CHARACTERISTICS OF FAMILY BUSINESSES IN ALBANIA – A STATISTICAL STUDY

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Abstract: Family businesses present a considerable part of the formal economy in the developed countries. This paper tries to investigate the links between the initiative to open family businesses and the personal, socio-economic factors present in our country. We used the results of 300 questionnaires completed by individuals interviewed from the biggest cities in Albania. Based on these data we find that the link between education and the initiative to open a family firm is not important. The relation between age group and the initiative to open a family firm is nearly important. The link between the initiative to open a family firm and the income level was significant at the 0.01 level while the link between the initiative to open a business and the living residency was significant at the 0.05 level favoring individuals who live in the capital city.

JEL classification code: G11, M13, D14

Key words: family business incentives, risk undertaking, business opening initiatives properties of young enterprisers.

Introduction

A family firm is considered a "business that will be passed on for the family's next generation to manage and control" (Ward, 1987). Family businesses are really important to economies, developed or developing ones[26]. They supply the economy with income, employment, and capital. Of course they are subject to constraints and difficulties (the same as the other kinds of businesses), which often causes them to fail. Their failure brings signs of "depression" on the economy thus, increasing the tension in the markets and destroying their natural equilibrium.

[26] Family businesses represent an important component of the US economy. An estimated 80% of the total 15 million businesses within the US (Lussier, Sofield, 2004) are family businesses. Family businesses contribute from 50% to as high as 60% of the total Gross National Product, 50% of employment, and have higher annual sales than non-family businesses. Estimates classify 35% of *Fortune 500* firms as family owned. However we have to mention that much of the family business literature is non-quantitative and few articles have been published in general business journals.

The concept of family business may be young for Albania but not for the developed countries. It is obvious that in the developed economies the family businesses were the first forms of the market economy after the industrial revolution in the late 1700'. These small family businesses later evolved in public entities which by themselves grew to become listed companies. This story of "entity type evolution" is somewhat different if we refer to the former centralized economies, like Albania. In countries like ours, the former, big or small family businesses were taken by the state in the mid 1940', and later in the beginning of the 1990' were privatized often in favor of their own employees. Apart the process of privatization, a lot of individuals decided to open their own businesses, as a form to self-employment after many former state-owned enterprises were closed. Of course, the newly born Albanian market economy and the lack of business expertise and experience were the main causes for the high rate of entities closure in the first 1990'. (Refer to graph 1 by Albanian Institute of Statistics which shows the huge closure rate of entities in the years prior to 1995. This represents the overall number of entities in Albania.)

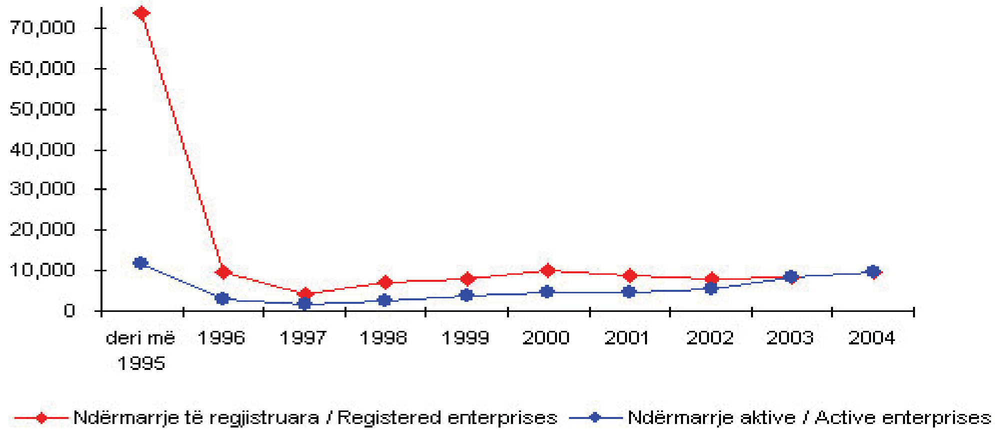

Figure no. 1. Number of registered and active enterprises in Albania in 1995 – 2004.

