
Specifics of the Development of Family Businesses in the Czech Republic

Naděžda Petru¹, Karel Havlíček²

Abstract:

In many developed countries, there has been a long tradition of family enterprises, and family enterprises have played a major role in national economies. A family enterprise can be regarded as the main pillar of economy, providing many job opportunities. In functioning market economies, family enterprises are associated both with small businesses but also large corporations, and present a major source of income for the state budget. The support of family enterprises is based on a sophisticated ecosystem of national institutions, associations, educational and research centres. In the Czech Republic, family businesses are mostly associated with small and medium-sized enterprises. These play a major role in the development of the endogenous potential of individual regions of the Czech Republic. Family enterprises are linked to a particular region, both commercially and socially, and form a regional business backbone and a basis for regional infrastructure. Their task also lies in the social area. The purpose of this article is to define a family business and to define the status of family businesses, in particular in the Czech Republic. The subject matter of the research is a family business as an economic feature. The scientific objective is to evaluate the current situation in the Czech Republic, and to propose functional ecosystem support of family enterprises, based on university educational programmes. The paper has been prepared on the basis of general theoretical scientific methods, in particular the method of comparison of secondary data in published publicly available researches, its analysis, synthesis, comparison, analogy, deduction and generalisation, and using a method of professional estimates. This study helped to establish that family businesses represent a true economic potential for the Czech Republic. A conclusion was made that an expert group for a family enterprise should be established, in cooperation with the Association of Small and Medium-Sized Enterprises and Crafts of the CR and one of the universities in the CR. This group should coordinate the origin of a comprehensive educational programme covering issues such as the specifics of family business management, handing over a family enterprise to the next generation, risk management, how to manage the entry of family businesses to foreign markets, and how to access funds and subsidies for their further development.

Key words: *Family business, trust fund, small and medium-sized enterprises, management.*

JEL Classification: *D10, M50, R10*

¹Ing. Naděžda Petru, University of West Bohemia in Pilsen, Faculty of Economics, Husova 11, 306 14 Pilsen. Tel.+420 736 528 436; e-mail: petru.nada@seznam.cz.

² doc. Ing. Karel Havlíček, Ph.D., MBA, University of Finance and Administration, Estonská 500, 110 00 Praha, www.vsfs.cz; Tel.: 420 210 088 802 (sekretariát FES); e-mail: 8047@mail.vsfs.cz. Chairman of BoD of Czech Association of SMEs and Crafts, www.amsfp.cz.

1. Introduction

Throughout the world much attention is paid to family enterprises as they have a major impact on the global economy. Family enterprises can be found in more or less all fields of the world economy, and have a major impact on the rate of employment, added value, investment and capital formation (Allouche et al. 2008). Well-known global brands are family enterprises. The Global Family Business Index³ includes the 500 biggest global family businesses. This index provides clear proof of their economic power. The revenue of the top five companies amounts to **1,070.2 billion \$ and the companies employ 3,585,986 employees** – see Table 1.

Table 1. Global Family Business Index - TOP 5 Companies

Rank	Company	EST	Revenue (2013) (billion)	Employees	Country	Family
1.	Wal-Mart Stores, Inc.	1962	476.3	2,200,000	USA	Walton
2.	Volkswagen AG	1937	261.6	572,800	Germany	Porsche
3.	Berkshire Hathaway, Inc.	1955	182.2	330,745	USA	Buffet
4.	EXOR SpA	1927	151.1	301,441	Italy	Agnelli
5.	Ford Motor Company	1903	146.9	181,000	USA	Ford
Total			1070.2	3,585,986		

Source: according to Zellweger T.: *Global Family Business Index*. Center for Family Business at the University of St. Gallen, Switzerland. 19.may 2015.

Available at: <http://familybusinessindex.com/#table>

Globally, family enterprise is a field of study taught at universities - e.g. the Center for Family Enterprise and Ownership at Jönköping International Business School in Sweden, the University of Jyväskylä, School of Business and Economics in Finland, the European Business School in Germany, the Family Business Centre in Switzerland, the Cambridge Institute for Family Enterprise, and the IMD in Lausanne offers an MBA for owners of family businesses, etc. In 1984 Barbara Hollander (1939-1993) started Family Firm Institute, Inc. in Los Angeles with the mission to be most influential global network of thought-leaders in the field of family enterprise. Professionals, teachers and scientists, as well as owners of family businesses from more than 88 countries from around the world (nearly half of all nations) belong to the FFI. Together they represent the oldest and most prestigious multidisciplinary professional association of family enterprise in the world. In 1997 the Federation of European Family Enterprise was founded. Its main objective was

³ The Index is compiled by the Center for Family Business of St. Gallen, Switzerland in cooperation with the EY Global Family Business Center of Excellence.

to create regulatory frameworks (legal, tax, administrative) to support continuous family enterprise and to ensure equal conditions for accessing (own and foreign) capital as resources for funding a family business, to enable education and support of a new generation of sole traders, to process statistics evaluating the share of family enterprise in EU economy, and to prevent excessive red tape.

The situation in the countries of the former socialist block is more complex. Regulation and support of family enterprise **is no different** from the regulation and support of companies that are not family owned. Only issues concerning legal aspects, such as succession and reallocation of ownership, differ (Petrů, Jakubíková, 2015). Considering the fact that there is no single definition of the term "family enterprise" and no statistics specific for family businesses, the number and importance of family businesses can only be estimated in the CR. The Chamber of Commerce of the CR mentions in its reports a number of entrepreneurs, including family members involved in the family business - based on the methodology of the International Labour Organisation (ILO) - i.e., 793.8 thousand people in the second quarter of 2015. The Czech Statistical Office (ČSÚ) does not carry out separate statistical evaluation of family businesses. In a sample survey, entitled Employment in NH by job position, job classification and qualifications, we can find an item entitled Entrepreneurs, including family members involved in the family business, and in the third quarter of 2015 we can see the number of 871.6 thousand, which means that entrepreneurs had a share of 17.2% of total employment (ČSÚ, 2015). The key state institution supporting business enterprise in the CR, the Ministry of Trade and Commerce, does not deal with family enterprise, however, with regards to the fact that family enterprise is mostly in the SME sector, the support provided to SME also covers family enterprise. One of the priorities of the government is to support the competitiveness of small and medium-sized entrepreneurs, who in the CR represent more than 1 million business entities, i.e., 99.84 % of all entrepreneurs. They employ over 1.8 million people and contribute by circa 51% to exports and circa 56% to imports (MTC, 2012).

