

# THE ROLE OF FAMILY BUSINESS IN ESTONIAN ECONOMY

Maret Kirsipuu  
Estonian Maritime Academy

## Abstract

Family businesses have a remarkable role in the world economy; their role in economies has been investigated by many researchers. This paper seeks to study the findings of research conducted over 2008...2011 in Estonia in the field of family businesses and family business entrepreneurs. This research attempts to define development and sustainability of family businesses in Estonian economy. After Estonia regained independence in 1991, private entrepreneurship started to develop, and many people, particularly in rural areas, set up a family enterprise. After Estonia's accession to the European Union in 2004, family business activity boosted further still. Until 2007, family business activity was rather domestic market focused; after Estonia was acceded to the Schengen visa area, they started to successfully sell products and services outside Estonia. The research findings can be used either for diversifying economic activity of family businesses or for investment support or in other areas. This research definitely benefits to all enterprising people who wish to become a family business entrepreneur and who wish to set up a strong and sustainable family business.

**Keywords:** family business entrepreneur, family business, family entrepreneurship

**JEL Classification:** M10; M13; M19

## Introduction

Family entrepreneurship is a topical subject in the world: family businesses have an important role in the world economy. Greater valuation of family businesses in Estonia would contribute to advancement and survival of family businesses. Before starting a family business an entrepreneur must be convinced that all family members want to participate in the family business; their successfulness depends on mutual relationships between family members. With strong and stable family relations they can make a family strategy and implement it.

This research seeks to identify development level and sustainability of family enterprises in Estonian economy. According to the objective, behaviour, organisational culture and management strategy of family businesses were analysed. The research provides an overview of family businesses, family business entrepreneurs' preferences and aspirations.

The paper written on the basis of research findings consists of four sections: the first section identifies the share of family businesses in the economy; the second section provides an overview of family business entrepreneurs' role in family enterprises;

the third section presents research methods used, and the fourth section concludes the paper by formulating the findings.

All knowledge about family business are needful to help establish new family businesses, further develop the existing ones, be able to transfer family business management to the next generation and make family business sustainable. Estonia's present and future family business entrepreneurs will get encouragement from this paper for their day-to-day activities.

Benchmark data used here are professional literature sources and surveys and interviews with family business entrepreneurs conducted by the author over 2008...2011. Research findings can be used also for economic activity diversification of family businesses, for increasing joint actions and cooperation; investment support application and for planning family business activity.

### **Economic significance of family business**

A typical feature of family enterprises is that the family business is the main source of income for the family members. One of the most positive qualities of family enterprises is their short decision-making chain, which secures rapid implementation of objectives. Factors influencing the activity and success of family businesses are the mutual relationships between family members and a detailed and well-considered strategic action plan, and organisational culture. A family business strategy is specifically planned; all tasks must be carried out consistently. The organisational culture and strategic planning process in a family business never ends, there must be continuous adjustment to changes. Family business entrepreneurs believe that with a strong family and proper strategic management they can ensure achievement of the objectives.

Family business subject is topical all over the world; family businesses have an important role to play in the world economy. Studies conducted in different countries have demonstrated that family businesses contribute to economic growth and form a majority of enterprises in that country (Nordqvist 2005; Chrisman, Chua, Steier 2005; Poutziouris 2000; Qou...2003; Gallo 1995; Poza 1995; Hanzelkova 2004; Popczyk *et al.* 1999; Yalin 2008; Halttunen 2004; Vasques *et al.* 2008; Vadjnal 2005; Krošlakova 2007; Balint 2006; Perry-McLean 2008). Most of the studies focus on specific topics, such as differences between family and non-family businesses (Naldi, Nordqvist *et al.* 2007; Botts 2000; Juutilainen 2005); the role of family businesses in different areas of activity (Yalin 2008; Römer-Paakkanen 2002; Halttunen 2004; Juutilainen 2005; Maeda 2006; Vasques *et al.* 2008); dynamics (Nedlin 2003; Khaemasunun 2004; Moore 2006); analysis of financial activity (Botts 2000; Yalin 2008; Chrisman *et al.* 2009; Chen 2006); the role of woman as mother in family business (Kakkonen 2006; Römer-Paakkanen 2002; Brazzale 2007; Rautamäki 2007); inter-generational problems (Brun de Pontet 2008; Moyer 2006; Wickham 2004). Various models for family businesses have been made as a result of research (Cadieux 2007; Lambrecht 2005; Brockhaus 2004; Gersick *et al.* 1997; Syme 1999; Hume 1999; Botts 2000; Sekarbumi 2001; Hautala 2006; Burke

2007; Yalin 2008; Sardeshmukh 2008; Chua *et al.* 2009), all of which are specific and targeted at individual areas and not interconnected.

A research conducted in the USA identified that in backward regions where economic growth is smaller, family business development and probability of survival is significantly bigger than in high growth regions (Chang *et al.* 2008). In many of the young European Union countries family business traditions had been broken, which after regaining of independence or end of expropriations were restored and launched again (Hanzelkova 2004; Vadnjaj 2005; Krošlakova 2007; Kozina 2006; Balint 2006); family business developed first of all in backward regions.

In Estonia, greater importance was started to be attached to family business only after Estonia was accessed to the European Union in 2004. Growth of entrepreneurs including family business entrepreneurs has accelerated from year to year. By 2007, compared to 2004, the number of entrepreneurs had increased 24.5% (Table 1), enterprises' economic indicators and competitiveness improved. Estonia's accession to the Schengen visa zone in 2007 enlivened export activity. By 2011, the number of entrepreneurs has increased 43.4%, compared with 2007 (Table 1).

