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# Family Business: Experience from the Czech Republic

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## Abstract

The chapter deals with problems of small family-owned companies in the Czech Republic. The main aim of the chapter is to describe a family business in the Czech Republic. The partial aims of the chapter are as follows: presentation of family business definition used in investigation of Czech family businesses and model of successful transfer of power to the next generation called “relay.” This chapter uses a research methodology of the secondary as well as primary data collection. In the frame of secondary data collection, the data were obtained from the company’s websites as well as from the official Amadeus database and those by the Czech Statistical Office. The collection method of primary data was based on interviews with the company’s founder and his children and on the questionnaire survey. So gained interview results were transformed into the paper form and then transcribed. The research case study was analysed and focused on the case. This chapter states the results of qualitative research regarding a small family-owned company, called Kaláb—Building Company, Ltd. The concerning research part has the form of a case study. Two models are given in discussion of research results: (1) strategy of small family-owned enterprise and (2) power delegation in a family-owned enterprise.

**Keywords:** family business, succession management, family business definition, family ties, two-circle model of family business, family system, strategic process, successor, incumbent

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## 1. Introduction

The problems of family-owned enterprises and family businesses are quite common nowadays, but only little attention is paid to this business segment in the Czech Republic. This, in some measure, arises from the fact that business itself is relatively new and young discipline in Czechoslovakia, respectively in the Czech Republic. The expanding business activities have also brought a development of family-owned enterprises in its train. Many traditional business families, feeling a challenge for continuity within the new environs, wanted to pick up

the threads of family tradition and tried to follow up the fame of the former fathers and forefathers. The others launched into business with illusion of easy reachable million profits and the like. There were various types of traps lurking for the businessmen, for example legislation gaps, but especially a catastrophic lack of business activity experiences itself. Those facts caused many faults and only a small number of businessmen and family-owned enterprises held out the running of business up to the present time.

However, the situation in the field of family-owned enterprises improves rather quickly in the Czech Republic in the last time. Due to a responsible approach to investment of private means, the family businessmen being concentrated on the own aims are far more flexible in comparison with managers delegated from outside. The owners usually have many obligations not only towards the enterprise but also towards the successor(s) and above all towards the whole family. Family-owned enterprises show very sensitive approach to administration of the own property. A communication within the family triangle is usually decisive for managing the enterprise and market and for the further development. The enterprise itself represents a life work of a businessman, and when ceasing to function, the responsible family members are struggling to rescue company far more obstinately and persistently in comparison with the other enterprises.

Thereby, this chapter aims to describe the family business in the Czech Republic and define tendencies in specification of that. Partial aims are as follows: to present the family business definition used in investigation of Czech family businesses and model of successful transfer of power to the next generation called "relay." The object of the research focus on describing of the specifics of family business as an economical phenomenon. The subjects of the research are definitions, strategies and succession of the family business enterprises.

## **2. Family business in the Czech Republic**

### **2.1. The applied methodology**

The chapter presents the theoretical and practical part in the topic of family business definition, its perception and analysis of weaknesses and strengths in the framework of the investigation of Czech family businesses. In addition, the chapter performs the results of theoretical and practical knowledge from the field of strategy and power delegation between the generations. The chapter uses a research methodology of the secondary as well as primary data collection. The theoretical part is based on the analysis of secondary literature sources. For insight into family business' phenomenon, it was decided to study the historical sources of the family business concept development during the twentieth and twenty-first centuries after evaluating them with the help of Vallone's three key principles of determination of family business. The chapter is also prepared on the basis of research of the most cited scientific papers relating to the definition of family business with the help of general theoretical scientific methods, in particular, analysis, synthesis, analogy, comparison, generalizations, deduction and methods of expert estimates. In addition, according to aim, also a SWOT analysis is applied to find out the basic strengths and weaknesses of family business. The practical part is based on primary research

using qualitative methods. In the frame of secondary data collection, the data were obtained from the company's websites and other materials as well as from the official Amadeus database and those by the Czech Statistical Office. The collection method of primary data is based on the case study with using of interviews with the company's founder and his children. That case study was conducted, namely the face-to-face structured interviews, which belong to the verbal form of questioning methods commonly employed in qualitative research. The study supposed the use of open-ended questions due to the nature of the collected data favoured as a means to illustrate findings and support the developed theory described above. The questions for pilot study were formulated on the several main concepts that are based on field of power delegating in small family-owned enterprises. Interviews were conducted by an interviewer using an audio recorder. The following factors influenced the choice of data collection method resulting in interviews: importance to reach a particular person, high confidence that the right person has responded, obtaining a great level of detail, ease of use for respondents, low expenses/financial implications and simplicity of data coding. At the beginning of the interview, the interviewer explained the purpose of the interview and the importance of the respondent's participation. The gained audio interview results were transformed into the paper form and then word-for-word transcribed. The research case study was analysed and focused on the case. In the analysis of respondents' answers, statements were decompound and compared with each other using content analysis; the authors were inspired by the Constant Comparative Method known from the approach of Grounded Theory.

