

# THE IMPORTANCE OF FAMILY BUSINESS IN THE FUNCTION OF ECONOMIC PROSPERITY OF SERBIAN FAMILY AND SERBIA

Mirjana Stevanović

High Business School of Professional Studies „Prof. Dr Radomir Bojković“ Kruševac, Serbia, E-mail: [mira.stev@open.telekom.rs](mailto:mira.stev@open.telekom.rs)

**Abstract**-The fact that Serbia is poor and that its citizens are poor, should not be disputed. Serbia's economy has never been in a more difficult situation. The focus of this paper is to try to contribute and some guidelines so that Serbian family would be initiated and give contribution first to itself and then to the local community, i.e. the state, contribution to the development, financial stability and prosperity. The aim of this paper is to indicate that we have to forget (at least at this stage) the large enterprises, holdings, corporations, but direct all the resources (financial, natural, human ...) towards small family businesses, so that in the first phase, as much as possible, the emphasis is transferred to the private sector in order to favor the same by the state (through a variety of benefits, whether they are legislative, fiscal or of any other nature).

**Keywords**-family, family business, economic prosperity, development.

## I. INTRODUCTION

Since time immemorial (as they say in our nation) at the mention of family, it implied "the cell of society." In school, children learn the definition of family "The family is the basis of society." In the family the most important roles are united (pedagogical, educational ...) having a critical impact on the life of every man. In the family, at the most (than in any other field: business...) are present feelings, emotions of family members. This means that in practice, in most cases, the man first reacts with "his heart, not reason."

According to the Z. Djuric, "The family is the group of people in which we are born, we grow up, who cares for us and protects us until we create our own family, in which the whole cycle repeats itself" [5].

However, since the nineties of the last century Serbian family (popularly) started to "crack at the seams." Changing the system of government, the wars in the former state area, sanctions, inflation, living standards decline, growing poverty, the change of ownership, privatization, transition, rising unemployment, the economic crisis, it has all caused the loss of importance of the role of the family what it was before it all. In a word, the survival of the family is at stake. It is necessary

to regain the importance of family, forming a successful family business following the example of other countries in the world, which would bring to Serbian family prosperity, solve the basic existential issues, and a strong economy to the state of Serbia. It's not easy to be done, the will, desire, long term goals are needed both on the side of citizens and the state. Only through joint efforts with great understanding and support it is possible to be achieved.

## II. TERM OF COMPANY, FAMILY ENTERPRISE, INDUSTRIAL COMPANY

In theory and practice, both in our and foreign, numerous economists and experts have given different definitions of enterprise (depending on the country, law, size of the enterprise, forms of ownership).The following Fig. shows some of definitions of the enterprise (Fig. 1).

Author	Definition
Alcorn (1982)	Profit organization that can be a sole proprietor, partnership or company. If a part of the shares is in the public domain, the family also has to conduct business operationally.
Barry (1975)	The company, in practice supervised by members of a single family
Lansberg Prrow, Rogolsky (1988)	Company in which family members have a majority share.
Sterm (1986)	The company managed by and its owners being members of one or two families.

Fig. 1: Alternative definitions of family enterprises [9, p. 261]

According to the Law on Companies of the Republic of Serbia from 2006, Article 1 defines:

- 1) A company is a legal entity performing the activities for gaining profit.

- 2) *The entrepreneur is a physical person performing the activities for gaining profit.*
- 3) *The physical person performing the activity of free profession regulated by special regulations*
- 4) *is considered an entrepreneur, in terms of this Law, if such regulations as governed.*
- 5) *The individual farmer is not an entrepreneur within the meaning of this Law.*
- 6) *In terms of this law, production and sales of goods and provision of services in the market are considered as business activity.*

Article 2 of the same law defines the types of companies:

The forms of companies are industrial company and a public company.

1) *(2) the industrial company is established as an association of persons or a capital company (company, corporation).*

2) *(3) The person society is established as a partnership society or limited partnership.*

The capital company is established as a joint stock company or a limited liability company.