The Association of Small and Medium-Sized Entrepreneurs and Crafts of the CR (AMSP CR) has a systematic approach to researching process phenomena of family enterprise in the Czech Republic. The Association defined the segment of family enterprise as one of the strategic priorities of AMSP CR. Based on the qualitative research of AMSP CR⁴ it is shown that a **strong point** of family businesses in the CR is the interconnection and agreement between family members involved in running the company, their commitment, motivation, flexibility, stable culture,

⁴ AMSP ČR organises a systematic collation of data across the CR regions, based on qualitative research in the form of focus groups and round tables, using a sample of 20-30 family businesses. 17 March 2015 - the first round table of family businesses that are members of the Association of Small and Medium-Sized Enterprises and Crafts in the CR; 1 May 2015 – the second round table in Brno; 30.10.2015 – the third round table in Hradec Králové.

speed of adopting decisions, proximity of local markets, pride in family tradition, trustworthiness, orientation towards quality and responsibility towards employees, customers and suppliers, and long-term perspective. Based on the research, the objective of owners is not primarily profit but building up a company that will survive and provide a livelihood and financial stability to descendants. Family businesses reinvest their profit into the development of their enterprises; they take fewer risks, focus on long-term planning, prefer non-tangible values and promote trust amongst family members. They use their own know-how, which is their competitive advantage when building up long-term relationships with their customers and suppliers. They offer space for self-fulfilment and contribute to creating a tradition - the family enterprise is perceived as a family value which is worth developing. The research shows that **internal weak points** could be, in particular, emotional pressure between generations, rivalry between siblings, nepotism (favouring family members in the company), inability to separate a family role from a company role, not enough free time, not enough time for their families, and the transmission of negative situations and conflicts from family to business and vice versa. The necessity to bring up successors and to hand over the management and ownership of the company and the associated conflicts (unwillingness of the founding father/mother to hand over decision making to the next generation, the unwillingness of the next generation to accept responsibility for company management, etc.). **An external factor** influencing the success of family enterprise is the attitude of investors to funding, tax policies, legislation not reflecting family enterprise, the overall business climate in the company, and the approach of entrepreneurs to the knowledge, skills and education of family members (Břečková and Havlíček, 2013).

It can be deduced that in a market economy based on the principle of competition and free pricing, family businesses fulfil an important economic function. They are more flexible in adapting to market needs, they keep innovating and offer an added value to customers in order to survive fierce competitive fights. They significantly contribute to total employment and fulfil an important role in creating potential jobs. (Stážovská, Stážovská, Krošláková, 2008)

2. Family Enterprise Definition - Literature Review

William O'Hara in his book *Centuries of Success* comments: *"Before the existence of transnational corporations, there was family enterprise. Before the industrial revolution, there was family enterprise. And even before the Greek or Roman Empire, there was family enterprise."* We need to define the terms concerning this issue if we want to define the term family enterprise.

Entrepreneurship and doing business are basic human traits - the actual terms **entrepreneurship and entrepreneur** can be traced far back. One of the first definitions, dating back to the 18th century, is attributed to Richard Cantillon (1755). "An entrepreneur can be identified as an individual that owns and manages an

enterprise..." The word "entrepreneur" was known and used before the publication of Otto's dictionary (1893). This term can describe a person that puts time, effort, goodwill, resources and know-how into an enterprise in order to capitalize on the resources and to reach the set up strategic objectives. In the CR an entrepreneur is defined by the Civil Code as:

- *"a person performing gainful activity as a sole trader, or otherwise, independently on his/her own account, bearing the responsibility;*
- *A person who makes contracts related to his/her own commercial, manufacturing or similar activities, or independent performance of his/her job, or a person who acts on behalf, or at the cost of an entrepreneur;*
- *A person registered in the Commercial Register;*
- *A person who holds a trading licence or another entitlement in accordance with the law."* (Act 89/2012 Coll., Sections 420, 421)

A business enterprise is a planned, organised economic unit, consisting of tangible, personnel and intangible items. Part of the enterprise is to satisfy the needs of other parties through the making and selling of material goods, provision of services, or trading goods. The fundamental objective of an enterprise is profit, and the aim of a family business is to hand over the business to the next generation. (Synek, 2007) considers an enterprise to be a *"basic unit where production takes place or services are provided."* Veber and Srpová (2008) define an enterprise in more general terms as *"an entity where resources (entry) are transformed into goods (outputs)."* Regulation No. 800/2008 of the Commission defines an enterprise as follows: *"An enterprise is any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and **family businesses** engaged in craft or other activities, and partnerships or associations regularly engaged in economic activity."*

Family businesses. There is no single definition of a family business in social and economic sciences, academic research, adopted legislative measures, public discussions, etc., that could be universally applicable to all areas associated with family enterprise. Sharma et al. and Chua et al. summed up literary sources and identified 34 different types of family businesses. The Austrian Institute for SME Research identified in its analysis 90 definitions of family enterprise used in European countries. (Mandl, 2008). The Family Entrepreneurship Working Group⁵ from Finland stated that a company is a family business if:

- Most votes are owned by: a natural person/s who have founded the company; natural person/s who have acquired the company capital, or his/her (their) spouses, parents, children or direct heirs of their children;

⁵ It was founded in 2004 by the Ministry of Industry and Trade in order to define family enterprise, to establish the number and size of family businesses in Finland, to analyse their industrial structure and to establish their importance for the Finnish economy.

-
- At least one of the representatives of the family or kin is involved in the management or administration of the company;
 - Registered companies comply with the definition of a family business providing the person who founded the company or acquired the company (share capital), his/her family or ancestors, own 25% of voting rights as determined by their share capital.

