

Development of family business as a form of entrepreneurial activity

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Abstract: *This article describes the analysis of family business evolution as a form of entrepreneurial activity at the international level. Based on the multiple studies implemented at the European and international levels, we provide statistical data confirming the social and economic role of family business as a form of entrepreneurial activity for the development of the country's economy. We have tried to identify the period of appearance of this form of entrepreneurial activity in the Republic of Moldova and its main domains of specialization.*

Keywords: *entrepreneurship; family businesses; small and middle-sized enterprises; economic development; sustainable businesses.*

JEL Classification: L 26, M13, N10.

About author.

Hypothesis: *Family business is a model of entrepreneurial activity that plays an important role in the economy of any country.*

Entrepreneurship in any country is an important pillar for socio-economic development but also for securing individual welfare. A relevant segment that makes a significant contribution to this development is the SME, which in all countries it has a major share in the entrepreneurial structure. The Republic of Moldova is no exception since in the year 2017 the share of SMEs accounted for 98.6% of the total enterprises. At the same time in the SME sector in the country there is a tendency of active involvement of family members due to insufficient or often lack of necessary labor force. In order to determine to what extent family businesses play an important role in developing entrepreneurial activities and can generate beneficial results for economies, we were motivated to do this analysis.

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History of the family business formation in the national context

From the historical point of view the foundation for the development of family businesses has been created simultaneously with the division of labor into small primitive trade businesses. The cooperation based on the division of labor confers its classical manufacture form. As a characteristic form of production process, it predominates in the manufacturing period – from the middle of the 16th century and until the last third of 18th century.¹

The involvement of family members in businesses proved to be the most rapid and the most reliable method to engage in this new form of activity, providing, at the same time, the possibility to increase the family's incomes (Box 1)^{2,3}.

Box 1

The development history of entrepreneurship denotes that the oldest ever companies in the world are namely family businesses. For example: the Japanese construction company "Kongo Gumi" established in 578. The Hoshi family has over 1000 years of successful activity in the hotel business. The Merck family from Germany in 1668 established its medicines and pharmaceutical factory. The family Soares dos Santos established its company in 1792 and continues to cultivate and to sell agricultural products². The Marinelli family of Italy continues to manufacture church bells. The Gulan family from France is famous for winemaking activity³.

The inception of family business activities in Bessarabia is found in the 14th century, the main types of activity being related to the agricultural sector, specifically, the cultivation of cereals and later the development of winemaking (the second major agricultural activity in the country). The land was cultivated mainly by means of traditional simple tools requiring a large labor force, this requirement being the major cause of the family members' involvement in agricultural works. The agricultural exhibition of 1847, organized in Chisinau, was attended by 200 participants, 187 of them being state's peasants, owners of sufficiently large companies who had already been using improved labor tools, advanced agricultural techniques and high-quality seeds. The noble families

¹ Karl Marx Capitalul, Vol.1. <https://www.marxists.org/romana/m-e/1867/capitalul-vol1/c12.htm>.

² EY Family Yearbook 2015, pp.22

³ Семейное предпринимательство: международный опыт и перспективы развития в Республике Беларусь. Рр.4. <http://ced.by/ru/publication/books/~shownews/semejnoe-predprinimatelstvo>. Календжян С., Волков Д. Развитие семейного предпринимательства в России. М, 2006.

practiced family businesses owing to the possession of large areas of agricultural lands. The members of noble families were engaged in accounting and process management. (Box 2).¹

Box 2

The native Bessarabian nobles owned large areas of lands and until the very attachment of Bessarabia to Russia the Tsarist administration remunerated their fidelity by transferring to their property the lands liberated after the departure of Turks and Tatars. For example, the boyar Cantacuzino received over 10 700 desiatines of lands, the Sturdza boyard received 12 300 desiatines, Balș received 18 700 desiatines, while Catargi 24 000 desiatines of agricultural land. As a consequence of such disposal of lands the boyar Ioan Balș, for example, obtained over 160 000 desiatines of land in the diverse zones of the country.

