

# THE ROLE OF FAMILY BUSINESSES IN OLD AGE SECURITY

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## 1. Introduction

The situation in which possessed retirement savings would guarantee the achievement of financial independence in the period of retirement would be ideal in old age security. This means that a pensioner's income from retirement benefits and (or) private savings would enable meeting their needs not only on a satisfactory level, but also maintaining a minimum of the standard of living similar to the period of their professional activity.

Unfortunately, achieving financial independence through state pension systems is not possible in Poland, as well as in most developed countries of the world, because they usually ensure only the level of the so-called social security. The level of retirement benefits received from such systems usually constitutes around 50-60% of the average remuneration received before retirement, while the replacement rate considered as optimal should represent 65-80% (OECD 2015; Mercer 2019).

Therefore, especially in the context of demographic changes, the future pensioners are more and more often facing the need to seek other possibilities ensuring their old age security.

Due to the low level of interest in voluntary forms of saving that are offered under the pension system (in Poland they include individual pension accounts, individual pension security accounts, employee pension funds' and employee capital plans), there is a question concerning alternative ways of providing security in old age. It is emphasised in the literature (Olejnik 2016; Redmond et al. 2017, pp. 362-375; Haurin and Moulton 2017, pp. 245-276) that old age security can be provided not only by savings accumulated in the pension system, but also by consciously and intentionally raised and clearly separated private assets intended to secure this period of life, expected support from children, and even the plan to continue working indefinitely. Therefore they can, for example, include the following:

- physical assets (e.g. property, real estate, works of art, gold, wine),
- assets accumulated in financial institutions, investment or long-term care insurance, stock market investments, money kept at home,
- intangible assets generated within the natural system, e.g. “investing” in children, with the hope of being supported by them in the period of old age. This approach is considered a type of deposit set up by parents to secure their needs in old age.

Therefore, people who have children, invest considerable financial resources in the upbringing of their children, in the hope that the children will fulfil their obligation towards their parents (Coall and Hertwig 2010, pp. 2-4).

The primary purpose of the private accumulation of pension assets is obviously for individuals to make their old age (financially) secure. However, such assets are also often a very important element of intergenerational transfers (Olejnik 2015, pp. 31-42; Chybalski et al. 2018, pp. 5-18). The issue of the succession<sup>1</sup> of family businesses definitely stands out in this area (Blackburn 2003; Piketty 2015). Thus, it seems important to know whether having your own, preferably prosperous company generating profits also after official termination of work and retirement, can be perceived as one of the unconventional methods of ensuring financial security in old age.

It is worth stating that statistical data concerning family businesses in Poland are quite ambiguous, although according to the Institute of Family Business (2016), 36% of companies in 2016 are family enterprises generating 18% of GDP (for comparison, family businesses make up more than 60% of all companies in Europe, European Commission 2020). Such companies developed in Poland especially after 1989, and now generational change will be more and more often observed. They will be passed on to the next generation – either in the form of succession to the children or through their sale. In the latter case, the income obtained from the sale may certainly constitute financial security in the retirement life of the previous owner. However, in the case of succession to the children, there is a question whether it can also be a form of old age security.

Therefore, the purpose of the paper is to identify the role of family companies in relation to both parties – parent founders and successors – in the context of security in future old age. Therefore, the paper firstly shows a review of the literature related to the perception of family businesses through the prism of old age security. The second part of the article presents the results of qualitative research conducted in this area.

## **2. Theoretical background**

### *2.1. Own company as a retirement security*

Meeting consumer needs in the period of old age requires households to make a distribution of income in time – that is to accumulate savings. Therefore, income obtained after finishing working life comes from the savings accumulated before

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<sup>1</sup> In the literature on the subject, the term “succession” is not clearly defined. According to Słownik Języka Polskiego [Polish dictionary] succession means: 1. “inheritance from somebody; works of art or cultural goods left after ancestors”. 2. “inheriting the rights to the throne” 3. “taking over a senior position” (sjp/pwn.pl, accessed December 27, 2019). Analysing the definitions of succession, it should be noticed that they enclose not only the transfer of ownership or assets, but also the allocation of the labour force and gentle donation of management along with decision-making.

– either in the pension system organised by the state or in any individual form outside this system.

