Overview of Family Business Relevant Issues

Country Fiche Estonia
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Project conducted on behalf of:

EUROPEAN COMMISSION
ENTERPRISE AND INDUSTRY DIRECTORATE-GENERAL
Crafts, small businesses, cooperatives and mutuals

In the framework of the study “Overview of Family Business Relevant Issues”

This study has been elaborated with reasonable care. The authors and the project co-ordinator do not, however, accept responsibility for printing errors and/or other imperfections and potential (consequential) damage resulting thereof.
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1 Introduction

Family businesses do not get much attention in policy discussion in Estonia. Usually, there is no differentiation between family business and non-family business, i.e. little attention is paid to family businesses’ particularities. Family businesses’ role as employer and their contribution to growth and innovation are hardly ever dealt with.

In Estonia, there has been done little research on family business and few articles on that topic have been published. In 2008, a large research on family business has started. A legal definition of “family business” does not exist, and the sector is not treated differently from non-family businesses in legal regulation, taxation, etc.

SMEs and family businesses are often understood synonymously in policy discussion. Almost all SMEs are family businesses (business activity with participation of the family). Nevertheless, family businesses exist in every size class, from sole traders to multinational companies with Estonian families to the fore.

In Estonia, there will soon be new problems that have to be dealt with in the family business sector. One of these refers to business transfer, with the scenario of transfers within the family becoming more and more unlikely: Socio-demographic changes, a continuous change of family values and the rise of one-person households hamper the sustainable business conduction within a family.

Experts predict that in the near future the number of Estonia’s family businesses will be declining. Too many young people in business families are not interested in continuing the business tradition of their relatives or forefathers.

Ongoing business support and encouragement for the family business sector is needed in Estonia.
2 Understanding of “family businesses” in the national context

There is no definition of family business in national law.

In everyday life, people understand small businesses as a family business. They are not aware that a family business can be a large company. Also public authorities hardly ever propose a definition of “family business” and equate them to SMEs.

At universities, the topic of family businesses is taught by applying the definition of John A. Davis “Definitions and Typologies of the Family Business”.

Regarding legal forms, Kirsipuu (2007) found that sole traders are in most cases family businesses as they are run with the help of family members. At the same time, there also exist sole traders (as well as one-person enterprises) that are non-family firms. (Kirsipuu/Teder, 2006). However, they regularly stay in close contact with family members for business reasons, and 85% of them want family members to become business partners or join the company.
3 Importance of family businesses for the national economy

In Estonia, there are no official statistics tracking family businesses’ extent and economic contribution. Rather, available data stem from individual research, resulting in the fact that due to diverging definitions and methodological approaches the individual results may differ from each other and are hardly comparable. Nevertheless, they give some indications on the dimension of family businesses’ economic importance.

According to Kirsipuu (2004), family business is the most common form of activity in Estonia. Almost 90 % of all Estonian companies are in family hands and they employ 50 % of all employees.

The number of family business has been increasing in Estonia from year to year.

Most family owned companies are sole traders and SMEs, most of them are in the agriculture (e.g. 99 % of beef breeders are family businesses) and tourism sector (Kirsipuu, 2007). Particularly in agriculture, they have a long tradition.

(Kirsipuu, M. 2007).
4 Characteristics of family businesses

Most Estonian businesses are family businesses and everything that characterizes Estonian businesses is similar for family businesses. Important is the participation of family members in the management of the business. However, in a family firm both, family interests and business interests are prevalent, and both follow the same objectives. The family structure and family members are the underlying structure of the company. (Teder, 2002). Traditional values, culture and long-term sustainability influence the management practice (Teder/Teder, 2004). Family businesses are oriented on traditional family structures, envisaging that descendents work in the company. Family firms take into account the entrepreneurs’ and his/her family’s lifestyle and are often founded as sole proprietors.

The advantages of sole traders in Estonia resemble those of analogous forms of entrepreneurship in other countries: registration is simpler, quicker and cheaper; there are no requirements concerning the starting capital, accounting is significantly simpler, there is no need to compile annual reports, and the money earned can be used for personal needs. The major disadvantage is the sole trader’s full responsibility for the obligations taken in the course of activity with all his/her private property. Sole traders do not enjoy complete income tax exemption on reinvested profits valid in Estonia. Although the rates of income and social insurance tax are equal for sole traders and companies, sole traders are in a somewhat worse position concerning taxation.
Economic Units in the Commercial Registry by legal form and economic activity as of January 1, 2004