Koráb (1998) states a definition by the Institute for Family Enterprise in Spain: "*Family businesses are businesses with the largest, or at least the most important capital share held by several people or companies from one family, providing they participate in the management of the company and company bodies, regardless of the economic sector in which the company operates.*" Hesková (2007) writes that a company can be regarded as a family business if:

- It is owned and controlled by at least one or more family members;
- Is controlled by members of more families;
- The company management falls under the competency of family members (owners) and successors of the founder, and the company also employs staff who are not family members;
- In addition to the owner, at least one more family member is employed by the company;
- The company is multi-generational;
- Family members have long-term ambitions, personal skills and objectives for possible future generations;
- The owner regards the company as a family business (due to historical connections, e.g., restitution);
- The owner intends to hand the company over to a relative;
- Family members have financial control over the company

In Slovakia, Krošláková⁶ uses the definition of the Massachusetts Mutual Life Company, which defines a family business as a business where at least one of the following criteria is met:

- The owner views his/her business as a family business;

⁶ KROŠLÁKOVÁ, Monika. Lecturer at the Faculty of Business, University of Economics in Bratislava. Guarantor of the Family Business Module. Co-author of many scientific publications on family businesses in Slovakia. A member of the Board and Director of the Business and Industry Section of the Institute for the Support and Development of Education, Science and Research. Co-author of a bill on Family Business. She expects the act will help to improve conditions for independent economic security of families, a stable and long-term sustainable employment, decrease the share of the grey economy, increase the motivation and encouragement of family members to develop their knowledge, skills and abilities through business, taking advantage of the important phenomenon of mutual trust, strengthening family bonds and cohesion of family members, and to improve the social and economic standing of families in less developed regions, creating better pre-conditions for responsible moral and ethical enterprise.

- The owner intends to hand over his/her business to a close relative;
- In addition to the owner, another family member works in the company as an employee and participates in the daily management of the company.

(Astrachan and Shanke, 2003) state that a criterion for classifying a company as a family business is the percentage of family stock ownership, strategic control, the involvement of more generations and the intention to keep the company in the family for several generations. (Davis, 1983) views a family business as "a mutual interaction between the family and the business which forms the nature of a family business and defines its uniqueness."

Another definition monitors the purpose of cooperation and business plans of the company. For example, the advisory company Ernst & Young Global Limited (EY) classifies a company as a family business if it can be listed and the minimum share of family voting rights is 32%, or if the family owns at least half of the company. The consultancy company McKinsey & Company expects that the founders or their families have the largest ownership stake (at least 18%) and the power to appoint management. AMSP ČR⁷ organises "The Best Family Business Award" in the Czech Republic for family businesses with an annual turnover of up to 500 million, a minimum of ten years in business, a family ownership stake and the involvement of two and more family members in the business. The Czech office of the Forbes magazine classes amongst the fifty most influential family businesses in the CR companies that are owned, controlled or jointly managed by at least two generations of the same, or more families, with no ongoing litigation. The rank is determined by the sales and EBITDA, i.e., earnings before interest, tax, depreciation and amortisation.

Despite the existence of many definitions, a family business is connected to three basic terms. These are **family, business and ownership** (Tagiuri, Davis, 1996, Harveston et al. 1997). Basic relationships in a family business are depicted by the Three-Circle Model, first published in the Family Business Review in 1982 (Tagiuri, Davis). The model depicts seven interest groups with a stake in the success of a family business. Each of the groups has its objective, interest, need, requirements and expectations from the operation of the family and the business. By their conduct, involvement, skills, motivation and commitment they affect the operation of the company. The fact that the stated systems overlap can be both positive and negative. This creates dynamics which, to a great extent, impacts the family business since each of the systems represents different interests, standards, values and structures.

2.1 Current Status of Family Business Research in the Czech Republic

⁷ An award by Equa Bank, "Family Business of the Year", organised by AMSP ČR - Equa Bank has been a long-term economic partner. Based on qualitative and quantitative criteria, the best Czech family businesses from the small and medium-sized enterprises sector have been awarded since 2011.

In the Czech Republic there has been a long tradition of family enterprise, in particular during the First Republic. During the socialist era family businesses had to deal with immense political pressure until their operation stopped being viable; businesses were taken away from their original owners and they were privatised. Family businesses in the CR can be divided by two aspects - their size and history. Based on this division we end up with four categories - see Table 2

Table 2. Types of family businesses in the CR

	Company	History
Company size	Restituted small traditional family businesses – small-scale tradesmen and craftsmen The main attribute is traditional manufacturing and production, passed on from one generation to another. The tradition survived, despite the forty-year gap in the operation of the original company (piano makers Rendlovi, Petrof, construction company Podzimek a synové, s.r.o., etc.)	New small and medium-sized enterprise founded after 1989 They do not consider themselves to be a family business.
	Big, e.g., medium-sized "First Republic" companies Companies that had been nationalised after 1948 and were returned to their original owners in the 1990s. Their typical attribute is emphasising a family tradition. (Madeta, Koh-i-nor, etc.)	New big (medium-sized) companies founded or established after 1989 Companies founded by a father - founder, or arising from the post-November privatisation process. After 25 years of operation these companies are dealing with the issue of succession and passing on the company management to another generation. (Hruška, Hopi, GZ Media, etc.)

Source: prepared by the authors based on HANZELKOVÁ, Alena, Marek MIKALISKO and Vojtěch KORÁB. Family Business. 1st edition Prague: ComputerPress. 2008, 166 p. ISBN 978-80-251-1843-6. p. 22

In addition to these family businesses we can find specific forms of family businesses in the CR, such as restituted agricultural farms and former nobility estates.

We can find only several publications in the Czech Republic by Czech authors concerning the topic of family businesses. The issue is discussed in publications such as *Family Businesses - Source of Regional Development* (Hesková, Vojtko, 2008), *Family Business* (Hanzelková, Mihalisko, Koráb, 2008), and *Advantages and Limitations of Family Business* (Odehnalová, 2011). We can also find university theses on this topic (such as Hurltová: *Family Businesses in the Selected Region*, Department of Business Sphere Management, University of Economics in Prague, 2008; Juříčková: *Comparison of Conditions for Family Enterprise in the CR and Austria/Germany*, Faculty of Business, Institute of Economics, University of Technology in Brno, 2008; Kluzáková: *Family Business*, Faculty of Economics, Department of Business and Tourism, University of South Bohemia in České Budějovice, 2012, etc.).

