Intergenerational Succession in SMEs Transition
INSIST

National Report on Family Businesses in Poland

Final version

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Introduction

Family Business: Definition, Roles and Importance of the Family Business

In Central Europe, after a period of economic development dominated by large state-owned factories and plants the observers rediscover the virtues of family businesses as the best way possible to organise an economic activity, where the 'human' and the 'rational' are mixed in a protective environment and the individual can best develop his/her talents and aptitudes (Schumacher 1973).

The centrally planned and state owned economies were established in Eastern Europe and in parts of Asia in the late 1940s. The main foundational principle of the communist economic system was the suppression of private enterprise and the expropriation of owners of the capital. For almost half a century in all Eastern European states larger industrial private property was banned, but in some countries, including Hungary and Poland, small craftsmanship and small private farming were tolerated.

Even if initially nobody said it: freeing entrepreneurial initiatives and granting legal guarantees to private property meant restoring the basic preconditions for capitalist economy. When in 1989 the first post-communist government declared the freedom of economic life thousands of Poles launched their enterprises investing their savings and borrowings in start-ups.

Earlier the socialist economy restricted the domain of private firms to small commercial and craft entities. In Poland, by late 1988 the number of private enterprises amounted to 0.6m, but thanks to internal liberalization it reached 2,5 m already in the end of 1990. By the end of 2014 the number of officially registered firms oscillates around 4m, but this number is inflated as a large part of these units is inactive. The real number of economically active businesses is close to 2 m (some additional 0.4m persons are part-time entrepreneurs (they undertake independent economic activities in addition to the dependent work).

Polish private enterprises are predominantly small and very small. Almost 2/3 of such companies do not employ any employees, which means that 1.2m of such firms can be counted as self-employment (this is significantly more than an average for the EU where self-employment accounts for 56% of active economic units).

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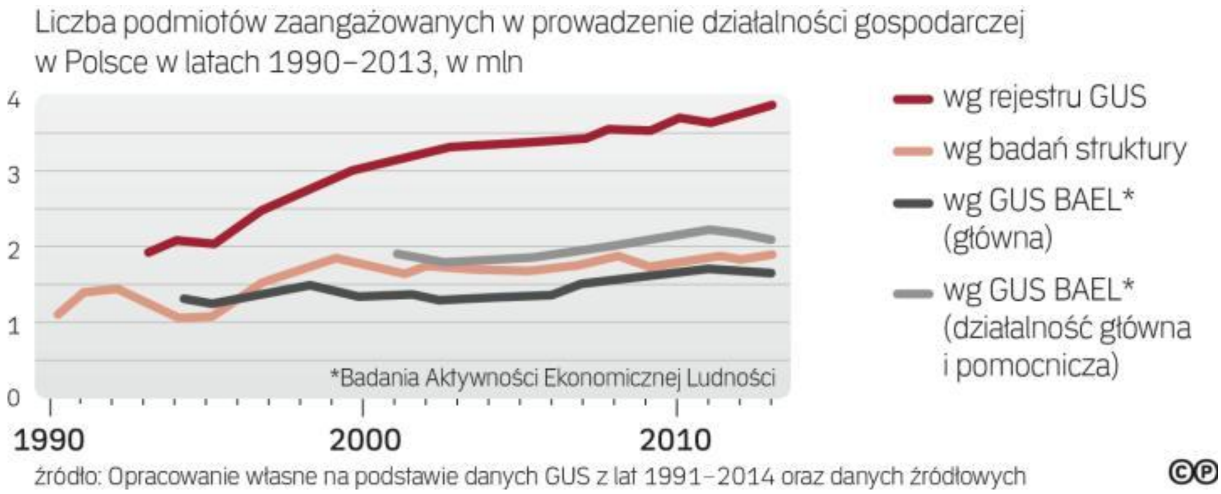
Approx. 0.535m Polish enterprises are microentreprises employing between 1 and 10 employees. The number of small and medium sized companies has been increasing, but still not sufficiently rapidly.

At the other extreme of the size distribution of firms in Poland one can locate 26,000 companies with foreign participation (foreign owned companies). They account only for 1.4% of all existing firms, but for 11% of those companies that employ more than 10 persons. Their role is thus important. Foreign owned companies are concentrated in manufacturing (they account for 47% of the industrial manufacturing) and in the financial sector[1].

Graph 1

The Number of Firms Registered (the red Line) Or Economically Active (other colours-various sources) in Poland in the Period from 1990-2013



Source: Wolni strzelcy, in Rzeczpospolita, 4 March 2015.

Most of private enterprises are active in retail and whole sale trade. They have dominated this sector easily as the government policy dismantled the large state owned internal and foreign trade companies. Small trade firms were also facilitated by the privatization of real estates (building, apartments) in the centres of towns and other localities.

[1] According to some estimates Polish family firms employ 1.3m employees, that is 21% of all working in Polish SMEs (this is an estimation that is too low as it is based on self-identification of its owners/managers).

After the period of quantitative explosion of private businesses since the beginning of XXIth century the Polish economy has entered the period of their qualitative growth and scaling up and more larger private companies can be found in all areas of the economy.

It is not an exaggeration to say that family firms have been the crucial factor in the successful rebirth of the Polish capitalism, although this fact has not been widely recognized. It is so because in a traditional society such as the Polish one the family is the main source of financial and manpower support for almost all entrepreneurial activities. Thus, if 97% of all existing businesses are small firms created by entrepreneurs with the support of their families, they are *in nuce* family firms. Being *de facto* family firms Polish private enterprises learn to recognize them selves as such. If in 2001 just 13% of small firms perceived them selves as family firms, by now this percentage approaches 40%, being still smaller than the EU average where 71% of small firms perceive them selves as family firms.