**Table 1.** Number of entrepreneurs registered with the Commercial Register, 2004–2011 (compiled by the author on the basis of the Centre of Registers and Information Systems)

Entrepreneur	01.01. 2004	01.01. 2005	01.01. 2006	01.01. 2007	01.01. 2008	01.01. 2009	01.01. 2010	01.01. 2011
Sole proprietors	21464	21830	21671	20642	10601	17788	32187	34797
Private limited companies	54387	59767	66200	76852	86480	92554	99308	108603
Public limited companies	6743	6241	5945	5799	5614	5344	5094	4819
Commercial associations	855	775	695	669	649	624	612	607
Limited partnerships	630	660	708	758	810	932	1631	1505
General partnerships	242	365	378	380	393	417	456	509
Branches of foreign companies	365	388	415	437	466	483	482	487
Societas Europaea/European Business Register	0	0	0	1	2	3	5	6
total	84 786	89 638	96 012	105 100	114 015	117 659	139 775	151 333

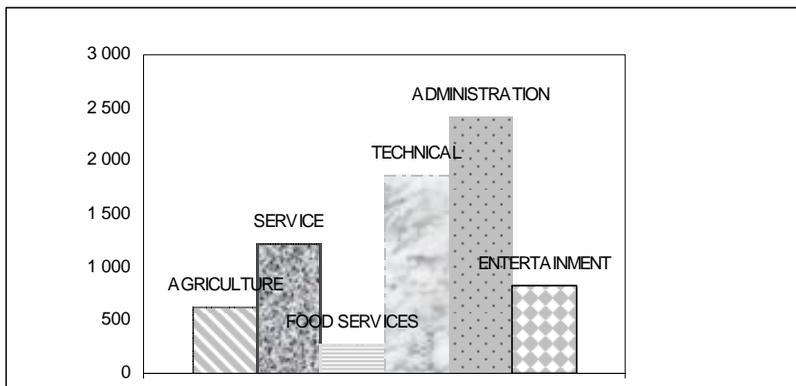
Many enterprising people in Estonia have set up family businesses in all areas of activity, mainly in services, accommodation and agriculture. The decision to become a family business entrepreneur is usually influenced by an event in life, a big motive

is the wish to work for own family. Any entrepreneur may be a family business entrepreneur, it is only important that the majority holding belonged to family. Most of the rural enterprises are family businesses; management of a family business is accomplishable for a family; labour division is only between the family members and there is no need to hire full-time employees all year round. In the beginning the family businesses are small, for the most family- and home-focused, but with proper strategic plans and strong organisational culture they develop into medium-sized or large family businesses. For example, Laheotsa farm is one of the largest domestic vegetable growers and distributors; Pajumäe farms is supplying large retail groups with organic dairy products; Jaagumäe farm is exporting vegetable products to Russia; ostrich from Sassi farm are well-known also outside Estonia; Varese Guesthouse is frequently visited by hunters from abroad; GoodKaarma ecological soap is sold in all European Union countries.

The Estonian rural life development plan until 2013 envisages start-up support to young agricultural producers; investment support for development of micro-agricultural enterprises; investment support for reconstructing animal breeding facilities and support to diversifying economic activity in rural areas (Eesti Maaelu...2011). Estonian population is concentrated into towns; it is necessary to improve the life quality outside of Tallinn and other major centres; rural population needs to be retained and increased, and ensured that the values the rural areas provide will remain. Rural entrepreneurship and especially rural family entrepreneurship is one of the outputs. Since the Estonian rural development plan was implemented in 2007, rural life has recovered, villages have been restored, various meeting places have been established in villages (swing sites, greeneries, meeting rooms), ancestors' traditions are held in high esteem (national costumes; customs, musical instruments). Starting from 2011, the task of primary importance is to cover rural areas with the internet network. For that purpose a new support measure has been added to the Estonian Rural Life Development Plan, under which internet is to be made accessible everywhere so that rural entrepreneurs could do business, establish an e-service network and obtain professional knowledge without leaving home. Estonian entrepreneurship and environmental policies are closely intertwined.

In 2010, 5,883 family businesses were set up, including 2,610 of them as sole proprietors, 56 chose the form of general partnership and the others established a private limited company. In 2010, 2,907 sole proprietors changed their legal form into a limited company in almost all areas of activity with the exception of agriculture and forestry. Family business entrepreneurs operating as sole proprietors in agriculture and forestry do not see any need to change their legal form since they have been active for years already and their farm name is known by their products outside Estonia. Family businesses established by sole proprietors are more stable and more conservative; for instance, in the second half of 2010, liquidation proceeding was instituted against none of the sole proprietors whereas 836 limited companies were liquidated in this period (RIK 2011).

Principal activity of family businesses registered in 2010 was as follows: 33.4% administrative and support service activities; 25.8% professional, scientific and technical activities; 16.8% services including retail trade and repair of motor vehicles; 11.4% entertainment, arts and recreation; 8.7% agriculture and forestry, and 3.9% accommodation and food service activities (Figure 1).



**Figures 1.** Family businesses registered in 2010 by activity (compiled by the author based on data of the Centre of Registers and Information Systems).

The rural labour market situation before Estonia joined the European Union and now again is that it is possible for minimum wages to hire highly qualified workforce. The main reason at the turn of the century was that middle-aged and older people who had made home in the countryside lacked mobility and opportunities to requalify (Reiljan, Tamm 2005). Today the main reason is high unemployment in towns, urban population is willing to work for minimum wages in rural areas in case they are granted free accommodation for the duration of employment and they can at certain time intervals visit their family in town. In 2005–2008, young people left the countryside to seek other challenges. In 2009, people started to return to the countryside, either to have peace and quiet, escape from urban noise, or to assist parents, or because they could not pay for living in town and preferred to settle in the countryside. No jobs were waiting for those who returned to the countryside, hence they had to start a business and in rural areas it is taken for granted that people make a family business. The main objective for many of those who settled in the countryside was environment saving, clean air and ecological food. Organic food is growing more popular, but the price level of organic products is so high that only a few can afford them. Prices will certainly change when production of organic products and factors facilitating production increase. Organic farming must be increased; the European Union has resolved that as a result of agricultural reform to be implemented in 2013, European Union direct aid in agriculture will be made much more dependent on environment saving.