### **3. Theoretical solution approach**

#### **3.1. Definition of a family-owned enterprise**

The literature deals with many definitions regarding a family-owned enterprise. The majority of them are based on measurement following from the number of statutory body members descending from the given family in comparison with total number of statutory body members; the family controlled authorized capital and the whole sum of the authorized capital. The most acceptable definition of a family-owned enterprise will be probably that one presented in Ref. [1]. This definition may be interpreted as follows: "Family-owned enterprises are those, held by a group of people, being in a family relationship." This definition specifically enables to research also the small- and micro-family-owned enterprises in the Czech Republic, playing the role of natural persons and cooperating with family members. However, it is necessary to investigate the type of family relationship in this case. On the basis of the assessed definitions owing to the family-owned enterprises, the following definition applied to the Czech environs may be assigned: "A family-owned enterprise is that one owned and possibly controlled by family or families or by selected family member(s), whereas its delivery to the next generation is supposed." This definition presumes an enterprise establishment under the § 5 of the Act No. 513/1991 Sb. (Commercial Act), where an enterprise is understood as a complex of material, personal and non-material business components. The term "family" is not explicitly defined within the Legal Code of the Czech Republic. In general, a family is above

all an institution constituted by marriage. The authors have defined the family as “a group of persons mutually associated not only by matrimony or relational bonds, but also by a common life-style.” It is worth noting that the development of the family business theory and the theoretical researches devoted to definitions of family business are gaining a momentum.

However, there are some key tendencies. For example, the results, which were received in the development of family business theoretical definition, are significant. In addition, the theoretical researches shed some light on how the family business can differ from the non-family one. Thereby, following questions are considered now: why the family business exists, what factors do it more or less successful in survival, growth and creation of long-term economic values. The definition of research object is the fundamental requirement for an advance in any area. In addition, as it was previously noted, the theoretical definition of family business has to begin with a question: what the family business is. The special literature shows that no unified definition exists for “family business,” which is exclusively applied to all areas. This fact suggests that the debate on this topic is not exhausted. If we look at this problem from the perspective point of view, we will find out two systems in the family business layering at each other: the system of family and the one of firm, called the “The Model of two circles.” The integral part of those systems is the objectives, priorities and expectations. The family world is characterized by a strong emotional aspect; the corporate world requires rationality and results. Families are the cornerstones of human communities [2]. They are of different sizes, but they often have rigid internal relations as a common feature. It is known that family business is a traditional method of business in the private sector. The goal of family enterprises is not to get rich as fast as possible, but rather to build something that will last and provide sustenance not only to the present generation but also to those of future.

Before starting to analyse different definitions, it is significant to state why having a generally accepted definition within the family business academia is primary for future extension of that field [3]. Most of the definitions were created to suit of certain research. Heck and Trent [4] maintained the argument of having a widely acknowledged definition by stating that “a proper definition and count of family businesses is important to future research and current policy, practice, service and education. Promoting definitional consensus among researchers may increase the likelihood of theory development, in-depth empirical analyses, comparative studies and replication [4].” Furthermore, distinction in definitions obstructs the comparison of international investigations of family business. Using a common definition would therefore allow making clearer and comparable statistics of this entity, especially in case of its contribution to the economy [5]. Vallone [6] has the same opinion that an elaboration a generally accepted definition would “circumscribe the field of investigation, and obtain a comparable sample for international researches; to individualize the presence and the specific characteristics of the family business in comparison to nonfamily business; in addition, it means to be able to compare more easily the empirical studies.” To fully understand the development of family business study and its definition, it was decided to overlook historical tape of that field development.

### *3.1.1.1. Main principles of family business definition by Vallone*

One of the most interesting studies belongs to C. Vallone, who published his literature review paper in 2013 [6]. He concluded that there are three key principles in the family business

discussion: the degree of ownership, the intention to the succession and the involvement of the family members in the business. He understands ownership as “the percentage of capital possessed by the family (by shares or quota) or the dominant influence represented by the family members’ ability to affect the remarkable and strategic choices.” According to that expression determining the family business, family must have full control or must be the most influential unit in making strategic decisions. Concerning the expectation of transferring the firm to the next generations (succession), Vallone states that “family business should concern only the companies managed by a family where the second generation is present or where there is a precise wish to transfer the business and family culture and the management to heirs, so that it is possible to exclude occasional business initiatives managed by two brothers, or by an individual with the aid of the partner.” He claims that because there are many examples, where husband and wife manage the business but not intend to transfer the business to the next generation. There are many explanations; therefore, for instance, they have no children or none of their children wants to keep on the business like the parents. In this way, in spite of full ownership of the firm, the “familiarity” thereof is slack due to the absence of intention to transfer the firm and business culture to the next generation [4]. Another most essential element of family business, according to Vallone, is the involvement of the family members in business. This element occurs as a decisive aspect in differentiation between the family business and non-family one, especially in case of small business. Therefore, the author proposes to include this element as an attribute of family business because most of family companies are small companies, where founder works in the continuous way with the relatives [3]. Nevertheless, Vallone in his work concludes that constant involvement of family members or their relatives in the business is not crucial because it can lead to a limiting effect, that is, elimination of some big companies which are hired not only by/to the non-family members but also have external employees.