Table 1

Enterprises Perceiving Themselves as Family Businesses in the Years 1999-2008 in Selected European Countries (in % of the enterprises in total)

Country	**1999**	**2001**	**2008**
Austria	58	61	80
Belgium	61	66	70
Cyprus	-	-	85-90
Czech Republic	-	-	84
Denmark	38	35	35-95
Estonia	-	-	90
Finland	58	68	80
France	57	63	67
Greece	78	68	52
Spain	62	57	85
Netherlands	38	47	55
Ireland	45	53	75
Lithuania	-	-	38

Luxembourg	54	56	70
Latvia	-	-	30*
Malta	64	-	-
Germany	60	41	95
Poland	**18**	**13**	**33****
Portugal	57	56	70-80
Romania	-	-	-
Slovakia	-	-	80-95
Slovenia	-	-	60-80
Sweden	47	51	55
Hungary	-	-	70
UK	42	48	65
Italy	55	56	93
EU-27 (average)	52	52	71
Norway	45	46	67
Switzerland	57	55	-
Turkey	63	75	90
Europe-30 (average)	55	54	72

* among micro- and small enterprises (medium-sized and large enterprises were not considered)
** data for 2009 among small and medium-sized enterprises (large enterprises were not considered)
Source: Authors' own study. The data for 1999 taken from: (Grant Thornton 1999, p. 70). The data for 2001 taken from: (Grant Thornton 2001, p. 57). The data from 2008 taken from: (Mandl, 2008, pp. 40-46). The data for Poland for 2009 quoted after (PARP 2009, p. 67).

The empirical research of family firms in Poland so far has relied on convenience sampling. It did not use the representative population due chiefly to financial limitations. First research was conducted already in the end of 1990s by W. Popczyk and A. Winnicka-Popczyk [Jeżak, Popczyk, Popczyk 2004] followed by Ł. Sułkowski [2004]. Later research such as A. Surdej, K. Wach [2010], E. Więcek-Janka [2013] or by K. Safin was done in the same way.

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Reports prepared for PARP [PARP, 2019] relied on the analysis of secondary data. Increasingly the research uses the data from the Warsaw Stock Exchange since some of firms quoted there can be classified as family owned businesses [e.g. W. Popczyk, 2013]

But what are family firms? How they are defined? In Poland there is no legal distinction between family and non-family businesses. Family businesses remain a subset of the different sizes of firms and legal categories. There is also no single universally accepted definition of a family business in Poland amidst academic researchers. Łukasz Sułkowski takes a sociological perspective saying that the influence of the family is a starting point with common, but differentiated, consequences for family firms. The strength and channels of influence of the family depends on the industry and the size of the company [Ł. Sułkowski, *Organizacja a rodzina. Więzi familijne w życiu gospodarczym*, TNOiK, Toruń 2004]

Ł. Sułkowski [Sułkowski, 2004, p. 99] defines family firm as an economic entity in which the majority of property and the management function remains in the hands of a single family. L. Sułkowski and A. Marjański define *family business* as a „family enterprise, whose ownership control or management is in the hands of family, and in whose functioning more than one member of the family is involved" [Sułkowski, Marjański 2011, pp. 9 and 37].

Other researchers stress that family firms are distinguished by their intentions to pass the ownership and managerial control to the next generation [E. Niedbała, *Firmy rodzinne – obiekt badawczy*, op. cit., s. 44–45 Niedbała Eugeniusz, *Firmy rodzinne – obiekt badawczy*, MBA nr 5, 2002.]

Some researchers [A. Marjański, 2012] state that sole ownership companies should be considered family firms, if their owner is aware of family's impact on the company and it he intends to pass the ownership and control to the next generation.

In sum the Polish academic literature applies a broad variety of criteria to distinguish family firms, namely:

- Interdependence of the family of the owner and the firm;
- The participation of the family in the ownership of a company;
- The participation of the family in the management of the company;

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- The participation of the family in the employment in the company;
- Self-awareness of the family character of the company;
- The intention to pass the ownership and the managerial control to the next generation;
- Family loaded organizational culture;
- The mix of business and family goals in the strategy implemented by the company.

As these features may be displayed with differentiated intensity, one can speak about the continuum characterized by, on one hand, firms with low intensity of family determined features, and the companies that display a high density of familiness.

Since Polish researches apply various definitions of family firms their research results are hardly comparable.

Polish researchers did not create a widely approved definition of family firms that would suit the needs of the domestic economy. They rather note that family firm is a multidimensional concept, which relies on several criteria, including subjective, structural and functional.

In the only nationwide research conducted in 2009 the researchers [PARP, 2009] applied the following criteria:

I. The firm engages at least 2 members of the family;
II. At least one member of the family has a considerable impact on the way family firm is managed;
III. Family members have significant ownership shares in the firm and this significant shares were equaled with a majority stake (PARP, 2009, p. 52).

The above mentioned research has verified possible discrepancies with regard of the number of family firms by applying these criteria separately.

Thus for instance when asked "Would you call your firm a family firm?" approx. 36% of firms acting as owned by physical entities said "yes" and 27% of firms who have a different legal forms (including limited liability or shareholding). The number of entrepreneurs who recognized themselves as family firms decreased with the increase of the size of the company: for micro-firms this share was the highest - 34% and for medium sized companies the lowest – 14%.

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The functional criterion takes into account the engagement of family members in the daily functioning of the family firm. According to the data 75% of physical persons entirely autonomously manages their companies – without an involvement of an other person; 21% manages independently, but is occasionally supported by an other family member; 2% manages with management delegated to an other family member and 1% has an external manager.

Even in a group which uses a different legal forms than the ownership by a physical person some 97% of firms is managed independently by single owner/manager.

Still other member of families are active in the work for the firm regardless of their legal form. In 43% of cases at least two members of the family is involved into the work for the family [PARP, 2009].

The research by PARP [PARP, 2009] has also applied the criterion of intergenerational transfer of ownership and management power. According to this criterion 75% of enterprises is held by first generation of its owners, 23% is in the hands of the second generation and 1% in the hands of 3rd generation.

The research conducted in Poland by the Polish Agency for the Development of Entrepreneurship (PARP) in 2009 showed that microenterprises dominate the population of family firms accounting for 90% all family firms, 9% of family firms belong to the category of firms employing between 10 and 50 people, whereas just 1% belongs to the category of medium sized enterprises.

The same national wide research [PARP, 2009] shows that an average employment size of a family firm in Poland equals to 5.8 persons, including 2.5 employed persons that belong to the entrepreneur’s family.

81% of family firms function as a physical person firms, and their average age was at the time of the research (that is in 2009) of 14 years (in 2015 the average age would come close to 17 years).

The dominant position have family firms aged between 11 and 20 years (42%), next the firms between 6 and 10 years and those older than 20 years – both account for 20% of the population each. In 90% cases the companies are managed by the founders who are also main owners of these companies.

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According to the research financed by PARP [PARP, 2009] in Poland family firms accounted in 2009 for 36% of all small and medium sized enterprises, that is they totaled 0.219m economic entities. This 36% share gives however an estimation which is biased downwards due to the methods applied (excluding the firms functioning as owned by physical persons). Broader and comprehensive measures based on multiple criteria would bring the share of Polish family firms closer to the EU average, that is it can situated within 70-80% range.

