

CORPORATE CULTURE SPECIFICS IN FAMILY BUSINESSES

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Abstract

Family business is a contemporaneous phenomenon that deserves considerable attention. This form of business offers to become not only economic effects, also generates social and cultural benefits of a particular political and economic stability. A serious problem, not only in the Czech Republic, the succession is to transfer business in the family. This paper presents the latest findings of research activities VŠP achieved in the field of family business.

Key words: family, firm, business, generation, corporate culture.

Prologue

Family business is globally gaining increasing importance, and it can also be considered as the most natural and the oldest form of business, and its importance in the world is known. The business in family companies is characterized by certain features of the corporate culture as well.

International experience and studies show that family businesses, primarily in the sphere of small and medium enterprises also have essential importance in the global economy. It is reported that the small and medium-sized enterprises with a family type business rank more than two-thirds of the total number of all the world's businesses. It follows from this that the family businesses significantly also participate in the creation of world product and total employment. In today's rapidly changing and integrating world, such family businesses constitute the values, such as fairness, certainty and tradition, and due to their strong regional relationships, they are also holders of national and regional identity. Numerous global surveys have also been shown that family businesses are more resilient and stable against global economic crises, mainly thanks to the loyalty of key staff and due to a will by the family members to keep the business at any times (often at the expense of long-term loss).

In the Czech Republic the family business should have had also long-standing history and its expansion had been primarily at the time of the First Republic, when many businesses had crossed the border of the Czech Republic and have become international (one of the most famous examples is the shoe company Bata). After the Second World War, with the rise of totalitarianism and centrally planned economy, the continuity of family business was broken until 1989. By the beginning of the nineties of the last century the business environment began to arise again and a market economy started to develop. Unfortunately, in the Czech Republic the conditions for doing business and family business are still on a long track and especially the family business is not solved at all (legislative process is lengthy, and constantly changing). Therefore yet, the family business; except a very small exceptions; do not have suitable conditions for its further development and almost no support.

Family businesses have to in addition the current economic difficulties face also the entire series; for family businesses; especially characteristic problems (Gersick et al. 1997), in particular sociological-psychological and legal nature. One of the biggest challenges to the long-term sustainability of the family company is to ensure continuity in the management and, therefore, the tendency should be directed in this area also to support the solution of generational replacement. Handing over the company to the next generation is considered by managers as a strategic task and the successful holding from the first generation on the other one, according to the available data, make it even half of all family businesses (Strážovská, Strážovská 2002).

Current issue of succession in family businesses in the Czech Republic should become one of the main strategic objectives of each of the family business and in this direction should logically go also all other tendencies in the field of family business. Sense of solutions in this topic also lies in the fact that businesses that were founded as a family at the beginning of the 1990s or after the privatization they have become as the family business, are in their lifetime at the end of the second decade and the owners-managers of these companies will necessarily have to ask the question, what's next?

1. Scope of family business

1.1. Definition of family business

Yet, the family business is the oldest and most natural form of business at all, there is not an accurate and consistent global definition, which would have been an internationally validation and allows a mutual comparison. It is not easy to define clearly the family business and it's mainly because it can be difficult to generally define the relationship between the family

and the enterprise. Everything is exacerbated by the fact that the concept of family is not seen similar in all cultures as well. In some communities it is understood only as a family group consisting of parents and children, elsewhere, then includes other members (uncles, aunts, cousins, etc.); and non-family members are subject to the common values and culture. With various sizes of the company also significantly changes the strategic influence of the family and ownership (the ratio of the total capital in the hands of the family). The worldwide need to define a family business mainly follows from the needs of macroeconomic and legal definition of the separate forms of business for the purposes of categorization and peer comparisons.

Despite the fact that today there are a number of definitions of a family business that are different in many ways, we can see a series of identical, key characteristics. How for example Hesková lists; family-run business is a company, which is owned and managed by members of one or more families and these have a major impact on business strategy (Hesková, Vojtko 2008).

A proportion of impact of family on the enterprise we can determine on the basis of internationally recognised model of the F-PEC, which allows valid comparisons of various family businesses. In the mid-1990s, Astrachan and Schankerová (Astrachan, Schanker 1996) sorted criteria for defining a family business and compiled a definition of family business in accordance with the degree of involvement of the family in the business.