Between 1889 and 1895 the industrial progress reached Bessarabia. Out of 55.000 artisans (at the end of 19th century) around one half used to work in villages: fitters, shoemakers, weavers, carpenters, coopers, coat makers, hatters, harness makers, blacksmiths. The handicraft and the rural artisans used to produce clothing, footwear, carpets, objects of clay and wood, processed leather, household utilities². In the first half of 19th century the rural craftsmen accounted for up to 40% of the total number of Bessarabian craftsmen. Regardless of the domination of feudal relationships, under the Tsarist regime, between 1828 and 1852 the number of urban craftsmen grew 3 to 6 times. At the same time many of the large or middle-sized peasants properties (classified by their tax liability) became independent and began to develop their small businesses in the same domains in which they used to work previously for the nobles and also began to involve their family members in such businesses. Another relevant category were the state's peasants (around 10% of the total population at the beginning of the 1860s) who received around 356 806 desiatins of land for practicing agricultural activities. The state provided favorable conditions for the emergency of rural bourgeoisie: sufficient areas of land, relatively low taxes, autonomous administration of businesses, geographical proximity to ports and communication ways, etc. In 1906 peasants were allowed to leave the village communes with their property and this

¹ Prof. Univ. Dr. Ștefan Purici Istoria Basarabiei – Note de curs. ISBN 978-606-15-0131-1. Editura SEMNE. București. pp. 35, 2012.

² Realități economice și sociale în Principatul Moldovei și Moldova de Est (Basarabia) <http://www.moldovenii.md/md/section/700/content/7169>

change resulted in further social stratification and in the transformation of numerous peasants' businesses into agricultural farms¹.

The family business - appointment to the economic development of the countries

The economic and industrial revolution contributed to the delimitation of family businesses into a separate segment of entrepreneurial activity, mostly related to the sector of small and middle-size enterprises that gradually began to operate not only in the traditional domains, but also in the ones with a high degree of innovation. The international practice provides numerous examples when small family business quickly grew larger or diversified their activities into complex and highly technological production, succeeding in doing so, similarly to the large companies.

For example, one of the largest companies in Germany "Ommo" began the sales of goods with a door-to-door delivery in all parts of the world. Now the company has 75 thousand employees and its annual profit exceeds 15 billion dollars. The French supermarket network AUCHAN owned by the Mulie family now is the employer of 130 thousand persons with an annual profit of 23 billion dollars².

Some of these companies, owing to the favorable combination of numerous factors, evolved rapidly and became large and famous family businesses, such as: Oral-B, Adidas, Siemens, Samsung Electronics, Wal-Mart Stores Inc, Ford Motor Company, Koch Industries, Standard Oil, IKEA Group, Tata Motors Limited. These and many other examples resulted in the destruction of stereotypes that family businesses cannot develop/grow and are doomed to remain at the level of small and middle-sized businesses. At the same time, family businesses showed high capabilities in implementing diverse forms of diversification both in horizontal concentration and in growth, they demonstrated to be durable in time and to bring significant constant incomes to these families.

In order to substantiate the hypothesis stated at the beginning of the article, we will analyze international statistics on family business. According to multiple studies and analyzes conducted at the global and regional levels as well Global Family Business Index³, Global Data Points, EY Family Business Yearbook, European Family Business