Source INSTAT web page

Being so vital to the economic development of Albania it is natural to put in the focus of this paper the family businesses in our country. This study may very well be among the first to be focused in the family businesses. As such, our objective is to try answering some of the questions that already exists, and also to articulate further more elaborate questions to be investigated in future studies. More specifically with this paper we try to answer questions such as: "What are the incentives and motivation of Albanian individuals to create family businesses?", "How many individuals in Albania prefer to invest in their own business rather then in other's businesses?", "Which are the most common features demonstrated by individuals who prefer to open family businesses" etc.

This paper is organized as follows: in the second part we introduce a brief literature review, trying to review the results of studies performed in countries similar to Albania. In the third part we present in detail the survey performed with individuals and businesses in Albania. Last we state our main findings and conclusions.

Literature review

As mentioned above the family businesses literature is not much explored neither in Albania nor by Albanian authors. This is why in this part of the paper we will cite authors and studies made mostly in developed economies. There are many topics that can be distinguished in the business family research. The most common are:

- *Non-family members within the top management of the firm.* Both Dyer (1988) and McConaughy and Phillips (1999) studies suggest that when non-family is included in top management this is done mostly for the highly professional individuals who bring value to the business.
- *Women family members working in the firm.* Studies focused in the gender issues in family businesses report that daughters and wives are rising to leadership positions in family firms more frequently than in the past, and that the occurrence of daughters taking over businesses in traditionally male-dominated industries is increasing rapidly, Nelton (1998).
- *Decision making authority.* Decision-making tends to be more centralized in first-generation family firms than in subsequent-generation family firms (Dyer, 1988). Aronoff (1998) furthermore reported that 42 percent of family businesses are considering co-presidents for the next generation.
- *Conflict and disagreement about management decisions.* Some studies have found that the factor with the greatest impact on successful transition between generations of family businesses is the intensity of relationships within the family (Sonfield and Lussier 2002).
- *Succession planning.* Fiegener and Prince (1994) found that family firms favor more personal relationship-oriented forms of choosing the successor development compared to the non-family firms that utilize more formal and task-oriented methods. Under this stream of research we may also mention the finding that the probability of self-employment is substantially higher among the children of business owners than among the children of non-business owners. This means that even if the children of family business owners do not inherit the ownership of the specific firm they are more prone to become owners of their own firms what increases many fold the culture of family firms' creation[27]. One of the most relevant obstacles in business succession is the difficulty to retain the knowledge from the incumbent to the successor. In the literature the authors mention the concept of "familiness" to explain the competitive advantage of family firms (Habbershon and Williams, 1999).
- *Founder influence.* This stream of research is strongly connected with the previous one. Studies suggest that a family firm founder will influence the behavior and choices of the succeeding generations' family member managers, with both positive and negative impact (Kelly et. al. 2000). The owner-manager plays a central role in the development of "families", as organizational leader do in terms of influence on culture, values and performance of their firms (Schein, 1983). The long standing tenure of owner-managers (three times longer than non-family executives according to McConaughty, 2000) emphasizes their role in shaping and making the organization dependent on their physical presence.

[27] Estimates also indicate that only 1.6 percent of all small businesses are inherited suggesting that the role of business inheritances in determining inter-generational links in self-employment is limited at best.

