System Exploitation by Family Business

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ABSTRACT

This paper is part 4 of 4 parts series called Entrepreneur and Entrepreneurship. The scope of part 4 is to discuss "how does family business operate within the larger system: economy." As a larger system, the economy provides a fully functional super-infrastructure within which the family business submerges itself and exploits the system. This perspective stands at a contrast to the common argument that the market exploits the individual; here, the successful individual entrepreneur, who transformed the enterprise into a family business, exploits the system. In so doing, the entrepreneurial enterprise continues to develop and transform itself by moving from the informal sector into the formal economy. In doing so, the family business becomes more organized and structured. Internally, as a formal organization, the newly transformed family business undergoes continued restructuring in operations, finance, and management. The family operational and management boundaries also are redefined. We end the paper with the reflection on does a family transform itself into SME in order to continued search for value creation.

Keyword: entrepreneur, entrepreneurship, family business, Business Model Canvass, restructuring, change Management

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1.0 INTRODUCTION

The objective of this paper is to explore the nature of the family business as a system exploiter. Recall that the entrepreneur is a system explorer. He has no focus; he explores the system and seeks to exploit all opportunities that presented themselves to him. However, a family business is more organized. With more stakeholders in the enterprise, a family business cannot afford to roam the market. It has to stay focus on a particular line of business. In family business, the owner has the final say in which

direction the business should head (De Massis *et al.*, 2014); this is different from the firm where the interests of shareholders dictates the policy direction. This concentration allows the family business to be innovative in what it does through cost reduction and increase productivity. Cost reduction is made possible through the learning curve. In addition, another driver of cost reduction comes from the fact that family business always faces limited operating fund. Therefore, it must learn to optimize its resource utilization.

In this paper we will also see that the formal structure of the family business makes the business more conservative. It learns to be risk averse. It engages in the business that is has determined to be within its core competence and would avoid engaging in the line of business that lies outside of its expertise. This risk aversion forces the family business to specialize in a particular product line. More specialization means the introduction of a formal structure. The formality of organizational structure restricts the family owner's ability to act freely. The assets and capital accumulated by the family business begins to be recorded. Little by little, the family business grows into a formal SMS. As such the value creation slowly transforms into wealth accumulation. As the result, the formalization of the family business helps it to lift itself out of the informal sector of the economy and gain a better credit standing in the eyes of lending institutions. This transformation is part of the natural development of the family business.

Table 1: List of well-known family businesses

Aditya Birla Group	Jolly Time	Solaris Bus & Coach
Avantha Group	Koch Industries	Swinkels Family Brewers
Bombardier Inc.	Lundberg Family Farms	Tata Group
Cargill	Mango	Toyota
Chic Fil A	Mittal Steel	Trump Organization
Country-Wide Insurance	Nordstrom	Utz Quality Foods
Company	Panda Energy International	Wal-Mart
Dillard's	Raymond Group	Wawa
Ford	Red Bull	Wegmans
Glencore	Simon Property Group	WWE
Heineken		Kingfisher Airlines

Source: https://en.wikipedia.org/wiki/Family_business#cite_ref-EMJ1_18-0

2.0 THEORY OF FIRM AND FAMILY BUSINESS

A family business is an entity in the making; it comes is small, medium and large sizes (Carlock *et al.*, 2007). It is a business that is owned and operated by the family (Chakrabarty, 2009). As such people tend to look at it as a non-firm entity. However, this classification is misplaced. An entrepreneur is one engaging the market as a one-man operation. An entrepreneur answers to no one but himself. "Being your own boss" truly describes the entrepreneur. Answering to the shareholders describes the firm or corporation. However, in the family business, that is not the case. A family business owner must answer to the stakeholders in the enterprise. These stakeholders may be someone who contribute capital to the enterprise, a co-worker family

members, or someone who has a vested interested in the enterprise. There is a structural constraint in a family business (McGoldrick *et al.*, 1999). However, this structural constraint is no restrictive enough to make the family business quite the highly structured organization as the corporation or firm.

To gain a better understanding of the family business, it is necessary to reexamine the theory of firm. Since the family business retains some structure and organization, the theory of firm may shed light to how a family business may behave and what role it plays in the economy. This is not to say that the theory of firm explains the existence of family business. The theory of firm may provide some guidance to our understanding of family business by the mere fact that the family business has evolved into something more structure and took a form of an organization, albeit weak one. Like a firm it is structure. Unlike a firm, it is owned and run by a single head or a close knit of family circle. As such the issue of transparency and recordation sets it apart from the firm. As the result, its access to the capital market and lending institutions are also limited.

2.1 Property Rights

The firm is governed by contractual relationships among people within the firm. In particular, the relationship between the managers and owners of the firm determines the inner working of the firm (Jensen and Meckling, 1976). This relationship may be divided into two groups of people: (i) employer-employee, and (ii) company and shareholders.

Among the managers and owners of the firm, the relationship between managers and owners of the firm is defined contractually. There is no such a thing as a volunteer manager. All managers in the firm work for the firm in exchange for a compensation, i.e. salary, benefits, etc. This compensation is obtained through a bargaining process. The exchange of the bargain is memorialized into a written contract. The contract governs the relationship of the parties. Under such a setting, the managers work for the firm so long as they confer benefits to the firm. How does property rights theory come into play in the theory of firm?

The benefits secured through the contract relationship are considered private benefits to both parties. There are two level of analysis here. Firstly, the power to contract by the individuals: managers and owners of the firm, is considered a private property right. The power to contract is considered a fundamental right of the individual in a free society. One the parties exchange their bargains and memorialize these bargains in a written contract and agree to govern their contract by the terms of the contract, these bargains are considered property rights. For the firms, the benefits expected to be conferred through the work of managers in exchange for salary and other forms of compensation is considered as a property right to the firm. Secondly, the right to the position, title, treatment and the compensation package in exchange for the work contribution by the manager are considered property rights to the managers of employees of the firm. The function of the firm is the manifestation of the relationships between the managers and owners of the firm.