Most businesses in organic farming are family businesses and use of organic agricultural land has increased since Estonia's accession to the European Union, since when both the number of producers and area of organic agricultural land have been growing rapidly. In 1999, there were only 89 organic farmers and 4000 hectares of organic land, by the end of 2008 already 1,245 organic farmers and 87,347 ha of organic land. Organic production and organic market have both been growing rapidly since the beginning of 1990s in Europe and worldwide. In Europe, ecological farming covered more than 5.5 million hectares in 2002, in the world a total of nearly 25 million hectares. The countries with the largest area of organic farmland are Australia and Argentina, followed by Italy (over 1 mln ha) as Europe's largest. The share of organic land in all agricultural land is the highest in Austria and Switzerland (over 10%). In recent years, organic production has increased rapidly in the United Kingdom, Spain and France, as well as in many of the new European Union member states (e.g. Slovenia, Czech, Hungary). Organic market in Europe in terms of turnover is the largest in Germany, United Kingdom and France. Organic food turnover in the United Kingdom and France has increased on average 40% annually in recent years. In many countries (e.g. United Kingdom, Sweden) consumption of organic food grown in nearby countries is growing increasingly more important (Mahepõllumajandus... 2011).

On the basis of agricultural census of 2010, the number of enterprises in agricultural production, excluding organic production, has decreased 35% since 2001 (previous census was held then); this has happened mainly on account of smaller farms. Smaller farm households (less than 10 hectares of arable land) have switched over to farm tourism. In 2010, there was 938,800 hectares of arable land in Estonia, which is nearly 8% more than at the time of previous census in 2001. Nearly three thirds of agricultural land is in the possession of farm households larger than 100 hectares. An average agricultural household in Estonia has 48 hectares, which is nearly four times bigger than the European Union average in 2007. By average farmland area, Estonia belongs to the same group with Germany, France and United Kingdom. The largest farms are in Czech and Denmark. In the European Union farms with more than 100 hectares had 47% of arable land in 2007, in Estonia 73% in 2010. Concentration of agricultural land into the hands of large enterprises is bigger than in Estonia only in Slovak, Czech and Bulgaria (Põllumajandusloendus...2011).

The year 2010 was much more profitable for farmers than previous years; products were exported from Estonia and therefore economic indicators of family businesses improved. Milk purchase prices rose 27% compared to 2009; nearly 15% of milk produced in Estonia is exported to Latvia and Lithuania. Pork and potatoes are exported to Russia (Eesti Statistika 2011).

### **Role of family business entrepreneur in family business**

Whether the family business survives or not, depends largely on its manager: whether the manager is leader or not. Relations with the offspring must be fixed, it is important to have open communication and approve each other's achievements. Owners of all family businesses (family business entrepreneurs) are of the opinion

that longevity of family enterprises is important and that family business descended to the next generation. Various surveys have identified that 30% of family businesses are successful in the second generation and only 10...15% in the third generation (Aronoff 1999; Kets de Vries 1993; Ward 1987). In Estonia, family businesses are going to the second generation now, which is a long process and demands balanced preparation. There are several different stages in development of family businesses: first a family business is managed by head of the family; then he takes to training himself and then the successor, simultaneously he has to develop the family business. We must not forget either that a family business entrepreneur must establish confidential relationships with offspring, only then he can peacefully hand over management. Offspring must have opportunity to participate in day-to-day processes of the family business, family business entrepreneur must „slacken the reins“ and allow descendant to manage himself; hence the founder of family business must be able to delegate tasks to descendants and not be constantly present himself. Family business entrepreneur must trust other family members and especially the person he wants to hand management down to in the future. Proper management transfer is one of the preconditions of longevity of a family business.

Family business entrepreneurs believe that with a strong and intelligent family, appropriate management strategy and strong organisational culture they can ensure achievement of the objectives. A family business entrepreneur must from the very beginning be able to set definite limits to reconcile between work and home. Most of the failures (including family break-up) are caused by that when they start a family business they cannot reckon with that it may take all their free time, and at the same time, they can't believe that family members don't want to do all works in the family business because they lack skills. Family enterprises are easily vulnerable; their reserves for surviving critical periods are small or almost non-existent. Family business entrepreneur needs to pay attention to strategic management of the family business and design organisational culture in order to survive in difficult conditions. Family business entrepreneur is who with the help of family members designs the organisational culture in the family business. Until no outside workforce is employed in family business, the vision of organisational culture may be only in the head of the family business entrepreneur; but when employees are hired definite norms must be designed and made accessible and unambiguous to everybody.

Organisational culture is revealed in value judgements, norms and principles of activity encouraged and observed by managers, in ethical standards, official action policies and procedures, traditions, employees' behaviour and ambitions, legends told about what has happened in the organisation (Leimann *et al.* 2003, 261). When new people come to work in a family business they have to be let work independently rather than constantly watching whether they do everything correctly. Family business entrepreneurs must understand that economically useful results are attained only when the current family business strategy is carried out consistently. Changes are a progressive force; family business entrepreneurs need to allow changes carried out in the family business, which are achieved through continuous search and activities. For the achievement of objectives the family business entrepreneurs must always keep track of changes in the economic environment,

competitors' achievements and amendments to various acts of law. Every family business can benefit from well-planned objectives, mission, vision and strategy. Of utmost importance for sole proprietors and enterprises where the sole employee is the owner, and for family businesses is knowledge about strategic management. Still, most family business entrepreneurs are governed first by the rules set by themselves and their feelings, and only when business does not go as they desire, they start thinking about strategy making for their family business. Those family businesses which are able to immediately refocus and make fast changes in strategies achieve success and avoid failure of the family business. Family businesses must consistently carry out the planned strategy, meet the deadlines and follow the objectives, and be open to changes, particularly those coming from the economic environment, so as to immediately adjust the strategy.