### *3.1.2. Definition of family business with the help of historical analysis*

For understanding the historical tendencies of comprehension of family business, it was decided to follow the main historical investigations in that area and evaluate results with the help of Vallone’s three key principles, which relate one of the most catchall determinations of family business. For understanding the historical tendencies of comprehension of family business, it was decided to follow the main historical investigations in that area and evaluate results with help of Vallone’s three key principles, which relate one of the most catchall determinations of family business. If we look through the history, it is an interesting fact that family business is one of the favourite subjects of business historians, and nowadays, it represents one of the promising subfields of the business history [7]. The family business started to attract business historians during the 1990s [8]. According to A. Colli, there can be described as some “reactions” against the dominant Chandlerian approach interpreting the persistence of family capitalism as a dominant form of ownership and management in large, capital-intensive firms of the Second Industrial Revolution as a signal of inefficiency and backwardness [9]. As she notes, the recent accent on family companies and family capitalism does not mean that business historians noted it as unworthy of attention. In business research before the 1990s, there was a lot of research studies about family business at both the “micro” level, that is, about the dynamics internal to family enterprises, and the “macro” level, that is, the

research regarding the relationships between family enterprises and the more general environment as well as respective national economies [9]. Donnelley was likely the first to define the family business [10]. His definition included one or more of the following conditions: (1) existence of family relationships as a key factor in succession; (2) the presence of family member among board of directors; (3) reflection of family values in business; (4) actions of family member reflected on reputation of business; (5) the presence of relatives involved and who felt obligated to hold stock for more than financial reasons and (6) entering the firm being a part of family member's career decisions. Donnelley's definition reflected on early consulting observations of family business, but it was difficult in meaning, empirically complicated to implement and so, it was not utilized in subsequent research studies [11]. Many definitions were created in that period, but they did not explain how the family business differs from non-family one. Classical family systems of theory developed from clinical work with actual families, but that theory did not include any specific recognition that owning and operation business might change the family life [11].

The most cited definitions of family business during the twentieth and twenty-first century are evaluated with help of Vallone's three key principals of determination of family business: the degree of ownership (designated by code A), the intention to the succession (designated by code B) and the involvement of the family members in the business (designated by code C) [6]. For uncertain principle of determination, the code D is used. Family business researchers are confronted with a definitional dilemma similar to those facing entrepreneurial researchers [12]. Some researchers argue that at least one of family members should be active in the management/or ownership of the firm, others think that there should be at least two active members of family. Still others require the family business with family members of different generations active in the business [13].

Some scholars see the family as the owner of at least 51% of the stock, whereas the others suppose the family has to have an influence on decision-making in business. It could be said that clear definition of family business will not be set up soon and agreed by most scientists because of wide difference of definition options. Despite that the research shows that the most generally used attribute in the studied definitions during the twentieth century is the criterion of ownership equalling to 58%. The authors of many researches support it because most of scholars state that ownership is the main tool in legalization and keeping the power to influence a firm. The number of definition criteria occurrences is in absolute terms as well as in relative terms. The total percentage exceeds 100% because that most definitions use multiple criteria. Involvement of the family members in the business is the second most used criteria, respectively 51% of them. Intention to the succession is in 15% of the identified definitions as less used criteria of family business. Thereby, it can be observed that criteria for family business describing "intention to the succession," unfortunately, is not considered severely in many definitions because those criteria could help distinguish small family business from non-family business firms.

### *3.1.3. Family business definition investigations*

During the last few years, it could be observed that such huge diversity of family business definition leads to problems in practice [14]. It is not only about comparativeness of researches'



results, dealing with “family business” (under this concept, many different types of business can be seen) but also particularly about comparativeness of statistic data about family business. Because of that, in the end of previous century, scholars tried to make an order in that chaotic situation. First of those were Astrachan and Shanker, who recommended, based on their research, to use three definitions of family business that vary by the level of involvement of families in business [15]. Despite the fact, that the attempt seemed to be auspicious, in practice, it completely did not take hold. As it was confirmed, the majority of family business definition are based on ownership criterion, slightly less are related to involvement of the family members in the business. These definitions specifically enable to research also the small- and micro-family-owned enterprises in the Czech Republic, playing the role of natural persons and cooperating with family members. Nevertheless, it is needful to investigate the type of family relationships in this case. On the basis of the assessed definitions owing to the family-family enterprises, the following definition applied to the Czech suburbs may be assigned: “A family-owned enterprise is that one owned and possibly controlled by family or families or by selected family member(s), whereas its delivery to the next generation is supposed.” The term “family” is not precisely defined within the Legal Code of the Czech Republic. However, a family is constituted by marriage. The author has defined the family as: “a group of persons mutually associated not only by matrimony or relational bonds, but also by a common life-style.” According to the Civil Code of the Czech Republic [16], the family business is considered as an establishment, where the spouses, or at least one of them, are working together and where the other relatives up to the third degree or those related to husbands and connected via brothers-in-law up to the second stage are working, and where some of those people are the owners of such establishment. Those of them who are constantly working for the family or family business are viewed as family members involved in the family business operation [17].

