Exploring and managing tensions in and between the family business and business family

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Abstract

Managing tensions is at the core of doing business, has always been and will always be. This holds for any business, especially also for family businesses. Managing tensions implies that the entrepreneurs and the entrepreneurial families will have to make choices. Making choices is one of the fundamentals of economics and it is essential for any decision-making, in politics, in business, anywhere.

A family business can be defined as a business with an intense interaction between a business family and the firm itself. The family usually is involved in ownership (risk taking), in management or both. The family can be defined as the 'small family' or household of the entrepreneur or the extended family. This involvement can generate a strong commitment and be a positive force for the business but it can also be the source of tensions and conflicts.

A family business is a system, including the business itself, and the business family as well. The members of the family exert a significant influence over the business strategy. The levers of the family include *ownership* (financial control) and/or positions in the *management*. Next to these formal levers, the members of the family often also make up an informal network within the business, sharing key information with each other. The objectives and the values of the family business and the business family may be in competition so a sufficient level of convergence must be attained through open communication.

Whatever the strategy, the business has to compete in the market. Its competitiveness must be preserved in all circumstances. Especially when the business grows, the family business as a system will compete with other systems such as public companies or – in some countries – state-owned enterprises (SOEs). The family business as a system will provide some, but not all firms, with a competitive advantage. This holds not only for SMEs in traditional sectors but also for growing businesses in emerging economies.

Responsible ownership is a way to consolidate the link between the family and the business. This can bring greater durability and stability with regard to the financial structure of the business. A rupture can arise if the performance of the business deteriorates or if the family is no more capable to transfer its value system to new generations.

When the business grows, external managers will be hired. The members of the business family and the external managers will have to make a team together. Together they become part of the family business system. A successful team of a business family and an external professional management can greatly improve the competitive position of the firm.

Family businesses and SMEs are important actors on the job market. In general they generate more stable jobs than the average. Empirical research suggests that the creative destruction works: the number of jobs created by new firms is larger than the number of jobs destroyed by vanishing firms. Good policy has to play along with this, taking account of local circumstances.

Questions for discussion

Question 1.

Under which conditions will an equilibrium between the business family and the family business generate an optimum as defined by economics?

Question 2.

Under which conditions will the creation of a team including the business family and external professional managers generate success for the family business?

Question 3.

Under which conditions can the family business as a system have a competitive advantage for a growing firm in comparison with other systems such as public companies of state-owned enterprises?

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1. What is family business?

1.1. The actors and their interaction: the entrepreneur, the household, the extended family and the firm

When an entrepreneur starts a new business, it is very often considered as a *family business,* at least in the beginning. Not all businesses continue to be family businesses, but some do, some of them even for several generations. The business can remain small or grow but as long as it is considered as a family business there is an intensive interaction between the entrepreneur, his or her family (*the business family*) and the firm. This subject has been discussed in an extensive and expanding literature (for example in the nineties Donckels (1993), Gersick (1997), more recently Flören (2004), Lambrecht and Uhlaner (2006), Uhlaner (2008), European Commission (2009)).

When can a business be considered as a family business? Donckels (1993) refers to two criteria: *ownership* and *management*. These are still relevant. A family business is a firm where the ownership and the effective control over the management are (mainly) at the hands of the members of the same family. The distinction between family business and non-family business is not clear-cut. There is a twilight zone. The distinction between a family business and a non-family business is a matter of degree for both the criteria of ownership and management. It can also be a 'mix' for both. There are cases where the family keeps (some degree of) control over the management but no (more) over ownership or vice versa. Another approach is the so-called '3-circle' model (the family, the business and ownership) of the family business as developed by Tagiuri & Davis in 1982. For the discussion in this paper it is relevant that the family keeps having impact on the business culture. Moreover, the nature and the intensity of the link between the business family and the family business change over *time*. Leadership by members of the same family can be an important determinant for success

for a firm, but at a given moment it can also become a liability. Then a rupture may become inevitable.

There are two areas of tension – or maybe conflict – between the family (the business family) and the business (the family business):

- *Conflicts about the objectives.*

These arise mainly when decisions have to be made about the *allocation of profits*. The short-term interest of the family calls for a quick distribution of the profits while the long-term or medium-term interest of the firm calls for reinvestment of the profits in the business.

