

# Obstacles and Opportunities for Development of Family Businesses: Experiences from Moldova

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**Abstract** The chapter examines the processes of formation and development of small family enterprises, as in Moldova, the family business is created and developed mainly as micro and small enterprises. Since the activity of family businesses is not legally regulated and is not considered by the statistics in the Republic of Moldova, primarily the results of surveys and interviews with entrepreneurs, conducted by the authors during the realization of international projects and studies carried out in the National Institute for Economic Research of the Academy of Sciences of Moldova in the period 2001–2013 served the basis for writing this material. The chapter describes the barriers for family businesses, conditioned by their access to certain types of resources and other limiting factors from the external environment. Simultaneously, additional opportunities of the family SMEs are observed, arising through cooperation of the efforts and resources of family members, which allows increasing the assets of family businesses and partly compensating the shortcomings of the activity of business support institutes.

**Keywords** Family business • Small and medium-sized enterprises • Obstacles and opportunities for development of enterprises • Transition countries

## 1 Introduction

The scale of family businesses in economically developed countries can hardly be overestimated: in the OECD countries family run businesses account on average 85 % of all businesses and 90 % of businesses from the U.S. are family controlled (Barbera & Moores, 2011, p. 954). Family business is seen as a competitive

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advantage in the long term, compared to non-family businesses (Heck et al., 2006, pp. 81–82). Thus, studies regarding the family controlled firms on the CAC40 and the S&P500 showed that family businesses have a better performance that exceeds the one of the non-family firms. The results of another study carried out in the U.S. show that return on investment is 25 % higher in family businesses (Kenyon-Rouviez & Ward, 2005, p. 2).

Family business also plays a significant role in emerging market relations in the modern period (Belak, Duh, Uršič, & Belak, 2005; Donckels & Lambrecht, 1999). First, the family businesses, along with other groups of enterprises contribute to the economic development of the regions by creating added value, providing jobs, attracting investment and so on. Secondly, family businesses contribute to the development of entrepreneurial potential and self-realization of business owners and also to the establishment of the middle class, providing social, economic and political stability of society in the long term.

The activity of family businesses is not legally regulated and is not considered by statistics in the Republic of Moldova. This article examines the small-scale family businesses, because, according to the authors, the family business in Moldova is created and developed mainly on micro and small enterprises.

Moldova stands among the countries with emerging market economy where the companies during all stages of their activities face many barriers. Problems appear to be relatively more difficult for micro and small enterprises, including the family type ones. The article describes the barriers for family businesses, conditioned by their access to certain types of resources and other limiting factors from the external environment. Simultaneously, additional opportunities of the family SMEs are observed, arising through cooperation efforts and resources of family members, which allow increasing the assets of family businesses, and partly compensating the shortcomings of the activity of business support institutes.

The results of surveys and interviews with employers served the basis for the research. They were conducted by the authors during the realization of international projects and studies carried out in the National Institute for Economic Research of the Academy of Sciences of Moldova, in the period 2001–2013. Besides, the data from the National Bureau of Statistics of the Republic of Moldova, Registration Chamber of the Republic of Moldova, the National Bank of Moldova, the results of other studies were also used.

## **2 Short Review of Economic Development of the Republic of Moldova in the Transition Period**

The Republic of Moldova is a small country in southeastern Europe with the population of 3.5 million people and the territory of 33,846 km<sup>2</sup>, situated between Romania and Ukraine. Until 1991, Moldova was one of the 15 republics of the Soviet Union. Since the late 1980s, and especially, since the early 1990s, Moldova

has suffered significant changes both in political and economic spheres (Hensel & Gudim, 2004, pp. 89–102).

First, in 1991, Moldova declared its withdrawal from the USSR and the creation of the Republic of Moldova as an independent state. This was accompanied by rupture of closer economic ties of Moldovan enterprises (primarily, related to the military-industrial complex) with those from other former Soviet Republics; as well as by loss of a huge Soviet market. The situation was aggravated by the territorial conflict. The territory in the eastern part of the Republic of Moldova, which had a considerable industrial potential, has been severed from the official state. In 1992, it declared the political sovereignty and up to now it is beyond the control of the Moldovan government authorities.