### *3.1.3.1. Family ties of representative wine family enterprises in the Czech Republic*

For the understanding of family business concept, it is necessary to display a determination and structure of family business relationships [5]. Here, the research conducted by Petlina [18] should be mentioned, where the purpose of research was to determine the family ties within wine trading business. The object of research was focused on the family wine trading business in the Czech Republic, in particular in the region of South Moravia as an economical phenomenon. The subject of research was based on family ties within the selected families as representatives of the family wine trading business in the Czech Republic. On the basis of conclusions about family business definition that mentioned above, it was found out by Petlina that greater percentage of the statistical sampling has shown the seventh family situation within the family wine trading business in the Czech Republic (“Father + Sons,” 25%). The “Spouses” as the main managers of the family business ranked second; this kind of family ties has got 20.2%. The third place is shared by the first and twelfth types of family ties within the family wine trading business or, there are situations, where managers of business are brothers and parents with a son relatively; those have got 11.9% each. The fourth position belongs to the type of family tie, where the management of family wine trading business is shared by father and his sons. The rest of family ties within the family wine trading business have shown the values as follows: the family tie “Grandfather + Son + Grandchild” has got

6% of the statistical sampling; the family tie "Father + Posterity" has got 4.8%; the family tie "Parents + Posterity" has got 3.6%; the family ties "Brothers + Granddaughter," "Cousins," "Father + Daughter," "Father + Son + Brother-in-law" and "Parents + Son + Son-in-law" have got each the same value equalling to 1.2% of the statistical sampling related to family ties within the family wine trading business.

All the values were rounded to the nearest tenths. Considering that the third quartile (Q3) equals to 10 ( $n = 13$ ), it is clear that the cases with data lower than the value of indicator are equal to 75% of the values of selection. The third quartile splits the lowest 75% of the data from the highest 25%. Those highest cases (25% of the data) are as follows: "Brothers" (11.9%), "Parents + Son" (11.9%), "Spouses" (20.2%) and "Father + Son" (25%). It was confirmed that this respondent was the representative of family wine trading business in the Czech Republic, particularly in the Viničné Šumice, a village in South Moravian region. He has reported to have run his business since 2003, but their family tradition of wine production and sale has already been supported by five generations. During the course of interview, it was found out that managers of the firm are parents and their son. The owner of business is Mother who is engaged in accounting and strategic planning and in the firm production as well. The Father is then the main wine grower and cellar man. The son is in charge of marketing and communication with the exterior, graphic design and printing of labels and leaflets and he manages the projects of "Svatomartinské" (wine) and "Vinné želé" (wine jelly). During the intensive period of vintage and various actions, the whole family and many a close and distant relatives are helping for the development of their family wine business. Thus, the interview has confirmed that the family wine trading business exists, and it is not only a mere marketing tool for customer acquisition. One note should be said regarding the materials related to family ties within the family business, where the mentioned member, the "Son," has emphasized to prefer rather a family business in which a son or the sons are engaged. It can be the result of a phenomenon when the son is associated with the next generation and business succession.

#### **4. Particularities of a family-owned enterprise**

When wanting to define the difficulties or problems of a family-owned enterprise, we must deeply penetrate into the core thereof. That means, we must thoroughly analyse single components mutually influencing the whole process and taking part in the existence thereof. Those specific forces typical for each of such component are the main sources of problems, the family-owned enterprise must withstand. When focusing this problem on a system of view, we will ascertain that there are two crossing systems within the family-owned enterprise, as Leach said in Ref. [19]. Though both of the systems are created by the same persons, each thereof depicts a world of its own. The integral parts of this systems are their own goals, priorities and expectations. A family world is characterized by strong emotions and the business world demands rationality and results. There is one of the main problems following from this initial outline, that is, the family members must learn to grasp the measure of changes within the systems, they are moving in. It is not only the change of this relation, they must grasp, they must also modify the norms, expectations and the entire behaviour. This scheme may be



extended and supplemented anytime in order to obtain a better illustration of the idea related to the whole complex of elements defining the system of a family-owned enterprise. Anyway, the result of such effort will always give a “model of three spheres,” in which the mutual relationship between the family, ownership and controlling will appear.

## **5. Difficulties faced by family business**

When trying to define the difficulties encountered within the family business, we must first penetrate deep into the essence of the whole problem. It means, it is first necessary to focus our interest on a detailed analysis of how the individual components interact with contribution to the own existence. When looking at this problem from the perspective point of view, we will find out that there are two systems colliding in the family business, namely the system of family and the one of the firm. Those two systems are very tightly connected with each other. They are, to say, tied by an umbilical cord. Each of those different systems is based on a varied foundation. The integral parts of those systems are their own objectives, priorities and expectations. Thus, if two different systems are connected in this way, it is clear that a conflict zone occurs. This scheme of two systems can be further extended and complemented by the element of ownership. This scheme shows interdependence between three systems: family, ownership and management [17]. The strengths and weaknesses of the Czech family business are not much different from those of family business in the Western economies.

