THE SUCCESSION IN FAMILY BUSINESSES IN THE CZECH REPUBLIC

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Abstract
This paper is focused on the topic of family business. The aim of this paper is to discuss the situation of family business in the Czech Republic in details, mainly the question of succession. Firstly, there is a theoretical part that concentrates on a definition of family business in general. Further, the theoretical part discusses succession in family businesses. Secondly, there is the practical part that concentrates on family business in the Czech environment. The analysis is conducted on the basis of a questionnaire survey among a sample of Czech family businesses. The results of the practical part indicate the current situation of succession in this specific segment of entrepreneurial area.

Keywords
Family business; Family members; Succession; Questionnaire survey.

Introduction
The purpose of this paper is to define the current situation of family business on the market. Family business is referred to as an economical phenomenon and currently more attention is being paid to this topic than in previous years. For example, during the years 2016 and 2017 a project called "Family Enterprise – Resolving Social and Economic Disparities of Municipalities" took place at the Technical University of Liberec [1]. The Association of Small and Medium Enterprises and Tradesmen of the Czech Republic declared 2018 as the Year of Family Business. To get a deeper understanding of this topic, a theoretical discussion about this type of business is opened in the first part of the article. Further, the author analyses selected data from her own questionnaire survey which was carried out in the spring of 2017. Family business in the Czech territory has been influenced by historical development which created its basic milestones and obstacles. The development of family business was significantly influenced by the aftermath of the totalitarian regime after the Second World War during which private business was restricted. Private ownership was nationalized, private business was suppressed, and the economy was centrally planned. After the Velvet Revolution in 1989, the first free government of Czechoslovakia was elected, which decided to re-establish a free market economy. Therefore it was necessary to quickly transfer state-owned properties and businesses into private hands [2], [3]. The subsequent political and economic development in the 1990s boosted the establishment of new family businesses in the Czech Republic. Private business was stabilized during the Millennium [4]. Three decades after the Velvet revolution a term "generation exchange in the family business" is discussed. This term has been included among the barriers to this type of business.

The term “generation exchange” is understood as handing over the family business by the current owner to their successor. This concept is discussed because the life cycle of one generation is estimated at around 25 years [5]. Czech family businesses have already reached
or, in the near future, will reach a point at which they will have to decide whether to keep the company for the future generation or to sell it [4], [5]. For this reason, the purpose of this paper is to focus on the process of planning succession in family businesses.

1 Theoretical Framework

Family businesses make a significant contribution to the economy and bring long-term stability [6]. According to the Association of Small and Medium-sized Enterprises and Tradesmen of the Czech Republic, their 30% share of Gross Domestic Product is estimated [7]. The estimation of their share is due to the fact that this area of business is not defined in the legal framework of the Czech Republic. The definition of family business is still inconsistent. Selected concepts which are related to family business are given below.

1.1 Definition of Family Business

Astrachan et al. [8], Gómez-Mejía et al. [9], or Abdellatif et al. [10] state that the single definition of family business remains a major challenge for researches. However, such a situation is typical not only in the area of family business, but also in other entrepreneurship disciplines [11]. In 1989, Handler [12] drew attention to the fact that the fundamental task for researchers is to define the concept of a family business. Defining the area of family business is difficult. Many authors view this area from different points of view, primarily from three aspects - in terms of content, purpose and form. Some authors define a family business in terms of the percentage of the family owned or the intention to transfer the family business to the next generation or the number of family members working in the enterprise [3]. There is a variety of definitions and criteria for determining a genuine family business, which is a big problem. Joaquín de Arquer [13] is often cited. This author regards a family business as an enterprise that is in the hands of one person or a group of people who are in a family business. This definition provides an opportunity to focus on small businesses and micro-enterprises where a group of people co-operates with their family members [14]. Leach [15] considers that it is a family business if the family members own at least 50% of the enterprise. Another definition was created by Villalonga and Amit [16], who think that it is a family business if the founder or a family member is the director or owner of five percent of the enterprise. The European Commission [17] defines a family business, regardless of its size, as one which works with the issue of voting rights and the involvement of family members in corporate governance. Petlina and Koráb [14] assume that the family business is owned and controlled by family members or selected members on the assumption that it will be passed on to the next generation in the future.

Astrachan at al. [8] draw the attention to the fact that the inconsistency of family business definitions leads to methodological problems. For example, in identifying the right research sample, creating appropriate groups for comparative purposes, or setting up tools for statistical measurement purposes. It is also complicated to compare the results of various family business surveys. In particular, it is difficult to compare statistical data on family businesses outside the Czech Republic.

