

CHALLENGES AND PROBLEMS THAT FAMILY BUSINESSES FACE

Lidija Stefanovska¹ 
Taip Jakupi²

DOI: <https://doi.org/10.31410/LIMEN.2020.201>

Abstract: *It is a fact that the family business is becoming increasingly interesting for researchers in the field of management. From here the initial basis for their special treatment is drawn, since their holistic treatment with other MSMEs still does not emphasize their uniqueness in many aspects. If the importance of these family businesses is supported by the fact that they participate with 70% in the GDP of Europe as well as the fact that they employ up to 60% of the labor force in Europe, then it is more than clear that the scientific community should pay much more attention to these businesses.*

The paper aims to cover the biggest challenges and problems faced by family businesses, especially in terms of their management, inheritance, organizational communication and vision for their development, as segments where the biggest problems are observed.

Keywords: *Management, Specifics.*

DEFINING AND SIGNIFICANCE OF FAMILY BUSINESSES

There is no doubt that family businesses are an important segment of a country's overall economy. They can be of various sizes and types and occur in several legal forms. Although there are numerous definitions in literature, none of them can fully capture their diversity, so very often the treatment of these businesses is equated with other MSMEs. As regards the number of definitions for family business, a group of authors concluded that due to the unique institutional-legal contexts in countries around the world, it makes no sense to come up with a definition that could be universally applicable. However, each study must explicitly state what is meant by family business, as different definitions lead to different findings (Carney, 2005). Nevertheless, in order to exit this vicious circle, a broader general definition of a family business is accepted today, which states that "a family business is a company where one family has enough capital to be able to control the management strategy of the family business." (Colli, Rose 2008).

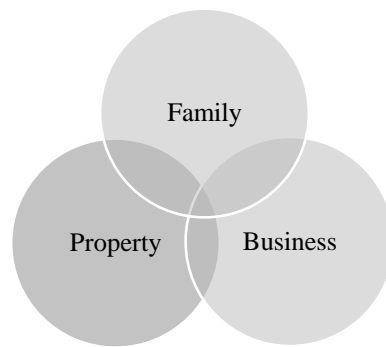
In this regard, the model of the three circles for family businesses is accepted, according to which it can be noticed that family businesses form unions and subsets of three main factors, which are: family, business and property.

These three basic elements of family businesses are the foundation not only for their good ongoing functioning, but also for their continued existence in future generations. In essence, caring for the sustainable growth of these businesses, families should be equally careful about preserving family and emotional relationships, which, if not nurtured, can have lasting and fatal consequences, disrupting all three circles: family, business and property.

¹ Business Academy Smilevski – BAS Skopje, North Macedonia

² Business Academy Smilevski – BAS Skopje, North Macedonia

Figure 1. The model of the three circles for family businesses



Source: Michail Harvey, Rodney E. Evans: Family business and multiple levels of conflict
Family business review, Vol.7, No.4, Winter 1994, p. 335.

FAMILY AND BUSINESS

The data that 85% of companies in Europe are family businesses, as well as the fact that they account for 70% of GDP in Europe and employ up to 60% of the workforce in Europe, presents that special interest should still be shown in creating guidelines on how to manage family businesses (adapted according to Vadjal, 2020).

The main feature of family businesses is the close relations between the employees. When it comes to family businesses, for the most part it seems that these are small businesses that start modestly and very often remain so. Nonetheless, it is not uncommon for family businesses to grow into real business empires, among which we can mention: Motorola, Koch industries, Bechtel, Facebook.

The main advantages of running a family business are: strong family ties, knowing each other and good communication, respect for family values, commitment to success for the good of the whole family, long-term goals. One of the major drawbacks of this business is that some personal disagreements can reflect on the harmony in the business. Sometimes people are overwhelmed with each other because they spend a lot of time together, both at work and at home (<https://biznisinfo.mk/semeen-biznis-koi-se-prednosti-i-nedostatoci/>).

Given this set-up, it is more than clear that these businesses need to nurture the long-term dimension much more, at the expense of short-term effects that are unfavourable both to the family and to the society. That is, family businesses tend to focus on the long-term sustainability of the company, the realization of generational changes in ownership and management, rather than making short-term profits and are considered one of the driving forces of post-industrial growth. Furthermore, they are credited with nurturing generational entrepreneurial talent, sense of loyalty and success in business and long-term strategic commitment (Poposka, Stanceva Gigov, 2018).

Research and theory suggest that there are, however, certain related components that need to be managed interchangeably if the family business tends to successfully adapt to the family on the one hand and the demands of the business on the other.

According to Shuklev (Shuklev. 2006) there are four components to successful family and business coordination.

- Maintaining an adequate border between the emotional issues of the family and the tasks necessary for successful development and operation of the business;
- Developing a justified structure that supports organizational cohesion;
- Developing a process and mechanisms that enable the family to resolve their own emotional issues;
- Developing a structure of tasks and processes that are tailored to the requirements of the business environment and are not dependent on unresolved family issues.

