
The role of small and medium-sized family enterprises in the economic development of Slovenia

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1 Introduction

Small and medium-sized family enterprises represent an important share in the structure of all enterprises world-wide. In Slovenia, until recently we did not have at our disposal data or leastwise estimates on the share of the family enterprises as insufficient attention was devoted to their investigation. However, if we proceed from the fact that in Slovenia, especially in the 1990s, the number of small and medium-sized enterprises has dramatically increased (the proportion of the small-sized enterprises with 0–50 employees in the structure of all enterprises is higher than 90 per cent), and if we take into consideration the estimates on the share of family enterprises in the structure of small and medium-sized enterprises world-wide it can be assumed that family enterprises also present a significant factor of the economic development in Slovenia. According to the fact, that also in Slovenia family enterprises are becoming an important part of the economy, more attention should be devoted to the research of family enterprises, especially to the research of their developmental particularities and particularities of management. In order to improve this field of research in Slovenia in the years 1998 and 1999 we carried out the first broad planned research on family enterprises in Slovenia (in the case of one region). With the empirical research we were trying to find out the share of small and medium-sized family enterprises in the structure of all enterprises in the region and by this their importance for the economic development of the region and of Slovenia. The empirical research included also the investigation of developmental particularities and particularities of management of small and medium-sized family enterprises. These findings were an important basis for planning the adequate support for the development of family enterprises.

Presented in this contribution are some of the cognitions about the role and the importance of family enterprises for the development of society and economy in countries with a developed market economy and in countries in transition. Those cognitions are based on researches, which have been carried out in these countries. In comparison to these cognitions the results of empirical researches of family enterprises in Slovenia are presented. In the conclusion we present proposed measures for support of the development of family enterprises in Slovenia.

2 The role and importance of family enterprises for economy and society

Family enterprises in Europe according to some data (Donckels, Fröhlich 1991) represent between 60 and 70 per cent of all small and medium-sized enterprises. In Great Britain about 75 per cent of all enterprises are family enterprises and in these enter-

prises work 50 per cent of all employees in enterprises (Leach, Bogod 1999, p.xiii). In the United States of America, this proportion in the structure of small and medium-sized enterprises is approximately 80 per cent (Daily, Dollinger 1993) while in the structure of all enterprises it amounts to 95 per cent (Ward 1987). Numerous authors (for example: Neubauer, Lank 1998, Gersick et al. 1997) call attention to the fact that the estimates on the share of family enterprises differ, although the most conservative estimates indicate that their share in the world is between 65 and 80 per cent.

All this proves that family enterprises are a significant factor in economic development. Hammer and Hinterhuber (1993, p.252) ascertain that a family enterprise is an important element of the market economy and contribute significantly to the vitality, flexibility and competitiveness of this economy. Neubauer (1992, p.75) also ascertained the similar when he wrote that family enterprises could significantly contribute to the competition and to the optimal provision of the market with products. The size and high level of flexibility of family enterprises enable satisfaction of individual and special needs on the market. From the structure-economical point of view family enterprises contribute greatly to the decentralization of economic activities because their seats are traditionally located in the vicinity of the family home. In family enterprises there often exist close contacts between the management of the enterprise and other employees, which leads to the possibility of employees identification with the enterprise and to greater work satisfaction. Ward (1987, p.v) for example found that family enterprises are the prevailing form of organizations in the modern economy, yet till now very little has been written about them (compare with: Winter et al. 1998, p.239). The interest for this field of research has been increasing greatly also because many entrepreneurs, who established their enterprises after the Second World War, are now facing retirement. These entrepreneurs now have a vital interest in the settlement of their succession. Young people are entering family enterprises because it offers them the opportunity for fast promotion and to have more influence than they would have in a non-family enterprises. Gersick and co-authors (1997, p.2) state, that for most people, the two most important things in their lives are their families and their work. And it is easy to understand the compelling power of organizations that combine both.