The authors Hnátek, Hnátková (2013) focused on mapping out and disseminating terminology connected to family business. The research resulted in a thesis defence by M. Hnátek entitled *The Position of Communication in the Small and Medium-Sized Enterprise System with the Aim to Secure Successful Multigenerational Development* (2015). It was stated that family businesses and the current replacement of business generations in the Czech Republic is a phenomenon in the entire society, and not enough attention and support is paid to this phenomenon by state institutions.

The issue of evaluation of the impact of family representation in the ownership and management structure of companies on their financial performance, using a method of examining match-compliance, is researched in detail by Machek and Hnilica from the University of Economics in Prague. They stated that Czech family businesses create a higher absolute amount of profit, both in terms of profit after tax and operating profit (EBIT). They also confirmed a higher rate of return and productivity of work of family businesses that can be influenced by factors such as loyalty, trust and interest in creating company reputation by the founders who are also company managers, and by employees, customers and suppliers. (Machek, Hnilica, 2015)

As part of a major project⁸ the STEM MARK agency collated data from the owners and managers of more than 1000 companies in quota sampling in the Czech Republic, Slovakia, Sweden and Finland and the agency arrived at the conclusion that family businesses are starting to pay increased attention to systematic strategic management. The research showed that a significant number of Czech and foreign companies, although they are naturally inclined towards intuitive and ad hoc management, use approaches typical for systematic strategic management. The research coordinator is Alena Hanzelková from Mendel University in Brno. Thanks to this project, company owners can log into a special account⁹ and take an online

⁸ Research project "Education in Strategic Management for SMEs managers/owners," Leonardo da Vinci, CZ/12/LLP-LdV/TOI/134004

⁹ The account is available at <http://strategy4smes.mendelu.cz/>.

test in strategic management. This E-learning project enables test results to be compared with the summary results of other companies, and to enrol in a free E-learning course in strategic management for small and medium-sized enterprises.

In the north of the Czech Republic, the issue of family businesses is researched by Professor Jáč's team from the Faculty of Economics at the University of Technology in Liberec. In his TAČR project he focuses on family enterprise as a source of development for municipalities. He points out the fact that most family businesses have their registered offices in the municipality where the family lives and brings up their children. He sees the social responsibility of family businesses for the municipality as a major, non-financial advantage. (Rydvalová, Karhanová, Horynová, Jáč, Valentová, Zbránková, 2015)

Although most of the family businesses in the CR fall within the segment of small and medium-sized enterprises, some family businesses which were established post-1989 do not comply with the definition of an SME¹⁰ and fall into the category of big companies. A study on the efficiency of family businesses in the CR was prepared by, for example, (Mašek et al. 2015). In its special issue, the Forbes magazine evaluated the 65 biggest family businesses in 2015. Total revenue of the selected sixty-five businesses amounted to 229 billion crowns with a margin of 6.1 percent. A detailed analysis of the 65 biggest family companies also showed that most of their founders are still in charge (60 %). Only 16% of the companies are managed independently (and often also owned) by the second generation, and not even one-quarter of the businesses (24 %) are gradually handed over. Only companies that are owned, controlled or jointly managed by at least two generations from one, or more families, have been included. Companies built by siblings have also been included. The report shows that family businesses in the CR are not only about small and medium-sized companies but also about companies that were founded after 1989 and that can be classed amongst big companies. The abbreviated case studies clearly show that big family companies focus on innovation, expansion into foreign markets, and diversification of risks (many are organised into holding companies).

Table 3. TOP 5 biggest Czech family businesses

Company	Family story - case study	Members	Revenue (in billion)	EBIT DA (in millio)

¹⁰ An SME employs fewer than 250 employees, its assets/property do not exceed the equivalent in CZK of 43 mil EUR, or its turnover/revenue does not exceed the equivalent in CZK of 50 mil EUR. A small enterprise employs fewer than 50 employees, its assets/property or turnover/revenue do not exceed the equivalent in CZK of 10 mil EUR. A micro enterprise employs fewer than 10 people, its assets/property or turnover/revenue do not exceed the equivalent in CZK of 2 mil EUR.

			n CZK)	n CZK)
Metalimex Prague 1	The company was built by their father and now it is run by brother and sister Petr and Simona Otavovi. MTX CZ, a.s. is a parent company of METALIMEX a. s. and it is its sole shareholder with a 100% equity stake. Production plants - AL INVEST Břidličná, a.s., Coal Mill a.s., Měď Povrly a.s., OKK Koksovny, a.s. and Amex Coal Sp. z o.o. form part of the group.	2 Otavovi	26.2	978
Synot Holding Uherské Hradiště	The company is run by Ivo Valenta, his twin brother Miroslav, sister Jitka and nephew Miroslav. Synot operates in 13 countries around the world. SYNOT W, a.s. has a comprehensive portfolio of gambling machines, video lottery terminals and other gaming equipment. The company also rents and services gaming machines and equipment. There are currently 11 companies in the CZ, employing approximately 700 people.	4 Valentovi	12.4	809
Juta Dvůr Králové nad Labem	"My son will inherit everything. Inheritance proceedings are very clear in my case," says Jiří Hlavatý, owner of the Juta Company. His son is currently a sales manager for agricultural products for the German market, his wife, Romana, is a sales assistant for the division of unwoven textile. JUTA a.s. - manufacturer of a wide assortment of products for the construction industry and agriculture, and of packaging materials and materials for technological purposes. More than 80% of the production is exported throughout the world.	2 Hlavatí	6.1	657
Kofola Ostrava – Poruba	The company produces non-alcoholic beverages "with care and love". For the last 16 years the company has been run by Janis Samaras and his father Kostas,	2 Samaras	6.2	536

	who founded the family business.			
Safikem Group	This industrial group covers several fields, from chemistry and machine engineering to pharmacy. The father and son Plaší have been building up the company for more than 20 years and have developed a new machine engineering branch. The group owns, for example, the Palác Koruna building on Wenceslas Square.	2 Plaší	5.6	545

Source: prepared by the authors based on Mašek et al. (2015). Almanac of Family Business in the Czech Republic. [online] Forbes Magazine. Available at <http://www.forbes.cz/rodinne-firmy/>

The *Economia* publishers have been focusing on the issue of family businesses in the Czech Republic for a long time, in particular on the issue of succession of new business generations. Other sources for qualitative research can be acquired from the companies Krajiček&Associates¹¹, KPMG,¹² PwC¹³; Banks have also started to focus on this issue, for example, UniCredit Bank,¹⁴ J&T Banka¹⁵ and the aforementioned Equa Bank.