- *Conflicts about the role and position of individual members of the family.*

A family can adhere to a value system including *hierarchical relationships* between the members of the family such as a right of primogeniture for older children over younger children or (often) a preference for sons over daughters. When such family value systems are transferred to the firm they can thwart good management decisions.

How do we understand 'family'?

In the literature, the "family" in a family business is usually defined as the household or 'small family' (life partner and children) of the entrepreneur as long as the first generation is active. In the second and third generation (and further on) the so-called "*extended family*" also comes into the picture. This "extended family" is a network, composed of several households that can be related to each other in very complex ways. Their relation to the firm can be equally complex.

However, the notion of "extended family" is not only relevant for firms which have been owned by the same family for several generations and which have grown in such a way that they are capable to provide jobs and income to a large number of family members. Very often also the independent owner-manager of a small family business has to take into consideration his (her) "extended" family. Specifically this can happen for family businesses of the second or third generation, when the entrepreneur has taken over the firm from his or her parents or parents-in-law. These parents or their heirs (brothers, sisters, cousins, nephews etc.) remain stakeholders in the firm, for instance as co-owners or creditors. They can try to influence management decisions in an informal way or even in a formal way when they are members of the board. Very often they claim a preferential treatment for the assignment and remuneration of jobs for themselves or their descendants.

When the interference of these relatives is no longer compatible with good management, the entrepreneur may try to buy them out and to reunite full property and full decision-making power in one hand. This is especially the case when the firm is not large enough to earn an income for all the households of the extended family structure.

Even if the entrepreneur is able to get (almost) full control over the ownership and the management such that the "*extended family*" will no more interfere into his business

decisions, he (she) still has to take the “*small family*” (partner in life and children) into consideration.

The firm is the main (or at least a very important) source of *employment* and *income* for the household. In most cases it also is the main component of their *wealth*. The wealth can be positive or negative depending on the net value of the family business. Sometimes the business family has indebted itself to support the family business. The financial involvement of the business family through income and wealth implies that the partner and the children of the entrepreneur are becoming "*stake-holders*" in the firm. The entrepreneur will be involved in the firm very deeply, *financially* as well as *emotionally*. Very often the entrepreneur will take a heavy working load and devote a large share of his (her) time to the firm. A *competition* for his (her) attention can arise between the firm and the other members of the household.

Entrepreneurs often involve themselves in their job in a very emotional way but this is not unique. Also salary earners, especially at executive level and working out of home, can be confronted with a profound emotional involvement to their job, leading to a competition between their household circle and their job circle, both vying for their attention. However for entrepreneurs there are two additional elements which are relevant:

- The *interaction* between the household circle and the professional circle is much more intensive. For salary earners it is very rare if members of the same household work for the same employer or in functions which are close to each other. In the context of family businesses it is very common that members of the same family or even the same household work together in the same firm. Moreover the physical distance between the household home and the location of the firm often is very short. This means that the members of the family keep involved with the business even on days when it is closed such as Sundays and holidays. This kind of situation brings about a deep commitment of all the members of the business family, including even the small children, to the family business.

- The entrepreneur has to confront a strong *interdependence* between the social risk, the financial risk, the professional risk and the emotional (family) risk.

The reason for the emotional involvement of the entrepreneur is not only professional pride, but also financial responsibility. Here too we can refer to typical ‘family business’ situations such as the savings of the family being invested in the firm, a family home being mortgaged for the firm etc. Members of the same household can be an important factor of mutual support for each other in the business context, but potential household conflicts (between partners or between generations) can have an enormous negative impact on the firm as well.

1.2. Definitions

Multiple attempts have been made to define the family firm in academic literature as well as in policy papers. The European Commission (EC) has appointed an expert group on family business in 2009. In their report (EC (2009)) they discuss the issue of a definition for the family business.

"Specialised literature clearly shows that *'there is not a single definition of 'family business' which is exclusively applied to every conceivable area, such as to public and policy discussions, to legal regulations, as an eligibility criterion for support services, and to the provision of statistical data and academic research'*." (KMU Forschung Austria, 'Overview of family business relevant issues', Vienna, 2008 as quoted by the EC expert group p. 8)

The group acknowledges the importance of family businesses for the economy and business as well as policy. "**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 specific commitment they show to local communities, the responsibility they feel as owners and the values they stand for. These are precious factors against the backdrop of the current financial crisis.