Second, the country began the transition from a planned administrative economic system to the market economy. Unlike many countries in Central and Eastern Europe, in Moldova there was practically no private property to the early 1990s. Therefore, the transformation of the economy of the Republic of Moldova took place on several directions simultaneously:

- Transition from the planned administrative economy to the demand-oriented market economic relations based on economic freedom principles,
- Change of predominant ownership form in the economy: from the absolute monopoly of state ownership to the development of various forms of ownership, primarily, the private one (McLindon, 1996, p. 115),
- Changing the size of economic entities from mainly large enterprises to small and medium-sized enterprises.

The mentioned political and economic reforms in the country have been accompanied by deep economic crisis, which was more profound than in neighboring countries. For instance, the fall of GDP in Moldova was so severe, that it still is only 59.5 % of GDP from 1989 (data from 2011) (Institute of Economy, Finance and Statistics of the Republic of Moldova, 2012b, p. 12).

The changes in politics, economics and the society led to the entrepreneurship's development. So as any private entrepreneurship was regarded as criminal activity in the first half of the 1980s (Efimov & Frolov, 1964, pp. 20–22), during the second half of the 1980s, the entrepreneurship based on personal labor of citizens and their family members (Law on self-employment, 1986), as well as in the form of cooperatives with the possibility to use of hired labor (Law on Cooperation in the USSR, 1988) has been legalized. These legal instruments have played a positive role as the people in Moldova could purchase a modest experience of entrepreneurship. This experience proved to be useful to them after 1991, when large state-owned enterprises were closed and thousands of people lost their jobs and livelihoods (Aculai & Veverita, 2012, pp. 74–83). Significant difficulties in the enterprises' creation (Smallbone & Welter, 2001, pp. 249–262) and the absence of the effective state support led to the fact that many officially registered businesses did not work, while the “parallel economy”, included informal and internal systems of enterprise, has developed (Dana & Dana, 2003; Ramadani & Dana, 2013). “Shuttle traders”, selling cheap goods imported from the neighboring countries, as well as

people who grew food on small plots of land by own labor were typical representatives of the Moldovan business at the initial stage of transition to the market economy (Dana, 1997, pp. 269–277). A large part of them were so called forced entrepreneurs, for whom entrepreneurship was the only way to feed their own families (Aculai, 2013, pp. 28–40).

Since 1992, the legal framework regulating business in the modern Republic of Moldova has began to be shaped (the Law on entrepreneurship and enterprises, the first Law on support and protection of small business, etc. have been adopted). State Programmes of small business development began to be elaborated and implemented; the State Fund for Entrepreneurship Support was established. Thus, there was developing the legislative and institutional framework, which to a certain extent contributed to the establishment and development of entrepreneurship.

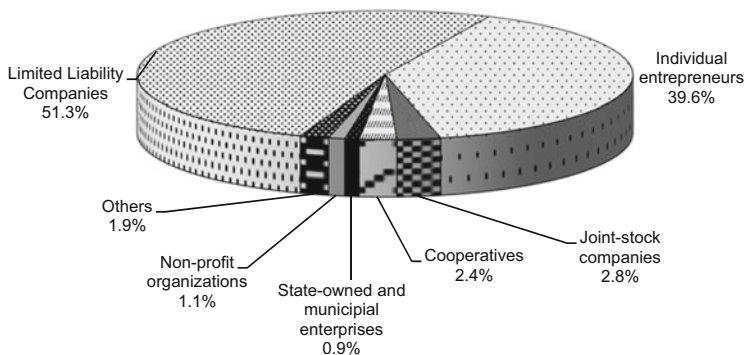
### 3 The Characteristics of Entrepreneurship in Present

Today, more than 160,000 companies are registered in Moldova, among which the most are of such legal forms as limited liability companies (51.3 %) and individual entrepreneurs (physical persons), (39.6 %) (see Fig. 1).

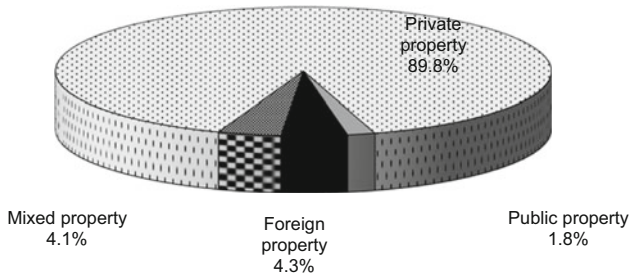
The vast majority of Moldovan enterprises are of private ownership of citizens (89.8 %); 4.3 % are in foreign ownership and 4.1 %—in mixed ownership. Currently, only 1.8 % of all enterprises are in the state (public) property (Fig. 2).

