

Family Business in Russia: Results of the Empirical Research

Dmitrij Anatolyevich Volkov

Graduate School of Corporate Management of Russian Presidential Academy of
National Economy and Public Administration, Moscow, Russia

Abstract: In article the analysis of family business succession process and Next Generation motivational aspects on the basis of existing empirical researches of family business and the enterprises of family business is carried out. It is evident, that the problem of the entrepreneurship development, particularly due to the family business, is one of the key issues for ensuring the dynamics of the national economy development. In this context the problem of revival and development of the family business plays an important role in the modern Russian environment. Epistemological analysis of the national and foreign experience and of the state of the modern practice shows, that the scientific knowledge has not yet developed the holistic approach to the process of modern family business model formation in the Russian economy. In this regard we can state the contradictions between the objective necessity of the family business institutional development for the Russian economy and the insufficient elaboration of the family business development processes and their management in Russian Federation.

Key words: FB (family business) • FB development • Family business conflicts • Family assets • Family business succession • Management of family business succession • Motivation of successors (NG- next generation) • The social capital of family business

INTRODUCTION

The actuality of developing family business under the new economic conditions and creating the national entrepreneurial environment was reflected in a number of scientific publications, devoted to the issues of extending the entrepreneurship theory: very significant are the papers in the area of strategic planning of family business (Randel S. Carlock A. John L. Ward, Fitzgerald M.A., Winter M., Miller N.J., Paul J.), works on the conflicts in the family business (Danes Sh.M., Leichtenritt R.D., Metz M.E., Huddleston-Casas C.), papers on the theory of integration in the family business (Miller D., Steier L., Le Breton-Miller I. Weigel D.J., Ballard-Reisch D.S.) [1-10].

The analysis of the key elements of family business formation and development in the existing legislation systems revealed, that the family business is based on so called fiduciary (e.g. personal and confidential) relations. If we consider the family business as an object of inheritance in the modern legal situation, the necessity to elaborate succession policy in family business is evident;

it will permit to avoid the interest conflict when transferring business from one generation to another and will serve the foundation for the two main conditions of the family company's long-term success – professional management and continuous business management by family members. The process of business succession is divided in two main stages: a complex of prior measures to ensure business stability and a complex of measures for the consistent transfer on business to the next generation. And the prior measures to ensure the business stability are intended only to bring assets into the state, when their inheritance is physically and legally possible, at the minimal period of time.

Theoretical analysis of the results of comparative research on the family business organization in USA, Latine America and Europe in the long-term period, defining the best practices, generalization of results of the empirical research on the Russian and foreign family business required carrying out the empirical analysis on implementing of efficient family business management practices and their adaptation to the Russian conditions.

Corresponding Author: Dmitrij Anatolyevich Volkov, Graduate School of Corporate Management of Russian Presidential Academy of National Economy and Public Administration, Prospect Vernadskogo, H. 82, 119571, Moscow, Russia.

MATERIALS AND METHODS

For analyzing the issues of the family business viability and succession in Russian conditions, we have carried out the empirical research on the specifics of family business organization and management; the subjects of the small and medium business were taken as respondents [11]. The main sample included 54 business structures, among them, in order to ensure the research validity, 32 enterprises were selected which realized the concept of the family business. The selection was carried out on the base of the interviews, further the research was developed by the method of questionnaires and the obtained result analysis. For the empirical research we have elaborated the author's questionnaire for a Russian entrepreneur (family business owner).

In this way, totally 32 business structures were examined, the family business owners were the respondents. The research geography: Moscow, Yekaterinburg, Noginsk, Slavyansk on the Kuban, Uhta (Komi), Kamensk-Uralsky (Sverdlovskaya region), Tumen, Kazan, Novosibirsk, Samara, Vladivostok, Perm, Saint-Petersburg.

The main branch specializations of the business structures were the wholesale and retail trade, production of consumer goods, media business, real estate, construction, certification, jewelry business, private medicine, automobile business, organization of trainings for companies' personnel, Internet, insurance, marketing services provision, photo services, advertising services, metal processing, repair of wheel pairs, manufacture of children's developing games.

RESULTS

On the basis of the analysis of small and medium business subjects we have created the «portrait of a family business owner». 75% of the respondents had a higher professional education, 15,6% possessed an academic title, 6,3% had the incomplete higher education. The total quantity of children of the explored respondents consisted 51 (including 5 large families). With regard to the gender distribution of respondents, 12,5% of the questioned business owners were women, 87,5% - men. Further we have carried out the analysis of the possible circumstances, which could provoke the owners to sell their business (Pic. 1).

The research has demonstrated that the priority reason of selling the business if the existence of the other interesting investment alternatives (59,4%) and the

attractive price proposal (50%), as well as the poor business growth (18,8%).