The definition of a family business in accordance with the degree of involvement of the family:

- *Extensive definition* – a family ensures effective control of the strategic management and has the intention to keep the business as a family – the family has only a small direct involvement in business,
- *Medium definition* – the founder eventually his or her successors run the enterprise and on the basis of shares have the voting – a family and its members are partly involved in the business,
- *Narrow definition* – more family generations are involved in a business, a family manages and runs the business directly and more than one member of the family of the owners is significantly involved in the daily management – the family is to a significant degree involved in the business.

Odehnalová (Odehnalová 2009) also mentions one of the more comprehensive definitions, which were drawn up during the research of the company Massachusetts Mutual Life Company in 1997. This definition describes the family-run enterprise as an enterprise that satisfies at least one of the following criteria:

- *The owner considers his or her company as the family business.*
- *The owner intends to transfer his or her business to a close relative.*
- *In addition to the owner is employed, as well as another member of the family, who is a part of the daily management of the process.*

This definition is suitable for the classification of the family enterprises in conditions of the Czech Republic and also because it doesn't count with already made a generational modification and gives entrepreneurs the opportunity to enter in the subjective of the family business.

From the above mentioned definitions, we can describe on the basis of the synthesis and the comparison to derive a more appropriate definition. The content of the paper and its goal is focused on the handover of the company to the next generation, it is therefore necessary the business includes at least two generations of the family. A condition of the definition that the owner intends to transfer his or her business to a close relative, is also subject for a verification of our research, therefore, it is not used in the working definition. Another condition is that in addition to the owner is in the enterprise employed an another member of the family, who is a part of the daily management process for these purposes has been replaced by a condition that in the enterprise are working members of the family or families. For the evaluation of family businesses is not decisive in what positions in the company the other members of the family work, nor its legal form, it is primarily about the basic hypothesis for the evaluation and comparison of family businesses (Tichý 2012).

On the basis of these hypotheses, the definition was made up as follows:

- *The firm is owned by the family, and the family has a decisive influence on the management of this company.*
- *The family considers the company as the family business.*
- *The other generations of the family also work in the company.*

The first condition of this definition arises from the generally applicable hypothesis for the family business and it is necessary for the next interpretation of the family business. Due to the absence of an official definition, it can be considered a family business as one that a family regards itself as a family business. In order to deal with the family business and address issues associated with the process of succession is needed to fulfil also the assumption that the company is to be transferred to someone; therefore, the third condition was also provided.

Family business and its succession Mikoláš defines more freely as follows:

- The definition of the family company (Mikoláš 2011): Family business in the widest sense of the word we understand all businesses, regardless of whether they are or are not owned or controlled by generations of the descendants of its original founders, if these companies maintain the spirit and philosophy of the business and management style and possession of the family of the original founders of the business (A typical example is the Baťa Company).
- The definition of succession (Mikoláš 2011): A family company with a registered office in the territory of the Czech Republic and was usually owned by Czech citizens subsequently (in the next generation of owners), operating on the territory of the Czech Republic and is usually owned by Czech citizens, retains the character of a family company.

These definitions are used to a more accurate understanding of the text and to the definition of the nature of the family business. The following definitions are also necessary to assess the sample during the research itself.

1.2. A survey carried out at the Ostrava Business School plc (Vysoká škola podnikání, a.s.)

Within the framework of scientific-research activities of the Ostrava Business School (OBS) is also handled an international research project “Analysis of the status and development of small and medium-sized enterprises in the Czech Republic and Slovakia“, where currently we have been primarily focusing on the issues of family firms, and on the succession in family firms, the readiness of the family business processes associated with the transfer of businesses to the next generation and the impact of business on the frequency of occurrence of the family businesses¹.

The research has used, the fact that many of our students either themselves, or doing business within the family companies, or they are members of families that their family business operating without them neither they are not involved in the activities of this family company².

¹ In the framework of the research activities of the authors (or processing documents for this paper) was applied to a whole range of methods and research techniques, in particular the description, comparison, relational analysis, statistical methods (statistical analysis) including graphic techniques, monitoring, condition survey (stories of family firms), analogy etc.