It is interesting to note that under this approach to firm theory, both managers and owners of firms hold opposing interest. Each party would want to maximize its

interest. In so doing, a gain in one comes at the expense of the other. This opposing interests are held together only by the mere fact that each party agree to the term of the exchange. This term of the exchange is made possible by the belief of each party that the disadvantage it bears is compensated by the benefits conferred by the other party. Under this circumstance, the contractual relationship between employer-employee defines the functions of the firm. Lacking mutual interest, this theory of firm tells us that the relationship between employer-employee is one characterized by continued conflict of interests. This type of posture or relationship characteristic is lacking in the family business. All stakeholders in the family business adopts perspective of share sacrifice and share benefits. *Shared sacrifice* is inculcated into each stakeholder because the enterprise is family owned and operated. The gain from the enterprise is commonly share; therefore, each stakeholder holds no opposing interests to the enterprise. Despite the fact that the family business owner may hold the controlling interests or dictate the terms of the business operations, each stakeholder agree to be bound by the terms of the family business. This agreement is secured through mutual consent by means of voluntary assent, not through a bargaining process.

A second group of actors under the property rights perspective of the theory of firm are the company and the shareholders. Unlike the contractual relationship between managers and owners of firm, the relationship between the firm and the shareholder is mutually inclusive. The relationship is bounded by a contractual stipulation. The firm holds a fiduciary duty to maximize the wealth of the firm and indirectly the shareholder's wealth. The shareholder's right in the firm, i.e. the ownership of the share interests in the firm, is a property right. That right is the right to receive benefits. As a condition of enjoying that right, the shareholder also bears the risk of loss. If the firm sustains an operating loss, the shareholders also bear the loss in accordance with its ownership of shared interests in the firm.

The characteristic of the relationship thus described among share holders in a firm is also lacking in a family business. The stakeholders in the family business generally are not shareholders of the family enterprise. For this reason, there is no such a thing as the 'family council' making decision through a democratic forum as some writers wanting the world to belief. A family business has a limited room for discussion in the decision making process; the decision is made in a semi-dictatorial fashion. Generally, the head of the family business or the owner makes all the decision. He/she calls the shot. Everyone else in the family has little input and must go along with the flow. Due to its small size and limited resources, and thus risk exposure to market competition is keen, a family business cannot afford being indecisive through 'forum discussion.'

2.2 Agency Cost

The theory of agency relating to firm was best described by Adam Smith who wrote that:

> "The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well

> be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company." (Smith, 1776[1973]).

The issue of agency relationship is closely related to the contractual relationship discussed under *property rights* as a theory of firm. Under the agency cost theory of firm, the firm's function is defined by the relationship between principal and agent. The firm is the principal and the employee or managers are agents. The interests between these parties are not mutually inclusive. The agents want to maximize their benefits. Maximizing agents' benefits means reducing the principal's benefits and *vise versa*. Under the agency cost theory of firm, in order to maintain the principal-agent relationship, the firm incurs certain costs. These costs include: (1) Monitoring expenditures by principal; (2) Bonding expenditures by agents; and (3) Residual loss by principal.

Monitoring expenditures are expenses involved in making certain that the agent or employees work according to the terms of the contract. Since the interests of employees are not the same as that of the employers, employers must monitor employees to make sure that the employees work for their money. The use of clock-in and clock-out to monitor work hours is a good example of how the principal monitor the work or hours used by agent. This monitoring system, i.e. time card machine, costs money. All expenses involved in the monitoring of the agent's work is called monitoring expenditures.

Bonding expenditures by the agent is the opportunity cost borne by the agent for attaching himself/herself to one employer. The agent is some times required to make certain expenditure to assure that the agent will not harm the principal. For instance, in a the agent is require is give a 30-days notice prior to quitting a job with the principal in order to allow principal an adequate time to look for a replacement; if the agent fails to given such a notice, a certain cost may be imposed on the agent. Another example may be a case involving the requirement of the agent to make a security deposit for the issuance of certain tools related to the job, i.e. equipment, uniform, vehicle, etc. For the agent, these costs are considered bonding costs. These costs are not bond by the principal. They come out of the pock of the agent.

Residual loss occurs that the agent is engages in a divergence. It is a mistake to think that an employee works every minute of the hours in the 8-hour shift. The employee's divergence from the work reduces productivity. The loss productivity in the job has a cost. This cost is called residue cost. It is not tabulated by any one, but the loss is there to be sustained by the employee (principal). For example, the work day ends at five o'clock. However, the agent may take fifteen minutes to prepare to leave. The loss of fifteen minutes in a lot of 20 working days per months means 20 x 15 = 300 minutes or 5 hours per person per month of work hours lost. For a company with 100 employees, the residue loss is 5 x 100 = 500 hours per month.

Can *agency cost* theory be used to explain family business? Most employees of the family business are close relative. If the family business does not use relatives, because of the generally small size of the enterprise, there is an ease of control of all employees; therefore, the issue of monitoring cost is a minor issue. As for bonding cost by agent, this cost may exist. Certain small enterprise forces their employees to buy uniform whereas larger firm would provide free uniform. Therefore, *bonding expenditures* by the agent may exist in family business. Lastly, *residue loss* may not be a significant issue. Most family enterprises are small. The small size of the business allows the employee to be closely supervised and, therefore, have less chance to engage in divergent activities. Under this circumstance, the cost would be borne by the principal as monitoring cost. However, as a small enterprise, this cost may be eliminated altogether through acculturation of the employee to internalize the family business as a mutually beneficial enterprise for both agent and principal.

2.3 Behavioral Theory Approach to Firm

The behavioral theory of firm outlines four overarching themes which influence and govern the firm's function: (i) information, (ii) efficiency, (iii) implementation, and (iv) design. These four factors are bounded by cognitive constrains. There are four cognitive limitations: (a) constraint, (b) authority, (c) routines, and (d) bounded rationality. Each of these terms will be explained in the context of a firm and how they are related to the family business.

Information is defined as interpretive data or data that meaningful significance had been attached. The function of the firm depends on the collection, storing, retrieving and use of information. Information that helps the managers and the firm make decision are called useful information. In order to be useful, the information must be relevant, up-to-date, and accurate. Today's firms are inundated with information. Information overflow slows down the decision making process because the decision makers have to spend time to sift through the pile of information and select ones that are relevant, accurate and current. In the family business, information does not play an important role as it is in the firm. A family business is considered a routine business. Its small size makes it dependent on the market movement. The information about price of competitors and the cost of input are the micro-level information which is relevant to the family business. Macro-level information, such as interest rate, monetary policy of the government or the growth of the GDP would have little use to a family business.