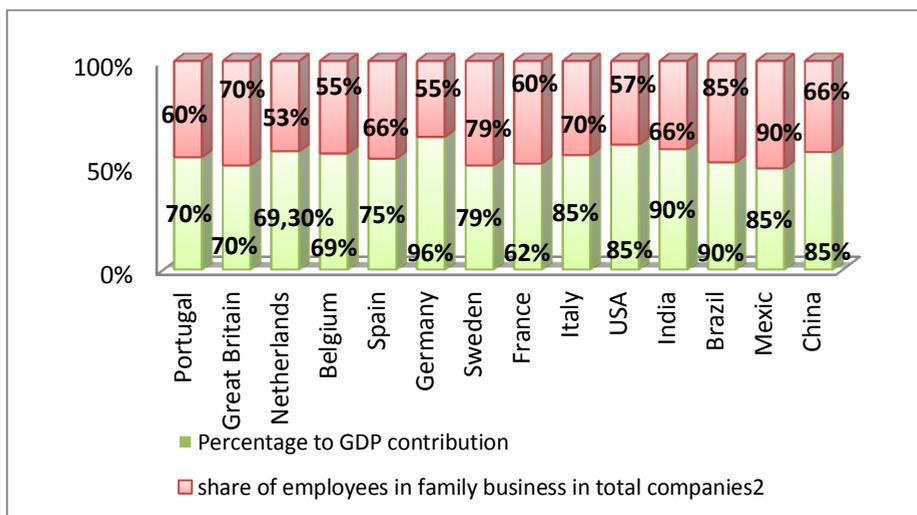
¹ Prof. Univ. Dr. Ștefan Purici Istoria Basarabiei – Note de curs. ISBN 978-606-15-0131-1. Editura SEMNE.București. pp.36. 2012

² Семейное предпринимательство: международный опыт и перспективы развития в Республике Беларусь. Pp.10

³ Global Family Business Index is compiled by the Centre for Family Affairs at the University of St. Louis. By Gallen, Switzerland, in collaboration with the EY Global Family Business Centre of

Trends, Overview of family–business–relevant issues, FBN International Family Business Monitor, family businesses hold significant shares in the total number of companies, employing a notable percentage of work force and generating relevant incomes, thus contributing to the GDP growth of the countries where they have operations¹. The above-mentioned facts are confirmed by the statistical data below.

Figure 1. The share of private family business and the share of the workforce involved



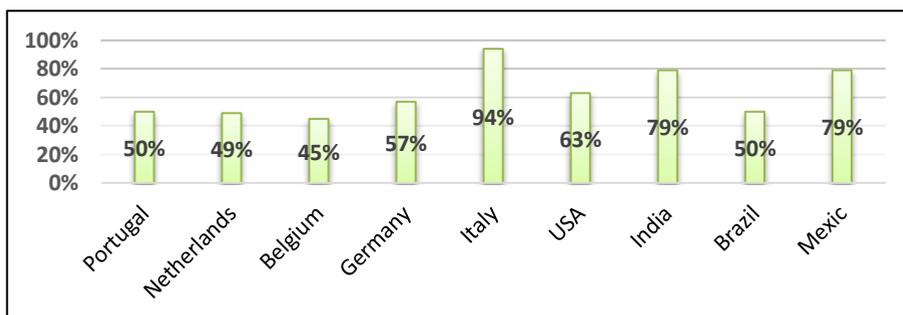
Source: Global Data Points. Family Firm Institute. <http://www.ffi.org/page/globaldatapoints>; Family businesses in Italy <http://www.aidaf.it/en/aidaf-3/1650-2/>.

As we can see in Figure 1, family business makes significant contributions to both the GDP formation and the involvement of a relative share of available labor force. This situation is a strong premise for the initiation of similar studies in the countries with a developing economy, such as the Republic of Moldova.

At the same time, in some countries, family businesses are a strong economic force, contributing significantly to the formation of national GDP.

Excellence. This indicator includes the largest 500 family businesses around the world and provides impressive evidence of the economic power and relevance of the world.

¹ Global Data Points. Family Firm Institute. <http://www.ffi.org/page/globaldatapoints>

Figure 2. Contribution of family businesses to the formation of GDP, %

Source: Global Data Points. Family Firm Institute. <http://www.ffi.org/page/globaldatapoints>

According to the Global Family Business Index¹ in the entire Europe the family businesses represent around 70-80% of the total number of companies, employing up to 40-50% of the total workforce². However, in some of the countries their share exceeds 80% - in Estonia and Slovakia, in Cyprus it is 90%, in the Czech Republic - 87% and in Spain - 85%³. In other countries the share of these companies is 55% in Sweden, 61% in Holland and 65% in Norway. Anyway, it exceeds the share of non-family businesses.

The data of FBN International Family Business Monitor (FBN International, 2008) shows that the share of family businesses with a turnover exceeding 2 million Euro is 18% in Italy, 16% in the UK, 15% in Finland and 9% in Germany and France, 8% in the Netherlands, 7% in Spain and in Sweden 4%.

