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The Greek Family Businesses and the Succession Problem

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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.

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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

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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