Efficiency is the second factor that drives the firm's function. Efficiency is defined as the use of any given level of resource or input to achieve the optimal level of output. Note that the term "optimal" is used instead of the term "maximum." Maximum connotes an absolute term. One cannot speak in absolute term when dealing with production output of productivity because the firm's operators or the firm is constantly faced with constrains. These constrains prevents the firm from achieving its objective in absolute term. Moreover, every production process sustains a certain level of loss or inefficiency. Therefore, the more appropriate term to use when discussing efficiency is *optimum level of output.*

Despite its size and availability of resources, a firm is also faced with the issue of limited resources. The corporate objective of all firms is to reduce cost and drives the increase in productivity. The effectiveness of the firm's management capacity is measured by its ability to manage its resources efficiently. The constraint of the firm is defined by its annual budget. The use of an annual budget by the firm signifies the reality that resources are finite. However, since the interests of the firm and the managers, under the contractual relationship arrangement, is divergent, the firm always face an uphill battle to drive down cost and increase productivity since employees would always engage in divergence.

In family business, efficiency is a key driver for achieving success in the business. Family business generally operates with its own capital. With little to no access to the conventional lending or capital market, the family business is left to fend for itself. Faced with limited resources, the family business always strives to reduce cost or increase productivity for each dollar spent. Wasteful spending is generally nonexistent in family business. Success leads to increase in saving, and the accumulation of savings leads to business expansion. This model of the family business seems to be an unalterable reality.

Design and *implementation* generally go hand-in-hand. Design refers to the planning and implementation refers to the putting the plan into practice. In the firm setting, design and implementation generally is formalized. There are four functions of management: planning, organizing, staffing and controlling. Design fulfills the planning function of management. Implementation fulfills the remaining three functions. Implementation is a broad term that includes organizing. Organizing is to prepare the resources for use according to the corporate plan. Staffing involves the organizing and assigning of people within the organization to undertake tasks for purposes of carrying out the firm's objective. Controlling involves the overall management of the activities so tat all firm's activities are within the prescribed plan.

In the family business design and implementation are not as formal as in the corporate setting; it has a specific purpose in serving the creator's interest (De Massis *et al.*, 2012). A corporation (firm) may have a written business plan by which the firm's management team follows. Such a formal guiding document may be lacking in a family business. This informality is part of the weak structure of the family business. This weak structure is an inheritance from the previous developmental stage of the business: entrepreneurship. Although the formal business plan may be lacking, a family business may follow an unwritten and less formal plan for its operation. For instance, a family business generally confined itself to a certain line of business and stays focused on that particular line of products. This limitation of business scope is not written any where, but it is understood that the family business would do only a certain business and will not blindly follow any opportunities that may present themselves. This is the difference between a family business and an entrepreneurship.

The above four factors governing firm's behavior are circumscribed by the cognitive constrains. These constraints include (a) constraint, (b) authority, (c) routines, and (d) bounded rationality. Both firm and family business are faced with constraints. These **constraints** come in many form. External to the business, the constraint may exist in a form of regulations, legal prohibition or requirement that

draws the boundary beyond which the business may not cross. Within the organization the firm may face the limitation of resources. These constraints are faced by the firm and family business.

Authority is defined as the use of power. Power can be used only by people who have the mandate to wheel it. In the firm, power is defined by the hierarchy of the organization. Each level of management is granted a certain degree of power or level of authority. In a family business, the authority generally rests in one hand or few individuals. The existence of authority allows members of the organization to restrain its free will and to conform its conduct to a certain standard. The creation of standard and maintaining compliance to that standard allows the organization to function smoothly. To this end, both the firm and family business do not differ.

However, on the issue of authority the firm may differ from family business through the curse of size. As the firm grows so grows the complexity of its bureaucracy. As the firm becomes more bureaucratic, inefficiency sets in. As the result, one of the four factors that permit the firm to function smoothly is hindered. This curse of size does not present itself as a threat in the family business because of its small size, the tendency of a family business to become bureaucratic is almost none. The small size of the family business blesses it with the efficiency of size.

Routines are the habitual ways of doing things in the organization. It is considered as a potential hindrance to efficiency because routines lead to stagnation and organizational lethargy. Routine is the enemy of inventiveness. Without inventiveness, innovation cannot exist. Without innovation, competitive advantage is lost. For the firm, routines may lead to inefficiency because members of the organization tend to accept routines and become resistant to change. When that happens it is difficult for the firm to implement new policy because changes or new policy threatens the existing order within the organization. For the family business routines may work wonder. Since the organization is small, routines allows the organization to operate more efficiently through close monitoring and adjusting processes to achieve optimal productivity. Can routines lead to stagnation in family business? No, stagnation is not a likely outcome in family business because routines allow the family business to reduce cost through the learning curve. The hands-on decision making of the family business prevents routines from hindering efficiency.

Bounded rationality is a cognitive limitation for both the firm and family business. Bounded rationality is defined as the use of limited knowledge in making decision. No organization may have access to perfect information or every element of information needed to make a decision. This limited is true for both the firm and family business. However, the adverse effect of bounded rationality may be keener in family business than in a firm. A firm has access to information at a greater breadth than a family business due to its formal structure and availability of greater level of resources. Inside the firm, there is am army of individuals, such as executives, managers and workers who contribute to the knowledge base of the firm. In addition, the resources of the firm allow it greater access to information available in the market. By comparison, the family business has limited resources and its access to information is likewise limited.

2.4 William's Approach: Asset Specificity

According to William's approach to explain firm, firms produces certain products because it owns a certain type of assets (William, 1981, 1981, 1983). The production of products by firm is asset specific. Firms cannot easily change assets and change production. On the contrary, firm tends to become fixed with its assets and produce whatever the assets can produce. For that reason, the asset specificity leads to specialization. Specialization leads to efficiency through the learning curve effect. As more firms specializes in certain production according to its assets ownership, economies of scale is possible to achieve. Economies of scale is defined as the reduction of per unit cost with an increase in quantity produced. This scale economies allows producers to produce more at lower cost; as the result, firms becomes more competitive. For this reason, competition drives down price and benefits both the firm and consumers.

The family business also has asset specificity (Walczak and Voss, 2013). The family business is endowed with a certain assets; these assets can produce only a certain product. For that reason, the family business is also compelled to specialize in certain product. However, this specialization, unlike on found in the firm, does not lead to economies of scale. In order to achieve economies of scale the production must reach and go beyond a certain critical quantity. The family business can never reach that production level. Instead specialization in the family business leads to the development of *high-end quality product* or *customer made* products because the family business cannot in engage in mass production. This niche effect is a development of asset specificity of the family business.