Family firms are for obvious reasons absent in public administration, but this concept has been purposefully not applied to farming, which in Poland is in almost 100% in the hand of families. The PAPR research excluded the firms that do not employ any employee, even if one can assume that such a company is aided by the work or an other support by other members of family. If one add such entities it could be said that family firms account for 78% of all micro-, small and medium sized enterprises in Poland.

PARP research has estimated that family firms account only 10% of the Polish GDP and employ only 21% of the Polish work force.

The share of family firms decreases with the firm's size. When asked family firms show a high awareness of being family firms: approx. 90% of firms that are classified as family firms were aware of the fact that they have a strong family dimension.

Table 2
Main Sources of Competitive Advantages of Firms (in %)

Factor of competitive advantage	Non-Family Firms	Family Firms
Quality of products	50.8	43.4
Quality of consumer service	14.8	15.8
Price	17.2	11.4

Source: Rzeczpospolita, 24 April 2015 (research KPMG and Lewiatan).

The fact that a given firm considers it-self a family firm is not strongly exposed in business relations, but its familiness is highly appreciated and the respondents have a good image of family firms. The respondents say that that familiness helps in conducting business. When asked how often they admit being a family firm, approx. 27% of

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respondents said they do it always, 26% than they do it from time to time, 14% that they do it seldom, and 32% said that they never stress the fact that they are being a family firm.

Table 3

How Family Firms Are Perceived? (in %)

Conservative approach to doing business	4
Preferring the benefits of the family before anything else	7
Dishonesty	0
Self-dealing (uklady)	9
Nepotism	8
Tradition	26
Good reputation	8
Integrity	6
Domination of values in the firm's functioning	17
Higher quality of customers' service	6
High quality of offered products	6

Source: K. Olejniczak, 2014, Obrazy przedsiębiorczości rodzinnej.

An open admission of familiness of a firm is still rare in Poland. As such firms are commonly associated with small, non-professionally managed craft firms. The specificity of family firm is chiefly related with the field of activities and the size of the firm. The strongest difference between family and non-family firms consists in the company's values and family influenced organizational culture.

Employment relations in family firms

In Poland there are companies that display their family characteristics in their public relations, but some do fear that stressing the family firm image might impact negatively on the perception of the firm.

When asked about the sources of family firms' strength the managers of family firms stressed that employing family members is beneficial since they can be trusted,

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they are more committed to the goals of the business and they share common values. Family members are also perceived as persons from which one can expect a greater commitment and an eventual acceptance of sacrifice.

When stressing the value of family firms some respondents said about bad memories from the period of working for large non-family firms and that this experience was one of reasons for founding a family firm. They stress that management methods in family firms are more person oriented than in large firms. In family firms in Poland work based relations go beyond professional matters and often encompass private matters. Direct relationship between owners and employees help better recognize the capacities of employees and to place them in an optimal position in the company, which in turn increases their work efficiency. The research conducted in Poland shows that family firms are deemed as more flexible in responding to the needs of employees. This helps in turn to respond to the specific life circumstances of employees, but also to meet the demand of clients. Family firms are also perceived as helpful for the local communities as they get involved in activities that support their urgent needs.

Family firms are characterized by higher responsibility for the family, employees and for the state of local community in which they function. But on the other hand as generating negative consequences in the domain of managing human resources – namely nepotism and “glass ceiling”, that is barriers for the promotion of non-family members.

W. Popczyk [Popczyk, 2014] in his analysis of functions of nepotism in family firms has noticed that nepotism might be functional it serves to reduce agency costs and family firms apply low costs symbolic measures (faming, shaming, reputation) to increase the motivation of employees. This observation does not mean that there are no negative sides to such a mechanism, notably the problem of the recruitment of a different type of employees who trade off a higher personalization and more security for lower promotion possibilities. M. Wypych-Dobkowska [2010, p. 16] stated that nepotism might lead to „... leaving of company by creative employees, who feel underestimated, this could lead to losses of talents and increased costs of searching and hiring a new employee”.

According to the research conducted in selected regions of Poland (especially in Wielkopolska – the region close to Germany), but its results could be extended on the

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whole Poland, there is a marked difference between the first and second generation with regard to the involvement in the family firms. The first generation is mainly managing the companies (being founders and owners). The second generation mostly works in the companies (33% of cases), but much rarely becomes the owners (or co-owners) of the firm (15%). The owners/founders manage their companies personally or through plenipotentiaries. Even if in the company there are employees from several generations of family, they are not participating in the decision making as owners/founders seem to maintain this prerogatives for themselves. This confirms a relatively authoritarian management style of Polish entrepreneurs.

The analysis conducted in Poland show that the differences between firms' seem to stem more from the size of the companies than from their family dimension. There are still few cases of the insertion into the family firm of an external professional manager.

The empirical research points at axiological and cultural variables as the main source of difference between family and non-family firms: higher trust within family members; beliefs that family ties makes the person more responsible for the firm and willing to work longer hours and make sacrifices for the firm (unpaid work or overtime).

The culture of a family business seems to be a social glue positively influencing the quality and efficiency of work. Its basic elements are composed of:

- commitment to maintain a family characteristic of the firm that wants to be family firm;
- loyalty of employees and their strong engagement in the work;
- cultivation of family tradition;,
- strong commitment to achieve assumed business goals,
- faithfulness to the industry and its type of production

[Jeżak J., Popczyk W., Winnicka-Popczyk A. (2004), p. 16].

Family business can be analyzed from the point of view of value system, which causes that family members do identify their life plans with the development and the success of a firm, work for its continuity and preservation of the family's tradition" [Winnicka-Popczyk 2013, p. 4].

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Many past researchers have observed that Poles display limited trust towards extraneous persons. They trust most their closest family (97%), their friends (90%) and farther relatives (89%). Unconditional trust characterizes relationships within close family and friends network, whereas trust towards others is conditional, requires a history of past successful interactions [Cybulska, 2012, p. 6].

Polish family business leaders think that being a member of the same family facilitates the communication as such persons share similar experience and use the same "communication code". It helps to send true signals about business matters, including warning signals.

