

FAMILY BUSINESS OWNERS PLAN OVER THE LONG TERM: FRAMEWORK OF RESEARCH AND PRELIMINARY RESULTS COVERING THE CZECH REPUBLIC

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Abstract

A family business is characterized by a combination of ownership, management, and family, in other words, linking the business and family life. Family businesses are the predominant form of business all over the world and have a significant impact on economic growth, employment or social development. The literary research shows that what distinguishes the family business from non-family one are unique characteristics such as long-term planning. The validity of these specifics will be verified by using research questions. The article deals with a family business with a focus on its specifics: long-term planning and generation exchange and presents the preliminary results of 20 family businesses from the Czech Republic. The respondents of the research are the owners of private Czech family businesses. The data presented in this paper are analysed by using descriptive statistics, namely frequency and percentage and are collected from the beginning of August until the end of September 2019. Based on preliminary research it was found that 85% of the surveyed companies make plans (of which 50 % form strategic plans and 15 % form plan for 3 years). 85% of analysed companies plan to hand over the business to the next generation.

Keywords: family business, preliminary research, Czech Republic, definition of family business, long term planning

1 INTRODUCTION

Family businesses are the predominant form of business all over the world and have a significant impact on economic growth, employment or social development. They are characterized by a combination of business and family life.

J. Casado states that family businesses are an indisputable asset to sustainability of European economy. However, economic policy, mainly based on statistical data, reflects them poorly. Policymakers should consider the ownership structure of these companies and the contribution of human factor to the business. (Botero et al., 2015)

Insufficient attention has been paid to the family business until recently. The situation has changed over the last 30 years and much attention worldwide has been devoted to the research of family business. The problem that remains is the existence of many definitions of family businesses, which does not allow for objective comparison of the research carried out. Earlier this year (2019), the Czech Republic approved the definition of family business. The definition is given below in the theoretical background.

In the Czech Republic, as in the other post-communist countries, continuous existence of the family business was interrupted. Most contemporary family businesses were established after the revolution. Nowadays, the first-generation exchange progress in these companies. Therefore, there is a growing interest in this issue. One of the most difficult organizational changes that any successful family business must face is the succession process (Rodríguez & Tàpies, 2010). Paying early attention to this process and developing a succession plan is important because of its inevitability (Rodríguez & Tàpies, 2010). The complexity of the

succession process leads to a high number of failed handovers (Matser & Lievens, 2011). According to Ward (2011), only 13% of businesses remain family-owned in the third generation, while for the second generation, about two-thirds of the companies remain family-owned. Insufficient planning is one of the main reasons for the failure of a business transfer because when planning the participants realize the complexity of the succession process (Matser & Lievens, 2011). Only 52% of Czech family business owners are interested in a generational exchange, mainly asking for advice from their friends (n=331) (Survey of AMSP CZ, 2018).

One way to facilitate handover is to determine the value of a family business. The value of a family business should include not only financial but also non-financial aspects specific to this type of business (Astrachan & Jaskiewicz, 2008). These specifics form socioemotional wealth (SEW) of family business. One of these aspects is long term planning. Long-term planning with a view to pass the family business to future generation serves as motivation to develop the company for family business owners. Zellweger et al. (2012) found out that transgenerational control intention has a consistently positive impact on the perceived acceptable selling price. Miller & Breton-Miller (2006) claimed that the family's intention to pass the business to subsequent generations is associated with enhancing financial performance.

The structure of the article is as follows. The first part of the article is devoted to the theoretical background of family business such as the definition of family business and the long-term planning which is one of family business specifics. The second part is devoted to the methodology of ongoing research. The last part of the paper presents the evaluation of preliminary results of the research.

2 THEORETICAL BACKGROUND

Family businesses are typically characterized by a high level of social responsibility towards their employees, actively and responsibly managing resources. They usually consider the economic future of the business in terms of sustainability in the long term, thereby significantly contributing to the life of local communities and to Europe's competitiveness and to create and maintain quality jobs. (European Parliament, 2015)

Williams (2018) is the author of the most commonly used non-financial performance indicators based on the analysis of publications.

The SEW concept was first formally introduced by Gomez-Mejia et al. in 2007 (Cennamo et al., 2012). Gómez-Mejía et al. (2007) characterized socioemotional wealth (SEW) as a noneconomic and emotional value associated with a family business. SEW is influenced by satisfying family needs such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty. The decline in SEW is seen as a significant loss for a family business. To avoid this loss, businesses are willing to take a greater risk, even one that may threaten the very survival of the business. Zellweger et al. (2012) found out that intention for transgenerational control has a consistently positive impact on the perceived acceptable selling price. The selling price of a business is usually lower for a buyer within the family than for an outsider because the family wants to be compensated for the loss of SEW.