Family businesses make up more than 60 % of all European companies, encompassing a vast range of firms of different sizes and from different sectors.

Most SMEs (especially micro and small enterprises) are family businesses and a large majority of family companies are SMEs."

The expert group of the EC then proposes a definition as formulated by the Finnish Working Group on Family Entrepreneurship (set up by the Ministry of Trade and Industry of Finland in 2006).

The definition is as follows: "*A firm, of any size, is a family business, if:*
1) The majority of decision-making rights is 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 per cent of the decision-making rights mandated by their share capital."

Following the expert group, the notion of **ownership** is fundamental to family businesses. We come back to this issue later in this paper.

2. Family business as a system

First of all we have to understand that a family business is a firm. All issues and tensions which relate to firms in general (especially SMEs) are also relevant for family firms. They are the object of analysis by economics and management science.

The expert group (EC (2009), p. 16) states: “In addition to usual business management skills, the particular composition of family firms requires a special type of management, often referred to as ‘family governance’, which seeks to minimise potential tensions, particularly within the family and between the family and the business aspects.”

2.1. Challenges

However, there are specific issues. A family firm is a system which not only encompasses the firm itself but the family as well. It links the family with the business. Family firms face some typical challenges, as explained by the expert group of the EC. These challenges can be grouped into three different categories: those common to any type of business (family businesses and nonfamily businesses), those that affect all businesses but are of particular concern to family businesses and challenges that only family firms face.

- “Some challenges stem from the environment in which companies operate, e.g. policy makers are unaware of the specificities of family businesses and their economic and social contribution; financial issues related to gift and inheritance tax, access to finance without losing control of the firm, favourable tax treatment of reinvested profits.”

- Other challenges “are related to the family firm’s internal matters e.g. unawareness of the importance of planning company transfers early; balancing the family, ownership and business aspects within the enterprise; difficulties in attracting and retaining a skilled workforce.”

- Finally some issues regard “education and research impact on both the environment and internal matters, e.g. (lack of) entrepreneurship education and family-business-specific management training, and the need for more research into family-business-specific issues.”

2.2. Value systems

Another matter of tension is the impact of value systems. In an earlier contribution to the “Rencontre de St. Gall” (see Degadt (2002) and Degadt (2003)) we discussed the complementary and competing value systems in the world of family business.

The result of the interactions between the business family and the family business can be positive for the members of the household as well as for the firm. Members of the households can achieve some personal objectives through the firm and the firm can take advantage of the commitment of the members of the family. There can be a synergy between the objectives of the family and the objectives of the firm. Some examples:

- Resident members of the household (especially the life partner of the entrepreneur) perform all kind of services for the firm, without charging a salary.

- The firm provides employment to members of the family (on well-paid jobs).
- The firm can provide a high-yielding investment opportunity for the savings money of the family.
- The savings money of the family can be a cheap source of finance for the firm.
- A family can make plans on the long term. The succession of the top executive of the firm can be nicely prepared and coached in the context of the family.

2.3. Family business as a competitive system

However, economics can spoil this synergy and harmony between the objectives of the family and the objectives of the firm. There is no guarantee at all that the resulting equilibrium between family and firm within the family firm system will be an optimum in the sense of economics. Any synergy between family and business should be supported by a correct economic calculus because it will be tested in the competitive market. For instance, if the firm is not capable to provide a sufficient yield for the savings money of the family or if the members of the family think that they can earn more money by taking a salary job outside the firm, tensions cannot be avoided. Investing money or taking a job in the family business then will give rise to an *opportunity cost* for the members of the business family (we define the opportunity cost as the yields that could have been earned by going elsewhere). Conflicts of interest can arise between the firm and the members of the household or between the members of the household among themselves. The survival of the family business as a family business can be at stake. Any family business, which has to survive in a market environment, must be *competitive*.