Table 4

Perceived Advantages of Family Firms in Poland (multiple responses allowed)

Quality in serving customers	59%
Capacity to gain customers	48%
Competitive prices	40%
Rapid decision-making	33%
Professed values and patterns of conduct	33%
Capacity to attract and maintain talented employees	30%
Strong brand and strong market position	29%

Source: Rzeczpospolita, 24 April 2015 (research KPMG and Lewiatan).

The set of similar value and habits supports the positive work environment. Soft, personalized style of social interactions is passed on the firm. The business owner knows quite often private details from the life of their employees and introduces work adaptations to their needs. Such a company can more easily than large with complex formalized internal procedure firms execute customized orders. That is why family firms are present in niche markets where they can take advantage of their flexibility and adaptability.

Family firms are quite evenly spread across Poland and their relative territorial distribution has more to do with the presence of major cities (cities with more than 200

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thousand inhabitants and the regions with a high share of urban population) than with other socio-economic factors.

Most of family businesses (60%) conducts business in local markets, while ¼ functions in cross-regional markets and only a few encompasses the national market or acts internationally [Kowalewska 2009, p. 42–43, 77–78].

Polish family firms are co-owned by spouses (57%) or by siblings (39%), descendents (24%), cousins (15%) and parents (14%) [Kowalewska, 2009, p. 41–42, 129–130].

Polish family firms are characterized by a strong concentration of ownership and management. 93% of them are owned exclusively or by predominant majority by single owners or their close family. More rarely (in 23% cases) the dominant family has between 50 and 70% of shares. An average share of family reaches 87%. This means that Polish family firms have few non-family shareholders.

The firm's management structure reflects the family's hierarchy. The highest impact on the management of a firm is kept by the founder/owner and with each generation such an influence is decreasing. The owners/managers say that their management and employment practices do not differentiate between family and not family members. This positive self-perception is not confirmed when other employees are asked a similar question.

- Institutional Setting of Family Business

In Poland the theme of family business was identified as an important public policy issue in the mid of 1st decade of XXI st century. Then, one of emblematic leaders of family business (Andrzej Blikle) launched in 2006 an association called "the Initiative of Family Firms" (Inicjatywa Firm Rodzinnych). The association organizes yearly congresses of family firms, publishes a monthly called "Relacje" and runs educational and training projects. Increasingly large family owned companies try to distinguish them selves from a myriad of small family firms, that is why in the beginning of 2015 the federation of business Lewiatan has decided to create a section devoted to medium size and large family firms (the Council of Family Firms launched in April 2015)..

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The educational and training projects regarding family firms are supported by the Polish Agency for the Development of Entrepreneurship (PARP) and by the Ministry of Economy. Some business schools (namely the business school of the Warsaw Politechnique) have launched a study programme destined for family firms.

Academic centres have also started to organize conferences grouping researchers active in the field of family business research. In 2005 the first academic conference was organized by Wyższa Szkoła Biznesu National Louis University in Nowy Sącz. Two large international conferences were organized at the Cracow University of Economics (in 2009 and 2012), a series of yearly conferences has been initiated by SAN (Spoleczna Akademia Nauk) University in Lodz.

- *Internationalization of family businesses*

The question of family business internationalization needs to be disaggregated into more detailed forms of internationalization. The internationalization can start with export/import activities - they are common in Poland as the economy is open (the share of exports/imports to the GDP amounts to 40%) and there are no licence requirements for most of such activities (except for the imports/exports of fuels or arms).

The most demanding form of internationalization takes place when a company builds its presence in foreign markets in the form of the company's chapters or direct investments.

Due to its average small size most of Polish family firms have not reached and probably will never reach this stage. But Poland has several large, organically grown, family firms like Solaris – the producer of city buses founded by Olszewski family, Fakro of the Florek family, Koral of Koral family or Wisniowski of the same name family), Comarch - the leading software engineering firm is a property of the founder Janusz Filipiak and his family, Mokate – a leader in the production of cacao and coffee drinks is a business of Mokrysz family; ES-System K – the fast growing producer of refrigeration equipment founded and controlled by Konsor family; Inglot cosmetics launched and developed by Inglot family; Inpost - the biggest independent nationwide postal service provider founded by Brzóska family; the largest producer of windows in plastics Oknoplast created and developed by Placek family – all these companies have significant share of exports and even direct presence in foreign markets. In the case of Solaris that produces approx. 1300 buses yearly, the company exports 80% of its output.

It is generally acknowledged that the World economy has been witnessing the emergence and growth of global value chains (GVCs). As coordination costs and trade costs continue to fall, it has become increasingly attractive for firms to offshore certain stages of their production. This, in turn, has led to the formation of regional and global production networks, which become manifest in a quickly expanding trade in intermediates and a rising foreign value-added content of exports.

The strong presence of multinational corporations in Poland and the close proximity of the German manufacturing machine has created new channels for Polish companies to insert their output as intermediate products destined for global markets. But the exact scale of this phenomenon is not known and no data exist about the extent to which Polish family firms take part in such global value chains (GVCs).

K. Wach and L. Wojciechowski [Wach, Wojciechowski, 2014] report that their research on internationalization strategies of family firms proves the observation of M.A. Gallo [1994] that family businesses in the world operate according to the same logic and are essentially identical as for their problems and solutions as non-family businesses [Popczyk 2013, p. 12], including the international aspects of business activities.

- *Importance of the Succession and the National context*

Historical observations and the theoretical conclusions show that family firms should plan early for a succession. This anticipation should be as long as ten years before it will occur. Five years before there should a formal succession plan.

The largest share of Polish family firms belongs to first generation family firms (89%). According to the data from empirical research approx. 15% of family firms have transferred property and management control to the next generation (still half of this share keeps co-ownership between the generations) – a joint property of two generations.

The Polish academic literature defines succession as a process „the prezent owner passes the ownership and Power to a chosen successor" [Jeżak, Popczyk, Winnicka–Popczyk 2004, p. 59]. We can speak about intra-family succession when: the company passes to another subject who is a member of close or farther family; stays managed by

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the representative of a family (but it can be managed by an external manager as well; the process of succession does not weaken the cohesion of family and the family can achieve its long term business goals [Safin, Pluta 2013, p. 11–16].

The decision to transfer the company to the successor is shaped by the age of an owner and by an economic situation of the company. According to the research a longer functioning companies and those with more stable market position are more readily transferred to the successor.

The succession planning is shaped by the firm's experience. If a company is a multi-generational firm (meaning it had passed through succession in the past), it has a formalized succession plan what to do when facing a succession (38% of such companies); if a company is in the first generation of its functioning it does not formalize its succession plans (only 8% of such firms has a formal succession plan)[2].

