. The results suggest that in the financial crisis, founder firms bear the least agency cost and Tobin's Q is not a good measure of corporate performance (Zhou 2012).

## **5. RESEARCH METHODOLOGY**

Lately there has been a significant growth in the field of family business research (Chua et al., 2003; Zahra and Sharma, 2004). Family business research has been dominated by positivistic and quantitative research approaches, especially surveys. Scholars, such as Heck et al. (2008) and Sharma (2004) argue that alternative research approaches are likely to bring added value to the field due to the specific complexity and dynamics unique to family businesses.

The research methodology in our study includes a multimethod approach, also called triangulation (Brewer and Hunter, 1989; Sawyer, 2000) , involving the use of several data collection techniques in a parallel sense in an organized manner in order to provide multiple data sets with overlapping information regarding the same phenomenon (the family business).

Brewer and Hunter (1989) consider that the multimethod approach is not just an aggregation of styles but an important research method that provide obvious advantages in combining quantitative and qualitative research methods by crosschecking validity of findings and offering access to different levels of reality. A multiple method of data collection (fieldwork and surveys) is especially useful in order to integrate different perspectives, check the accuracy of each set of results and for comparing data from different methods or techniques in order to provide overlapping information. This involves comparing quantitative and qualitative data in an intertwined way.

The literature differentiates between intensive and extensive work. Intensive work examines many variables in few cases. Our approach includes two stages, starting with an interpretive approach within the broader umbrella of qualitative methods (interviews) for obtaining an authentic insight into family businesses. Thus a means for exploring the points of view of the research subject is gained. The objectives of this stage of detailed and in-depth interpretive pre-test interviews aim to a richer and deeper understanding of family businesses. The family businesses are often in the literature treated as a homogenous similar group compared to non-family businesses, but in reality there are also different types of family businesses (Westhead and Howorth, 2007). More critical and in-depth interpretive approaches can help to generate insights with regards to the specific challenges and characteristics of different forms of family businesses (Melin and Nordqvist, 2007). By using semi-structured interviews the respondents are allowed to say what they think and to do so with greater richness and spontaneity than when using only quantitative research approaches. The open-ended questions will be used as a guide to allow the discussion to reflect opinions that lead to issues and questions not always programmed in advance. This will be in particularly useful for identifying characteristics that may be important in the certain countries, but not reported in the literature. The interviews will be recorded on tape and written in a text file for analysis. The main objective of our study is to compare family businesses in Finland and Greece in order to find similarities and differences.

The second stage in our study will incorporate extensive work that examines few variables across a large number of cases. The results from the first stage will be used for developing a suitable structured questionnaire to be distributed to a broader target group of family businesses. The data that will be collected will be analyzed by a statistical tool, such as the SPSS, for verification of the results found in the interpretive approach.

The main hypothesis in our study is that due to cultural differences in the two countries there are differences in the family businesses in four groupings identified in the literature review, namely strategy, management / governance, succession and conflicts.

## 6. COMPARING GREEK AND FINNISH FAMILY BUSINESSES

Family businesses seem to have an important role both in Greek and in Finnish economy. Table 1 shows the shares of family businesses both in Greece and Finland. Despite the differences in economic structure and culture both are small countries in the outskirts of Europe with a high percentage of family businesses. Greece relies on the service sector and in particular on tourism, whilst Finland counts on a highly industrialized manufacturing sector and is one of the economically and politically most stable countries in the world. Culturally Finns are known to be hard-working with an introverted nature and direct communication style, compared to Greeks who are more outgoing and highly value personal relationships and networks.

Table 1: Shares of family businesses in Finland and Greece (Mandl, 2008)

	Shares of enterprises	Shares of employees	Shares of turnover	Source
FI	80 %	More than 50% of workforce within the private sector	40 % of all businesses	Koiranen, 2002 Stenholm, 2008
FI	86 % (65 % consideration of business owner)	75 % of SMEs' employees	70 % of SMEs' turnover	Heinonen and Toivonen, 2003
GR	80% (consideration of business owner)			Agapitou and Theofanides, 2008
GR	52%			EOMMEX, 2007

Greece is the country in Europe with the highest percentage of family businesses (Kyriazopoulos and Samanta-Rounti, 2007). Percentages between 52% (EOMMEX, 2007) and 80% (Agapitou and Theofanides, 2008) have been mentioned. Similarly with Greece also Finland has a very high percentage of family businesses and depending on definition even percentages as high as 86% have been reported (Heinonen and Toivonen, 2003). According to an EU expert group (Stenholm, 2008) can 80% of all Finnish enterprises be defined as family enterprises when optimistic estimations and a broad definition are used. The fact is that in both countries the family businesses play an important role in the economy of the country. The presence of family businesses has been rather visible during the last decade in Finland. The role of family businesses as employers has often been emphasized due to the fact that family businesses employ more than half of the workforce within the private sector and produce 40% of the total turnover of all businesses. Finnish family business owners are older than their colleagues in other EU countries. In Finland the share of 55-74 year old owners was 31 % during 2011 (Yrittäjyyskatsaus, 2012).