In a world with rational economic agents or actors there should be no conflict at all. Gersick (1997, p. 294) points out that there is no mystery about the *objectives* of owners of family firms. They want profitable firms, a high standard of living for themselves and their households and love within the family. The conflict – for example the conflicts about the objectives or about the role of individual members of the family - will only arise when (members of the) family will become fearful that the pursuit of some objective will be at the expense of some other objective. Donckels (1989, p. 18) adds that very often the cause of problems lies in the interaction between the world of the family and the world of the firm. Conflicting interests regarding the objectives and the priorities are forced into one system.

When the business grows, the owners will have to decide to keep it as a family business, to allow external co-owners or to sell the business altogether or maybe to go public. Each strategy has its competitive advantages. It is a misunderstanding that a family business *should* be small and that the link between family and business *should* be loosened if the business grows. Even in so-called emerging markets where growing family businesses have to compete with public companies as well as with state-owned enterprises (SOEs), the family business can keep a competitive edge. This is illustrated by the weekly magazine *The Economist*, 19 May 2012. “The biggest advantage of SOEs is political: ties with governments can protect them from unwelcome competition. That, of course, is also their problem: they can easily become bloated and lazy. So state-capitalist governments, particularly the Chinese, have

turned to overseas listings to force staid monopolies to become nimbler, capable of responding to market demands, as well as government fiat.

The big advantage for family firms is their capacity for long-termism. The drawbacks are family feuds and a lack of professionalism in the second or third generations. So, like state-capitalist governments, family companies are turning to market mechanisms: professional managers, private-equity firms and private markets such as SecondMarket and SharesPost, which allow private firms to trade shares without public scrutiny."

"The most serious challenge to SOEs comes from family-controlled conglomerates. Family businesses account for about half of listed companies in the Asia-Pacific region and two-thirds in India. Families exercise tight control of their empires—and limit the power of other shareholders—through a variety of mechanisms such as family-controlled trusts (which have more power than boards), appointing family members to managerial positions and attaching different voting rights to different classes of stock. Diversified family firms are good at taking a long-term view, diverting money from cash cows to new industries that might take a long time to produce results. They are also good at dealing with the government failures that plague emerging markets. It is remarkable how fast even India's lumbering government can move if a Tata or an Ambani calls."

2.4. Succession

The business family as well as the family business must be considered as dynamic systems. *Time* is a very important element. The family as well as the firm change over time. Synchronization of both time paths is not easy and can cause a lot of tensions. The firm can expand or stagnate following the logic of business and economics. The family changes through marriage and divorce, birth and mortality. Young members of the family will choose whether or not they will have their career in the firm. If they do so, they will want to rise to management positions as fast as possible. Ownership structures can change. At a certain moment the entrepreneur will have to consider retirement.

As shown in the literature, the family networks of larger family firms can become very complicated within two or three generations. Sometimes the extended family will have to make agreements regulating the position and the involvement of family members in the ownership, the board and the management of the firm.

3. Family business as a business

3.1. Business environment

At the start, the family business usually is an entrepreneurial SME, and shares the characteristics of this type of firm. All issues which are relevant for these broader categories are also relevant for these firms. For policy this implies that family businesses will be among the main beneficiaries of a good general business and entrepreneurship policy. In addition to this, some additional measures may be necessary. This is also acknowledged by the expert group of the EC in 2009: "The **institutional framework** and **policy initiatives** regarding family businesses differ from country to country. Measures favouring family businesses are (or have been) implemented by different actors and tackle a range of problems, e.g. taxation, company law, planning the business transfer, awareness-raising through lobbying and policy advice, research and dissemination of information, promotion of entrepreneurship and family-business-specific education, and family governance."

3.2. Responsible ownership

Ownership is one of the main links between the business family and the family business. The presence and motivation of members of the business family, supported by their value set, can be at the origin of a better performance for the family business. The founder and later the members of the family bring a kind of '*familiness'* in the business culture. This 'familiness' is a combination of competences and resources due to the interaction between the family, the business and individual family members.

It is not easy to measure the degree of success of the business and the family and it is not easy to measure the extent to which the success can be attributed to the family ownership. The performance of any business (family business or other) can be measured by its profit and by financial indicators such as Return on Equity (ROE), Return on Assets (ROA) or Return on Sales (ROS). Other indicators focus on economic performance such as productivity, employment, innovation or internationalization.