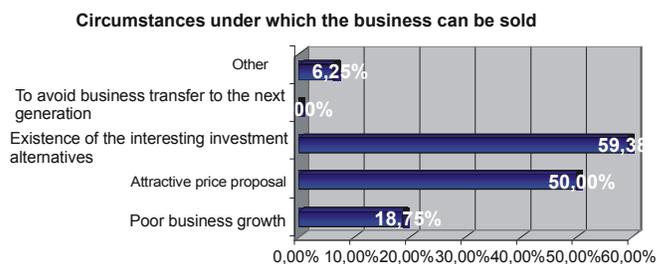
When analyzing the possible terms of selling the business (Pic. 2), we have revealed that only 18,8% of the respondents refuse to consider the proposal of selling the business, because they plan to transfer their business to the next generation. At the same time the respondents demonstrate the readiness to transfer their business under favorable conditions (Pic. 3) [12].

The following conclusion can be made on the basis of our examined family business models: only 9,3% business owners possess the documents which regulate the business transfer from one generation to another; 6,3% of the respondents plan to prepare such documents (Pic. 4).

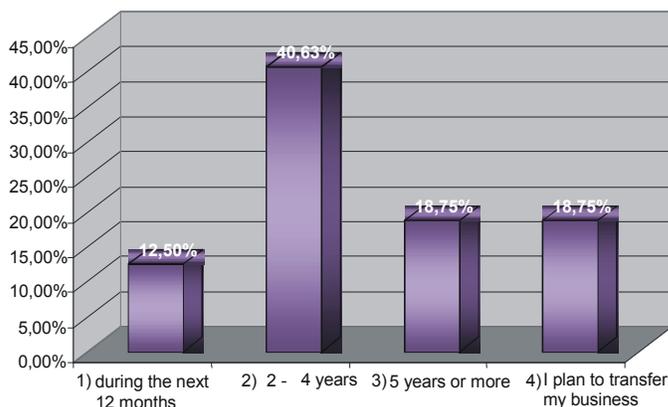
With regards to the issue of preparing family business successors, the research has allowed to obtain the determined results through the analysis of the important for the family business owners aspects of business successors' formation: evaluation criteria of educational institutions for the family business successors, policy of allocating the roles between family members in business, development of knowledge and skills for involving them in the family business management.

In that way, on the basis of the obtained results we have made a conclusion about the insufficient development of family business organization and management technologies in Russian Federation. In the «sample» models of respondents the family business is mostly oriented to the second generation model with the domination of the managerial functions performance. This creates the necessity of developing in terms of the succession policy a system of bringing up the future business owners through the method of cultivating family values and technologies of forming business successors. Besides this, when exploring the question of business transfer procedure, it is necessary to note that the succession policy begins from the formalizing procedure and preparation of special documents. According to the research results it was revealed that in Russian Federation 78,1% business owners don't have a clear understanding of the succession policy in a company, 43,8% of the respondents don't provide business share to their family members, which demonstrates the very low level of strategic planning of the family business development and of its assets protection.

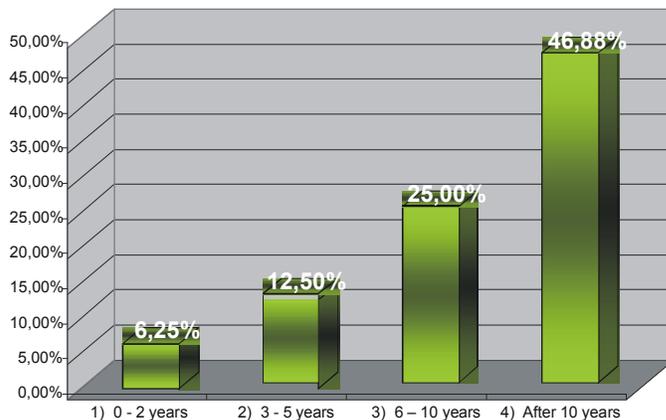
In terms of the carried out empirical research on the implementation of efficient family business management practices and their adaptation to the Russian conditions, we have made the following conclusions. Nobody from



Pic. 1: Diagram of circumstances, which can provoke the owners to sell the business
Period of selling the business