1.2 Succession in Family Businesses

Generally, the concept of succession focuses on how to replace people in key positions in the enterprise. This term is often associated with the succession planning process which includes several phases that are discussed below. Of course, it should be noted that this process is not only in family businesses. This process should be planned in all types of enterprises [18]. But some specifics of succession do exist in the family businesses; such as nepotism, sibling rivalry and relationship between father and son [3], [19].
Succession is one of the most complicated periods of family business. During this period, the family business must be passed on to the next generation to survive. A false presumption is based on the fact that handing over the enterprise to the next generation is only a one-time act. This would mean that the succession of ownership and placement in the control function is performed at the same time. However, it is important to know that generational exchange represents a complex issue for many years. Successful generational exchange requires years of thorough preparation. This preparation can take more than 10 years and significantly influences the future development of family business – for example, in which direction the company will evolve [3]. Therefore, it is not possible to talk about the moment of handover of the family business to the next generation. It is necessary to mark this act as a process that consists of several phases [19].

Numerous models representing the succession process can be found in literature, for example Murray [20], Gersick [21]. This process is often divided into two or three phases [22]. These phases are shown in Table 1.

**Tab. 1: Phases of the succession process**

<table>
<thead>
<tr>
<th>Phase</th>
<th>Details</th>
</tr>
</thead>
</table>
| First phase       | • creating and communicating the basic rules associated with the succession process,  
|                   | • identifying potential prospective successors,  
|                   | • creating a succession plan.                                           |
| Second phase      | • assessing the capabilities of identified potential successors,  
|                   | • providing the necessary education and training to potential successors. |
| Third phase       | • handover of management to the selected successor,  
|                   | • leaving the founder out of the management function.                   |

*Source: [23]*

The generational exchange must be planned at three levels [24; 25]. These levels are presented in Table 2.

**Tab. 2: Levels of the succession process**

<table>
<thead>
<tr>
<th>Level</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business management</td>
<td>transferring managerial powers and responsibilities to either a family member or an outsider.</td>
</tr>
<tr>
<td>Ownership</td>
<td>the transfer of property to members of the family, when the future owner of the business, the method and the period of transfer shall be determined.</td>
</tr>
<tr>
<td>Family harmony</td>
<td>the mutual agreement of the individual members of the family with the generational change plan so that family relationships are not disturbed.</td>
</tr>
</tbody>
</table>

*Source: [24], [25]*
It is important that the individual steps of handing over the family business should be balanced to avoid negative impacts on family, ownership, employees or business. It is also advisable to concentrate on solving any problems that may arise during the transfer process [25].

A timely solution of succession can help the enterprise find a consensus on everything in which the views of the two generations might be different [3]. The issue of generational exchange and the related demise of family business are represented by the following data:

- one-third of first-generation of family businesses successfully pass generational exchange and the family business will be in the hands of the second generation [3], [26],
- one half of the second-generation of family businesses successfully pass the second generational exchange and the family businesses will be in the hands of the third generation [3].

Other issues related to succession include, for example, intra-family conflicts through a revival of business, family reluctance to take over a family business, or inadequate succession planning [3]. Even Ernesto J. Poza [26] states that the greatest drawbacks are seen in the planning of business handover. A sudden need for generational change due to sudden death or serious illness of a family member in the leading position of the business would not be dangerous if the family members strategically planned succession in their business [27].

Handing over family business is accompanied by limited amounts of potential successors. This is due to the size of the family and the frequent complications of personal and impersonal relationships between the family members who hand over the company, such as successors and other family members [23]. Generational exchange is important for all family businesses and is often referred to as the biggest test of management skills of the owners’ generation leaving the family business [3]. The entire enterprise could be damaged if the product quality will be destroyed by the generation exchange [28].

In study Miller, Steiner and Le Breton-Miller [29] three patterns of ineffective succession were identified. These patterns are listed below.

- **Conservative**: the family business and its strategies are locked in the past.
- **Rebellious**: overreactions on control of previous generation destroy traditions, legacies, business model and its secret of success.
- **Wavering**: the next generation is not able to adapt the business to current conditions.

It was mentioned that these patterns were observed many times at family businesses at the end of this study. And it is probable that these problems could arise during the handover of a family business to the next generations [29].

2 Research

The aim of this paper is to draw attention to the issue of family business. Through literary research the key concepts of family business – family business and generation exchange – are discussed. The secondary data are available from world and domestic studies and articles, for example [30], [31], [32], [33] and [34] that produced a good information base for the implementation of the questionnaire survey. The primary data obtained from our own questionnaire survey are used to achieve the set goal. The questionnaire survey was aimed at identifying which generations of owners own family businesses and whether these owners are planning to hand it over to the next generation. It was carried out in the spring of 2017 and had several sections. For the purposes of this article selected facts following the established
theoretical basis are discussed. Hypotheses are verified on the basis of the questionnaire survey.