No unambiguous guidelines can be given to family business entrepreneurs. What works well for one enterprise, needn't work with the other. Every family business entrepreneur needs to take such strategic decisions that are suitable only for his family business, taking into account his abilities and his business's. One should never rush to imitate (Markides 2000, 67). An advantage of a family business as family is that family business entrepreneur can grasp all the information the family members have on each other, and will use this economically. Family business entrepreneurs have deeper information about the enterprise than non-family business entrepreneurs; family business entrepreneurs can use personal knowledge that is not accessible to typical employer (Casson 1994, 190-191).

Family business entrepreneurs are born not made (Harrel 1994, 32). Many family business entrepreneurs are egoistic and couldn't work under someone else, but they are born employers for themselves. Family business entrepreneurs who started to restore farms immediately after Estonia regained independence were acting in the name of the work done by their grandfathers and grand-grandfathers were rehabilitated. Their descendants hopefully wish to continue what their forefathers have done. Farmers are a special kind of family entrepreneurs, because they like freedom (Harrel 1994, 131).

In addition to enjoying freedom a family business entrepreneur needs to systematically manage family business. Strategic management is an art (Leimann *et al.*, 2003, 276). Few family business entrepreneurs have this natural gift, most have to acquire this by working hard and educating themselves. Family business entrepreneurs have the following possibilities for creating a successful strategy: participate himself or send some family member or employee to training courses; bring in a qualified person from outside the family business; buy management service from specialists.

## **Methods**

First, questionnaires were distributed, where the interviewees could add to the answers their own visions and experiences; questionnaires helped collect data on the social background of the interviewees, seeked unknown information, took interest in

event details, their significance for the participants, wished to study natural situations and get information on the cause-effect relationships of certain events. Some of the questionnaires were sent by post, some were completed and returned, some were handed over personally and some were sent electronically to an e-mail address. The survey used structured and unstructured questionnaires. Structured interviews used the standard format with emphasis on fixed response categories, systematic sampling and completing procedures combined with quantitative measures and statistical methods. Unstructured interviews gave the respondents almost full freedom to discuss reactions, opinions and conduct in a particular question; interviewer only asked leading questions and wrote down the answers. An advantage of interview over other data collection methods is that interviews can be used in different situations and combined with other methods of research, and based on the need; the sequence and formulation of questions can be changed during the interview. Qualifying questions were asked in open conversations, many liked that personal conversation enabled them to speak „face to face“. Before interviews, preparations were made to learn the background of family business entrepreneurs, contacts were established with the interviewees, agreements were made and possibilities of seeing final results were promised. Then a peaceful place was selected to eliminate disturbing factors, and keeping the appointment a promise was given to be confidential and guarantee anonymity.

An objective of the survey was to gather information on family business entrepreneurs' considerations and motives which helped them decide in favour of family business. Another objective was to study family business strategies, management, organisational culture and change of generation related problems. Based on theoretical data, questionnaires for interviews were compiled and targets were set where the interviews had to reach. The survey results help better understand what family businesses are like and who family business entrepreneurs are and what they are doing.

Interviews consisted of the following main questions:

1. Since when have you been family business entrepreneur?
2. What was your reason for becoming a family business entrepreneur?
3. What is the principal area of activity in your family business and what are the secondary activities? What was the reason for choosing these areas?
4. What are the products and services your family business offers that you produce yourself?
5. Has the legal form of your family business been the same from the very beginning? If not, then what was the reason for changing the legal form?
6. Is all the cohabiting family participating in family business?
7. What is the division of labour between family members?
8. Have you or your family members also a paid job?
9. How much do you use hired workforce, are they working permanently and in what age they are?
10. How is your family business managed? What kind of manager are you?
11. What is your family business strategy?
12. Describe the organisational culture in your family business.

13. Do you hope that someone will continue your family business also when you are forced to retire from business? Who specifically?
14. Are the successor problems worrying you?
15. What are the characteristics of your family business, what are the annual turnover and profit of your family business?
16. Where have you invested significantly in recent years? Have these been made with own financing?
17. What kind of marketing channels do you use?
18. What are the activities for the implementation of which you need finances?
19. Are you satisfied with the current tax system?
20. What kind of family business support activities do you need?

The initial data for the research are the surveys and interviews with family business entrepreneurs conducted by the author in 2008...2011. A total of 1500 entrepreneurs participated in the research; 1500 questionnaires were sent to them (800 by post, 500 by e-mail and 200 were delivered personally). The response rate of the personally delivered questionnaires was 100%; that of e-mailed questionnaires only 80% and that of posted questionnaires (the authors enclosed a stamped envelope) 90% of the sample. The total response rate was 88%, 90% of them regarded themselves as family business entrepreneurs and their business as family business.

A thorough overview of all findings of the research will be given in the author's doctoral thesis; this paper addresses only some of them.

Analysis of the interviews started from data selection; then the answers were analysed to get an objective picture of the interviewees and their problems. During the analysis it was understood that the method used was appropriate. For conducting the survey a random sample was generated from rural family business entrepreneurs using the systematic random sampling method. For every county a hypothetical list of family enterprises in alphabetical order was drafted; the sample was made starting from a hypothetical family business with a random number in the list and advancing by a predetermined step. The same principle was used for generating the interview samples. The questionnaires and interviews were conducted from 2008 to 2011. First the questionnaires were sent; after analysing the data, interviews and in-depth interviews were conducted to specify the problems. The survey sample comprised a total of 1500 hypothetical family business entrepreneurs, a total of 1188 family business entrepreneurs were interviewed (by phone or personally), with 100 of them in-depth interviews were conducted.