Therefore, one may conclude that most of the small and middle-sized businesses in Europe that constitute the backbone of the European economy are family businesses, while the majority of family businesses are small and middle-sized businesses. Although family businesses are mostly included in the SME category, it is worth mentioning that they have grown into large and transnational corporations.

At the same time, according to the Global Family Business Index 2015, the biggest 500 family businesses contributed with 6.5 million US dollars to the global level of GDP in

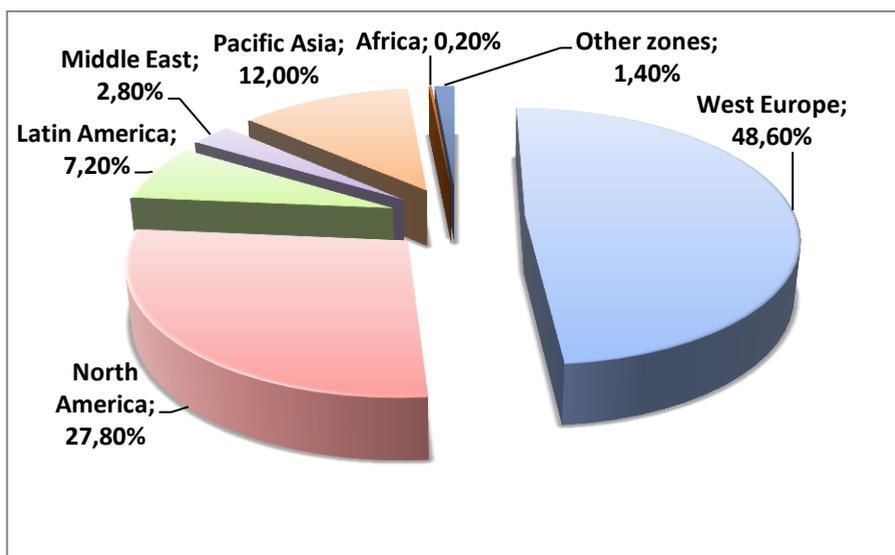
¹ Global Family Business Index . <http://familybusinessindex.com/>

² Irene Mandl. Overview of Family Business Relevant Issues. KMU FORSCHUNG AUSTRIA Austrian Institute for SME Research. Vienna, 2008, 175 pages.

³ Families in business for the long term Brochure. European Family Business. Pag.4. www.europeanfamilybusinesses.eu.

2015, having employed 20.9 million of persons¹. The same study shows that in the year 2015 out of 500 family businesses almost one half or around 243 businesses (48.6%) resided in Europe, in the three biggest economies - Germany – 94 companies, Italy – 31 companies and France – 28 companies. One third of the world's biggest family businesses are in North America, or 139 companies (27.8%).

Figure 3. Distribution of world's biggest family businesses by zones, according to the Global Family Business Index, 2015.



Source: David Bain. *The top 500 family businesses in the world. EY Family Business Yearbook 2015. Pag.182. <https://familybusiness.ey-vx.com/pdfs/>.*