Trading is the most common activity in Moldova, while 40.4 % of the enterprises being involved in this activity; industrial enterprises account for 10.2 %, construction—5.5 %. Agriculture includes 5.0 % of enterprises (excluding farms).

On average, one Moldovan enterprise employs 10.3 persons and the annual turnover per 1 company accounted for 4.2 million MDL (about 232,000 EUR) in 2012; the average annual profit before taxation for one enterprise accounted for



**Fig. 1** Registered enterprises by legal forms, as to January, 1, 2014 (%) (source: State Chamber of Registration of the Republic of Moldova, 2014)



**Fig. 2** Total enterprises by forms of ownership, 2012 (%) (source: National Bureau of Statistics of The Republic of Moldova, 2014)

92.9 thousand MDL (5,000 EUR), while 51 % of enterprises have finished the 2012 financial year with a loss.

A legal framework is established in the Republic of Moldova, which determines the basis for creation and activity of enterprises. Support directions for priority groups of enterprises, in particular related to the SMEs sector are also provided.

#### **4 Family Business in Moldova: Preferential Development Within the Framework of Micro and Small Enterprises**

The legal basis of entrepreneurial activity in the Republic of Moldova is established in the Law on Entrepreneurship and Enterprises 1992, which defines the possible legal forms of business, the specifics of their establishment, development and liquidation. But the mentioned law, as well as other legal acts of Moldova does not give a definition of family businesses and does not consider them as special organizational and legal forms of business. Accordingly, there is no statistics to identify and analyze a group of family-owned businesses.

According to the authors, the family business in the Republic of Moldova is developing mainly in the framework of micro and small enterprises. This conclusion is made due to the following circumstances:

*First*, we must consider the peculiarities of formation of private business in Moldova in the 1990s. During this period, private enterprises were established mainly in two ways. First of all, by creating from scratch and often forced of micro enterprises in order to receive the minimum subsistence income; these enterprises were characterized by limited capacities. As evidenced by interviews conducted by the authors in the framework of international projects, some of these enterprises were created by combining efforts and resources of family members. One of the typical histories about the creation and activity of the family business, related to the ‘forced’ business is presented in Box 1.

**Box 1. Forced business in owners' declining years**

Two pensioners, husband and wife were forced to organize a family business in 1996. The amount of their pensions was two times lower than the monthly utility bills.

Following the advice of a relative, spouses rented a retail space in the market and began selling second hand clothes, imported in the form of humanitarian aid from abroad. Previous activities of the spouses had nothing to do with trade, so they had in old age to learn the skills of trade for the first time.

Business was not officially registered. Initial costs were covered from their own modest savings.

The main purpose of the business at all stages was 'to survive' with no ambition or focus on growth. Both husband and wife, being elderly, gladly would have left this heavy business (both physically and mentally), if there was another source of income.

Source: INTAS (2001–2003, Case 18).

Another way of establishing private business was the privatization of large-scale state enterprises. The privatization method used in Moldova was based on providing every citizen the right to own a certain amount of national property, which was confirmed by a special document named patrimonial voucher. This document was not legally able to be sold or transferred to another person, so the accumulation of capital of large enterprises in the hands of one family was impossible. In subsequent years, during the process of redistribution of capital, some families may have had large stakes in individual companies, but these kinds of data are not published in statistics and these facts are unknown for the public; we believe there were just few of such cases.

*Secondly*, it makes sense to pay attention to some of the characteristics of family relations in Moldova. In the traditional model of Moldovan family the dominant role belongs to the man. This is confirmed by the results of the households' survey, according to which the role of the head of the family belongs to the man in 62.7 % of households from urban areas and 74.5 % of rural households (National Bureau of Statistics of the Republic of Moldova, 2013a). In addition, the Republic of Moldova still keeps a non-uniform distribution of responsibility for housework between men and women. Cooking, washing, cleaning, shopping and even childcare are primarily on the women's responsibility. Thus, according to calculations made by Colesnicova (2012) in 2008, women from urban areas spent a day by 2.2 more time on housework than men. This gap was even greater in rural areas—by 3.3 times (Colesnicova, 2012, p. 108).