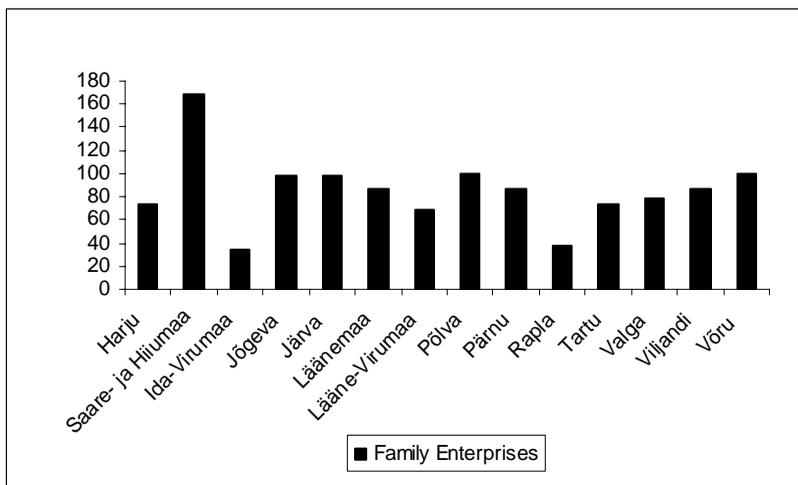
The questionnaires were generated electronically and the results were processed with a computer programme; data were saved in the database for every questionnaire in the sample that was returned; data processing was anonymous. Before asking the questions and conducting interviews the researcher had to realise that the interviewees may not be very honest in delicate questions. Before interviews they agreed with all interviewees and justified why and for what purpose the research is made. Talks over the phone were conducted with respondents in order to carry out the interviews smoothly. It was made clear to the respondents that if they answered

truthfully it would be possible, based on the conclusions made from the results, to propose family business support systems to be established. This helped to arouse kind of interest among the respondents and they were motivated to talk. The way the information from interviews was to be saved was agreed on. Some of the respondents accepted that a dictaphone was used, some preferred to answer without recording; most agreed that notes were made during the conversation, while some felt themselves ill at ease. In the latter case the answers were written down after the interview and afterwards reviewed with the interviewee making amendments, where necessary. The interviewer hopes that she made a trustworthy impression and expressed concern for every interviewee's opinion and accepted their angle of view. In the analysing process it was necessary to specify some information. The research data have been concentrated, simplified, modified, and presented as a compressed set of information.

## Results and analysis

All questionnaires and interviews have been processed by the author and a concise summary has been made from them. A total of 1500 questionnaires, 1000 interviews and 100 in-depth interviews were analysed.

The family businesses studied were located in all counties, most of them on islands, Läänemaa and in South Estonian counties (Figure 2).



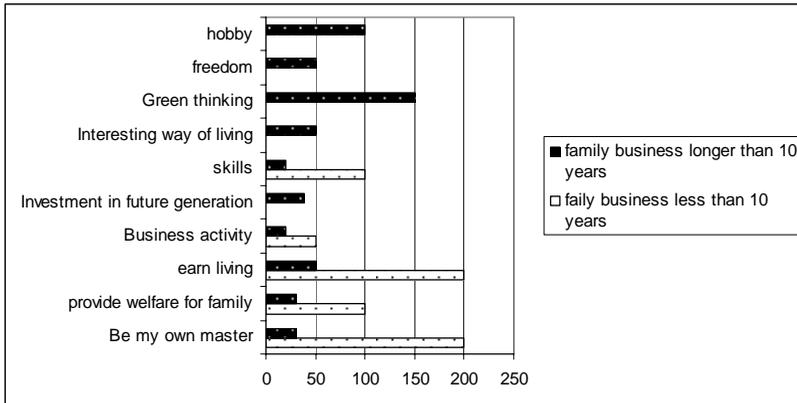
**Figure 2.** Family businesses in the survey by counties, 2010 (made by the author)

92.3% of the family business entrepreneurs had built a sun-shaped organisation, where the entrepreneur himself manages everything and is responsible for everything; only 7.7% of the respondents regard themselves as a responsibility sharing family business. 28.4% of the family business entrepreneurs with sun-

shaped organisation are losing control over the management of their family business, especially those family enterprises where management has to be transferred to the next generation. Family business entrepreneur cannot stay away from management and interferes constantly. 72.7% of family business members are of the opinion that organisational culture in family business supports achievement of objectives; Family business culture is still the same in all locations of activity. 100% of the family business entrepreneurs believe that organisational culture is aimed at human relations, they are satisfied with the existing organisational culture, value judgement is of primary importance for them. Organisational culture in a family enterprise is influenced by the family business entrepreneur, hired executive management has a task to strengthen the existing organisational culture via objective setting.

55% of the family businesses have been operating for more than 10 years, 45% less than 10 years. Answers to the question what was the reason for setting up the family business varied. Family business entrepreneurs who had been operating for more than 10 years answered as follows (Figure 3):

- Be my own master 30.8%
- Earn living 30.8%
- Provide welfare for family members 15.4%
- Skills acquired 15.4%
- Business activity 7.7%



**Figure 3.** Motives for setting up a family business (made by the author).

Family entrepreneurs who had been operating for less than 10 years answered as follows (Figure 3):

- Green thinking 29.7%
- Hobby 18.6%
- Freedom 9.3 %
- Earn living 9.3%
- An interesting way of living, or lifestyle entrepreneur 9.3%

- Investment in future generation 7.1%
- Be my own master 5.6%
- Provide welfare for family members 5.6%
- Skills 3.7 %
- Business activity 3.7%.

The reasons for setting up family business have changed substantially over years. New family business entrepreneurs think more about environmental saving and do not consider being one's own master so important. They have become aware of the need to invest in future generations and find that it is possible by producing organic or ecological products. A reason for doing business with organic products was diseased children. Only 9.3% had to become a family business entrepreneur in connection with a loss of job (to earn living). In the first years of independent Republic of Estonia, the latter accounted for 30.8%.