- *Going public or not.* Even publicly owned companies can continue as "family businesses," if management or financial control is maintained by the family (Sonfield and Lussier 2002). McConaughy (1994) found that twenty percent of the *Business Week* 1000 firms are family-controlled.
- *Use of outside consultants, advisors and professional services.* As family firms age, they also progress from informal, subjective and paternalistic styles of leadership to more formal, objective and professional (Filbeck and Lee 2000). More specifically, as family businesses grow and move into subsequent generations, these firms increase their use of outside consultants, advisors and professional services (Sonfield and Lussier, 2002). This use of external resources is perceived by the managers of these more mature family firms as being more "professional" and leading to better decision-making (Aronoff 1998).
- *Sophisticated financial management.* Several family business researchers have concluded that as they grow and move into subsequent generations, family businesses are more likely to engage in more sophisticated forms of budgeting, forecasting, cash flow analysis and modeling (Filbeck and Lee 2000).
- *Management style;* Many family business researchers have found that management style in younger, first-generation family firms tends to be more informal and subjective. In more mature second- and third-generation family firms, management style becomes more formal and objective (Aronoff 1998).
- *Key factors of the family businesses success.* Authors have also been studying for long the key factors in family business success. Their studies have revealed that businesses who can make it to survive for a long time and that have made it to stay in top-ranked economic entities demonstrate common features like excellence in the type of product offered or customer service rendered, strong labor ethic, initiative to change and adapt, simplicity of lifestyle of owners and austerity in expenditures. (Gallo, Cappuyns, 2004). They sometimes refer to this success framework as to ELISA values which is an acronym for Excellence, Labor ethic, Initiative, Simplicity and Austerity.
- *Success of family business vs. success of non-family businesses.* Often family businesses have greater chances to be more successful than non-family businesses. Family businesses have many competitive advantages over non-family business including greater loyalty, stronger commitment, easier understanding, respect for authority, low staff turnover, longer-term vision and plenty of time to train employees and groom successors. But they also have a complexity that differentiates them from their non-family competitors, and that is family business conflict for which resolution we mentioned above the most important factor was the relationship within the family.
- *Causes of failure of family businesses.* Observations suggest that the family businesses may be in fact rather fragile, with two-thirds not surviving the founders' generation. It is estimated that only 30% of firms survive into the second generation of family ownership, and just 15% survive into the third generation (Moore and Fialko, 1999). The rate of survival for small family business is lower, down to an average five to ten years (Perricone et al., 2001). One of the main causes of failure is considered the centrality of the owner-manager, since it makes difficult for the successors to take over effectively (Feltham et al., 2005). The owner-manager represents the main source of competences and capabilities in the organization and his/her leave may cause a relevant amount of knowledge, as would happen for key

employees (Wong and Aspinwall, 2004).

- *Capital structure.* The capital financing source change as the family businesses grow. Older and larger family firms use more equity financing and less debt financing than younger and smaller family firms (Coleman and Carsky 1999). These authors have proposed a classical model of life cycle family business financing. Graphically this model is shown in graph 2.

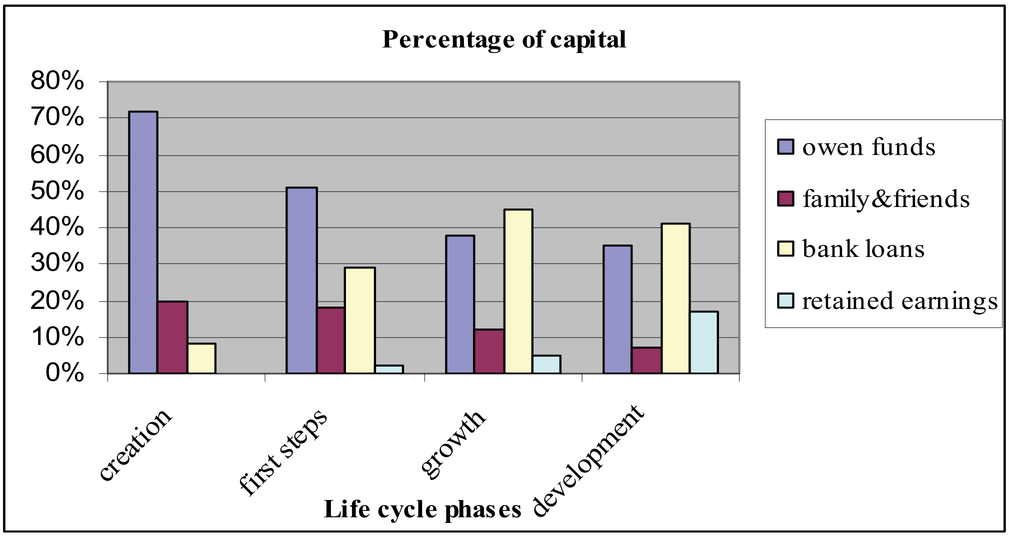

Figure no. 2. Life cycle financing of family business.