Different roles of women and men in family life are reflected in their participation in the business: 72.5 % of all entrepreneurs from Moldova are men, despite the fact that the proportion of men in the economically active population is much lower and accounts for 50.6 % (Table 1).

**Table 1** Gender distribution of the various population groups (%)

	Entrepreneurs	Economically active population	Total population
Total, including:	100.0	100.0	100.0
Men	72.5	50.6	48.1
Women	27.5	49.4	51.9

Source: Based on Aculai (2009, p.13)

The presence of gender differences in society, family and business is confirmed in interviews by entrepreneurs, especially women. For example, an entrepreneur that has a small trading company, noted that the main qualities required for business, such as: responsibility, ability to make decisions and take risks are inherent mostly for men. Women are not accustomed to be leaders, because they were not prepared for this during their childhood (INTAS, 2001–2003, Case 4). Another business-woman who was leading business with her husband, related about the establishment of her entrepreneurial career as follows: “A woman finds more difficult to search for finance for the start of her own business. It is hard to overcome the stereotypes of society. At first, I was asked whose daughter was I. We normally think that every entrepreneur woman has a man behind her” (MyBusiness.md, 2013a).

These circumstances suggest that, if the owner and manager of the medium/large enterprise is a man, then, taking into account the traditional distribution of gender roles in the family, he would mainly accept his wife to be engaged in housework and raising children rather than work. Such views belong more to older people, but it should be noticed that the average age of the entrepreneur in Moldova is quite high being equal to 45 years old (Aculai, 2009, p. 17). In the opposite situation, when a woman acts as owner and manager of a medium/large business, it is more likely that she will attract her spouse into business. But this situation is observed relatively less, because, according to the National Bureau of Statistics, the proportion of women entrepreneurs in medium enterprises is 2.3 times lower than the corresponding share of men, and in large enterprises these figures vary by three times (Table 2).

Overprotection by parents of their adult children represents another specificity of family relationships inherent for Moldova. Traditionally, many parents try to ‘extend the childhood’ of their children, supporting them financially and after reaching adult age. For example, during one interview, entrepreneurs (husband and wife) told that one of the purposes of their business was to support their student daughters, one of whom lived with her parents, and the other—in neighboring Romania (INTAS, 2005–2007, Case 05). However, it was not supposed that student daughters could also participate in the family business.

*Thirdly*, it is important to note the adverse conditions of the business environment in Moldova, which persist throughout the period of economic reforms. Unfavorable business environment in condition of a low GDP per capita creates preconditions for the reproduction and expansion of a group of entrepreneurs who build their business forcedly under highly limited resources. In this situation, entrepreneurs believe that it is important to use the help of family members in the business—wives, parents, especially at the initial stage of business. In some cases, the subsequent development of a business can be successful. An example is presented in Box 2.

**Table 2** Distribution of enterprises by size and by sex of entrepreneurs (%)

	Total	Including	
		Men	Women
Total including by number of employees:	100.0	100.0	100.0
0–9 persons (micro)	71.5	67.8	79.4
10–49 persons (small)	22.1	24.5	17.2
50–249 persons (medium)	5.4	6.6	2.9
250+ (large)	1.0	1.2	0.4

Source: Aculai (2009, p. 31)

### **Box 2. Family business grows: Moldovan embroidery kits are in demand in 27 countries**

Anatol Luca and his wife Marina are former dancers from the Moldovan legendary folk dance ensemble “Joc”. During their dance career they embroidered national costumes for the stage for several times, not knowing that this ancient craft in a few years will become the foundation of their family business.

In the early 1990s, it became clear that income from dancing was not enough to support and feed a family. Anatol decided to start a business selling haberdashery. Embroidery kits imported from Romania were one of the most in demand products in his stores. But these products were constantly going up in price and their imports became unprofitable. So, the couple decided to establish their own production of embroidery kits under the brand name “Luca-S”. The production process was organized in their garage, where at the beginning Marina was working herself, and afterwards she was helped by a hired employee. The production was started with less expensive and simpler embroidery kits for children. Later, after ordering a special computer program in England, which developed the scheme of embroidery and the necessary range of colors, they moved towards production of more complex plots.

