



Family business in transition economies: an exploratory study of private business

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Abstract This paper aims to explore the background of transition economies observing the new phenomenon of private enterprise in the Republic of Cuba and franchising in Venezuela. We provide an outline of the changes expected in this former central-planned economies, the key traits that might rise on the aftermath of the transition, the current state of private enterprise in Cuba. We suggest how franchising could be a solution to develop a strong entrepreneurial families in transition economies with future suggestions for research

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Empresa familiar en economías en transición: un estudio exploratorio de la empresa privada

Resumen Este documento tiene como objetivo explorar los antecedentes de las economías en transición observando el nuevo fenómeno de la empresa privada en la República de Cuba y las franquicias en Venezuela. Proporcionamos un resumen de los cambios esperados en estas antiguas economías de planificación centralizada, los rasgos clave que podrían surgir a raíz de la transición, el estado actual de la empresa privada en Cuba. Sugerimos cómo la franquicia podría ser una solución para desarrollar familias emprendedoras fuertes en economías en transición con futuras sugerencias para la investigación

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Introduction

Family business is the most prevalence form of business worldwide. Latin America culture embraces the family ties. It is very common to find family firms in the region that have operated for many years because of their strong family relationship and value their legacy. Historically in Latin America there has been a strong influence of family and social alliances. These alliances, dating to the colonial period, favor the concessions to exploit business activities (Rosado-Serrano, 2017). To this day, business relationships in Latin America are predicated on in-group personal relationships (Becker, 2004) that build around economic and social needs, creating family network systems (Benedict, 1991). This family network systems are based on trust, therefore creating a fertile ground for a long-term perspective and wealth transfer to future generations.

Entrepreneurial family business are the forefront of socio-economic development in virtually all economies today including transition economies. When we talk about transition economies, we are talking about economies that are (or where) Communist countries such as the former Soviet Union, Eastern Europe, China and Cuba, to name a few. SMEs in transition economies (including family business) face unique challenges associated with the lack of transparency, increased foreign competition in their domestic markets, and the legacy of centrally planned economic systems dominated by state-owned enterprises (Bohata & Mladek, 1999; Musteen, et al. 2014). Recently, the Republic of Cuba, which has been under US embargo since the early 1960's, has experimented many changes since the collapse of the Soviet Union, and now is embarking into new waters in which we can see the development of private business activities which were non-existent under the centrally planned economic system. Under this new arrangement, we can find government enterprises competing to provide services with independent entrepreneurs, often called 'cuentapropistas', cooperatives of farmers and taxi providers (among others). Under this new economic scenario, we find family groups organized to provide services in the hospitality and food industry. Under hospitality, there are the 'casa propia' or 'own house' where people rent a room (or house) to tourists. Interesting enough, there is a wide adoption of new platforms such as Airbnb that help in the process of renting, mostly with the help of families outside the island due to the inefficient internet service. Another example under food services are the 'paladares', which is a restaurant, often opened in a private home, and its run by a family or part of it. Another example in the region of a different economic arrangement

can be found in Venezuela. In this mixed economy, the government intervenes with private business and capital accumulation, while focusing on social programs. Entrepreneurs and family business have to adapt to changing government policies toward private business in order to expand and start new business.

In this paper, we explore how family business navigate in transitioning economies. First, we discuss salient elements from other economies that were in transition. Second, we outline key elements family business in Latin America. Third, we provide an outline of private enterprises in transition economies using the examples of Cuba and Venezuela; and fourth, we provide propositions on franchising research on transition economies.

Economies in Transition

It could be said that economic transition for most of the former communism economies has not been an easy process because of the high dependence of social welfare they had previously provided. Orenstein (2008) denotes three major changes that shook these transition economies: the elimination of most of price subsidies, the end of full employment, and the transformation of state-owned enterprises into profit-making entities. Similarly, other issues affected these economies during this process. For example, in Russia, transactions are characterized by low trust between actors and there is a high dependence on strategic alliances and informal agreements (Kuznetsov, et al. 2000). In the Balkans, SME are affected by limited financing, trained management, motivated skilled labour, supply chain and subcontracting networks (Poutziouris, et al., 1997).