2.2 Activities of the Association of Small and Medium-Sized Enterprises and Crafts in the CR aimed at family business

Family businesses are resistant, efficient and at times of crisis they manage to deal with big market drops. The stability of the economic environment grows with the number of family businesses. This is the main reason why the AMSP CR has been systematically creating conditions for the growth of SMEs in the long term. The Association of Small and Medium-Sized Enterprises and Crafts in the CR has implemented a **project for founders and successors of family businesses, entitled FAMILY BUSINESS**. It aims to motivate the development and handover of family businesses from one generation to another, and enables exchange of experience - advice, tips, recommendations, elimination of the most common mistakes, organising internal round tables for family businesses, seminars and professional

¹¹ David Krajiček prepares regular discussion meetings entitled The Family Business Forum.

¹² Every year KPMG prepares the Family Business Barometer.

¹³ PwC regularly presents global research into family businesses.

¹⁴ In September 2014, UCB declared a campaign entitled "We Are With You" focusing on SMEs with a turnover of 50 - 250 mil CZK, managed mostly by their owners or other family members.

¹⁵ J&T Bank runs a Family Office, focusing on the preservation and distribution of family assets acquired through enterprise).

events, offering comparisons with businesses abroad, carrying out specialised research and organising an annual competition, Family Business of the Year.¹⁶

Table 4. Winners of the Family Business of the Year in past years

Year	Company Name	Field of Business	Justification by the Jury
2015	<i>Komfi, spol. s r.o.</i>	Laminating, painting and printing machines	The jury rewarded the relentless efforts of the company owners, who managed to turn a small company, which they started from a flat on an estate, into one of the leading manufacturers of single-purpose and polygraph machinery. The jury also evaluated the fact that the entire family participates (J. Slovák - Sales Manager, J. Slováková - Marketing Manager, P. Matějček - Head of Electrical Constructions, J. Matějčková - Head of Finance, K. Matějček - Managing Director) in running the business. It is worth noting that the company expanded into foreign markets via its daughter companies, Komfi Slovakia, Komfi Europe, Komfi UK.
2014	<i>LIKO – S, a.s.</i>	Production and assembly of structures, prefabricated buildings, custom metalwork, special noise insulation	The jury rewarded the relentless efforts of the company owners, who turned a small company, run from a hall in a former sugar refinery, into one of the European leaders in the field. The jury rewarded the method of company management and progressive corporate philosophy based on friendly and cooperative conduct, customer focus, innovative and improved solutions, seriousness, correctness and

¹⁶ The aim of the competition is to evaluate, support and motivate family businesses. The following companies can register in the competition: turnover of up to 50 mil EUR, in operation for more than 5 years, staff headcount does not exceed 250, family business in terms of the ownership structure, two or more family members involved in running the business, the company has no negative credit history. The winner of the Equa Bank Family Business Award for 2015 was selected by a professional jury on the basis of economic and non-economic criteria, such as turnover growth for the last five years, contribution to employment in the region (number of employees), number of generations involved in running the business, social responsibility policy and the overall business story.

			soundness.
2013	KAMA	Czech manufacturer of hats and sweaters	A fair brand which has endorsed the vision of an international campaign, the Fashion Revolution. The objective is for the fashion industry not only to produce beautiful clothes to look at, but also ethical fashion. This family business is run by husband and wife, the Pertls, together with their two children. They promote ecological, economic and social sustainability.
2012	Liva Předslavice, spol s.r.o.	Agriculture, agricultural services	From its very modest beginnings, this company has become a recognised leader in the sale and servicing of agricultural machinery and technologies in the south-west region of the Czech Republic. Thanks to its individual approach and thorough knowledge of the specific market environment, it has become a respected business partner of reputable West European manufacturers of this technology.

Source: prepared by the author based on an update of the 2015 Family Business Project. Available at <http://www.rodinnafirma.net/cz/aktuality/18-vitezem-souteze-equa-bank-rodinna-firma-roku-2015-se-stala-spolecnost-komfi-spol-s-r-o>

AMSP ČR carries out many qualitative researches focusing on the management of family businesses, in particular in view of succession, e.g., tax aspects, diversification of risks and protection of ownership through trust funds, and internal planning and controlling processes of family businesses.¹⁷

3. Attitude of the CR Government to Family Businesses

Act 89/2012, Civil Code, became valid in the CR on 1.1.2014 (hereinafter the "CC"). In connection to its adoption, certain types of business cooperation between citizens have been changed. The term **family plant** was incorporated in Sections 700 - 707. The aim was to specify cases when a family is engaged in an enterprise, but

¹⁷ Interested parties, family businesses, can register for the Family Business Project free of charge, <http://www.rodinnafirma.net/cz/uzitecne-odkazy> provides updated information concerning the issue (e.g., the results of the 26th and 32nd research of Family Businesses in the CR).

the trading licence, or a similar entitlement, is only issued for one family member and the other family members are cooperating or helping. The aim of introducing the term "family plant" was to define the rights of these family members so that it is clear that they have their rights, based on their "family activity", and to eliminate contractual duties for persons who are actually working for the family, or who are otherwise involved in the operation of the family business, and to acquire a right to profit sharing and pre-emption rights to the family plant. Pursuant to Section 700 of the CC, a family plant is a **plant where husband and wife, or at least one of the spouses and their relatives up to the third generation, or in-laws of the spouses up to the second generation, work in the plant that is owned by one of them.** Pursuant to Section 502 of the CC, a plant is an organised set of assets which the entrepreneur created and which is used, of his own free will, for business activities. It is deemed that a plant comprises all things necessary for its operation. (Czech Republic, 2012). From the above stated, it can be deduced that representatives of family plants are responsible for maintaining family cohesion in order not to threaten the actual existence of the family. In case of failure of the family plant, there is a risk of loss of income if the plant shows unpaid liabilities towards suppliers, the state or its employees, and the payment of liabilities would affect the financial standing of the family.