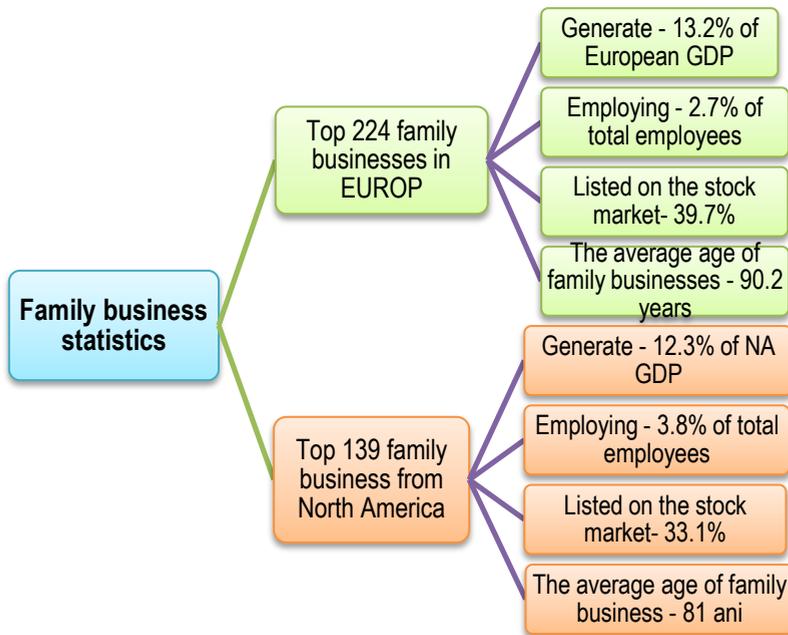
The countries of Pacific Asia have around 60 large family businesses, only in India there are 25 such companies.² At the same time, Mexico and Brazil, each have 15 large family businesses, while Turkey has 6. If we analyze the domains where these 500 family businesses operate, around 90 of them (about 20%) are involved in wholesale and retail sales diversified by branches of industry and accounting services. A relatively small number of the said 500 family businesses operate in the banking sector (11 companies) and informational technologies (12 companies). The contribution of the

¹ David Bain. *The top 500 family businesses in the world. EY Family Business Yearbook 2015. Pag.182. <https://familybusiness.ey-vx.com/pdfs/182-187.pdf>*

² David Bain. *The top 500 family businesses in the world. EY Family Business Yearbook 2015. Pag.182. <https://familybusiness.ey-vx.com/pdfs/182-187.pdf>*

largest family businesses to the economic development of Europe and South America is revealed in Figure 4¹.

Figure 4. The comparative analysis of the largest 500 family businesses in 2015



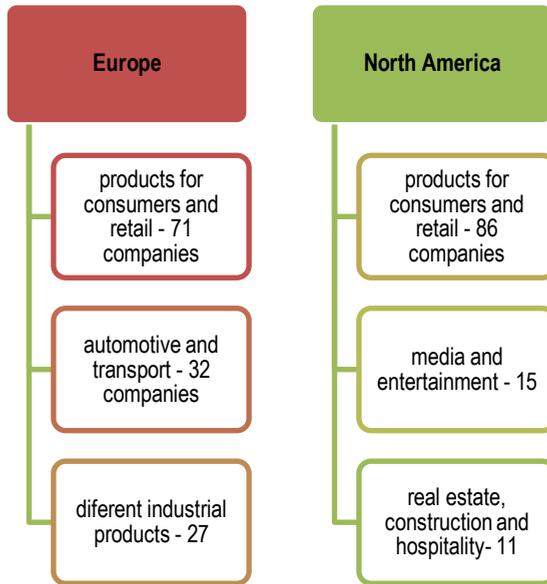
Source: EY Family Business Yearbook 2017. <https://familybusiness.ey-vx.com/pdfs/screen-ey-17-002-fby-2017-bkl1705-002-v27-02-facts-and-figures-europe.pdf>

These results are generated only by the largest family businesses from the respective countries that are supplemented by the ones from the sector of small and middle-sized companies.

The top three main branches of activities practiced by the family businesses in Europe and North America, according to the Global Family Business Index, are presented in Figure 5.

¹ EY Family Business Yearbook 2017. <https://familybusiness.ey-vx.com/pdfs/screen-ey-17-002-fby-2017-bkl1705-002-v27-02-facts-and-figures-europe.pdf>

Figure 5. Top 3 priority sectors of family businesses activity in Europe and North America.



This distribution of successful family businesses (according to the statistics) demonstrates that these family businesses can be more flexible, efficient, durable and competitive compared to non-family businesses. However, this hypothesis will be examined by me in other studies.

According to the Global Family Business Index top 251, out of the oldest 25 family businesses in the world, 72 % are in Europe. Their experience deserves to be examined and their best development and support practices must be learned and widely applied to the entrepreneurial activity.