Family business of Anatol and Marina Luca began to grow. The cramped workroom in the garage was not enough and the couple rented a room for production. In parallel they began to attend specialized exhibition in Russia and Ukraine, where they found distributors for their products. In 2010, the company decided to enter the international market and went to the most prestigious in Europe exhibition of products for needlework in Cologne. Participation in the exhibition, despite the high costs brought success. The couple returned home with several contracts signed with the French, British and German partners. Over the past few years they built relations and began exporting products already in 27 countries, including Australia, China and Vietnam.

Source: Based on Mybusiness.Md (2013b).



**Table 3** Entrepreneurs opinion on business environment changes (%)

Years	Change trends of the business environment		
	Better	Worse	No changes
2011–2013	17.7	46.9	35.4
2009–2011	20.4	32.0	47.6

Source: based on National Institute for Economic Research of the Republic of Moldova (2013); Institute of Economy, Finance and Statistics of the Republic of Moldova (2011)

In recent years, the Moldovan entrepreneurs are quite critical regarding the business climate in the country. The survey of them showed that in 2011–2013, according to the majority of respondents, the business environment has deteriorated. Thus, more respondents, than earlier mention about the deterioration of the environment in the recent 2 years (Table 3).

The above circumstances allow the authors to conclude that family businesses in Moldova are primarily connected to the *SME sector*, especially to the smallest size enterprises—micro and small.

## 5 Profile of the SME Sector in the Republic of Moldova

In the Republic of Moldova statistics keeps records about 49.4 thousand enterprises belonging to the SME sector, which accounts for 97.6 % of the total enterprises in the country. SMEs employ 57.7 % of the employees; produce 34.5 % of sales revenues and 23.0 % of the net profit. SMEs' share in GDP is 29.5 % (National Institute for Economic Research of the Republic of Moldova, 2013).

SMEs sector, in accordance with the legislation (The Republic of Moldova. Law on Support of Small and Medium-sized Enterprises Sector No. 206-XVI, 2006) consists of micro, small and medium-sized enterprises, the criteria for which are shown in Table 4.

Micro enterprises, possessing the most limited resources dominate in the structure of the SME sector, their share accounts for 77.5 % (see Fig. 3).

The potential of the SMEs sector in Moldova is quite limited: the average number of employees per one SME is 6.1 persons, at 1 micro enterprise—2.4 persons. Assets of one SME (according balance sheets of enterprises in 2012) amounted to 332.3 thousand MDL, or 20.8 thousand EUR (according to exchange rate at the date of December 29, 2012), including long-term assets—110.8 thousand MDL (or 6,000, 9,000 EUR) (National Bureau of Statistics of the Republic of Moldova, 2013b).

The Government recognizes the importance of SMEs for the economic and social development of the country therefore develops and implements policies that support this sector. To this end, the Law on support of small and medium-sized enterprises sector 2006 has been adopted; the Strategy of development of SMEs sector 2012 as well as several state programs have been developed and implemented.

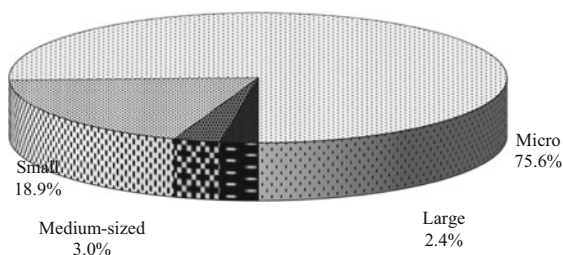
**Table 4** Quantitative criteria of SMEs in Republic of Moldova

Category of the enterprise according to its size	Number of employed persons	Gross profit, thousand EUR <sup>a</sup>	Balance sheet assets, thousand EUR <sup>a</sup>
Micro	1–9	<160.4	<160.4
Small	10–49	<1,336.9	<1,336.9
Medium	50–249	<2,673.8	<2,673.8

Source: The Republic of Moldova. Law on Support of Small and Medium-sized Enterprises Sector No. 206-XVI (2006)

<sup>a</sup>Calculated considering EURO exchange rate equal to 18.7 MDL, on March 7, 2014

**Fig. 3** The structure of SME sector in the Republic of Moldova in 2012, % of total number of enterprises (source: based on National Bureau of Statistics of The Republic of Moldova, 2014)



Public policy development on the SMEs sector is carried out by the Ministry of Economy of Moldova, in particular—Small and Medium-Sized Enterprises Development Policies and Liberal Profession Department. The state agency—the Organization for Development of Small and Medium Enterprises (ODIMM) is responsible for the implementation of policy in this area. Credit Guarantee Fund works within ODIMM, and provides loan guarantees to SMEs. At the regional level, the economic policy, including measures to support SMEs is implemented by economic departments under the public administration of districts.