For the target group of respondents owners or managers active in Czech business entities which can be described as family businesses were selected. This stratified random selection included potential respondents according to the indirect classification criteria, such as the owner considers their enterprise to be a family business, the owner intends to pass on the business to a close relative or another family member works as a regular employee. It is a family business if it meets at least one of these criteria. The author of this paper agreed with the definition that was accepted in 1997 by Massachusetts Mutual Life Company [35].

The MagnusWeb database from Bisnode Czech Republic a.s. has been used as a source for contacts with representatives of businesses that can be described as family businesses.

An electronic form of a questionnaire was used and a link to the completed questionnaire was sent to 550 respondents’ email addresses. They were randomly selected by the author from a pre-created stratified sample.

The questionnaire survey was actively attended by 76 respondents who represented family businesses in the Czech Republic. The return on valid questionnaires in relative terms is 13.8%.

Obviously, there are limitations of the questionnaire survey, such as an absence of the uniform definition of family business which is connected with ignorance of the actual number of family businesses in the Czech Republic, the electronic form of the questionnaire survey etc.

2.1 Structure of the Sample

The introduction of the questionnaire survey focused on obtaining basic data of the structure of the sample such as size, legal form, year of establishment, main business activity according to CZ NACE classification. The next section was focused on succession in Czech family businesses. This section was concentrated on the generation of owners, involvement of offspring and handing over the business to the next generation.

The sample consists of 76 respondents. The respondents are owners or managers of Czech family businesses. A significant majority of respondents represent micro-enterprises (43) or small enterprises (23). On the contrary, medium (7) and large enterprises (3) are limited.

In terms of legal form of business, data are most often obtained from a limited liability company (in 43 cases) and from self-employed persons who are represented by 24 respondents. Other legal forms are represented by less than 7 respondents.

In 3 cases the participants responded that their business was established before the Second World War and their business was suspended by the suppression of private business during the totalitarian regime. These respondents started to do business again after 1989. Only one respondent had started business during the totalitarian regime when only small businesses could be created. The remaining 72 respondents started business after 1989.

The area of agriculture, forestry and fishing is represented by 20 respondents in the main business activity according to CZ NACE classification. Furthermore, wholesale and retail trade, repair of motor vehicles and motorcycles and other service activities are represented by just 11 respondents. Other areas of business activity are represented by less than 10 respondents. More details can be found in The Reality of Family Business in the Czech Republic [36].
The number of respondents is not high but it is sufficient to produce the basic conclusions. The sample includes companies of various sizes and legal forms operating in different areas of activity according to CZ NACE classification. These monitored categories are not evenly distributed in the sample. It is a limitation of this research.

2.2 Generation of Owners

One of the main pitfalls in family business can be the question of handing over the family business to the next generation. The succession is currently one of the most frequently discussed topics. The first generation of owners (also known as ‘founders’) is represented by 55 respondents. Representatives of the second generation of owners are in the sample 17 times. Representatives of the third and next generation are in the sample only 4 times [36].

2.3 Involvement of Offspring

The phenomenon which is associated with family business is the involvement of offspring in the running of family business. The data obtained through the questionnaire survey indicate that 54 of the respondents have their own offspring involved in the family business. The remaining 22 of respondents said that their children have not worked in the family business yet [36]. The reason for choosing a negative answer can include the possibility that respondents do not have any children yet or their offspring are too small. The reason for this argumentation is that the negative answer is chosen primarily by representatives of enterprises established after 2000. It is a limitation of this research.

2.3.1 Chi-Square Independence Test

Chi-Square independence test is used to assess a relationship between two qualitative variables measured on elements of the same selection. This test is one of the most frequently used Independence Tests in the pivot table.

Its principle is to assess the difference between empirical and theoretical frequencies. Empirical frequencies are obtained from the pivot table, while the theoretical frequencies have to be calculated.

The assumption of the chi-square of the independence test in the inconsistent table is that the null hypothesis (also known as “H₀”) is valid. This means that there is no relationship between these two monitored variables. On the other hand, the alternative hypothesis (also known as “Hₐ”) asserts that there is a relationship between these two variables [37].