From all the statistics presented, and also according to the multiple studies, we confirm the hypothesis 1, according to which family business represents a form of important entrepreneurial activity for the economy of any country. Besides the economic role, the share of the total number of enterprises, the share of employed persons and the contribution to GDP, family business also plays a significant social role, related to job creation mainly in rural or disadvantaged areas. It also contributes to the development of localities, preservation of patrimony and cultural traditions of the areas where they operate.

¹ EY Family Business Yearbook, 2015, familybusiness.ey-vx.com/pdfs/20-23%281%29.pdf, pp. 186

Development of family business in the Republic of Moldova

The development of family businesses in the Republic of Moldova and in the countries of Eastern Europe, as well as in the countries of the former USSR started in the 1990s and has a history of only 25-26 years. Simultaneously with the transition to market economy the premises for the initiation and development of family business as a new form of entrepreneurial activity appeared. Among the basic premises one may mention:

- a. The loss of jobs by the family members and difficulties in finding new jobs due to the reduction of production or closing-down of enterprises. Using their work experience, people established small businesses with the involvement of their family members. This is how small workshops, sales points, small production businesses emerged.
- b. The change of collective forms of business activities in the rural areas (liquidation of collective farms) into individual forms. As a result, the allocation of agricultural lands to the private persons facilitated the creation of small businesses by some family members (mainly by the husbands) with the subsequent involvement of children and relatives.
- c. The lack of certain products or services on the local market which were previously imported /shipped from other countries (specialized in certain types of activities) also favored the development of new businesses which filled these gaps (for example, the manufacturing of furniture, hardware, wholesale and retail trade, etc.).
- d. The closing-down of numerous research and development activities, application of knowledge and competence of the unemployed persons in the small businesses with the gradual involvement of family members (design services, technical maintenance services, manufacturing of foodstuff and other products, etc).
- e. It's worth mentioning that these premises were favorable for the creation of family businesses in response to the challenges and are less forced by them but not as a well-planned concept that would establish the shares and the responsibilities of the family members establishing businesses. Respectively, most of them continue to remain in the small and medium-sized businesses, mostly micro enterprises.

The analysis of the results of the state support programs implemented by the SME Development Organization (ODIMM) such as PARE 1+1, Efficient Business Management (GEA) and the National Program for Empowering Young People (PNAET)¹ allows me to confirm that there are family businesses in the Republic of Moldova, which are predominantly part of the SME sector and carry out their activities in rural areas. The most common legal organizational forms are individual enterprises and peasant

¹ www.odimm.md. Anual reports.

households (farming enterprises). According to national legislation (the Law no.845 of 03.01.1992), individual enterprises are enterprises belonging to citizens or the members of their families based on the right of private property; farming enterprises „represent individual enterprises based on the private ownership of agricultural lands and other assets, on the personal labor of the family members, aimed at the production of agricultural products, primary processing and sales of own agricultural products”.¹

So, according to at least one law of the Republic of Moldova, all the peasants' enterprises represent family businesses. Although they do not represent the entire sector as in other countries, where the family businesses hold a major share of small and middle-sized businesses, being also present among the large companies, but in a significantly smaller member. (The palette of definitions and criteria used for the classification of family businesses applied by various international research organizations, supporting institutions and applicable laws is very diverse and will be considered in the forthcoming articles). According to the statistical data of the Republic of Moldova, the peasants' enterprises are present in a significant number, but their share is in a slight decline for the last 3 years (Table 1)².

Table 1. Number of individual enterprises and farming enterprises and other beneficiaries of agricultural lands in exchange of the equivalent shares of land (as of 1st May)

Number of peasant's enterprises	2010	2013	2014	2015	2016
Peasant's enterprises (farmers' enterprises), total	299389	292977	289501	289138	263745
peasant's enterprises with land areas of 10 hectares and over	1556	2101	2707	3009	3125
peasant's enterprises registered with land areas under 10 hectares	297833	290876	286794	286129	260620
Number of individual enterprises ³			94265	95273	96159

At the same time, we observe the doubled number of peasants' enterprises with land areas exceeding 10 hectares, this is a positive tendency characterized by the growing areas of cultivated lands and the implementation of innovative technologies.

