

**UNIVERSITY OF JYVÄSKYLÄ**

**School of Business and Economics**

**Family Business Classification in the Czech Republic**

29.9.2007

Jan Krejci

## ***JYVÄSKYLÄN YLIOPISTO TALOUSTIETEIDEN TIEDEKUNTA***

Author Jan Krejci	
Name of the thesis Family Business Classification in the Czech Republic	
Discipline Entrepreneurship (Family Business)	Nature of the thesis Master thesis
Time 10.10.2007	Pages 79
<b>Tiivistelmä - Abstract</b> <p>Although in the family business research field the establishing of the comprehensive framework has proceeded substantially in recent years, the research has focused on family businesses within steady and functioning market economies. The aim of this master thesis is to discover what the family businesses in an emerging, fluctuating and reforming economy are like and how the results from the traditional research can be applied to these family businesses.</p> <p>The research was performed on a random sample of Czech family firms using the F-PEC model of family influence. Along with the results, the impacts of the historical context on validity and relevance of the F-PEC was observed, concluding on whether such standard method of family business research can be used for non-traditional economies and bringing forward suggestions on F-PEC extensions or adjustments for these cases. Along with the F-PEC questionnaire, an additional questionnaire was handed out to better estimate the nature of the respondent firms.</p> <p>The F-PEC results showed missing formal governance in family businesses, simple ownership structure (100% ownership, no holding). Firms achieved higher score in the Culture sub-scale and lower score in the Experience sub-scale. The results indicate that the F-PEC scale is usable for the Czech environment, especially for newly established firms however it should be adjusted (especially for restituted businesses) to take into consideration the shortness of free-market history and the period of entrepreneurial inactivity in the Czech Republic.</p>	
Key words: family business, entrepreneurship, F-PEC.	
Säilytyspaikka Jyväskylän yliopisto / Taloustieteiden tiedekunta	

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## 1 GROWTH OF FAMILY BUSINESS FIELD

Family business has attracted attention of researchers during the second half of the 20<sup>th</sup> century. Although the existence and importance of family businesses has been known much longer, it was in the last 50 years that the researchers realized their specifics and the need of establishing a separate research field to properly describe such specifics. Like in any field of research, better understanding leads to better performance. Research results of family business research help all scale of actors within family firms. They help families sustain the ownership and growth of their firms, they help family and non-family managers cope with the dimensions of family business, they help consultants give better councils, they help scholars educate next generations of family business consultants as well as founders and successors and they help successors rise to their occasion. Although the importance of family business remains unquestionable, there is a long-lasting academic debate over the definition of it since the emergence of the field. A whole breed of definitions and a set of attempts of theoretical frameworks and empirical studies have arisen (see Chua, Chrisman & Sharma, 1999, p 21). Despite the frenzy effort and numerous impressive attempts, no framework or definition received general acceptance. After the quantity of contributions to building a framework had reached some level, a qualitative change was expected and occurred eventually. The F-PEC scale of family influence (Astrachan, Klein & Smyrnios, 2002) represents a qualitative progress in terms of rigor, complexity, feasibility and integration. It is also suitable for interconnecting with already well accepted three-circle model (by Tagiuri & Davis) with three spheres of business, ownership and family interlocked in a family business. The scale itself is in no way perfect. The authors say it “is only the beginning”. It’s the beginning of establishment of the independent family business research field, which is also connected, according to the authors, with “understanding of national peculiarity”.<sup>1</sup>

The Czech Republic could be a shining example of such statement. A fluctuating historical development “crowned” by the era of communism<sup>2</sup>, a sensitive geographical location as well

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<sup>1</sup> Similar thought was presented by Bird, Welsch, Astrachan and Pistrui (2002, p. 347), who connect it with culture and time, notifying that researched concepts are not everlasting.

<sup>2</sup> The label “communism” is inappropriate from the political-science point of view, because it didn’t resemble neither practically nor theoretically the original concept of communism. Also communists themselves are reluctant to call it communism for more reasons than just embarrassment. Bolshevism

as certain sociological aspects – all of these contributed to a full scale “peculiarity” of local business environment. The oldest family businesses in the world – those over 200 years old – formed an association called Henokiens. If there were a Henokien member business within the Czech Republic, it would have to survive Napoleonic continental campaign in 1805, as well as his campaign against Russia in 1812, Russian campaign to Paris in 1814, Austrian loss to Prussia, Austrian-Hungarian loss in the First World War, the Great Depression, the annexation by the Third Reich, the defeat of the Third Reich (severe bombing), brutal confiscations by communists, 41 years of communist exploitation of the looted property, the fall of communism and “wild” capitalism of the 1990s. Various foreign armies conquered or invaded the area eight times in last 200 years. Still in the beginning of 1990, there weren't any private firms in terms of European capitalism.

In research, ignoring family businesses that have the potential to be (in the presence or in the future) a major part of the national economy would be (or rather has been) short-sighted and assuming that Czech family firms are identical in their nature to their western peers would be unscientific. In order to enable full scale development for Czech family businesses as well as the Czech family business research field, it is vital to prove the existence and illustrate the nature of family businesses in the Czech Republic and to evaluate characteristics that distinguish them from family businesses in other countries. This research attempts to function as a starting point, a review and a motivator for other researchers and a motor to the whole field in the Czech Republic.

It presents an application of the above mentioned F-PEC model to a specific business environment. The outcome of the F-PEC application is expected to show that the environment could influence the results and that the environment should be taken in consideration when performing such research. Together with the F-PEC sheets, an extra questionnaire was given out to evaluate the F-PEC ability to seize the reality.

The F-PEC model was chosen for its simplicity and complexity plus for possible flexibility when taking local specifics into account. A single-condition family business definition would be much harder to adjust. Moreover, single conditions tend to be misleading in unexpected environments like the Czech one.

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would be probably the most correct label however in Czech language communism is the only term used.

Together with the F-PEC questionnaire, the respondents filled out another sheet asking further details on their business and family, which served for assessing and explaining the F-PEC questionnaire results.

The sample includes 15 cases of family firms of various ages, sizes, legal forms, spheres of business and family involvements. In most cases, the most senior family member or the most senior manager of the firm was the actual respondent.



## **2 STATE OF THE ART**

### **2.1 Historical Background of Czech Business**

The purpose of this chapter is not to explain completely and truly a history of a nation. One can doubt if such description has ever been done or will ever be done. However, to understand contemporary social issues anywhere in the world, one must understand local historical background. For Czech business environment, this statement is particularly applicable. It could be even assumed that there are no stronger influences on the business environment than historical events. Following paragraphs focus on critical events in the Czech history regarding economy, society and its relationship to business – especially the forming of Czechoslovakia, the Great Depression, the World War II and Jewish holocaust and most importantly post-war events including the rise of communism.

#### ***2.1.1 Until 1939***

During last few thousand years, numerous nations or tribes have come to the area or tried to conquer it – the Celts, Huns, Avars, Ottomans, Romans but primarily German and Slavic tribes who have been struggling for the dominance over the territory since the end of the Migration Period and whose co-existence is traversing throughout the entire modern history of the Czech Republic.

For describing and analyzing the present state of the society, it is necessary to name major influences and historical events that formed the process of societal development. As this work focuses on entrepreneurial issues, the regional history of capitalism will be analyzed in particular.

The crucial subject, traversing throughout the entire modern history of the Czech Republic is the of the Czech and German nations. More than a millennium of mutual wars, pacts, occupations and rivalry gave existence to a very complex and thorny relationship.

The complicated geopolitical situation after the First World War was used by Czech and Slovak diplomats to form Czechoslovakia – a multinational state with dominance of artificial and purpose-built nation – Czechoslovaks (Czechoslovakia represented 20.7% of the dissolved Austro-Hungarian Empire area and 26.4% of its population (Tétauer, 2004, pp

11-12)). Although no real nation had a substantial majority in Czechoslovakia<sup>3</sup>, Czechoslovaks did. Such configuration diminished the influence of the German and Hungarian minorities and enabled wider independence on German speaking countries.

The German minority represented a privileged group for 300 hundred years until 1918 when the territory was occupied by the Habsburg Monarchy. Within Czechoslovakia they lost this rank and naturally did not appreciate it, especially after inefficient attempts to establish certain minority autonomy. Despite this privileged position since 1620, they haven't developed any substantial difference in lifestyle or wealth. The differences were larger between imperial (Holy Roman Empire) and non-imperial territories than between German and Czech ones. (Correspondence with Bohumil Doležal). The German minority was severely struck by the Great Depression of the 1930's. The Great Depression came delayed to Czechoslovakia and created a wave of frustration throughout the German minority as the trough of the depression did not come until the time of recovery in Germany. The support of Hitler among the Germans in Czechoslovakia was on the rise in that period and created much national grudge and hatred. (Tétauer, 2004)

### ***2.1.2 World War II***

The territories with German population were annexed by Germany (a fraction by Poland) in 1938 according to the Munich Treaty signed by the Great Britain, France, Germany and Italy. In 1939, Germany invaded the Czech Republic. The economic environment changed root and branch. German government centrally planned and governed production. They seized all major armament production capacities. The exchange rate was set unrealistically to enable German investors to buy properties cheaply (German capital rose by 900% until 1945). Some 640,000 people were drafted for slave work in Germany. Altogether 78,150 Jewish people lost their lives during the war.<sup>4</sup> The Jews represented a group with a strong engagement in business and trade since their social growth after 1848. Another fact influencing the development of business and political environment was the willingness of the pre-war governing parties, the nobles and rich people in general to collaborate with the Nazi occupants

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<sup>3</sup> In the Czech Republic, there were 3.5 million citizens of German nationality and 6.3 million of Czechoslovak nationality in 1910. (Tétauer, 2004)

<sup>4</sup> According to the Encyclopedia of the Holocaust, that represents 66% of Czech Jewish population, which is a low figure compared to about 90% in Poland, about 79% in Slovakia or 83% in Lithuania, but gigantic compared to Germany's 24% or Italy's 17%.

(supposedly to save their lives and properties). Within the Czech society this resulted in a loss of trust in capitalism (after the Munich betrayal of capitalist Britain and France) and hatred towards the rich.

### ***2.1.3 Post-war era 1945 - 1948***

One of the most controversial parts of Czech history began once the war was over.<sup>5</sup> Ten days after the war, on 19<sup>th</sup> May, the government in exile passed a law (sometimes referred to as a decree) that superseded all legal actions made during the war and confiscated *all* property of German and Hungarian states and citizens in the Czechoslovak territory, all property necessary for economic and state functioning was put under state supervision. On 24<sup>th</sup> October 1945, a wave of “decrees” nationalized all mines, banks, insurance companies, and a majority of industrial companies, especially in heavy industry and food-processing industry. (Czech Parliament Web pages). This reflected on a growing influence of the Communist party and its headquarters in Moscow.

The Postdam agreement included an expulsion of ethnic Germans from non-German territories. There were about 3,100,000 ethnic Germans in Czechoslovakia before the war. 300,000 to 500,000 are estimated to be killed in war. About 300,000 fled from the advancing Red Army. Around 400,000 were expelled “spontaneously”, which meant all-nation unorganized ethnic mob (genocide-like) violence resulting in “death marches” to the borders and approximately 30,000 civilian casualties. (Tétauer, 2004). Reflecting on this violence the Postdam agreement called for systematic, organized and humane deportations that were applied to remaining 2,256,000 Germans in Czechoslovakia. Post-war period Czechs and Slovaks – about two-thirds of the Czechoslovak populace in 1930 – represented about 94 % of the population by 1950. Despite these dire events, the economy recovered surprisingly well once the war was over. The output in 1948 outperformed the pre-war figures. (Jirasek, 1993, quoted in Hanzelkova, 2004).

### ***2.1.4 Communism***

The rise of communism in Czechoslovakia was inconvertible once the US and the Soviet Union agreed on the line of demarcation. With the Red Army in the Czech territory, the

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<sup>5</sup> Here, more than anywhere else, it is hard to come up with a neutral description, without causing disapproval of either opinion party. It is attempted to only present figures and facts without judging right and wrong.

chance of restoring democracy was close to zero. The election held in 1946 seemed like democratic, but the major democratic parties of pre-war era were abolished. In February 1948, the communist coup finished all persisting elements of democracy and the terror broke out.

To understand the impact of communism on the Czech society and especially entrepreneurs, it is necessary to clarify that not all Eastern Block economies were principally same. Most of the European communist regimes either did not dare or did not intend to cancel private property of production factors and private business undertaking. Countries like Hungary, Poland or Yugoslavia indeed nationalized all of the large businesses and essential producers, but private farmers, tradesmen and similar business entities were allowed. This was displayed mostly in the word “people’s” in the names of such countries. It was planned to be only the first stage on the way to socialism but later it became apparent that no further changes are going to take place. Czechoslovakia, however, followed a rigorous path to socialism and, in 1960, changed its name to Czechoslovak Socialist Republic. The nationalization continued after the communist coup in 1948 with help of terror and new laws passed in the dictatorial “parliament”. Already in May 1945, all companies with more than 50 employees were nationalized. Violent agricultural collectivization (confiscation) between 1948 and 1956 destroyed over 250,000 business entities. (Totalita.cz web page). The next step was an illegal monetary reform, which resulted in expulsion of Czechoslovakia from the International Monetary Fund. In 1953, the communists simply invalidated money possessed by the people. *All* securities were invalidated including life insurance programs and all other insurance products. The purchasing power of the population dropped dramatically and inflicted further damage to already poor performing Czechoslovak economy suffering from high inflation caused by senseless governmental spending. (Wikipedia)

The communist regime persecuted its opponents, who were mostly the elite of the nation – entrepreneurs, scientists, teachers, politicians, journalists, activists, clerics, yeomen and antifascists. Between 1948 and 1989 over 10,000 people died in concentration camps and prisons, were shot while attempting to escape, were executed, killed during interrogation or just vanished. About a quarter million citizens were imprisoned of political reasons and similar amount managed to emigrate to the West. Another 300,000 were persecuted in schools or workplaces. (Totalita.cz web page)

### ***2.1.5 Post-communism***

After the fall of the Iron curtain in 1990, former Warsaw Pact countries tumbled down to the new market system which represented a challenge of the transition. Although numerous

painful reforms were announced, the western political system implemented in the transition countries has shown to be quite ineffective in passing these reforms (mainly due to populism). The minds of all thinkers remained on the macro level – focusing on such notions as inflation, unemployment, international trade or GNP, probably because that is what it takes to succeed in the developed countries. During following years it has become much more apparent that the most crucial changes are within the minds of the people. It is not wealth that separates these two worlds. It is the way of thinking – hatred, envy, averageness, equalitarianism, lack of independence, inability to make free choices and the like.

When in 1989 Czechoslovakia took the first step towards a free market system, it was more than clear that former business owners were decimated. Only some of the firms could have been and were returned to their lawful owners although mainly in a desolate state. Often the former owners had to be refunded by cash since their businesses no longer existed.<sup>6</sup>

Some traditional business families became all of a sudden the renewed owners with no abilities or knowledge about the firm or business whatsoever (in communism, former rich were not entitled to higher education). In the government, a strongly reformist and economically liberal approach eventually prevailed.<sup>7</sup> The government attempted to privatize most of the remaining industry. The most promising businesses were sold to foreign investors (like Skoda to Volkswagen). Those unwanted were privatized by so called voucher method. In this method, every citizen of 18 years of age or older had a right to purchase 1,000 vouchers that could have been used for bidding for shares of the privatized businesses in a computer simulated market (similar to auction). The process was designed to equitably distribute all available shares at fair relative market values to the citizens. The amount of property within this auction was in book value 13,000 crowns per citizen, which made it really good investment with the price only at 1,000 crowns. Despite that, not all citizens actually purchased the vouchers (only about 90%), which describes how pathetic economic thinking

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<sup>6</sup> The total values of the looted property and restituted property and reimbursements are virtually indeterminable due to high inflation rates in years around the both events (1948 and 1990), illegal monetary reform in 1953 and the fact that the market value was not assignable in communism (in today's terms, most of the companies had zero value in 1989). In this case, any reported value figures are easily refutable, so they are not a part of this paper.

<sup>7</sup> The ministry of finance and later prime minister (1992 – 1997) Vaclav Klaus: "...anytime there is an opportunity to make a reform or deregulation action, it should be made, because there is never going to be a better chance to make it." ([www.klaus.cz](http://www.klaus.cz))

some individuals had, especially considering that numerous investment funds offered immediate cash for the vouchers at up to ten thousand crowns. After a five-round bidding, the “market” prices were established and people obtained their shares. Despite governmental intentions, about 70% of the people entrusted their vouchers to investment funds. (Centre for economics and politics, <http://www.cep.cz>). Generally, this method resulted in widely spread ownership not dissimilar from “national” ownership (see chapter 4.5.1).

The lack of know-how and experience and imperfections of the legal environment caused a high rate of bankruptcy basically all along early 90’s which resulted together with the Central Bank intervention to an economic crisis in 1997. These events damaged the image of entrepreneur, which remains even after 10 years rather negative.

## **2.2 Present State**

18 years after the fall of communism, Czech economy and Czech business have changed. With only a few large firms left in the ownership of state and some of those possibly staying there<sup>8</sup>, Czech economy can be labeled as a market economy. There is a functioning stock-exchange with approximately 40 stocks and 100 bonds being traded. The political system is stable and democratic with some major corruption issues being pointed out by both domestic and international organizations (Transparency International, OECD and similar).