Recently the concept of *responsible ownership* has been developed to indicate the extent to which governance by a family can be an asset for the performance of a business. Today the concept and practice of responsible ownership also has become a field for research. A state of the art has been presented in the paper of Lambrecht and Uhlaner (2005) and at the inaugural lecture of Uhlaner at Nyenrode in 2008.

Uhlaner (2008) considers business families as a special case of a broader category of business-owning groups. Business owning families "are defined as business-owning groups, there are also business-owning groups in nonfamily businesses." "Ownership is frequently dynamic and complex. It can overlap with management, and potentially contribute to the competitive advantage of the firm. This requires a different approach to governance than was originally developed for the large publicly-traded firm with a fragmented ownership, but that does not mean that governance is irrelevant for such firms."

The concept of responsible ownership is related to the concept of *corporate governance* but the two concepts are not identical. Corporate governance focuses on management and the interests of stakeholders in public firms. However, Lambrecht and Uhlaner point out that in both public and private firms with a substantial family-ownership interest, it is the owning family itself that will also play a role in monitoring the actions of management. In a privately-held firm the family will bear the complete responsibility for corporate governance.

Responsible ownership is not the same as *corporate social responsibility*. The latter concept focuses on the corporation's responsibility to stakeholders inside and outside the company. '*In sum, corporate social responsibility ultimately depends upon responsible ownership and though the former may come about on the initiative of management, the ultimate responsibility for the firm's actions, especially in the privately-owned firm, rests with the owners*' (Lambrecht and Uhlaner (2005), p. 5)

Lambrecht and Uhlaner also surveyed the literature on the financial and economic performance of family businesses in relationship to other businesses. A final conclusion is not yet possible: '*improved financial performance may be one possible outcome of close monitoring of the firm*' but more research on this subject is still necessary. It is also on the research agenda of Uhlaner (2008). Responsible ownership can also have other implications beyond the field of finance such as greater corporate responsibility, better employment and overall economic growth.

Family ownership will bring a lasting link between the business family and the family business if it is supported by 'familiness' or a set of commonly shared values. What is needed is '*an active and long-term commitment to the family, the business and the community, and balancing these commitments with each other*' (Lambrecht and Uhlaner (2005), p. 10)

In her interim conclusion Uhlaner (2008) points out:

- "We can learn more about business-owning groups in general and business-owning families in particular by applying research on teams and team effectiveness;"
- "Family governance practices are positively associated with financial performance (of both the enterprise and business-owning family);"
- " Commitment to family wealth appears to act as a mediating variable in this relationship."

Lambrecht and Arijs (2005) discuss a number of ways a family can transfer its value system to the future generations such that a lasting responsible ownership can prevail.

3.3. Long-term vision and ruptures

Often the assumption is made that as long as the family is going well also the business will do well and vice versa. More than other firms, the owners of family firms are able to develop and implement a long-term vision. However, this is not always true. There are plenty of examples of 'good' families with business problems and of 'good' businesses with families full of problems and conflicts.

When family values or ‘familiness’ are no more of use for the family business, responsible ownership will fade away. When there is a rupture, the family may finally decide to sell the business. Such rupture may have a wide variety of causes, linked either to the family or the business, such as: a second or third generation which loses its sense for creativity and work ethics due to inherited wealth; sticking to obsolete strategies from the past; too much attention for the business at the expense of the family or vice versa; lack of respect for professional managers. Also economic problems can bring about a rupture, for example if a large investment is necessary.

In this matter we want to draw attention to some discontinuities within the family too. It is often supposed that family values are transferred almost automatically within business families. This is not true. In 2004 a survey was held with Belgian small business owners by Unizo, the main association of independent workers. When asked about their preferences for the career of their children, a plurality responded that they had no preference. The children can make their own choice. Only 19 % preferred their children to become independent (down from 28 % in a similar survey 2 years earlier) but 27 % wanted them to look for a salaried job (11 % in a small business, 9 % in a big business, 7 % in public service). This means that more than one out of four small business owners want their children to avoid the risks of entrepreneurship.