² Very inspiring is for example the Bachelor thesis of student E. Svobodová “Preparedness of family entrepreneurs on the processes associated with the transfer of the company to the next generation.” Ostrava: OBS 2013

2. Results of the research project

The findings from the research carried out by the teachers of the OBS in cooperation with the students³:

- Research materials were processed by 85 students in the form of the story of creation, functioning and problems of family firms.
- Most of the family businesses, according to the findings of the survey are in the sector of small and medium-sized companies.
- The main and the positive finding is that 80% of the family businesses see its future with optimism. According to a large majority of surveyed firms is a family status of the company perceived positively in both the eyes of the end customers, and business partners (family status is perceived less by trading partners than by customers).
- Two-fifths of family businesses are aware of their strengths and abilities, and believes in their competitiveness of its products. It is confirmed that family businesses are the power of the state economy. Their owners do not start them to make immediate profits, but with the idea of long-term prospects and prosperity.
- About 81% of the companies feel their „family roots“ as an advantage. Flexibility, stability, ethics in business, and the atmosphere of the company are the preferred conditions which the family companies placed most often. The answers can be given as examples:
 - “People from the families I can trust.”
 - “You can look in the eye.”
 - “You can do what and when you want to.”
- For the slight disadvantage of family firms can be considered impact on family relationships. As stated, this problem affects around 20% of the respondents. A tenth of the companies mentioned the demands of the job as well, which requires the running of the family business. As examples of disadvantages we can present the following answers:
 - “The line between privacy and work blurs.”
 - “The work is a priority, the missing time on family matters.”
 - “Members of the family generally believe that they can talk about everything“.
 - “Family members believe that everything passes.”
 - “Relationships of family members when decisions are made are problematic.”

³ A similar findings have been presented in the article “Family company sees the future as more optimistic than others, they have strong foundations”, In: Prosperity 6/13, page 3

- In the context of the views on the solution of the problems of succession were also monitored legal forms in family firms. It is interesting that, in accordance with the analysis of the consultancy firm Bisnode (June 2013) (Prosperita 2013), which was focused on the issue of the ownership of a business in the Czech Republic, we; in the survey; have reached essentially the same results, which are summarized in the following items:
 - The most occurring form of legal business between the examined samples were companies with limited liability. Approximately 85% of these companies are owned by natural persons, which generally represent small and medium business. Most of them are exclusively in the hands of one person (45%) and the rest owned by more natural persons (40%).
 - For the last year (2012/2013) the number of Ltd. companies increased by 13%. The main reason for the transformation of the legal form of the business is the transition of entrepreneurs – individuals into the form of business in Ltd., in particular because they limit the risks and increases the prestige of the business. In addition, in the period 2009-2013 the number of companies with limited liability owned by one person increased more than half.

Implied facts create new conditions for the accent the importance of family business (family enterprise fills a growing need of confidence in the relations between human beings) and transfer of businesses within the families.

The research also showed that in the examined family enterprises dominate paternalistic culture, which characterize the answers to the questions who adopts a decision where the majority stated that the owner of the company, some admitted that they consult the family, although the final decision they make themselves. The exception is perhaps the only companies that were founded by siblings, who usually decide together.

What concerns the specific corporate culture, which would have created by these entrepreneurs; it is exclusively about the informal relationships that are not defined in writing. None of the entrepreneurs has mentioned that he or she should have drawn up an internal document, which regulates corporate culture. From the nature of the companies investigated is showed that this is the intuitive management of the people, or the whole company and not a forward type of culture.

Between the performance of specific features also include self-employed of the founder of the company and subsequently the employment of family members. This fact also explains the above mentioned a considerable

number of the family companies that do business in the legal form Ltd., because the entrepreneur – the natural person cannot employ; in accordance with the Czech legislative; his wife. Creating work according to their ideas, the pursuit of self-realization and proving their abilities – this function we characterize as a support for the self esteem and self realization, increase pride and faith in their abilities.

In this context, it is proved to be an extremely important the confidence in members of the family, or its subsequent confirmation and reinforcement, which ultimately led to the improvement of family relations, and we can also classify as a specific function of the family business.

3. Discussion

According to the opinions of the investigators, it is necessary in other research in the family business to focus attention primarily on the following topics:

- Typology of families (what is our family, is poised to do business?)
- Peace or changes (why family does business?)
- Success – it is the key theme of entrepreneurial families?
- Why do we have the assets – what is the wealth of the family and what company?
- How to fight with conflicts – is not the family of victims of conflict in a family business?
- The role of seniors in a family company – the share of seniors on the success of companies (to provide the company the successors or to sell to strangers?).

Research findings are necessary to confront with theoretical outputs of research and practical experience in neighbouring countries (especially in Poland, where the family business has maintained a long-standing tradition).

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