3.0 SUCCESS FACTORS IN FAMILY BUSINESS

3.1 Necessity and Opportunity for Family Business

This section explores the relationship between necessity and opportunity as the drivers for the success and failure of the family business. Recall that family business is not as formal and not as structured by the firm or corporation. Being semi-structured, the transparency of its operations and hence profitability is not completely verifiable. The difference between self-sustaining and profiting is blurred in family business. There is no pressure for the family business owner to pay dividends to shareholders. Therefore, the family business owner is under less pressure to success unless forced by the competition in the market. If being coerced by market competition, the family business owner will react instinctively by springing to action. All its energy and entrepreneurial spirit seem to have come back to life again and work towards a single purpose of survivorship.

The necessity to maintain the family business afloat in the market is one factor that drives the family business to success. Success at one level comes from not being eliminated from the market. Survivorship or breaking event is a form of success. Breaking even may not be seen as success in the corporate world. However, for the family business surviving the market by meeting all one's fixed costs and expenses is the first level of success. Profit is considered as a form of excess rent derived from performance that had been outstanding in comparison to market forces.

Necessity in the family business comes from its capital structure. The capital of the family business is constrained by its limited access to the capital market or formal lending institutions, such as bank. This limitation stems from the fact that the family business is the outgrowth of the entrepreneur. An entrepreneur is defined as someone who takes risks in exchange of uncertain income. This characteristic of the entrepreneur still remains as a stigma for the family business even though it is a successor in interest of the entrepreneur. Lending institutions, therefore, sees family business as a risky enterprise. Being conservative and risk averse, banks and other lending institutions may recoil from family business. However, this may later be proven that it is a misperception of family business.

Despite the fact that family business is an outgrowth of the success of an entrepreneur, the family business is quite different from the risk taking entrepreneur. A family business is more structure and is confined to a particular enterprise or business line. This focused operation of business makes the family business risk averse and conservative. At the same, the entrepreneurial spirit and inventiveness of the entrepreneur remains alive in the family business. These two characteristics of the family business make it resilient in times of economic crisis. In time of normal growth, the family business seeks and exploits market opportunities.

3.2 Survival as a Recondition for Success

Like the entrepreneur who looks for short-term gain, most family businesses also have shorter horizon. Family business has limited resources; therefore, it operations is also confined to a particular geography and product line. It cannot afford to over stretch its resources. Therefore, long-term planning that requires the use of resources seem impracticable for family business. The focus is on short-term gain. The strength of short-term gain focus allows the family business to stay focused on transforming its resources into value. It can produce more and better products by not spreading itself thin in the market. Family business, therefore, has very thin portfolio. Its success depends on the performance of each portfolio element.

The weakness of a short-term outlook does not allow the family business to meet the challenges of the changing market. The introduction of new technology, for instance, may pose a threat to the family business. Technology allows mass production and a reduction of price. Being handicapped by resources, family business would not stand a chance competing against giant corporations. As the result, in order to survive in the market, family business has to turn more inward by becoming niche producer. The family business turned into value creation through specialization that differentiates it from mass production. Specialty and boutique stores are this type of response to mass marketing by larger corporation. To some degree, this response mechanism has worked well for family business.

3.3 Innovation by Necessity Not Creativeness

Innovation means originality or making existing products more effective (Frankelius, 2009). Innovation has long been relegated to inventiveness. However, in family business, innovation may have another source of inspiration: necessity. Family business always engages in a fight for its survival. A family business does not plan to

unseat the competitor because it does not have unused assets or underutilized capital. All its assets and capitals are always deployed at full capacity. Success of the family business depends on its ability to turn idled assets to value creators. Family business is at the pulse of the market and knows what are the needs of consumers, and, thus, could serve the market more readily, albeit in smaller scale than efforts exerted by more organized firms (Maraville, 1992).

The capital structure of the family business constrains its ability to act freely. By not being able to access the conventional lending institution, it relies of its own savings. This type of limitation forces the family business to be resourceful. Resourcefulness drives the family business to seek optimum productivity to ensure its survival in the market. The stakeholders in the enterprise further impose pressure on family business owner to be more vigilant in value creation. The family business becomes innovative in its value creation through cost reduction and better business process or methods in order to increase productivity under the condition of limited capital.

Necessity is the driver for success in family business. Success comes from value creation. Value creation results from innovation. Innovation is the fruit of being resourceful in the limited "source" possessed by the family business. This condition keeps alive the entrepreneurial spirit in the family business owner. However, unlike the untamed spirit of the entrepreneur who takes any opportunities that come his way, the family business owner is more selective in choosing the opportunity. It wants to survive the competition. However, in surviving that competition, the family business would engage an opportunity only if it falls within its core competence. There is no element of inventiveness in a sense of a free spirit of the entrepreneur. In place of inventiveness, innovation in the family business is replaced with a sense of necessity; the necessity to succeed. Success is defined as surviving the competition and living on to fight another day in order to claim its place under the sun among other enterprises in the market.

3.4 From Value Creation to Capital Accumulation

The striving for survivorship of the family business exceeds expectation when it survives and shows a profit. In fact, many family businesses, given the right opportunities and economic condition, survive the competition and succeed. Success requires more organization in the family business. Specialization in certain skills may be required. What it lacks inside the organization, the family business may look to outsourcing. In time, the family business may develop its organization into a more formal structure to meet its current needs.

If the organizational management is successful, the family business is further assured with further success in the over all operations. As the organization growth, its operations create value and accumulate capital. The earliest form of asset accumulation may come in a form of cash savings in the bank. As its cash account grows in the bank, the family business takes its first steps towards transforming itself from being a member of the informal sector to a formalized business with verifiable accounts and positive cash flow. The perception of the banks and lending institution about family business at this point changes.

With capital accumulation in the bank, the value creation process continues. However, the family business begins to create intangible value. Its products and services bought and sold in the market are considered tangible. The new credit worthiness that lending institutions conferred upon the family business as the result of the accumulated capital is a new form of value creation: *intangible asset*. As the business expands and the family business creates more alliances with other businesses, hire more people, and expand its customer list, the growth of its intangible assets begins to take shape. The consequence of this success puts a greater pressure for the family business to create more structure and tighten the lose ends of the organization. The growth of such bureaucracy threatens and suffocates the entrepreneurial spirit inside the family business owner. A successful family business owner must know how to keep alive its innovative and inventive spirit of the entrepreneur, and knows how to release it when it is needed.

