11th International Conference of
Management and Industrial Engineering
ISSN 2344-0937
ISSN-L 2344-0937
Volume 11
Website: https://icmie-faima-upb.ro

A CRITICAL VIEW ON DEFINING THE CONCEPT OF FAMILY BUSINESS IN ROMANIAN, EUROPEAN AND INTERNATIONAL CONTEXT

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Abstract: *Family businesses represent an important percentage of the world economy both in terms of global turnover and social impact by providing a significant number of jobs. The essential characteristics such as durability over time, flexibility in periods of economic instability, as well as a certain ethics promoted in the business, have attracted the researchers' attention especially from second half of the last century. A global analysis of this economic segment is difficult, primarily due to the lack of a unitary definition of the field. Researchers have mainly limited their studies to a national territory or to a group of states with similar definitions and legislation.*
The present study attempts to present some definitions used in the most developed economic areas of the world such as the European Union, the United States of America, China, etc., emphasizing the local particularities but especially the common aspects, based on which it will be possible to individualize the field of family businesses, considering the process of increased globalization of the world economy. It will be analysed the effort and interest of the European Union in developing a unitary definition of family businesses starting from the national definitions, with the aim of creating a unitary legislation as an essential element in achieving cohesion at the European level.
The methodology included both specialized literature (analyses, articles, studies) on various aspects of the field, as well as the research of some legal, national, and European documents related to the definition of the family business concept, as secondary research. The present study is part of a larger research on the field of family business, focusing on technology-based family businesses and especially on family businesses in the book publishing industry.
The study is addressed both to the researchers of the family business sector and to their managers, with the aim of finding effective ways and means to make the political factor aware of the domain importance and the need to create a legislative framework adapted to specific needs of support, promotion, and development of this type of business.

Keywords: *family business, Romanian business, succession, ownership, management*

INTRODUCTION

Family businesses are the oldest forms of organizing the production of material goods necessary to meet the needs of human communities. They have developed with the evolution of society to meet the increasingly diverse demands of the population. Family business complexity [1] has increased over time with incorporation of certain technologies in production process, with the structuring of society and with the increase in demand, with a certain degree of specialization of producers also appearing. In general, most of these businesses were subsistence businesses, with few developing as medium or large businesses, their importance in national economies being insignificant. [2]

Following the great trials that humanity went through in the first half of 20th century, the First World War, the economic crisis from 1929-1933, the Second World War, the pandemic generated by the Spanish flu, most states faced a severe poverty of the population, hunger, and widespread unemployment. Under these conditions, a series of small family businesses [3] developed rapidly in Western Europe, the USA, Japan, and South America. These businesses have proven malleable and resilient during periods of economic downturn, capturing the economists' attention as their weight in the post-World War II recovery of national economies increases. Thus, in the 7^{th} – 8^{th} decades of 20th century, the share of these businesses represented approximately 85% in Western Europe countries, 80% in the USA, 99% in Japan and 90% in the Middle East. [4]

The success of these businesses proved to be due to the prudent management of the founders [5], oriented towards maintaining the companies in the family heritage and not towards profit maximization, the flexibility of market strategies and a certain ethics in business development, based on family value [6]. The concept of 'family business' has become in all market economy countries, but their definition and inclusion in national economies differs due to conditions specific to each nation, related to the level of economic development, traditions, culture, etc. A family business is generally considered to be founded by a family that owns and manages the business [7]. The notion of a family business requires the clarification of at least 3 concepts: family, ownership, and strategic control. Definitions based on the ownership structure of the business are mainly used by financial researchers, while managers adopt definitions focused more on the control of the family business. A study conducted by Pindado and Requejo in 2015 [8] shows that 57% of analyses of family firms use definitions based on ownership structure, and 22% of analyses use definitions based on strategic family control. The notion of family differs from country to country, and the evolution of interpersonal relations requires the adaptation of the notion to the concrete conditions of each region. The definitions based on the relationships between the 3 concepts above provide the necessary conditions, but a better characterization of family businesses also requires the analysis of the family's behaviour in relation to the company: involvement, emotional attachment, the pursued objectives (economic and non-economic), the ownership share of the business (which also establishes the degree of its strategic control).

With the establishment of the European Union, and especially after its enlargement by including some former communist states from Eastern Europe, the need for clarifications was felt in the definition and specialization of this type of business, for the creation of a unique legislation, necessary for the interconnection of all states. The article focuses on the problem of defining the concept of family business, starting from the existing definitions in some economically highly developed states around the world, disregarding national, cultural, and religious elements.