Despite the existence of laws and implementation of a number of state programs and the work of institutions providing services to the SME sector, the business environment is not favorable in the country. For small-sized enterprises, including family ones, with limited resources, the negative impact of the business environment sometimes is relatively more important than for large firms. On the other hand, the question arises: is it possible to assume that the type of interactions in family businesses is an additional chance for them to survive and develop?

## 6 Limited Access of SMEs to the Resources and Family Businesses Opportunities

The limited access to resources represents a serious problem for the Moldovan SMEs. Results of the survey of entrepreneurs, carried out in 2012, showed that the barriers associated with funding sources (73.3 % of respondents) and human

**Table 5** Enterprises problems related to access to resources

Problems	% of respondents that pointed on the problem <sup>a</sup>
Financial resources	73.3
Human resources	45.9
Equipment, technology	33.3
Raw materials	19.3
Real estate	11.1
Information	6.7
Others	3.7
No problems	4.4

Source: Institute of Economy, Finance and Statistics of the Republic of Moldova (2012a)

<sup>a</sup>Respondents had the opportunity to point out any number of problems

resources (45.9 % of respondents) are the most significant. The complete list of SMEs problems, stipulated by limited access to resources is presented in Table 5.

Family relations that are traditionally close in the Moldovan society, especially in rural areas often help in overcoming these problems. A typical example is that of a 39 year-old entrepreneur with a family, including two children, who maintain close relations with parents, brothers and sisters who live nearby, considering them a part of his family. Although he has an enough successful business (production of milk and dairy products), sometimes he asks for support from family and gets it in the form of labor, money or advice. Entrepreneur is sure that he would not have succeeded without their help (INTAS, 2001–2003, Case 11).

Difficult access to finance occupies the first place in all surveys conducted by the authors since 1997. This was indicated by 70–95 % of the respondents in different years (taking into account that they had the ability to mark all the existing problems). Specifying the reasons for difficult access to financial resources, entrepreneurs mention a high interest rate for the credit and the significant cost of its processing (82.8 % of respondents); the complexity of the procedure for obtaining credits (38.3 %) and lack of collateral (31.3 %) (Institute of Economy, Finance and Statistics of the Republic of Moldova, 2012a). Insufficiency of finances is exacerbated by the low income of citizens (in 2012, the average monthly disposable income per person in Moldova was only 1,508.8 MDL (80.7 EUR), as well as there are small amounts of deposits per 1 citizen of Moldova, which were 816 MDL (43.6 EUR) at the end of 2012.

The problem of access to finance is particularly important for micro enterprises whose owners had no previous business experience. In such circumstances, private funds of entrepreneurs and of their families are often the main sources of financial resources, which may be provided in the form of a loan or participation in the authorized capital of the enterprise. As a result, the union of family members' capital represents a real possibility of additional accumulation of financial assets for

business establishment and development. In particular, the immediate family (spouses, parents) of the entrepreneur helps him/her gratuitously (INTAS, 2001–2003, Cases 4, 11, 13). More distant relatives can provide money as interest-free loans (INTAS, 2001–2003, Case 11), or at a certain percentage (INTAS, 2001–2003, Case 4). Entrepreneurs prefer more often relatives' credits than a bank loan that requires guarantee, which is not available at the stage of business formation (INTAS, 2001–2003, Case 4). In addition, relatives' credit is available in more affordable and flexible terms; for example, it is possible to postpone repayment of the loan, if necessary, without the imposition of penalties.

Additional benefits of combining of funds in family businesses is that family members are involved in business together and are considering the advisability of investing directions, respectively, increases the overall interest and responsibility for the results of business activities.