INHERITANCE AND ENSUING CONFLICTS

Inheriting a family business is an inevitable activity that raises many questions, but also many opportunities. In this context, it can be emphasized that the next generation inherits not only the business, but also countless opportunities for its development. It is not uncommon for many of the heirs to change the way of doing business after inheriting the business, and some of them to completely change the direction of the business.

Practice shows that there are positive and negative aspects to inheriting a family business. Namely, according to Vadjal (training materials, 2020), there are numerous negative aspects of inheriting family businesses such as:

- Pressure from parents (implicit and explicit) to inherit the business in a leadership position at any cost;
- Very often the choice of the firstborn from the family to inherit the family business;
- Recommendation from parents to complete business studies;

By analyzing the stories of successful family business inheritance, it can be emphasized that the successful ones do it in a different way:

- Work with their children from an early age (stories from the family tradition);
- Give them the opportunity to decide on their own future plans;
- Develop a strong motivational approach: gradual introduction to the family business and presentation of the fact of its importance for the family and employees;
- Where there is no interest, there is no beauty.

However, in order for a successful family business inheritance (succession) to occur, it is necessary to open and resolve the issue before serious reasons for it appear. Nevertheless, this is often not a top priority to address, primarily because of a lack of belief in the possibility of premature death or that the day of retirement or physical and mental inability to run the business will come. According to a report by IMD's Global Family Business Center, "the generational transition is statistically proven to be the highest risk for continuity and most families fail to cope with this effectively." (Schwass, Family Businesses: Successes and Failures).

The lack of interest of family members, their incompetence and lack of managerial knowledge greatly reduce the space for maneuver of the founder and narrow the options when thinking and making the decision to inherit the family business. If the family does not find an adequate person among its members to hold senior management positions, the owner can opt for a person who is not a member of the family, and with such a choice the family tradition is lost. Then, the best and most efficient way is for the heir of the family business to be a person who was positioned by the founder at higher executive levels and thus, together with him, that person was developing his/her business abilities and gained work habits and experiences. The family can recognize the heir of the family business and entrust him/her with corporate governance,

but it can also happen to recognize only a leader of the business and leave the management to someone who is not a family member. (Kruzlich, Bulog, 2012)

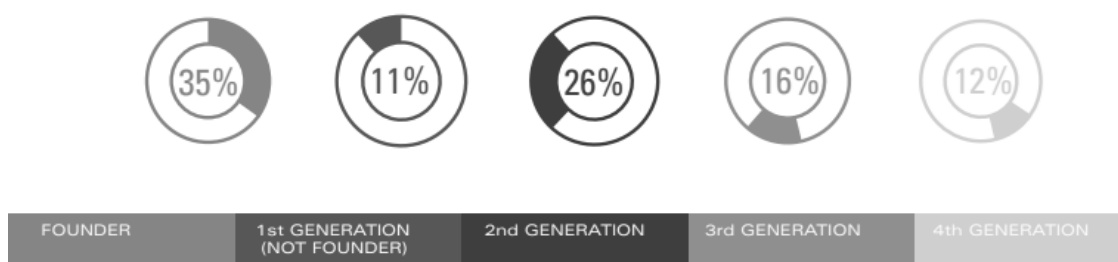
RESEARCH DATA

Based on the research conducted in the period May-July 2017 by the National Youth Council of Macedonia and CEFÉ Macedonia and in which most of the respondents or 85% were from the second generation of heirs, most of them stated that they need business strategy skills, effective communication and consensual decision-making skills on key family business issues. The survey confirmed that about 74% of businesses are small and medium enterprises and about 3% have more than 100 employees, which tells us that family businesses are mostly of micro and small size. This research included organizations from eight planning regions in the Republic of North Macedonia.

It is a surprising fact that 44% of the 500 largest family-owned companies worldwide are run by the fourth generation or more. "But, in general, less than four percent of all family businesses manage to reach a similar stage. In fact, with each new generation, one third of the family companies disappear. At the latest, there are many failed family businesses at the transition point towards the third generation of heirs. (<https://faktor.mk>)

Based on a study conducted by Seidman College of Business (Family owned business survey, 2014) on a representative sample of 690 family businesses, it is particularly interesting to note that these businesses demonstrated an impressive range regarding the youngest generation of members working in the business. The concentration of family members in the second, third and fourth (and further) generations working in these businesses, provides an opportunity to continue and to maintain the business under the family leadership of future generations. The research showed that the highest percentage of the top position of family businesses, i.e. 35% of the surveyed organizations are from the first generation and are founders, 26% of the organizations are from the second generation, 16% the third generation, 12% of the fourth generation or further and the first generation but not founder 11% of the surveyed organizations.