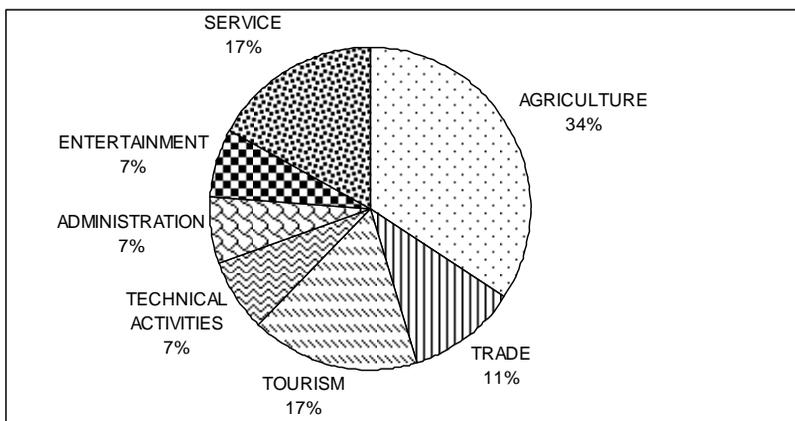
Family business has almost always been its founder (entrepreneur) focused. Mutual relations must be very good in family enterprises; spouses said about mutual relations the following: „we complement each other”, „we are thinking similarly”, „the spouse sets the strategy, I carry it out”. Strong family business culture helps reduce tensions, which arise when an educated family member starts working in the family business, especially when it is an adult child. About conflict solving they answered: „we have sat down and had it out“; „established definite rules“; „adopted a decision and admitted that „egg knows better than hen””.

Those family business entrepreneurs who have hired executive manager from outside the family say that „it is very hard to step aside”; „it is very hard to entrust management of something you have created to a stranger”; „I am afraid of weakening my leading position”. When they overcame these feelings, they found that the outsiders are realistic, can see the family business strategy more clearly and make changes, which occasionally have destroyed the so far strong organisational culture. Destruction of the organisational culture was particularly discerned by those family business entrepreneurs who had started the family business in the early 1990s; they have realised that the organisational culture they had established „had influences from the occupation period and had grown outdated”, or „built with the carrot and stick method”. Introduction of changes to organisational culture was, despite comprehending the need for changes, an extremely painful and time-consuming process. At the same time, those family enterprises where an educated family member had returned after working elsewhere in the meanwhile could make changes to the organisational culture less painfully. A reason for that is that they „still trust one of your own rather than a stranger”. It is believed to be important that only family members are in the management of a family business, since this would ensure fast understanding of each other.

Family enterprises wish to invest into future generations to continue long family traditions, which had been suppressed for nearly 50 years. Those family businesses which are focused on providing welfare for future generations are more sustainable

and have a stronger organisational culture than those which have no offspring. A family business which has no offspring will start deteriorating in a long term, interest will fade, for example „why should I care and labour when after me some distant relative will come and get my work and fruits; I rather leave them empty handed“. The problem of successors is the most acute in agriculture, since most of the family business entrepreneurs started their activity in 1991–1999; their average age then was 45. Family business entrepreneurs in agriculture say that „children do not want to come to the countryside and continue family traditions“.

From the family businesses studied by us 34% were operating in agriculture, 17% in tourism and services, 11% in trade (Figure 4).



**Figure 4.** Division of family businesses between areas of activity (made by the author).

Most of the family enterprises (55%) managed with their family members, i.e. they use partly unpaid labour. Non-family workforce is insufficient because rural family enterprises are not able to pay competitive wages; employable population prefer to work in towns. The larger the rural agricultural family business, the more competitive wages it is able to pay. Larger agricultural family businesses receive their financial income from the principal activity, smaller family enterprises however do not. Members of small family businesses often have another job in addition to working in the family business, for example, as a teacher, postman, salesman in a large retail chain.

All family business entrepreneurs believe that it is not possible to achieve success with only one field of activity. To diversify risks they have taken up ancillary activities, for example, hiking trails, horse whispering, restoration of antiques, beauty services, growing plants, woodworking, ecological products, growing herbs, folk medicine, etc. Such diversification of risks is possible only when family members have many skills, for example, one daughter is trained to be hairdresser,

the other manicurist, one of the sons is car repair engineer, the other has studied medicine; all they want to work together in family business to provide welfare for themselves and future generations.

9.3% of the family business entrepreneurs with fewer than 10 years of experience with family business regard family business as a lifestyle supplemented by economic interest. Many lifestyle family entrepreneurs are in organic production, since organic products are bought in small quantities, demand is low and prices high.

The main problems for family business are:

- insufficient resources of finance;
- shortage of skilled labour;
- lack of entrepreneurship knowledge;
- lack of time;
- insufficient free of charge advertising possibilities.

The research allows drawing a conclusion that family businesses wish to operate in several areas of activity for a longer period and grow into traditional family businesses; for that they need:

- Organise entrepreneurship training courses for family business entrepreneurs.
- Organise refresher courses in the speciality.
- Organise training courses on management transfer to descendants.
- Develop cooperation and social activities in rural areas.
- Propagate family business.
- Provide free of charge advice to find supplementary finances.
- Streamline cooperation between local governments and family businesses.

The research allows drawing a conclusion that family businesses have strong organisational culture and they have established targeted strategies for performing economic activities. Family enterprises have long-term family traditions, which ensure confidential relations between family members as well as with personnel; attaching importance to family traditions in family businesses contributes to development and survival of family businesses in long-term perspective.