The above stated findings are based on cognitions and results of researches of family enterprises in countries with a developed market economy. The fact that in Slovenia and in other countries in transition not enough attention has been dedicated to the research of family enterprises is not really very surprising. The researches of family enterprises in countries with developed market economies are also relatively young. One reason lies in the fact that researches of family enterprises and their management world-wide in the 1960s and 1970s were based on the assumption that a strong family and the accompanying "family awareness" presented a disturbing factor for the management of family enterprises. Nevertheless recent researches in the 1980s and 1990s emphasize an increasing importance of family enterprises. Partial reason lies in the fact that the illusions and myths on large enterprises were dispelled (Hammer, Hinterhuber 1993, Neubauer 1992, Ward 1987, Gersick et al. 1997).

All this convinces us that more attention should be devoted to family enterprises in Slovenia and in other countries in transition. Namely these enterprises, especially small

and medium-sized family enterprises are becoming an important part of economy (see also: Donckles, Lambrecht 1999, p.17). Special attention should be devoted to developmental questions of family enterprises, their role in the holistic development of certain countries and to the particularities of management in these enterprises (see also: Belak, Duh 2000, Galetic 2002). In all family enterprises a significant factor of the enterprise's development is the family, with its interests, values, goals and with its live cycle. Conflicts, caused by interaction of family and business interests, rivalry between children and other relatives, unsolved questions about succession in management and ownership can have negative consequences for further existence and development of a family enterprise. Based on the presumption, that many family enterprises will be faced with generational problems at the same time, we can expect (in the case of not solving these problems in time) negative consequences in the whole social and economic development of Slovenia and of other countries in transition.

3 The developmental particularities of family enterprises and their importance for economic development of Slovenia

Until recently in Slovenia we did not have at our disposal data or, at least, estimates on the share of the family enterprises because insufficient attention had been devoted to their research. The extensive and in depth empirical research of family enterprise in Slovenia has not yet been carried out. There exist only a few theoretical contributions on the family enterprise (for example: Duh 1995) and smaller empirical research (Vadnjal 1996). In the years 1998 and 1999 we carried out the first empirical research of small and medium-sized family enterprises in Slovenia, studying the case of the Kozjansko-Obsootelje region. The main findings are presented in the continuation of this contribution (more detail descriptions are in: Duh 1999, Duh 2000).

In Slovenia, the number of small and medium-sized enterprises dramatically increased in the 1990s (the proportion of the small enterprises with 0–50 employees in the structure of all enterprises is higher than 90 per cent). The growing number of enterprises is connected to the possibilities of establishing and managing private enterprises. If we compare Slovenia with the countries in the European Union (EU) we can conclude that Slovenia is comparable with the EU as regards the share of small and medium-sized enterprises in the structure of all enterprises. But the comparisons with the most effective European and other world economies show that the share of small enterprises in the structure of all enterprises is still too small. Namely, there exists a big gap of enterprises with more than 10 employees. There also exist differences between Slovenia and the EU in the share of employees and in the share of income – in these areas Slovenia still lags behind the EU (Smole 1998, p.11–12). If Slovenia wants to reach the level of EU in the area of small and medium-sized enterprises, then measures must be passed for encouraging development of these enterprises.

Economic development of Slovenia will be inevitably based on increasing competitive ability of especially small and medium-sized enterprises by strengthening all their key success factors. The Entrepreneurship and Competitiveness Policy of the Ministry of the Economy of the Republic of Slovenia is therefore directed at strengthening key

factors of enterprises' success (technology, innovation, flexibility, organisation, competitiveness and entrepreneurship), which is implemented in programmes combining a series of inter-related synergic measures. Promoting small and medium-sized enterprises is a part of the policy of promoting corporate sector as a whole. The policy to promote entrepreneurship and competitiveness over the period 2002–2006 will be carried out through three basic programmes: knowledge for development, improving enterprises' competitive capacity, promoting entrepreneurship and utilising entrepreneurial opportunities (Marovt 2002, p.179; Programme 2002). The planned programmes and measures are designed also for small and medium-sized family enterprises, however the particularities of these enterprises are not taken into consideration. In Slovenia, on practical level therefore the importance of family enterprises for the development of economy and society has still not been exposed. Partial reason for such a situation lies also in the fact that the entrepreneurial tradition was broken after the Second World War. But we are now faced with the needs of more serious researches of family enterprises in Slovenia while the number of enterprises dramatically increased in the 1990s due to the possibilities of establishing private enterprises.