Figure 2. Distribution of generations to the top positions in family businesses

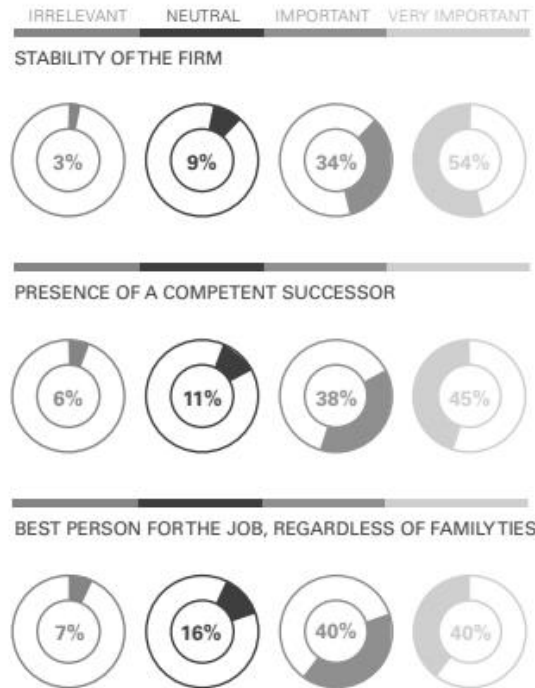


Source: Family owned business survey, (2014), Family Owned Business Institute, Seidman College of Business, pp.7

It is interesting to note that the average term of the top positions in family businesses is just over 17 years, and 15% of them are women. The survey has also shown that 79% of the surveyed family businesses are owned by one family. Other businesses are owned by more than one family with unequal representation (12%), while 9% had equal ownership by more than one family.

Regarding the planning of the succession, the respondents were asked to point out the importance of certain factors. The first three in order of importance are shown in the figure below.

Figure 3. Factors influencing succession planning in family businesses



Source: Family owned business survey, (2014), Family Owned Business Institute, Seidman College of Business, pp.22

From the picture above it can be concluded that in the process of succession the researched organizations from a significant representative sample indicate the existence of three factors, such as: stability of the organization, the presence of a competent successor and the best person for the job, regardless of family.

Research has also shown that the problems that often occur in family businesses are due to lack of communication. In this sense, the surveyed organizations most frequently address the family members for certain problems, and more than half of the surveyed organizations, i.e. 52% of them stated that they have not established specific procedures for this. A quarter of the surveyed organizations stated that they use family meetings for conflict resolution, 15% use an external consultant or mediator, while the other organizations use other measures such as advisory board and so on.

CONCLUSION

Undoubtedly, family businesses are the main and important driver for the development of the economy not only in a country but also in the world. However, they have certain specifics, so they face a number of challenges, unlike businesses that do not have the family prefix.

In this sense, these businesses need to establish certain "rules of the game" much more than it is for others, i.e. special attention should be paid when conceptualizing the organizational

structure, with clearly defined rights, responsibilities, horizontal and vertical placement. The family and its members have a special responsibility to the business they manage, its employees, but also a special responsibility to nurture family relationships, i.e. to make a significant distinction between business and family relationships, if they want to achieve sustainable and long-term success in both fields. In this regard, special attention should be paid to family business members in top management positions as well as inheritance mechanisms. Determining the strategic direction of the organization will depend on this set-up, which requires well-trained staff, which is independent in its decisions, without pressure from the family and has the opportunity to realistically control the implementation of the strategy.

REFERENCES

- Carney M., "Corporate governance and competitive advantage in family-controlled firms," *Entrepreneurship: Theory & Practice*, vol. 29, no. 3, May 2005, p. 249–265;
- Colli A., Rose M, *Family Business*, ch. 9, Jones G. and Zeitlin J. (eds.), *Business History: Forms of Business Organization*, Oxford University Press, 2008, UK, pp. 194-219;
- Family owned business survey, (2014), Family Owned Business Institute, Seidman College of Business, pp.7 – 22;
- Kruzich, D., Bulog, I., *Family Businesses-life cycles, inheritance and sustainability*, Faculty of Economy Split, 2012, p. 198., adapted from Poposka K., Stancheva Gigov I. and associates, (2018), *Family Businesses-situations, practices and perspectives*, Institute of Economy Skopje, UKIM Skopje;
- Schwass J , "Family Businesses: Successes and Failures," IMD Global Family Business Center website, www.imd.org/uupload/IMD.WebSite/MicroSites/familybusiness/pdfs/Family%20Businesses%20%20Successes%20and%20Failures.pdf;
- Vadnjak J., (2020), *Family Businesses, Key Entrepreneurship Model-What next? Training materials*, Entrepreneurship Support Agency of the Republic of North Macedonia;
- Westhead P., and Cowling M., "Family firm research: The need for a methodological rethink," *Entrepreneurship Theory & Practice*, vol. 23, 1998, p. 31–56;
- Harvey M., Evans R.: *Family business and multiple levels of conflict* *Family business review*, Vol.7, No.4, Winter 1994, p. 335;
- Shuklev B., (2006), *Small Business Management*, UKIM, Faculty of Economy Skopje, p 142;

Internet sources:

<https://biznisinfo.mk/semeen-biznis-koi-se-prednosti-i-nedostatoci/>
<https://faktor.mk/nauchete-kako-smejnot-biznis-sozdava-bogatstvo>