Systems within business are mostly adopted from Germany. Governance system composes of the supervisory board (Aufsichtsrat in German), which is optional for limited companies and obligatory for joint stock companies and of the executive board (Vorstand in German) for corporations and one or more executive heads (Geschäftsführer in German) for limited liability companies. Both bodies are elected by the company’s general meeting.

## **2.3 Statistical description of Czech business**

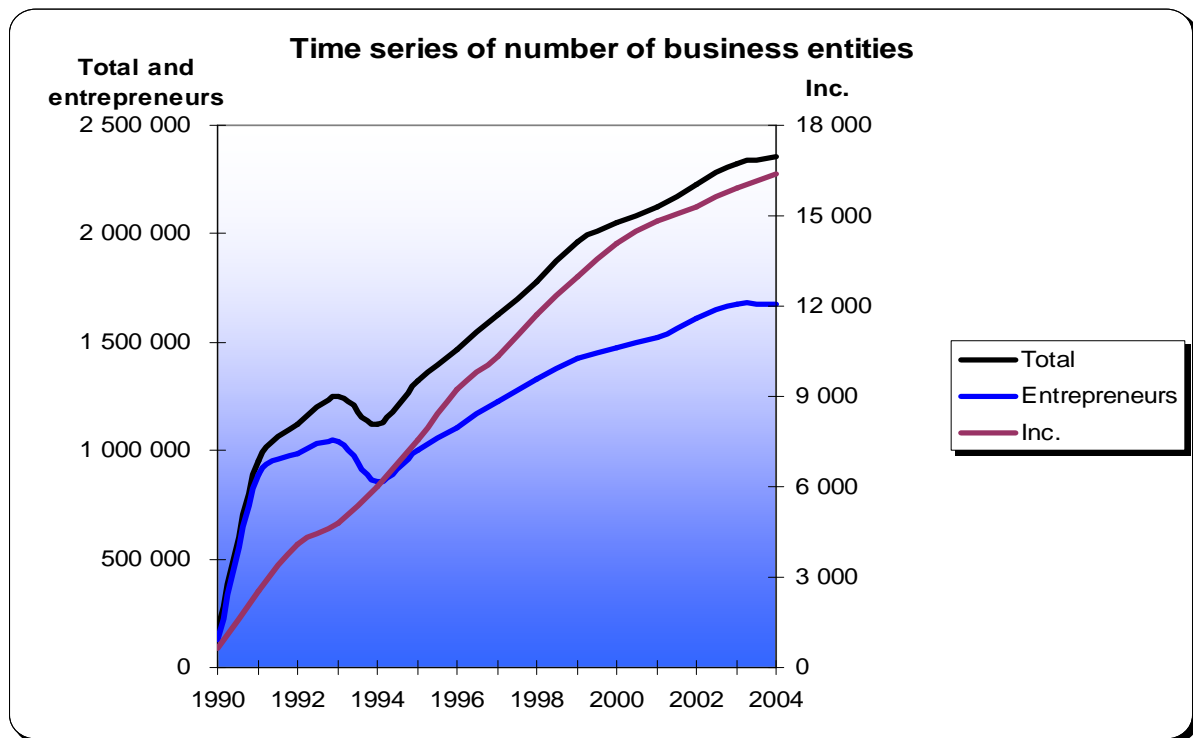
The figures of family business in the Czech Republic are not available yet. Gathering such data would require scientific and statistical definition. However, the available data about

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<sup>8</sup> CEZ (Czech Power Company) is the last company agreed on to be privatized while Czech Post, Czech Railways, Czech Airlines, Prague Airport and Budweiser brewery have been a subject of political quarrels regarding privatization plans.

business in general can reveal a glimpse of family business. All following data are publicly available at the Czech statistical office web pages, unless stated otherwise.

The rise of the number of business entities during the democratic history (see Graph 1) was continual. It reflected the emergence of entrepreneurs as well as foundation of business companies and partition of large state-owned industrial giants to smaller and more operative companies.



Graph 1: Number of business entities in the Czech Republic. Source: The Czech Statistical Office, <http://www.czso.cz/>

For comparison (excluding agricultural entrepreneurs), the amount of entrepreneurs in Finland was 218,600 at the end of 2005 whereas in the Czech Republic it was 1.6 million. Considering that the Czech Republic has got approximately double population of Finland, there are almost *4 times more* entrepreneurs in the Czech Republic than in Finland. The same comparison with legal entities (mostly limited companies and joint-stock companies) shows that there were 237,600 entities in Finland, almost reaching the Czech figure (267,800). Analogically, we can say that there are *half* capital companies in the Czech Republic than in Finland. The reason for such disproportionality could be a subject of research. In the future, surely some of the individual entrepreneurs establish capital companies to reduce risk. The excessively high number of individual entrepreneurs can be ascribed to immaturity of the economy. Furthermore, a glance at the legal prerequisites for both forms in both countries can

reveal another possible reason. The basic capital needed for establishing a limited company in the Czech Republic is CZK 200,000 (€ 7,250), approximately 10 average monthly salaries, whereas in Finland it is € 8,000, not even 4 average monthly salaries. Not only it is harder to gather the money for a capital company start-up in the Czech Republic but also the liability *limit* of the limited company is much higher, increasing the business risk. However, obtaining a trade license in the Czech Republic does not (unlike in Finland) include registration in the Trade Register, it costs only approximately € 35 and the entrepreneur is allowed to exercise business from the day of the administrative action.

In Table 1, an up-to-date count of business entities is displayed with their division by economic sectors and legal form.

Business entities	Total		Entrepreneurs		Corporations			Other	
	Abs.	%	Total	Register	Total	Inc.	Ltd.	Coop	State
Agriculture	137,752	5.71	121,729	198	4,469	835	3,513	1,586	38
Industry	585,216	24.22	500,936	4,956	53,302	3,836	47,152	1,192	213
Services	1,692,690	70.07	1,165,450	12,132	209,999	13,178	190,868	11,488	429
<b>Total</b>	<b>2,415,658</b>	<b>100</b>	<b>1,788,115</b>	<b>17,286</b>	<b>267,770</b>	<b>17,849</b>	<b>241,533</b>	<b>14,266</b>	<b>680</b>

Table 1: Total numbers of business entities in the Czech Republic, 30<sup>th</sup> September 2006.

Source: The Czech Statistical Office, <http://www.czso.cz/>

The table shows that only a fraction of entrepreneurs voluntarily signs in the Trade Register to improve their trustworthiness. It also shows that over 90 percent of capital enterprises are limited liability companies, 6.6 percent are joint-stock companies, about 40 of which are publicly traded at the Prague Stock Exchange. The amount of state entities has been decreasing since 1990 from original 3,500 to present 680.

The relatively high number of entrepreneurs includes entrepreneurs with a business license (90 percent) as well as self-employed farmers. It does not include self-employed individuals with other certificates allowing business undertaking – private medical doctors and dentists, veterinarians, pharmacists, attorneys, solicitors, notaries, tax consultants, tax auditors, authorized experts, designers, architects, brokers, interpreters, and other similar professions as well as creative professions, freelancing artists, and other.<sup>9</sup> These professions are usually

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<sup>9</sup> Complete list available in the Trade Licensing Act, No. 455 of the 1991 Coll., section 3, paragraph 1,2 and 3



bound to specific knowledge, talent or skill of an individual and they do not constitute a basis for a generations-long business.

Unlike in other countries, farming cannot be regarded as a traditional family business sector, since the collectivization in the 1950s. The average size of an agricultural business entity is much larger than in other countries (see chapter 2.3.1).

Of the business license holders, only approximately a half is actively exercising business (correspondence with the Czech Statistical Office, 2006). The remaining half includes also cases where employees were sacked and hired as entrepreneurs but kept performing the same work at the same place, because that enabled both the employer and the employees to cut tax costs. In 2005, the government introduced a law toughening up the general conditions for entrepreneurs that probably lead dozens of thousands of mostly inactive entrepreneurs to give in their licenses however the overall number of entrepreneurs still kept rising.

In the Table 2, share of entrepreneur counts in the sectors of the economy is displayed. The high counts in trade are caused by the width of this sector, which includes wholesale, retail and repair of vehicles and house appliances. The construction sector is often the case of fake entrepreneurship where employees have business contracts instead of employment contracts to lower their tax duties and increase flexibility.

Sector	Share
Trade and repair	29.85%
Real estates and renting	16.79%
Construction	11.59%
Agriculture and forestry	6.58%
Hotels and restaurants	5.50%
Other services	4.97%
Transportation	3.94%
Metal	3.64%
Wood processing	2.66%
Electrical and optical	2.33%
Textiles	1.92%
Health care	1.52%

Table 2: Share of number of entrepreneurs, Source: The Czech Statistical Office, <http://www.czso.cz>

If we look for typical family firms or industries that are typical for family businesses we find out that, in general terms, the form of business activity is greatly determined by the sphere of business. The business form of power plants is generally different from the business form of restaurants or shops. In some industries, founding a firm represents a huge investment expense, extensive people search or even long-lasting bureaucratic licensing process. For

family firms (if they ever get so far), it is more likely to grow from self-employed founder micro-firms to larger business rather than to be established as large businesses (this assumption is valid for all businesses in general). Together with the fact that the Czech economy is only 18 years old and the fact that restitutions only affected small businesses (under 50 employees) it brings us to the assumption that large Czech businesses are either exceptionally successful and fast growing (potential family businesses), bank- or fund-driven, or foreign.

Estimating typical family business industries depends on the definition of family business used (especially whether a single entrepreneur firm is considered a family business), but generally it is valid that the larger starting barriers are present within the industry, the lower is the chance that family businesses appear in the industry.

### ***2.3.1 Agriculture***

The Czech agriculture sector is characterized by large average size of a farm. 71 percent of the soil is used by 2,833 legal entities, the remaining 29 percent by almost 40,000 farmers. The average soil of one company is 84.2 hectares, the EU high. The EU average is 15.8 hectares and for example in Poland it is 6 hectares. This parameter probably reflects the fact that agriculture was (unlike in Poland) an object of mass nationalization and unionization into large Cooperative companies (similar to Russian Kolkhoz and Sovkhoz). The reminiscence of these Coops can be also seen in the number of agricultural Coops nowadays. During the restitutions, soil was returned to 190,000 individuals (80 percent of them less than 5 hectares) and forest land to 130,000. Nowadays there are about 100,000 self-employed farmers.<sup>10</sup>

### ***2.3.2 Industry***

The importance of foreign capital in the industrial sector was on a rise from 26.1 percent of employed in 2000 (and from 0% in 1989) to 33.6 percent in 2003.<sup>11</sup> These companies represented 21.2 percent of the amount of industrial enterprises (generating 48.5 percent of revenues in the sector). In 2006 under foreign capital control, there were on average 1,413

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<sup>10</sup> These can exercise business under specific conditions according to the Agriculture Act 252, 1997 Coll.

<sup>11</sup> The EU figures are not wholly comparable since they refer either to a different period, a different industry or a different proportion. Generally the European figures are substantially lower.

enterprises with over 100 employees, 2,633 enterprises with 20-99 employees, together employing up to 750,000 employees (employee total is 4.286 million). There are 550,000 entrepreneurs without employees reported in 2006. The only trace of family business in the official statistics of the Czech statistical office is a number of “helping family members” which is 36 thousand in 2006.

In 2004, Bedrich Danda, the chairman of the Czech Entrepreneur Association said at least 140 thousand of business licenses represent family businesses as well as 20% of all limited liability companies (*Profit* 2004/45). However, the Association has no scientific, research or statistical activity and the sources supporting the statement are not clear.

### 2.3.3 Foreign capital

In 2004, 22 percent (or 48,200) of the public limited companies and 9 percent (or 1,450) of the incorporated companies were under foreign capital control.

Sector	Registered total	Public	Private	Foreign	Households
Agriculture	137,752	178	7,447	1,765	121,759
Industry	585,216	509	86,374	37,607	498,034
Services	1,692,690	1,653	280,705	98,943	1,266,643
Total	2,415,658	2,340	374,526	138,315	1,886,436
Sector	Registered total	Public	Private	Foreign	Households
Agriculture	137,752	0.13%	5.41%	1.28%	88.39%
Industry	585,216	0.09%	14.76%	6.43%	85.10%
Services	1,692,690	0.10%	16.58%	5.85%	74.83%
Total	2,415,658	0.10%	15.50%	5.73%	78.09%

Table 3: Owners of business entities in sectors of economy; in absolute and relative figures, Czech Statistical Office, 2006

### 2.3.4 SMEs

According to the official statistics of 2004, following sectors are domains of the *entrepreneurs without employees*:

1. Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods. (566 thousand entities)
2. Real estate renting and business activities (398 thousand entities)
3. Manufacturing (262 thousand entities)
4. Construction (244 thousand entities)
5. Other community, social and personal service activities (178 thousand entities)

Following sectors are agriculture, hotels and restaurants, and transport.

Domains of micro firms with *1 to 5 employees* are same in top three spots, and same in further spots with altered order. The trade sector dominates with 71 thousand entities (31.7 percent of all firms with 1 to 5 employees).

Among firms with 6 to 19 employees, a high number of construction (5600) and education (4200) sectors can be recognized.

Manufacturing and education sectors dominate firms with 20 to 249 employees with 8,200 and 4,200 business entities respectively (26 and 14 percent of such firms respectively).

Among large companies (over 250 employees) manufacturing represents 920 firms (46 percent). Following sectors are state held sectors, real estates, and trade.

According to the Eurostat report on SMEs, the amount of micro firms represents 95.2 percent of all Czech enterprises, the second highest in the EU (Poland 96.3 percent (highest in the EU); Slovakia 73.3 percent (lowest in the EU); Austria 86.7 percent; Germany 83.0 percent; Finland 92.1 percent). These micro firms however employ only 32.6 percent labor (Italy 47.1 percent (highest in the EU). The amount of small firms in the Czech Republic only represents 3.9 percent (second lowest in the EU after Poland,<sup>12</sup> Slovakia holds the EU-high with 20 percent). (Eurostat report on SMEs). Between 2001 and 2003 the micro firms contributed the most in the growth of employment while large companies reported job reductions in the same period. In 2003, over two thirds of the newly established businesses were operating in the sector of services.

The same report also provides amounts of enterprises in various European states per 1,000 inhabitants. The Czech Republic belongs to the highest rank of countries according to this criterion along with Italy, Spain, Malta and Cyprus (with Slovakia, Germany, Romania or the Baltic states on the other end of the ranking).

Regional density of enterprises within the Czech Republic varies, as shown in Figure 1. Expectedly, Prague holds the highest rank with double density of businesses than the “thin” regions (Vysocina and Moravskoslezsky kraj). Unexpected are the high density values in former German regions where the traditional business owners were expelled and new

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<sup>12</sup> A possible hypothesis here is that due to the youth of both Czech and Polish economies, the micro firms high figures will transform (mature) in the future into small firms (presently low). On the other hand the Polish and Czech economies have a different structure and Slovakia which shared a similar history with the Czech Republic stands on the other side of the ranking, so this might be a coincidence as well.

population has been attracted through generous governmental subsidies. These regions often suffer from unemployment, insufficient infrastructure and low education level.

A difference can also be seen in distributions of entrepreneurs and capital companies. While entrepreneur distribution is quite uniform (with Prague only 58% more than the lowest value), the capital companies' distribution is fluctuating (Prague 6.5 times more than the lowest value).

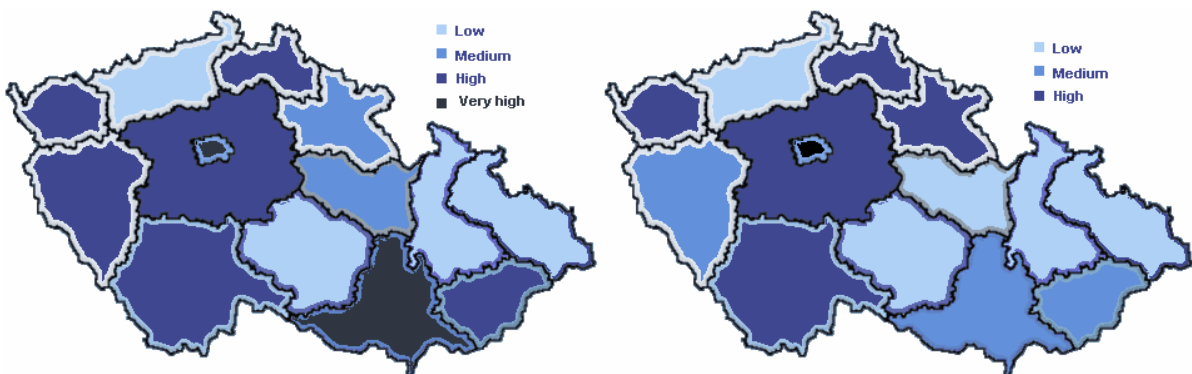


Figure 1: Regional density of capital companies (left) and private enterprises (right). Source: The Czech Statistical Office. <http://www.czso.cz>

### ***2.3.5 Franchising***

Another category of businesses that deserves to be analyzed from the family-business point of view are franchising businesses. It is a conventional way of making business in the Czech Republic, especially for the SMEs or micro-firms. According to the Czech Franchise Association, there were about 90 franchising systems or networks in the Czech Republic in 2004, operating about 750 franchisees with about 1,500 business premises.

Franchise enterprises can fall under the family business label in terms of ownership, management of operations and even succession, but cannot be considered family businesses according to the strategic management criterion, since the business idea and strategy are mostly determined by the franchisor.