## **6. SWOT analysis of family business in the Czech Republic**

On the basis of research conducted by Petlina [18], a final SWOT analysis was compiled identifying the strengths and weaknesses of family business firms in the Czech Republic including various internal factors and opportunities as well as threats based on external factors. Those analyses resulted below showing the strengths and weaknesses together with opportunities and threats in comparison with non-family business firms. The carried out analyses suggest that the family business, as an economic phenomenon in the Czech Republic, is healthy, economically stable and in the phase of growth. The family business has a number of strengths and there are many opportunities providing a potential for further growth. The great asset of family business is the team of long-term-employed family members with knowledge and experience in the given field and the efforts to keep family traditions of high-quality production or service. The family business has always focused on meeting of customers' needs. It is reflected in the flexibility in work, time and money of family members as employees and also the pride and confidence in the own business and its outputs. The result thereof is recognition and confidence in the family business products by local customers. The weaknesses of family business in the Czech Republic can be divided into internal and external parts. Internal pressures emanate from the very nature of these institutions. Major internal pressures are divided into the emotional and managing

parts. The course thereof is “engagement” of family in the business system. The emotional problems can paralyze all the fields of business spoiling the interpenetration between the family/enterprise systems. Thereby the main weaknesses of family business are considered to exist, and the family business has no direct influence thereon, although sometimes, it may be controlled indirectly. Such weaknesses do negatively affect the competitive position in the business market. In this context, we can mention three main areas of weaknesses: public opinion attitude, investment institutions and fiscal matters [18]. Another challenge for family business is its growth [20]. The author Sorenson is convinced that an important instrument for family business lies in overcoming such obstacles by means of quality education, counselling and research in this area [21].

### **6.1. Strengths of family business in the Czech Republic**

The strengths of family business follows from its own essence and may increase its competitiveness [22]. Those strengths are as follows: (1) a mutual agreement between the individuals sharing common interests arising among family members working in the family business on one hand and interests of owners on the other hand; (2) commitment leading to the fact that all family members striving to achieve a mutual benefit are ready to submit themselves to the given demands under the certain personal sacrifices. A family considers the business as its “own” creation; (3) flexibility regarding the work, time and money: a family enterprise can devote all its time that is necessary for a successful firm development; (4) long-term plans allowing to reduce the risks and making it easier to cope with unforeseen circumstances. Family business firms tend to planning of long-term visions; (5) stable corporate culture: the corporate culture of family business is still compared with other non-family companies. Managers are holding the office for a relatively long time being intrinsically involved in the business success. This also applies to non-family managers; (6) quickness in decision-making: certain powers of family members are clearly defined. This is a typical feature for family business considered as a great advantage; (7) pride and confidence: a strong foundation and commitment of family members within the family business are evident in the relationship to clients; (8) efficiency: the family business can effectively and successfully utilize the resources being at its disposal [17].

### **6.2. Weaknesses of family businesses in the Czech Republic**

There is a tight link between the phenomenon of weaknesses and strengths of the family business. The weaknesses of family business are as follows: (1) strong ties within a family: a decision-making within the family business is usually fast, but the family ties make the family business more conservative in relation to the risks [2]; (2) reluctance to external sources of financing: a strong responsibility to the family can be the reason of reluctance to external financial sources. Consequently, the family business firms used to have a motto: “I will buy only under supposition of earning.” This can be compared with mistrust in return on equity in non-family business companies; (3) necessity of high-quality communication channels functioning between the family and family business: it can be claimed that one of the keys to succession will be a communication between the firm and family; (4) high

potential for conflicts: various conflicts may occur within the family business, such as those between generations or founder(s) and successor(s), interfamily conflicts, those between siblings, family and employees, family and managers, no family employees, conflicts connected with professionalization of the family business, conflicts between non-family manager and family employees; (5) reduced ability to respond to global opportunities: family business firms belong to the category of lower-sized (local) firms rather than to the global ones [23–25].

## 7. Family enterprise strategy

Johnson and Scholes speak about following steps regarding the process of an enterprise strategy: strategy analysis, fixing of the entire (corporate) strategy, analysis of strategy relating to the single strategic business units (SBU) and strategy definition of each SBU [26]. The whole process of strategy is crowned by its implementation. The limitation mentioned earlier is one of the very frequent opinions published today. However, the opinion of the term called “strategy” was varying during the past few centuries.

Merwe’s definition of “strategy” going back to the seventeenth and eighteenth centuries related to a “bulwark, maneuver and delivery” [27]. After the stormy social changes of the nineteenth and twentieth centuries, it was difficult to draw a line between the “military strategy” and the “basic strategy,” the latter especially related to planning and utilization of all resources. Consequently, the term of strategy was implemented into the business as well. A modern business strategy is supposed to deal with bringing into consonance the firm activities with the environs in which it operates. A strategic management should ensure a long-lasting performance of the firm. Strategic management includes the formulation of strategy, its implementation, evaluation and control.

We have seen how the family and enterprise systems overlap each other. The research by Basco and Pérez shows that firms combining both of those systems in their strategic decisions may achieve better business results [28]. The scanty research results by Goel dealing with strategy of family-owned enterprises show that strategic decisions should be chosen in context of the family ownership complexity [29]. A family-owned enterprise strategy namely includes the complexity of inner business dynamics and outer environs, as well as family interests, goals and problems in the field of heritage, culture and sibling relationships. Further, this research speaks about a poor aspect of the internal family system mechanisms.

Lindow et al. have introduced the term “strategic fit,” the idea of which is that a research in the field of family-owned enterprises must include the balance of dynamics between both the business and family activities; all these ought to be monitored in the environs of both the systems [30]. Mustakallio et al. claimed that a family vision depending on family social interactions relates to the quality of strategic decisions [31]. Astrachan then speaks about more family elements influencing the process of strategic creation and acceptance [32]. Those elements are, for example, the sequence of kids’ birth or the family psychological factors, such as adaptability, rigidity, cohesion, and so on. We can see that the strategy of family-owned enterprises may be viewed under various angles.