The succession gets complicated by the small size of most enterprises (they are in 90% micro-enterprises with little to transfer and unstable market position). Since their existence depends on the work and capabilities of an entrepreneur they do not anticipate necessary changes. The owner has little time, resources and often is not willing to take advantage of external advisors. In such a situation potential successors, seeing overburdened parents are not eager to become successors.

Intergenerational transfer of ownership and management creates several problems. Polish founders/owners indicated the following factors necessary to be taken into account:

- Defining the mode and timing of succession – it is important for 62,6% of respondents;
- Characteristics of a successor (personality, experience, education) – 59,5%
- Procedure what to do in an emergency situations – 25,2%
- Planning of professional development paths for other family members who were not selected as successors – 20,6%;
- The communication mode between the exiting leader and the successor in the process of succession - 19,8%;

[2] The data from the research conducted by Boston Consulting Group say that 15% of family firms have elaborated succession plans – see Przekazac rodzinie, czy sprzedac? in Rzeczpospolita, 24 April 2015.

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- The analysis of firm's competitive environment - 17,6% [E. Roszko-Wojtowicz, 2013].

A. Pawlak [Pawlak, 2014] has conducted a qualitative case based research on 6 family owned business in the region of Wielkopolska. All companies employed external workers and were in the process of succession. The researched firms did not have a written, formal succession plans, but their owners thought about the succession in terms of alternative scenarios: what if none of children wants to link his professional life with the family firm? They did not however construct a precise time schedule for succession justifying this by pointing to unstable dynamic market situation which might impact the future of the company. The transfer of the company to external persons is the least likely option: Polish family firm owners/founders prefer rather to sell the company than to delegate the management tasks to an external person with a great management autonomy. According to this researcher the examined sample of family firms did socialize the next generation to the work in the family firms, but owners/founders interfered in the functioning of the company after the succession, which usually strains intergenerational relations [A. Pawlak, 2014, Sukcesja w polskich przedsiębiorstwach rodzinnych].

Magdalena Masny-Dawidowicz [2014] conducted observational research of potential successors in 14 family firms in the period 2003–2013. Based on her research she has concluded that family firms generate, shape and trigger entrepreneurial attitudes in children of founders/owners as the overwhelming majority of observed children has decided to link its career with a family enterprise and not a professional career elsewhere. The research of the children of family firm owners has shown that only 7.% of them wants to start working in the firm owned by their parents after graduation, 15% in turn would like to launch their own businesses whereas the rest do not link their life plans to the family firm [Rzeczpospolita, 24 April, 2015].

Adrianna Lewandowska [Lewandowska, 2014] has analyzed the problem of succession from the point of view of the continuity of leadership. She has discovered that founders/owners do not realize that succession planning in a family company is a long and difficult process. The problem to an extent stems from the tension between the strive to continuity and disruptions/breaks created by the succession. Because of the fact that

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every enterprise aims to continue its activities, for the current companies' leaders / owners it often means continuing work in the company and not leaving it as long as possible. The style of the owner's leadership strongly influences the style of succession and its success. It is the owner who shapes the organisational culture of his businesses based on his own, more or less conscious, value systems. And the personality of the owner often determines how the family enterprise develops and how it is prepared for the change.

For the identity of the family firm it is important that such a firm maintains its continuity which can be described along four dimensions (Safin 2007, p. 140]:

- the continuity of the personnel (key employees and key members of the family);
- the organizational continuity, although some flexibility can be tolerated;
- strategic continuity (strategy perceived as a path towards an end);
- financial continuity when company finances its development predominantly from own sources without exposing its self too much to the external financing institutions (banks, venture capital funds etc.).

The existing research shows that in Poland the dominant strategy among the owners of the first generation family firms is to delay the preparations and the decision to transfer the ownership and the control of an enterprise. Approx. 83% of them do not feel ready to exit the firm, despite the fact that most of them have a long working period in the company and more than 60 years. According to the data approx. 1/3 of heads of family firms transfers the Power in the company after completing 65 years [Safin, Pluta, 2014].

PARP Nationwide survey [PARP, 2009] showed that as of 2009 approx. 20% of Polish family firms have implemented succession, and 58% of founders/owners declares they would love to pass the company to the next generation.

The research conducted by A. Surdej and K. Wach shows that 90% of family firms look for successors from within a family. This indicator seems high since the data from EU countries show that internal succession is met with resistance among potential successors [Final 2009]. In Germany for instance the internal succession takes place in 53% of cases [Kay, Suprinovič 2013.

The factor that affects the most the choice of succession scenario is the size of the company and its growth pattern. The option to transfer the company becomes more

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attractive with the size of the company. It seems that the size and growth potential of the company makes it more attractive for potential successors. On the other hand if the company is small or very small, it ceases to be an attractive option for a potential successor.

Among entrepreneurs that opt for internal succession approx. 58% want to stay in business, and only 29,6% to start other activities, whereas 11.8% do not have any specific plans.

The data from Poland point to a surprising observation according to which the presence of external board members in family firms increases the probability that the firm will be transferred within a family. This seems to confirm a hypothesis that the external presence is highly correlated with the business quality of the firm and its attractiveness for potential successors.

But in Poland the still dominant model is that children (or close family members) should inherit the wealth, including the business, so the within family inheritance is a dominant succession.

But as much as 79% of Polish family firms do not have any formal plan to pass the firm to the next generation, despite the fact that such an intention dominates the minds of the founder/owner.

- Social perception of family businesses as the contributors to the national wealth, as employers and community leaders

The majority of Polish enterprises say that they have a development strategy, but only in 12% cases such a strategy is written as a formal document. In 40% of cases a business development strategy is a very short one and covers period of up to 2 years. The existence of business strategy differs with the firm's size: from 7% in the case of microenterprises to 53% in the case of medium sized firms [Orlowski et al. 2010]

Business development strategies are related to the way family firms strengthen their market presence. For this an important issue is the creation of a brand. They very often mistakenly believe that having logo or a web page is equivalent to a brand strategy.

They are not aware of the fact that building a brand of family firm is at the same time more important and more difficult for a family firm. In firms whose business reach is local the name of the family is linked strongly with the name of the family firm. Such firms "sign" their activities with their proper names. On one hand it helps them to get stronger local recognition, on the other hand it might become an obstacle in the attempts to introduce new products or to change entirely the business profile. The name of the family owner can be the source of the power of a new product, but also a hindrance. The awareness of family firm brand is not matched by the ability to construct it and to sustain it in time.