Source: Coleman and Carsky 1999

As we may see in graph 2, the primary source of capital to open the family business is supplied by owned funds. Only a small part of funding is raised through loans and these are mostly taken from family and friends of the founder and the least part comes from commercial banks' loans. In its first steps the typical family business is financed primarily through owned funds and bank loans which grow considerably in this stage of the life cycle. During the growth stage, loans become more important and it is in this time that a new form of financing shows up, the retained earnings. In the last stage, the development, the items of financing are the same as in the growth stage, with slight changes in their relative proportion to each-other. During development the items of third-party financing (commercial loans and bank loans) tend to decrease while the interior financing (retained earnings) tends to increase. In general from graph 2 we may notice that family businesses are reluctant to use debt financing, an observation supported also by the findings in the study of Gersick, et. al. (1997).

All the above topics of research refer to the studies made abroad. There is not any previous study in Albania and as such with this paper we try to contribute in a new stream of research: typology of individuals who chose to open a family business, which are their motivations and rewards.

Presentation of the survey

To add more value to this study and achieving accurate results, a survey was conducted, consisting in 300 questionnaires. The questionnaire was designed as simple as possible considering the sample it was directed to, it was easy to understand and to fill out.

The sample covered different cities in Albania: Tirana, Durres, Korca, Vlora, Elbasan, Lezha, Lac, Librazhd, Kukes, Saranda, Gjirokastra, Permet and Berat, selected based on size (large, small and mid size cities), geographical location, and the number of questionnaires for each city were proportionally split as per respective population. The selection of individuals for the survey was random. The people interviewed were of different age (over 22 years old), different level of education and different social categories.

The data gathered from the questionnaires are elaborated statistically. First, some statistical analyses based on frequencies were done and are presented below in this paper. Pearson Chi-Square Tests were also applied (which tests the differences in attitude of groups and categories and in the case that such differences are significant then the conclusions may be generalized for the population) to define whether the link between financial decisions and specific factors are important. Lastly, correlation coefficients were calculated. Where possible, some of the results of this analysis are compared with those of other countries, explaining convergences and divergences in the specific cases.

Based on the data gathered with the questionnaires, we analyzed the link between the initiatives of undertaking a family business with the level of education. As it may be seen in the graph below, the individuals with high education are dominating. Some factors explaining this behavior are: nowadays the opportunities for high education are increased (the number of students attending universities is noticeably increased from year to year); individuals with high education are more prone to start a business being in contact with information, innovations, etc; quality education has given them the opportunity of sustainable good remuneration, helping them in accumulating a reasonable capital for starting a business.

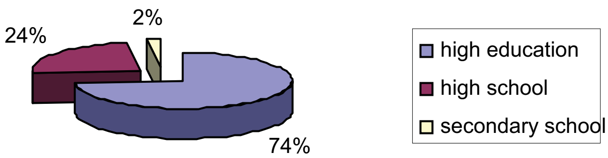

Figure no. 3. Family business and education level

The second statistical link studied was that between the initiative of starting a business and the level of income. Right at the start of the analyses, it was expected a positive correlation between these factors, because generally the individuals with high level of incomes undertake risk in starting a business as well as those who already own a business receive a lot of revenues. As it may be seen from the graph below the highest part refers to the families with monthly incomes in the interval 100.000-200.000 ALL, meanwhile the families with monthly incomes between 50.000-100.000 ALL come second, with not much difference from the first group. It is important to emphasize that families with monthly incomes more than 200.000ALL refer to the smaller part of the chart because these group of families are the smaller part compared with the other groups of families. It is important to emphasize that the last group with income less than 200,000ALL weighs less because families with this level of income weigh less compared to other families. Meanwhile within the group of families with monthly incomes over 200.000ALL, the majority (75%) have invested in family businesses (*calculated but not shown in the graphs*).