Family business aims to create value more than adopting the conventional firm's aim of maximizing profit. The idea of maximizing profit comes from the fact that the firm's management, especially publicly trade firms, holds the fiduciary to maximize the wealth of the shareholders. However, a family business owner does not face such requirement. The objective of the firm is to create value. This objective comes from the fact that the family business is small in nature. As a small player in the market, the family business always faces competition. The threat of failure imposes upon the family business owner a constant pressure to survive. One means to survive comes from value maximization.

Value maximization has its origin in value creation. Value creation comes from the creative spirit left as a residue in inventiveness from the time when the family business started out with an entrepreneur. If the behavior and character of family business is traced back to the source of its value creation, one would found that value creation comes from the inventiveness thinking of the entrepreneur. This character survives through the structural transformation from the entrepreneurship into a more formal structured of family business. Faced with limited resources and the limitation of scope of the business, the family business must rely on its ability to be creative. *Creativity* is defined as the expression of idea into concrete business model or products that differentiate the enterprise in the market as being unique. This uniqueness, achieved through creative spirit of the entrepreneur embedded in the family business owner, helps the family business grow. This growth comes from the creation of value. Creation of value is achieved through the inventive spirit of the entrepreneur-family business owner. This inventiveness is driven by the urge to remain afloat in the market. The need to survive in the market and the pressure to maintain at least the same level of benefits to all stakeholders in the family enterprise are the key drivers that push for value creation in the family business. The success of the family business through value creation differs significantly from the firm's drive towards profit maximization.

3.5 From Family Business to SME

The continue growth of the family business will ultimately transforms the business into SME. The formalization of the organization is ore structure. Decision makers in

the organization are readily identifiable. The decision making power is less concentrated and the decision making process is more systematic and less arbitrary. Many successful SMEs are family owned because SMEs evolved from family businesses.

What happens to a failed family business? There are two possible outcomes for a failed family business: either it reverts to an entrepreneurial enterprise in a scaled down form or it goes out of business altogether. Since the family business evolves from an entrepreneurial enterprise, the natural course of development in case the family business fails, the owner would divest from the failed enterprise and go into an entrepreneurial mode. In the entrepreneurial mode, the formal family business owner could no long afford to have staff on payroll. For that reason, the failed family business leads to the dissolution of the unit and is reduced to a one man operation. For the former stakeholders in the family business, they have the choice of waiting for the entrepreneurial enterprise to pick up speed and grow again or look for other source of income. Generally, people do not put any hope of a failed enterprise to be revived. The family business owner is left alone. The entrepreneur emerges again.

Another option is for the family business to divest completely from further activity. All stakeholders including the family business owners may divest themselves from the failed activities and seek other source of sustenance. Under this option, the family business no longer exists and the entrepreneur is also terminated. It is far too familiar to see cases where the owner of the failed family business closes the enterprise and decide to work for a salary from someone else. The decision is a equally wise as if he had decided to pursue the business alone as an entrepreneur.

3.6 Survival and Success for Family Business

Success of the family business depends on its ability to survive the competition in the market. There is nothing that a family business can do a firm cannot do. There might be some differentiation characteristics in the delivery and packaging of the product that the family business may differentiate itself from the firm. Being small, the family business can afford to give attention to details when interacting with the customers.

In order for the family business to be successful, it must first survive the competition. This is different from a large firm. A large firm can sustain loss for several operating period. Its access capital allows it to ride through the roller coaster of the business cycle and market down turn. For the family business, lacking such a capital endowment, it cannot survive a market down turn for long. A family business is vulnerable to market shift and changes.

Assume that the family business survives the competition it is on its way to become successful. For family business, success is defined as the ability to sustain itself. Growth comes from production product that allows it to meet its current obligations. These obligations include salary payment and other operating costs in the enterprise. Since the family business does not have access to the conventional form of lending, it is not burden with debt. Since its operation is small and retains smaller asset, its asset turn over is generally higher than that found in larger firm in similar business. The key to survival is innovation. By being innovative in its production and

sales, family business can some times outmaneuver the competition. Its limitation in size and resources are used as asset through innovative thinking.

4.0 STRUCURAL CHANGES AND CAPITALIZATION

4.1 Capitalization for Family Business in SMEs

The success of the family business would lead to the accumulation of capital. Generally, capital accumulation in family business is in a form of current asset, i.e. cash not the bank. However, before coming to that point, at the start family business starts with its own capital.

The capitalization of family business comes from personal savings and excess profits of the previous stage of development, i.e. successful entrepreneurial enterprise. Since the entrepreneur is one person and the excess profit from the activity of one person is generally small in comparison to that of the corporation. For that reason, the start of the family business is generally small.

In time, the family business would growth. The successful family business would grow into SME. At that stage, the success of the family business may show as recordable and verifiable source of capital kept in the bank; thus, the family business may change its nature of capitalization. For further expansion of the business, the family business may now access the conventional lending market. One distinguishing feature between a family business and the SME is that the SME is more formalize in structure and has easier access to capital; therefore, capitalization by the SME may be relatively easier than that found in the family business. Secondly, SME is not considered as part of the informal section. Although it is true that SME evolved from as successful family business, the formality of SME generally makes its claim of success, asset ownership and profitable operations verifiable. Moreover, the formality pf the structure of the SME makes it more credible than a family business which is still a one-man show except with more stake holders in comparison to an entrepreneurial enterprise.

4.2 Formality and Structure of Family Business

The stricture of the family business is informal and less bureaucratic. This structural informality is both a blessing and a curse. It is a blessing because less structured in the family business allows decisions to be made efficiently; as the result, the business can respond to the market more quickly. The informality in the family business may be seen as a curse because it may not be predictable and nonsystematic.

In a corporation, policies are clearly written. However, in the family business policies are generally made as events unfold. The arbitrary nature of the family business makes it unable to attract talents. Without attracting talents, the business has a limitation for innovation and future growth. The creative energy in the family business is limited to its inner circle. This small circle reinforces the culture of family business for being less formal and less structured; therefore, it is generally seen by outsiders as unpredictable.

The characteristic of the entrepreneur still surfaces in the family business. As an organization, the family business is autonomous. It makes its own plan and operates according to its own needs and objective. The stakeholders must accept this

arrangement in the family business. Employees, for instance, must be able to deal with the arbitrary conduct and unwritten policy or *ad hoc* policy of the family business. Although decision may be made quickly, since there is no rule or restrictions, this quickness in decision making may lead to arbitrary action and abuses by the family business owners. In fact, most labor abuses in the developing countries, i.e. contract manufacturers in the garment industry, is the result of the arbitrary and non-systematic decision and conduct of the family business owners. The arbitrariness of the decision making process by the family business owners sometimes breaks the norm of decency in the case of labor abuse.