The second important problem of Moldovan SMEs, connected with the limited access to resources is associated with the personnel. In 2012, 45.9 % of respondents indicated on its importance, and this figure is increasing in recent years. Businesses face, first of all, such problems as the lack of professional qualification of employees (57.8 % of respondents, who reported on the existence of such a problem) and the complexity of the search of workers with the needed specialties (37.8 % of respondents). The complexity of the personnel's selection is caused by the outflow of skilled workers and professionals, and in general, of the most active people outside the country, as in Moldova it is difficult to find jobs with the desired level of remuneration. Another reason to cause difficulty in recruiting is the lack of institutions working in the labor market. On the other hand, many Moldovan entrepreneurs, especially small ones in order to search and recruit staff, use mainly informal sources (relatives, friends, former colleagues) without applying to employment centers and recruitment agencies.

The possibility to use the labor of family members in the interests of business represents, sometimes, a possible solution for the personnel problem. At the same time, "some family members work in the family business permanently, while others help if it is necessary" (INTAS, 2001–2003, Case 11). For example, one interviewed entrepreneur was helped by her husband who was a PhD, scientific researcher of the Academy of Sciences of Moldova during the establishment of her business by working her personal driver (INTAS, 2001–2003, Case 12). Benefits of using family members in the business are fairly obvious: members of the family business are more motivated, they can work for lower wages, often even without payment. They have more confidence because, as a rule, family members will not create an alternative business.

Negative characteristics of the use of family labor in the business (regardless of whether they are owners or not) can be informal employment, with the result that there are no contributions to the social fund, medical insurance and subsequently the pension.

Mutual assistance in the framework of the family business partly countervails the difficulties in relations with various government institutions. For example, in one interview, an entrepreneur confessed he did not know the details of the registration of the enterprise, as one of his “relatives” was engaged in this process and did it quickly for him (INTAS, 2001–2003, Case 11).

An important feature of the family business is the possibility of succession. For example, one of the surveyed entrepreneurs engaged in linguistic teaching pays her granddaughter education in foreign languages, hoping to eventually bring the girl to her business, and then—to transfer the business to her (INTAS, 2001–2003, Case 9).

Concomitant conditions that favor the development of the family business also include the support from those family members who assume the major share of the household works. This is especially important if the main role in the business belongs to a woman. For example, one interviewed entrepreneur specifically stressed the attention that her pensioner mother’s help in childcare is a very important factor, which gives confidence in the health of children and frees up time for business (INTAS, 2001–2003, Case 10).

## **7 External Environmental Conditions and Their Impact on Family Businesses**

The presence of an unfavorable business environment and the negative trends of its change are a serious barrier, causing the need for shady financial flows and thereby contributing to the maintenance of the informal economy. This increases the already existing great burden that lies on the entrepreneur and the stress associated with doing business, resulting in less time remaining to maintain his/her health and personal development, as well as to communicate with family members and friends. As a result, the entrepreneur has often no desire to transfer business, weighed down by serious challenges to their descendants. Simultaneously, a number of young people prefer to go abroad in search of employment or emigration. Not surprisingly, the average age of the Moldovan entrepreneur is 45 years old (Aculai, 2009, p. 17).

Simultaneously unfavorable business environment (primarily limited access to financial resources, lack of the personnel with the required specialties) may partly contribute to the formation of family businesses, but only in those cases when it comes to “forced” entrepreneurs. For example, an elderly father of two daughters who lost their jobs proposed them the idea of making the business of textile products for homes and offices. He invested some money in the statutory capital of the company, paid its registration and space renovation. He began working at the

company as an accountant, but even when the business “grew up”, he continued to help his daughters-entrepreneurs by financing the working capital. As a result, his daughters could financially support their families, and also got a taste for entrepreneurship (INTAS, 2001–2003, Case 16).

Labor migration, which is a characteristic feature of the modern economy of Moldova, although largely has a negative impact on the economic prospects of the country (the destruction of families, migration of young people, young children left without parents in the care of other relatives), but in a sense, is able to impact positively on the development of family businesses. Funds earned abroad can be invested in the development of their own business in their country. These kinds of businesses were established in the early 2000s as activities that did not require significant financial investments and complex management decisions. For example, in transport services when a minibus to transport passengers within the country was bought due the money earned from abroad (INTAS, 2001–2003, Cases 17, 29). But because the entrepreneurial spirit of the citizens of Moldova is underdeveloped, a relative big part of the money earned abroad until recently, were invested in real estate purchase or were spent on consumption. From 700,000 of our citizens who work abroad according to the statistics, only 7 % invest their money in the business in Moldova, while only 2 % open a new business from scratch here (Mybusiness.Md, 2014).