Since family firms are a heterogeneous population it is a general statement that the overlapping of family and business goals may disturb market behavior but might also create advantages if a family firm is able to create synergies between family members engaged into the functioning of a family firm. Family firms are thorn between a self-preservation instinct of a family and the organizational dimension which needs to be changed and adapted in order to last [Firma w rodzinie… 2012, s. 29].

- *Effects of the crisis on Family Business*

Small family firms test their durability in normal times as competitive market environment is a constant life threatening factor for them.

Polish family firms are more resistant in the period of austerity. They have lower debt as the owners of family firms belief that investment decisions need to be financed from retained profits. That is why the level of indebtedness of family firms is lower than non-family firms. The key managers of family firms in Poland say that the company should grow step by step, incrementally, according to checked and tested patterns. The family firms surveyed in 2009 [PARP, 2009] respond more often than non-family firms that they are oriented towards survival -33% of respondents and not towards growth – 15% of respondents.

In a rare quantitative study from 2014 Jacek Lipiec [Lipiec, 2014] has tested economic performance of sample of construction companies quoted on the Warsaw stock exchange. He has confirmed his theory based hypothesis find that public family firms significantly outperformed non-family peers in the crisis times. But, due to the sample limitation he agnostically concludes that: "The outperformance of the family-owned firms

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during the crisis may be either attributed to family-ownership or non-family-related factors and being the result of portfolio composition."

II. Socio-Cultural Environment of Family Business

II.1. Succession Process and Succession Infrastructure[3]

The academic literature almost unanimously says that family businesses reflect in their functioning emotional relationships that are characterizing families of owner/founder (for example a father may feel conflicting emotions about his children such as love or pride versus the underestimation of their abilities), as well as the emotions that might occur in non-family business dimensions (e.g. in-fighting over positions, jealousy etc.). It might also be assumed that close relatives (e.g. parents and offspring) have heightened inter-personal emotions because they care deeply about each other's feelings and about how they are perceived by each other. These emotional links can present advantages for family firms, as they can inculcate loyalty, mutual understanding and trust, but they can also lead to misunderstandings and have a negative impact on the performance of a family firm.

Polish family firms, as probably all family firms, are struggling to manage the emotions that are supporting or disturbing the conduct of businesses. This side of family firms is difficult to be examine by scientific research and we are based on dispersed evidence and anecdotes in estimating to what extent family firms are successful in solving emotional tensions (there is an obvious problem of selection biases as mass media report mostly about the disasters caused by emotional conflicts in family firms).

Emotions are related with the problem of intra-family communication and especially inter-generational communication regarding the commitment of the family to the firm and the prospect of succession. This an issue for qualitative studies which show

[3] By succession infrastructure the followings are meant: proper planning and management of intergenerational succession, existence of various intermediaries, like lawyers, financial and business advisors, etc.

that Polish family firms have problems in developing a perspective for future generation and are not specially efficient in communicating the vision and the strategy.

Polish researchers have discovered that family firms are prone to emotional conflicts which is a black side of strong ties that link family firm shareholders. Family members live intensively the facts that they work together and live together. Conflicts do also arise from a low formalization of rights and obligations which occasionally leads confusions and outbursts of conflicts.

- *The owner (founder) personality: entrepreneurial or/and managerial skills or "habitus"* (leadership style, dominance of the generic or specific (e.g. sector) professional skill, etv.

In the majority of Polish family firms remuneration systems and informal and simplified. It is linked with the age and small size of such firms, but also to the attitudes of owners. The research of Safin [Safin, 2007] shows that Polish family business owners exercise power in their enterprise according to a traditional paternalistic model and they mix family dimension with business like relationship. This, they claim, assures them flexibility and simplicity. If they prepare formal remuneration codes, such codes are generalist and leave many lacunas allowing the founder/owner to make voluntary choices with regard to remuneration. They seem scared by formalization of remuneration rules thinking that this would lead to rigidity and would become a driving force towards unsustainably high wages. Even when they pay bonuses and rewards, they are not parametric, but judgmental.

The empirical research by Baskiewicz and Nizialek [Baskiewicz, Nizialek, 2014] has identified the differences in the organizational culture between family firms and non family firms. The employees of family firms pointed to the possibility of broader space of self-development, imitativeness and openness than in non-family firms.

But at the same time the employees of family firms pointed to the problem of equal treatment and equal of opportunities between the members of owner's family and other employees. Family firm employees have stressed that the environment of family firms is favorable for process oriented organizational improvements as in the family firms the whole family lives the problems of the firm and discusses business issues over breakfast, lunch and dinner.

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- *The founder owner role in the succession process* (e.g. anticipative, mentor- teacher, supervisor, cooperative, etc.)

Among the reasons which lead to low survival of family firms the Polish researchers indicate:

- Bad planning of inheritance and resulting incapacity to settle taxes and intra-family clearing payments;
- Bad timing for the transfer of a family firm;
- Incapacity to choose the right successor especially when several children compete to become the head of a family firm.

Łukasz Sułkowski, a leading researcher of family business management practices, has observed that the main challenge for Polish family firms is to assure a path of a professional development for a family member and harmonize it with the development of the family firm [Sułkowski, 2004]

- *The successor's role in the succession process* (dilemmas of the next generation)

A. Lewandowska [Lewandowska, 2014] looked at the succession process from the perspective of potential successors. They [successors] have reported the following problems:

- unwillingness of incumbent founder/owner to talk about the succession prospects, which negatively impacts on the motivation of the potential successor;
- This leads to the feeling of being suspended, forced to wait too long for an imprecisely specified date;
- The lack of formal succession plan;
- The perception of lack of trust in the successor's capabilities on the part of the owner/founder;
- The lack of freedom to independently act as the potential successor is overshadowed by the founder/owner;
- The lack of hope in getting eventually the power to manage the firm.

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- *Guidelines orientating the succession process*

Polish entrepreneurs differ in their awareness of the succession problems. Some, more mature, start thinking about it and try to design the path good for them. Others delay thinking and preparations. No precise data exist as to the distribution of features.

Founder/owners strive to overcome psychological barriers to succession planning as it often associated with ageing and thinking about being mortal. But, more family business owner start thinking in a way illustrated by one of them: "The fact that I think what would happen to a thousand of my employees after my death does not mean I intent do move to the other world" [Rzeczpospolita, 24 April 2015].