3.4. Professional management

When a family firm grows, it may become necessary to hire professional managers to keep the firm competitive. When there are also members of the business family in management positions, both types of managers (family and non-family members) will have to team up. The issue is discussed by Lambrecht and Baetens (2005). They use a qualitative research method, including a literature survey, histories and biographies of business families and interviews.

Three categories now interact within the family business system: active members of the business family (co-owners and holders of a position in the management), passive members of the business family (co-owners but not holding a position in the management) and external managers. A “mixed” management team (active members of the business family and external managers) needs clear and explicit understandings about its operation (competences of the team members, remuneration,, evaluation, hierarchy, …). In an interview with the Belgian Institute for Family Business Lambrecht sums up the main priorities for a durable relationship between de business family and the external manager. The family and the manager must share the same values, they must communicate openly with each other in informal and formal ways, they must respect each other’s role and responsibility. The family needs to share the power and to trust the external manager. The professional manager needs to show respect for the mission of the firm and the value system of the family. He or she must be assertive and modest at the same time. Lambrecht refers to emotional intelligence.

When a business family and an external, professional management make up a team they can give an enormous boost to the business and its competitive edge and generate growth. This is illustrated by the weekly magazine *The Economist*, 19 May 2012, which refers to some examples in Germany. “Family companies of a different type have had a good decade in

Europe. German family firms have led the country's export boom by dominating niche markets such as printing presses (Koenig & Bauer), licence plates (UTSCH) and fly swatters (Aeroxon). These firms pride themselves on a professional approach to management: Nicholas Bloom and John Van Reneen, of the London School of Economics, point out that only 10% of German family firms choose their CEOs through primogeniture compared with two-thirds of family-owned firms in Britain and France. They also pride themselves on long-termism, investing heavily in training and upgrading their machinery.

4. Contribution to economic growth and development

4.1. Relevance of family businesses for economic development

Following Flören (2004) at least 65 % of businesses in the world are family businesses. For instance for Italy the estimate is more than 90 %, for Germany, England and the US, the estimate is respectively 60, 70 and 75 %. In the so-called transition countries the percentage is lower. Although most family businesses are small businesses, Flören also emphasizes that family businesses should not be identified with small businesses. 45 % of the large businesses in the Netherlands (more than 100 employees) are family businesses.

The expert group of the European Commission (EC (2009)) states: "Although the data available is not always robust enough to provide solid evidence, there is no doubting the **importance of family businesses**, not only for what they represent to the economy, but more importantly for the commitment they show to local communities, the long-term stability they bring, the responsibilities they feel as owners, and the values they stand for."

At present there is not yet a fully reliable statistical data base available about family businesses. So it is not (yet) possible to make a qualified assessment of the contribution of family businesses on the macro-economic level (production, value added, employment). However there is a convergence between family businesses and SMEs, so reports about the performance of SMEs can be useful for an assessment of family businesses. "Most SMEs (especially micro and small enterprises) are family businesses and a large majority of family companies are SMEs."

EIM Business and Policy Research presented in 2011 a report on the job creation (quantity and quality) by SMEs in Europe. We discuss some results.

4.2 SMEs and job creation

Following the EIM report, in 2010 about 87 million jobs, 67% of total employment in the non-financial business economy, in the European Union were provided by SMEs. About 33% were provided by LSEs.

Net job creation is the result of job creation and job destruction. Enterprise birth and death play a very important role in terms of job creation. "The net impact of birth and death together is small, but Eurostat estimates the gross number of jobs created through enterprise birth as higher than total net employment growth: for the total non-financial business economy a direct effect of 4 million, or 3% of total employment, was estimated."

The effect of creative destruction is positive. "Employment growth of newly born enterprises more than compensated for the employment destruction caused by enterprise deaths across all age groups (but of which a majority also took place in the group of newly-born enterprises). Net employment growth of newly born enterprises was 17.5 million, whereas total destruction by deaths is estimated at 8.9 million."

EIM also makes a first evaluation of the impact of the recent economic crisis on the job market in the European Union. “The main effects of the economic crisis during 2009 and 2010 were the overall negative effect on total demand, the increase in customer payment terms and the problems with obtaining finance.” Smaller enterprises are more vulnerable. They more often mentioned negative effects of the crisis.