Governments and policy makers have become aware of the social and economic development benefits associated with entrepreneurship and SME development (Pistrui et al., 2000). In China, the government developed in 1986 the "Spark Program". This program established several hundred pilot township and village enterprises that promoted science and technologies appropriate to rural industry (Paul-Dana, 1999). It had the effect of innovation creation that influenced other industries in the rural area. Value creation and innovation through local business development are essential for the alleviation of poverty and preservation of the natural environment (Peredo & Chrisman, 2006). In East Germany, entrepreneurship and new venture creation has been crucial to rebuild this region (Pistrui, et al. 2000). Despite this, not all initiatives found on transitions economies are started by their governments and policy makers. In Romania, family plays an important role in transforming its economy. This has been accomplished in two aspects, First with a direct

support of the business, and second by the development of social, community, and economic networks (Pistruoi, et al., 1997). By this resilient effort, families have been the engine driving the economic transition in Romania (Cobianu-Bacanu, 1992).

The family unit represents the only societal institution that emerged from communism intact and functional. Lank (1993) indicated that family firms are a necessity to rebuild these long-deprived and neglected nations. Out of necessity, families (and their extended families) had learned to work together and trust each other, thus forming a strong network. The family network is viewed as a vital resource for community influence, representing an insurance against social and economic uncertainty (Pistruoi et al., 1997). Families in Bulgaria and Romania provide funds, labor, and management for the development of the small-family-business sector (Poutziouris et al., 1997). Therefore, SME and family business are vital resources for transition economies. Family business provide the support that is difficult to attain such as scarce resources, lack of experience, supply-chain issues, prohibitive taxation, under a weak political leadership that fosters the abuse of power due to an increase of corruption. We can say that family business provides trust and resource sharing which is very difficult to have access in transition economies.

Family Enterprise in Latin America

Family business are the most prevalent form of business thru out Latin America and have played an important role in the development of a strong entrepreneurial class in the region reaching companies in overseas markets (Rosado-Serrano, 2016) as they represent 98% of the developing countries economic drivers (Becker, 2004; Poza, 2010). Albeit their relevance in the region, their development varies depending on each country's history, resources and integration into the world economy.

Family business, similarly, have strengthened international relationships between their nation of origin and the host country were part of their extended family has relocated. Family business (often minority- ethnic owned) play a leading role in international trade because of their access to foreign capital and a geographically disperse network (Carney, 2007). This strong network provides access to capital and tangible resources. Family enterprises contribute in the creation and transfer of knowledge, by which competitive advantage is created (Barroso-Martínez, et al., 2012). We could say family enterprises are the most influential force to underpin institutions in Latin America as they provide entrepreneurial spirit, wealth transfer and support to their

communities. Therefore policy-makers need to implement legislation to promote a longer life span for SME and family business succession on the region (O'Neal, 2014).

Private enterprise & 'los cuenta propia' in Cuba

On April, 2011 the Cuban Communist Party during its VI Congress approved a new platform of changes called "process of the actualization of the economic Cuban model" This platform had the purpose of reorienting their economy toward a participative multi-player transition, to help expand market participation over the distribution of goods and services with a goal of promoting the wellbeing of society and personal and family income (Partido Comunista de Cuba, 2011). Under this focalized scope, the Communist Party expect to reduce poverty, promote more equality, and expand social development (Espina-Prieto, 2012). Under this strategy, there will be a development of non-governmental economic activity on hospitality, food and other services based around tourism. The government will recognize and stimulate mix-capital enterprises, cooperatives, property leasing, self-employment (cuenta propia) and other forms of economic initiatives (Partido Comunista de Cuba, 2011).

This initiative has started to shape the economic landscape in Cuba. Per the National Statistics Office in Cuba (ONE) in 2010 there were 442,000 registered private employees (no cuentapropistas) (8.7% of total employment), 217,000 cooperativists (cooperativistas) (4.2%) and 147,000 self-employed (cuenta propia) (2.9%) (Oficina Nacional de Estadísticas, 2010). These changes have brought an expansion of the economic activity and supply of services and products the government is unable to provide as before. Yet these changes are not accepted by everybody in Cuba. Some argue these initiatives are not contradictory with the socialist Cuban project, because it elevates the efficiency of social work; yet others indicate these private enterprises, can grow and become 'capitalists', which is contrary to Marxist theory (Piñeiro-Harneck, 2011). Albeit the current efforts, one of the underlying challenges is the effectiveness of the government policies in promoting a higher response from the private sector toward social wellbeing. Different from other Latin American countries, wealth transfer in Cuba is a challenge. This is a burden as inheritance is one of the cornerstones that underpin family enterprises. In Cuba, there is a complexity and shady interpretation in respect of the indivisibility of the entrepreneur assets and patrimony. Individual business owners must divide their assets in two parts, one that will respond to their business, and the rest is their civil patrimony (Garcés-Guerra, 2017). Contrary to

other economies, these entrepreneurial patrimony (licenses and other permits granted by the state to operate) cannot be transferred to the civil heirs, which in turn, contradicts the going concern. In any business it is expected that ownership is transferred or there is a plan to secure the continuance of the services or products provided. At the current state, there is an immense work to be done in regards of the legal institutions that foster private enterprise development and wealth transfer.