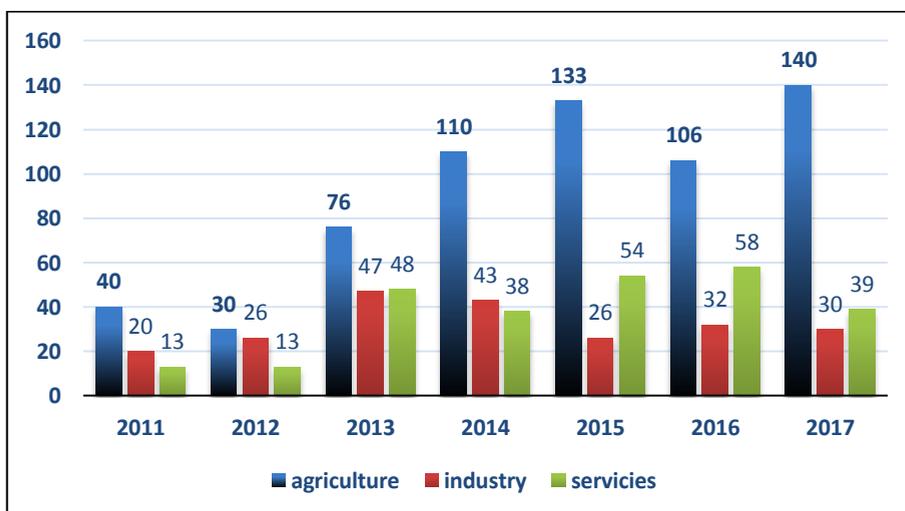
¹ Law No. 1353 of 03.11.2000 On the peasants' enterprises (farming enterprises) published in the Official Monitor No.14-15, 08.02.2001, art. Nr.52

² The agricultural activities of small agricultural businesses in the Republic of Moldova in 2015, 2016 (results of statistical research), pp. 16-17
http://www.statistica.md/public/files/publicatii_electronice/Activitatea_agricola/Activitatea_agricola_2016.pdf

³ <http://date.gov.md/ckan/dataset/11736-date-din-registrul-de-stat-al-unitatilor-de-drept-privind-intreprinderile-inregistrate-in-repu>

Therefore, we will present some results on the programs implemented by ODIMM. Under the Efficient Business Management program (GEA), which is intended for entrepreneurs, around 17,000 entrepreneurs benefited from entrepreneurial training during the 2009-2017 implementation periods, including about 25% of the peasant households and 25% of the individual enterprises. In the PARE 1 + 1 program, around 1136 businesses were supported in 2011-2017. Analyzed in dynamics by the beneficiaries of non-reimbursable financing, the largest share is held by agriculture, ranging from 43% in 2012 to 67% of the total in 2017 (Figure 6). We notice that the vast majority of businesses operating in the agricultural sector are family businesses in which first-degree relatives and also other close family members work.

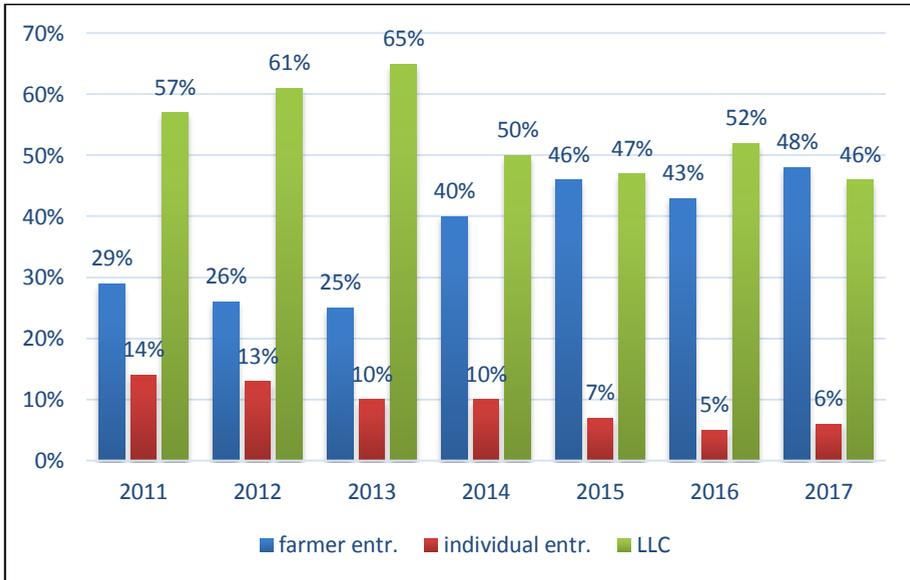
Figure 6. Dynamics of enterprises financed by PARE 1 + 1 program (number of SME)