- *Outcomes and the Impacts (advantages versus disadvantages) of the succession process*

The owners of Polish family firms try to pass family firms as a family inheritance. They do not appreciate the advantageous offered by entering the family firm to the stock exchange and till now there are not signs of passing an enterprise to the employees. Still there are some new developments like those researched by A. Marjański [Marjański, 2014], who has observed the growing tendency among family firms to create family business groups. This tendency is seen among medium and large family firms including companies such as Pamapol, Konspol, Fakro, Mokate, Grupa Pruszyński or Vox. Besides such visible, transparent cases of family business groups there are "informal family groups", that is groups of enterprises with no formal (like cross-ownership) links, but functioning together based on family ties. In such a case it is probably more accurate to speak about entrepreneurial family networks. The tendency to found networks might be strengthened by the anticipation of succession problems. In such a case a father founder of a family firm launches several companies to next pass them separately to his children.

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Table 5

Large Family Owned Business Groups in Poland

Name of the company	Family	Industry
Farmacol	Olszewski	Distribution of pharmaceuticals
Duda	Duda	Meat industry
Nowy styl	Krzanowski	Furniture
Fakro	Florek	Roof windows
Comarch	Filipiak	Software
Mokate	Mokrysz	Cold and hot drinks
Oknoplast	Placek	Plastic windows
Konspol	Pazgan	Poultry meat
Pamapol	Szataniak	Pre-cooked meals
Vox	Voelker	Furniture
Alma	Mazgaj	Department stores
Piotr i Pawel	Wos	Retail network

Source: Author's compilation from various sources.

The empirical research [A. Brzezinski, 2014] shows that the employees of Polish family firms expect from their employment place standard benefits: a decent salaries (satisfactory salaries), security of employment, including indefinite periods of employment. That is way they appreciate being employed in indefinite employment contracts which give them a three month licensing period and not a licensing from day to day. In family firms they like also a friendly environment and informality. It seems that becoming a co-owner of a family firm is now beyond an imagination of employees in family firms as in Poland there are no such precedents and only with the public awareness of such an option we can expect the emergence of such aspirations.

- *Inhibitors and enables or the succession process* (different future views of parents and their children, lack of (suitable) successor, predecessor does not want to retire, children have no affinity to the family firm etc.)

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I. Koladkiewicz [Koladkiewicz, 2014] has analyzed the structures of formal and informal governance in Polish family firms. Studying the challenges of the professionalization of surveillance procedures in family firms in Poland she has realized the lack of a developed formal governance structures in such firms and she has confirmed the usefulness of family meetings for the family as well for the family business. The greatest relative differentiation in views among respondents could be seen in issues in the border area between family and business – e.g., planning future changes in the ownership structure of the firm, planning family participation in the firm, and planning and initiating the succession process.

Koladkiewicz's research results also indicated that, as assessed by the examined representatives of the first and the second generations, family meetings were mainly informal in character..

- *Emotional capital accumulation process*

Polish researchers like Ł. Sułkowski [Sulkowski, 2006] stress the fact that the remuneration rules in family business are shaped not only by narrow financial calculations, but above all by the value system of the owner, his perception of the social mission, his responsibility towards other family members and external employees.

M. Adamska [Adamska, 2012] conducted qualitative research asking the leaders of family firms how they treat family members as employees. They perceive a dilemma in resisting the pressure of family members when they ask for a pay increase regardless of the employment rules, since they perceive themselves as informal shareholders,

A reversed problem appears when an enterprise's owner ask for remuneration sacrifices since the company needs to finance its investment plans or losses. It happens in Poland that a family firm asks for wage cuts justified by expansion plans of a company, but without formal commitment of stable employment or future wage increases. Wages in family firms might vary without clear distinction between fixed component (like a wage) and performance bonuses. This blurring of components leads to informal commitments, which if not maintained, creates strong emotional conflicts in the family firm. Thus, a family firm should avoid ambiguity between treating non-family members "as if" co-

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owners in times of sacrifices (expecting from them wage restraint) and treating them as dependent workers in times of prosperity (not sharing with them the benefits/profits).

In the predominant majority of Polish family firms remuneration system is informal [Adamska 2008]. It is based on the following factors:

- the intuition, judgments and personality of an owner and his/her family relationship;
- personal relations of the founder/owner with his employees;
- conditions of a local labour market;
- financial situation of a company.

The key importance has the dimension of formality/informality. Larger or longer functioning family firms do have remuneration codes with regard to all employees and they even extend such codes on family employees. Small and younger family firms treat family employees and non-family employees differently, which might subvert the functioning of the firm.

II. 2. Role of Psychological – Communicational Relation in the FB: Special Focus on the Succession Process

- Family Business Dynamics

A. Hadryś-Nowak [Hadryś-Nowak, 2014] has analyzed the role of women in family firms. She has found the important role that wives play for the continuity and growth of the family firm and the factors that can help or hinder daughters to progress professionally and achieve leadership positions in family firms. She has also confirmed the emotional importance of women in family firms and the fact that their roles are often hidden, not much publicly displayed. It seems that women's place in the succession depends much on cultural factors, but no data exist about the importance of gender in deciding about the successor's choice.

- Social systems

B. Bienkowska [Bienkowska, 2014] has analyzed ethical dilemmas of family and non-family firms in Poland. Her study found that family and non-family businesses in SMEs sector are not very different in the decision-making process based on evaluation what is right and what is wrong. Sometimes of course the family ant its values serve as the benchmark and for small business owners it is this piece of advice that allows them have the comfort of not being left alone with the problem. Recognizing business ethical dilemma requires a certain basic awareness of ethics. In the three considered in Bienkowska's research areas: employment relationships, business relationships and government- business relationships there are numerous problems where it is difficult to resolve what is right from the moral point of view. However for a family firm owner it is very important to have clear goals and vision of the business in order to judge and decide what is best: short or long-term run, truth or loyalty, individual or community, justice or mercy. Acting in difficult circumstances of overall economic crisis makes ethical choices even more difficult and has been considered as market exam for many companies nowadays.