In Slovenia, a special database on family enterprises does not exist. Therefore we carried out the empirical research in the Kozjansko-Obsotelje region in two phases in the years 1998 and 1999. In the first phase, we tried to find out which enterprises of a total of 2269 enterprises are small and medium-sized family enterprises – those enterprises were researched in more detail in the second phase. As small and medium-sized family enterprises we take into consideration those enterprises, in which the family members (the owners) also manage the enterprise, and in which exists the wish that the enterprise remains in the ownership and in the management of the family in the future. The family in the mentioned criteria was understood in its wider meaning – that is not only as a nuclear family but also as an extended or a large family. As quantitative (size) criteria we took into consideration the criteria of the Law on Companies of the Republic of Slovenia for distinguishing companies by size and also the EU guidelines for defining the size of an enterprise.

The results of this empirical research confirmed that small and medium-sized family enterprises present an important share in the structure of all enterprises in the region and therefore present an important factor of the development of this region. The structure of enterprises by size in the region is very similar to that in Slovenia; therefore we estimated that the same could also be true for Slovenia. In the researched Kozjansko-Obsotelje region the share of small and medium-sized family enterprises is between 38.1 and 50.1 per cent in the structure of all enterprises (at the risk rate $\alpha=0.05$). The empirical research also included the investigation of the developmental characteristics of small and medium-sized family enterprises (in continuation: family enterprises) in the region. In the continuation we present some of the most important findings on the developmental characteristics of family enterprises in the region.

The majority of investigated family enterprises (together 93 enterprises, which were prepared to cooperate in the second phase of the empirical investigation) are small – according to the quantitative criteria of the Law on Companies – and young, since 62.4 per cent of these enterprises were established between 1991 and 1998, most of them in

1993, 1994 and 1995. This is a reflection of the situation and changes in the structure of enterprises (by size), which is characteristic for the whole Slovenia. The majority of studied family enterprises are selling their products in Slovenia, mostly in the municipalities in which they are located, and only a small number of studied enterprises are export oriented. The studied enterprises have their sources of supply mostly in Slovenia.

The majority of family enterprises are in the ownership of the 1st generation of owners, mostly of one owner and seldom in the ownership of a married couple. Such enterprises present in the sample 87.0 per cent and between 80.2 and 93.8 per cent of all family enterprises in the region (at $\alpha=0.05$). In the investigated family enterprises work fully employed family and non-family members and also family members who are not employed in the enterprise. Their work consists of different kinds of activities, such as: managerial activities, accounting, secretarial work, help in realization, counselling and other forms of help. Family members (not employed in the enterprise) are rarely paid for their work. Owners/managers of course cannot expect this kind of work and help from non-family members.

The majority of family enterprises will continue to exist and develop as a family enterprise – such enterprises present in the sample 81.7 per cent; only 18.3 per cent of family enterprises in the sample did not consider whether or not their enterprises would continue to exist as a family enterprise. 58 enterprises (62.4 per cent) in the sample did not select a successor. The majority of enterprises stated the reason being that children were too young for discussion about the succession. The high percentage of family enterprises in which the problem of succession has not yet been discussed is the reflection of the achieved developmental stages of studied family enterprises (1st generation of owners, the ownership families are young business families). But the experiences of environments, in which family enterprises have a long tradition, warn us that a succession is not a single event of passing the ownership and management to a successor. A succession is a process, which has its beginnings early in the life of a family and before the first employment of a successor in the enterprise.

Owners of the investigated enterprises stated that family savings represented the most important source of financing the start-up of the enterprise. The development of enterprise was in most cases financed by reinvesting the profit.