### ***2.3.6 Investment incentives***

Since April 1998, the government has been issuing investment incentives – tax holidays, site preparation, personnel training or direct subsidies. According to the governmental agency Czechinvest, the total amount of incentives has been approximately 400 million euros and 51

thousand jobs were “created”.<sup>13</sup> Another hundred thousand jobs were created additionally in sub-contracting firms. About 50 thousand jobs were lost due to the investments. About 90% of the number of incentives (not of the amount of incentives) was attributed to foreign investors. However, according to the World Bank data, the Czech government has spent some *16.5 billion* euros altogether on investment incentives (*Profit*, 2006/14). The governments realized that the success of their major economic program issue is politically sensitive hence the reported costs are less than 2.5% of the real costs distilled by the World Bank from other governmental reports. Generally the incentives are granted to foreign investors. The fact that some of them are family businesses (for example Hyundai) cannot be considered as a “helping hand” for family business in the Czech Republic. Instead, such subsidies are generally considered by economists as market distortions or money stolen from small businesses to sponsor their larger competitors. Zemplerova (2006, p. 2) points out that supporting single private enterprises from public (state, municipal or similar) resources is illegal by the General Agreement on Tariffs and Trade as well as by the EC agreement and also by national legal systems in every country. She also proves that the aggregate impact of a subsidy can never be positive worldwide and only debatably nationwide.

### ***2.3.7 Remarks on society and legal conditions***

Previous chapters tried to statistically describe the state of business in the Czech Republic. However, there are other than business variables that influence family business. They are mostly societal (demographic) characteristics. The Czech society represents quite typical society of Europe with the population growing older and having negative net population surplus. From standard Western-European societies it differs in religiosity. Over 60% (in 2001) of people stated they are atheist. The number of religious people is dropping severely (by one third within a decade) due to their age (people over 50 years of age represent over 60% of believers). There is a positive correlation between education level and atheism. The rate of divorce is relatively high, about 60% in 2003 (3 divorces on 5 marriages). More than 60% of children are conceived within marriage, about one sixth of all children are the reason for marriage and slightly over 20% are born outside marriage (this figure is on a rise). The abortion rate (aborted / (aborted plus born)) has been decreasing from almost 50% in 1987 to 32% in 2002. (Czech Statistical Office annual reports).

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<sup>13</sup> This figure represents a subsidy of about an average annual salary per one created job.

Legal conditions result from the history within the German sphere of influence (The Holy Roman Empire, the Austrian Empire, the Austro-Hungarian Empire and the Third Reich). For the purpose of this work, the most important are continental law system and German management model. The model uses a two-level management with General meeting electing the Supervisory board, which elects the Management Board. The Supervisory board is obligatory for joint-stock companies, but optional for limited liability partnerships and so-called *commandite* partnerships (in Anglo-Saxon legal system, this resembles limited partnership (GB) or limited liability limited partnership (US)). The membership in a Supervisory board is incongruent with a membership in another board (supervisory or management) in the same or similar business sphere and forbids making or mediating contracts with the company or other companies in the sphere of business. In firms with over 50 employees, at least one third of the Supervisory Board is elected by the employees, which naturally makes the mere existence of the Supervisory Board undesirable and (together with other factors) resulted in the past in even large companies being limited liability companies (for instance the most popular commercial television license holder CET21, second and third largest GSM networks Paegas and Oskar, gas distribution company RWE, IBM local branch and many others).

### **3 AIMS OF THE RESEARCH**

#### **3.1 Underlying assumptions**

The first assumption that underlies the whole research is that in a healthy market-based democracy there should be a class of family businesses and perhaps a social class of family business owners. The assumption flows from the fact that all known healthy and developed market-based democracies possess such classes, and that these companies represent the engine of the economy. The research problem arises from the difference in business environment between an 18-year-old market economy like the Czech one and centuries old market economies like the US or the UK.

There are two main research questions resulting from the difference in business environment. The first one aims at the existence of such companies; that means asking whether there are any family businesses or whether there is a class of businesses representing the engine of the economy.

The second one aims at their characteristics; that means asking whether they are same or similar in their nature to their western colleagues, what the possible differences are and what the differences result from.

Since the title of this study contains word classification, there is apparently another underlying assumption – that there indeed are family firms that this research is going to be conducted on and that they have certain qualities that are worth describing and that they are sufficient to classify family businesses. If all the assumptions are correct, answering the research questions requires also determining such potential qualities as well as determining how the contemporary research methods lapse in describing family businesses in different business environments and how they should be adjusted according to business environments they are used in.

#### **3.2 Business families and family businesses**

The simplest classification of post-communist country family businesses would probably be to divide them to restituted (traditional) and newly established.

Choosing a traditional family business (restituted) would probably be more suitable for the qualitative research since the tradition can play a key role in the business. Perhaps newly found businesses are just desired by the founder to become family businesses and therefore could twist our view on family businesses. On the other hand, newly established businesses



are undoubtedly *an intention* of the founder whereas restituted businesses were acquired without particular business objectives. Nevertheless such companies have been in market operation for several years now, so they can be considered as held by business families and not just by accidental owners.

The question arising from the information provided so far – historical and statistical – is whether there are any 2<sup>nd</sup> or further generation family businesses in the Czech Republic or whether all family businesses can be treated as starting since the existing business families have not been managing their business for nearly 50 years. It is not their organizational structures that are set, it is not their product that is being produced, it is not their partners, customers or markets that are supplied, it is not their strategy that has been exercised and the business has not been a complementary part of the family. This question leads again to the main topic of this thesis – what is a family business? How is it different from non-family business? What common characteristics do family businesses have and why? How searching and finding these differences and similarities contribute to our knowledge and understanding business and further perhaps to a better performance in business?

Answering these questions should provide enough knowledge to decide about the influence of family in existing businesses.

Once it is clear the situation is specific and Czech family business cannot be generalized as a regular family business, there are two starting points to choose from when assessing the existence and nature of family businesses in the Czech Republic. The first starting point is that due to historical development, there aren't any real family businesses in the Western meaning of the word. In this case, all businesses might develop into family businesses but enough time hasn't passed yet. The non-existence would most probably have heavy impact on economy as family businesses represent an essential part of any healthy economy.

The second starting point counts with existence of family businesses and assesses their role in the economy, differences in their nature as well as their sorting. It enables better counseling, education and guidance for the businesses to achieve equivalent status to that of Western-like family businesses and to enhance their performance and importance.

Another group to consider is the large multi-national family businesses that invest in the Czech Republic. In recent years for example Hyundai, Carrefour, LG, Samsung, TCPA (a joint venture of PSA Peugeot Citroën and Toyota), Myllykoski or Robert Bosch have invested in the Czech Republic. Are their investments suitable to be treated as family businesses? Are they increasing family business importance in the Czech Republic? Do they represent the innovative, socially and environmentally responsible backbone of the Czech business?

With respect to the mentioned investors, in this study, they will not be considered family businesses. They are not doing what regular family businesses are supposed to do – things that the definitions of family business are based on. They are not building a long-term investment, contrarily they are probably only going to stay as long as the workforce is cheap, they are not innovative – the innovative capacities are in their home countries and their investments in the Czech Republic create production capacities. They probably don't have any family members in any positions within the Czech branches. They are not dealing with succession, professionalization, or family culture or power over the company.

## 4 THEORETICAL GROUNDING OF FAMILY BUSINESS RESEARCH FRAMEWORK

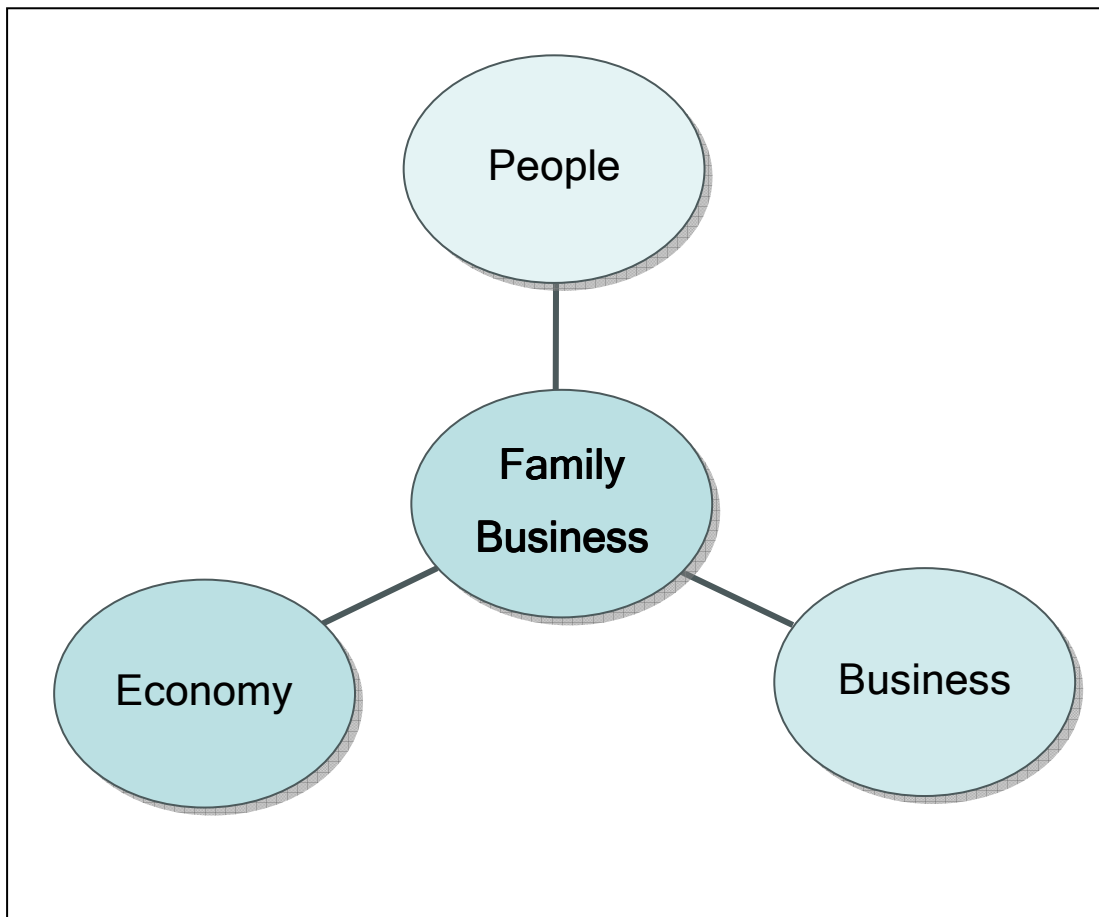
### 4.1 Development of family business research

Aldrich and Cliff (2003, p. 575) claim *family business* was a synonym to *business* only a hundred years ago and the logical separation of the two systems (family and business) is resulting from reflecting on complex social and economic changes during the 20<sup>th</sup> century. They see however no need for separation and rather understand business as a part of the family system. The social and economic changes (or *socio-historical* according to the authors) summed up in their paper range from the position of women in families, time spent together in families, influence of parents on their children's choice of career and socialization to marriage, divorce and birth rates. A factor not mentioned in their paper is macro-economic development of production from primary (mostly agricultural) to secondary (industrial) and later tertiary (service) and quaternary (research and education) sector resulting in specialization, labor division and expert education. Two hundred years ago, a farmer could count on any of his sons to become a farmer and inherit the family business. Any of the sons was "qualified" enough – that means raised at a farm – to become a farmer and not many of them had another possibility. Nowadays, approximately 75% of businesses operate in services (including quaternary sector). How many of his children can an expert dentist expect to follow his career and take over the practice? How many children stay in family business just because there is no other job? Ricardo's theory of comparative advantages discovered the brilliance of specialization and resulted in labor division and extreme rise of competition. Even farmers need qualification and "gift" today and even that might not be enough to survive in business. Experts are needed in every sphere of human activity. Two hundred years ago, the task for a successful incumbent was to transfer the tacit knowledge to successors. Today, tacit knowledge itself is of no use in majority of professions, it is only an extra advantage that can be used once the primary qualification criteria are met. Marx's mirages of "the rich" are overcome through the speed of change and requirements on keeping wealth. The wealthiest people nowadays (barring oil-sheikhs and the like) got rich within last couple of decades. The predecessors of people like Bill Gates (Microsoft), the Waltons (Wall-Mart), Amancio Ortega (Zara), Larry Page, Sergey Brin (Google), Ingvar Kamprad (Ikea), Carlos Slim Helu (America Movil), Karl Albrecht (Aldi), Lawrence Ellison (Oracle), the Michelins or Steve Wozniak (Apple) were most probably pure proletarians in the times of Marx. The interchange between

the fabricated classes of the rich and the poor is ever rising (supporting the elements of Hegel's theories that Marx underestimated or neglected).

## 4.2 Points of View

Family business has been the most common form of business undertaking in the history. Despite its crucial role in numerous civilizations (Bird et al., 2002, p. 337), the concept was not researched separately until mid-20<sup>th</sup> century. There are various points of view that family business or family businesses can be approached from. It is interesting that any of these possible approaches did not lead to a “discovery” of family business field (and all the other connections it has) much earlier.



In this model, family business can be seen from 3 positions. The position labeled as “People” represents the role and importance family businesses have in individual lives, lives of people related to the business – owners, employees, managers, members of boards, family council members, spouses, successors and other figures. Studying of this dimension of family business focuses on psychology (Dyne & Pierce, 2004), social psychology, philosophy (Yan & Sorenson, 2006), anthropology or other sciences directed at human being. The positive

factor of this dimension is that human being has been central to millennia of research and the scientists can utilize gathered information (findings as well as methods) for application in the family business field. The surprising point however is that although all people spend at least 30 percent of their time at work and roughly more than a half of the people work in family firms, the need of introducing a separate academic field has not been recognized until the 1990s. The second dimension labeled “Economy” accentuates the influence of family business in the economy as a whole. Substantiality of family businesses for economy (society) is mentioned almost in every article written on the topic (Sharma, 2004, p. 22) – mainly in employment, export, value creation and innovation. From the economic (outer) point of view however, family businesses are very similar to non-family businesses – both have costs, revenues, prices, profits, crises or booms. The third point of view called “Business” stands for elements that, family businesses symbolize within the business activity – responsible ownership, long-term reliability, integrity, traditions, and personal sacrifice. It seems that this dimension is perceived among researchers as the most important one, at least their activity tells so (review in Bird et al., 2002, pp 340-347). The family business field originated from this point of view, which can be seen in attempts to set boundaries primarily towards the entrepreneurship field (much more frequent than attempts to build distinctiveness towards family research field, psychology or economics) as well as in ways of defining family business. Definitions based on economics (for example “family businesses are that part of economics where families have decisive power”) or family (for example “family business means family that decides about business”) sound ridiculous within the frame of contemporary family business field. Researchers in the field rather try to define the dissimilarities (for example through comparative studies Anderson, Reeb, 2003; Coleman, Carsky, 1999; Gudmundson, Hartman and Tower, 1999) from “regular” or “normal” (that is non-family) businesses.<sup>14</sup> They try to grasp fine nuances mostly *inside* of firms that make the firms specific. Less research (Dyer, Mortensen, 2005) is focused on the “macro” level – on legal, societal, social or traditional environments that are stimulating or retardatory to family business, on tools and restrictions governments should use or avoid. For example Burkart,

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<sup>14</sup> Reflecting on the huge number of family businesses and their majority among firms as well as their historical dominance (Aldrich, Cliff, 2003), it would be more appropriate to study family businesses within the entrepreneurship field and establish a non-family business research field. Contemporary configuration looks as if physiology studied left-handed people and a branch of physiology for right-handed people were established and building its boundaries.

Panunzi, and Shleifer (2002) researched impact of fiscal and tax conditions on family wealth management actions.

Among the main topics in family business (and probably number one topic (Chua, Chrisman, and Sharma, 2003, p. 91)), research of the process of succession illustrates clearly how these points of view are connected. Succession is researched through personal, family and emotional concepts (Kansikas, Hanzelkova & Krejci, 2007), entrepreneurial and organizational ones (Bjuggren & Sund, 2002) as well as legal and economic (Burkart et al., 2002).

### **4.3 Founding a Research Field**

Family business researchers have obviously spent enormous effort on finding as correct and complete definition of family business as possible. Such definitions are essential for every field of research. Only with a solid cornerstone the new knowledge can be sorted and formed into a science. It is one of the tasks that are mentioned for example by Sharma (2004, p 5) as definition of boundaries. The closest discipline and the one that arched over family business before it became an independent discipline is entrepreneurship. Nowadays, family business research field has got multiple links and “intersections” with other areas of research like management, economics, commercial law or marketing.