Law on Business organizations of the Republic of Serbia Article 2 from 2011 defines an industrial company. "Industrial Company (hereinafter: the company) is a legal entity performing the activities for gaining the profit."

The following table gives us an account of criteria for the classification of enterprises by size in Serbia and the EU (Table I).

**TABLE I: SUMMARY OF THE SIZE OF ENTERPRISES IN SERBIA AND THE EU**

Country	Enterprise size	Parameters
Serbia	Micro	<b>Number of employees &lt;10</b> • <b>Total income &lt;700.000 € (in dinars)</b> • <b>Value of assets &lt;€ 350,000</b>
	Small	<b>Number of employees &lt;50</b> • <b>€ 700,000 &lt;Total income &lt;€ 8.800.000</b> • <b>€350,000 &lt; Value of assets &lt; € 4.400.000</b>
	Medium	<b>Number of employees &lt;250</b> • <b>€ 8.800.000 &lt; Total income &lt; € 35.000.000</b> • <b>€4.400.000 &lt; Value of assets &lt; € 17.500.000</b>
	large	<b>Number of employees &lt;250</b> • <b>Total revenue &gt; € 35 million</b> • <b>Value of assets &gt; € 17.500.000</b>
EU	Micro	<b>Number of employees &lt;10</b> • <b>Total revenue &gt; € 2 million</b> • <b>Value of assets &gt; € 2</b>

million	
Small	<b>Number of employees &lt;50</b> • <b>€ 2 million &lt;Total income &lt; € 10 million</b> • <b>€ 2 million &lt; Value of assets &lt; € 10 million</b>
Medium	<b>Number of employees &lt;250</b> • <b>€ 10 million &lt;Total income &lt; € 50 million</b> • <b>€ 10 million &lt; Value of assets &lt; € 43 million</b>
Large	<b>Number of employees 250</b> • <b>Total revenue &gt; € 50 million</b> • <b>Value of assets &gt; € 43 million</b>

Factors underlying the index of small and medium-sized enterprises development are:

- 1) *participation of small and medium-sized enterprises in gross domestic product,*
- 2) *Participation of private property in the gross domestic product,*
- 3) *The number of employees in small and medium-sized enterprises to total employment in the country and*
- 4) *Gross domestic product per capita.*

Micro, small and medium-sized enterprises are socially and economically important because they represent 99% of all companies in the EU. They provide 90 million jobs and employ 66% of workers from the private sector, contributing to more than half of the total value-added created by businesses in the EU [4].

### III. STAGES IN THE DEVELOPMENT OF FAMILY BUSINESS IN SERBIA AND THE WORLD

Theory and practice has shown that the most important factors that make up the "foundation" of the family business: are

- 1) *idea*
- 2) *vision*
- 3) *business plan*
- 4) *financial resources.*

Each individual when making a decision on the establishment of his own company should have as an example a "building one's own house," that is, how and from what he started, the quality he worked with, the lifetime. A basic of every home is its foundation (material, quality, quantity, size ...), then the procedure of construction (in accordance with construction and other regulations ...) and for the purpose of taking care of the lifetime, with the plan of necessary changes (renovations) so as its survival not to be threatened. It is so with running one's own business. If an individual is getting started in the process of establishing his own family business he has to start from the basis. That is he has to consolidate his family business to at the not-so-convenient Serbian market. Meaning he must have before himself the idea (what it is established, what he is going

to deal with, which is the main activity and which are the auxiliary activities that will extend through a period of time; then the vision is not less important (how long his company will exist in the market, how it will develop, monitor supply and demand in the domestic and possibly foreign market (depending on how he developed his own work); all that is necessary to follow the business plan (market, personnel, products, services, finance ...) which will also include staffing, financial, manufacturing, sales plans ....; and last but not least important factor are financial resources that are necessary when starting any business (one's own, family members resources are best to start with, and only later in the course of the operation using state funds, bank loans, checking the conditions of financial assistance giving by "business angels "...). There are three stages in the development of family enterprises [5]:

- The first stage is the era run by the owner, when the company is owned and managed by one man who founded it, or bought it, or controls his actions. When the founder still keeps the control in his hands or is the successor owner who exercises control. - There are two key problems faced by family-owned company in the first phase: the first issue is whether there is competent successor, and second, whether there is a willingness and ability of the founders to cede control. From such situations new problems arise: how to evaluate the characteristics of a competent successor or how to facilitate the founder to retire and that he thereby does not feel inferior or, more delicately, how to prevent the founder not to delay to infinity abandonment of the leading position in the company. Numerous other issues are also imposed.