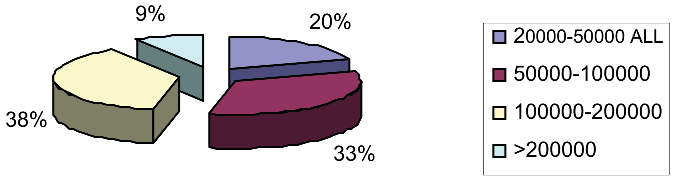

Figure no. 4: Family business and Income Levels

The last analysis of frequencies is the one between the initiative for undertaking family business and the age groups. Based on this analysis we come up with the same findings with similar studies in other countries *(Forsfält, 1999)* that the new age groups prone to start a business compared with other age groups. As it may be seen in the graph below the new age groups respectively 21-35 years old and 35-45 years old, dominate in regards to taking initiative of starting a business. If we do another categorization of age groups (as in graph 5-b), it noticeably dominates the 31-40 year old group. The domination of this age group can be justified by some factors, like: generally the new age characterized by the initiative for undertaken risk; usually the individuals that belong to the 31-40 year old group has a considerable accumulated capital, which is much needed to starting a business, because they have worked for 10 or more years; they have the proper experience, gained by the work they have done; they are in contact with the innovations in the market, and with our market needs for them as well.

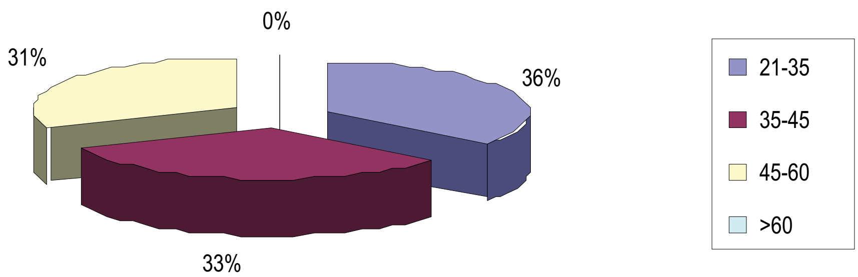

Figure no. 5a. Family business and age groups

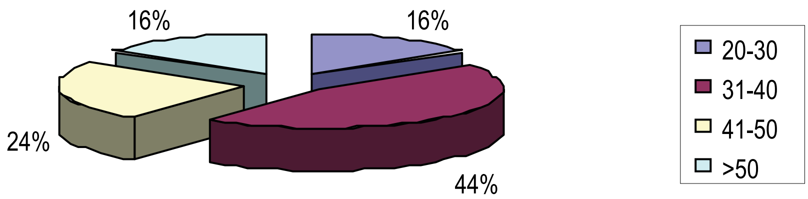

Figure no. 5b. Family business and age groups

The Initiative to start a business and the relation with the age groups

For doing a deeper statistical analysis, we did some Pearson Chi-Square tests, to define the main factors affecting significantly the behavior of individuals to start businesses. Correlation coefficients between some main variables are calculated and explained as well.

At the end of analysis we came up with the findings that the link between the incomes and the initiative to start family business, as well as the link between the individual's level of education and the initiative to start family business are not significant. Meanwhile, the link between the age groups and the initiative to start family business is nearly significant. In reality we expected this link to be significant (as it is noticeable at the analyze of frequencies above), but we think that this uncertainty comes by some main factors firstly, the market economy is relatively new, with a history of 18 years after the changes of the system at the 90s, passing from a centralized into a free economy. In this period the initiative for starting businesses characterized not only the young generation but the older people as well, because they had no chance up to that time to starting business; secondly, one of the most well known phenomena after the 90-s, was the privatization of public enterprises known as mass privatization process. The individuals profiting by this process were generally the directors, chiefs or land owners, who usually were older than 50 years old. Thirdly, the size of the sample may have affected as well.