The state programme “PARE 1 + 1” is implemented in order to facilitate the process of investing resources of migrant workers in private business in the country. In the framework of this program, the government provides training to returned migrant workers or members of their families and then irrevocable financing in the amount of 200,000 MDL (10.7 thousand EUR) with the condition that to every one MDL invested from remittances, one MDL from the Programme will be added. For example, young entrepreneurs Valentina and Vasile Mihailov received a grant for the production of products of sheep wool based on knitwear under the state programme in 2011. They started with the production of woolen slippers, and since 2012, in addition to room shoes, spouses began to sew faux fur products: jackets, coats, blankets, belts and more. Today, 17 positions are already produced within their factory (Mybusiness.Md, 2014).

Changing the institution of the family, at least the traditional family model for Moldova—reducing the number of marriages, later marriage for both men and women, as well as a large number of divorces (which constitute 44 % of the number of marriages in 2012 compared with 32 %—in 1990), reduce the confidence in a partner, which may limit the development of the family business.

Illustration is the case when the divorce of spouses-business owners put enough successful development of the family business under the threat of bankruptcy (Box 3).

**Box 3. Marital relations crisis as a threat to family business**

In 1994, Petru and his wife Janna who lost their jobs due to staff cuts at the state factory founded a small family company making knitted products. The main reason for the creation of business was the search for income-generating possibilities in order to feed themselves and their three children. Initially, both contributed equally to the business. From time to time, they were assisted by their children and other relatives. As the enterprise grew, more management duties were performed by Janna, and in 1999 she became the general manager.

The company grew, reaching the medium size according to Moldovan legislation, and the brand became recognizable in the country. Petru, while still continuing to work at the enterprise, set up another business with friends, but did not managed to contribute any income to the family.

After a few years, the relationship between spouses got worse and during the divorce, the husband's demands regarding the division of property brought the company almost to the bankruptcy. Janna succeeded to improve the situation in the company, opened new stores of selling products, but the time was lost and new strong competitors managed to capture a significant market share.

Source: Based on Aculai, Vinogradova, and Welter (2008, pp. 93–94).

Some family businesses operating in Moldova are established within the framework of cross-border cooperation with neighboring countries—Romania and Ukraine. The presence of shared history, culture, language of Moldovan citizens with the cross-border population of neighboring countries contributed significantly for the establishment of such relations. It is important to take into account the relative ease of crossing the border: Ukraine (due to visa-free travel) and Romania—as many Moldovan citizens have dual citizenship (Moldovan and Romanian). The main feature of family businesses involved in cross-border cooperation are the expanding of boundaries of the family outside the country. For example, during some regular trips to Romania in order to visit the student daughter, a Moldovan entrepreneur was able to start a business related to the import of goods from Romania (INTAS, 2005–2007, Case 16). Another entrepreneur got married with a Romanian citizen and got the main help from his Romanian relatives—the family of his wife, who became a kind of representative of that business in Romania (INTAS, 2005–2007, Case 08). Geographic expansion of family businesses is expanding opportunities for their development, especially that the domestic market of Romania and Ukraine is much wider and the economic potential is higher than in the Republic of Moldova.

## 8 Some Conclusions

- Despite the fact that the establishment of a legally family business in Moldova is not regulated, the family business has been developing for more than 20 years.
- Formation of a family business is predominantly within the framework of micro and small enterprises, especially among the “forced” entrepreneurs.
- The characteristics of the family business in Moldova are currently due to: a relatively short period of time since the revival of private entrepreneurship in the late 1980s of the twentieth century; preserving elements of traditional family model and transfer of family relations in relations within the business; unfavorable business environment.
- Barriers to the family business are due to the general problems of SMEs, as well as the specific features of family businesses.
- At the same time, the family business does not only create barriers, but also provides additional opportunities for its development, partly compensating for the lack of resources, especially financial and personnel.
- Development of family businesses facilitates them to obtain the necessary business services in the context of the lack of infrastructure institutions.
- Opportunities for family businesses could grow significantly due to the regulation of these groups of companies.

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