Entrepreneurship research field itself is a new one (1920s) compared to other fields within economics (for example management, 19<sup>th</sup> century at the latest) or in general (for example as sophisticated science as genetics, 1905 or chaos theory, 1898). This “youth” could be ascribed to the fact, that the economic system is ever-changing and throughout the history, there might have not been circumstances that would have advocated developing theories regarding entrepreneurial activities.<sup>15</sup>

Compared to family business field, entrepreneurship field has made better progress in installing basic definitions. Terms like entrepreneur, opportunity exploitation, innovativeness or intrapreneurship are defined as well as their function in wider scope, how they overlap to other fields like management, marketing, economics, sociology or psychology. Entrepreneurs are classified and sorted into groups or typologies. Entrepreneurship field has also accomplished respect through description (or explanation) of why are entrepreneurs essential

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<sup>15</sup> The ultimate question here is: Would knowledge of today’s entrepreneurship theories have helped an entrepreneur in Medieval or Ancient times to achieve better results in business?

for society, why entrepreneurial behavior is specific and thus has to be studied separately and how it is connected (although not identical) to other fields. In family business, Shane and Venkataraman (2000, p. 217) claim a framework of concepts and their relations, that is able to predict phenomena that have not been predicted by a framework of another field, is needed. Bird et al. (2002, p. 337) call it “body of knowledge that expands understanding of the domain”. They also mourn that entrepreneurship hadn’t got such framework and suggest their own framework. Apart from if one agrees with their opinion, it is apparent that the entrepreneurship field has gone much further in building both its framework and respect than the family business field.

Hoy and Verser (1994, p. 18) made a great contribution by defining overlaps between entrepreneurship and family business domains – themes like the position of the entrepreneur, which is seen from different points of view, the role of risk and innovation or growth.<sup>16</sup>

#### **4.4 Distinctiveness**

The distinctiveness mentioned by Sharma (2004, p. 5) was researched with focus on proprietary, entrepreneurial and managerial qualities as well as tacit knowledge and human resources management. She also reviews the available research results according to the level of analysis – individual, interpersonal/group, organizational and societal (p. 9). Such structuring is very helpful for understanding the multi-dimensional and complex issues of family business. In the individual level, her description of family firm stakeholders (p. 10) splitting them into external and internal groups also contributes to differentiation of the field. The internal group of stakeholders includes family members (besides traditional stakeholders – owners and employees). In the group level, it’s the agency theory and resulting rules of management and governance that are questioned by family business researchers. The researchers also analyze succession process in this level. The organizational level focuses on specific resources represented by characteristics and qualities of organizations or institutions that provide advantages (or generate disadvantages) for family firms. In the article of Sirmon and Hitt (2003, p. 341), these are standing for “uniqueness of family firms”. Although the authors do not focus on the organizational level and they try to define functional differences regardless of where they emerge from, they state following “salient and unique characteristics” – human, social, survivability and patient capital and governance structure.

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<sup>16</sup> The title Emerging Business, Emerging Field: Entrepreneurship and the Family Firm seems quite improper to refer to such an old thing as family firms are as to emerging.

The last (and probably the least) level of analysis often focuses on building “self-esteem” of the family business field by proving the key role of family firms within national economies and societies.

<b>Analysis level</b>	<b>FB specific subject of research</b>	<b>Outcome</b>
Individual	Stakeholders Founders Successors Women Non-family employees	Stakeholders like family members, founders and successors are specific for family business.
Group	Agency theory Conflicts Succession	Classical agency theory lapses in some cases, although there hasn't been agreement on why yet.
Organizational	Resources	Family businesses possess a range of specific resources.
Societal	Importance for national economies	Family firms are dominant in many western capitalist democracies.

Table 4: Review of analysis levels in Sharma (2004, pp 9-23)

Another source of distinctiveness is represented by Gudmundson, Hartman and Tower (1999), who describe differences in family business strategy. They point out that although theoretically strategic planning and business strategies within family business are based on different concepts, there is scarce and contradicting empirical evidence on the case (p. 38). These theoretical grounds perhaps lead to general opinion that family businesses must act differently within strategic decision making, however, the empirical evidence shows no such regular difference in strategic orientation. The authors specify issues connected to business strategy where the empirical evidence discovered specific particular aspects of family business strategy – such as inward orientation, slower growth and smaller internationalization, or long-term commitment (p. 28). Nevertheless, these are only partial characteristics that do not prove the actual strategies of family businesses to differ.



## 4.5 Defining Concepts in Family Business

In the previous chapter, an outline of various approaches to family business as a phenomenon, to family business field and family business research was made. Many of the research papers and opinions of researchers lack the specification of what they refer to as family business.

Finding out what laymen or outsiders think family business is for example by making a survey in the street would be interesting. However, other research fields show us that the “common” meaning of words might be profoundly different the scientific meaning (take ordinary words like idiot, schizophrenia, weight, gravity, alcohol, silicon, blindworm, woodchuck, platonic, annals – they are all of everyday use but have completely different, broader or more specific meaning when it comes to science).

A stereotypical picture of a family firm would probably focus on size, relationships to customers, ownership and participation of more family members or generations. These criteria dominate also the scientific attempts to define family business, although in order to stay rigorous the concepts within the definitions are very precisely defined as well. Whereas laymen could say a family firm is one where more generations are engaged, a scientific definition based on this idea would have to define many concepts. What is family? Do in-laws count? Do cousins count? Do adopted children, foster-children, divorced couples, stepchildren or step-parents count? Is a single person a family? Are gay couples a family? What is a generation? Does a successor of the same family generation, but 20 years younger, count as the next generation? Can the older generation become the successors (for example in case of an early death of the founder)? What is involvement in the company? Is it ownership? Is it employment? Is it everyday presence? And further, what is ownership? The amount of work spent on the topic shows how complex the issue is and how asymptotic the research effort is.

### 4.5.1 Defining Ownership

The ownership criterion is one of the most popular. Before using ownership for defining family business, it should be made clear what ownership is. Legal ownership, as the most common one, can be defined as *socially supported power to exclusively control and use for one's own purposes, that which is owned* (Wikipedia). “Socially supported” in this sense represents a sovereign authority (for example the state) enforcing the adherence to the law and inviolability of life and property. However, there are other types of ownership not backed by

any legal frame. Psychological<sup>17</sup> ownership, as a possessive feeling (Brundin, Melin and Samuelsson, 2005, p. 5) can but does not necessarily have to be connected with legal ownership – there are all four configurations possible – owning with feeling, owning without feeling, not owning with feeling and not owning without feeling.

In the matrix in Table 5, these are displayed by their possible “nicknames”. The top-left configuration – my property – represents possessive feeling about one’s property. The top-right – my office – stands for people caring for things they don’t own – like the equipment in their offices. The bottom-left – Easy money – represents easily gained property that could be not accompanied by possessive feeling. The bottom-right represents apathy for other people’s property.

		Legal ownership	
		Yes	No
Psychological ownership	Yes	My property	My office
	No	Easy money	Your property

Table 5: Legal and psychological ownership matrix

The first and the last case are quite natural – people care for what they own (Dyne, Pierce, 2004, p. 441) but do not care for what they do not own. The case where legal ownership is not accompanied by possessive feeling is less common but still imaginable. It could be connected with “price” paid for gaining the property. In upbringing of children people imply that a hard earned property should be of higher importance (psychological bond) than an easily earned one (as in case of vain Russian zillionaires). The remaining case is of interest of the business research field. Person psychologically bound to property that is not his or her is an occurrence which (not only) business researchers analyze with keen interest (like Pierce et al., 2001). Brundin et al. (2005, p. 5) call it possessive feeling and focus on its connection to

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<sup>17</sup> Perhaps “psychical” would be more appropriate as pertaining to human mind, not to the science dealing with human mind, but the word psychological is generally used in both senses, although semantically incorrect when used as “psychical”.

responsibility, Koiranen (2006) points out the difference in perception of legal and psychological ownership by society. This difference can be seen also between legal and social ownership. Social ownership represents a concept that is alike to psychological ownership, except that the “owners” unrecognized by society feel their ownership collectively (Koiranen, 2006, p. 113).<sup>18</sup> Dyne and Pierce (2004, pp 440-442) also link the possessive feelings to positive attitudes, self-perception and responsibility.

If we consider the business sphere, the importance of psychological dimension of ownership is comparable to its legal dimension. The legal dimension brings certainty (the owner is a specific person or persons), integrity (the owner can act freely with the property), accountability (the owner is held responsible for the property) and security (the owner can claim his property rights) for the business. The psychological dimension brings responsibility resulting in nurturance (continuous, emotionally based caring), personal sacrifice (high status of the property in the owner’s value hierarchy) and identification (property becoming an extension of the owner (Dyne and Pierce, 2004, p. 441)). Koiranen (2006, pp. 114-115) concludes that psychological ownership in a family business is a feeling of owners, managers or employees that the company is *theirs*. Similar to Dyne & Pierce, he sees its roots in “the human needs for efficacy, self-identity and place and its routes in possibility to control the target, intimate knowledge of the target, and investing one’s self into the target”. Koiranen also tries to establish a link between psychological ownership and entrepreneurial drive, which he characterizes by “proactiveness, innovativeness, risk taking, growth orientation, industriousness and intentionality”.

Hall (2005) mentions also negative aspects of psychological ownership such as destructive imposition (property becomes a burden for the owner).

#### ***4.5.2 Defining Family***

Family, like ownership, represents one of the oldest concepts and often is considered a primary economic unit of a society. The concept, however, is so complex and distant from the business field that any further contemplating its sociological or anthropological aspects in a business focused paper would be inappropriate, laical and abundant. For business field, the

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<sup>18</sup> In the Czech Republic, the communist party kept introducing and explaining the collective form of ownership over 40 years and they never managed to persuade people to feel possessive and responsible about the (state) property they were maintaining.

legal frame of family is determinant as well as real status of the family institution in the world that is being researched.

The legal frame (in terms of the western civilization) grants extraordinary status for family institution. Familial ownership is a one-of-a-kind among legal ownerships. Hereditary rights are unique and essential concept (not only) in the capitalist society.<sup>19</sup> In the Czech Republic, the protection of primary heirs is assured by the law by granting the status of forced heirs whose heritage claims are untouchable by the will of the testator. Generally, hereditary laws are based on the assumption that interests of every member of a single family are collateral or equivalent. In other words, that each family member would prefer other family members' interests to interests of other people. However obvious or self-explanatory this proposition is, the word nepotism, meaning favoring or patronizing relatives, has definitely a negative connotation. The question of the origin of such coherence of family, whether the coherence preceded societal agreement and is innate or whether it is an ethical issue instilled in the people, is not going to be discussed within this thesis. It is only known that all known civilizations hold these ideas true which indicates rather to an innate than an ethical concept. (Pinker, 1994).

If the coherence of family members' interests is agreed on as a universal quality of family, it could help defining who is and who is not a part of the family, where the boundaries of family are. As Dreux and Brown (1999, p. 31) point out, "families operate with an emotion-based rationale" and the members "are valued solely because of who they are". However, that doesn't mean at the same time that people that are not family are not valued because of who they are. A family definition based on this quality could precisely tell which family members are too distant to be considered family but it could easily include non-family members which are close enough in family members. A definition of family should also be universal, not subjective.

The effort in defining family has been scarce in recent family business research literature. Generally researchers note that the word family can refer to a nuclear family, meaning a married couple and their children (obviously there are numerous variations); and to a greater family (kin) where all relatives are included (again, with variations). However they don't resolve whether there should be a difference between nuclear-family firms and greater-family firms. (Koiranen lecture, 2005) and they often don't specify if these are distinguished in their particular research papers. Due to the size of nuclear families in the region (1.3 child per

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<sup>19</sup> The abolition of all hereditary rights is among the 3 top goals in the Communist Manifesto

woman's lifetime in the Czech Republic in 2006), forming nuclear-family firms might be complicated, especially when certain education, expertise or skills are required in the firm.

In this paper, these two meanings are not distinguished and both types of family firms are examined. Family businesses are way too scattered in the Czech Republic, to split them further by various criteria. Moreover, the F-PEC model uses a variation of extended family definition: *a group of persons including those who are either offspring of a couple (no matter what generation) and their in-laws as well as their legally adopted children.*

An issue that is necessary to resolve – although not mentioned in any research literature – is the case where a firm was looted and returned to a family. Should the new owners feel like let's say 4<sup>th</sup> generation? It would be myopic to ignore the difference between a 4<sup>th</sup> generation traditional and 4<sup>th</sup> generation restituted business, on the other hand a legacy (perhaps including the family name) of one's grandparents surely changes the approach of the business owners to their property. For that reason such business will be considered as regular higher generation family firms and the whole issue will be treated systematically through adjustment of the F-PEC model.

### ***4.5.3 Defining Succession***

The original meaning of the word succession refers to what happens with property, titles, throne, office or rights of a person after the death of the person. Nowadays, the transfer of such items to the successor occurs also during the incumbent's life. In family business, succession represents a continual *process* rather than a single-shot act or event (Handler, 1994, p. 134). The process includes involvement in the business, learning, taking on responsibility gradually, taking over management as well as ownership and also incumbent's letting go. It is one of the crucial subjects of research within the family business field. Barnes & Hershon (1994, p. 377) call it “one of the most agonizing experiences”, Chrisman et al. (1998) prefer the word *hardest* and Shepherd & Zacharakis (2000, p. 25) call it troublesome, but approach it from a more personal (behaviorist) angle. Handler (1994, p. 133) says it is “central to the firm's existence.” As we can see, the importance of the issue is widely accepted among the family business researchers. Definitions of succession also vary, particularly in their focus on either ownership or management. Shepherd & Zacharakis (2000, p. 26) define succession as managerial control transfer, Stavrou (1998, p. 135) talks about involvement in the company. A definition of succession coming from legal grounds would focus on ownership for that is the legal essence of power. A non-owning successor can still be pushed out from the firm against his will whereas an owner-successor cannot. On the other

hand, legal environment is volatile (especially in transition countries) and it can persuade family firms to undergo formal ownership succession before the *real* personal decisive power and responsibility are transferred (for example by the threat of rising taxation) or to not perform ownership succession before the demise of the incumbent (for example by differences in inheritance and gift taxation).<sup>20</sup> Management is much less influenced by formalities, although there still are differences in legal environments among countries.

The research on succession deals with many critical issues in both personal and organizational levels, analyses of which are beyond the extent of this work. Frequent topics in research of succession – besides the organization of succession itself – are tacit knowledge, abilities, commitment, incumbent retirement, or succession-related conflicts.

The challenge of succession is often a consequence of the founder or incumbent being central to the firm's strategy, operations, and business relations (on both supplier and customer sides). Thus when losing a founder, the firm might lose its business contacts at the same time with losing the leader. Another frequent case, partially connected to the first one is the founder's emotional linkage to the firm. Handler (1994, p. 138) describes it strikingly as a case where *the business represents an extension of himself, so that succession issues get mixed up with the founder's own personal concern about the monument he will leave behind*. The reasons behind this attitude of the founder lead to entrepreneurship and further to psychological research.

Strict definition of succession is not necessarily required within the scope of this paper, however, if no other clue is given, the ownership succession is referred to since it is simple to detect and assess. Another reason is that most of analyzed firms deal with their first succession hence the description should focus on clearly defined and provable events.

#### **4.6 Dimensions of Defining Family Business**

The possibilities of how to define family business are countless. Chua, Chrisman & Sharma (1999, p. 20) point out that a theoretical definition “must capture the essence differentiating family businesses from all other firms”. They also stress that the theoretical definition should be broad and inclusive. Behavior of the firm (apparently the authors meant long-term strategy or routine of the firm) is the key difference in this construct and the authors connect it with

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<sup>20</sup> If a family firm were defined as a firm where succession already happened at least once and succession were defined as a transfer of majority ownership, in such legal environments it could lead to an interesting conclusion that all family business founders are dead (their death turns the business into family business).

business vision of the family or families who represent the “dominant coalition” meaning the powerful actors within the company. Sharma (2004, p. 3) describes it as “determining the vision and control mechanisms” and “creation of unique resources and capabilities”. Chua et al. (1999, p. 23) also strongly distinguish operational definitions (used for empirical researches) from theoretical definitions (used for setting the paradigm) and describe their mutual dependence and usefulness. Their noteworthy review of the operational definitions used in family business literature shows how variable the definitions can be.

They range from very specific as

*a company in which more than 50 percent of the voting shares are controlled by one family and/or a single family group effectively controls the firm and/or a significant proportion of the firm’s senior management is members from the same family.*

to very simple as

*owned and run by the members of one or two families.*

Both of the examples chosen from Chua et al. (1999, p. 21) are at the first sight irrelevant as possible theoretical definitions. They use terms like “significant”, “effectively”, “owned” or “run” which are too ambiguous to be used for theoretical definitions. Moreover, they clearly exclude scores of firms that would be considered family firms had other definitions been used.

#### ***4.6.1 Definitions Based on Ownership***

The definitions focusing on ownership vary from complete (100%), controlling (presumably over 50%), dominating, significantly influential, substantially influential, influential, 60% of the equity, concentrated, majority, to just “ownership”. Interesting point is that some scholars make clear that by ownership share they mean vote share whereas other scholars seem to avoid the possible difference between voting rights and stock ownership.

When considering ownership there are types of configurations that principally differ from each other as shown in Table 6.

Ownership configuration	100%	>50%	<50% but decisive	<50% with a peer	<50% with a superior
Description	No other parties know our secrets.	We control the firm and can keep control of the firm in the future.	We have the control of the firm but could lose it in the future.	We have to compromise to control with other owner group(s).	We have to follow orders of the controlling group.

Table 6: Ownership configuration from the point of view of a business family

The table shows that with ownership share under 50% the situation of the business family can still vary. If the other owners are scattered, even owning less than 50% of shares can lead to having decisive power (or even solitude) at the general meeting. However the family can lose its position if an investor buys out other owner's shares. If the other owners are not scattered but they are not united, the business family is in a position to find a "coalition partner" at the general meeting. If the other owners are united or there is a majority owner, the business family is in the weak position and usually only their abilities can keep them actually running the business for its owners.