4.3 Access to Capital

The weakness of a family business is its limited access to capital. As the name suggests: family business, it derives its capital for the business from its own savings and that of its family members. Generally, family business does not have access to the conventional capital market, such as bank loans or the stock market. It does not have the luxury to ponder the question of whether to pursue its operation by debt or equity.

Family business is generally financed through sweat equity of the owner. Ownership is generally kept in few hands among family members. In addition, the mainstream economy generally sees family business as part of the informal sector because of its structure is not well defined. For this reason, conventional lenders are not attracted to family businesses. However, this person is changing.

The effect of limited access to conventional capital has kept family business generally small in size. Although there are successful family businesses that are large, those large family businesses are not the majority. Limited access to capital has put a limitation on the growth and expansion of the family business.

4.4 Risk Taker & Risky Enterprise Unattractive to Lending Banks

Family business is an outgrowth of a successful entrepreneur. As such, it is seen as a risk taker. Risk taking is deemed unattractive for lending banks because risky activities represent potential default or non-performing loan (NPL). However, family business may be misinterpreted because being a small enterprise with limited fund it curtails its risk exposure through business concentration. Although the family business grew from the success of an entrepreneur, it curtails its risk as the business involves addition stakeholders in the enterprise.

Every business is a risky enterprise. The family business is not a particularly risky enterprise. The risk of a family business is not the same as that found among entrepreneurs. An entrepreneur has no sense of direction. The objective of the entrepreneur is to make money by whatever activities. To that end, an entrepreneur is a risk taker. Banks generally do not lend to an entrepreneur without collateral.

As an enterprise, the family business is also classified as a risky enterprise. However, generally a family business cultivates a working relationship with its bank and is considered a loyal customer by the bank. The bank also monitors the financial transactions of the family business and can readily assess the risk of this customer. Traditionally, family business is not attractive to lending banks. However, that

perception is changing in today's economy with more and more family business playing a significant role in the economy. This changing perception is particularly true among the developing economies.

4.5 Collateralization of Wealth and Value

Lending institutions shirk from lending to family businesses because they lack the formal structure of the corporation and tend to lack operational record. However, as the family businesses become sophisticated, they change the place for safe keeping their money from under the pillow to bank accounts. The money in the bank may be used a collateral for future capital need.

Banks are ready lenders to family businesses. The safekeeping of the wealth that the family business accumulated from its operation has now created *value* never before though possible: potential borrower with good credit standing. This new status is an intangible asset possess by a successful family business that uses the banking system.

The valuation of the family business is not confined to its excess profit alone. The location of where the money is kept also contributes to its further success. For the family business whose success is constrained by its limited fund, the money in the bank can now serve as collateral for bank loans needed for expansion. Profit leads to growth and growth leads to success. Profits come from the operation of the business. The excess profit is kept at the bank. The funded account may be used as collateral for loans when the business needs to be expanded.

4.6 Changing Perception by Banks towards Family Business

There are many factors and development that had made banks seeing family business in different light in recent years. Successful family businesses begin to accumulate wealth. This new wealth is kept in banks. Banks could notice the movement and growth of assets of family businesses. The perception that family businesses are part of the informal sector begins to change since the money of these businesses are kept at the bank and could be verified.

As banks change perception towards family businesses and extend credit to these businesses, they could now have access to conventional loans. However, accessing conventional banking products does not mean that the chance of success among family businesses would increase. In fact, access to the new capital market means that the family business is expose to a new for of risk: *debt management*. With new capital it wants to expand. As long as the family business expands within its field of core competence, it would do well. However, as soon as it ventures out of its field of expertise, it spreads itself thin and is subject to market risk. Such a risk may have a negative impact on its overall operation. Mean while the recent access to new money in the bank becomes a burden. When this burden becomes overbearing, the risk of default sets in. This risk exposure is the curse f success.

4.7 Value Creation vs. Wealth Creation

Value creation and wealth creation are not the same. Value creation defined as products and activities that lead to the increase the successful operations of the

enterprise. Innovation is a value creation. Value creation is the cause for the success of a business. Profit is the effect of value creation. Wealth creation is defined as the maximization of profit. This is the tangible assets of the firm. Family business is preoccupied with value creation. Wealth creation is indicative of the firm where profit maximization is driven by the fiduciary obligation by the owners and managers to maximize the wealth of the stockholders.

In family business, value creation is important because it assures the family business owner that value is an investment in the business. If the value comes from innovation, it is an investment in the business because the innovative activities differentiates the family business from competitors and helps it to secure good will in the market. This good will is long lasting and it helps create an identity and positioning for the family business in the market. For instance, a family business may achieve this innovation through customer service or product delivery. These features of the business produce a certain image for the business. The positive image is valuable to the family business. In time of keen competition, this good will may help retain customers through loyalty as a recompense for past services. The family business seeks profit; every business seeks profit. However, profit is the effect of value creation. Value creation is the primary causation for the success of the family business.

4.8 Value Creation in Family Business

Value is defined as the causation of wealth. Value is created by the combination of tangible and intangible assets in the firm. These assets are put into the productive process to create products and services. However, unlike firms that tend to be impersonal, family business tends to be more personalized in their delivery of products and services. For instance, family business may put greater emphasis on customer service with the aim of creating good will in customers. This good will is a value created in the transaction, but the effect of this good will is long lasting. As the result of the good customer service in one transaction, the customer may return for future transaction. This is an example of value creation.

This is not to say that all family business has good customer service. Due to its small size and lacking the expertise to train its staff, in fact a family business may fail in customer service. However, that type of family business would tend not to create addition value in the transaction and would most likely fail in the business. In general, value creation in family business creates a lasting intangible asset for the organization.

4.9 Wealth Creation in Firms

Wealth is defined as the realization of profitable sales. It is not enough that the organization makes the sales, but the sales must be profitable. Wealth creation in the family business is achieved through sales transaction just like wealth creation found in firms. In firms, wealth creation also comes from other sources, such as accumulation of assets and human resources in a form of human capital.

Physical wealth is defined as the tangible assets owned by the organization. The firm generally has larger quantity of physical wealth in a form of machines and

land. The physical wealth may be transformed into cash after their productive life. During their time in service, these assets may be put into the productive process to produce goods and services that could be sold and make profit for the firm. After they are retired from service, they may be resold in the secondary market. Family business also possesses physical wealth but not in great quantity because physical wealth depends on the capacity of the organization to acquire them. This capacity is limited in the family business since the family business has limited amount of cash.