2.1 Definition of Family Business

The family businesses have been a matter of concern to the European Union (EU) and the individual member states in the last years. The EU has developed its own proposal for a definition of family business, which should help facilitate the analysis of these companies (EHSV, 2016). As reported by Sharma (2004), many definitions of family business are known,

but none of them is generally accepted. Experts use different factors to distinguish these businesses from non-family ones, such as percentage ownership, strategic control, multi-generation involvement, and the intention of owners to keep a business in the family (succession planning) (Astrachan & Shanker, 2003).

An overview of definitions from 1960 to May 2017 was compiled by a team of authors Diaz-Moriana et al. (2019) in the article called *Defining Family Business: A Closer Look at Definitive Heterogeneity*.

Defining family businesses for examining the differences between family businesses and non-family ones is important also according to Czech authors Hnilica & Machek (2015). Researchers have concluded, given the unique legal background in different countries, universal definition for all of them is not desirable. Despite this recommendation, any definition of family business should consider three factors (Hnilica & Machek, 2015): (a) family's share of business ownership, (b) involvement of family members in company management, or (c) membership in the executive or supervisory board to maintain control over the company.

In the Czech Republic, the definition of family business was approved on 13 May 2019 (AMSP CZ). The Association of Small and Medium-sized Enterprises and Crafts of the Czech Republic (AMSP CZ) proposed the basis of the definition reflecting the standard formulated by the European Family Businesses and Czech and foreign professional resources. Since its adoption, the definition is binding on the government members and the representatives of the state administration. The aim was to define the family business so that the definition is applicable to everyone, to create the definition suitable for stakeholders and based on it to make measures specific to this type of business (e.g. to support them). The new definition deals with family businesses and family crafts. To summarize it, to be considered as a family business corporation it is important that the family owners have majority control over the company and at least one member of the family is its company agent. As a family craft is considered the business in which are included at least two family members by their work or property (HK ČR, 2018).

2.2 Long term planning in a family business

Miller, D., & Le Breton-Miller (2006) defined long-term orientations as priorities, goals, and concrete investments that come to fruition typically 5 years or more. The long-term orientation of any firm is a concept that includes many aspects, such as brand building, innovation, and human resource management (Block, 2009). Family businesses are considered to be more long-term oriented than non-family ones (Block, 2009).

Based on a literature review, Berrone et al. (2012) identified five categories of SEW. One of these categories is the renewal of family bonds to the firm through dynastic succession. Family business is characterized by long-term planning and the intention to pass the business to future generations is one of the key aspects of SEW. Long-term planning affects corporate decision-making processes, the company is not an easy-to-sell asset but symbolizes family heritage and tradition. Berrone et al. (2012) considered important to deal with business transfer to the next generation and unwillingness to consider selling the family business, the importance of continuing the family legacy and tradition, and evaluation of investment because family owners are less likely to evaluate their investment on a short-term basis.

Block (2009) considered the benefits of long-term orientated family companies as more effective monitoring because family is known in the society, strong family identity and plan to transfer it to the next generation, emotional attachment of family owners to their company and lower information asymmetry between owners and management. Dutch research showed (Matser & Lievens, 2011) that strong attached of owner-manager to the company can also cause

problems because the original owner is not able to leave the company and give responsibility to the successors.

Succession planning is one of the key business research and is important for business continuity. Strong motivation for continuity and strong family harmony are generally seen as the ideal motives for business succession by literature. (Gilding et al, 2015).

Long term survival of a firm is one of the business-centered goals. Between family-centered non-financial goals belong family ownership sustainability, which refers to the long term goals; sustained family ownership, control and influence; and intra-familial succession and employment of family members in the family business. (Binz et al., 2017)

Many family businesses transfers are unsuccessful, in part, this is because personal and emotional factors determine who the next leader will be. The problematic succession is caused by an inappropriate relationship between an organization's past and its present. The issues may arise when the new leader is too conservative (too attached on the past), or too rebellious (rejecting the past), or too unsure one (an incongruous blending of past and present). (Miller et al., 2003)

Mazzola et al. (2008) state the major benefits of the strategic planning process. The strategic planning process can play an important role in the development of next-generation family managers after they join the firm. The involvement of the next generation in developing strategic plan content can help the firm to receive benefits: educational and relational. Authors suggest that next-generation benefits are increasing in the presence of certain conditions: 1) the adoption of a formal and broad strategic planning process, 2) the existence of either a business or an ownership purpose behind the realization of strategic plan, and 3) the next generation's involvement in the process.