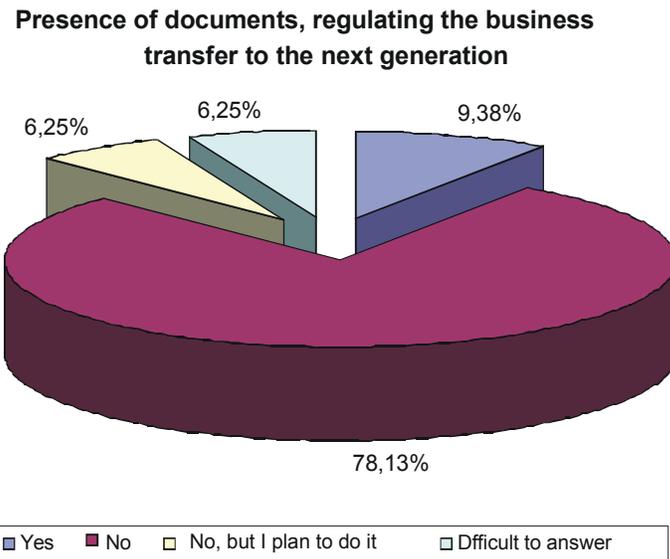
Pic. 2: Evaluation of the period when the owner is ready to sell his business
Owners' evaluation of the period of business transfer



Pic. 3: Evaluation of the possible period of business transfer

the interviewed family business owners on the territory of the Russian Federation is ready to sell the business in order to avoid the business transfer to the next generation; the key factor of selling the business is an attractive price proposal, which is the evidence of the potential readiness to transfer the business. But under the conditions of the absence of entrepreneurial culture and long-term planning skills by the business owners, the necessity of the events for transferring the business and of documents preparation regulating such transfer, is ignored. This situation is true even for those family

business owners, who are planning to transfer their business during the coming 5 years. So at the current moment, in terms of the family business organization and management specifics, the structure of family business management and ownership is not divided and the issue of ownership is considered in operations management criteria and technologies, which is inadmissible. The most of the interviewed respondents have a situational readiness to sell the business. But at the same time there exists the trend for «closeness», non-publicity of the family companies. Despite the fact that the owner plans to



Pic. 4: Presence of documents, regulating the business transfer to the next generation

transfer his business, we can often observe a situation when respondents consider only the situation of the management functions transfer (and not the ownership), not possessing any formal mechanisms or methods of this process organization.

The results of the empirical research on family business are consolidated as the grounds for the model components in the context of adaptation to the Russian Federation conditions (Table 1).

As we explored the family business as the dynamic system, we have defined the basic, organizing condition — the spiritual and moral environment of the family business (formation of the family values, education of family members, bringing up family business successors, religious factor), which assist to maintain and strengthen its state in the development dynamics.

The analysis of the existing practice of conducting family business demonstrates the following: the inheritance of business is realized through the succession policy — business transfer from one generation to another in terms of one family. If the business possesses the value as the correctly developed relations system, which brings the profit and not only as the aggregated property, which has a certain value, then the combination of diversification and concentration of the family business is an optimal approach for realizing the model of efficient family business management. Diversification allows to reduce the risks and concentration — to achieve the desired results; at the same time we consider diversification as the basis for the rational risk

management. The paradox lays in the fact, that the business owners usually accumulate their wealth being involved only in one business, but they lose their fortune the most quickly, when everything is invested in one or two asset groups. To protect the capital of the family business it is necessary to invest this capital in different financial instruments and also, if it is possible, to diversify the business, if successors have a desire to manage this business, i.e. to initiate the creation of the non-profile business. The principle of diversification can be applicable in the process of family business management and also in the other context. The business owners, who possess the taxable securities portfolios and the portfolios with deferred tax payments (for example, the pension plan or the deferred payment of labor), can consider the diversification of the tax regimes for their assets.

The analysis of the existing practice demonstrated poor results: 78,1% of business owners, who have taken part in the empirical research, don't possess the elaborated package of documents that would regulate the business transfer to the next generation. The catastrophically low level of the long-term planning in family business development is evident. At the current moment this situation reminds the time bomb, which allows once again to confirm the results of McKinsey' research that only the very low share of the family companies remain working on the market in the third generation of successors (and in the case of the Russian practice in the second generation also).