The majority of owners/managers (83.9 per cent) have a vision for their enterprise. 64.5 per cent of investigated enterprises do not have any planned and written development definitions (a mission, goals, objectives and/or strategies). Projects and project management in 35.5 per cent of enterprises are used for implementation of the planned development; 64.5 per cent of investigated family enterprises do not practice project management. The investigated enterprises state many different reasons why they do not plan their development; but they all agree about one reason, that the future is too unpredictable to plan for future development.

In 79.6 per cent of investigated enterprises owners/managers themselves, with the help of employees or employees themselves with the help of specialized institutions investigate the development of environment; the majority of enterprises for planning the development of the enterprise in the future uses information about opportunities

and threats in the environment. In 80.7 per cent of investigated enterprises the investigation of the enterprise is done (by owners/managers themselves, with the help of employees, or with the help of specialized institutions); in the majority of enterprises the information is used for planning the development of the enterprise in the future. But a question arises: what and which are these developmental definitions, if in more than half of the studied enterprises no plan for future development is made.

The investigated family enterprises show many common developmental characteristics, which are the reflection of the achieved developmental stages of these enterprises. Therefore the conflicts between family members and the succession do not present obstacles for further development of these enterprises. But in the future, these enterprises are going to cope with these problems due to the further involvement of family members in the enterprises. And if the majority of owners/managers find the future too unpredictable to plan the development of their enterprises, they should be aware of the fact that the development of an enterprise is not possible without active searching and adjusting to changing conditions or even active changing of turbulent environment and growing competition.

4 Conclusions with the proposal of measures

The results of the empirical research in the Kozjansko-Obsotelje region illustrate that the share of the family enterprise will probably increase in future, mainly due to the promotion of the development of small and medium-sized enterprises both in Slovenia and in the EU. Therefore family enterprises are becoming more and more important for the economic development of Slovenia.

Small and medium-sized family enterprises are important for the Slovenian economy, and based on the cognitions of other researches also for the economies of other countries in transition. Therefore the family enterprises should be kept “healthy and successful” for the “health and success” of the economy (see also: Safin 1997, Safin 2002, Vadnjal 2002). The key factors of the development of family enterprises are certainly the people in these enterprises, above all the owners and managers who have different capabilities for such development. Small family enterprises, especially new enterprises (recently established enterprises), often do not have plans of their development. Study of Kozjansko-Obsotelje region shows that more than half of investigated enterprises do not dispose with plans of their development. In comparison with other enterprises family enterprises have also many developmental particularities. The institutional environment, in which family enterprises develop, should realize and be aware of these developmental particularities, and on this basis also support their development adequately. Therefore small and medium-sized family enterprises need adequate start-up and developmental advisory and educational support from outside. We have in mind especially:

- Education and training, of both, owners/managers of family enterprises and their successors, as well as of managers who are not members of the family but must be also prepared for the special nature of work in family enterprises

- Counselling, it is very important that a counsellor understands the special nature of family enterprises and especially the developmental particularities of these enterprises
- Establishing a (also legally regulated) supportive environment for small and medium-sized family enterprises, which will take into consideration the special character of family enterprises.

Development of small and medium-sized family enterprises in Slovenia will also depend upon the capabilities of small and medium-sized family enterprises for incorporation in the common European market and world markets, for international cooperation and for linking with other enterprises (compare with: Mödritscher 2002, Pleitner 2002, Rössl 2002). Also in this case, the advisory, training and financial help from outside is needed. Small and medium-sized family enterprises can find and get the necessary help also from already mentioned programmes of measures for promoting entrepreneurship and competitiveness of the Ministry of the Economy. These programmes include beside others also the following measures (Programme 2002): promoting the internationalisation of small and medium-sized enterprises, promoting the linking of enterprises and developing of clusters, and the development of a supportive environment, which has an important role in European Union.

Development of small and medium-sized family enterprises is therefore important for Slovenian economy. It depends in great deal upon the people in these enterprises and upon the support, which is provided to these enterprises by its environment. For this reason a systematic research of small and medium-sized family enterprises is needed, especially of their developmental and management particularities. This is needed everywhere but especially in fast changing economies of countries in transition.

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