3 RESEARCH

3.1 Hypotheses and research questions to verify them

Based on the theoretical knowledge, the hypothesis was formulated and its validity is verified by research questions whose respondents are family business owners. Literary research leads to hypothesize the following: Family business owners plan over the long term with the aim to hand over their business to the future generation. The following research questions were formulated:

RQ1: Do you have clear intentions regarding the future development of your business?

Options: A) we create strategic plans / B) we create a three-year outlook / C) we have an annual plan / D) we plan in the short term / E) we don't have a plan

RQ2: Do you plan to hand over the family business to the family members in the future?

Options: A) Yes, I already know the name of successor / B) Yes, but I have no successor selected yet / C) No, I don't plan to hand over the business to family members

RQ3: Are you already preparing successor to take over the business? (sub-question if the answer to Q2 is "Yes, I already know the name of successor")

Options: A) Yes / B) No

RQ4: If you are not preparing a family member to take over the business, choose one of following options: (sub-question if the answer to Q2 is "No, I don't plan to hand over the business to family members")

Options: A) we plan to hand over the company to one of the employees / B) we plan to sell the company to an unknown buyer so far / C) we plan to sell the company and we're already looking for a buyer / D) we plan to sell the company to a known buyer / E) write other options

RQ5: Do you plan to continue working in the company after the handover?

Options: A) Yes / B) No

3.2 Data collection and analysis

The data are collected via face-to-face interviews, phone interviews or electronic communications. The respondents of the research are the owners of family businesses in the Czech Republic. The data are collected in the family companies following selected criteria (see below). The research includes private family businesses that meet the newly approved definition of family business in the Czech Republic. Another criterion is the size, a family business from 10 to 250 employees can be part of the research. These undertakings belong to the category of small and medium-sized enterprises (SMEs) because most family businesses are SMEs (European Parliament, 2015).

Given the non-existent family business database, the research does not obtain a random sample but a sample survey. This may lead to inaccuracies, but there is no more precise way to get the sample in the current situation where family businesses are not registered by the statistical office. For example, Czech authors Hnilica & Machek (2015) compiled a database by using a developed algorithm that searched for family businesses by surname matching, but this excludes, among other things, companies where family members have different surnames.

This paper presents the preliminary results of ongoing research. The data presented in this paper is analyzed by using descriptive statistics, namely frequency and percentage and are collected from the beginning of August until the end of September 2019.

4 PRELIMINARY RESULTS

This part of the article presents the results of the ongoing research. The research has been carried out so far in 20 companies, of which 60% belong to the manufacturing industry (Table 1).

Tab. 1 – Family businesses according to NACE code. Source: own research

NACE code	Sum
C - manufacturing	12
F - construction	1
G - wholesale and retail trade	2
I - accommodation and food service activities	1
N - administrative and support service activities	2
P - education	1
S - other service activities	1

The answers to the research questions are given in Table 2.

Tab. 2 – Preliminary results of the research. Source: own research

	RQ1	RQ1 [%]	RQ2	RQ2 [%]	RQ3	RQ3 [%]	RQ4	RQ4 [%]	RQ5	RQ5 [%]
A	10	50	9	45	8	40	0	0	18	90
B	3	15	8	40	1	5	0	0	2	10
C	4	20	3	15			1	5		
D	2	10					0	0		
E	1	5					2	10		
Sum	20	100	20	100	9	45	3	15	20	100

Based on the research questions, it was found that 85% of the surveyed companies make plans. From this preliminary research, it can already be ascertained that a large proportion of family businesses forms strategic plans (50%) or plan for 3 years (15%).

The author focused also on the plans for the future of the companies. 85% of companies are to hand over to the next generation. 9 owners stated they already know the successor and only one of them is not preparing him/her for the takeover (the owner has a small child). In case of 3 businesses the owners do not plan to hand over the business to family members. Their future plans include: the sale when the buyer is already known; owners do not currently deal with the future handover of the business; owners have no vision yet. Only one of the surveyed owners said he/she plans to sell the company.

5 DISCUSSION AND CONCLUSION

The article deals with private family firms from the Czech Republic. Most Czech family businesses were founded after the revolution and their owners are now challenging the succession process which is one of the most difficult changes that every company must face.

The literary research showed that family businesses are characterized by long-term planning and the intention to pass the business to future generations (Block, 2009; Berrone et al., 2012; Binz et al., 2017). Based on the preliminary results, we can say that most family businesses form a business plan. One-half of the analysed companies (10 companies) prepared a strategic plan. The majority of family business owners plan to hand the business over to the next generation, but the origin owners still plan to continue working in the company as an independent consultants or members of the board of directors or the supervisory board. This fact may undermine the effective functioning of the enterprise (Matser & Lievens, 2011). According to the preliminary research presented in this paper, we can confirm that most of the Czech family business owners plan over the long term, they plan to keep the business in the family and are actively preparing their successors for taking over.

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