Another new piece of legislation in the Czech Republic enabled **setting up trust funds.** Until then, this institute had only been used abroad. A trust fund is a universal tool which can be used for many purposes. It can be defined as separate, independent ownership of earmarked assets administered by an appointed person. A trust fund brings the possibility of maintaining and protecting the founder's assets, and their further use in order to pay out persons determined by the founder. Anybody can set up a trust fund by earmarking part of their assets, appointing an independent administrator of these assets and persons who will be able to benefit from the trust, after complying with certain rules.

A trust fund, sometimes also defined as a trust, originates in common law. At present, it has been adopted, in a certain form, in many continental law countries. The 1985 Haag Convention on the Law Applicable to Trusts and on their Recognition (hereinafter the "Convention") plays an important role in explaining the functioning and origin of trust funds in continental law. The objective of the Convention was not to introduce trust legislation into national laws of countries that do not know this institute but, if needed, to enable a member state to set up a trust pursuant to foreign law. The Convention enables uniform recognition of trusts, both in common law and continental law. In Europe, the Convention has been ratified by Italy, Luxembourg, Monaco, Malta, the Netherlands, Switzerland and Great Britain.

In the Czech Republic the institute of trust fund has been implemented into the legislation as part of the new Civil Code. The authors of the legislation were inspired by the Civil Code of Quebec in Canada, where the institute was adjusted to suit continental law. It was expected that a major part of the funds will be used to protect

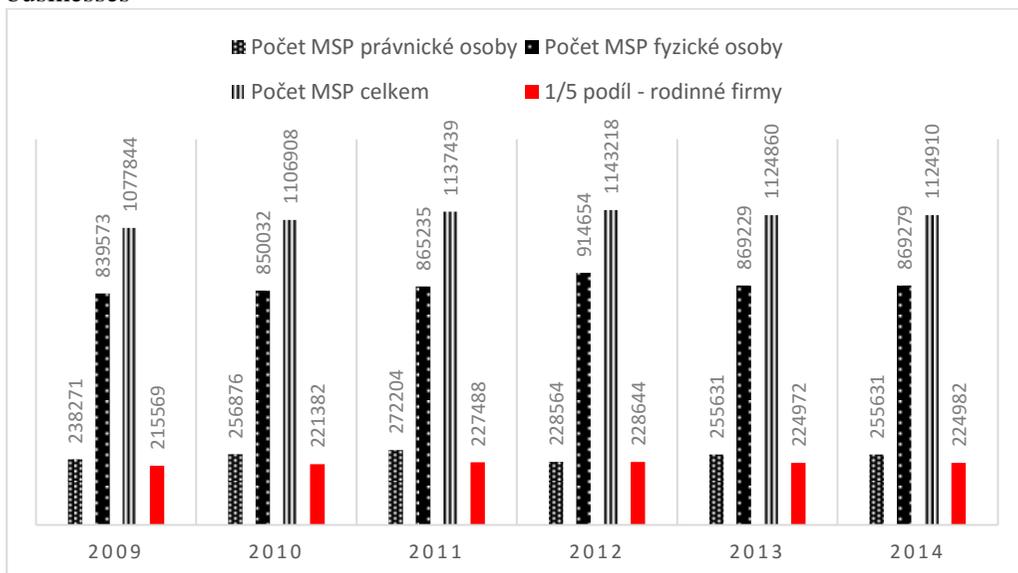
the family and its assets. (Štrichová, 2014)¹⁸ It is logical that the legislation in the new Civil Code is not sufficient on its own but must be accompanied by functioning tax regulations. Tax regulations can make the institute attractive, or of no interest at all. Currently, experts in tax law are discussing valid tax laws (double taxation, etc.) and amendments are expected. Since this institute has been known abroad for several years, there are proven tax regulations which might be inspirational for us.

As has already been pointed out, there is no framework in the CR, no scientific discipline, or legislation dealing specifically with family businesses. In this connection it is hard to determine the standing of these businesses in our national economy. Whilst worldwide family businesses control nearly 80 % of GDP generated by business entities (Boleslavský deník.cz,2015), in the CR we can only estimate the number and significance of family businesses. The report on development of small and medium-sized enterprises and their support in 2014 states the following numbers:

- As of 31.12.2014, there were 1, 124, 380 legal entities and natural persons involved in business activities in the CR (pursuant to ČSÚ) (staff headcount 0-249), of which 877,519 natural persons (staff headcount 0-249) and 246,861 legal entities (staff headcount 0-249). Compared to 2013, the drop in legal entities and natural persons was 314.
- The share of small and medium-sized enterprises in the total number of active business entities was 99.84% in 2014. The share of SMEs' added value in 2014 amounted to 53.11% and the share of SMEs' employees in the number of employees in the business sphere in the CR amounted to 59.39% in 2014. The share of SMEs in gross domestic product is not currently set up by size by the ČSÚ, and therefore it is not stated in the report.

Based on the assumption of ASMP CR that family businesses represent roughly one-fifth (Kudrnová, 2014) of the total number of companies, there are **224,982** family businesses in 2014 - **see Graph 1:**

¹⁸ A typical example is a situation when the founder wants to ensure that his wife (husband), and their children, will be secured after he/she dies. By setting up a trust fund, the founder can grant the right to the wife/husband to live in their house for the rest of her/his life and to ensure that the house will be passed onto the children. This can protect his/her children in case the spouse starts a new family. Another use of a trust fund is setting it up for one or more family members. For example, to secure funds for education, looking after a disabled person, etc. If the founder fears that his/her heir might not handle the inheritance well, the founder can set up a trust fund and stipulate conditions under which the heirs can access the assets. This can be subjected to reaching a certain age, finishing a school, or the duty to look after the founders in their old age, etc. In the meantime, the trust fund is administered by a trustee who must administer the fund to fulfil its determined purpose. Assets are paid out to the heirs subject to compliance with the stipulated conditions. This enables the founder to protect his/her assets.