Consumer behaviours related to individual retirement benefit may be influenced by owning a business.<sup>2</sup> Running such a company gives the opportunity of the longest working life (Potts et al. 2001), which is very important for many people, and a lot of people over 50 definitely want to work. This is of great importance especially in the situation of ageism – discrimination on the labour market and in the workplace based on age. Owning their own company also gives senior citizens the opportunity to turn a decent profit in their retirement.

Running a business is also one of the factors that affect saving motivated by old age security. For example, research conducted by Loretto, White and Duncan (2001, p. 397) shows that people running a business choose individual pension schemes explicitly more often than others and that they think in this way they can save more. However, this is not always the case, because the study by Redmond, Walker and Hutchinson (2017, pp. 362-375) shows that the lack of long-term financial security can be a potential outcome of self-employment.

The literature focuses relatively little attention on the perception of an own company run in the form of family enterprises as one of the ways of attaining old age security.

It should be stated that the very possession of own business does not mean that it is automatically a family business. A family company is defined as “one that will be passed on to the family’s next generation to manage and control” (Ward 2011, p. 273). To clarify this concept a little, it should be noted that the definition of a family company comprises several criteria, both objective (e.g. ownership, management method) and subjective (e.g. family involvement in management and work in the enterprise, orientation on transferring the company to the next generation). Therefore, the research issue regarding the perception of the role of family businesses and the related succession process in retirement security seems to be interesting and significant.

## *2.2. Succession of family businesses as a multigenerational transfer*

Succession is a multidimensional process. Firstly, this is because transferring the “achievement”, which a private enterprise is, is not only the transfer of ownership, the accumulated assets or capital (including patents, copyrights, knowledge, etc.), but often also a very important human need and motivator to improve the quality of life for the successors (children) or other person.

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<sup>2</sup> It should be mentioned that as L. Cook (2017) states, in the United Kingdom: “With the sheer number of baby-boomers now approaching retirement age, the era of the “olderpreneur” is upon us”. The author also indicates that “the number of self-employed people aged 65 and over has more than doubled in the past five years. By the age of 70, almost 60 per cent of those still in work are self-employed”.

Secondly, the transfer of a family business to the next generation is rather a specific intergenerational transfer. This is because in this case we are dealing with transfers not only in the “vertical” arrangement (i.e. a family business received as a classic inheritance after the death of the owner<sup>3</sup>), but also horizontal, i.e. the transfer associated with the desire or necessity to transfer knowledge, competences, etc. to the successor by the parent founders even in their lifetime.

The literature on family businesses mostly studies fear of retirement and death of the main founder of such a company among others (Cabrera-Suarez et al. 2001; Filser et al. 2013, pp. 256-277). Therefore, thirdly, due to a rising life expectancy of parent founders, their decisions at the stage of “pre-succession” are relatively extended (which, however, can lead to unexpected drops). The owners often believe that their company success depends on their involvement, so they wish to stay in the company even after retirement (Bruce and Picard 2006, pp. 306-309). This phenomenon is caused, among others, by the fact that business owners invested a lot of time and effort to build and develop their firm, thus devoting their whole lives to it. The fear of retirement associated with the company's succession may also be the result of perceived loss of status and fears of not knowing what to do after retirement. What's more, seniors postpone the process of succession, because it makes them aware of the approaching retirement age, and thus raises negative emotions associated with old age and death. And this, in turn, may give rise to conflicts between the business owners and their potential successors, especially because of diverse perceptions of how to run the company, as well as due to different visions of the directions of the company development<sup>4</sup> (Filser et al. 2013, pp. 256-277).

As a consequence, it happens that due to family conflicts related to succession, the companies often fail (Tkaczyk 2017, pp. 29-30). This is proved by the results of the research presented in the PwC Report (2016). They indicate that in Europe only just over 30% of all family firms transfer the business ownership to the successors and only 15% of them have a ‘plan’ for the succession process.

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<sup>3</sup> Here it should be noticed that in the literature, among various categories of motives encouraging people to accumulate resources intended for leaving as succession, Kohli and Kunemund (2003, pp. 123-142) emphasize the motif of eternizing the resources – this is the so-called “Dynasty model”. The succession is then the result of the necessity to transfer the accumulated resources that have been collected for the sole purpose of their increase or perpetuation. Therefore, they will be willing to leave the succession if their children want to continue the family business and do not change their lifestyle (Chu 1991).