Albeit these challenges small business face in Cuba, there are other economies in the region where there is a governmental social platform and had shown results in the development of private enterprise and franchising, such as the case of Venezuela.

Franchising and Venezuela

Franchising in Venezuela has been a growing phenomenon where there are several domestic franchise brands expanding through the country and in the Latin American region as well as being a host for international brands from Spain, United States among other countries. United States brands like McDonalds, BK, KFC, and Domino's Pizza (among others) are operating in Venezuela (Export.gov, 2017). Highlighting this expansion, there are institutions such as the Venezuelan Chamber of Franchises - Profranquicias that organize, represent and educate franchisors and franchisees. The success of this effort in Venezuela lies on positioning franchising as a successful, inclusive, ethical, socially responsible entrepreneurial model that can provide sustainable growth to the country (Profranquicias, 2018a). Part of this success can be attributed to education such as an offering of a Diploma of Integral Management of Franchises (Profranquicias, 2018b). Even as the economy of Venezuela is highly dependent on oil revenues and there is a tight government control (Franchising.org, 2018), there are successful examples of franchising as means of creating sustainable growth.

Franchising, a solution to the lack of entrepreneurship in family enterprises.

Family business in transition Latin-American economies are faced with tremendous challenges, which could be different from the ones experienced by other family business in the region. When we look at Cuba, the lack of clarity in the interpretations of law, the limited access to financing, the possibility of the abuse of power and corruption are part of the undelaying elements that can interfere with the growth of the private enterprise and the possibility of wealth accumulation and transfer, which is one of the basis that guide entrepreneurial family

business. Albeit these challenges, Cubans continuously try to find innovative and creative solutions, demonstrating their ability to seek opportunities under an uncertain environment. Rosado-Serrano, Paul and Dikova (2018) believed that entrepreneurial orientation is a viable moderator of the relationship between micro and macro level factors, and the propensity to engage in international franchising. As we can see from the success stories in Venezuela, franchising has shown to be a successful strategy in economies with low government support to private enterprises. This position franchising as means for closing the gap for the lack of entrepreneurial knowledge vs. a high entrepreneurial orientation. If franchisors have a strong entrepreneurial orientation, they can easily commit in developing franchise opportunities in foreign markets (Rosado-Serrano et al, 2018). When there is a lack of government support, the strength of the franchisor network and knowledge transfer helps close external gaps. We think the gap between the lack of managerial skills and a highly trained pool of managers can be filled with a high entrepreneurial orientation.

Future attempts must be shown to understand the characteristics and antecedents that are evolving in the different regions in transition economies to provide best practices, and the most appropriate method should be case analysis to understand these antecedents (Rosado-Serrano, 2016). Considering Cuba as a focus of future research, it is important to notice that most of the financing used in the island comes from transfers from expatriates in the USA and abroad. Future studies should explore the impact of these networks in the reshaping of the Cuban economic scenario and the changes into the economic embargo from the USA to this country. The transition of the Cuban economy cannot be compared with other transition economies; researchers must treat this economy different because even the Cuban government does not want to follow the steps of economic transition that was used by other former central-planned economies.

Another research agenda can be targeted toward transition economies that have tight governmental control, yet there are more dynamic financial institutions. Future scholars should explore institutional distance from the scope of international franchising (Rosado-Serrano, et al. 2018). In addition, transition economies with a more structured and dynamic franchising network, should explore these dynamics thru relational contracting theory (Rosado-Serrano & Paul, 2018). Relational contracts are constructed to be 'incomplete' to allow more maneuvering (Rosado-Serrano & Paul, 2018), which in turn can be a real scenario operating in transition economies.

In general, we can say franchising is a powerful tool that can be used by entrepreneurs in developed and developing economies. Franchising can bring together resources, know-how and structure to business concepts that otherwise would require more time and effort. The successful application of this strategy can increase the likelihood of wealth creation and enhance the overall wellbeing of family business in transition economies.

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