Human capital accumulation refers to the combined knowledge and experience of people within the organization. These combined knowledge and experience of the people can contribute to the creation of wealth within the firm. Human capitalization is a common phenomenon in firms. Within its formal structure, well defined policy and predictable earnings, firms generally attract talent from the labor pool. Family businesses, on the other hand, generally do not have the advantage of human capitalization. Due to its informal structure and lack of resources, family business seldom attracts talents from outside. The family business owes its value creation and success to its innovation. The innovative capacity of the family business depends almost exclusively on its owner. The stakeholders in the family business, such as employees and staff, generally do not contribute to the innovation of the organization because they do not participate in the decision making process, i.e. how may resources be utilized.

4.10 Transforming Value into Wealth

As defined in 4.41, value is the causation for the production of wealth. Value is the independent variable that produces wealth. As such value is the potential for the creation of wealth. Wealth is the actual sales and profit. Value is transformed into wealth by the combination of the tangle and intangible assets in the organization to produce sales. Tangible assets include labor and materials. Intangible assets include the good will of the organization, such as innovative process, brand, and reputation of the firm. Value is transformed into wealth by turning the existing assets in the organization into consumable products and delivering that product to consumers through a sales transaction.

All businesses have stored value. Both firms and family business rely in value to create sales and profit. However, firms out greater emphasis on wealth creation more than family business. This intense emphasis on wealth creation comes from the fact that owners and managers in firms, particularly those that are publicly traded, are under fiduciary duty to maximize wealth. This requirement of wealth maximization forces firms to become more systematic and highly specialized in whatever they produce. The drive to maximize profits forces firm to look for production efficiency; for example, specialized firms attempt to realize economies of scale. Economies of scale allow firms to reduce price per unit and, thus, firms are able to compete on the basis of price. With price reduction and with the intensity of wealth maximization requirement, owners and managers in firms are more interested in short-term gain. Family business, on the other hand, puts greater emphasis on value creation.

4.11 The Role of Accounting and Finance in Family Business

Accounting is the recordation of financial transaction in the organization. Finance is the management of the money, investment and assets in the organization. In a firm, these two functions are important for the firm's resource management. The performance of the firm is evaluated on the basis of its financial management. The finance of the firm is derived from the management of the firm's accounting. These two functions are interconnected. Without accounting, financial manager would not have the data it needed to analyze and make recommendation to the management. Without finance, accounting would not have the urge to produce sensible data. Accounting is the supplier of data, and the finance department is the down stream user of the data. These two functions do have the same significance in the family business.

What is the role of accounting in family business? The management of income and expense in the family business is generally left to the owner of the business. This practice is one of the distinguishing characteristic of the family business. All monetary issues: income and expense, is managed by the owner. While the firm's accounting is subject to audit. In particular, publicly traded companies are required to have transparency in accounting practices. However, in family business due to it small size and informal structure, accounting practice is generally unstructured and not transparent. There is not periodic audit not is there internal control procedure for accounting practices within the organization. This is one of the reasons why lending institutions traditionally see family business as unattractive because the accounting practice of family business lacks standard and independent evaluation.

What is the role of finance in family business? Finance management depends on accounting practice. Since accounting practice in family business is non-transparent and generally lacks systematic management, the finance of the family business is equally inept. Among the successful family business, there might be a semblance of structure and system in the accounting and financial management in the organization.

4.12 Valuation of Firm vs. Valuation of Family Business

Valuation is the estimation of the monetary value of the subject being evaluated. In this case, it is a business. How is a business valuated? The valuation of the firm is a straight forward matter. It is sufficient to long through the financial statements of the firm and make a fair assessment of how much the firm is worth. In fact, for publicly traded companies, firm valuation is made all the time through stock price calculation, particularly the use if price-to-earning (PE) ratio to assess the value of the firm whether it is worth the price per share being offered in the market by comparing the price per share to the among of dividends paid per share of stock.

In family business, it is not so simple because there is not formal stock or share for the assessor to determine. Secondly, a significant level of success of the family business comes from its good will in the market and customer loyalty or innovative process in its business. These success factors of the family business are all valuable; however, it is not easy to affix a numerical value to them. For that reason, the valuation of the family business is not the same as the conventional method used for formally structured firms. One must look at the past performance and future potential

of the family business in light of its current standing in the industry and customer base.

5.0 BOUNDARY OF THE FORMAL AND INFORMAL SECTORS

5.1 Shared Sector Boundary: Formal & Informal Sectors

Family business has share boundary between the formal and informal economies. There might be extreme cases where the boundary between the formal and informal sectors is clearly defined. For instance, the level of organizational complexity is clearer among members of the formal sector. Large corporations and banks, for instance, have clear policy, and members have easily identifiable positions and responsibilities. However, these organizational features are not clearly defined or identifiable among members of the informal structure. In the most extreme case, an entrepreneur in the informal sector who "hustles the street" may not carry a business card clearly identifying himself and his business. This is not to say that he engages in illegal activities nor does it say anything about his professional competence. In fact, such an entrepreneur may know more than a well educated and trained manager in some large firms.

Despite their differences, there are some shared boundaries between the formal and informal sectors. In the manufacturing industry, established manufacturers may depend on family business or entrepreneur to supply raw materials or serve as intermediary for the finished product in the market. This symbiotic relationship between members of the two sectors cohabitate in the business environment and mutually benefits one another. Trade brokers, for instance, play a significant role in linking the manufacturer and its final consumers via the brokering by an entrepreneur. This distribution channel symbiosis is but one of many examples.

Not all contacts between the formal and informal sectors leas to mutually beneficial outcome. For example, local merchants always resent the coming of hypermarkets. Both local merchants and hypermarkets are competing against the same customer base. Being large in size and endowed with financial resources, hypermarkets always crowd out local merchants in the local market. These hypermarkets are generally large and are global in nature. Their operations span the continents. Local merchants are no match for their offerings. These hypermarkets can offer everything from A-to-Z to consumers. Since they are large in size and through the effect of economies of scale, hypermarkets can offer competitive price to consumers. On the other hand, being small and have little to offer, local merchants generally lose in the competition. Family business is not an exception when it comes to vulnerability to the effect of competition with larger firms. The share boundaries between the formal and informal sectors sometimes generate conflict.