If the ownership criterion were the only one used to define family business, it would mean that all business entities legally functioning as sole proprietor entrepreneur are family businesses. That would fit the required "inclusive" feature of a definition but it would impede or foreclose any conclusions (even theoretical) about such heterogeneous set of companies.

If a condition were added that at least two family members were supposed to be owners of the business to constitute a family firm, none of the sole-proprietor business entities would be family businesses, since a physical person cannot be partially (or entirely) owned by another physical person.

These assumptions lead to the conclusion that *ownership alone is inappropriate to be the family business definition criterion.*

#### **4.6.2 Definitions Based on Succession**

Definitions focusing on succession require either an anticipated (planned) or more narrowly an undergone trans-generational succession. Firstly, the latter requirement will be coped with. If only a company *after* succession can qualify for a family business it brings many more conclusions to the issue. The survival rate of businesses in general increases over the time – the older business, the smaller the chance of a close-down. The critical period of a company comes within its first years (Chrisman et al., 1998). Thus, a company after succession – possibly existing for at least 24 years on average (Beckhard & Dyer, 1983 cited in Handler, 1994, p. 133) – can be regarded as a mature company. Mature companies however possess other than family-based qualities that differentiate them from businesses in general. Classifying family businesses this way means predicating their position of a subset of mature businesses. As this is not the case in any of the research literature (defining family business as a subset of mature business), such approach would be unsystematic.



In case of a planned succession, the definition is more open (inclusive) but it is also bound to a greater extent to soft data – what is a planned succession, does it need to be written, or does it need an actual successor to be available? A compromise approach suggested by Donnelley (1964, cited by Chrisman et al., 1999, p. 21) requires two generations to have been involved (“closely identified”) with the company. That means there *is* a successor or successors, who are strongly linked to the company, so the anticipation of the succession is achievable and it is not just a dream of the founder. However there doesn’t have to be a precise or written plan (including the choice between potential successors).

#### ***4.6.3 Definitions Based on Involvement***

The definitions focusing on involvement usually require at least two family members to be active within the firm (Lyman, 1991 cited in Chrisman et al., 1999, p. 21) by various means. However, it is hard to imagine that any organization with 2 family members involved would be a family business if their involvement did not include ownership or governance. Even a family-governed business with non-family ownership (for example bought out by a multinational company) would be risky to treat as a family business, since without ownership the family can lose all its power by tomorrow and it is questionable how the family influences the strategic management as a fundamental part of a business. Other cases of involvement of 2 or more family members in one firm (without ownership) are quite regular in some cultural backgrounds (at least Mediterranean and Latin America) and have little to do with family business essence. Davis & Tagiuri (1985, cited in Chrisman et al., 1999, p. 21) insist on *influence* of these at least two members. Involvement as a notion is too unspecific to be a cornerstone of a definition. On the other hand, it could be a supporting criterion, after the core criteria – whatever they are – were met.

#### ***4.6.4 Scale and Typology Definitions***

Since the practical part of the research involved the F-PEC family influence model, this chapter is given a more thorough consideration. It focuses on three approaches – two scales (Astrachan’s, Klein’s and Smyrnios’ F-PEC scale of family influence, Uhlaner’s Family Orientation Index) and one typology (Sharma’s Stakeholder mapping identification code).

#### 4.6.4.1 The F-PEC

As more and more approaches to defining family business appeared within the family business field (apparent from previous chapters) and the state of agreement was nowhere close to the final solution, many researchers realized the fragmentation and attempted to bring their colleagues and thus the whole field forth to a general agreement on family business definition. Zahra and Sharma (2004) call the research fragmented, descriptive and lacking theory, Bird et al. (2002, p. 338) call for larger samples, but also more theory and internationalization. Astrachan, Klein and Smyrnios (2002, p. 45) call it a “plethora of definitions”. Astrachan et al. (2002) brought forth presently probably the most discussed measurement instrument for evaluation of family businesses. The F-PEC scale of family influence expresses the reality that many researchers gradually started to perceive – it is impossible to simply describe family business and sort businesses by such description as family and non-family. There are too many significant variables that have to be taken into account when deciding about the extent of family influence. Rather than this bipolar approach to familiness, they introduced a continuum approach. By their multi-dimensional approach they try to reflect on the large quantity of all sorts of variables within the family business definition dilemma. They focus on “the extent and manner of family involvement in and influence on the enterprise”, which they like to call “familiness”, suggesting not only that family involvement is continual variable but that it comprises of certain sub-criteria that are too heterogeneous to be “bulked” into a single value. In case of a single value model (for example familiness  $F = 0.80$ ), the heterogeneous criteria would be interchangeable and cumulative. Such model would possibly generate similar values for diametrically different firms (for example 200 years of family tradition of one firm would be interchangeable with 100% family ratio in management in another firm). No matter how hard the effort is in defining family business, any consensual definition should be useful and usable for understanding family business. The single value model wouldn't tell much about the target firm besides the fact that the family influences the firm *somehow*.

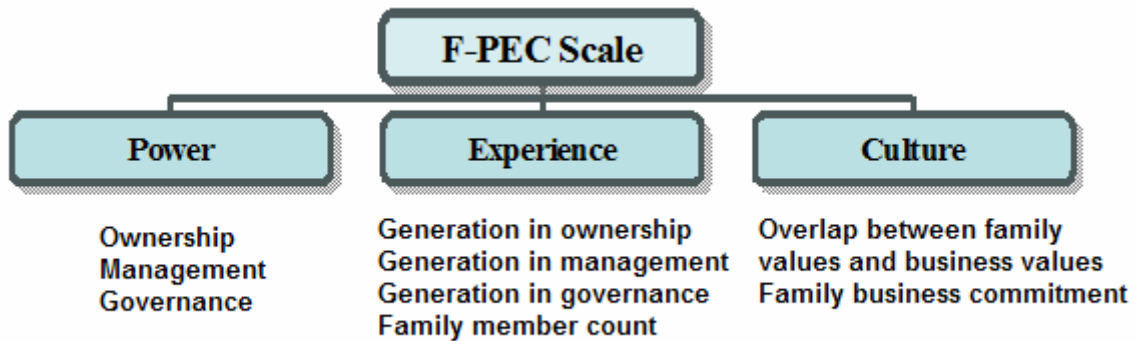
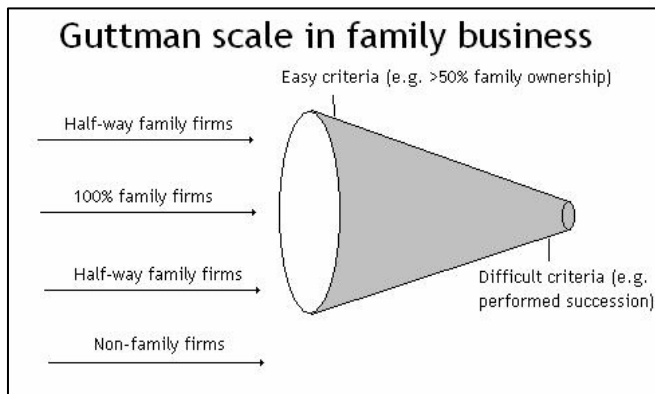


Figure 2: The F-PEC Scale Scheme with the Power, Experience and Culture sub-scales

In the F-PEC model, the authors managed to eliminate criteria that are substitutable with other criteria – in other words to include only one criterion of each kind. This was done through factor analysis and internal reliability coefficient testing. Such approach enabled the model to be concise, easy to describe and to apply (that is to gather information from firms). Another substantial feature of the F-PEC model is that it was formed upon both theoretical and empirical bases. The separation of the sub-scales is theoretically grounded and relations and correlations of partial variables supported by theoretical concepts and empirical evidence (stochastic methods, factor analysis). Sharma (2002, p. 5) considers these two approaches as complementary when building up her family business typology (see below). The sub-scales, unlike the Family Orientation Index (see below), are summated. That means answers within one sub-scale are summed up to arrive at the sub-scale value (which is *not* summed up with other sub-scale values).

An aspect which is not reflected on by the F-PEC scale is the self-perception of the firm. Klein, Astrachan & Smyrnios (2005, p. 324) explain it by unachievable replicability of the results. It is based on the fact that the researchers are not able to avoid two hypothetically same firms to be assessed differently, thus possibly defying one of the paramount ambitions of the whole model – internal homogeneity and mutual exclusivity.

#### 4.6.4.2 Family Orientation Index



Uhlaner (2005) suggests an approach to overcome the shortcomings of the single value model mentioned above. When developing her Family Orientation Index, she tests the assumption that it is possible to sort numerous criteria used in various definitions of family business (or at least some of them) according to their

difficulty. That means creating a “funnel” of criteria where more difficult criteria are applied to sets of firms that have (previously) met easier criteria. The next step is to combine the criteria into a single index. The procedure (called Guttman scaling) is supposed to solve the problem of broad-versus-narrow definitions where some definitions include almost all companies and some barely any. The Index is a cumulative scale (unlike the F-PEC subscales; see above). That means that the questionnaire consists of questions/statements regarding the same dimension and they only differ in the extent or strength of attitude. Uhlaner admits “analytical complexity” of such approach and its unfitness for diverse sets, however, based on existing broad-to-narrow range of definitions, she sees an opportunity of analyzing family firms from this perspective. Another distinction from other methods is that self-perceptions of analyzed firms are also included in the development of the method however they are not used directly in the index but for the purpose of later validation of the whole scale.

Noteworthy is the fact that this research is all focused on the SMEs where the single criteria or definitions are the most misleading (for example the ownership majority criterion which places all sole entrepreneurs within family businesses). The Family Orientation Index also ignores family involvement in the Board of Directors. It is motivated by the usual non-existence of the board of directors in the target small and medium-sized enterprises.<sup>21</sup>

<sup>21</sup> This is also fitting to the Czech environment, where the Board of Directors is replaced by the Supervisory Board with different legal and functional status. Moreover, firms are generally smaller in the Czech Republic (see chapter 2.3) and limited liability companies don't have an obligation to set up supervisory boards.

#### 4.6.4.3 The SMIC

Sharma's (2002) typology of family firms is an attempt to create a system for unambiguous classification of family firms. Such system is not self-purposed but serves as a source of distinctiveness for research and counseling. Sharma (2002, p. 13) underlines this thought stating "...it is difficult to have confidence in our research findings that may be based on samples that are a hodge-podge of different types of firms." Sharma emphasizes the idea that each group of family firms has different characteristics, qualities and needs. Thus, being able to describe such qualities and give advice means splitting the broad and heterogeneous set of family firms into smaller and more homogeneous groups. Besides internal homogeneity, she aims at mutual exclusivity (sets are not overlapping), collective exhaustiveness (every firm is in a set), stability (sets are not changing), and relevant language usage (sets are properly and logically labeled). These aims can be traced as well in other researchers' attempts on family business classification. In this respect, it is of the essence to declare that mutual exclusivity is only corresponding to methods based on traditional theory of sets. Sets are defined by mathematical sentences – statements that are either valid or not valid for each element of the system universe. For example A is a family firm; B is not a family firm. Every method, like the SMIC, presupposes that *A is a family firm* and *A is not a family firm* cannot be both valid at the same time. These methods define sets as non-overlapping (see more in chapter 5.1.2). However, the F-PEC model is based on the theory of fuzzy sets and the non-overlapping criterion loses its meaning there.

According to Sharma, in her *Stakeholder Mapping Identification Code* (SMIC), there are 81 possible configurations of family involvement resulting from the traditional and generally accepted 3-circle model, out of which 9 cannot be treated as family firms (firms with no family owners). She distinguishes 3 modes of family involvement in each of the overlapping segments in the 3-circle model – no involvement, 1 family member involved, and multiple family members involved.<sup>22</sup> These modes used in segments of family owners-employees (4), family owners (5), owner-employees (6) and family employees (7) generate the 72 types of firms, described as a four-parameter element  $[4_a5_b6_c7_d]$ , where the parameters a, b, c and d equal 0, 1 or M. The whole model results from a more general *Stakeholder Map* suggested for visual description of internal stakeholders.

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<sup>22</sup> The reasoning for such division is not stated, a two-category-model would be just as logical. Perhaps it results from the extensive scope of the author.

Although the Stakeholder Map model distinguishes male and female family members, the SMIC model reflects only on total counts of family members in each area of the 3-circle model. The Stakeholder Map, unlike the SMIC, also takes into account family members *out* of business. Both of the techniques ignore possible existence or importance of non-family employees and non-family owners. Such omission could be misleading, since it doesn't say anything about *proportion* of family influence. Having many family owners does not mean having majority family ownership; 1 family employee could mean the only company employee or one of a hundred of employees. A good example is to compare two imaginary firms, both with SMIC [4<sub>1</sub>5<sub>0</sub>6<sub>0</sub>7<sub>0</sub>]. One is a typical sole entrepreneur without employees, the other one is a multimillion corporation with an employee who bought some shares at the bourse. From his family point of view, the company is [4<sub>1</sub>5<sub>0</sub>6<sub>0</sub>7<sub>0</sub>], since he is an owner, he is an employee and he is a family member. Apparently, such company is possibly not a family firm. Assuming that the SMIC should only be applied to actual family firms leaves us primarily with the original question of defining the family firm concept, because Sharma mentions no other key to this. One key could be that the family dimension in areas 4 and 5 refers to the family with the largest ownership block. However, there could be a situation where having the largest block in ownership doesn't grant the family with the largest influence on the firm (for example in an acquired family firm, where the new owner has the largest block but the original family owner has multiple management and employee positions along with a strong ownership influence and relations to other minority owners).

Compared to the Family Orientation Index, the SMIC is not focused only on the SMEs but its application to some firms is problematic (for above mentioned reasons) and the SMIC is not at all based on stochastic methods which leaves no tolerance for errors.

Although the F-PEC model doesn't reveal so much about the subject business family as the SMIC model, it tells more about the subject family business (which is the idea).

## 5 METHODOLOGY

The outcome of the theoretical chapter was that the most advanced and promising way of defining a family business is currently the F-PEC model of family influence by Astrachan, Klein and Smyrnios. The F-PEC questionnaire was adopted for the research performed on a set of Czech firms with high probability of being family firms. Since obviously the process of choosing (reasoning) the approach is partially subconscious or not directly connected to examining the theoretical background of the issue, this chapter, besides describing the methodology, tries to grasp the main course of the thinking-theorizing process.

### 5.1 Choosing Methodological Approach

#### 5.1.1 *Simplicity vs. Accuracy*

To set the borders to the family business concept and define it, there are two main desirable qualities. First, the definition should be accurate, that is describing precisely the concept, so that no substantial item is left out and at the same time no abundant item is included. This of course includes reasoning why these items are in or out, which makes it scientific (Zahra, Sharma, 2004, p. 334). The second goal is simplicity. From the nature of the task, these two are contradictory, if not reciprocal. No simple definition is probably precisely accurate and no accurate definition is simple. Defining any complex concept is a struggle for maximizing (balancing) these two aspects. It resembles the course of a young researcher who gradually turns from a person knowing very little about everything into a person knowing everything about very little – an expert scientist. Another metaphor could be the Heisenberg uncertainty principle in quantum physics, which states that it is impossible – even in ideal conditions – to accurately measure conjugate variables at the same time (like momentum at the same time with position of a particle). The more precisely we measure one of the variables, the less accurate we can be about the other one. The closest resemblance of this dilemma can be found in economics. The *production possibility frontier* specifies a set of combinations of outputs of two products that can be produced in full efficiency. Although any combination lying under the production possibility frontier can be (and actually *is* in real life) produced, there is no possibility of producing a combination lying over the frontier. Similarly, when describing a concept, one must sacrifice simplicity for accuracy and vice versa. The following graphs show a production possibility frontier of products A and B and what could be called “Description possibility frontier”. Description A is rather simple but not very accurate. Description B is

rather accurate but very complicated. Description C is a description which does not utilize all available knowledge and methodology. It could become more accurate without getting more complicated or it could get simpler with keeping the same level of accuracy. Apparently, as simplicity and accuracy aspects are much more abstract than the production volume of a product, defining the frontier in this case is much harder than within production theory (which is neither anything easy). Researchers try to find a description that would lie as close as possible to (ideally on) the frontier. Regular research then helps to increase the possibilities of describing, to shift the frontier, by finding new relationships, information, variables or constants. Nowadays, the simplicity aspect is the one pursued the most often, because modern science has developed to a stage where virtually everything can be described accurately, given that the description can be infinitely complicated. The goal and direction of research is to enhance the description possibilities however the spontaneity and sort of turbulence of the process does not guarantee any specific or anticipated results. It can also result in abandoning existing theories and possibly to a drop of the description possibility frontier.