Source: ODIMM Annual Reports. <https://www.odimm.md/ro/biblioteca/rapoarte.html>

At the same time, the statistics of PARE 1 + 1 program beneficiaries from the point of view of the organizational-legal form provides the following picture.

Figure 7. Distribution of beneficiaries of PARE 1 + 1 program according to organizational and legal form



Source: ODIMM Annual Reports. <https://www.odimm.md/ro/biblioteca/rapoarte.html>

There is a tendency to increase the share of peasant farms as a form of business organization compared to individual enterprises but which, by definition, makes us conclude that these types of businesses are family businesses.

Under the PNAET program for young people cumulatively, 1846 sub-projects of young beneficiaries were funded from the start of the Program, including about 80% of the peasant households¹.

The analyzes presented in this article based only on a few SME support programs provide us with significant prerequisites for asserting that in the Republic of Moldova family business is a model of entrepreneurial activity that predominantly belongs to the SME sector.

Unfortunately, we can't provide any consolidated statistical data on the situation of family businesses in the country due to several reasons, such as:

¹ This program was approved by Government Decision no.364 of 3 June 2008, with subsequent amendments to the Program's extension till 2017.

- The lack of definition of this type of entrepreneurial activity in the national legislation and specific criteria. In the Republic of Moldova this concept is at early stage of analysis and it is included into the action plan for the implementation of Development Strategy of Small and Middle-Sized Enterprises 2018-2020 period, the main objective being the adjustment of regulatory framework necessary for the development of small and middle-sized businesses. So, before the beginning of 2018 it is required to establish the regulatory framework for the family businesses and company transfer.
- The lack of a statistical accounting and monitoring system at the national level. If we assume that the family businesses are mostly represented in the sector of small and middle-sized enterprises one must mention that the peasants' enterprises are not included in the business statistics (covering the small and middle-sized enterprises). They are analyzed in a separate annual statistical study entitled "Agricultural activity of small producers in the Republic of Moldova (some figures are provided in the Table 1).
- The insufficiency of scientific and applied research on this form of entrepreneurship. We can affirm with certainty that the family businesses currently represent a new object of research with an enormous potential for numerous studies, analyses and fundamental research. This activity has a strong connection to the entrepreneurship in the sector of small and middle-sized enterprises (according to multiple international studies) that is quite deeply and multilaterally examined in the Republic of Moldova, from the very beginning of its formation (Hrișcev E., Cotelnic A., Solcan A., Aculai E., Veverița V., Stratan A., Roșcovan M., Bugaian L., Sârbu I., Litvin A., Gheorghita M., Curagău N., Jalencu M., Levițkaia A., Parmaclii D., Tomița P., Vinogradova N., Macari V., Novac A., Maier etc.).

Family businesses really represent a model of entrepreneurial activity that ensures a sustainable development of the enterprise, generating a significant impact on the economic development of the country.

In **conclusion**, we mention that the family businesses as a form of entrepreneurial activity have a long development history specific for each country, playing important roles in their economic and social evolution.

Multiple studies and researches implemented at the global, European and regional levels confirm that this segment is durable, flexible and with a high potential of diversification and implementation of innovations that are worth promoting as an efficient form of entrepreneurial activity.

At the same time, in the Republic of Moldova this domain of entrepreneurial activity is relatively young (only 26 years of experience) and is not formalized at the level of the regulatory framework in any form. This situation represents a powerful argument for researching family businesses. Their objectives and problems of research are extremely varied - from definition and identification of specific characteristics to the study of management particularities, succession, innovations and competitiveness.

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