- 1) - *The second phase, the company passed into the hands of the partnership, consisting of two or more children of the founder. When generations of successors, daughters or sons, that is, brothers and sisters run the business.*
- 2) *The third phase (cooperation of relatives) in which relatives, often in the third generation or later, manage to lead the enterprises. - And then they are inherited by their children and their children's children and so on.*

In the analysis of these stages in the development of the family business, we have to have in mind previously set forth in the introduction (the importance of family, the kind of crisis through which the Serbia is passing for already the third decade, the decline of morals, a very low level of culture, discipline (tax, labor ...) all of which caused the hard life of citizenship, poverty, lack of money, the gray economy ....) That is, if some important features do not decorate the family, they will not be present in the family business either. Meaning good education, quality education, lack of vanity, awareness of the fact that no man knows everything, already the inevitable truth and the fact is that "man is learning as long as he is alive," and "everyone is replaceable" or "no one is irreplaceable," awareness of the higher level, if all of these parameters are met, then in the practice there

will not be a problem in any of the stages of development of family businesses.

The next Fig. tells us about features of family and business (Fig. 2).

Family	Enterprise
You are a member of the family for life ("family is not chosen but created")	Results of work in the first place, not kindred relations
Emotions	Reason, business tasks
Equality or inequality of family members	Some family members are in the leadership and some in the status of employees
Tradition (customs)	Market and its needs
Family relationships	Business Relationships
Communication level	Communication level in the hierarchy
Rivalry	Rivalry in positions
Resistance to the unknown (changes)	Constantly examine the market and track changes
Inertia	Efficiency and effectiveness in work
Leadership	Owner (hierarchy scale)
Inheritance	As a good worker, so it is constantly and continuously worked on one's successor, i.e. he is created through the work process, in order to achieve the highest possible profit
Relatives' ownership	Active in the business or in the role of shareholders
Managerial interest	The interest of the company in the first place
Continuity of employment	Managers, workers are characterized by employment changes
The failure of the work is followed by dramaticity	Without emotions, with revised plans and new production or service programs
Rapid decision changing	Flexibility is a necessity in business
Reliability	In the interest of family business
<b>Commitment</b>	Commitment to work

**Fig. 2:** Characteristics of the family and family business

When analyzing the previous figure, we see that as long as a family is characterized by being the member all of your life, which must not be the case with a company, that is the results of the work have to take on the preponderance, not the kindred relations. If something permeates family every second of its life and work those are the emotions of its members, while at the family business sense must prevail if our goal is the company's success, profit, as long as possible lifetime. In the company not all family members can manage and be equal, jobs must be divided both by the education and expertise, knowledge (such criteria should be given priority), while in the family family relationships are from time to time always characterized both by equality

and inequality of its members (age plays the primary role in Serbian family). One of the not less important characteristics, family characteristics is its tradition (customs) to which Serbian family is still "firmly held" as much as possible, in a family business advantage has to be taken by business relations, even if the company has a tradition (production of certain products, the provision of a service) and it must be changed if required by market conditions in order to sustain the company. If the communication (direct and indirect, verbal and non-verbal) is at a higher level both within the family and in the family business, this will result in a safe success of both the family and family-owned company with the obligation of taking into account the occurrence of "rivalry" which is reflected in the company in positions that family members hold. Inertia at no time must characterize a family (although it is often the case), and especially not the company bearing in mind that only the efficiency and effectiveness of work can bring prosperity for both the company and the family. Hierarchy scale must be specifically precisely defined and determined so that in each case and at any time it will be known who is doing what and who is responsible to whom for to whom his work. Kindred relates have to be regulated in time, the heirs are taken into account from the very beginning, i.e. when they grow up they must be active in the family business from the lowest to the highest ladder to pass the whole process of work the company is dealing with, in order to successfully take a business when the time comes. Family members are characterized by "continuity of employment", but it is not the case with managers i.e. rarely there is a manager who remains the manager in the entire working life of a company. As any company, so can a family business be followed by failure through a certain period of time. In this case, family members are characterized by drama, which must not be the case with the company (then it is thought with "cool head", no drama, immediately approach to revising the plans and undertaking a series of measures aimed at getting out of the company crisis). Reliability, commitment both to family and family business by family members, while flexibility that is otherwise inevitable in business must be in the interests of family business.