EXPERIMENTAL

The objective of the article is to analyse the definitions of family businesses from the legislation of some developed market economies, to emphasize their advantages and disadvantages, as well as to determine the common representative elements based on which an unanimously accepted general definition can be issued. The theoretical study is based on analyses carried out by research institutes and companies specialized in the family business field, as well as studying the economic legislation of some countries with a tradition in the market economy. The analysis method used is the comparison of definitions from the point of view of the concepts used and the degree of dependence between them. All elements referring to national, regional, or traditional characteristics were excluded from the analysed definitions. The relevance of adopting a single definition of family business is useful both to analysts, leaders and managers who can benefit from clear criteria for performing complex analyses and comparisons of family businesses across extended regions, sharing knowledge and good practices, as well as the political factor for adopting specific regulations in supporting and promoting these businesses.

RESULTS

In the market economy states, family businesses have a significant weight in national economies, both in each country's GDP and in employment rate. These aspects make the field the focus of economic analysts and partly in the political factor occupation. In the specialist literature, the concept has various formulations depending on the country. To date, there is no accepted definition in all states, the definitions used presenting national particularities and results from the degree of economic development.

Romania and European Union

In Romania, which switched to a market economy in 1990, the establishment of family businesses was regulated in 2004 by Law no. 300/2004 (art. 1-4). The law also established a definition of 'family businesses' which establishes that it is established by an entrepreneur and may include his family members (husband, wife, children over 16 years of age and relatives up to the fourth degree). With our accession to the EU and entry into European Family Business in 2015, the definition used in European Union documents was also adopted. [7]

Since family businesses in Romania are relatively young, they also include the businesses run by the founders, as a significant number of them have not yet completed the succession. In national legislation, they have been included in SMEs and are subject to the restrictive conditions provided for them (turnover, number of employees, etc.). The Romanian definition clearly establishes the family concept used – traditional family plus direct descendants up to the fourth generation. This clarification has the disadvantage that it may create difficulties in the establishment of family businesses by non-traditional 'family' members, cohabitants, LGBTQ couples, etc.

Around 90 national definitions of family businesses have been found in the EU member states, which set out the influence of the family in the firm's ownership and management [1], as well as ways of framing in national legislation. Other characteristics highlighted in the definitions in the European states are given by the degree of active involvement of the family in the business activities (more than 30% of the definitions) and the contribution of the business to the family income (Austria, Czech Republic, Lithuania, Poland, Slovakia, Turkey). In most states there is only one definition of family business (e.g., Cyprus, Czech Republic, Slovakia, Iceland, Ireland, Malta), but in others there are several definitions in use, depending on how they are framed in the legislative framework or by the reports of various economic research institutions, leading to certain countries accepting five definitions (e.g., Denmark, France, Norway, Turkey, Great Britain). [9]

In general, 'family business' is defined in vague terms, requiring some clarification. Thus, most definitions use terms such as family, family members, majority ownership, significant strategic control [4]. The meaning of these terms is the 'ordinary' meaning that the enterprise is developed by a traditional family holding more than 50% of the shares and capital. Formulations to the effect of 'ordinary' are found in the legislation of Italy, Lithuania, Romania, Bulgaria, and Slovakia. Thus, Italian law provides that the family (husband, wife, offspring) work and own the property of the family business. In Bulgaria, Lithuania, Romania, Slovakia, etc., any business established by one of the spouses during the marriage is a family business, with the spouses having joint ownership of it.

The family. Regarding the notions of 'family and family members', some states have adapted their legislation to the transformations in interpersonal relations in recent decades. Thus, in addition to expressions such as: direct family line, family unit (Austria, Italy), expressions such as: persons related by blood or marriage (Great Britain), persons with the same surname or living with the family (Belgium, Spain), as well as family plus 'friends' living together (France). Normally, according to most definitions, the family business can be called this after the first succession, after the second succession - its ownership and control goes to the families of the 'grandchildren' of the founding family, so its descendants.

Property. In terms of the strategic control of the family business, most definitions establish that in general the business' 'ownership share' determines the influence in the business' management, if internal regulations don't provide for this [2]. The wording in the European definitions is very varied, namely:

- The business must belong to the family.
- The family is the "biggest owner" of the business (Denmark).
- The family owns most of the shares/capital.

In some definitions, the ownership share is differentiated according to the type and size of the business. Thus, in countries such as Cyprus, France, Spain, Great Britain, a minimum share of 50% of family ownership is imposed in SRLs, but in large businesses, in the third or fourth succession, as well as in joint-stock companies, the share required for strategic control is between 10% and 25%. [9]

The management. In most European definitions, 'strategic control' is not explicitly linked to the ownership share of the business, but has vague wording:

- The family has a "major influence" on the management of the business.
- The family owns a significant proportion of the top management of the business.
- The family has control over the management.