## **Conclusions**

Organisational culture in family businesses evolves in the process of setting up; all family businesses have their conduct and rules agreed between the family members; all members of a family business esteem family business values and aspire towards the effective purposeful cooperation. Family business culture is difficult to define, analyse, measure, and manage. Family business culture is designed from opinions and convictions, established attitudes and stereotypes rather than certain knowledge. Family business organisational culture is permanent; in a stable situation permanency is an additional resource for the achievement of family business

objectives; at the same time, a strong organisational culture may be an obstacle to changes, especially in family enterprises with long family traditions.

Before setting up a family business, entrepreneur must be confident that the family members wish to participate in family business, since successfulness of the family business depends on mutual relationships of family members. When family relations are strong and stable they can firmly design and implement a family business strategy, but it is advisable to establish clear limits between work and home from the very beginning. Most of the failures are caused by that they cannot accept that family business takes all free time of all family members in the beginning.

All family business entrepreneurs studied by us wish to continue operating; they have concrete plans for the future and they believe that their family business will be more profit-making in the short term. Most of the family businesses act in cooperation and they are convinced that cooperation is a key to success. At the same time, they wish more assistance from the state, both financial and in the form of tax incentives, in order to make family businesses sustainable.

This research will definitely assist enterprising people who wish to become family business entrepreneurs and set up a strong family business with long perspectives.

## References

1. **Aronoff, C. D.** (1999). Family business survival: Understanding the statistics „only 30%“. *Family Business Advisor*, 8 (7), 1.
2. **Balint, A.** (2006). Where to go Middle Sized Business? Succession Strategies of Middle Sized Businesses. Ungari
3. **Botts, K. E.** (2000). Family versus non-family small businesses: An empirical study of strategic posture and performance Nova Southeastern University, 155 pages; AAT 9964964.
4. **Brazzale, C.** (2007). Family firms and the making of cosmopolitanism: The effacement of gender in the global capitalism of the Italian Nordest. University of California, Los Angeles, 2007, 356 pages; AAT 3302517.
5. **Brockhaus, R. H.** (2004). Family business succession: suggestions for future research. *Family Business Review*. 17 (2), 165-177.
6. **Brun de Pontet, S.** (2008). Using theories of control and self-regulation to examine the leadership transition between a parent and child in family-owned businesses. Concordia University (Canada), 212 pages; AAT NR37730.
7. **Burke, B. J.** (2007). Working for the family: A study of the family and nonfamily manager subgroups in family business management teams. Rutgers The State University of New Jersey, Graduate School of Applied and Professional Psychology, 182 pages; AAT 3283314.
8. **Cadioux, L.** (2007). Succession ins mall and medium-sized family business: Towards a typology of predecessor roles during and after instatement of the successor. *Family Business Review*, 20 (2), 95-109.
9. **Casson, M.** (1994). Ettevõtja. Majanduslik käsitus I-II, Kirjastus: Külim

10. **Chang E. P. C.; Chrisman J. J.; Chua J. H.; Kellermanns, F. W.** (2008). Regional Economy as a Determinant of the Prevalence of Family Firms in the United States: A Preliminary Report. *Entrepreneurship: Theory & Practice*, Publisher Blackwell Publishing Limited: May 2008, Vol. 32 Issue 3, p559-573, 15p, 3 charts
11. **Chen, T.-Y.** (2006). CEO compensation contracts of family firms. The University of Texas at Dallas, 70 pages; AAT 3224377.
12. **Chrisman, J. J.; Chua, J. H.; Steier, L.** (2005). Sources and consequences of distinctive familiness: an introduction. *Entrepreneurship Theory and Practice*, May, 237-247.
13. **Chrisman, J. J.; Chua, J. H.; Kellermanns, F. W.** (2009). Priorities, Resource Stocks, and Performance in Family and Nonfamily Firms. *Entrepreneurship: Theory & Practice*, Publisher Blackwell Publishing Limited: May 2009, Vol. 33 Issue 3, p739-760, 22p
14. **Chua, J. H.; Chrisman, J. J.; Bergiel, E. B.** (2009). An Agency Theoretic Analysis of the Professionalized Family Firm. *Entrepreneurship: Theory & Practice*, Publisher Blackwell Publishing Limited: Mar 2009, Vol. 33 Issue 2, p355-372, 18p
15. Eesti Maaelu Arengukava 2007-2013. Põllumajandusministeerium [http://www.agri.ee/public/MAK\\_2007-2013\\_4\\_2010.pdf](http://www.agri.ee/public/MAK_2007-2013_4_2010.pdf) (09.02.2011)
16. Eesti Statistika. Põllumajandus. <http://www.stat.ee/33988> (31.01.2011).
17. **Gallo, M. A.** (1995). Family business in Spain: Tracks followed and outcomes reached by those among the largest thousand. *Family Business Review*, 8 (4); 245-254.
18. **Gersick, K. E., Davis, J. A., Hampton, M. M., Lansberg, I.** (1997). *Generation to generation: Life Cycles of the Family Business*. Boston, MA: Harvard Business School Press.
19. **Halttunen, J.** (2004). Teollisten perheyriyten kasvudynamiikan systeemiteoreettinen tarkastelu. *Jyvaskylan Yliopisto*, 302 pages; AAT C820640.
20. **Hanzelkova, A.** (2004). Re-establishing traditional Czech family businesses: A multiple case study on the present challenges. *Jyvaskylan Yliopisto*, 306 pages; AAT C820639.
21. **Hautala, T.** (2006). *Leadership and Knowledge Transfers in Succession of Family Firma in Catering Business*. University of Vaasa, Finland
22. **Harrell, W.** (1994). *For Entrepreneurs Only. Success Strategies for Anyone Starting or Growing a Business*. Career Press. Printed in the U.S.A. by Bookmart Press.
23. **Hume, S. A.** (1999). *An assessment of the risk of family business failure* Antioch University/New England Graduate School, 1999, 123 pages; AAT 9928484.
24. **Juutilainen, S. A.** (2005). *Pienen matkailuyrityksen yrittajan taival: Oppiminen yrittäjyysprosessissa*. Lappeenranta Teknillinen Korkeakoulu, 191 pages; AAT C823223.
25. **Kakkonen, M.-L.** (2006). *Intuition and entrepreneurs: A phenomenological study of managerial intuition of Finnish family entrepreneurs*. *Jyvaskylan Yliopisto*, 176 pages; AAT C827354.