Some interesting findings were revealed in a PhD thesis regarding Finnish family businesses, namely that *“Finnish respondents did not seem to view money as an end result but a tool with which to gain free time, which can be seen as a symbol of success and the result of hard work”*. However, the Finnish family business members often dealt with work-related matters during their free time (Laaksonen, 2012).

In Finland the pensioning of the owner has been estimated to be somewhere between 3500-4700 persons annually. The family business successors often (68 %) have been working in their family company - only 30 % of the successors have worked in other companies than in their own family business. In Finland the old owners seldom talk with their children (40 % never and 19 % sometimes) about their wish that one of the children would take a leading role in the company after they have retired. In total 56 % of Finnish family owners give the freedom to their children to decide whether they will take over the business after the parents withdraw (Varamäki et al 2012).

## 6.1 Initial results from interpretive interviews

The objective of the pre-test qualitative stage of analysis was to carry out several detailed and in-depth interpretive interviews in order to obtain a deeper understanding of family businesses. The first set of interviews included six interviews of family businesses, where the successors were Information Technology students and the family business was in another field. All five family companies were micro-firms with 1-10 employees. Both parents and successors were interviewed.

The challenges identified in these family businesses were mainly related to the paternalistic type of management and the distrust of the older generation in the abilities of the successor to introduce new contemporary technology which would add value to the business. The younger generation of successors was more willing to take risks, while the parents were more concerned about cost-issues and break-even points of new investments. This led to conflict in many cases. However, the interviewees recognized the necessity to reduce the gap between the generations. The older generation acknowledged that contemporary Information and Communication Technologies (ICTs) are necessary for the business and the successor acknowledged the business experience of the older generation.

The lack of a common vision and long-term strategy seemed to be an important issue in the Greek family businesses. All the five successors had started their studies with a dream of another future than taking over the family business. On the contrary the dream and motivation of the parents was to safety-guard financial-wise the future of the children, who were expected to take over the firm in the future. The studies of their children were anticipated as important, for bringing new knowledge into the family business. The financial situation and the high unemployment rates in Greece, especially among young people (official data show 57%) created a 'push' situation, where the successors had no other choice than contributing to the family business.

Regarding family tradition Birdthistle (2008) articulates that having self-employed parents increase the propensity of self-employment and Harris & Gibson (2008) that students with family business experience have more developed entrepreneurial attitudes. In Greece it proved that the financial crises forced family businesses to better cope with the crisis than non-family businesses. The successors who would have preferred a career outside the family business returned to the family shelter, which offered new entrepreneurial opportunities.

In a parallel field-study, based on 15 interviews, we investigated the basic problems of family business in Greece. As a general result we can mention that, the Greek family business faces the same problems as the family businesses in other countries, moreover faces some particular problems due to socio-economic system of the country. Strategic plans do not exist as written plans. In general, there is lack of methodical application of measures, based on a specific plan. Important strategic decisions are taken, at a rate greater than 60%, by the company founder. In 40% of the interviewed family businesses there exists a family council. Its role is advisory. It can be characterized as an informal tool, because it operate spontaneously and not in accordance with predetermined procedures.

The continuous interaction between the subsystems "business" and "family" causes conflicts. Main causes for the conflicts are the gap between generations, the level of wages, unclear responsibilities, Authoritarian Management style applied by founder and finally involvement of the parents in the business in cases when the succession is already completed.

The process of selecting and preparing a successor seems to be a very important issue for Greek family business owners. Most of the Greek family businesses (more than 80%) have a succession plan. The high degree of preparation for succession can be attributed to the uncertain working environment and the high Uncertainty Avoidance index (114) in Greece according to Hofstede (2001). The expression we have heard by all the interviewees was characteristic, "*we have to do something for our children*".

There are some peculiarities of the Greek family businesses due to the socio-economic system of the country:

- a) The unstable tax system;
- b) The founders of family firms are self-created entrepreneurs, they founded their own business to secure work for themselves and for the members of their family and they operate more under conditions of "*necessity / push entrepreneurship*" and less of "*opportunity / pull entrepreneurship*".
- c) The low level in extraversion due to the small company's size, the low knowledge of using marketing tools, the low available funds.



## 7. CONCLUSION AND FURTHER WORK

In this paper we discussed the main characteristics of family businesses compared to non-family business and the family-business-ownership dilemma. We described the cross-cultural study that currently is undertaken regarding a comparison of family businesses in Finland and in Greece.

This paper concentrated on unique characteristics of family businesses in both countries and the on characteristics in times of crises. Finally we concluded with some early results from interviews carried out in both countries, which gave strong indications about the correctness of our main hypothesis, namely that due to cultural differences in the two countries there are differences in the family businesses in four groupings identified in the literature review, namely strategy, management / governance, succession and conflicts.

Further work will include a quantitative study of the research parameters by sending questionnaires to family businesses in both countries. The FAMBUS project recognises the importance of family businesses in the Greek and Finnish economy and the need for in-depth research about the dynamics of family businesses, the difficulties they face (strategy, succession, internal conflicts etc.) and factors influencing their survival (endurance) and sustainability. Future work aims to develop a model for self-therapy (diagnostics – therapy (modernization, adoption to environment, to globalization etc.)), including an electronic tool to be used by family businesses for identification of potential problem areas and potential activities for their solutions.

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