- The Psychology of Succession

It is a general feature family firms that they are influenced by the personality and culture of their founders. They change and develop in close links with the style and culture of a family [Szczepan-Jakubowska, Jakubowski 2012, p. 139]. Their ties with local communities are anchored in the family. Polish families do however wrongly assume that the rules internal to the family are functional and appreciated by the local community. That is why they are surprised when discovering that external stakeholders have a different opinion about them accusing them sometimes of nepotism or low professionalism [Małyszek 2011, s. 85]. In a similar vein, paternalistic style of management estranges younger family members who start thinking that their voice is not being heard. This in turn leads to the outbursts of emotional conflicts [according to the report by PARP Polish family firms are characterizied by paternalistic style of management [PARP 2009, p. 28–29]. According to Lukasz Sulkowski "Paternalistic style of management consists of one man, charismatic and oriented to power style of management. A paternalistic family business founder has broad decision making powers, his aim is to grow the enterprise and to assure well being to his family and his employees. The paternalistic style offers to employees a higher security and stability, but on the other

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hand limits their decision making autonomy and stimulates the syndrome of learned helplessness" [Sułkowski, 2005].

- *Crisis and Conflict* (the family has a latent vulnerability at risks or succession. The family conflicts quickly impact the business, and affect the lead; paradoxes as a catalyst for conflict; conflict situations in family businesses, conflict and cooperation in the management, escalation dynamics, attribution mechanism, attribution errors, and conflict mediation methods)

S. Czaja [2014] researching the impact of family firms on the local economy of the Walbrzych region – a troubled region due to deep economic restructuring after the closing of many hard coal mines, has discovered several dysfunctions resulting from the dominance of local family firms. According to him they are not trusting business partners; practice nepotism in hiring the personnel; dominate local markets and defend local niches, are paternalistic in the exercise of power and do not take risks in making decisions. As a result such local family firms are not the solution to the economic problems of troubled regions, but rather they are part of the economic problem.

III. Managing Family Business – Strategic Issues

- *Strategy formation and decision* (participation of family and non-family members, etc.)

L. Sulkowski [2004] has classified family firms according to their declared key values professed and displayed in daily activities. He identified firms which are oriented to create family traditions. They are focused on one type of activities and they account for 50% of family firms in Poland. Second group consists of firms that are oriented to generate profits for the family. These are in majority small and medium sized companies that are flexible and *agile*, moving between sectors depending on their perceived profitability. The third group consists of so called family corporations composed of large, abundant in capital, family firms.

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IV. Policy Environment, Financial and Legal Regulations

- *Initiatives supporting Family Businesses* (e.g. operational policy programmes, financial support mechanisms, mentoring programmes, etc)

In Poland, imitating more mature market economies, in which business transfer between generations have been practiced without any interruptions, the business families are supported in managing their challenges by the specialized organizations called Family Offices. These are for profit organizations that need to gain confidence of family firm owners to support them in shaping the succession process.

The public support system for Polish family firms is a part of a support system for SMEs in general.

The system operates at 3 levels. At the national level it operates through ministries, including the ministry of regional development, the ministry of labor and the ministry of education. The government has also a specialized agency dedicated to work supporting entrepreneurship and small companies – the agency PARP (the Polish Agency for the Development of Entrepreneurship). PAPR was in the programming period 2007-2013 the agency implementing operational programmes in the field of human capital and entrepreneurship. PARP financed a project destined for family firms which was implemented by an association of family firms called the Initiative of Family Firms (IFR – Inicjatywa Firm Rodzinych).

At the regional level the programme for small companies are implemented through the Regional Financing Institutions who are partners of PARP. In the case of Southern Poland such a partner is: MARR (the Little Poland Agency for Regional Development).

Poland has also a local system of support for small businesses, that is a network of institutions that are accredited with PARP and they are implementing training, educational and financial support programmes for local SMEs.

- *Source of capital, capital raising non-family resources, sales* (extensive use of family resources, practice of “boots-strapping”, prudence toward external capital sourcing, difficulties related with the value-assessment of the family business, etc.

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Table 6

Sources of capital in family firms

	Long term capital	Short term capital
	Reserves	Bank short term loans
	Bank long term loans	Recurrent loans
	Credit guarantees	Trade credit from suppliers
	Leasing	Trade credit from purchasers
	Franchising	Factoring
	Bonds	Loans from non-banking institutions
	Subsidies	Short term financial obligations
	Resources from structural funds	Loans from family and friends
	Loans from family and friends	

Source: A. Skowronek-Mielczarek, *Małe i średnie przedsiębiorstwa, źródła finansowania*, Wydawnictwo CHBeck, Warszawa 2005, s. 31.

- *Impacts of the Tax Regime on Family Business Succession* (inheritance tax, example a balance sheet of an "X" firm at the date of transfer ("best example"), tax due on retirement, Law on inheritance tax or fee (levy) etc.

Poland does not have inheritance tax, this means that there are no ceiling as to the value of assets passed to children.

Polish entrepreneurs do not have confirmed paths for intergenerational changes. They do not know which organizational and legal changes are necessary to implement a smooth succession. One of reasons for this situation is a highly differentiated population of family firms. There are not solutions ready and suitable for all situations, each combination of a firm and family is unique and requires individualized scenarios. There several legal instruments that can be used, they are derived from the commercial code, inheritance law or family law [Budziak T. (2012), *Sukcesja w rodzinie biznesowej,* Poltext, Warszawa, p. 25].

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V. Concluding Remarks

Family firms have been a research field in expansion in Poland in recent years. However due to inherent ambiguity of the concept (multimensionality of its definitions) and problems with measurement family firms are studied within a broad framework of entrepreneurship studies and small and medium sized firms. On one hand it is true that the basic management problems in family firms resemble the problems of small firms in general with modifications due to the controlling presence of the owner's family and its development trajectory On the other hand however family firms have become publicly noted as a separate category due to the fact that a large number of founders/owners approach the retirement age and should start thinking about the transfer of an enterprise to a subsequent generation. In public perception family firms have become equalized with a broader category of all private companies which have been developed by the their founders and stayed managed and controlled by them for more than two decades.

Poland has been also witnessing a rapid expansion of research in family firms, but until know there has been no consensus about the precise definition of family firms, not their types.

Until 2015 the themes researched address chiefly the management problems and governance problems of family firms. Increasingly however there are attempts to analyze comparative growth performance of family firms or their innovativeness.

Public understanding of the importance of family firms is influenced by the ambiguity of the concept: this leads to the underestimation of the weight of family firms in the Polish economy. Recently the significance of the family firms has been perceived in the perspective of succession challenges. For Polish decision makers it is important to perceive succession problems not as a problem of wealth taxation, but as a problem of sustainable development of family firms.

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