The following Fig. shows the differences between the family and non-family companies (Fig. 3).

Family companies	Non-family companies
Family members in a position of management have a long-term, personal involvement in the business	Managerial interest in the company is limited by the terms of the employment contract
Family members in a position of management may be in a specific business throughout their career,	Managers are rarely retained throughout their career only at one employment in the company
Family members have indefinite time horizon	Managers have a shorter time limit
The future of business is the dramatic personal and	Business failure is perceived less personal by the

professional implications for family members, especially those in senior management positions	managers
Probability of termination of employment for family members participating in the management is very low	Likelihood (or probability estimates) of termination of employment for managers is much higher

Fig. 3. Differences of family and non-family companies [5, pp. 208]

The importance of family businesses is evidenced by the fact that approximately 16 million enterprises in the United States are family owned, which makes up about 90% of all enterprises in the United States. These companies employ more than 40 million people and generate about 60 of gross domestic product of USA. It is estimated that in the UK 75% of all the companies are family- owned companies [14].

### 3.1. Problems faced by the Serbian entrepreneurs

There are many problems and obstacles faced by the Serbian entrepreneurs both by those who have started their own business, and those who are planning it. I will mention some of them as follows:

- 1) *lack of entrepreneurial education (the late introduction of the subject entrepreneurship in primary and secondary schools, with the obligatory involvement of professional speakers)*
- 2) *lack of knowledge in the field of finance and resources (business, business plans ....)*
- 3) *lack of capital (own and of others)*
- 4) *lack of ideas (low level of entrepreneurial spirit)*
- 5) *insufficient knowledge of the market (supply and demand)*
- 6) *disloyal competition (gray economy)*
- 7) *Mentality (the rule "state job is security for life" still applies)*
- 8) *high contributions for employees,*
- 9) *insufficient or at least not appropriate tax incentives,*
- 10) *fees (local, municipal, company's...) by local authorities*
- 11) *taxes (income tax, profit tax and the rates and bases that make up a particular burden for entrepreneurs ...)*
- 12) *penalties (which are so high that you can immediately close the shop if there comes to the penalty) ....*
- 13) *uncertainty in the legal sense (i.e. we can freely say that almost every law changes once a year), and all this causes uncertainty of business conditions and planning opportunities in the long run ...*

That is the main problem or rather a problem of all problems faced by entrepreneurs who are working or



want to work in the legal framework is "That the State (through taxation, inspection and other bodies) actually controls most penalized the registered taxpayers, while no one touches the gray area".

But first we (state and citizens) need to change our consciousness. This means that we have to work together in the following way:

- 1) *The state by its side first has to act preventively, not as was the case so far only penalizing the registered taxpayers, and only in the end taking repressive measures); also working on the tax discipline, culture and morality of taxpayers (entrepreneurs, owners of small and medium-sized enterprises) in order to achieve an enviably high level.*
- 2) *the entrepreneurs for their part must have a high awareness and moral of understanding that they need to operate within the law, and their tax compliance and culture is reflected through the payment of obligations to the state and the realization that such things are betterment of not only the state but also to the citizens (with the obligatory knowledge of local government and to the republic "where taxpayers' money is being spent").*

#### IV. CONCLUSION

The measures necessary for the state of Serbia to be taken in order to facilitate the work of entrepreneurs are: abolish economic inequalities between local governments (in agreement with them, and the citizens), introduce measures and instruments aimed at the same uniform development of all local governments in order to increase employment, preservation of social equality, to form a team with the aim of having a concrete plan for each local government (taking into account its size, unemployment rate, geographic location, available potential, make a range of tax benefits (but not those who have been in force, and these were not even used or at least have not yielded the expected positive effects in practice, but to abolish the existing and bring concrete ones that would automatically result in the creation of new entrepreneurial activities, companies (e.g. exemption from income tax in the first three years of doing business) ... Namely, all that would result in a change in

consciousness, the practice that has so far prevailed in Serbia. Only such an approach to Serbian family and enterprises would result in economic prosperity for all.