Pearson Chi-Square Test

		Age-Groups
Initiative to start family business	Chi-Square	5,399
	Df	3
	Importance	0,14

So: **X^2 (3, N = 300) = 5,399 p< 0,14**

Referring to the similar studies *(Forsfält, 1999)*, there is a significant link between the age of individuals and their initiative to start new businesses. The above three factors explain the divergences in behavior.

At the end, we calculated the correlation coefficients for determining the level of importance between the initiative to start a business and some variables considered as age category, civil status, living location, incomes, education expenses and education level. As it may be seen in the table below there is an important link between the initiative to start a business and the incomes level (98%) and between the initiative to start a business and individuals living place (95%).

So, referring to the correlation coefficient there is an important link with the incomes category, and the positive sign of this coefficient means that as incomes level increase, the initiative to start a family business increases as well.

There is also an important link with the individuals living location, and considering the categorization of the living place in two big categories (Tirana and Other Districts), the negative sign of this coefficient mean that shifting from Tirana to Other District the initiative to start a family business declines. Some factors explaining this behavior are: the number of businesses in Tirana is higher, so the possibilities to start a business are higher as well; Tirana market is demanding, seeking for new products and services, taking into consideration that Tirana is the most economically developed city in Albania, the main public institutions are based in Tirana, so the citizens are closer to the information, projects, strategies, etc.

		Age Categ.	Status Civil Categ.	Living Place	Incomes Cat.	Education Expenses	Level of education
Personal business	Pearson Correlation	,021	,046	-,115(*)	,249(**)	,119	,096
	Sig. (2-tailed)	,718	,424	,046	,000	,088	,096
	N	300	300	300	300	206	300

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Main findings and conclusions

This paper is among the first to study family business in Albania. As a very rich field of research (more than ten different streams of research in family firms and their characteristics were presented in the literature review), there are many topics to cover. But trying to contribute in this field, and accepting the shortcomings of being among the first, we have chosen to study the links between initiatives to open family businesses and some socio-economic factors of individuals in Albania.

The study was based in the data gathered through a questionnaire distributed in the main cities of Albania. In total we had 300 observations in our sample. The data in the questionnaire was subjected to statistical frequency analysis, Pearson Chi-Square Tests and correlation coefficients calculations. Where available the results of this analysis were compared with results from similar studies in other countries.

From the group frequency statistical analysis we find that the group with the highest probability to open a family business consists of individuals with the following features: (1) they have had higher education, 2) they have moderately high monthly income level (between 50.000 – 200.000 ALL), and 3) they are between 31 and 40 years in age. We also give our assumption to explain for these findings.

Next we run the Pearson Chi-Square Tests to test for the importance of the relation between the dependent and independent variables. Running the Pearson Chi-Square Tests we find that the relation between income and initiative to open a family firm as well as the relation between education and initiative to open a family firm are not important. On the other hand the relation between the age group and the initiative to open a family firm is nearly important with a “p” value less than .14 that is very close to the threshold of .10.

The calculation of the correlation coefficient was made for the relations between the initiative to open a family firm and each of the following variables: age category, civil status, residency, incomes, education expenses and education level. This analysis found that the link between the initiative to open a family firm and the income level was significant at the 0.01 level (98%) and with a positive sign, while the link between the initiative to open a business and the living residency was significant at the 0.05 level (95%) with a negative sign which implies that individuals in Tirana are more prone to open businesses.

Being this a study among the first in this field of research we are also suggesting future possible extensions in topics like: family business rate of return compared to non-family business rate of return, social and financial problems of family businesses, inheritance and succession in family firms. Studying the family firms we have to keep in mind the high level of informality which more than every aspect of economy in Albania affects the family firms.

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