Strategic control is defined by several family members in the company management. Depending on the size of the business, the following four representations are considered: at least one family member; more than one family member; CEO and at least one family member; or most of the members of the management team are part of the family.
A wording that frequently appears in European definitions is 'active family involvement in the business'. This implies both the employment of family members in execution positions, provided for in approximately 30% of the definitions, and the involvement in informal assistance in the current activity.

Ownership shares and managerial control of the business change over time as the business evolves through succession processes [1]. In the specialized literature [9], there is a lot of talk about three stages that family businesses go through:
Stage I: The founder has full control over the business, which leads to quick decisions and clear responsibilities.
Stage II: After the first succession and further on, the partnership between brothers, then between cousins, which, in addition to diversity and creativity in the business, also brings disagreements, requiring the adoption of clear rules for resolving disputes (governance codes).
Stage III: Over time, after several successions (3-4), the wealth disperses a lot, no one has absolute control, and it is necessary to adopt a clear regulation of democratic decision-making (by voting or by the number of shares).

A special category of private businesses is that of independent activities, founded by an entrepreneur, without employed staff. In more than 30% of the EU states, they are considered family businesses if they provide most of the family's income. In most states, they are not considered family businesses, their status being relatively uncertain. In most European states, family businesses are considered only those that meet the criteria in the national definitions. The different way of defining and classifying in various categories has made the analysis of family businesses at the European level to focus more on qualitative aspects and less on quantitative research and statistical aspects. [9]

Definition of the European Union

The enlargement of the European Union by adopting the countries of the former communist bloc generated serious problems in the code of the union due to the large differences in economic development between the states. The free movement of goods, capital and labour accentuated the differences leading to massive migrations of labour, information specialists. To stabilize the situation, the European Council together with the national governments, carried out several programs to develop entrepreneurship in former socialist countries, to support family businesses to increase the living standard of the population, to reduce the migration phenomenon which had serious consequences in most European states. These programs have had a limited impact both because of the weak involvement of governments and educational system, and especially because of the lack of an unanimously accepted definition of family firm at the European level.
An important role in supporting and promoting family businesses in the European Union, in terms of specific legislation and supporting policies, was played by the European Family Business (EFB), which also formulated the

first definition in 2009 [10]. EFB convinced the European Commission to finance the first project of statistical analysis of family businesses in 7 European countries – Bulgaria, Netherlands, Italy, Denmark, Malta, Poland, and Finland. Such a definition implies the clarification of common terms, accepted in the national definitions (family, family members, property rights, the active involvement of the family in business activity and management).

A strict definition of these terms would substantially reduce the scope of the sector, as well as the validity of the definition, considering the future evolution of economics, perceptions, and human relations. In addition, the definition should include in the wording as many of the relevant aspects of the national definitions as possible. Such definitions appeared at the beginning of the century in the studies of some economic analysts and studied in the Family Firm Institute's report. [11]

Definition 1

Family businesses are those in which multiple members of the same family are involved as major owners or managers, either contemporaneously or over time (Miller *et al.*, 2007).

Definition 2

Family firms are those in which the family controls the business through involvement in ownership and management positions. Family involvement in ownership (FIO) and family involvement in management (FIM) is measured as the percentage of equity held by family members and the percentage of a firm's managers who are also family members (Sciascia & Mazzola, 2008).

Definition 3

A family enterprise is an economic venture (enterprise group) in which two or more members of a family (family group) have an interest in ownership (owners) and a commitment to the continuation of the enterprise.

Definition 4

The family business is a business governed and/or managed with the intention to shape and/or pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.

Figure 1: Family business definitions [11]

At the level of the European Union, the European Family Business (2009) proposed an integrative definition of many aspects of the national definitions, without clearly specifying the terms used, this fact presupposing the inclusion of wide categories of private companies in various phases of the life cycle.

Definition 5

A firm of any size is a family business if:

1. The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child, or children's direct heirs.

2. The majority of decision-making rights are indirect or direct.

3. At least one representative of the family or kin is formally involved in the governance of the firm.

4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 percent of the decision-making rights mandated by their share of capital (European Union definition 2009).

Figure 2: European Union definition of family business [10] [11]

The ambiguity of the terms used can lead to different interpretations of the concept of 'family business' in different areas of Europe, making it difficult for the E.U. to make economic and political support decisions for them. Regarding the concept of family, there is still a broad 'traditionalist' vision at the legislative level in the sense of maintaining the traditional family as a fundamental social model, to the detriment of non-traditional families or forms of free cohabitation. If there are still discussions on the definition of family business at the level of the European Union, certain particularities are also noticeable in the developed economies of the world.