The test criterion Chi-square is possible to calculate using Formula (1) [38]:

$$\chi^2 = \sum_{i=1}^{r} \sum_{j=1}^{s} \frac{(n_{ij} - n'_{ij})^2}{n_{ij}},$$

where $n_{ij}$ is the empirical frequency of the $i$-th category and $n'_{ij}$ is the theoretical frequency of the $i$-th category.

Furthermore, the critical value and the field of admission must be determined. These fields are divided by a critical limit.

The CHIINV function syntax has the following two arguments [39]:
- a probability associated with the chi-squared distribution (level of significance),
- the number of degrees of freedom.

The number of degrees of freedom is possible to calculate using Formula (2) [38]:
\[ v = (r - 1)(s - 1), \]  
(2)

where \( r \) is the number of rows in the pivot table and \( s \) is the number of columns in the pivot table.

**Decision on Null Hypothesis**

- Test Criterion \( \chi^2 \leq \text{Critical Value} \) – The null hypothesis that there is no relationship between these two monitored variables is not rejected.
- Test Criterion \( \chi^2 > \text{Critical Value} \) – The null hypothesis that there is no relationship between these two monitored variables is rejected. There is a significant difference between empirical and theoretical frequency [37].

Independence test in the pivot table can only be used when:
- A maximum of 20% of the theoretical frequencies may be less than 5.
- Not one theoretical frequency may be less than 1.
- Observations that are summarized in the PivotTable are independent [36].

It is also possible to measure the likelihood of the eventual dependence by means of dependence coefficients. Cramer coefficient is determined by Formula (3) [38]:

\[
V = \sqrt{\frac{\chi^2_p}{n(q-1)}}.
\]  
(3)

where \( q = \min \{r, s\} \).

The Cramer coefficient can take values \(<0; 1>\). The higher the value of the Cramer coefficient, the stronger the dependence of the characters. Now, the null hypothesis can be verified.

Based on the generation of owners and the involvement of offspring in the family business, it can be verified whether there is a relationship between these two characters. The relationship of these two characteristics is researched on the basis of the author’s assumption that owners of family businesses of second and other generations want to pass family businesses to the next generation due to their family tradition. That is why their offspring are involved in family business more often. Chi-square of the Independence Test is used here. Hypotheses are set out below:

**\( H_0 \)**: There is no relationship between the generation that the enterprise owns and the involvement of offspring in a family business.

**\( H_A \)**: There is a relationship between the generation that the enterprise owns and the involvement of offspring in the family business.

The data in the PivotTable were needed to meet chi-quadratic independence conditions.

It is necessary to group rows that represent the second and next generation of owners. These changes are listed in Table 3. Table 3 represents the involvement of offspring in the family businesses.

<table>
<thead>
<tr>
<th>Tab. 3: Involvement of offspring in the family businesses</th>
<th>YES</th>
<th>NO</th>
<th>SUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>First generation of owners</td>
<td>34</td>
<td>21</td>
<td>55</td>
</tr>
<tr>
<td>Second and other generation of owners</td>
<td>20</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td><strong>SUM</strong></td>
<td><strong>54</strong></td>
<td><strong>22</strong></td>
<td><strong>76</strong></td>
</tr>
</tbody>
</table>

*Source: Own questionnaire survey, 2017*
On the basis of the adjusted empirical frequencies, the Chi-square test criterion and the critical values at 5% and 10% significance levels plus the Cramer coefficient were found. The values found are shown in Table 4, based on \( H_0 \).

**Tab. 4: The results of \( \chi^2 \)**

<table>
<thead>
<tr>
<th>Test criterion ( \chi^2 )</th>
<th>8.25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical values ( \chi^2 ) (1 – 0.05); 1</td>
<td>3.84</td>
</tr>
<tr>
<td>Critical values ( \chi^2 ) (1 – 0.1); 1</td>
<td>2.71</td>
</tr>
<tr>
<td>Cramer coefficient</td>
<td>0.32</td>
</tr>
</tbody>
</table>

*Source: Own questionnaire survey, 2017*

During testing it was found out that the value of the chi-square test criterion was higher than the critical values at 5% and 10% significance levels. Null hypothesis on the generation that the enterprise owns and the involvement of offspring in a family business is denied. Alternative hypothesis which assumes that there is certain dependence between characters is accepted. However, according to the Cramer coefficient this dependence can be labeled as weak.

### 2.4 Handing Over the Family Business to the next Generation

The survey shows that 64 respondents are planning to hand over their family business to the next generation. Only 12 respondents said they did not plan to pass the business to the new generation. Only respondents who said that they planned to hand over their family business to the next generation were part of this section. Of these 64 respondents, only 20 respondents are planning active handover. It is possible to assume that family businesses that have already undergone generational exchange have gone through greater respect for this process and are already actively planning to hand their business over to the next generation.