## 8. Succession in a family-owned enterprise

Griffeth et al. stated that family-owned enterprises, though being successful in business for a certain time, must break through one great obstacle, lying in the continuation of business and power transfer between the generations [33]. The future of a family-owned enterprise always depends on the owner's competence and the measure of how he is able to face the challenge of the family bond preservation across the generations. Goel puts interesting questions in his work regarding the choice of a successor in the family-owned enterprise [29]. For example, he asked that whether the successors are chosen with regard to support a certain strategy and whether the founder's kids could fall into a stereotype. He also considered the preferences or influences playing a role within the family system in relationship to the chosen business strategy. What seems like to be better for the founder? Astrachan [32] mentioned an ascertainment according to which the successor's training was allegedly influenced by the relationship between successor and incumbent. In case that this relationship is poor or imperfect, such power delegation to successor may be unsuccessful. The work by Griffeth et al. presents power delegation as a process, in which senior positions are being calculatedly opened or possibly fulfilled [33]. This process exaggerates a project management of organizational needs, evaluation of skill and solution of the found development needs. Dyck et al. compared this process with a relay race [34]. There are four main factors in such relay race: sequence, timing, baton-passing technique and communication. All these factors have to be solved at one stroke for the race to turn out well. The authors argue with the fact that succession is determined by sequence. This allegedly means that with regard to the present firm state and its future development, a successor will be chosen in a view of the adequate qualification and skill in order to be able to overtake the control of enterprise from the present incumbent. Second, it is also necessary to choose the right timing for the power transfer to the next generation. This means that both successor and incumbent have taken into consideration the given circumstances and now they are ready to pass and overtake the baton. For three, it is necessary to choose appropriate techniques for the baton passing. The last part of relays is a good communication ensuring a successful result. However, Griffeth et al. warned of a sole focusing on planning the succession, which may ignore one critical factor, namely a motivation of the potential successor to continue the work in family-owned enterprise.

Le Breton-Miller et al. are just the authors having concentrated themselves on the problem of successor's motivation and passing of the family-owned enterprise into the hands of next generation [35]. As they state, only every third family-owned enterprise succeeds to continue the business in second generation and only 10–15% survive until the third generation. The said authors have noted the fact that many a thinkers deal in the literature with various parts of the given problem complex related to power delegation, successor's quality, family context or incumbent. They extrapolated an integrated model, having worked out the neglected courses of study, which may influence the long-lasting succession lifetime. There is a non-family context contained in industry and competitive environs of the enterprise influencing and controlling the strategy, organization and internal policy. The family-owned enterprise alone based on this strategy then influences the process of succession. The context of industry and the social context, both of them are principally predetermined and so not governable,

which results in a “predetermined” successor’s choice. The other elements may be modified by the enterprise in a way to improve the process of succession. The ownership structure and the board composition will then determine a suitable successor. In the view of staff, the most important persons in the enterprise context are the COE incumbent and the successor(s). Here, it is not only the mutual relationship between them, which is very important, but also the incumbent’s personality, his approach of training and care for the successor(s). Naturally, a successor must fulfil certain preconditions and features, such as management competence, skill, motivation, age, and so on. Family context is then influenced by surrounding social context (social norms, laws, values, etc.), having great effect on family relationships and distribution of the roles. The family context then contains family relationships, role distribution, respect, confidence, management of family financial means and effect control. As stated by the authors, the core of this model includes various phases of heritage process, influenced by business context on one hand and by family context on the other hand. The phases of heritage model are developed in time and include a feedback, which can change the behaviour. The first phase includes the principal rules. This, for example, includes a vision creation and rules for selection and training of successors, the role of owner(s), managers and family members. The second phase includes the development and progress of successor(s). Here, it is to emphasize education, training programs, knowledge transfer, practicing outside the firm, and so on. In case of more successor candidates, it is necessary to do their continuous assessment and training modifications, eventually to extend or narrow the candidates’ circle. The third phase includes selection. Here, the selection criteria of the previous phase are to be checked up. A selection, namely, represents no one-stage process. It is a sequence of more decisions, following one after another. The fourth and last phase of this process lies in “installation” of the chosen successor(s) into the position(s). This phase is accompanied with capital transfer within or between the generations.

Griffeth et al. defined factors that may influence the participation of a family-owned successor by working up of a Successor Retention Model [33]. Those defined factors include the relationship between the successor and his parents, conflict as a consequence of power struggle between incumbent and heir, conflict between the parents’ and business roles, generation gaps, experience of childhood, relationships within the family or business features and successor’s character. The model thereof including three phases (anticipatory socialization, full time employment and management) leads to two decisive points. The first one follows after the anticipatory socialization, when heir considers and decides, whether to accept the full-time job in the family-owned enterprise; the phase of full-time employment leads to the point, whether to enter the family-owned enterprise as its owner, respectively a manager.