China

In China, a large and rapidly developing economy [12], family businesses [13] have been developing since the ‘90s of the last century under the slogan: ‘one country - two economic systems’ - capitalist and socialist. Family businesses are developed by an entrepreneur (the head of the family) who owns the property and ensures the management of the company. In addition, he also owns ‘guanxi’ [14], the name given to the company's social capital, composed of the network of personal and business relationships with banks, customers, suppliers, local authorities, etc., which ensure a competitive advantage at the local level [15]. Family members actively participate in the company, both in the current activity and in management. [7]

The emphasis on the ‘network of personal relationships – guanxi’ [14] as an essential element of defining the family business is a distinctive feature that is not emphasized in other economies of the world. This leads to the idea of a significant level of corruption at the authorities’ level, like other states that do not specify personal relationships in the definition of family businesses.

USA

In the USA, the world's largest economy, with a private system composed of more than 5.5 million family firms, they contribute more than 57% of GDP and provide more than 63% of jobs [16]. Their numbers increased greatly after the Second World War, and they benefited from favourable legislation and substantial state aid.

US definition of family business is extremely simple and non-restrictive: ‘A family business is any business in which two or more family members operate the business and most of the ownership or control is within the family’ [16]. It is noted that sole proprietorships are excluded. The dose of ambiguity in the US family business definition is offset by the tough regulation and pragmatism of the US Internal Revenue Service, which maintains relative order in private businesses in US states. [7]

DISCUSSION

As a result of the above discussions, *advantages* of family business definitions consist in simple and authoritative management style, respectively high speed of decision-making for the definitions that assume high shares of ownership and strategic control (>50%). Simultaneous, a definite advantage is the speed with which a family business can be differentiated from a non-family one, considering that both are classified as SMEs (especially in Romania).

In terms of *disadvantages*, these include unclear terms used in the definitions that require clarification in the legislative framework of each state, unclear definitions of family businesses due to the disinterest of policy makers and the treatment of family businesses as SMEs, as well as decreasing the speed of decision-making in the case of lower than 50% ownership and management shares. Treating them as SMEs leads to slower business development, but also to other disadvantages regarding fees and taxes, credit advantages, export support, etc.

Therefore, the practical implications of adopting a universally accepted definition regarding family businesses can be highlighted, namely:

- Standardization of data and their comparison worldwide - for the in-depth understanding of the impact and importance of family businesses on the business environment and on society.
- Improving analysis and research in the field of family businesses – which can indicate their performance and impact in various countries and regions.
- Development of public policies – to support and promote family businesses through specific policies and regulations developed by national governments and international organizations.
- Sharing of knowledge and best practices – to support and develop businesses in all states.
- Promoting and protecting family businesses and associated values – by officially recognizing the importance of this business type with the acceptance of a common definition.
- Achieving economic and administrative cohesion at the EU level – by applying unitary legislation.

Achieving a common definition is difficult (but not impossible) due to the cultural, legislative, and economic diversity of the world's states. An overly restrictive definition could exclude certain business models that meet the essential criteria.

In conclusion, although adopting a universally accepted definition worldwide would be beneficial, it is important to recognize and respect the diversity and specificity of family businesses in each country and region. However, efforts to clarify and standardize the concept within reasonable limits would be useful to promote and support this type of business globally.

CONCLUSIONS

Family businesses are present in a significant percentage in all market economies of the world. In all states, their definition refers to the interdependence of family, property, and business management. The rapid development of these businesses, the growing importance in national economies, as well as the specific characteristics aimed at adaptability to economic crises, persistence over time, prudential management and ethics promoted in business, have made them come to the attention and concerns of economic analysts. The major share in national economies required the development of specific legislation adapted to the field. This required a clear definition of the family business concept. Worldwide, definitions of family business are relatively similar, but also have certain characteristics specific to the area or political system. However, the differences between them hinder the understanding of the bigger picture in terms of their regional and global impact and importance, as well as their support and promotion.

In the following, some of *research limitations* are presented, namely:

- The presented analysis is restricted especially to the particularities of the definitions in the European space and the two great world economic powers.
- The lack of universally accepted definitions makes in-depth scientific studies, statistics, and comparisons, to be reduced in number and limited only to theoretical aspects.
- There are no documented studies on the definition of family businesses, everything is reduced to formulations based on the "ordinary understanding" of the terms used.

Regarding *further research*:

- For *Romania*, research can be done about: family businesses such as Sole proprietorship, Authorized Physical Person (PFA in Romania) and those with seasonal activity; the contribution of entrepreneurial education to the success of small family businesses; individualization of family businesses within SMEs by ONRC.

- For *Europe*, further research can consist of: reasoned studies of European Commission for the preparation of a definition unanimously accepted at the European Union level; imposing the existence of updated statistics on family businesses in every EU state; analysis of the characteristics and particularities of family businesses developed by non-traditional families.

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