5.2 Family Business and the Informal Sector

Family business plays a role both in the formal and informal economies. As a small firm, the family business is less formal and its operations generally go unnoticed by the larger players in the market. This curse of anonymity makes the family business escaped public notice. However, according to the World Bank, the informal sector accounts for significant contribution to the overall economies of the world. Being part

of the informal economy, family business thus plays a significant role in the health of the national economy in every country.

Successful family businesses are responsibility for innovation and growth in the economy. Since family business is generally small in size and has limited resources. By its nature, family business is force to be innovative, i.e. find ways to be efficient in its resource utilization. Innovation in family business leads to success; success leads to growth and the growth leads to employment. By tracing these chain of value in the operation and success of family business allows use to say that family business is also a "major player" in the economy.

Most family businesses are formally registered and pay their taxes. Having been accounted for through the tax system, family businesses are part of the formal sector.

5.3 Family Business and SMEs in Shared Boundaries

Family business and SME have shared boundaries in many aspects. SME is the natural outgrowth of successful family business. As the family business becomes successful and expanded; it becomes more structure. The decision making process and resource utilization becomes more formalized. The increased complexity and formalization of structure help transform the family business into SME.

Only successful family business can become SME. Failed family business or a family business that is struggling to survive does not maintain a shared boundary with SME. SME is the next stage of development for the family business. What is the shared boundary between family business and SME? The shared boundary between the family business and SME is the management composition and characteristic. The management team of SME may be family members or managers recruited from the outside. As for family business, the management lies in few hands or a single person who own and run the business. In both family business and SME, the management team is clearly identifiable and easily accessible within the organization. This characteristic of the management is different from that found in the firm. A larger corporation would have longer social distance between the management and employees. For instance, the President or Chief Executive Officer (CEO) of the corporation would have little opportunity to interact with employers due to the many layers of mid-management between the top and bottom rung of the organization.

There are some SMEs which do not grow from the family business. Nevertheless, these organizations still share certain characteristics with the family business, i.e. smaller organization size and less complicated organizational structure. In addition, decisions made in these types of organization, like their family business counterpart, tend to be efficient due to less bureaucracy commonly found in larger firms.

5.4 The Role of the Family Business in the Informal Sector

Family business dominates the informal sector of the economy because it is the first form of organization that naturally grows out of the success of the unorganized entrepreneurial enterprise. A successful family business grows into SME. SMEs play

significant role in the economy. For that reason, family business is important to the economy.

What is an informal sector of the economy? Organizations and transactions whose value are difficult to record or cannot be recorded is considered informal. An entrepreneurial enterprise is part of the informal economy because the work of the entrepreneur is unseen and unrecorded by the macro-economy. A family business may be considered as part of the informal economy because its structure is not well defined and not all of its transactions are recorded. Family business is considered self-employed in a sense that it depends on its own capital to operate. In addition, the family business ownership structure is generally concentrated in one hand. As such the structure of the organization is simple and some times undefined.

As an active participant in the informal economy, family business help sustain life at the lower rung of the economy. It provides jobs among low-paid workers. It also serves as the outlet for products of firms. In short, the family business serves as a link between the formal and informal sectors. It is unfair to say that family business is completely "informal." There is a semblance of formality in the family business. For example, family business uses the banking institutions for their transactions, such as maintaining an account, depositing money and transfer money. Thus, the value of these transactions is recorded. To that extent, family business is part of the formal sector. However, things like small cash sales and payment of cash for compensation of employee in order to avoid payroll tax and underreporting sales receipt in order to avoid sales tax---had made family business a member of the informal sector.

5.5 The Role of the Informal Sector in the Economy

No one can deny that the informal sector of the economy has a critical role to play in the life of the country's economy. According to the World Bank Report, the informal sector accounts for 17% of the general economy in 162 countries surveyed. Generally, the term "informal sector" conjures the image of illegal activity or is synonymous with illicit business. However, this is a misconception. Even if one defines the informal sector to include activities that are not recorded in tax records, it does not mean that non-recordation of tax collection means tax evasion or illegal activities. In fact, honest living people who earn their living from legal activities may not have their activities recorded in the tax system. For instance, in the developing countries, food venders on the street are considered parts of the informal sector of the economy. In fact, most entrepreneurial activities are in the informal sector because most entrepreneurial activities are not recorded. Therefore, informality does not mean illegality. Informality means activities that are unrecorded or unregistered in the formal registration system. Tax registration is but one component of the registry of the formal economy. By not showing up in the tax registry does not automatically mean the activity is illegal. Activities that generate income less then the minimum reporting amount, for instance, is not recorded. Entrepreneurs or family business that ear below the reporting requirement falls into this category. They are active member of the informal economy.

This Paper explores several theories to explain the function and behavior of firms. Many elements of these theories also found application to family business. It

can be said that family business is akin to a firm. Although lacking the formal structure of a fully developed corporation, a family business is qualified to be classified as a firm. There are some differences such as the firm is compelled by fiduciary duty to maximize wealth or profit, the firm is occupied in value creation. This marked distinction between the two types of organization helps to set it apart.

Family business is an organization in transition. As a family business, the organization is generally small and informal. Most family businesses are small. This size limitation comes from the fact that the family business has limited assets and has not access to the capital market. Although there are many family businesses which are large, the majority of family businesses are small. Successful family business grows; with that growth, the family business will transform itself through the increase of structural complexity and multi-layers of organizational structure. This development leads to the transformation of the family business into a Small and Medium Size Enterprise (SME).

All theories of firm may be used to explain the function of the family business. Although there are certain elements of the firm theories which are not applicable to the family business, family business should be treated as a firm: 'family firm.' There is no need to create a separate discipline of family business requiring the introduction of a new set of theory. Family business is a family firm, an organization in transition. As part of the SME in transformation, family business behaves more like a firm than an entrepreneurial enterprise. Firm theories should be applied and modified to explain family business.

6.0 CONCLUSION

In this paper, we learned that family business is the outgrowth of the successful entrepreneur. The family business grew from an entrepreneurial enterprise and is also in a transition to the next stage of development. A successful family business generally transforms itself into SME. An SME may still retain the characteristic of family business. In fact, some large and successful corporations are still family own. It has also been explained that family business tends to seek value creation. The creation of wealth is the effect of value creation. In non-family corporations, the emphasis is put on wealth creation. Thus difference between corporation and family business defines the boundaries between the formal and informal sectors of the economy that family business and large corporations belong. Generally, family businesses are part of the informal sector. This Paper makes clear that the term "informal sector" of the economy does not have derogatory meaning. Informality means small in size and the activities are generally overlooked by the real economy.

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