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Sole traders</th>
<th>Companies</th>
<th>Total</th>
<th>Sole traders, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting and forestry</td>
<td>11,961</td>
<td>2,837</td>
<td>14,798</td>
<td>80.8</td>
</tr>
<tr>
<td>Fishing</td>
<td>1,341</td>
<td>230</td>
<td>1,544</td>
<td>86.9</td>
</tr>
<tr>
<td>Mining</td>
<td>5</td>
<td>98</td>
<td>103</td>
<td>4.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>574</td>
<td>6,800</td>
<td>7,374</td>
<td>7.8</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>8</td>
<td>322</td>
<td>330</td>
<td>2.4</td>
</tr>
<tr>
<td>Construction</td>
<td>194</td>
<td>3,763</td>
<td>3,957</td>
<td>4.9</td>
</tr>
<tr>
<td>Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods</td>
<td>2,090</td>
<td>24,146</td>
<td>26,236</td>
<td>8.0</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>449</td>
<td>2,327</td>
<td>2,776</td>
<td>16.2</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>3,540</td>
<td>4,349</td>
<td>7,889</td>
<td>44.9</td>
</tr>
<tr>
<td>Financial intermediation</td>
<td>15</td>
<td>1,474</td>
<td>1,489</td>
<td>1.0</td>
</tr>
<tr>
<td>Real estate, rentals and business activities</td>
<td>786</td>
<td>13,825</td>
<td>14,611</td>
<td>5.4</td>
</tr>
<tr>
<td>Public administration and defense; compulsory social security</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>0.0</td>
</tr>
<tr>
<td>Education</td>
<td>77</td>
<td>577</td>
<td>654</td>
<td>11.8</td>
</tr>
<tr>
<td>Health and social work</td>
<td>205</td>
<td>832</td>
<td>1,037</td>
<td>19.8</td>
</tr>
<tr>
<td>Other community, social and personal service activities</td>
<td>246</td>
<td>1,737</td>
<td>1,983</td>
<td>12.4</td>
</tr>
<tr>
<td>Economic activities total</td>
<td>21,464</td>
<td>63,322</td>
<td>84,786</td>
<td>25.3</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook, 2004: 266. Note: the data do not include sole traders registered only with the Taxation and Customs Board.

In most cases, sole traders are SMEs.

Although in the majority of cases a sole trader and family business creates a job only for himself/herself and even this often in addition to a paid job, there are family businesses whose spectrum of economic activities is very wide. For example in 2003, the turnover of one of the best-known family farms, Laheotsa, was over 40 million Estonian kroons and its profits over 4 million kroons. The same year, the farm provided work to 81 persons.

Most people engaged in family businesses are hard workers, also if they are not only direct family members. Another characteristic of Estonian family businesses is that the active generation is getting older and the younger one does not want to take over the business.
5 Institutional actors and their strategies, policies and initiatives

<table>
<thead>
<tr>
<th>Institutional features</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>name of the actor</strong></td>
<td>Eesti Väike- ja Keskmiste Ettevõtjate Assotsiatsioon Estonian Association of SME's</td>
</tr>
</tbody>
</table>
| **nature of the actor** | government  
lobbying  
support service provider (information, advice, education)  
research centre  
network/family business specific organisation (including interest groups/representative organisations/lobbies)  
others, namely: |
| **address**             | Tildri 17-12, Tallinn 12916 |
| **contact person**      | Randmer, Anne |
| **telephone**           | +37250497980 |
| **web-page**            | http://www.evea.ee/ |
| **e-mail**              | anne@emieco.ee |

<table>
<thead>
<tr>
<th>content based features</th>
<th></th>
</tr>
</thead>
</table>
| **type**               | fiscal regulation/tax law  
labour law/social security law  
company law  
awareness raising measures  
corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar  
education/training measures  
information/advice  
business transfer support instruments  
financial support  
marketing  
networking  
others, namely: lobbying |
<p>| <strong>objective</strong>           | non-governmental, non-profit association of SMEs and self-employed performing a representative, advocacy and lobbying function for small and medium-sized businesses as a social group |
| <strong>initiation</strong>          | 16 November 1988 (Constitution of the Estonian SSR) |</p>
<table>
<thead>
<tr>
<th>content based features</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>contents/description of the initiative/measure</td>
<td>The main goal of EVEA is to create a favourable entrepreneurial environment in Estonia as the basis for economic growth and social stability. To achieve this goal EVEA: - is continuously monitoring the development and problems of the SME sector in Estonia; - is maintaining a dialogue with the Government regarding the development of legislation, state support instruments for SMEs, participation of SMEs in the EU- and other international programmes; - is actively participating in the tri-partite negotiations with the trade unions and the Government; - is taking joint actions together with the other employers' and professional associations; - is promoting by all available means a positive public attitude to self-employment, small business and entrepreneurship in general; - is providing its members with information, counselling and training, as well as opportunities for networking both locally and internationally.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>user based features</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>eligibility criteria/target group</td>
<td>Though many enterprise and professional associations include SMEs, EVEA is the only organization that represents exclusively SMEs and actively speaks on their behalf. EVEA membership is open to any Estonian SME and self-employed irrespective of their field of activity. Most of the members are businesses with less than 50 employees.</td>
</tr>
</tbody>
</table>
| source of funding | x EU-funds  
x national funds (governments)  
x membership fees  
☐ others, namely: |
| costs for participants/members | Member cost as of Jan 1-st 2008 EUR 55 |