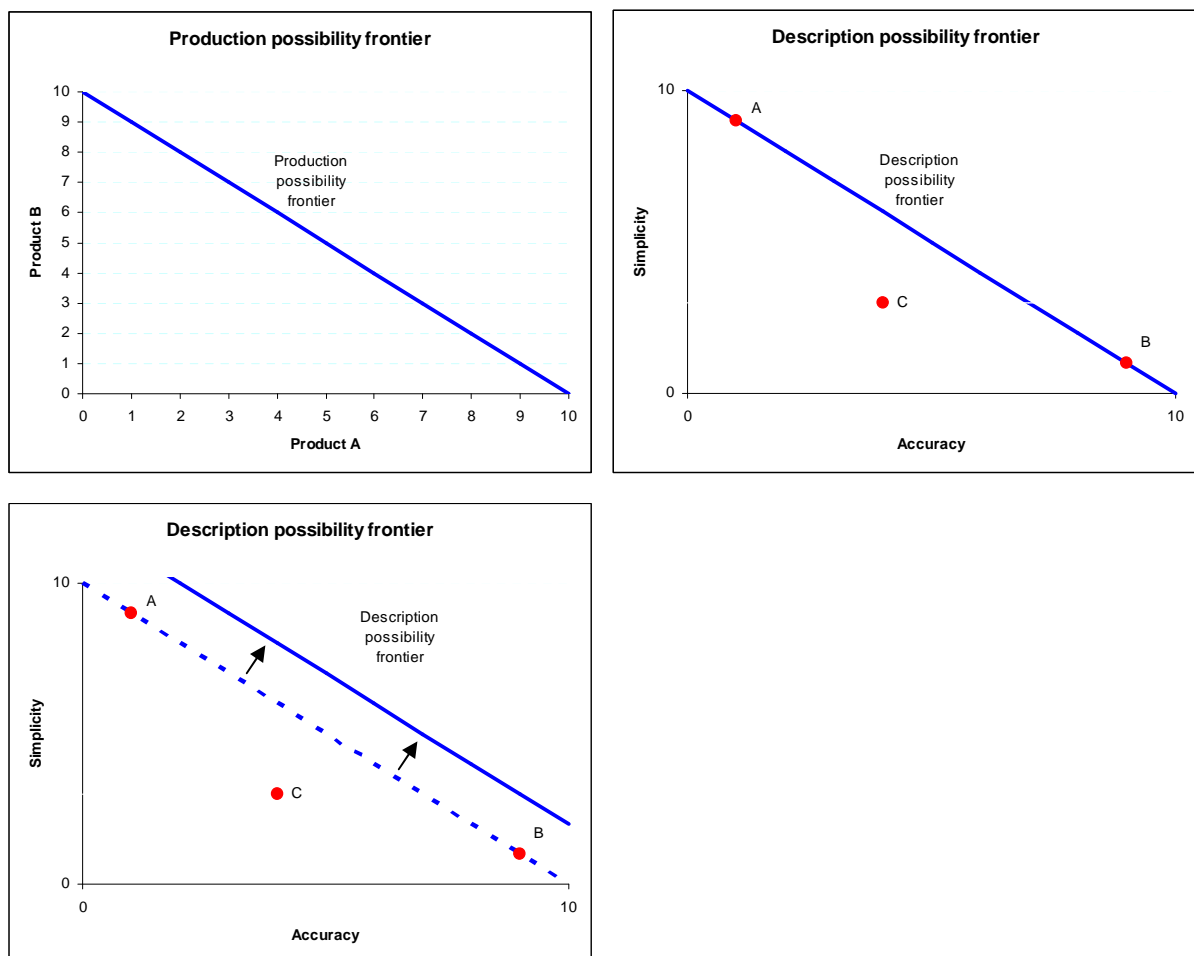


Figure 3: Graphic description of production possibility frontier, “description possibility frontier” and its shifting through new knowledge.



The challenge of describing complex systems lead mathematics professor Zadeh (1973) to formulate the incompatibility principle: *As the complexity of a system increases, human ability to make precise and relevant (meaningful) statements about its behavior diminishes until a threshold is reached beyond which the precision and the relevance become mutually exclusive characteristics.* The principle is in no way a breakthrough – the struggle for both of these characteristics is perpetual and there are traces of it throughout the history. The most known is perhaps Socrates' paradox: *The less we know, the more certain and precise we are in our explanations; the more we know, the more we realize the limitations of being certain and precise.*<sup>23</sup> Similarly, Chrisman, Chua and Steier (2003, p. 446) say "...research always raises more questions than it answers." Zahra and Sharma (2004, p. 335) describe the development in family business research as gradual shift from depth to breath over the passed two decades (and they mourn for that shift).

### ***5.1.2 Continuum in Family Business***

Most usually the proposed models weighed specific qualities of a business to classify it as a family or non-family business. There is no common agreement on any of these models since there are different views on the importance of family ownership, family management, family business "feeling" or family involvement in everyday operations. The legal approach would suggest that only family-owned business, that is a business with family ownership exceeding 50%, can be considered a family business. Only a majority owner is able to control the extent of involvement of the family within the family business. However, following and using such definition in business science would definitely lead to false assumptions and conclusions. It would mean that researchers regard other dimensions of business as negligible. The difference between two businesses with equal family ownership percentage would always be considered as zero regarding their "familiness". It would enable to evaluate easily and precisely every business as either a family business or a non-family business. On the other hand there are many groups with uncertain borders in our everyday life. Not being sure about borders between nationalities, races or even genders does not impede our ability to research qualities of them. Generalization is a powerful but dangerous logical element. People use it basically in every second of their lives. It is one of the cornerstones of Aristotelian logic. The world is indeed not black and white. Implications of this fact were interestingly grasped by professor

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<sup>23</sup> This has been transcribed and translated many ways such as "One thing I know is that I know nothing.", or "I know nothing except the fact of my ignorance."

Zadeh in 1965. He came with a new theory of fuzzy sets and later developed fuzzy logic – a theory extending the general theory of logic. In classical logic theory of sets, the membership of elements in relation to a set is assessed in binary terms – yes or no, belongs or does not belong. For example when deciding about memberships of elements – numbers 1, 1.5, -2 and 1000.01 in a set of natural numbers, it is clear that only number 1 belongs in the set, since the other numbers are either not positive or not integer. If somebody asked to assess memberships of the above mentioned numbers in a set of small numbers, it would not be very fair and in the aspect of the classical theory of sets irrelevant, since any sentence in classical logic must be qualifiable, whether it is valid or not. Hence, the statement “one is a small number” is not a mathematical sentence for there is no definite answer. There is no clear definition what small means – it is a *relative* notion. On the other hand we know that number 1 is definitely smaller than 1000.01. Zadeh realized that it is worth to think about membership in terms of its extent. Whatever a set of small numbers means, it is clear that number 1 is to a greater extent small than 1000.01. In the theory of fuzzy sets this extent of membership is represented by a membership function value  $\mu$ . An element mapping to the value 0 means that the member is not included in the given set, 1 describes a fully included member. Values strictly between 0 and 1 characterize the fuzzy members. The fuzzy logic theory has vast number of practical applications for example in automobile anti-block systems, air conditioning, elevators, various home appliances or artificial intelligence systems.

In the family business science, it didn't take long before researchers realized the possibility of using this tool. Astrachan et al. (2002) used fuzzy sets theory and developed the F-PEC scale to assess family influence in family businesses. However, as they are aware of the complexity of familiness of firms, Astrachan et al. chose to split the question (extent) of membership in the set of family businesses into three sub-domains. Through sophisticated methods they arrived at three dimensions that are so specific that merging them together would mean losing the descriptive power of the tool. Hence, the F-PEC model is not a typical one-answer (that is one-value) fuzzy set application but a 3-dimensional model with each of the dimensions not substitutable for another one. It resembles a point coordinates in a 3 dimensional coordinate system or in practice for example the RGB color model used in computers<sup>24</sup> to display any color with the help of the Red-Green-Blue components. Each color has its red, green and blue coordinates. Unlike in the RGB system, Astrachan et al. (2002) don't suggest to form the 3

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<sup>24</sup> The RGB model originates in human biology – the red, green and blue colors are percept by the 3 types of cone cells in human eye.

values into a single master index but leave them separated.<sup>25</sup> The involvement of family in business in the three dimensions of power, experience and culture is thus described separately and tells much more about the firm than its familiness. On the other hand, it is hard to compare the extent of family influence of two firms – should one sum the dimensional values and compare the sums? Is power more than experience? Or less?

### 5.1.3 Master F-PEC Value

The procedure suggested in this paper is following: The values of power, experience and culture should not be simply added up to form the master index. To maximize family influence on the firm, they should be in equilibrium – 100% of family power should not substitute lack of family culture or experience and vice versa. A similar mindset is presented by the authors of the F-PEC model in their description of family experience growth over generations. The greatest contribution to the family experience is provided by the first succession. Each further succession's contribution is generally lower. Mathematically, such dependence is described by an exponential function. The same principle could be applied to other dimension of the F-PEC model. For instance an increase in family ownership from 90% to 100% is not as significant as from 40% to 50%; the second family member in business is more significant than the 8<sup>th</sup>.

There is a simple mathematical model that takes the desired balance into consideration.

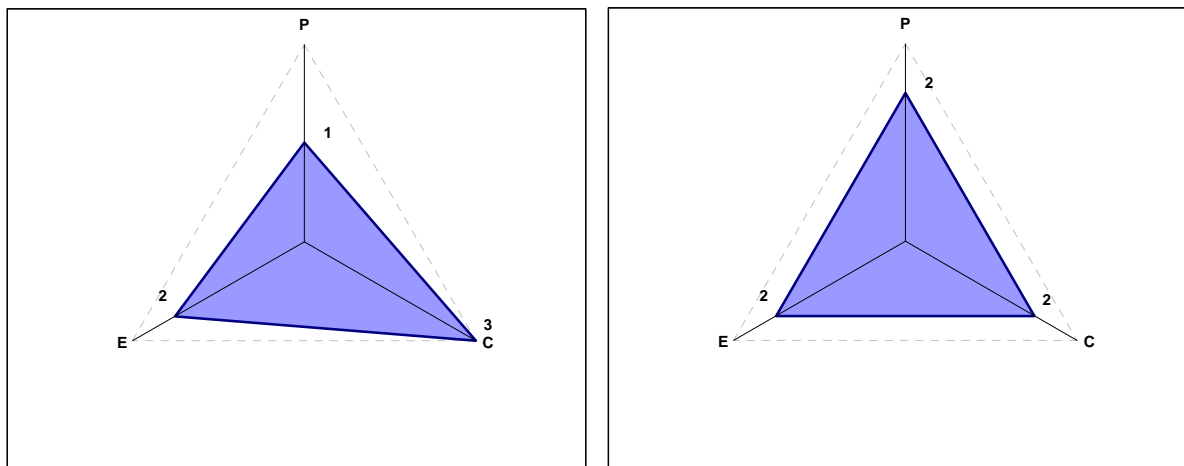


Figure 4: Summing F-PEC values, two possible scores of firms in the F-PEC model.

<sup>25</sup> However, if there were a master index, the researchers could deepen this analogy to the RGB system and speak for example about pinkish, white, yellow or dark family firms. The field would definitely liven up by such typology labels.

Figure 4 shows the 3 values of the F-PEC model of two firms (1, 2, and 3 on the left and 2, 2, and 2 on the right). These three values depicted in a radial chart with 3 axes, each  $120^\circ$  from another, form a triangle. The *area* of the triangle is clearly dependent on the component values, but not linearly. The area of such triangle can be calculated for example using the law of cosines and Heron's formula:

The law of cosines with P,E and C being the coordinates in the 3-axial system and  $\alpha = 120^\circ$  :

$p = \sqrt{E^2 + C^2 - 2 \times E \times C \times \cos \alpha}$  , where  $p$  is a triangle side length. Analogically for sides  $e$  and  $c$ :  $e = \sqrt{P^2 + C^2 - 2 \times P \times C \times \cos \alpha}$  ,  $c = \sqrt{E^2 + P^2 - 2 \times E \times P \times \cos \alpha}$  . Using side lengths in Heron's formula, we arrive at the triangle area

$$s = \frac{p + e + c}{2} ; S = \sqrt{s \times (s - p) \times (s - e) \times (s - c)} .$$

The largest increase of the area is brought by an increase of the lowest of the three component values. Through calculus, it can be simply proved that the largest area of all triangles with identical perimeter has the equilateral triangle. In family influence terms – if two firms have sums of their P, E, and C values identical, the largest F-PEC master value possesses the firm with the most evenly distributed component variables P, E and C, a firm in balance of family power, experience and culture.

One thing should be underlined here. The model only suggests that an increase of family influence on the firm is larger when the lowest of all components is increased and, contrarily, an increase of the dominant component value brings only slight shift in family influence, that is, in the F-PEC master value. The model does not imply that the purpose of a family firm is to get to the balance or to artificially adjust its component values to “achieve” the equilateral triangle. After all, family influence is not universally positive or all-embracing goal of a firm. It is only a characteristic to be accounted for when analyzing the firm. While the description of the procedure looks a little bit complicated, it is simple to create an algorithm calculating the master F-PEC value. Such algorithm can be created for example in spreadsheet software or the HTML with Javascript, just to mention the simplest ones. (See Fig. 5)

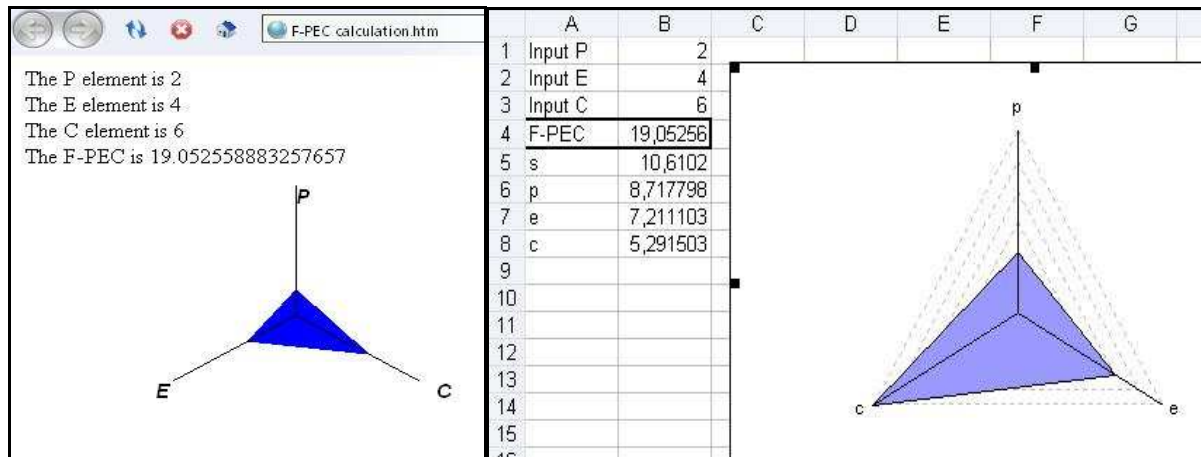


Figure 5: Results of calculating F-PEC master index in the triangular model using algorithm in Javascript and Microsoft Excel

The figure displays a case with integer sub-scale values (2, 4 and 6). If fraction values are used (as in the F-PEC original paper), the master value is *lower* than the component values. For example for PEC values 0.80, 0.70 and 0.60 respectively, the master value is only 49% (the area of the triangle is only 49% of the area of the triangle with 1,1,1 sub-scale values), but that doesn't impede its comparative potential.

### 5.1.4 Interpretation

Apart from whether the output of the F-PEC application on a firm is a single value computed using the triangular model, a single value as a mean of the three sub-scale values or the sole three sub-scales without any unifying value, it is vital to think about the interpretation of the results. The interpretation is given surprisingly little space in the Astrachan et al. (2002) article. Regardless of whether the authors protected their know-how or whether they didn't want to burden the article with application, it should be made clear, what is the process of application, what results methods provide us or how the application is biased.

Like other mathematical methods – fuzzy methods generally end in transformation of computational results into a real and practical form. In economy, mathematical model is transformed into economic one and the conclusions are drawn. Fuzzy methods convert fuzzy results by so-called defuzzification to real results. It should be kept in mind that the defuzzification process is as important as setting up the model in the beginning. The defuzzification parameters influence greatly the conclusions, so being precise and rigorous at this stage is absolutely necessary.

For the F-PEC model, a simple defuzzification could go like this: If F-PEC value is over 80 percent, the result is strong influence of the family, if the F-PEC value is over 60 percent, the result is significant influence of the family and so on. As F-PEC is quite complex model, its transformation of results into meanings could be also complex. It should take into consideration processes within the construction of the model and within the calculation. For example experience is – by choice of the authors – measured by an exponential scale (or to be accurate by a geometric progression). That means that third generation adds only a half score to the experience component value than 2<sup>nd</sup> generation. Thus first succession lifts the score to 50 percent, the second one to 75 percent, the third one to 87.5 percent and so on. Reasoning for this procedure is clear (see chapter 5.1.3), although it is not clear, why the authors picked this particular progression, why the scale factor is equal to 2 and not let's say 2.1 or 1.9. The important thing is not to use the same reasoning during defuzzification because that would mean adjusting the scale twice in the same way and distorting the results. The power scale of F-PEC is on the other hand *not* adjusted in any way. The difference between 51% and 49% in voting rights is in the fuzzy model identical to any two-percent difference. Hence, the defuzzification could take into consideration that some differences in ownership (and in board membership as well) are more significant than other.

To keep the model systematic, it would probably be more fitting to apply all adjustments within the same stage (that is right in the fuzzy model). However, if the adjustments were made during the defuzzification, it would enable researchers to easily apply *their own* transformation processes according to the local business environment.

### ***5.1.5 Questionnaire***

The F-PEC model attempts to include as many diverse factors of family influence as possible. One of the potentially strong factors is omitted – self-perception. The F-PEC authors defend their omittance of the self-perception by insufficient reliability of the results. Their line of thought is simple and clear – we define family business by 3 clear separate dimensions, self-perception does not belong to any of them, hence self-perception does not belong to the F-PEC model. However, even skeptics should admit that self-perception is something to be accounted with, if not in defining family business then at least in understanding family business. The self-perception factor may be omitted within F-PEC but why not *compare* the values of the F-PEC to self-perception? The research might determine which of the dimensions or even single factors included in the F-PEC model correlate with family business

self-perception the most, which (according to the family businesses themselves) have the least to do with family business and supposedly bring much more information.