26. **Kets de Vries, M. F. R.** (1993). The dynamics of family controlled firms: The good news and the bad news. *Organizational Dynamics*, 21, 59-71.
27. **Khaemasunun, K.** (2004). Three essays on the profitability, risk, and viability of family firms in a developing economy. West Virginia University, 87 pages, AAT 3159343.
28. **Kozina, L. F.** (2006). Kritične točke uspešnega medgeneracijskega prehoda v slovenskin družinskih podjetjih (Critical points of successful intergenerational transfer in Slovenian family businesses). Ekonomska fakulteta, Univerza v Ljubljani. Slovenia
29. **Krošlakova, M.** (2007). Predpoklady a podmienky rozvoja rodinného podnikania na Slovensku ako fenomén podnikania (Presumption and conditions of family business in Slovakia as phenomenon of entrepreneurship). Bratislava. Slovakia
30. **Lambrecht, J.** (2005). Multigenerational transition in family business : A new explanatory model. *Family Business Review*, 18 (4), 267-281.
31. **Leimann, J.; Skärvad, P.-H.; Teder, J.** (2003). *Strategiline juhtimine*. Tallinn: Kirjastus Külim.
32. **Maeda, H. M.** (2006). Gender and family firm: Strategy and practice in early modern Japan. University of California, Davis, 214 pages, AAT 3230659.
33. Mahepõllumajandus Euroopas ja mujal maailmas. Ökoloogiliste Tehnoloogiate Keskus. <http://www.ceet.ee/96y/z0zARTICLEy171.html> (09.02.2011)
34. **Markides, C. C.** (2000). *Õiged valikud*. Tartu: Kirjastus OÜ Fontese.
35. **Moore, A.** (2006). The calculation of business longevity: A survey analysis of family firms in the United States. Capella University, 128 pages, AAT 3213423.
36. **Moyer, S. K. E.** (2006). Experiencing the essence of selecting and developing life goals among family business owners. The George Washington University, 166 pages; AAT 3218606.
37. **Naldi, L.; Nordqvist, M.; Sjöberg, K.; Wiklund, J.** (2007). Entrepreneurial orientation, risk taking, and performance in family firms. *Family Business Review*, 20 (1), 33-47.
38. **Nedlin, M. B.** (2003). Unified Blended Family Business(c): A new perspective for the 21st century understanding relationships in family businesses. Nova Southeastern University, 271 pages; AAT 3090289.
39. **Nordqvist, M.** (2005). Understanding the Role of Ownership in Strategizing. A Study of Family Firms. Jönköping International Business School: Parajett AB.
40. **Perry-McLean, P.** (2008). From private ownership to public ownership: A qualitative study of two Jamaican transitioned family firms. Walden University, 217 pages; AAT 3291925.
41. **Popczyk, W.; Winnicka-Popczyk, A.** (1999). *Przedsiębiorstwo rodzinne – determinanty dalszego rozwoju w gospodarce polskiej*. University of Lodz. Poola
42. **Poutziouris, P.** (2000). Family Business – Tradition or Entrepreneurship in the New Economy? 11<sup>th</sup> Annual Family Business Network World Conference Proceedings. FBN-London
43. **Poza, E. J.** (1995). Global competition and the family – owned business in Latin America. *Family Business Review*, 8 (4), 301-311

44. Põllumajandusloendus 2010. Eesti Statistika <http://www.stat.ee/50480> (31.01.2011)
45. Quo Vadis, Suomalainen Perheyritys? (2003). Toim. Jarna Heinonen. PK-Instituutti.
46. **Rautamäki, H.** (2007). Psykologinen omistajuus ja työnilo perheyrittäjydessä. Jyväskylän yliopisto. Yrittäjyyden tutkimus XXIII taloustutkijoiden kesäseminaarissa No. 160/2007 . 37-47
47. **Reiljan, J.; Tamm, D.** (2005). Majandusharu konkurentsivõime analüüsi alused Eesti põllumajanduse näitel. Tartu Ülikooli Kirjastus, 76 lk
48. RIK Registre ja Infosüsteemide Keskus. Statistika. <http://www.rik.ee/e-ariregister/statistika> (31.01.2011)
49. **Römer-Paakkanen, T.** (2002). Family Entrepreneurship in a Retail Chain. Doktoritöö.
50. **Sardeshmukh, S. R.** (2008). Successor development in family firms. Rensselaer Polytechnic Institute, 178 pages; AAT 3329046.
51. **Sekarbumi, A.** (2001). Succession in family business in Indonesia Maastricht School of Management (The Netherlands), 206 pages; AAT 3047747
52. **Syme, J.** (1999). Mentoring in family firms. California School of Professional Psychology – Los Angeles, 163 pages; AAT 9929057.
53. **Vadnjaj, J.** (2005). Razvojna naravnost družinskih podjetij v Sloveniji (Developmental orientation of family enterprises in Slovenia) Ekonomiska fakulteta, Univerza v Ljubljani. Slovenia
54. **Vasques, M., Ernesto, J.** (2008). Understanding non-agricultural entrepreneurial activities developed by farmers in Canada. University of Guelph (Canada), 293 pages; AAT NR41730.
55. **Ward, J. I.** (1997). Keeping the family business healthy. San Francisco: Jossey-Bass.
56. **Wickham, P. A.** (2004). Strategic entrepreneurship. Third Edition. Pearson Education Limited.
57. **Yalin, M. F.** (2008). Essays on publicly traded family firms in the United States. University of Pittsburgh, 137 pages; AAT 3335855.