<sup>4</sup> The issue of conflicts in family businesses is the subject of many studies. It is worth noting that such conflicts result from completely different factors that characterize business and family ties, i.e. goal orientation versus emotional aspects. In addition, stability and tradition are important for the family, whereas for the company it is important to react quickly to changes in the environment. Therefore, introducing changes in the enterprise may have a negative impact on family relationships and thus cause a conflict (Leach 2011, pp. 28-40; Harvey and Rodney 1994, pp. 329-350; Pieper et al. 2013, pp. 489-495).

Thus, it is often emphasised in the literature that it is vital to develop a plan of succession and indicate the role of the owners during the process and afterwards. In the latter case, it is also necessary to possibly plan the pension benefits through for example obtaining income from the company profits or remuneration for further work performed by the parent founders (Walsh 2011, p. 17). What is more, the research by Collins, Worthington and Schoen (2016, pp. 51-70) shows that “when family firm CEOs have confidence in the continuity of their firm after they retire, their retirement well-being expectations are higher”. Bulut et al. (2019) also emphasize that beside sustaining the profitability of the family business, the most important criteria for the selection of a suitable successor for the family company also include the expectations of the parent founders related to their retirement benefit and resulting possibilities to secure the financial comfort of their family in the future.

### **3. Research results**

#### *3.1. Methodology of research*

Primary research was conducted to identify the perception of owning a family business as a potential security for old age. Qualitative studies were performed in which the method of individual-in-depth-interviews was applied. They were followed by semi-structured interviews and field note-taking. The scenario consisted of several parts, and the paper presents the results of one group of questions, i.e. the perception of the role of owning a family business as a way of providing financial security in old age.

This study was conducted for 2 months in 2019, among representatives of family businesses, located in Wielkopolska and Kujawy (although in most cases they were operating throughout Poland).

Participants were selected through purposive sampling. This kind of sampling was found appropriate to obtain the best insights about the perception of a family business in the category of retirement security. Purposive sampling is useful in qualitative research, particularly among populations which are difficult to access, and when the research issues may be perceived by the respondents as difficult and sensitive. Therefore, participation in the research presented below was obviously determined by having a company and an adult child / children – the successors (potential or real).

The survey was conducted among 18 respondents:<sup>5</sup> 9 family business owners and 9 successors. There were 8 men and 1 woman, aged 48-70, among the respondents who were the owners of the participating companies, whereas the successors (including potential ones) were represented by 7 men and 2 women aged 22-42. Due to the subject matter of the study, the predecessors and successors were interviewed separately. It should be added that in the case of three enterprises, the

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<sup>5</sup> Some interviews (12) were conducted as part of the master's thesis by Mateusz Filipiak: “*The role of intergenerational transfers in pension security on the example of family businesses*”, Poznań University of Economics and Business, Poznań 2019.

succession process had already been completed, in one company it was in process during the implementation of the study, in three it had not been planned yet, and in two cases company liquidation was planned for the moment of reaching the retirement age of the owner. Sectors represented by the respondents included the construction services, car mechanics, hotel industry, gardening services, clothing production and trade, as well as the production of plexiglass products.

The analysis of the content of the collected material was performed according to the principles developed by Miles and Huberman (1984), and with the use of the descriptive, attribute and process coding of statements in accordance with Saldan's recommendations [2009].

### 3.2. Findings

The conducted research shows that the perception of family businesses in the context of pension security is very diverse. In their spontaneous answers (at the beginning of the interview), company owners (especially: younger owners or owners representing entities that were not in a very good financial condition or were operating in non-prospective industries), do not perceive their company as a way of making their old age financially secure (4 respondents out of 9). However, they declared that in the case of a possible termination of their activity before reaching retirement age, they would treat the capital obtained from the sale of the company as a form of retirement security. It is worth quoting the statement of one of the respondents at this point: *“My son does not want to take over the company. I have already planned its liquidation. I will keep these funds for serious expenses in old age. They will be kept and will constitute financial security in the event of illness, or disability”* (male 67 years old, gardening services).