#### REFERENCES

- [1] Burns, P.: *Entrepreneurship and small business*. 3rd Edition. Basingstoke (United Kingdom): Palgrave Macmillan, 2010. – 544 pp.
- [2] Chua, J.H.; Chrisman, J.J. and Steier, L.P.: Extending the theoretical horizons of family business research. *Entrepreneurship Theory and Practice*, Vol. 27, No. 4 (2003), pp. 331-338.
- [3] Cole, P.C.: Women in family businesses. *Family Business Review*, Vol. 10, No. 4 (1997), pp. 353-371.
- [4] Đurić, Z.: Mali prorođični biznis u funkciji društveno-ekonomskog razvoja. *Socioeconomica – The Scientific Journal for Theory and Practice of Socioeconomic Development*, Vol. 1, No. 2 (2012), str. 155-165.
- [5] Đurić, Z. & Đurić, O.: Porodični biznis u Srbiji – problemi rasta i razvoja. *Časopis za ekonomiju i tržišne komunikacije*, Vol. 1, No. 2 (2011), str. 203-211.
- [6] Gersick, K.E.; Davis, J.A.; McCollom, M.E. and Landsberg, I.: *Generation to generation: Life cycles of family businesses*. Boston: Harvard Business School Press, 1997. – 320 pp.
- [7] Goffee, R.: Understanding family businesses: Issues for future research. *International Journal of Entrepreneurial Behaviour and Research*, Vol. 2, No. 1 (1996), pp. 36-48.
- [8] Habbershon, T.G.; Williams, M.L. and MacMillan, I.C.: A unified systems perspective of family firm performance. *Journal of Business Venturing*, Vol. 18 (2003), pp. 451-465.
- [9] Handler, W.C.: Methodological issues and considerations in studying family businesses. *Family Business Review*, Vol. 2, Issue 3 (September 1989), pp. 257-276.
- [10] Harvey, M. and Evans, R.: Family business and multiple levels of conflict. *Family Business Review*, Vol. 7, No. 4 (1994), pp. 331-348.
- [11] Holland, P.G. and Boulton, W.B.: Balancing the family and the business in the family business. *Family Business Review*, Vol. 1, No. 2 (1984), pp. 145-164.
- [12] Mazzola, P.; Marchisio, G. and Astrachan, J.: Strategic planning in family business: A powerful developmental tool for the next generation. *Family Business Review*, Vol. 21, No. 3 (September 2008), pp. 239-258.
- [13] McCollom, M.E.: Integration in the family firm: When the family system replaces control and culture. *Family Business Review*, Vol. 1, No. 4 (1988), pp. 399-417.
- [14] Paunović, B.: Porodično preduzeća. *Institute for Territorial Economic Development (InTER) Newsletter*, br. 2 (2012), str. 1-2.
- [15] Ram, M.: Family dynamics in a small consultancy firm: A case study. *Human Relations*, Vol. 54, No. 4 (2001), pp. 395-418.
- [16] Schaper, M.; Volery, T.; Weber, P. and Lewis, K.: *Entrepreneurship and small business*. 3rd Asia-Pacific Edition. Milton (Australia): John Wiley & Sons, 2010. – 496 pp.
- [17] Sharma, P.: An overview of the field of family business studies: Current status and directions for the future. *Family Business Review*, Vol. 17, No. 1 (2004), pp. 1-36.
- [18] Zahra, S.A. and Sharma, P.: Family business research: A strategic reflection. *Family Business Review*, Vol. 17, No. 4 (December 2004), pp. 331-346.