<table>
<thead>
<tr>
<th>performance based features</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>evolution</td>
<td>Serving as an interface between the Estonian SME community and the policy decision-makers, international organizations and various social partners, EVEA provides information about the situation in the SME sector, its problems, economic legislation, business opportunities and business-related infrastructure in Estonia.</td>
</tr>
<tr>
<td><strong>Institutional features</strong></td>
<td><strong>Explanation</strong></td>
</tr>
<tr>
<td>---------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td><strong>name of the actor</strong></td>
<td>Tartu Ülikool, University of Tartu</td>
</tr>
</tbody>
</table>
| **nature of the actor**   | - government  
- employers’ organisation  
- support service provider (information, advice, education)  
- research centre  
- network/family business specific organisation (including interest groups/representative organisations/lobbies)  
- others, namely: |
| **address**                | Ülikooli 18, Tartu 50090 |
| **contact person**         | Merike Kaseorg  
Arvi Kuura |
| **telephone**              | +372 7376334 Merike Kaseorg  
+372 4450532 Arvi Kuura |
| **web-page**               | http://www.ut.ee |
| **e-mail**                 | merike.kaseorg@ut.ee, Merike kaseorg  
arvi.kuura@ut.ee, Arvi Kuura |

<table>
<thead>
<tr>
<th><strong>Content based features</strong></th>
<th><strong>Explanation</strong></th>
</tr>
</thead>
</table>
| **type**                  | - fiscal regulation/tax law  
- labour law/social security law  
- company law  
- awareness raising measures  
- corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar  
x education/training measures  
- information/advice  
- business transfer support instruments  
- financial support  
- marketing  
- networking  
x others, namely: research |
| **objective**             | Researches and information’s in family business |
| **contents/description of the initiative/measure** | small research on family business to find out their problems  
Giving definition for them  
Awareness raising about the heterogeneity  
Economic importance of family business in the national economy  
Education and training |

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<th><strong>Explanation</strong></th>
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</thead>
</table>
| **source of funding**     | - EU-funds  
x national funds (governments)  
- membership fees  
- others, namely: |
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<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>name of the actor</strong></td>
<td>Tallinna Tehnikaülikooli majandusteaduskond, Tallinn School of Economics and Business Administration at Tallinn University of Technology (TSEBA)</td>
</tr>
</tbody>
</table>
| **nature of the actor** | - government  
- employers’ organisation  
- support service provider (information, advice, education)  
- research centre  
- Network/family business specific organisation (including interest groups/representative organisations/lobbies)  
- others, namely: |
| **address**             | Kopli 101, Tallinn 11712 |
| **contact person**      | Juhan Teder, professor  
Maret Kirsipuu, Doctoral Candidate |
| **telephone**           | +372 6203962, Juhan Teder  
-372 5154878, Maret Kirsipuu |
| **web-page**            | http://www.majandus.ttu.ee/ |
| **e-mail**              | juhan.teder@ttu.ee, Juhan Teder  
maretkirsipuu@gmail.com, Maret Kirsipuu |
| **content based features** | fiscal regulation/tax law  
labour law/social security law  
company law  
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corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar  
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</thead>
<tbody>
<tr>
<td><strong>objective</strong></td>
<td>Tallinn School of Economics and Business Administration at Tallinn University of Technology is one of the most important institutions of higher education in economics and business administration in Estonia. It is among the biggest by the number of students and one of the leading in respect of teaching quality. It is doing research on family business to find out their problems. The mission of TSEBA as a structural unit of public university is to be a national study, research and development centre in economic sciences. TSEBA is an internationally recognized structural unit of a national university of technology, an active partner in cooperation networks and leader in knowledge based development of the Estonian economy. Integrated activity of TSEBA with other faculties will make TUT an internationally outstanding and leading business education providing university in the Baltic region. Its graduates will be ready for taking responsibility as private and public sector managers.</td>
</tr>
<tr>
<td><strong>contents/description of the initiative/measure</strong></td>
<td>It offers many subjects of family businesses and conducts research on family business. It has specialised in family business and uses experts and consultants. It gives education and private consulting. Through that work, the family business will get definite and understanding about that will get clear in Estonia. In its Centre for Economic Education it is providing extensive refresher courses to practicing economists.</td>
</tr>
</tbody>
</table>

**user based features**

| **eligibility criteria/target group** | family business, young successors |
6 Future issues

The main future opportunities of family businesses are:

- Define the “family business”, reviewing national definitions
- Find a place for family business in law (taxes etc.)
- Create a council centre
- Bring family business as a specialty in schools
- Bring refresher courses to people who have family businesses
- Make a model in the Estonian context: enterprise-family-household

In Estonia most of the entrepreneurs and businesses are quite young. At some moment, most of the businesses must be transferred from the older generation to the younger generation. New leaders have to be prepared for that (networking, competence development).

The form of family businesses has become more popular and for the first time closely connected with the development of economy.

Socio-demographics and demographics play great role in the development of the family business.

In future, the state must give help for family business. And politics must interfere with family businesses. The Estonian government has put minimal effort for stimulating family business and SME development. In Estonia we need to provide more information about possible loans and subsides.
7 Bibliography


Maret Kirsipuu „Sole trader’s Role in Economy and the Regulation of Their Activity“. Tallinn University of Technology. 2004.