It is worth noting that all owners of family businesses recognise the potential of these entities in the context of providing old age security. Firstly, they indicate that while conducting business activity, they have been trying / were trying to secure their future through saving cash (by establishing foreign currency deposits, purchasing bonds, etc.; this method was indicated by 5 out of 9 respondents). Secondly, they make investments in real estate, especially by purchasing flats for rent or other assets that can be easily sold (3 owners). Thirdly, some (3 respondents) would like to receive a certain percentage of profits or other financial support from successors regularly after the transfer of the enterprise (*“If I transfer everything I have worked for to my children, which is a good start for a child, then it is logical for the child to give a few percent of the profits to support his parents”*, (male aged 59, construction sector). (*“I count on such support, because from the pension I receive, you can only buy medicines and do small grocery shopping. However, to have a decent life, go somewhere or visit some places, I only count on the support from the younger generation. (...) They received from us a well-organized workshop, (...) they have the opportunity to earn money, which we have created for them, so hopefully, they will offer us a share”* (male aged 65, construction industry)). Fourthly, some also indicated that they expect financial support from time to time (especially in case of illness), but this is not necessary. For them, maintaining a business is more important, so that *“all generational work*

*is not wasted, and continuity is maintained*”, hence they would prefer the successors to support more the next successors – their children rather than the company founders (3 respondents). Fifthly, business owners would also like to work in their companies as long as their health would permit, even after the succession process and retirement (4 respondents). This factor, along with the financial aspect (obtaining additional remuneration for work), is associated with the wish to advise, influence and control the activities of the company founded or received by them. The last aspect of the perception of a family business in the context of retirement security is related to this. Namely, it is the intention to run the company as long as possible, and then its sale (despite having children) to obtain funds for old age security (2 respondents). The owners indicated that due to other interests of their children or potential conflicts, they do not intend to transfer the company (*“Ending my life is equivalent to closing the business. I close the door and the company ceases to exist. Conflicts appear where transfer of business to children starts. It has always been like that”* (male aged 57, hotel industry)).

On the other hand, analysing the opinions of the other side of the succession process – those of the successors – it can be noticed that in the context of retirement security for seniors they see two basic issues. The first of them is the problems related to financial support, whereas the second one is further work of the senior pensioner.

In the case of financial support, two clear attitudes can be identified:

- 1) full agreement as to the fact that there should be a kind of “compensation” made by successors for senior citizens for the received company (*“I want to support financially, but also send to health resorts or trips, so that he would feel appreciated, and would know that we are grateful”* (male aged 40, car mechanics)). They also think that financial support may depend on the form of takeover and the size of the assets that are in the hands of the parents. They point out that while taking over the entire company and depriving the seniors of the source of income, it is natural that they want to reward them somehow, so that they can have a decent life. They also emphasize that *“you have to remember that they have devoted all their lives to children and the company, and you cannot take over the company and leave them with nothing. They should be rewarded for the effort they put into the company development and ensure them a decent life”* (male aged 30, construction industry).
- 2) the lack of acceptance for the need to support the seniors (*“I am always annoyed that it is said that if parents give something to their children, they expect something in return. (...) These are no longer times that you have to run a business for the rest of your life and be faithful and unhappy”*, (women aged 40, hotel industry)). It is worth adding that the successors think that their parents, while running well-profitable companies, can / could take care of their own livelihood in old age (*“The older generation should be able to manage their own wealth wisely so that people who take over the company do not have to think that they owe something to someone”* (male aged 28, construction industry)).

However, when analysing the attitudes of successors towards further work of the parent founders in the family businesses, they all express fairly consistent opinions. They indicate that after the succession process is finished, it is natural to consult parents in matters regarding decisions that are made. Over time, however, they expect full independence in the company management.

### **3. Conclusion**

In conclusion, it should be emphasized that the role of family businesses in retirement security is a very multidimensional issue. The performed research shows that conducting business activities and reasonable management of accumulated assets should provide owners with adequate financial resources in their retirement age.

Analysing the role of a family business in the context of retirement security in the study, attention was also focused on such aspects as:

- the opportunity to work in such a company for as long as the senior citizen wants and as long as their health condition permits to do that; in this case age discrimination does not exist (naturally, if there are no conflicts between parent founders and successors in this respect),
- in the absence of a suitable successor – funds obtained from the sale of the company (which usually occurs just before reaching retirement age or even after reaching it) may also constitute a significant source of financial security in old age,
- in the succession process, the senior may expect a share in the future profits of the transferred enterprise,
- sometimes informal retirement support from successors to parent founders is expected.

It is necessary to add that the study has certain limitations. First, the results are based upon a small sample size, thus results should not be referred to the whole population of family businesses. Hence, in the future, a broader survey among family businesses with the use of qualitative or a quantitative research would be relevant. Another shortcoming of the study is that the author conducted the research only in the area of intra-family succession. It would also be advisable to perform further research over other areas of perceiving a family business as a way to secure old age, e.g. the transfer of the company to non-relatives.

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