Another factor, which is omitted in the F-PEC model, is the self-presentation of family business. The primary target for any firm's presentation is its customers. The statement number 8 in the F-PEC questionnaire culture dimension says *We are proud to tell others that we are part of the family business*, however, that is a personal and societal attitude towards the business (being a part of family business is something to be proud of), not a business attitude (being family business is something positive (mainly for our customers) about our firm). The classical theory focuses on family business advantages in dedication, interest, experience and personal stake of the family. These relations are reflected in the culture dimension sheet of the F-PEC questionnaire (*Our family members are willing to put in a great deal of effort beyond that normally expected in order to help the family business be successful.*) The self-presentation question tests whether the business families think that family businesses have reputation and trustworthiness advantages.<sup>26</sup>

The rest of the supplementary questions is focused on hard data – age of the firm, its legal form and whether the firm is the main source of income for the family. The age is asked to illustrate the youth of the firms. The legal form can clarify some data received from the F-PEC questionnaire (existence and number of people in the Supervisory board, existence and number of people in the Management board, owning generation).

### **5.1.6 The case**

The title of this thesis suggests that there is something specific either about the Czech Republic, family businesses in the Czech Republic or their classification. Based on the historical background (see Chapter 2), one can expect Czech family business to have specific features and conditions. The research in the area focused on local specifics has been rare. Case studies of particular family firms dominate all performed research. Case studies are admittedly a reasonable way of starting research in a “no-tillage field”. Hanzelkova (2004) in probably the first serious and purely family business focused study processed 3 cases of family businesses (all of them traditional businesses that were looted from the original proprietors after the communist coup and gotten back after the installation of democracy) and

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<sup>26</sup> The research does not take into account that some owners thought family businesses are more trustworthy but hid the fact that they are family firms from their customers.

concluded on the greatest challenges these companies had to face within the last 10 years. Another result of Hanzelkova's research useful for this study (and theoretically "the most important" according to her), is that in the Czech Republic, there are family businesses very similar in characteristics to typical western traditional free-market family businesses. (p. 262). She also calls for further research in the field and categorization of family businesses in the Czech Republic (p. 263).

This paper could be approached as a case study as well, but it is a different case it focuses on. What if the whole country is a case? What if the country's entrepreneurial environment with its development in history is case? Stake (2001, p. 436) refers to a case as to an integrated system - a system that has patterned behavior, boundaries, coherence and purpose. Looking at the historical background and present state of the Czech Republic regarding family business, one can find out that it is not possible to "include" this case in a wider group or class of countries. Generalizing about a whole group of countries (for example post-communist countries, new-EU members, EU members, central-European countries or European countries) would lead inevitably to great errors in understanding the issue (see Chapter 2.3 for more details). To understand and be able to describe Czech family business, it is essential to choose a case approach – using the knowledge from other cases (that means countries), general knowledge that applies to all cases and the knowledge of specifics of the case (that is historical, societal, political and economic development) to draw conclusions about the case. To classify or to move forward in classifying family businesses, the system, not an element within the system, has to be described and understood. Not just one particular business, but the way businesses emerge, develop and "live" must be revealed. A success or a failure of a single family business as well as whether or to what degree it is a family business is insignificant compared to a success of family business in general and to the environment that forms family businesses, the obstacles that restrain them from growing or being created, insensitive encroachments and restrictions to their freedom and rights as well as actions and events with a positive influence on the overall situation of family business within the case (the state).

The description of the case paves the way to a holistic case study. The case is unimaginably gigantic and complex that thorough description is practically unachievable. The aim is to achieve the overall view and understanding of the whole system which represents the case.



## 5.2 Setting up Propositions

The Czech family business situation seems to be different from typical traditional economies of the EU or the US. The volatile historical development, a wipe-out of private ownership between years 1945 and 1955, and imperfect recovery from the period of tyranny caused numerous disproportions to family business and society in general. Following hypotheses are based on the information in the historical and statistical description chapters.

Proposition No. 1: There is a population of family firms in the Czech Republic large and important enough to become a scope of research of – in this country - emerging research field.

Proposition No. 2: The contemporary situation of family business in the Czech Republic is different to mature Western economies to such extent, that classifying Czech family businesses according to the US and European standards is highly precarious.

Proposition No. 3: Factors influencing the situation of Czech family business can be described and evaluated, bringing in possible local adjustments in existing methods of family business classification.

## 5.3 Limits and Shortcomings

The greatest limit of the research is no doubt the size of the sample. As a result, the research can give sufficiently supported answers on “if” questions, but weakly supported answers on “how” questions. Perhaps a more detailed study of fewer family businesses could have been chosen to answer better the “how” type of questions, but the primary questions were focused on occurrence of western-type family firms in a specific environment.

The choice of the sample is another shortcoming. The most rigorous way to evaluate the extent and nature of family business would be to pick random sample of companies and evaluate how many of them and to what extent are family businesses. Such procedure would only be weak in the aspect of reluctance to answer. If family businesses were more reluctant or keener to answer, it would impede the results. However, the companies in the sample were chosen based on the two-people-involved pre-screening, which discards the possibility of estimating how frequent family firms are among firm population. It also turned out to be an ambiguous condition because two of the firms included in the sample filled in that there is only one person involved in the firm.

The group of shortcomings resulting from using the F-PEC model will not be mentioned here because they were discussed elsewhere and it is for the authors of F-PEC to advocate their conclusions. The F-PEC model, which was chosen for its universality, has its shortcomings both in general and in this type of research, however other ways of defining or classifying family businesses – single criterion, multiple criteria or model definitions – were considered less proper and fitting.

#### **5.4 Possible Outcomes**

The paper presents 15 concrete examples of family firms of all sizes, ages, legal forms, industries and extents of family involvement. It is not sufficiently large to provide solid scientific conclusions on various characteristics of family firms, but it can sketch directions for future research and display the situation of family businesses in general.

Possibly it was expected that the research would find many firms that resemble family businesses or they are going to turn into family businesses eventually if they survive. It was also expected that the research would discover families that were hit by fascism and/or communism and that are rebuilding their business as well as their social status.

It was expected that old traditional family businesses would be proud of presenting themselves as family firms and excited to take part in the research, to serve as an example of a family firm. Another expectation was that some researched business families would be ever-standing elite of the society – both in communism and in democracy.

A possible outcome could also be that there is no difference in the situation of family firms in the Czech Republic and in the West except their age, however that is quite unlikely considering the extent of foreign capital, the usual age of family firms in the West and the attitude that the communist governments had towards “capitalists”.

## 6 RESULTS

### 6.1 Summary of Conducting the Research

The research was performed on randomly chosen companies that fulfilled a single condition of *at least two members of a household involved in any way* within the firm. Some of the questionnaires were filled by hand, some in electronic form via e-mail. In most cases, the most senior family member or the most senior manager of the firm was the actual respondent. The results indicate that the F-PEC model was not intended for a business environment like the Czech one. The results are mostly fully usable with lenience in certain points.

- Only five of the target companies have established a Supervisory board. This is connected to the fact that only four of the target companies are joint-stock companies, which only have obligatory Supervisory board. Considering that joint-stock companies represent less than 1% of all business entities and that supervisory board is generally weaker than the Board of Directors, question 3 of the power scale and question 3 of the experience scale were not very influential.
- Only one of the companies holds their ownerships through holding companies, thus question number 2 in the power scale was almost irrelevant. It could be incorporated in the first question, which is asking for actual *power* (voting rights, not shares).
- The average number of family members involved in the family business was 3.7
- All companies except one are owned 100% by the family.
- While the average of the scores in the ownership sub-scale was 93%, the average in the experience sub-scale was only 24%.
- According to the expectations, the research found traditional family businesses that were keener than newly established firms to take part in the research.
- None of the business families in the sample that are known to the author fulfilled the expectation of having high social status during communism and post-communism.

A chart describing individual results in the original F-PEC scale average (which is not mentioned in the original F-PEC article but it is accounted with by the authors (according to the correspondence with Sabine Klein)) and herein constructed triangular model of the master F-PEC index shows the drawback of the original scale. While firms with only 1 family member scored some 40% in the original F-PEC, coming close to a family business with 4 active family members (number 12 in the chart), they were more distinguished from regular family businesses by the triangular model (see Fig. 6). The triangular model emphasizes the

differences among family influence – the results are more fluctuating, while simple average brings all results close to the mathematical average of 0 and 1.

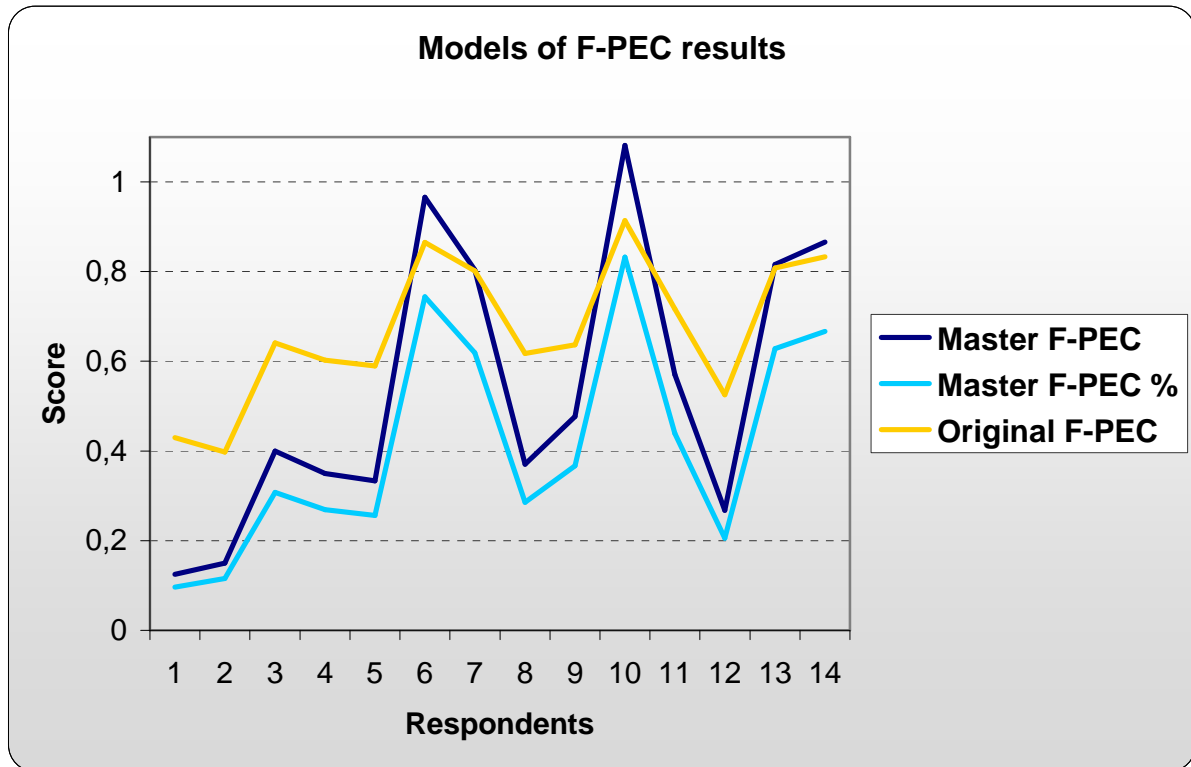


Figure 6: F-PEC Research results measured by three methods

The triangular model also shows what is pointed out in chapter 7.1 – a low score in Experience scale (very often 0) together with a high score in the Culture scale causes the triangular model percent values to be significantly lower than the F-PEC average values. At the end of the day, this is useful because it clearly distinguishes traditional (number 6 and 10) from first generation family firms, however adjusting the original F-PEC questionnaire in order to fix this pitfall would make it more useful.

### 6.1.1 Experience scale

Experience scale brought a zero score for more than a half of the respondents. It also brought troubles for the restituted companies with whether the generations skipped by communism should be counted, ignored or whether the business should be considered as newly established. All three approaches can be reasoned. If we understand the role of family experience as a legacy, a tradition that the successors are bound to keep, we should count even the skipped generations as if they were once active in the business. The same applies if we see experience as a way of life or way of survival suitable for making business that goes through generations independent of the existence of actual entrepreneurial activity. If we

consider family experience a business (tacit) knowledge only relevant to current marketplace and current industry, that are both evolving very quickly, we should treat restituted business as newly established because the 50 years old experience of the (often not living) founders is of no use for today's market. If experience is understood as an asset generated over time by running the business and transferred from generation to generation, then the skipped generations should be omitted in F-PEC calculations. This compromise approach was chosen when instructing the respondents, so their experience score could be higher or lower if alternative approaches were chosen.

For majority of respondents, the question on generation in board of directors (adjusted to the supervisory board) was irrelevant because they didn't have any governance body.

Question number 5 of the experience dimension querying the number of family members, who are interested but not active in the business generated very fluctuating results. While 6 respondents claimed there were no family members like that, one claimed there were 20. Family businesses are very diverse and generate diverse results in many dimensions of research, nevertheless this diversity points together with expressed uncertainty of the respondents to ambiguity of the question.

### **6.1.2 Culture scale**

On the culture scale, most of the respondents used the highest mark possible (5) most often. The overall average of the culture section was 4.31. Mark 5 was used in 96 cases out of 237 relevant answers. The lowest average of the answers was 3.79 by question 12 (*Deciding to be involved with the family business has a positive influence on my life.*), the only other one under average 4 was question 2 (*Your family members share similar values.*) with 3.93. All other averages for single statements were above 4 with the highest score in question 11 (*We really care about the fate of the family business.*) at 4.79.<sup>27</sup>

### **6.1.3 Additional questionnaire**

In the additional questionnaire, surprising answers were found in question 5 – “What is the critical sign of family business?” Only 4 respondents mentioned ownership. Eight answers included involvement, work or family cooperation, which supports the idea of psychological

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<sup>27</sup> The Czech translation of this question is slightly stronger than the English version, so the high value for sure cannot be caused by translation inconsistency. On the other hand, question 2 sounds a little bit kitschy in any translation, so the lower figure might be mirrored in that.

ownership, because for the family it was more important that they were involved or working in the business than their (apparent) ownership. Five respondents referred to management when deciding why they consider their firm a family business.

About three quarters of the respondents present their business as family business. The age varies from 5 to 99 years with median 12 years.

The only respondents who didn't consider their firm a family business were those that reported only one active family member.<sup>28</sup>

The questionnaire also showed that – according to the expectations – legal form was an important aspect of the companies. In at least 6 of the companies, the legal form did not reflect on reality (spouses were sole entrepreneurs but worked as employees for the companies, family members were not reported among employees although their position resembled employment the most and other). Such methods were apparently used for lowering tax duties, responsibility dodging and trustworthiness building.

6 of the respondents were limited companies, 4 were sole entrepreneurs and 4 joint-stock companies. This is totally unlike the common distribution of legal form (see chapter 2.3). If a larger sample showed similar distribution of legal form, it could be concluded that family firms tend to become capital companies.

All of the companies that considered themselves family businesses stated that the business is the main source of income for the family, except one, who refused to answer the question in order to protect their privacy.

## 6.2 Individual cases

This chapter provides some information on individual histories of some of the respondents. Not all of the respondents were revealed to the author (as the research was anonymous), however some of the respondents' life paths provide an interesting experience which can be hardly described by statistics or numbers.

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<sup>28</sup> This is incompatible with the single condition during the choice of target companies. The inconsistency may have occurred by a difference of persons answering the initial condition and the questionnaire (which shows the relativity of the question).

### **6.2.1 Case A**

Case A is a traditional family business focusing on a craft, which was established almost a hundred years ago. The business was closed down by the communists but the craft stayed in the family – the younger generation worked as craftsmen in communist production facilities. After the fall of communism it was much easier to return to private undertaking in the same business field because of the decades of experience in that field. The youngest generation brought innovation to the business because they were lucky to get university education in a free country. Without the youth bringing technological, organizational and managerial innovations, the family firm would be doomed to linger as a “ye olde shoppe” firm. The firm does not present itself as a family firm, except the firm’s name. They consider themselves a family firm and the main reason for that they see in cooperation of family members. An interesting fact is that it is sole entrepreneurship, a legal form that is not very typical among 100-year-old businesses. Case A had the second highest master F-PEC score of all respondents measured both by average or by triangular model (see chapter 5.1.3).

### **6.2.2 Case B**

Case B is a formally new family business in retail with married couple working there (which is their main reason to consider themselves family business). However, the family originates in very old, powerful and closed underground community of merchants, tradesmen, barnstormers and performers (*Světští* in Czech), that probably does not possess as much power as during the last couple of centuries, but still provides an advantageous position for starting a business, especially in trade.

The firm performs with mediocre results despite fierce competition in the field. The owners do not have any growth plans for the firm and try to keep it small and flexible. The successors are still too young to be effectively involved, so claiming that there aren’t any plans for succession would be hasty, however the firm is perceived as a source of money for the family rather than a child, a monument, a chance, a challenge or an extension of the founders. The firm was founded in 1991, which makes its survival up to the present admirable. It is a sole entrepreneur firm with a spouse helping out (very convenient tax-wise).