Employment in SMEs is more stable. “More than large enterprises, SMEs held on to their employees. Most SMEs did not fire staff as a result of the crisis.” The stability of SME employment has an economic cost: if production declines in SMEs as well as in large enterprises, and the work force is reduced less in SMEs, then the average SME must have overcapacity.

Consequently, it can be expected that recovery in SMEs will be slower than in large enterprises. This is more the case as recovery in 2010 was primarily export led. SMEs are less influenced – at the least directly - by export developments.”

4.3. Quality of the jobs

EIM also looks at the quality of the jobs. “SMEs, specifically micro enterprises, appear to play a different role on the labour market. They report different competitive advantages over large enterprises and use different processes of recruiting and selecting new staff. For society as a whole, important consequences appear to be higher percentages of older employees and previously unemployed employees. This seems likely to be related to the softer aspects of working climate and work quality. It also connects better jobs with more jobs: SMEs employ persons less likely to have found a job in a world solely consisting of large enterprises.”

“One way to measure the quality of jobs is to directly ask employees about their job satisfaction (how satisfied they are with their current job). Although job satisfaction is not a very suitable indicator for international comparisons, it can be used to compare the job quality for employees from different size classes *within* countries. A few studies have done so, and the main findings of these studies are that job satisfaction tends to be higher for employees from SMEs as compared to employees from large firms. This leads to the conclusion that SMES are providing better jobs than large enterprises.”

This statement probably also holds for family businesses but it should be analysed more thoroughly. The EIM also focuses on the importance of education and learning. Evidently this holds not only for SMEs and family businesses but also for entrepreneurship and management in general. “It is important for enterprise to invest in lifelong learning, not only to improve the knowledge and skill levels of employees, but also to improve their employability (either within the firm, or between firms).”

Training and education also are linked intensely to innovation. “In addition, training activities are also more likely amongst innovative enterprises, and amongst enterprises from more innovative countries.”

5. Conclusions

A family business is defined as a business with an intense interaction between a business family and the firm itself. The family usually is involved in ownership (risk taking), in management or both. The family can be defined as the 'small family' or household of the entrepreneur or the extended family. This involvement can generate a strong commitment and be a positive force for the business but it can also be the source of tensions and conflicts.

It is important for the performance of the business to monitor the value systems of all stakeholders. Convergence or divergence can bring about more or less success for the family and for the business.

A family business is a system, including the business itself, and the business family as well. In a family business the members of a family exert a significant influence over the business strategy. The levers of the family include *ownership* (financial control) and/or positions in the *management*. Next to these formal levers, the members of the family often also make up an informal network within the business, sharing key information with each other. The objectives and the values of the family business and the business family may be in a kind of competition. They can be complementary but they can also be in conflict. The entrepreneur has to take account of the wishes and objectives of his or her life companion and children and of the extended family as well.

Whatever the interaction between the business family and the family business, it always has to be kept in mind that the business has to compete in the market. Its competitiveness must be preserved in all circumstances. Especially when the business grows, the family business as a system will compete with other systems such as public companies or – in some countries – state-owned enterprises (SOEs). The family business as a system will provide some, but not all firms, with a competitive advantage. This holds not only for SMEs in traditional sectors but also for growing businesses in emerging economies.

Responsible ownership is a way to consolidate the link between the family and the business. This can bring greater durability and stability with regard to the financial structure of the business. A rupture can arise if the performance of the business deteriorates or if the family is no more capable to transfer its value system to new generations.

When the business grows, external managers will be hired. When members of the family are in a management position, they will have to team up with the external managers. Together they become part of the family business system. A successful team of a business family and an external professional management can greatly improve the competitive position of the firm.

Family businesses and SMEs are important actors on the job market. In general they generate more stable jobs than the average. Analysis of the job market also shows that the creative destruction works. The number of jobs created by new firms is larger than the number of jobs destroyed by vanishing firms.

Family businesses are among the main beneficiaries of a good entrepreneurship policy but in addition they may have specific needs which have to be met by policy. As stated by the expert group of the EC: “National governments should consider adopting measures to create a more favourable environment for family businesses, for example in areas of taxation, company law, and the educational system. The group also recommends setting up a specific family business contact point in national administrations.”

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