Table 1: Consolidated results of the empirical research on family business

Tools	Results of the empirical and theoretical researches, on the base of which the components are singled out
	Economic and legal component of the model
1.1. Policy of inheritance and succession	<ul style="list-style-type: none"> - 40,6% are ready to sell their business during 2-4 years - the priority of selling the business is the presence of the interesting investment alternatives (59%) and the attractive price proposal (50%) - after 10 years 46,9% plan to sell their business - 78,1% of business owners don't possess the clear understanding of the succession policy inside the company
1.2. Policy of assets management	<ul style="list-style-type: none"> - only 9,3% of the business owners possess the documents, which regulate the business transfer - the family members of only 43,8% respondents perform managerial functions - the family members of 15,7% respondents are included in the Board of directors <p>When determining the main investment goal of the family in relation to the capital, respondents mark the following:</p> <ul style="list-style-type: none"> - necessity to secure the capital – 15,6% - necessity to protect the capital from inflation – 12,5% - balanced approach – 50% - growth – 34,4% - aggressive growth – 3,1% - 65,6% invest into the domestic real estate - 18,8% respondents consider precious metals to be an efficient tool for investing personal funds in the current market situation
	Financial component of the model
2.1. Organization of the family fund	<ul style="list-style-type: none"> - 43,8% respondents don't envisage and don't plan to provide a share in business to their family members - 68,8% have long-term plans, connected with the capital
2.2. Tax optimization	<ul style="list-style-type: none"> 28,1% respondents prefer domestic accounting (audit) companies for assets protection 3,1% respondents trust the international accounting (audit) companies
2.3. Technologies of efficient IPO for the family business	<ul style="list-style-type: none"> - the shares of 63,4% largest family companies of the world are quoted on the stock exchanges - respondents plan to use more than one financial source: internal cash flows are the priority for 75% respondents, 59,9% admit debt financing, the share capital is acceptable for 25% respondents and 3,1% are oriented to the other alternative sources of finance for the business development - 34,4% respondents plan to organize joint enterprise with international partner
	Organizational component of the model
3.2. Intrapreneurship	<ul style="list-style-type: none"> - 43% respondents think of expanding their business to the county scale - 46,9% plan to bring the business to the international level
3.1. Family business diversification	<p>If the successors are reluctant to take part in family business management, 84,4% respondents are ready to support them in developing their own career.</p>
3.3. Organization of the non-profile business	
	Spiritual and moral environment as the organizing trend for the family business development
4.1. Family values	<ul style="list-style-type: none"> - children of the 63,7% respondents are involved in family business - 62,5% respondents have the family hierarchy, accepted by all family members, 18,8% deny such hierarchy, for the other respondents it is difficult to answer - 50% business owners are involved in charity
4.2. Education of the family members	<ul style="list-style-type: none"> - the children of business owners receive the education: in Russia – 62,5%, abroad – 3,1%, in Russia and abroad – 25% (21,9% – in Europe; 9,4% – in Asia; 3,1% – in USA) - the ranking of the main requirements of the business owners to the educational institution: on the first place it is the institution's reputation, further – the academic standards / specialization, then follow the international relationships of the institution and its location.
4.3. Upbringing the family business successors The factor of faith.	<ul style="list-style-type: none"> - 40,6% of the business owners consider their family to be the faithful, partially – 9,4%; the negative response was given by 34,4% respondents - significance of the faith factor in business for the respondents, attitude of business owners to the religion, confessional belonging of the business owners (71,88% – Orthodoxy)

The succession policy assumes taking the decision about transferring assets to the successors or about the withdrawal of assets. In this case the key issue concerns the process of transfer itself: if the assignment of

successor is carried out during the business owner's life or the business is just inherited. In this context the problem of tax planning gets the special significance. Besides that, it is necessary to ground, if it will be the

business sale inside the family, or just the transfer of its share by the deed of a gift, if it is possible to apply the promissory note scheme of financing in the payment for the business share and what will be the value of this business share and who will determine it. What is optimal in the concrete situation should be solved in dependence of the family business jurisdiction and the existing tax regime.

CONCLUSIONS AND RECOMMENDATIONS

- At the current moment, in terms of the specifics of family business organization and management in Russian Federation, the structure of business ownership and management is not differentiated and the issue of ownership is considered in criteria and technologies of the operations management. The majority of the interviewed business owners have a situational readiness to sell their business. But there is also the trend for “closeness”, non-publicity of the family companies. Despite the fact that a business owner plans to transfer his business there is often a situation, when respondents consider only the business management transfer (but not the business ownership), not having any formalized mechanisms or methods of such process organization.
- Nobody of the interviewed family business owners on the territory of Russian Federation is ready to sell the business in order to avoid business transfer to the next generation; the key factor of the business sale is an attractive price proposal, which is the evidence of the potential readiness to sell the business. But under the conditions of the absence of entrepreneurial culture and long-term planning skills, the business owners ignore the necessity of special events for the business transfer, as well as the need for the documents preparation which regulate such transfer. This situation is true even for those family business owners who are planning to transfer the business during the nearest five years.
- Management development in family business has its own specificity. Being regulated by the clear rules, the family business enterprises work out the strategy of the long-term success; its key factors are the following: strong boards of directors; uncompromising standards of meritocracy - impossibility to get a position without the necessary qualification; risk diversification and business renovation through the intensive management of the assets portfolio; long-term financial policy.

- The combination of diversification and concentration of the family business is an optimal approach for realizing the model of efficient family business management. Diversification allows to reduce risks and the concentration — to achieve the desired results; at the same time we consider diversification as the basis for the rational risk-management. The strategy of family business diversification allows to re-allocate the investment flows from one business to another, which gives the opportunity to control the internal placement of financial resources.

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