\( H_0^2 \): There is no relationship between the generation that owns the company and active planning for the transfer of a family business.

\( H_A^2 \): There is a relationship between the generation that owns the company and active planning of the transfer of the family business.

The data in the pivot table were needed to meet Chi-quadratic independence conditions.

It is necessary to group the rows that represent the second and the next generation of owners. These changes are listed in Table 5. Table 5 represents active planning for the handover of a family business.

**Tab. 5: Active planning for the handover of the family business**

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>SUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>First generation of owners</td>
<td>11</td>
<td>32</td>
</tr>
<tr>
<td>Second and other generations of owners</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td><strong>SUM</strong></td>
<td><strong>20</strong></td>
<td><strong>44</strong></td>
</tr>
</tbody>
</table>

*Source: Own questionnaire survey, 2017*

On the basis of the adjusted empirical frequencies, the Chi-square test criterion and the critical values at 5% and 10% significance levels plus the Cramer coefficient were found out. The obtained values are shown in Table 6, based on \( H_0^2 \).
Tab. 6: The results of $\chi^2$

<table>
<thead>
<tr>
<th>Test criterion $\chi^2$</th>
<th>1.96</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical values $\chi^2 (1 - 0.05)$; 1</td>
<td>3.84</td>
</tr>
<tr>
<td>Critical values $\chi^2 (1 - 0.1)$; 1</td>
<td>2.71</td>
</tr>
<tr>
<td>Cramer coefficient</td>
<td>0.175</td>
</tr>
</tbody>
</table>

Source: Own questionnaire survey, 2017

During the test it was found that the value of the Chi-square test criterion was lower than the critical values at 5% and 10% significance levels. The null relationship between the generation owning the company and the involvement of the offspring in the family business is not dismissed. According to Cramer coefficient, it can be called a very low dependence.

From the data obtained from the questionnaire survey referred to in this paper, it is obvious that family business will also play a significant role in the future because of the fact that the respondents are planning to pass their business on to the next generation.

Conclusion

Although the family business is a highly discussed concept, especially within the professional sphere, there has not yet been a uniform definition of this concept created. What is more, there is no current national legal framework for family business. The basic definitions of the family business are defined and the process of handover of the family business is based on a literary overview. The author believes that businesses that solve or eventually resolve succession should create a concrete action plan that will continue. This will ensure a clear definition of the role of all stakeholders. The most important thing is to clarify the succession plan for all family members. This should contribute to a smooth transition from the current owner to their successor. Business transfer is one of the most complex times for a company. An improperly elected successor or improperly transferred business may even cause business damage that will be irreversible. According to literature [3], it is advisable to take over the leadership position gradually, respectively to gradually become a successor of the business, so that the transfer was smooth. At the same time it is advisable for the original owner to stay in touch with the business, for example as an advisor. However, it should not interfere with the decisions made by the new owner (the successor) to reduce their authority, or if there were no family and work problems, family harmony was maintained. These problems could negatively affect the future prosperity of the business, as well as family relationships. At the same time, legal considerations must not be overlooked. The process of handover of a family business is not fully mapped in the Czech Republic. However, it can be argued that in many cases it is not resolved in time. This may also be related to the fact that part of the family businesses will not survive the generational exchange [3].

The data from the questionnaire survey show that more than four fifths of respondents plan to pass the business on to the next generation, but only a third of them plan the transfer process actively. Thus, it is possible to conclude that there is or will be a generation exchange in the near future in these enterprises. The process of handover is actively planned by the first and second generations of family businesses.

This can be surprising because the transfer of family business is referred to as a very complex process. But Czech family businesses do not pay enough attention to it. These businesses are often overwhelmed by bureaucracy and other necessary activities, so the process of passing on a business is often resolved at the “last minute”. This is probably the reason why only one third of the sample respondents are actively planning the business transfer process.
According to data obtained from the questionnaire survey, it can be stated that in two-thirds the offspring are involved in the business. It is important to mention that dependence between the generation that owns an enterprise and the involvement of offspring in a family business was found out. The author considers the existence of family relationships within the company as a key feature of a family business. Family business is a real topic that can be a source of further exploration.

Acknowledgements

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Literature


Ing. Kristýna Machová
NÁSTUPNICTVÍ V RODINNÝCH PODNICÍCH V ČESKÉ REPUBLICE


DIE NACHFOLGERSCHAFT IN FAMILIENBETrieben IN DER TSCHESCHISCHEN REPUBLIK


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