Graph 1. Development of active SMEs CR 2009–2014, 1/5 share of family businesses

Source: Authors

(No. of SMEs legal entities, No. of SMEs natural persons, Total no. of SMEs, 1/5 share - family businesses)

The Report on Development of Small and Medium-Sized Enterprise and its Support in 2014, prepared by the Ministry of Trade and Industry, only mentions family businesses on p. 94, summing up key outcomes from the 26th research made in May 2014 by a research agency, IPSOS, using a sample of 500-800 respondents; the research was guaranteed by the Czech Statistical Office. It was stated that:

- 70% of businesses do not survive generational replacement; however, half of the businesses have not even started dealing with the issue of succession. Two-thirds of family businesses wish to pass on the tradition. Nevertheless, half of them has not even started with the succession process. It is valid that family businesses estimate that the overall process of handover will take a relatively long period of time.
- Revenue should grow in nearly half of the family businesses; a drop is expected by one-tenth. Attention should be paid to improving efficiency and personnel issues. The overall positive mood in the business sector has been confirmed and family businesses are far more optimistic than other businesses. Although two-thirds of family businesses perceive the operation of a business on a family basis as their advantage, compared to last year findings they are not as sure about this as before. The drop compared to last year can be caused by the fact that now it is the new generation expressing its opinion, and they can see things differently from the founders.

-
- Advantages of family businesses are as follows: flexibility, stability, atmosphere at the company and ethics (all in all, a positive approach to CSR). Compared to this, the perceived disadvantages are marginal. This is a fairly interesting finding, in particular with regard to the management system. It is clear that family businesses realise that personal relationships often prevail over a conceptual management system, and they even perceive this as a type of threat. In terms of risk assessment, it is good news. However, the question is if they can manage to deal with this issue in reality.

Despite the findings stated above, the following conceptual materials of the Government of the CR do not pay special attention to the forms of support of family businesses.

A concept for supporting small and medium-sized enterprises was adopted for 2014-2020 in Resolution of the CR government no. 923 dated 12.12.2012. This represents a major strategic document for business enterprises. In connection to this concept, an Action Plan for the support of small and medium-sized enterprises for 2015 was introduced in March 2015, forming a set of measures responding to the current situation of small and medium-sized entrepreneurs in the Czech Republic. The proposed measures will be funded from the European Union (in particular, from the Operational Programme Enterprise and Innovation for Competitiveness), from the state budget of the CR and other available resources (e.g., Swiss-Czech Cooperation Programme). Based on the SME concept, targeted support should be directed to four main strategic priorities. These are:

- Cultivation of the business environment, development of advisory services and business education,
- Business development based on support of research, development and innovation, including innovation and business infrastructure,
- Support of internationalisation of SMEs,
- Sustainable energy management and development of innovations in power engineering (Ministry of Industry and Trade, 2015).

This offers a range of topics for researching the awareness of family business owners of this Concept and the possibility to use the measures to develop their companies.

4. Results and Discussion

A partial conclusion can be made that the information published by academics in the Czech Republic results from researches made during individual projects (IGA, TAČR, etc.) So far, no research centre has been founded at a Czech university, there is no magazine focusing exclusively on family business, no comprehensive educational programmes have been prepared to cover the specifics of family business management and succession of family businesses to the next generation, the sale of family businesses or their handover to a professional management. Family business practice is faster than the theory behind it. In result, entrepreneurs are

guided by their instincts when managing and making decisions. It can be expected that much of their experience will cease to exist when they stop doing business since their experience has not been scientifically and theoretically captured. Purposeful education in the sphere of family business can be regarded as a very important and natural way of self-fulfilment.

Another partial finding is a recommendation that a research team be set up by the Association of Small and Medium-Sized Enterprises and Crafts of the CR and one of the universities in the CR to investigate family business processes. The team should use comparative research of foreign studies and create a comprehensive strategy for ongoing education and prepare instructions on how to take over/hand over a family business in the Czech Republic. Outputs should be published in reviewed magazines.

Despite the aforementioned findings, no separate attention is paid to the forms of family businesses in conceptual materials of the Government of the CR. Government discussions should take place on the issues of tax advantages for family businesses, lower administrative burden and easier access to capital.

Conclusion

Family businesses, i.e., companies strategically controlled, owned or managed by family members, represent a major economic power in advanced market economies. Not enough attention has been paid to family businesses in the CR by the academic sector, the public, investors or legislation, despite the fact that the conclusions of the AMSP CR research show that family businesses are of vital importance. The purpose of this paper is to define a family business. The following text is regarded as a suitable definition by the authors. A family business is a type of business that complies with at least two of the following characteristics:

- Family members own at least a 50% equity stake,
- At least two family members participate in the company management,
- In addition to the owner, at least one family member is employed in the company;
- The owner considers the business to be a family business and wishes to hand it over to a family member in the future.

The term "family plant" is defined by legislation in much simpler terms. According to Section 700 of the CC a family plant is a plant where husband and wife work together, or one of them works at the plant together with their third generation relatives, or persons bound with the spouses up to the second generation, and the plant is owned by one of them.

It is clear that AMSP ČR deals with the issue of family businesses in the CR most intensively, via the project Family Business. If the above-stated definition is adopted or if we are happy to use the definition of the CC, the authors of this paper

recommend approaching the existing membership base of the Association and asking the members to participate in research into the awareness of the owners of family businesses about the existence of the Action Plan to support small and medium-sized enterprises, and to establish their opinion on dividing family businesses into separate groups which would be paid more attention by the Government of the CR. It can be recommended that the Association of Small and Medium-Sized Enterprises and Crafts of the CR and one of the universities in the CR should cooperate and establish a research team that would prepare a research project focusing on family businesses, their processes, and economic and social aspects. The research team would coordinate all activities and contribute to a comprehensive strategy for ongoing education, prepare a manual for taking over/handing over a family business, publish case studies of successful family businesses and professional articles by scientists. It would explore trends in family businesses, compare them to foreign resources and become a platform for theoretical discussions whose findings can be applied in the business sphere in order to gain an actual competitive advantage for family businesses.