The previous text presents various views and principles of succession power transfer based on the literature. The question left behind is, whether the family involvement is somehow measurable or whether it reflects in finances of the enterprise. Mazzola et al. tried to find out a relationship between the family involvement in the firm ownership and its profitability [36]. They detected an existence of a positive relationship between the return on equity (ROE) indicator and the family involvement. The more family members are involved in the management, the better ROE indicator there is. However, on the other hand, the greater number of involved generations is it then the worse results of ROE indicator are achieved. The next chapters, drawing

on the literature searches regarding the process of power delegation to next generations, will work out a simple theoretic model based on a family-owned enterprise. This model could serve as an example for small family-owned enterprises, how to delegate powers to the next generations and the process of power delegation will be evaluated by means of the ROE indicator.

## 9. Case study focused on the Kaláb—Building Company, Ltd.

The basic information describing this family-owned enterprise was gained from its [www.kalab.cz](http://www.kalab.cz) Internet homepage, the Czech Trade Register Database ([www.justice.cz](http://www.justice.cz)) as well as from numerous conversations held with the owner and family members during the last years. The monitored family-owned enterprise, Kaláb—Building Company, Ltd., operates on the construction market of the Czech Republic since 1993. The owner, Jiří Kaláb, worked in various positions for a great state-owned enterprise until November 1989 (the point of the Velvet Revolution). Stepwise, he attained the position of a site manager. Immediately after the Velvet Revolution, he started to pay up interest on his skills, he founded an enterprise of his own, namely a limited company (s.r.o.). During the history of its existence, this family-owned enterprise has taken some awards (circa 27) in the categories like TOP SME, Construction Firm of the Year, Construction of South Moravian Region, and so on. The last prize was awarded by the Chairwoman of the House of Commons of the Czech Republic in February 2013. This prize was awarded to small businessmen and small family-owned enterprises taking care of the quality and good reputation of the Czech craft and service. Straight away, he engaged his family: wife, daughter and son. Later, Mr. Jiří has ascertained that business made together with family members brings about advantages, but disadvantages as well. Therefore, he has started to drive a family pyramid in order to master the incurred conflicts. The levels of his pyramid are shown below. The values at the bottom of this pyramid show not only the values confessed by the family but also those on which the family business is based. Those values are as follows: honour, morality, social feeling and charity. The pyramid middle level contains the target including a long-time enterprise orientation. Mr. Jiří has not planned any immediate profit achievement. He wanted to conduct the enterprise in such a way in order to be able to pass it to his offspring. The upper pyramid level contains the acts. Mr. Jiří's attempt was to apply the values and target in the everyday life of his enterprise. This was rather surprising discovery as the author of research has supposed to find target or strategy at the top of the pyramid suspiciously. The function of family-owned enterprise since the beginning and up until today is based on the interaction of family, enterprise, cooperation of children and creation of mutual respect among the family members, namely also among those family members who were not involved in business. The offsprings have married and their partners are not involved in business so far. The business has functioned rather well since its founding, in spite of relatively great competition on the building market. The enterprise was focused on smaller structures in the field of civic amenities and light industry constructions. The enterprise took never part in any large transport infrastructure building in the Czech Republic.

The family-owned enterprise, Kaláb—Building Company, Ltd., is doing quite well. It has achieved outstanding results in 2006 and 2009. The result of 2009 is very interesting as this



was a period of economic crisis in the Czech Republic and in Europe as well. “This state was caused by a great personnel shock in the early 2008,” according to Mr. Tomáš (successor). The former business manager specifically left the company and almost all employees of the commercial department followed him. This led to a great company restructuring, and the crew was reduced on the whole. However, this personnel shock ironically meant a good preparation for the economic crisis coming at the turn of 2008 and 2009 and practically lasting up to the present time. The results before 2009 would have been rather different, if quoted in the old Czech currency. The euro development showed specifically great differences during the followed up years. Based on excellent net incomes of 2009 and 2006, the ROE indicator was quite high especially due to the huge net profit and low equity capital. Thus, this concrete example did not show any significant influence on the ROE indicator due to employment of greater family members’ number. The excellent results of 2009 and 2006 were caused by other circumstances, though the family engagement might have contributed to an improvement. The ROE indicator of other years moved around the values of 10 or 12%. Gradually, Mr. Jiří has come to a stage where he has started to think of who of the offsprings should be his successor. A tension has appeared between Tom, the son, and Marie, the daughter, as they both wanted to take part in the future business. The analysed small family-owned enterprise has no sophisticated strategy in writing. In literature, so frequently mentioned family protocol or family council is missing in the business conduction. The knowledge of whole business strategy has been transferred from the founder to the successor. Everything is based on the family pyramid quality of the shared principles, transformed into deeds. The all-family lunch is fulfilling the communication role and so unifying the family strategy is one of the business strategies that play a very important role. Also, the results of this research are confirmed in the literature, see for example, the work by Carlock and Ward [37].