### **6.2.3 Case C**

Case C is a joint-stock company in advertising business. The founders (cousins) started making business quite soon after the revolution (and also very soon after finishing their education) but in a slightly different area. The current focal company was created as a spin-off

of the original firm but soon it outperformed its “mother” and became the main interest of the family. Nowadays, the firm is the center of life for the family. Interesting thing is that the older generation was never involved directly in the business, although the younger generation is “only” cousins. Presently five family members are involved with 6<sup>th</sup> coming soon. The decisive sign why they consider themselves a family firm is that four of the family members are in the management board, which has got 7 members. The family has no formal family council.

Although they are all the same generation, the 2 founders are some 10 years older than the “new-comers”, which creates an interesting mixture of single-double generation family business. While the older cousins represent the entrepreneurial spirit, creativity and innovation in the firm, the younger cousins stand for management, organization, sophistication and IT. They consider these complementing skills present in the family and available for the family business as a great advantage and luck for the family business.

### **6.3 Shortcomings and Failed Goals**

Although the authors of the F-PEC model used hints in their questionnaires and those hints were translated along with the questionnaires, there were still some points that were unclear for the respondents. The hard data obtained from the respondents were cross checked against the information in the online Database of Economic Subjects (ARES) and the Trade Register and a few inconsistencies were found. While some of the “errors” of the respondents could be ascribed to a loss of concentration or memory lapse, some clearly resulted from lack of information on what the questions were asking. Questions number 5 and 6 of the F-PEC Experience sub-scale regarding the number of family members who are not active within the company are unclear in terms of who counts as a family member (children, elderly). Questions regarding generations were troubling those respondents who were members of the re-installed business families. They were *instructed* (see chapter 4.5.2) to ignore the gap caused by communism and answer as if the firm never left the family.

In the additional questionnaire, question 2 inquired on the founding year of the firm (in any form), however the respondents were often unsure of the meaning of the question. Perhaps, a founding year of the *entrepreneurial activity* in the current sphere of business or just any entrepreneurial activity should have been inquired.

One possible shortcoming is that there hasn't been any really large family firm (over 500 employees) in the sample. As explained in chapter 2.3, such companies are extremely exceptional.



Failure to search and include all Czech family business information and research was given by the fact that family business research is incredibly scattered and information is scarce and laical with insufficient support. There is a hope in the potential Czech Family Business Association to unify and compact the existing information and use the synergy to push the whole field as well as the businesses forward.

## 7 CONCLUSIONS

### 7.1 Methodological suggestions

The results of the research suggest possible adjustments of the F-PEC scale for specific environments like the one in this study. While the Culture scale is determined by opinions of a family member, the other two scales are based largely or completely on hard data.

In the Power scale, the trust or holding form of ownership is so unlikely that it doesn't have to be included in the questionnaire. When asking about ownership, the authors stated clearly that they are interested in voting shares, not capital shares. That means that rare cases with holding ownership, the final voting share can be pre-calculated for this answer. Interestingly, if the calculation is performed as voting share in the fund or holding multiplied by voting share of the fund in the assessed firm, one comes to a higher ownership score for a 27 percent family owned company (that actually can have another majority owner) than for a 51 percent family owned holding owning a 51 percent voting share in the family business (where family can virtually push through whatever they want). This inconsistency along with the simplification of ownership range (no consideration for the 50 percent barrier) should be sorted out in upcoming updates of the F-PEC or new models based on similar mindset.

In questions on governance and management boards, the number of non-family members representing the family is asked, however in the anecdotal case it is not explained or supported why a multiplier of 0.1 was used in the calculation of power from family members. These parts of questions could be omitted – or better – substituted for questions on the *chairmen* of the boards, whose positions are central to the company. For a business family, having or not having the CEO position or the position of the chairman of the Board of Directors (or the supervisory board in German management model countries) is a huge difference.

In the experience scale, the number of participating members of the family is required, but not included in the calculation. Moreover, it is not defined clearly who counts as an uninterested family member. The question should be better articulated to make sure all the responses are comparable.

In the Culture scale, only opinions are asked. There is no proof for the data provided by a single family member. If the CEO of a large multi-national stated all 5's in the questionnaire, would that be a sign of the firm being culturally influenced by the family? Perhaps some concrete and real criteria should be chosen to go along with the opinions. **How** it is showing

in the firm's existence, that the firm and the family share the same values? *What* extra effort have family members sacrificed in order to help the family business?

Furthermore, some of the questions are asked as to a single person (*I understand and support my family's decisions regarding the future of the family business.*) while other to a family as a whole (*We are proud to tell others that we are part of the family business.*). This is of course in no way incorrect but it raises doubts why the questions are not directed at a single person (*I am proud to tell others that we are part of the family business.*)

When looking at the results, one thing is clear at the first sight – the culture score is overwhelmingly high compared to the experience score. It is not only because one is based solely on opinions. If the respondent wanted to show no opinion marking all answers “3”, it would result in a 50 percent culture score, just one percent less than is needed in the power scale (voting share) to factually dominate the firm.

In the additional questionnaire, much interesting information was gathered except that a much larger sample will be needed to confirm the conclusions (or rather assumptions).

## **7.2 The State of Family Business in a Post-Communist Country**

Czech Republic's geographical position in the center of European region resulted in extremely unsteady and insecure development of the society. It was dominated by numerous dynasties and empires from Russia to Luxembourg. There can be no doubt, that there is a strong and good-sized population of Czech family firms. They are restituted companies with pre-communist tradition, that had to overcome immense difficulties not only during communism, when their owners were persecuted and businesses devastated, but also after the collapse of communism when they faced bureaucracy and injustice through the restitution process and often had to buy some of their former properties back. And they are newly established firms, which have been operating now for up to 17 years.

Firms in general are smaller (with the exception of agriculture – see chapter 2.3.1), which corresponds to their relative youth. Individual entrepreneurship is very popular at least considered by the number of individual business licenses and the number of capital companies.

There isn't any evidence, statistics or information on family firms except a few articles on individual family firms or case studies of family firms. Although official statistics is extremely rich and broadly available, there are no traces of family business information being

gathered. Neither is there any institution or organization representing, supporting or “looking after” family firms.

### 7.3 Local specifics

If we look at the contemporary family businesses in the Czech Republic through the scope of traditional family business research there are more similarities than differences. For sure newly established firms can be rated or classified by existing methods with similar or same efficiency. The trouble arises when dealing with the restituted family businesses, possibly run by grand-grand-children of the founder but still with experiences close to zero. Yet, there are two of these businesses in the sample but with quite different history. One of them is craftsman’s business, the other one industrial. The craftsmen stuck to their craft during communism even though they were just employees for a state monopoly. After communism had collapsed, they still had their family know-how and easily re-established the business without any strong need of getting their properties back. However, the industrial family needed the looted buildings and machinery to re-establish the business, which they didn’t get back in full. These examples show how different the situation can be for two businesses of approximately the same age. What experience score should be these two granted? A compromise approach is probably the wisest in this case. It is apparent that these businesses after 17 years of experience with market democracy do not possess the experience of the same level as is common by 3<sup>rd</sup> or 4<sup>th</sup> generation family businesses. On the other hand, their experience is quite probably higher than the one of newly established companies. The generations that have never lead the business should probably be left out when counting experience sub-scale. Thus a 4<sup>th</sup> generation company which was looted before the first succession and restituted straight to the hands of 3<sup>rd</sup> and 4<sup>th</sup> generation, but the 4<sup>th</sup> generation was installed as the managing one, should be considered as 2<sup>nd</sup> generation company.

There was an indication in the sample that family businesses are larger than median business size and a strong indication that their legal form is shifted towards capital companies. Should a larger-sample research confirm these assumptions, it would be a remarkable finding – again “bringing more questions than answers” (Chrisman, Chua and Steier (2003, p. 446).

The answer to the research questions is according to the expectations not simple. There are family firms in Czech Republic. Some of them are newly established and those can be approached in the same way as family businesses in Western European countries, the USA, Canada, Australia, Japan or other democratic countries. The restituted business that have possibly a hundred years of history with a 40- or 50-year break (depending on whether they

were stolen by the Nazis and Communists or just the latter ones) are much more complicated from the family business research point of view. Standard methods – like the F-PEC – should be adjusted in order not to overlook the specific history of these business. Considering restituted businesses as first generation business would be such overlook. Hence, although the intermissions might have different impacts on particular family businesses, it can be concluded that there are 2<sup>nd</sup> or further generation family businesses in the Czech Republic. The extent of such impact on every single business should be taken into account, possibly as another question or factor in the F-PEC experience scale.

#### **7.4 Suggestions for Further Research**

Since the contemporary extent of family business research in the Czech Republic is bleak, the aim of any further research in the field should follow the traditional development indicated by Sharma (2004, p. 2). The research field as well as family business (or business in general) as such could be considered retarded or underdeveloped in comparison to that in standard traditional free-market democracies. The advantage of such situation is that researchers can walk on well-trodden paths in many dimensions of family business research. Building knowledge from scratch brings opportunities for new unrestricted and creative solutions or suggestions, however the main task for researchers within the field should remain in building and consolidating the position of the family business research field and catching up on more developed “western” colleagues.

Former socialist countries could also represent a unique “lab” for the Western researchers (not only in family business), who have never had any opportunity to study newly established economies. Some elements (for example capital markets) of these economies had to shortcut their development from a century to a single decade.

In family business research, it is necessary to adopt a widely accepted definition of family business and to assess the extent of family business undertaking within the national economy. Due to the high development of official state statistics along with the volume of information being published and freely available, it would be promising to include a family business dimension in the statistical reports. That could be accomplished by associating family businesses and family business researchers into a single platform, which would pressure on the Czech Statistical Office. Such family business organization would of course have greater and more important goals for its main members – family firms – however, if family business researchers were to be included in the organization, this could be a substantial contribution they could make.

In the Czech Republic, not all fields of research have deteriorated because of the communist regime. There is an opportunity for the emerging family business research field to “anchor”, to find a fixpoint and a source of scientific information and rigor in fields like sociology, that are close to family business and that haven’t been struck by communism as hard as any business- or economics-related science.

The F-PEC model represents a complex, yet simple tool for classifying family businesses. As its authors say, it is only the beginning. The F-PEC model is quite innovative and does not result from any other model. One could assume that an improved model is going to be constructed, that will build on the original F-PEC and use knowledge acquired through application of the original F-PEC model.

It is quite probable that further development in the field will take the direction sketched by models like F-PEC, SMIC or FMI. These models represent at this moment the best utilization of available knowledge for creating a description of family business that would be accurate and simple at the same time. There may be findings in the future, that will make today’s information obsolete but the gap between traditional definitions based on – for example – ownership or succession and these modern tools that are simple, yet sophisticated will be hard to overcome.

In the Czech Republic, the empirical research in family business is greatly needed. There should be a large random sample research to estimate the actual volume and percentage of family firms among the firm population. Are there little compared to European standards or many? Do they have substantial impact on economy? Are they more important than in traditional markets? Or less? This research showed that family businesses are easy to find anywhere, but it didn’t clarify *how many* family firms are there, since the firms were prescreened by the two-involved rule. Neither it clarified what importance they have.

In view of the extent of public statistical data in the Czech Republic, it is desponding that family business information is not included at all.

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## 9 APPENDIX A

A verbatim transcript of the two questionnaires presented to companies and a translation of the latter. The translation of the former can be found in Astrachan et al. (2002, pp. 55-58)

### Questionnaire A

Stupnice F-PEC vypracovaná profesory Josephem Astrachanem (USA), Sabine Klein (Německo) a Kosmasem Smyrniosem (Austrálie) ohodnocuje vliv rodiny na rodinnou firmu. Vzhledem k tomu, že na světě neexistuje univerzální a obecně akceptovaná definice rodinné firmy, slouží stupnice F-PEC ke zjišťování rodinného charakteru firem po celém světě. Tato česká verze dotazníku slouží ke zjišťování odlišností českého prostředí od zavedených tržních ekonomik (zejména USA a Německa).

#### Definice:

- *Rodinou se myslí skupina osob zahrnující manžele a jejich potomstvo (libovolné generace, včetně adoptovaných dětí) a jejich manžele/manželky.*
- *Vlastnictví znamená vlastnictví akcií nebo podílu ve společnosti. Pokud hlasovací práva neodpovídají těmto podílům (tj. někdo drží akcie se zvláštními či omezenými hlasovacími právy), je třeba uvést podíl hlasovacích práv.*
- *Managementem je myšlen orgán, který řídí firmu (představenstvo, jednatelé apod.)*
- *Lidé jmenovaní do funkce rodinou reprezentují ideje, cíle a hodnoty rodiny.*

#### Část 1: Stupnice moci

1. Uveďte podíl vlastnictví v držení členů rodiny a v držení ostatních vlastníků.

- |            |   |
|------------|---|
| a) rodina: | % |
| b) ostatní | % |

2. Podíly drží rodina pomocí další firmy (holdingu či trustu):      Ano      Ne

Pokud ANO, doplňte podíly vlastnictví:

- |                 |                                 |   |
|-----------------|---------------------------------|---|
| a) hlavní firma | i) přímé vlastnictví rodiny     | % |
|                 | ii) přímé vlastnictví ostatních | % |
|                 | iii) ve vlastnictví holdingu    | % |
| b) holding      | i) přímé vlastnictví rodiny     | % |
|                 | ii) přímé vlastnictví ostatních | % |
|                 | iii) ve vlastnictví 2. holdingu | % |
| c) 2. holding   | i) přímé vlastnictví rodiny     | % |

3. Má firma kontrolní orgán (např. dozorčí radu)?      Ano      Ne

Pokud ANO, a) Kolik má kontrolní orgán členů?      Členů

b) Kolik členů je z rodiny?		Členů
c) Kolik (nerodinných) členů je jmenováno rodinou?		Členů
4. Má firma management?	Ano	Ne
Pokud ANO, a) Kolik má management členů?		Členů
b) Kolik členů je z rodiny?		Členů
c) Kolik (nerodinných) členů je jmenováno rodinou?		Členů

**Definice:**

- *Zakládající generace znamená 1. generace.*
- *Aktivními členy rodiny jsou myšleni členové rodiny s podstatným podílem na práci firmy. Tito členové mohou mít ve firmě oficiální funkce, například majitel, zaměstnanec, člen dozorčí rady apod.*

**Část 2: Stupnice zkušenosti**

1. Kolikátá generace vlastní firmu?
2. Kolikátá(é) generace řídí firmu?
3. Kolikátá generace je v dozorčí radě?
4. Kolik členů rodiny se aktivně podílí na životě firmy?
5. Kolik členů rodiny se nepodílí, ale má zájem?
6. Kolik členů rodiny nemá vůbec zájem?

**Část 3: Stupnice firemní kultury**

<i>Prosím ohodnoťte míru, do které:</i>	<i>Vůbec</i>	<i>Do velké míry</i>
1. Vaše rodina má velký vliv na Vaši firmu.	1.....2.....3.....4.....5	
2. Členové Vaší rodiny sdílejí podobné hodnoty.	1.....2.....3.....4.....5	
3. Vaše rodina a firma sdílejí podobné hodnoty.	1.....2.....3.....4.....5	

*Prosím ohodnoťte, do jaké míry souhlasíte s následujícími tvrzeními:*

4. Členové naší rodiny jsou ochotni vydat velké úsilí nad běžná očekávání proto, aby se rodinné firmě dařilo.	<i>Vůbec nesouhlasím</i>	<i>Naprosto souhlasím</i>
	1.....2.....3.....4.....5	
5. Podporujeme rodinnou firmu, když mluvíme s přáteli, zaměstnanci a ostatními členy rodiny.	1.....2.....3.....4.....5	
6. Cítíme loajalitu k rodinné firmě	1.....2.....3.....4.....5	
7. Naše hodnoty považujeme za slučitelné s hodnotami firmy.	1.....2.....3.....4.....5	

8. Jsme hrdí na to, že můžeme říkat, že máme rodinnou firmu.

1.....2.....3.....4.....5

9. Z dlouhodobého hlediska má rodinná firma hodně co nabídnout.

1.....2.....3.....4.....5

10. Souhlasíme s cíli, plány a zásadami firmy.

1.....2.....3.....4.....5

11. Opravdu nám záleží na osudu rodinné firmy.

1.....2.....3.....4.....5

12. Mé rozhodnutí o práci pro rodinnou firmu mělo pozitivní dopad na můj život.

1.....2.....3.....4.....5

13. Rozumím a podporuji rozhodnutí rodiny o budoucnosti rodinné firmy.

1.....2.....3.....4.....5

*Děkujeme mnohokrát za Vaši podporu.*

## 10 APPENDIX B

### Additional Questionnaire (see translation below)

#### Základní informace o firmě:

1. Firma je:
- a) Podnikatel – fyzická osoba
  - b) Veřejná obchodní společnost
  - c) Společnost s ručením omezeným
  - d) Komanditní společnost
  - e) Akciová společnost
  - f) Akciová společnost s veřejně obchodovatelnými akciemi

2. Firma byla založena (v jakékoli podobě) v roce:

3. Firma je hlavním zdrojem příjmu rodin(y).      Ano      Ne

4. Považujete Vaši firmu za rodinnou firmu?      Ano      Ne

5.      Pokud ANO, z jakého důvodu (jaký je rozhodující znak)?

        Pokud NE, z jakého důvodu (jaký je chybějící znak)?

6. Presentujete Vaši firmu jako rodinnou firmu?      Ano      Ne

7. Prostor pro Vaše názory a připomínky:

Děkujeme za Váš čas.