Acknowledgement

The paper has been prepared within the internal project of the University of Finance and Administration “Current trends in development of financial markets”, supported by the Institutional support for long-term strategic development of research organization in 2016.

References

- Allouche, J., Amann, B., Jaussaud, J., & Kurashina, T. (2008). The Impact of Family Control on the Performance and Financial Characteristics of Family versus Non-family enterprise in Japan: A Matched-Pair Investigation. *Family Business Review*. Vol. 21 No. 4, pp. 315–329.
- Astrachan, J. H., & Shanker, M. C. (2003). Family enterprises' contribution to the U.S. economy: A closer look. *Family Business Review*, Vol. 3 No. 16, p. 211.
- Česko. (2012). Zákon č. 89/2012 Sb., Zákon občanský zákoník ze dne 22. března 2012. Praha, 2012. Dostupný na portálu Ministerstva vnitra České republiky: <http://www.psp.cz/sqw/sbirka.sqw?cz=89&r=2012>. Viz: Hlava II, Díl 5, Podnikatel, §420, 421.
- Boleslavský deník.cz [online] Tradice rodinných firem u nás teprve vzniká 17.8.2015. Dostupné z <http://boleslavsky.denik.cz/podnikani/tradice-rodinnych-firem-u-nas-teprve-vznika-20150817.html>.
- Břečková, P., Havlíček, K., (2013). Leaders Management and Personnel Controlling in SMEs. *European Research Studies*, Volume XVI, Issue (4).
- Český statistický úřad. [online] Zaměstnanost a nezaměstnanost podle výsledků VŠPS - 3. čtvrtletí 2015. V republice pracuje více než 5 miliónů osob. 3.11.2015. Dostupné z <https://www.czso.cz/csu/czso/cri/zamestnanost-a-nezamestnanost-podle-vysledku-všps-3-ctvrtleti-2015>.
- Davis, P. (1983). Realizing the potential of the family business. *Organizational Dynamics*, Vol. 1 No. 12, pp. 47–56.

- Evropská komise. (2006). Nová definice malých a středních podniků. Úřad pro publikace Evropské unie, 50 s. ISBN 92-894-7917-5.
- Harveston, P. D., Davis, P. S., & Lyden, J. A. (1997). Succession Planning in Family Business: The Impact of Owner Gender. *Family Business Review*; Vol. 4 No. 10, pp. 373–396.
- Hesková, M. & kol. autorů. Kooperace II: forma rozvoje regionálního trhu. 1. vyd. Praha: Profess Consulting, 2007, 87 s. ISBN 978-80-7259-054-4.
- Hnátek, M. (2015). Postavení komunikace v systému malého a středního podniku s cílem zabezpečení jeho úspěšného vícegeneračního vývoje. Disertační práce. Univerzita Tomáše Bati ve Zlíně.
- Koráb, V., & Klouda, F. (1998). Jak pracují malé rodinné firmy. 1. vyd. Brno: Vysoké učení technické v Brně, 78 S. ISBN 80-214-1121-X.
- Krošláková, M. (2013). Rodinné podnikanie na Slovensku. In *Studia commercialia Bratislavensia : scientific journal of Faculty of Commerce, University of Economics in Bratislava*. - Bratislava: Obchodná fakulta Ekonomickej univerzity v Bratislave, 2013. ISSN 1337-7493, roč. 6, č. 21, s. 95-104.
- Kudrnová, V. (2014). Generační výměnu nepřežije většina rodinných firem. Podceňují nástupnictví. *Hospodářské noviny – ProByznys.info*. 21.5.2014. ISSN 1213 – 7693. Dostupné z <http://probyznysinfo.ihned.cz/c1-62220780-generacni-vymenu-neprezije-vetsina-rodinnych-firem-podcenuji-nastupnictvi>.
- Machek, O., & Hnilica, J. (2015). Hodnocení vlivu zastoupení rodiny ve vlastnické a řídicí struktuře firem na jejich finanční výkonnost pomocí metody zkoumání shody párů. *Politická ekonomie* 3/2015. pp. 347 -362.
- Mašek et. al. (2015). 65 největších rodinných firem – Almanach rodinného podnikání v Česku. [online] Speciál Forbesu. <http://www.forbes.cz/rodinne-firmy/>.
- Ministerstvo průmyslu a obchodu (MPO). (2012). Koncepce podpory malých a středních podnikatelů na období let 2014–2020. Dostupné z <http://www.mpo.cz/dokument119071.html>.
- Ministerstvo průmyslu a obchodu (MPO). (2015). Akční plán podpory malých a středních podnikatelů na rok 2015. Dostupné z <http://www.mpo.cz/dokument157011.html>.
- Petrů, N. & Jakubíková, D. (2015). The Management of Succession Strategy - Intergenerational Challenge. *AD ALTA, Journal of Interdisciplinary Research*, 2015. ISSN 1804-7890. Vol. 5, Issue 2, pp 69-74.
- Rydvalová, P., Karhanová Horynová, E., Jáč, L., Valentová, E. & M. Zbránková. (2015). Rodinné podnikání - zdroj rozvoje obcí. 1. vyd. Liberec: Technická univerzita v Liberci. 2015. 205 s. ISBN 978-80-7494-245-7.
- Stážovská, L., Stážovská, H. & M. Krošláková. (2008). Podnikanie formou rodinných podnikov. 1. vyd. Bratislava: Sprint vfra, 2008, 240 s. ISBN 978-80-969927-0-6.
- Synek, M. (2007). Manažerská ekonomika. 4. vyd. Praha: Grada, 2007, 464 s. ISBN 978-80-247-1992-4.
- Štrichová, I. (2014). Zdanění svěřenských fondů a jejich praktické použití. Diplomová práce. Vysoká škola ekonomická v Praze. Fakulta financí a účetnictví. 2014.
- Tagiuri, R., & Davis, J. A. (1982). Bivalent Attributes of the Family Firm, reprinted (1996) In “Classics” section of *Family Business Review*, Vol. IX No. 2, pp. 199–208.
- Veber, J. & Srpová, J. (2008). Podnikání malé a střední firmy. 2. vyd. Praha: Grada, 320 s. ISBN 978-80-247-2409-6.