### **9.1. Strategy model of a small family-owned company Kaláb—Building Company, Ltd.**

The strategy model of a small family-owned enterprise describes nothing else than the fact that the family strategy must intersect, otherwise it will not function together. Further, we can see the strategy emerging from the enterprise. The enterprise foundation is based on articles of partnership, and the enterprise is governed by the general assembly. Naturally, there is a crew creating an important part of the enterprise. The general assembly members and/or the employees may have their origin in the family. The family strategy, on the contrary, has been determined by the family alone. A definition of the family strategy should follow from the family council. The family itself and the family council as the whole are influenced or “governed” by a family protocol. Both the enterprise strategy and the family strategy may arise parallel or, on the contrary, there will be created a preferable strategy (of the family or firm) from which the other one will be derived. This model is described below as an example related to the followed up construction company of Kaláb—Building Company, Ltd. The Kaláb Company is carrying out its strategy updating every February on the top management’s two days’ meetings. Not all top management’s members are simultaneously members of the family. Yet but still, they have considerable influence on how the resulting version of strategic goals will look. The other managers are acquainted with that strategic goals’ wording consequently. Yet, the most important decisions related to the whole firm policy of next

years, decisions of who will manage the firm or how the profit will be distributed, have been accepted a day before on the Kaláb family council. Such family council proceeds quite formally. There is an external consultant moderating it, who simultaneously records the single goals or proposals. Besides the owner, Jiří Kaláb, and his wife, only the kids are admitted. At the end of this family council's meeting, the results have been shortly presented to the rest of family, namely the kids' partners and their offsprings. There is a principal ruling within the family saying that no partners of the kids take part in the company running. Though the family protocol has no written form, it is rooted and accepted as naturally valid." With extension of the family and growing number of family members engaged in the work for the firm, it will be most likely necessary to draw up such family protocol," Mr. Tomáš (successor) admits. As we can see on the example of this construction firm, the small family-owned enterprise strategy is functioning quite well, though it is not formally, but it has been formalized and utilized by the years of its functioning. This concrete enterprise, thus, has chosen a method of functioning in which the most important and principal decisions are made by the family council, and the firm strategy is created consequently. In this way, the intersection of both strategies is attained.

## 9.2. Model of power delegation in a small family-owned enterprise

We can distinguish a model of power delegation, the example for which we will take a work term from sports relating to a relay race and we will call it "Passing the Baton." When leading a conversation with founder of the above enterprise, we have ascertained that, though having not ever heard of the searching by Dyck et al., *Passing the Baton: The Importance of Sequence, Timing, Technique and Communication in Executive Succession* [34], he has applied this model of power passing to his successor in a non-scientific form. The model has three main parts. Two determining parts are given by the family and enterprise systems; both ought to be taken into consideration for the core, meaning the very power passing. The core, as the third part of power passing, includes two lines: incumbent and successor. The shapes of those two lines may be described as follows.

Line I (incumbent): incumbent may be the founder or an umpteenth owner of the family-owned enterprise within further and further generations. The incumbent first of all starts with the firm foundation and its development. The second and further incumbents then "only" take care for the development. After a certain time, incumbent comes to a point in which he would like or should to delegate power to his successor. So, he finds himself in a "SPACE FOR HANDING OVER OF BATON," like the sports athletes do. This phase is characterized by a situation in which both athletes—incumbent and successor in this case—are running together for a certain time. As soon as the baton (power) is passed, they are still running together, but incumbent begins to decelerate. This does not mean his being ousted at all, as he can still mentor and support the successor, whereas he simultaneously can go in for his hobbies.

Line II (successor)—looking at a relay race, we can see that, before the first athlete (incumbent) runs into the space of baton handing over, the second one (successor) already starts his running, in order to gain the speed securing his proper baton passing. This is depicted

in the part of TRAINING, where successor must cultivate his knowledge and gain skill (i.e., to gain the speed) so that the power may be delegated properly. Consequently, successor finding himself in the “SPACE FOR HANDING OVER OF BATON,” where both are running together, he is taking over the baton (power). After the passing/overtaking, both athletes are still running together, but successor begins to accelerate. Then, he comes to the part where successor is running alone and allows the business to flourish. In this phase, successor may still accept the incumbent’s advice and help. During the course of this process, a right timing of the single parts and a feedback are necessary for the enterprise to survive and to go on. It is necessary to say that the power passing to successor was not accompanied with transfer of property in the company of Kaláb—Building Company, Ltd. Founder is still the owner, and successor conducts the business by a power of attorney, the feature of which follows from the Legal Code of the Czech Republic. A transfer of ownership (property) would be suitable in the phase, when owner is made sure that successor has managed the business running. The moment, when incumbent decelerates and successor accelerates, seems to be a suitable point for the ownership transfer.

## 10. Conclusion

This chapter describes most important research results in the area of family business in the Czech Republic. Followed family business definition was applied into the chapter: “A family-owned enterprise is that one owned and possibly controlled by family or families or by selected family member(s), whereas its delivery to the next generation is supposed,” with respect to family ties. Family ties of representative wine family enterprises in the Czech Republic were presented, and the object of research was focused on the family wine trading business, in particular in the region of South Moravia. The subject of research was based on family ties within the selected families.

Most important difficulties faced by family business and SWOT analysis of family business in the Czech Republic were presented in the chapter.

Model of power delegation in a small family-owned company was developed. It states the results of qualitative research regarding a small family-owned company, Kaláb—Building Company, Ltd. The model of successful transfer of power to the next generation called “relay” was presented. Today, successor is conducting the business alone, and the financial results show that he is successful in his office. Further, the results show that a family-owned enterprise may be well and the power delegation to successor may be carried out successfully, even if having no written strategy or sophisticated documents, like family protocol or family council. This is valid twofold for small family-owned enterprises.

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